OECD Pensions at a Glance 2021

HOW DOES SWEDEN COMPARE?

Increasing old-age income inequality

In Sweden, the average income of people over 65 is 14% lower than for the total population, close to the OECD on average of 12% lower. It was 22% lower in Sweden 20 years ago. Old-age income inequality and relative income poverty rates have increased, but they are still lower than the OECD average. Higher inequality is consistent with the closer relation between individual pension levels and past contributions following the systemic reform in the 1990s. Moreover, pension contributions paid on earnings exceeding the average wage go largely to occupational schemes, boosting pensions of high earners and, over the last two decades, the share of private pension, largely occupational pensions, in total pension expenditure raised from 20% to 30%.

Sweden introduced in 2021 a new pension supplement, to be financed by the central government budget, to raise low pensions by up to about 7%. This will reduce old-age income inequality to some extent.

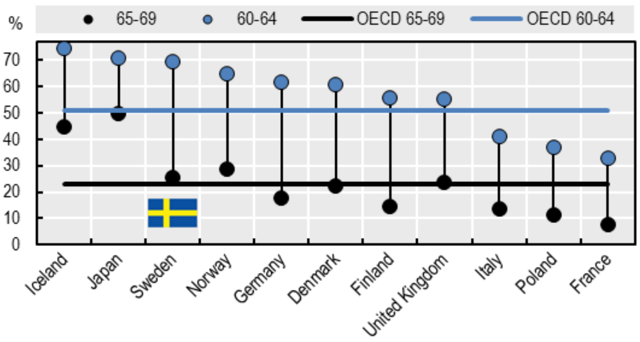
Pension benefits were protected during the COVID-19 crisis. Pension entitlements were only slightly affected as restrictions on economic activity were more limited than in many other countries. Moreover, public pension entitlements accrued both on wage subsidies and unemployment benefits, and pension contributions were not subject to the exemptions that reduced other social security contributions.

Effective automatic adjustments of pension benefits

Sweden is, along with Finland, the country with the most effective automatic adjustment mechanism (AAM). Notional defined contribution (NDC) pensions by design automatically adjust benefits to changes in life expectancy. In addition, mandatory individual pensions and quasi-mandatory occupational pensions are funded DC that automatically adjust benefits to changes in life expectancy when annuitised and transfer longevity risks to individuals for the part that is not annuitised.

Employment rates decrease sharply at 65

2020



Source: [Figure 5.7.](#)

Additionally, Sweden supplements its NDC scheme with an automatic balancing mechanism (ABM) to ensure solvency over the long term. This is needed in particular because the Swedish NDC scheme does not adjust for the size of the working population - the notional interest rate is only set to equal the average-wage growth. The Swedish Pensions Agency calculates a balance ratio dividing the sum of the estimated contribution assets and the market value of the reserve fund by pension liabilities (accrued notional pension entitlements and pensions in payment). If a deficit is identified a brake is activated, and the notional interest rate is reduced to limit the both the valorisation of notional accounts and the indexation of pensions in payment. The slower pace of the demographic shifts compared to most OECD countries makes it less likely that the ABM will substantially affect benefits in the next decades. In the aftermath of the 2008 global financial crisis, the mechanism resulted in a decline in the value of pensions, mainly as a result of the fall in the value of financial assets in the reserve fund. In 2017, following this experience, the adjustment rule was modified to smooth any adjustment over a three-year period.

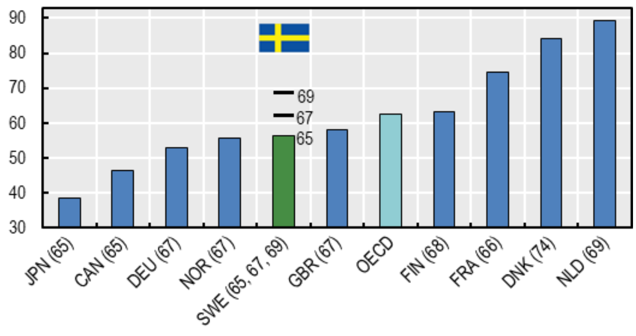
Due to the strong financial returns of pension funds in 2020 and 2021 and limited decline in hours worked during the COVID-19 crisis compared to most OECD countries, the automatic adjustment mechanism is not likely to negatively affect pension indexation or entitlements in the short term. In 2020, mortality rates increased less than in many other countries but this led to a slight decrease in life expectancy, thereby a slight increase in NDC benefits.

Higher retirement ages

The automatic impact of increasing life expectancy on pensions through the AAM could be offset by longer working lives. Over the last two decades, the effective age of labour market exit has increased in Sweden by 3.4 years to 65.8, compared to 2.5 years and 63.1 in the OECD on average. The employment rates of older workers increased substantially, partly due to the tightening of access to disability pensions: between 2008 and 2018 the number of disability pensioners fell by 45% compared to increases of 22% and 24% for the number of old-age pensioners and the size of the population aged 65 or more, respectively. The employment rate drops sharply at age 65 while remaining above the OECD average also for those aged 65-69.

Swedish pensions would increase with a higher retirement age

Net replacement rates for full-career average earners, at normal retirement ages, and additionally at 67 and 69 for Sweden



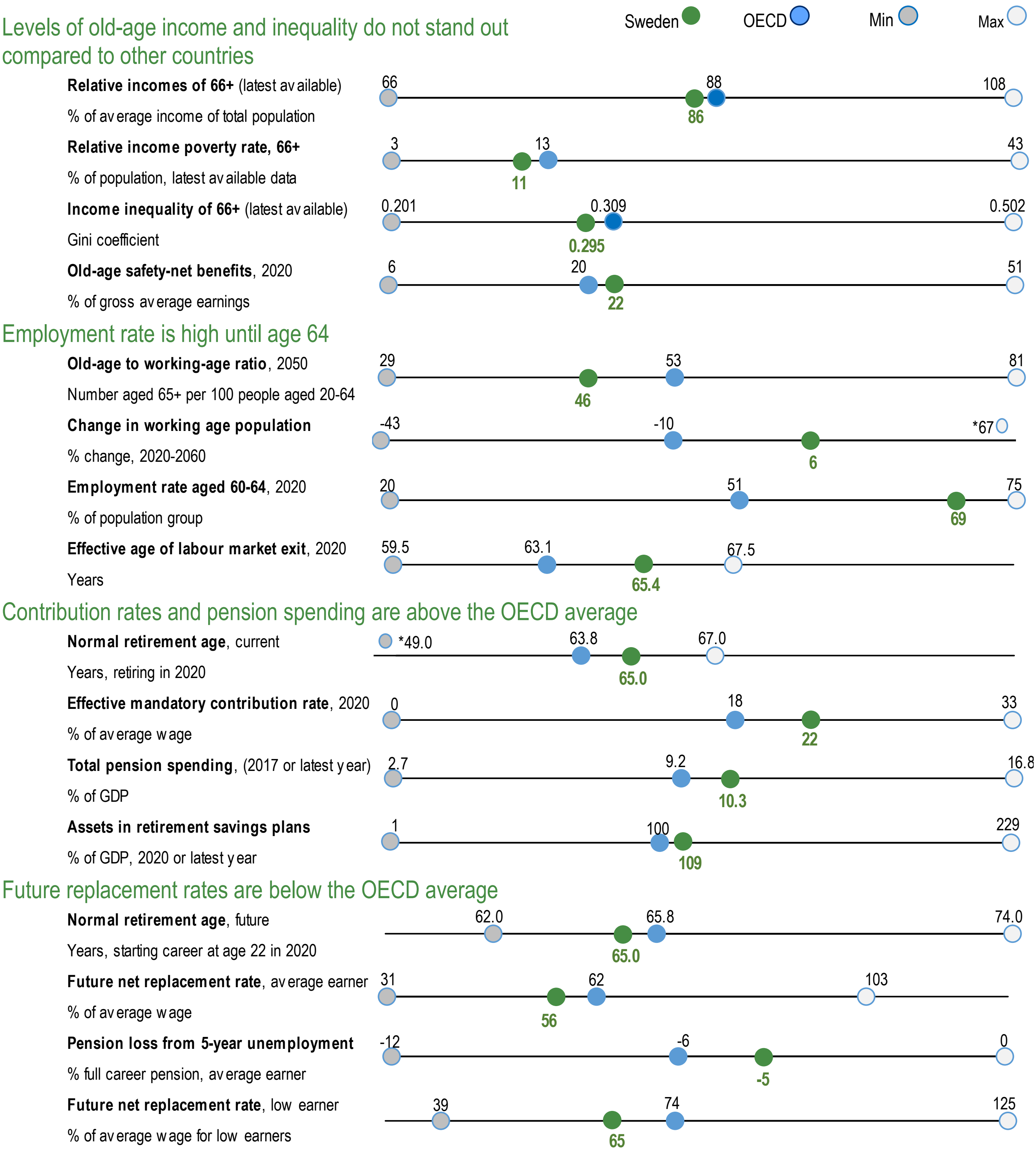
Source: [Figure 4.4.](#)

In 2020, Sweden increased the earliest age to be eligible to NDC pensions from 61 to 62 years. Based on a 2019 agreement between most political parties in Parliament, there is an official plan to increase it further to 63 years in 2023 and 64 in 2026. In parallel, the eligibility age for residency-based basic pensions (so-called guarantee pension) would be raised from 65 years today to 66 in 2023 and 67 years in 2026. On average in the OECD, based on current legislation, the normal retirement age will increase by two years, from about 64 years in 2020 to about 66 years for those entering the labour market now.

As an additional measure to support longer working lives, the "target retirement age", introduced in 2019, aims to nudge retirement decisions, by providing a clear suggestion of what the adequate age to retire should be. It was set at 67, to be effective from 2026.

Based on these plans the earliest age to draw NDC pensions and the "target retirement age" would be indexed to life expectancy at 65 years by transmitting two-thirds of changes in life expectancy into retirement ages from 2027 onwards upon governmental approvals. Based on national Swedish demographic projections, applying the link will increase retirement ages by two years by 2050, similar with Finland, the Netherlands and Portugal which have a two-third link. However, it has not yet been decided whether the link will also apply to the eligibility age to access the basic pension and to the mandatory retirement age, of 68 currently and 69 from 2024.

Working longer implies higher pensions in most countries. In Sweden, a person entering labour market in 2020 and earning the average wage through the whole career can expect net replacement rates of 56%, 62%, and 69% if retiring at 65, 67 and 69, respectively. This compares to the OECD average of 62% at the normal retirement age.



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