PENSION SAVINGS
THE REAL RETURN
2018 EDITION

BF **BETTER FINANCE**

The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Pension Savings: The Real Return
2018 Edition

A Research Report by BETTER FINANCE

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Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index

FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index
IKZE	'Indywidualne konto zabezpieczenia emerytalnego' – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account
IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom's Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific 'Individual Investment Plan'
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA Scorecard	Standard & Poor Dow Jones' Indices Research Report on Active Management performances
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom

Glossary of terms

Accrued benefits* – is the amount of accumulated pension benefits of a pension plan member on the basis of years of service.

Accumulated assets* – is the total value of assets accumulated in a pension fund.

Active member* – is a pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets.

AIF(s) – or Alternative Investment Funds are a form of collective investment funds under E.U. law that do not require authorization as a UCITS fund.[1]

Annuity* – is a form of financial contract mostly sold by life insurance companies that guarantees a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person(s) (the annuitant) or for a specified period of time. It is different than a life insurance contract which provides income to the beneficiary after the death of the insured. An annuity may be bought through instalments or as a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age.

Annuity rate* – is the present value of a series of payments of unit value per period payable to an individual that is calculated based on factors such as the mortality of the annuitant and the possible investment returns.

Asset allocation* – is the act of investing the pension fund's assets following its investment strategy.

Asset management* – is the act of investing the pension fund's assets following its investment strategy.

Asset manager* – is(are) the individual(s) or entity(ies) endowed with the responsibility to physically invest the pension fund assets. Asset managers may also set out the investment strategy for a pension fund.

Average earnings scheme* – is a scheme where the pension benefits earned for a year depend on how much the member's earnings were for the given year.

Basic state pension* – is a non-earning related pension paid by the State to individuals with a minimum number of service years.

Basis points (bps) – represent the 100th division of 1%.

Benchmark (financial) – is a referential index for a type of security. Its aim is to show, customized for a level and geographic or sectorial focus, the general price or performance of the market for a financial instrument.

Beneficiary* – is an individual who is entitled to a benefit (including the plan member and dependants).

Benefit* – is a payment made to a pension fund member (or dependants) after retirement.

[1] See Article 4(1) of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174, 1.7.2011, p. 1–73.

Bonds – are instruments that recognize a debt. Although they deliver the same utility as bank loans, i.e. enabling the temporary transfer of capital from one person to another, with or without a price (interest) attached, bonds can be also be issued by non-financial institutions (States, companies) and by financial non-banking institutions (asset management companies). In essence, bonds are considered more stable (the risk of default is lower) and in theory deliver a lower, but fixed, rate of profit. Nevertheless, Table EX2 of the Executive Summary shows that the aggregated European Bond Index highly overperformed the equity one.

Closed pension funds* – are the funds that support only pension plans that are limited to certain employees. (e.g. those of an employer or group of employers).

Collective investment schemes – are financial products characterised by the pooling of funds (money or asset contributions) of investors and investing the total into different assets (securities) and managed by a common asset manager. Under E.U. law collective investment schemes are regulated under 6 different legal forms: UCITS (see below), the most common for individual investors; AIFs (see above), European Venture Capital funds (EuVECA), European Long-Term Investment Funds (ELTIFs), European Social Entrepreneurship Funds (ESEF) or Money Market Funds.[2]

Contribution* – is a payment made to a pension plan by a plan sponsor or a plan member.

Contribution base* – is the reference salary used to calculate the contribution.

Contribution rate* – is the amount (typically expressed as a percentage of the contribution base) that is needed to be paid into the pension fund.

Contributory pension scheme* – is a pension scheme where both the employer and the members have to pay into the scheme.

Custodian* – is the entity responsible, as a minimum, for holding the pension fund assets and for ensuring their safekeeping.

Defered member* – is a pension plan member that no longer contributes to or accrues benefits from the plan but has not yet begun to receive retirement benefits from that plan.

Deferred pension* – is a pension arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned.

Defined benefit (DB) occupational pension plans* – are occupational plans other than defined contributions plans. DB plans generally can be classified into one of three main types, "traditional", "mixed" and "hybrid" plans. These are schemes where "the pension payment is defined as a percentage of income and employment career. The employee receives a thus pre-defined pension and does not bear the risk of longevity and the risk of investment. Defined Benefits schemes may be part of an individual employment contract or collective agreement. Pension contributions are usually paid by the employee and the employer".[3]

"Traditional" DB plan* – is a DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors.

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[2] See European Commission, 'Investment Funds' (28 August 2018) https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en.

[3] Werner Eichhorst, Maarten Gerard, Michael J. Kendzia, Christine Mayrhruber, Connie Nielsen, Gerhard Runstler, Thomas Url, 'Pension Systems in the EU: Contingent Liabilities and Assets in the Public and Private Sector' EP Directorate General for Internal Policies IP/A/ECON/ST/2010-26.

“Hybrid” DB plan* – is a DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (e.g. fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.

“Mixed” DB plan* – is a DB plans that has two separate DB and DC components, but which are treated as part of the same plan.

Defined contribution (DC) occupational pension plans* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavorable plan experience. These are schemes where “the pension payment depends on the level of defined pension contributions, the career and the returns on investments. The employee has to bear the risk of longevity and the risk of investment. Pension contributions can be paid by the employee and/or the employer and/or the state”.[4]

Dependency ratio* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.

Early retirement* – is a situation when an individual decides to retire earlier later and draw the pension benefits earlier than their normal retirement age.

Economic dependency ratio* – is the division between the number of inactive (dependent) population and the number of active (independent or contributing) population. It ranges from 0% to 100% and it indicates how much of the inactive population’s (dependent) consumption is financed from the active population’s (independent) contributions.[5] In general, the inactive (dependent) population is represented by children, retired persons and persons living on social benefits.

EET system* – is a form of taxation of pension plans, whereby contributions are exempt, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation.

Equity (or stocks/shares) – are titles of participation to a publicly listed company’s economic activity. With regards to other categorizations, an equity is also a security, a financial asset or, under E.U. law, a transferable security.[6]

ETE system* – is a form of taxation whereby contributions are exempt, investment income and capital gains of the pension fund are taxed, and benefits are also exempt from personal income taxation.

ETF(s) – or Exchange-Traded Funds are investment funds that are sold and bought on the market as an individual security (such as shares, bonds). ETFs are structured financial products, containing a

[4] Ibid.

[5] For more detail on the concept, see Elke Loichinger, Bernhard Hammer, Alexia Prskawetz, Michael Freiberger, Joze Sambt, ‘Economic Dependency Ratios: Present Situation and Future Scenarios’ MS13 Policy Paper on Implications of Population Ageing for Transfer Systems, Working Paper no. 74, 18th December 2014, 3.

[6] Article 4(44) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173, p. 349–496 (MiFID II).

basket of underlying assets, and are increasingly more used due to the very low management fees that they entail.

Fund member* – is an individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, and hence receiving benefits), or deferred (holding deferred benefits) participant in a pension plan.

Funded pension plans* – are occupational or personal pension plans that accumulate dedicated assets to cover the plan's liabilities.

Funding ratio (funding level) * – is the relative value of a scheme's assets and liabilities, usually expressed as a percentage figure.

Gross rate of return* – is the rate of return of an asset or portfolio over a specified time period, prior to discounting any fees of commissions.

Gross/net replacement rate – is the ratio between the pre-retirement gross or net income and the amount of pension received by a person after retirement. The calculation methodology may differ from source to source as the average working life monthly gross or net income can used to calculate it (divided by the amount of pension) or the past 5 year's average gross income etc. (see below **OECD net replacement rate**).

Group pension funds* – are multi-employer pension funds that pool the assets of pension plans established for related employers.

Hedging and hedge funds – while hedging is a complex financial technique (most often using derivatives) to protect or reduce exposure to risky financial positions or to financial risks (for instance, currency hedging means reducing exposure to the volatility of a certain currency), a hedge fund is an investment pool that uses complex and varying investment techniques to generate profit.

Indexation* – is the method with which pension benefits are adjusted to take into account changes in the cost of living (e.g. prices and/or earnings).

Individual pension plans* – is a pension fund that comprises the assets of a single member and his/her beneficiaries, usually in the form of an individual account.

Industry pension funds* – are funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or businesses.

Mandatory contribution* – is the level of contribution the member (or an entity on behalf of the member) is required to pay according to scheme rules.

Mandatory occupational plans* – Participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.

Mandatory personal pension plans* - are personal plans that individuals must join or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.

Mathematical provisions (insurances) – or *mathematical reserves* or *reserves*, are the value of liquid assets set aside by an insurance company that would be needed to cover all current liabilities (payment obligations), determined using actuarial principles.

Minimum pension* – is the minimum level of pension benefits the plan pays out in all circumstances.

Mixed indexation* – is the method with which pension benefits are adjusted taking into account changes in both wages and prices.

Money market instruments – are short-term financial products or positions (contracts) that are characterized by the very high liquidity rate, such as deposits, shor-term loans, repo-agreements and so on.

MTF – multilateral trading facility, is the term used by the revised Markets in Financial Instruments Directive (MiFID II) to designate securities exchanges that are not a regulated market (such as the London Stock Exchange, for example).

Multi-employer pension funds* – are funds that pool the assets of pension plans established by various plan sponsors. There are three types of multi-employer pension funds:

a) for related employers i.e. companies that are financially connected or owned by a single holding group (group pension funds);

b) for unrelated employers who are involved in the same trade or business (industry pension funds);

c) for unrelated employers that may be in different trades or businesses (collective pension funds).

NAV – Net Asset Value, or the amount to which the market capitalisation of a financial product (for this report, pension funds' or insurance funds' holdings) or a share/unit of it arises at a given point. In general, the Net Asset Value is calculated per unit or share of a collective investment scheme using the daily closing market prices for each type of security in the portfolio.

Net rate of return* – is the rate of return of an asset or portfolio over a specified time period, after discounting any fees of commissions.

Normal retirement age* – is the age from which the individual is eligible for pension benefits.

Non-contributory pension scheme* – is a pension scheme where the members do not have to pay into scheme.

Occupational pension plans* – access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups of thereof (e.g. industry associations) and labour or professional associations, jointly or separately. The plan may be administrated directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.

OECD gross replacement rate - is defined as gross pension entitlement divided by gross pre-retirement earnings. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

OECD net replacement rate - is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

Old-age dependency ratio - defined as the ratio between the total number of elderly persons when they are generally economically inactive (aged 65 and above) and the number of persons of working age.[7] It is a sub-indicator of the economic dependency ratio and focuses on a country's public (state) pension system's reliance on the economically active population's pensions (or social security) contributions. It is a useful indicator to show whether a public (Pillar I) pension scheme is under pressure (when the ratio is high, or the number of retirees and the number of workers tend to be proportionate) or relaxed (when the ratio is low, or the number of retirees and the number of workers tend to be disproportionate). For example, a low old-age dependency ratio is 20%, meaning that 5 working people contribute for one retiree's pension.

Open pension funds* – are funds that support at least one plan with no restriction on membership.

Pension assets* – are all forms of investment with a value associated to a pension plan.

Pension fund administrator* – is(are) the individual(s) ultimately responsible for the operation and oversight of the pension fud.

Pension fund governance* – is the operation and oversight of a pension fund. The governing body is responsible for administration, but may employ other specialists, such as actuaries, custodians, consultants, asset managers and advisers to carry out specific operational tasks or to advise the plan administration or governing body.

Pension fund managing company* – is a type of administrator in the form of a company whose exclusive activity is the administration of pension funds.

Pension funds* – the pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.

Pension insurance contracts* – are insurance contracts that specify pension plans contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. Most countries limit the integration of pension plans only into pension funds, as the financial vehicle of the pension plan. Other countries also consider the pension insurance contract as the financial vehicle for pension plans.

Pension plan* – is a legally binding contract having an explicit retirement objective (or – in order to satisfy tax-related conditions or contract provisions – the benefits can not be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract

[7] See Eurostat definition: http://ec.europa.eu/eurostat/web/products-datasets/product?code=tsdde511.

may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.

Pension plan sponsor* – is an institution (e.g. company, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.

Pension regulator* – is a governmental authority with competence over the regulation of pension systems.

Pension supervisor* – is a governmental authority with competence over the supervision of pension systems.

Personal pension plans* - Access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.

Private pension funds* – is a pension fund that is regulated under private sector law.

Private pension plans* – is a pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.

Public pension plans* – are pensions funds that are regulated under public sector law.

Public pension plans* – are the social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other public sector bodies such as social security institutions). Public pension plans have been traditionally PAYG financed, but some OECD countries have partial funding of public pension liabilities or have replaced these plans by private pension plans.

Rate of return* – is the income earned by holding an asset over a specified period.

REIT(s) or Real Estate Investment Trust(s) is the most common acronym and terminology used to designate special purpose investment vehicles (in short, companies) set up to invest and commercialise immovable goods (real estate) or derived assets. Although the term comes from the U.S. legislation, in the E.U. there are many forms of REITs, depending on the country since the REIT regime is not harmonised at E.U. level.

Replacement ratio* – is the ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.

Service period* – is the length of time an individual has earned rights to a pension benefits.

Single employer pension funds* – are funds that pool the assets of pension plans established by a single sponsor.

Supervisory board* – is(are) the individual(s) responsible for monitoring the governing body of a pension entity.

System dependency ratio* – typically defined as the ratio of those receiving pension benefits to those accruing pension rights.

TEE system* – is a form of taxation of pension plans whereby contributions are taxed, investment income and capital gains of the pension fund are exempt, and benefits are also exempt from personal income taxation.

Trust* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).

Trustee* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).

UCITS – or Undertakings for Collective Investment in Transferable Securities, is the legal form under E.U. law for mutual investment funds that are open to pool and invest funds from any individual or institutional investor, and are subject to specific authorisation criteria, investment limits and rules. The advantage of UCITS is the general principle of home-state authorisation and mutual recognition that applies to this kind of financial products, meaning that a UCITS fund established and authorised in one E.U. Member State can be freely distributed in any other Member State without any further formalities (also called *E.U. fund passporting*).

Unfunded pension plans* – are plans that are financed directly from contributions from the plan sponsor or provider and/or the plan participant. Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods. Most OECD countries do not allow unfunded private pension plans.

Unprotected pension plan* – is a plan (personal pension plan or occupational defined contribution pension plan) where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan/fund.

Voluntary contribution – is an extra contribution paid in addition to the mandatory contribution a member can pay to the pension fund in order to increase the future pension benefits.

Voluntary occupational pension plans - The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can on a voluntary basis establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.

Voluntary personal pension plans* – Participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans.

Wage indexation* – is the method with which pension benefits are adjusted taking into account changes in wages.

Waiting period* – is the length of time an individual must be employed by a particular employer before joining the employer's pension scheme.

Winding-up* – is the termination of a pension scheme by either providing (deferred) annuities for all members or by moving all its assets and liabilities into another scheme.

World Bank multi-pillar model – is the recommended design, developed by the World Bank in 1994, for States that had pension systems inadequately equipped to (currently and forthcoming) sustain a post-retirement income stream for future pensioners and alleviate the old-age poverty risk. Simpler, it is a set of guidelines for States to either enact, reform or gather legislation regulating the state pension and other forms of retirement provisions in a form that would allow an increased workers' participation, enhance efficiency for pension savings products and a better allocation of resources under the principle of solidarity between generations.

The standard design of a robust pension system would rely on five pillars:

a) the non-contributory scheme (pillar 0), through which persons who do not have an income or do not earn enough would have insured a minimum pension when reaching the standard retirement age;

b) the public mandatory, Pay-As-You-Go (PAYG) scheme (**Pillar I**), gathering and redistributing pension contributions from the working population to the retirees, while accumulating pension rights (entitlements) for the future retirees;

c) the mandatory funded and (recommended) privately managed scheme (**Pillar II**), where workers' contributions are directed to their own accumulation accounts in privately managed investment products;

d) the voluntary privately managed retirement products (**Pillar III**), composed of pension savings products to which subscription is universal, contributions and investments are deregulated and tax-incentivised;

e) the non-financial alternative aid scheme (pillar IV), through which the state can offer different forms of retirement support – such as housing or family support. Albeit the abovementioned, the report focuses on the "*main pillars*", i.e. Pillar I, II and III, since they are the most significant (and present everywhere) in the countries that have adopted the multi-pillar model.

Definitions with "*" are taken from OECD's Pensions Glossary - http://www.oecd.org/daf/fin/private-pensions/38356329.pdf.

Contributors

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Pension Savings: The Real Return

2018 Edition

Country Case: Sweden

Swedish Summary

Den privata svenska pensionsmarknaden är mycket diversifierad och består över 800 olika pensionssparande produkter med över 5,3 biljoner SEK (€559 miljarder) i förvaltat kapital. Svenska hushåll har €405 miljarder i pensionsfonder och €112 miljarder i livförsäkringsreserver. I stället för att vara baserat på ett PAYG-system er det svenska systemet baserat på privata besparingsprodukter. När det gäller avkastning är det AP7 Safa-fonden som har varit bäst i testet over dom senaste 16 åren, med en realavkastning på 8.56%.

Summary

The Swedish private pensions market is quite diversified, consisting of a great variety of different retirement savings products with over SEK 5.3 trillion (€559 billion) in managed capital. In terms of pensions, Swedish households hold €405 billion of assets in pension funds and €112 billion in life insurance reserves. Rather than relying on the PAYG system, the Swedish system tends to rely on private savings products. When it comes to returns, however, the AP7 Safa fund has been the best-performing over the last 16 years, with an average real return rate of 8.56%.

Introduction

The Swedish pension system is divided into three pillars:

- Pillar I - The national pension
- Pillar II - Occupational pension plans
- Pillar III - Private pension

The Swedish pension system is a combination of mandatory and voluntary components. Table SE1 shows how the pension capital is distributed between the different types of providers in the pension system. In 2017, the total pension capital is estimated at SEK 5,400 billion, which is thirteen times the size of outgoing pension payments. 48% of the capital is accounted for by the occupational pension system. The fully funded component in the public pension system, the Premium pension, accounts for 44% of the pension capital in the first pillar. The remaining 56% is managed by the buffer funds (see next section).

Introductory Table SE - Pension System Overview		
Pillar I	**Pillar II**	**Pillar III**
National pension	Occupational Pension Plans	Private Pension
consists of: 1) income-based pension; 2) premium pension 3) guarantee pension	mainly driven by collective agreements	Subsidized via tax deductions
The fully funded component in the public pension system, the Premium pension, accounts for 44% of the pension capital in the first pillar	There are four main collective agreements for the different sectors	private pension plans are individual
Mandatory	Mandatory if there is a collective agreement at the workplace	Voluntary
DC	DC or hybrid (DC and DB)	DC
Quick facts		
The average pension per month before taxes was €1,992 (SEK 19,176) in 2017		
€1,420 (SEK 13,675)	€469 (SEK 4,512)	€103 (SEK 989)
National pension can be drawn from the age of 61 onwards in Sweden	The occupational and the private pension can be drawn from the age of 55 onwards	
	Occupational pension system covers over 90% of the workforce	deduction favours high-income earners

Source: BETTER FINANCE own composition

The average pension in Sweden was €1,992 (SEK 19,176) per month, before taxes, in 2017; whereof €1,420 (SEK 13,675) came from the national pension, €469 (SEK 4,512) from occupational pensions and €103 (SEK 989) derived from private pension savings. The outcome further differed quite significantly between genders. For women, the average total pension was €1,682 (SEK 16,202) per month before taxes and for men it was €2,319 (SEK 22,334) per month before taxes.[283] Although a lot of money is locked in the pension system in Sweden, the Swedish household savings rate is quite high.

[283] The Swedish Pensions Agency, '*Sveriges Pensioner 2005-2016*'

Table SE1. - Capital Managed (in billions of SEK)									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Income-based pension	827	895	873	958	1,058	1,185	1,230	1,322	1,412
Premium pension	344	443	434	515	648	812	896	1,024	1,182
Occupational pension	1,403	1,509	1,705	1,795	1,948	2,227	2,369	2,567	
Private pension	402	423	406	412	433	465	478	478	

Source: Sveriges Pensioner 2005-2016, Orange Report 2017; EUR 1 = SEK 9.63 in 2017.

There is no set age at which people must retire, but the national pension can be drawn from the age of 61 onwards in Sweden. Nor is there an upper age limit on how long a person may work, and everyone is entitled to work until the age of 67. The Swedish Pensions Agency administers the national pension and related pension benefits and provides information about them. The Swedish Social Insurance Inspectorate ensures that the Swedish Pensions Agency conducts its administration with due process and efficiency. The occupational and the private pension can be drawn from the age of 55 onwards.

The new national pension system in Sweden was introduced in 1999. The most important change in the reform was changing from a defined-benefit system to a defined-contribution system. Before the reform, pensions were considered a social right and people were guaranteed a certain percentage of the wage before retirement. Following the reform, the outcome of the pension now consists of the pension savings accumulated during active employment before retirement. In this system, pensions depend on economic and financial development, which means that it is not possible to know what a pension will consist of beforehand. With the new pension system, the need for information about pensions is even more pressing. The occupational pension system has developed in the same direction; most of the occupational pension plans are now defined-contribution systems or hybrids with both defined-contribution and defined-benefit components.

Pillar I: The national pension

The national pension consists of an income-based pension, a premium pension and a guarantee pension. 18.5% of the salary and other taxable benefits up to a maximum level of 7.5 income base amounts[284] per year is set aside for the national retirement pension. 16% is set-aside for the income pension, where the value of the pension follows earning trends in Sweden. The income-based pension is financed on a pay-as-you-go basis, which means that collected pension contributions are used to pay retirees the same year. The remaining 2.5% of the salary and other taxable benefits are set aside for the premium pension, for which the capital is placed in funds. The individual can either choose what fund or funds to place their savings in or, if no choice is made, the pension will be placed in the default alternative fund. This system is unique to Sweden and the first individual choices

[284] €52,375 (SEK 504,375) for 2017.

were made in 2000. The aim was to achieve a spread of risk in the pension system by placing a part of the national pension on the capital market, enhance the return on capital and enable individual choices in the national pension system.[285] The Swedish pensions Agency calculates that by 2030 the premium pension will constitute 20% of the total pension.

The capital for the income-based system is deposited in the five buffer funds: the first, second, third, fourth and sixth national pension funds. The result of the income-based pension system is affected by several key economic and demographic factors. In the short run, the development of employment is the most important factor, but the effect of the stock and bond markets is also of significance, particularly in case of major changes. In the long run, demographic factors are of utmost importance.

Earned pension rights and current benefits in the income-based system rise with the growth in the level of per capita earnings. If the rate of growth of the wage would be slower than that of average wages (a result of a fall in the size of the work force for instance), total benefits would grow faster than the contributions financing them, which could induce financial instability. If the ratio of assets to liabilities in the income-based system falls below a certain threshold, the automatic balancing mechanism ensure that automatic indexation by average wage growth is deactivated.

The third element of the national pension is the guarantee pension. It is a pension for those who have had little or no income from employment in their lifetime. It is linked to the price base amount calculated annually by Statistics Sweden, and the size of the guarantee pension depends on how long a person has lived in Sweden. Residents of Sweden qualify for a guaranteed pension from the age of 65. To receive a full guaranteed pension, an individual must in principle have resided in Sweden for 40 years after the age of 25. Residence in another EU/EEA country is also credited toward a guaranteed pension. In addition to the national pension, pensioners with low pensions may be entitled to a housing supplement and maintenance support.

For administering the income-based pension system, a fee is deducted annually from pension balances by multiplying these balances by an administrative cost factor. In 2017, the deduction amounted to 0.03%.[286] The deduction is made only until the insured begins to withdraw a pension. At the current level of cost, the deduction will decrease the income-based pension by approximately one percent compared to what it would have been without the deduction.

[285] Vägval för premiepensionen, Ds 2013:35
[286] The Swedish Pensions Agency, 'Orange report 2017'

The premium pension system is a funded system for which the pension savers themselves choose the funds in which to invest their premium pension money. At the year-end 2017, there were 845 eligible funds registered in the premium pension system managed by 102 different UCITS. The premium pension can be withdrawn, in whole or in part, from the age of 61. The pension is paid out from selling off the accumulated capital. The individual choice in the premium pension system results in a spread on return on the pension capital, depending on the choice of fund or funds. Table SE2 shows the allocation of assets in the premium pension.

Table SE2. Funds in the Premium Pension System in 2017 and Capital Managed 2009–2017, December 31, billions of SEK

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Equity funds	179	214	159	193	240	295	347	388	441
Mixed funds	12	17	41	51	63	77	67	69	70
Generation funds	38	43	60	71	90	114	128	147	166
Interest funds	21	24	28	24	27	27	25	127	26
AP7 Såfa (default)	90	110	105	132	182	246	272	328	407
Total:	**340**	**408**	**393**	**471**	**602**	**759**	**839**	**959**	**1,110**

Source: The Swedish Pensions Agency, Orange report 2017, p.21; EUR 1 = SEK 9.63 in 2017.

The premium pension has been criticized for having too many selectable funds and for generating large variation in pension outcomes. In 2016 a governmental investigation, regarding how to change the premium pension so that more people get better returns, was completed. The investigation's most important proposal is to introduce mandatory re-evaluation choices every 7th year. If individuals do not confirm their chosen fund allocation their capital will be automaticallty moved to the default fund (AP 7 Såfa).[287]

In December 2017, the government announced that it will implement the changes that have been proposed by the Pensions Agency in order to enhance the quality and regulation of the participating companies. The new rules will likely result in a substantial reduction in the number of companies. The primary purpose of the new rules is to prevent dishonest and fraudulent companies. These discussions were sparked following the alleged fraud of the fund company Allra in January 2017.

Pillar II: Occupational pensions

The occupational pension system in Sweden is mainly driven by collective agreements. A Swedish company is not required by law to pay a pension to its employees, but an occupational pension plan is mandatory if there is a collective agreement at the workplace. The occupational pension system covers over 90% of the workforce. For example, the self-employed are excluded from the occupational pension plans and it is mostly the smaller

[287] Fokus Premiepensionen (SOU 2016:61)

companies in new sectors of businesses that do not have a collective agreement.[288] There are four main collective agreements for the different sectors and each agreement has its own pension plan. The four collective agreements are: the SAF-LO Collective Pension (blue-collar workers) with 2.8 million members, the Supplementary Pension Scheme for Salaried Employees in Industry and Commerce ITP (white collar employees) with 2 million members, the Collectively Negotiated Local Government Pension Scheme (KAP-KL) with 1 million members and the Government Sector Collective Agreement on Pensions PA-03 with 500,000 members.[289]

In all four collectively negotiated pension schemes, the employees are allowed to choose a fund manager for at least part of the pension amount. To ensure that the employers receive an occupational pension that is as high as possible, there is a 'choice centre' for each collective pension plan. The 'choice centre's' task is to contract good managers for the employer's occupational pension. The employees can choose between different types of traditional insurance and/or unit-linked insurance. The size of this individual portion depends on the size of the premiums paid by the employer in the form of an annual pension provision, the length of the period during which they are paid, and how the funds are managed. For two of the collective pension schemes (KAP-KL and SAF-LO), the employees can choose a fund manager for the whole amount. If the individual does not choose a fund manager, the pension capital will be placed in the default alternative, which in all four agreements is a traditional insurance procured by the choice centre of the occupational pension plan.

If there is no collective agreement at the workplace, the company can choose to have an individual occupational pension plan for their employees. Among the companies that do not have a collective agreement, some have chosen to have an occupational pensions plan, and some do not pay out any pensions at all to their employees. These individual pension plans can vary in shape and level but common to all of them is that they often have worse provisions and higher costs compared to the collectively negotiated pension schemes.

In December 2016, Sweden transposed the IORP II Directive. The purpose of the new Directive is to ensure the soundness of occupational pensions and better protect pension scheme members by means of stricter capital solvency requirements. The new directive also clarifies the legal framework for actors in the occupational pension business. The new rules will be enforced on January 13, 2019.[290]

[288] AMF, Tjänstpensionerna i framtiden – betydelse, omfattning och trender, p. 17
[289] Pensions Myndigheten
[290] See https://www.fi.se/sv/forsakring/iorp2/ for more information on IORP II.

Pillar III: Private pensions

Private pension saving is voluntary, but it is subsidized via tax deductions. In 2014, 34.5% of those aged 20 to 64 made contributions to a private pension account.[291] The tax deduction for private pension savings is only profitable for high-income earners.

Private pension savings can be placed in an individual pension savings account (IPS) or in private pension insurance. Money placed in an IPS and in private pension insurance is locked until the age of 55. After that, the individual can choose over how many years the pension should be paid out. The minimum payout is 5 years in both IPS and private pension insurance. However, only money in private pension insurance can be paid out for life (annuity).

Unlike the national pension plan and the occupational pension plans, private pension plans are individual. This results in less transparency both when it comes to offered products within the private pension plans and the charges on these products.

The deduction for private pension savings has been reduced over the years. From 1 January 2015 it was reduced from €1,254 to €190 (SEK 12,000 to SEK 1,800) per year, equivalent to €16 (SEK 150) in monthly savings. On 1 January 2016 the deduction was abolished. The motive for this is that the deduction favours high-income earners. In 2015, the share of private pension savers dropped to 24.2%. Those who still contribute to private pension accounts are thus subject to double taxation.

ISK

“Investeringssparkonto” (Investment and savings account - ISK) was introduced in January 2012. The purpose of the new account is to make it easier to trade in financial instruments. Unlike an ordinary securities account, there is no capital gains tax on the transactions. Capital gains tax has been replaced by an annual standardised tax (more on this in the Taxation section).

After the lowering of the deduction for private pension savings, ISK is now regarded as a low tax alternative to private pension savings. ISK has enjoyed widespread popularity and the number of ISK accounts has increased dramatically. In 2016, the number of unique account holders exceeded 1.8 million (see Table SE3). In 2017, ISK funds accounted for 8% of the households’ total fund assets as compared to 24% for private pension insurance. The relative importance of ISK is, however, likely to increase in the future; 32% of new investments in 2017 was allocated to ISK accounts. The Premium Pension (Pillar I) is the

[291] Statistics Sweden, ‘Statistical Database’

most important savings vehicle in funds accounting for 33% of net savings and 28% of total fund assets (see Table SE4).

Cash, securities traded on a regulated market or an MTF, and fund shares are the permitted holdings for this type of account. The cash holdings are covered by the deposit guarantee. The securities and the fund shares are covered by the investor protection guarantee. The account is not an insurance product. It is not possible to name a beneficiary and standard inheritance laws apply.

Table SE3. ISK accounts

Year	Number of accounts	Number of account holders
2012	222,664	210,895
2013	493,221	453,911
2014	891,550	788,201
2015	1,840,152	1,528,939
2016	2,305,137	1,853,227

Source: Swedish Tax Agency

Table SE4. Household fund assets

Fund type	Fund assets (in MSEK)	New Investments	Share of assets
Direct fund investments	477,968	-20%	12%
ISK	305,524	32%	8%
IPS	105,244	-4%	3%
Private pension insurance	952,585	24%	24%
Premium Pension (1st pillar)	1,109,201	33%	28%
Trustee-registered funds	368,352	17%	9%
NGOs	96,544	3%	2%
Swedish companies	423,545	13%	11%
Others	109,430	2%	3%
Total	**3,948,393**	**100%**	**100%**

Source: Swedish Investment Fund Association, data as of 31 December 2017

Pension vehicles

Occupational pension plans

ITP

The ITP agreement consists of two parts: defined-contribution pension ITP 1 and defined-benefit pension ITP 2. Employees born in 1979 or later are covered by the defined-contribution pension ITP 1. In ITP 1, the employer makes contributions of 4.5% of the salary per year, up to a maximum of 7.5 income base amounts. If the salary exceeds this level, the amount of the contribution is also 30% of the salary above 7.5income base amounts. There is also an additional contribution that the employer organizations can choose to include, the so-called partial pension contribution. This contribution currently varies between 0.2%-1.5%.

Half of the ITP 1 pension must be invested in traditional pension insurance, but the individual can choose how to invest the remaining half. It can be placed in traditional insurance and/or unit-linked insurance. The premiums of those who do not specify a choice are invested in traditional pension insurance with Alecta. The eligible insurance companies for traditional insurance are Alecta, AMF, Folksam and Skandia. For unit-linked insurance they are AMF, Danica Pension, SEB Trygg Liv, SPP and Swedbank.

SAF-LO

The SAF-LO occupational pension plan is a defined-contribution plan by definition. The terms of the plan were improved in 2007, mostly in response to perceived unfairness in the terms of the pension provisions for blue-collar and white-collar workers. Like for ITP 1; the employer now makes contributions of 4.5% of the salary, up to a maximum of 7.5 income base amounts. If the salary exceeds this level, the amount of the contribution is also 30%. SAF-LO also contains a partial pension contribution that the employer can choose to add. The additional contribution is currently ranging between 0.7% and 1.7%.

The individual can choose how to invest the pension capital and it can be placed in traditional insurance and/or unit-linked insurance. The eligible insurance companies for traditional insurance are Alecta, AMF, Folksam and SEB and for unit-linked insurance they are AMF, Danica Pension, Folksam, Handelsbanken, Länsförsäkringar, Movestic, Nordea, SEB, SPP and Swedbank.

PA 03

The pension plan for central government employees, PA 03, is a hybrid of defined-contribution and defined-benefit. The defined-contribution component in PA 03 consists of two parts: individual old age pension and supplementary old age pension. The total premium amounts to 4.5% of the pensionable income up to a ceiling of 30 income base amounts. Of the total premium, 2.5% and 2% is allocated to the individual pension and the supplementary pension respectively. The individual can choose how the contribution of the individual retirement pension should be placed and managed. Contributions to the supplementary pension cannot be invested by the employee and are instead automatically invested in a traditional low-risk pension insurance fund.

The defined-benefit pension applies to those who earn more than 7.5 income base amounts. If the individual earns between 7.5 and 20 income base amounts, the defined-benefit pension comprises 60% of the pensionable salary on the component of pay that exceeds 7.5 income base amounts. If the individual earns between 20 and 30 income base amounts, the defined-benefit pension comprises 30% of the pensionable salary on the component of pay that exceeds 20 income base amounts. There is also a defined-benefit pension on income less than 7.5 income base amounts in accordance with transitional provisions due to the implementation of PA 16 (below).

In 2016, a new pension plan, PA 16, for central government employees was implemented. PA 16 covers those born in 1988 or later. Just like PA 03, PA 16 has two defined-contribution components. The individual pension (2.5% of income up to 7.5 income base amounts) can be invested by the employee, whereas the supplementary pension (2% of income up to 7.5 income base amounts) is invested in a low-risk pension insurance fund. The contribution for earnings above the ceiling amounts to 20% and 10%, respectively. PA 16 also contains a mandatory partial pension contribution amounting to 1.5%.

The eligible insurance companies providing individual retirement pensions in the shape of traditional insurance are Alecta, AMF, Kåpan, and for unit-linked insurance they are AMF, Danica Pension, Folksam, Handelsbanken, Länsförsäkringar, SEB and Swedbank.

KAP-KL

The KAP-KL agreement consists of two parts: defined-contribution pension AKAP-KL and defined-benefit pension KAP-KL. Employees born in 1986 or later are covered by the defined-contribution pension AKAP-KL. In AKAP-KL, the employer pays an amount of 4.5% of the salary towards the occupational pension. If the salary exceeds 7.5 income base amounts, the amount is increasing with 30% of the salary that exceeds 7.5 income base amounts up to a maximum of 30 income base amounts. If you are covered by KAP-KL, the employer pays an amount of 4.5% of the salary to your occupational pension. For a salary over 30 income base amounts, no premium is paid. Instead there is a defined-benefit old age pension that guarantees a pension equivalent to a certain percentage of your final salary at the age of retirement. You start to earn a defined-benefit old age pension from the age of 28 and it applies to the part of the salary that exceeds 7.5 income base amounts.

The individual can choose how to invest the pension capital and it can be placed in traditional insurance and/or unit-linked insurance. The eligible insurance companies for traditional insurance in KAP-KL are Alecta, AMF and KPA, and for the unit-linked insurance in KAP-KL they are AMF, Danica, Folksam, Handelsbanken, KPA, Lärarfonder, Nordea and Swedbank.

Charges

Pillar I

The costs of administration and fund management in the funded part of the public pension system - the “premium pension”- are deducted from the premium pension capital. However, in this case, the deduction continues to apply after the insured begins to withdraw the pension. The current cost deduction of the premium pension capital is about 0.3% per year. At this level of costs the deduction will decrease the premium pension by an average of about 9 percent from what it would have been without any cost deduction. The deduction is expected to decrease in the future. The net charges (after deductions) in the public pension system are reported in Table SE5.

Table SE5. Net charges Pillar I (%)

	2012	2013	2014	2015	2016	2017
Income pension	0.19	0.2	0.2	0.21	0.19	0.18
- Adminstrative fee	0.03	0.031	0.03	0.028	0.03	0.03
Premium pension	0.37	0.36	0.33	0.3	0.28	0.27
- Adminstrative fee	0.1	0.1	0.09	0.07	0.07	0.06

Source: The Orange Report, 2017

To reduce the costs in the premium pension system, the capital managers associated with the premium pension system are obliged to grant a rebate on the ordinary management fee of the funds. In 2017, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.44 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 14% lower. Furthermore, the pension savers are in a position to influence the costs of their premium pensions by choosing funds with lower management fees.

To meet the new need for information in the new pension system, the orange envelope was introduced in 1999. It contains information about contributions paid, an account statement, a fund report for the funded part and a forecast of the future pension. The purpose of the orange envelope is to get more people interested in their pension and garner more attention with the help of the special design, the orange colour and a big concentrated distribution once a year. The orange envelope has now become a brand, a trademark for pensions. Banks and insurance companies use it in their sales campaigns, and in media the orange envelope is used to illustrate pensions.

Pillar II

Legislation from 2007 implies that individuals can choose which company should manage their occupational pension capital. The so-called portability right accrues to capital earned after July 1, 2007. Capital earned before this date can be moved if the default managing company itself has agreed to give their investors this right. It is estimated that around 44% of the occupational pension capital today is covered by the portability right.[292] Thus, the share of pension capital that can be moved will increase over time, which will further strengthen the competition and keep the fees low.

The selectable companies within each pension plan are included through a procurement procedure which, especially in the last years, have kept the fees down. The companies and the corresponding charges within each pension plan are listed in Table SE6 "Charges Pillar II".

The disclosure of charges in the occupational pension system is quite good, although it can be difficult for the average citizen to understand the information that is available. In the occupational pension system, there is typically a yearly fixed fee and a percentage fee on the capital (i.e. management fee). Table SE6 shows the current fee structure in each of the four major occupational pension plans. The charges are relatively low and range between 0.1% and 0.5%.

Table SE6. Charges Pillar II		
ITP 1		
Traditional insurance	**Fixed cost, SEK**	**Management fee**
Alecta	0	0.13%
AMF	50	0.23%
Folksam	0	0.25%
Alecta (default)	0	0.13%
Skandia	85	0.27%
Unit-linked insurance		
AMF	0	0.24-0.34%
Danica Pension	0	0.13-0.23%
SEB	0	0.12%-0.25%
SPP	0	0.09%-0.16%
Swedbank	0	0.09%-1.00%

[292] Swedish Regeringskansliet, Förstärkt försäkringstagarskydd (SOU 2012:64), page 466

SAF LO		
Traditional insurance	**Fixed fee, SEK**	**Management fee**
Alecta	65	0.2%
AMF	40	0.18%
Folksam	65	0.2%
AMF (default)	40	0.18%
SEB	65	0.2%
Unit-linked insurance		
AMF	60	0.24%-0.34%
Danica Pension	65	0.16%-0.36%
Folksam LO	50	0.20%-0.37%
Handelsbanken	65	0.29%-0.42%
Länsförsäkringar	65	0.12%-0.2%
Movestic	65	0.12%-0.36%
Nordea	65	0.29%-0.36%
SEB	45	0.13%-0.35%
SPP	65	0.14%-0.28%
Swedbank	65	0.27%-0.34%

PA 03 & PA 16		
Traditional insurance	**Fixed fee, SEK**	**Management fee**
Alecta	75	0.2%
AMF	75	0.18%
Kåpan Pensioner (default)	6	0.11%
Unit-linked insurance		
AMF	75	0.24%-0.34%
Danica Pension	0	0.39%
Handelsbanken	75	0.36%
Länsförsäkringar	75	0.52%
SEB	75	0.14%-0.4%
Swedbank	75	0.33%-0.4%

KAP-KL		
Traditional insurance	**Fixed fee, SEK**	**Management fee**
Alecta	65	0.20%
AMF	65	0.18%
KPA (default)	48	0.11%
Unit-linked insurance		
AMF	65	0.24%-0.34%
Danica Pension	0	0.44%
Folksam LO	65	0.21%-0.36%
Handelsbanken	65	0.31%
KPA Pension KPA SmartPension	65	0.30%
Lärarfonder	65	0.35%
Nordea	65	0.34%-0.36%
SEB	65	0.31%-0.34%
Swedbank	65	0.33%-0.4%

Source: The Swedish Consumers' Insurance Bureau, 2018

Pillar III

For the private pension system, however, it is difficult to get a good overview of the available pension products and hence the charges on these products. There are two tax-favored (pre-2016) private pension veichles: IPS and private pension insurance. The majority of pension providers of IPS and private pension insurance charge a fixed fee (see Tables SE7 and SE8). These typically range between €10 and €40 per year. In IPS, only two out of eleven providers charge a management fee. Instead, the individual is subject to fund fees which vary substantially by fund type and pension provider. It is also relatively expensive to move the IPS capital to another company. This fee typically amounts to EUR 50, which in relation to the invested capital can be sizable.

In private pension insurance accounts, the fee structure depends on whether the capital is unit-linked or traditional. Traditional insurance only imposes a management fee, whereas unit-linked insurance both contains management and fund fees. In some cases, investors also pay a deposit fee of 1% - 2 %. The savings invested in these products will decrease since the deduction for private pension savings was abolished in January 2016. In private pension accounts, the cost to move the capital to another company is often even higher than in the IPS accounts. The fee is often denoted in percentages in relation to the invested capital. This has been criticized for causing serious lock-in effects. For many it is simply not worth moving the capital despite high management fees.

Table SE7. Individual Pension Savings Account (IPS) – Fees

	Fixed fee, SEK	Management fee, %	Fund fee (mixed funds)
Aktieinvest	0	0.00	0.10%-1.90%
Avanza Bank	0	0.00	0.20%-2.20%
Danske Bank	150	0.00	1.00%-1.40%
Handelsbanken	0	2.00 (max SEK 125)	0.40%-1.50%
Indecap	125	2.00 (max SEK 125)	0.70%-1.30%
Länsförsäkringar Bank	125	0.00	0.40%-2.20%
Nordea	140	0.00	0.40%-2.75%
Nordnet Bank	0	0.00	0.40%-2.70%
SEB	150	0.00	1.10%-1.35%
Skandiabanken	0	0.00	0.20%-2.50%
Swedbank	0	2.00 (max SEK 125)	0.20%-1.60%

Source: The Swedish Consumers' Insurance Bureau, 2018

Table SE8. Pension Savings Insurance – Fees

Traditional insurance	Fixed fee, SEK	Management fee	Fund fee (standard portfolio)	Deposit fee
Folksam Pensionsförsäkring Traditionell	288	0.80%		1.00%
SEB Traditionell Försäkring	184	0.95%		0.00
Skandia Framtid Internet Traditionell	0	0.60%		2.00%
Skandia Framtid Rådgivning Traditionell	0	0.80%		2.00%
SPP PLUSpension Traditionell	0	0.35%		0.00
Unit-linked				
Avanza Pension PrivatPension Depå	0	0	0.1%	
Brummer Life PrivatPension Rådgivning Fond	0	0.25%-0.65%	0.02%	
Danica Pension PrivatPension Fond	120	0.5%	0.54%	
Danica Pension PrivatPension Netto Fond	0	0	0.54%	
Folksam Pensionsförsäkring Fond	295	0.7%	0.33%	
Handelsbanken Privatpension	60	0.75%	0.35%	
Länsförsäkringar Privatpension Fond	240	0.5%	0.29%	
Movestic Pension Privat Fond	273	0.4%-0.55%	0.49%	
Nordea Ålderspension Fond	143	0.4%	0.42%	
Nordnet Privatpension Depå	0	0	0.13%	
SEB Privat Pensionsförsäkring Fond	297	0.65%	0.51%	
SEB Svensk Depåförsäkring	297	0.9%	0.51%	
Skandia Privatpension Depå	0	0.95%	0.37%	
Skandia Privatpension Internet Fond	0	0.1%-0.65%	0.43%	
Skandia Privatpension Rådgivning Fond	360	0.65%	0.43%	
SPP PLUSpension Fond	0	0	0.26%	
Swedbank Pensionsförsäkring Depå	240	0.65%	0.15%	
Swedbank Pensionsförsäkring Fond	240	0.65%	0.15%	

Source: The Swedish Consumers' Insurance Bureau, 2018

ISK

On ISK there is an annual standard rate tax, based on the value of the account as well as the government-borrowing rate. The financial institutions report the standard rate earnings to the tax authorities and there is no need to declare any profit or loss made within the account.

The calculation of the standard rate earnings is based on the average value of the account as well as the government-borrowing rate. The average value of the account is calculated by the account value of the first day of each quarter added together, divided by four, and the sum of all deposits during the year divided by four. The average value of the account multiplied with the government borrowing rate as of 30 November the previous year, plus 1 percentage points (0.75 percentage points before Jan 1, 2018), gives the standard earnings. The standard earnings are reported to the tax authority by the financial institutions. The standard earnings are taxed with a 30% tax. In 2016, the government borrowing rate was 0.49%, which means that the calculated average value of an account is taxed with 0.45%. The table below reports the total and average standard earnings for years 2012-2016, respectively.

Table SE9. ISK standard earnings

Year	Standard earnings (msek)	Average standard earning per account holder
2012	714	3,388
2013	2,024	4,458
2014	5,467	6,937
2015	3,952	2,585
2016	7,646	4,126

Source: The Swedish Tax Agency

In contrast to individual pension savings accounts, the investment and savings accounts are free from management fees. The taxation of the accounts is very favourable, and the Swedish Pensions Agency considers the investment and savings account as a great alternative to the individual pension savings account. There is no binding period and withdrawals can be made free of charge at any given time. The taxation of the account is more favourable during periods with low borrowing rates, as the standard rate earnings are based partially on the government-borrowing rate.

Since ISK was introduced in 2012, the economy has been characterized by low interest rates and a positive stock market development. This, in combination with the abolishment of the deduction for private pension savings, has contributed to the rapid spread of ISK accounts. Some argue that ISK will replace the old tax-favored private pension savings accounts. However, critics argue that ISK is more of a regular savings vehicle; ISK capital cannot be withdrawn as a life annuity and it does not mandate the account holder to save long-term.

Taxation

Taxation during the accumulation phase looks different between the different pillars. In the public pension, individual contributions are deductible from the tax base and there is no tax on returns. Employers can partially deduct contributions to Pillar II.[293] When it comes to private pension savings, there was a tax deduction of SEK1 800 per year available, but it was abolished in January 2016. There is no tax on returns in Pillar I. In contrast, returns in the

[293] Deductible contributions amount to maximum 35% of the wage of the employee. However, the deduction cannot exceed 10 price base amounts.

occupational pension system and in the private pension vehicles are subject to an annual standard rate tax based on the value of the account and the government-borrowing rate. Specifically, the value of the account on January 1st multiplied by the government borrowing-rate gives the standard earnings which are then subject to a 15% tax rate.

During the decumulation phase, all pension income in Sweden is taxed as earned income. The rate varies depending on the size of the pension payment due to the progressive income taxation in Sweden. The Swedish income tax is even higher for pensioners than workers because of the earned income tax credit.[294] The Swedish tax system works as follows. A proportional local tax rate applies to all earned income, including pension income. Furthermore, for incomes above a certain threshold, the taxpayer also has to pay central government income tax. The government income tax consists of two brackets. The marginal tax rates in each bracket are 20% for incomes between €45,576 and €66,303 (SEK 438,900 and SEK 638,500) and 25% for incomes from €66,303 (SEK 638,500)[295] and above.

Table SE 10. Taxation on pension schemes

	National pension	Occupational pension	Private pension
Contributions	Individual contribution deductible, not employer's part	Partially deductible	Non-deductible from January 1 2016.
Tax on investments	Not subject to tax, instead the capital is taxed with income tax when payed out.	Subject to tax rate on standard earnings (15% in 2017)	Subject to tax rate on standard earnings (15% in 2017)
Pay-out	Income tax	Income tax	Income tax

Sources: own composition based on Swedbank, Pensions Myndigheten, Alecta, Konsumenternas

[294] The Swedish earned income tax credit is a refundable tax credit for all individuals aged below 65.
[295] Financial year 2017, https://www.skatteverket.se/download/18.5c1163881590be297b52507/1482.

Pension Returns

This section reports on returns on pension capital in the first and second pillars. There are no readily available data on returns in the private pension system – one would have to turn to the homepage of each pension provider for this information.

Pillar I

Table SE11 shows average annual returns for default investors and those who opted out of the default. The average fee for the default fund and for "active" investors over this period is 0.1% and 0.3%, respectively.

Since the start of the premium pension in 2000, the default fund has, on average, performed better than the average "active" investor. It is important to remember that the "active" investors also include inert investors, i.e. investors that at some point made an active but then remained passive. The average returns for the "truly" active investors are therefore underestimated. In fact, Dahlquist et al. (2016) found that investors who are actively involved in managing their pension accounts earn significantly higher returns than passive (inert) investors.

The level of acticity has changed significantly since the launch of the Premium Pension in year 2000. 67% of those who entered the system in year 2000 chose their own portfolio of funds. Among those, as many as 32% have not made any subsequent choice. This can be compared with individuals that joined the system in 2010, for example. Of those only 1.6% opted out of the default in the first year. Five years later only 10% had made an active choice. The fact that the default fund on average has outperformed the active investors in most years is probably one explanation for why an increasingly larger share chooses to stick with this option.

Table SE11. Average return (%) on Capital in the Premium Pension System

	AP7 Såfa (default)			Other funds		
Year	**Nominal**	**After charges**	**Net return**	**Nominal**	**After charges**	**Net return**
2002	-27.3	-27.4	-29.6	-33.3	-33.9	-36.1
2003	18.4	18.2	16.3	17,3	16.7	14.8
2004	10.1	10.0	9.6	8,1	7.6	7.2
2005	24.9	24.8	24.3	33,0	32.4	31,9
2006	10.5	10.4	9.0	12,9	12.3	10.9
2007	4.6	4.5	2.3	6,0	5.6	3.4
2008	-36.1	-36.3	-39.7	-33.4	-33.8	-37.2
2009	35.0	34.8	35.1	34,5	34.1	34.4
2010	14.6	14.4	13.1	11,3	10.9	9.6
2011	-10.7	-10.9	-13.5	-10,8	-11.1	-13.7

2012	17.6	17.4	16.5	10,2	9.8	8.9
2013	31.8	31.7	31.7	16,8	16.4	16.4
2014	28.9	28.8	29	17,0	16,6	16.8
2015	6.3	6.2	6.2	6,5	6.2	6.2
2016	15.2	15.1	14.1	8,6	8.3	7.3
2017	16.4	16.3	14.5	10.5	10.2	8.4
Average return	**10.3**	**10.2**	**9.0**	**7.3**	**6.9**	**5.7**

Source: Provided by The Swedish Pensions Agency upon request

Pillar II

Table 12 shows returns for the occupational pension system. The first column shows the average return over the last 3 years. The next three columns display the nominal return, the nominal return net of charges, and the real return (net of charges and inflation) for year 2017, respectively. The inflation (measured by CPI) in 2017 was 1.8%.[296] In all four pension plans, the unit-linked insurance funds have on average yielded better returns than the traditional insurance funds.

Table SE12. Return on capital, Pillar II (in %)				
ITP1				
Traditional insurance	**3Y AVG**	**Return 2017**	**Net of charges**	**Net return**
Alecta	7.56	9.00	8.87	7.87
AMF	9.07	9.00	8.77	7.77
Folksam	8.19	9.07	8.82	7.82
Alecta (default)	7.56	9.00	8.87	7.87
Skandia	8.54	6.70	6.43	5.43
Unit-linked insurance				
AMF	8.95	9.60	9.26	7.46
Danica Pension	11.29	10.18	9.95	8.15
SEB	8.70	8.00	7.75	5.95
SPP	9.99	11.51	11.35	9.55
Swedbank	10.00	14.32	13.32	11.52

[296] https://www.scb.se/hitta-statistik/statistik-efter-amne/priser-och-konsumtion/konsumentprisindex/konsumentprisindex-kpi/pong/tabell-och-diagram/konsumentprisindex-kpi/kpi-faststallda-tal-1980100/.

SAF-LO				
Traditional insurance	**3Y AVG**	**Return 2017**	**Net of charges**	**Net return**
Alecta	7.56	9.00	8.80	7.00
AMF	9.07	9.00	8.82	7.02
Folksam	8.19	9.07	8.87	7.07
AMF (default)	9.07	9.00	8.82	7.02
SEB	6.95	4.00	3.80	2.00
Unit-linked insurance				
AMF	8.95	9.60	9.26	7.46
Danica Pension	11.16	9.99	9.63	7.83
Folksam LO	10.33	11.70	11.33	9.53
Handelsbanken	11.91	15.88	15.46	13.66
Länsförsäkringar	9.55	8.55	8.35	6.55
Movestic	8.62	11.14	10.78	8.98
Nordea	10.59	13.46	13.10	11.30
SEB	8.70	8.00	7.65	5.85
SPP	9.99	11.51	11.23	9.43
Swedbank	10.25	13.83	13.49	11.69

PA-03				
Traditional insurance	**3Y AVG**	**Return 2017**	**Net of charges**	**Net return**
Alecta	7.53	9.00	8.80	7.00
AMF	9.07	9.00	8.82	7.02
Kåpan Pensioner (default)	6.31	8.70	8.59	6.79
Unit-linked insurance				
AMF	8.95	9.60	9.26	7.46
Danica Pension	10.88	12.22	11.83	10.03
Handelsbanken	9.62	11.68	11.32	9.52
Länsförsäkringar	9.12	10.38	9.86	8.06
SEB	9.59	10.80	10.40	8.60
Swedbank	11.98	18.33	17.93	16.13

KAP-KL				
Traditional insurance	**3Y AVG**	**Return 2017**	**Net of charges**	**Net return**
Alecta	7.56	9.00	8.80	7.00
AMF	9.07	9.00	8.82	7.02
KPA (default)	5.06	4.80	4.69	2.89
Unit-linked insurance				
AMF	8.95	11.00	10.66	8.86
Danica Pension	11.00	15.90	15.51	13.71
Folksam LO	9.21	9.52	9.08	7.28

Handelsbanken	9.49	11.54	11.19	9.39
KPA Pension	8.62	7.60	7.20	5.40
Lärarfonder	8.70	10.98	10.53	8.73
Nordea	10.59	11.49	11.09	9.29
SEB	10.19	13.66	13.26	11.46
Swedbank	No info	18.33	17.93	16.13

Source: The Swedish Consumers' Insurance Bureau, 2018

Conclusion

The Swedish pension system is considered robust and sustainable. The balancing of the income-based system contributes to the preservation of the system's debt balance and secures the long-term nature of the system. The premium pension, which is a system unique to Sweden, also contributes towards spreading the risk in the system and enhancing the return on capital by enabling people to place part of their national pension capital on the stock market. As a result of the change in the Swedish pension system, individual responsibility will increase and the occupational pension will constitute a bigger part of the total pension in the future.

The occupational pension system in Sweden covers 90% of the working population. The collectively negotiated pension schemes are procured for a large number of workers, which leads to lower costs, and more transparent pension plans. Individual pension plans are, on the other hand, often exactly individual, which leads to increased costs and less transparency.

The statistics on performance, fees and taxes in the area of individual pension savings is quite insufficient. Neither the Swedish Pensions Agency, the Swedish Consumers' Banking and Finance Bureau, the Swedish Consumers' Insurance Bureau, nor any other similar provider of statistics have been able to provide the requested data. The Swedish central bank does publish quarterly financial market statistics including statistics on individual pension savings. The statistics include taxes and fees, deposits, withdrawals and change of value. Although the statistics include relevant information, it is not possible to calculate the average performance, or average taxes and fees-percentage (the financial institutions report taxes and fees as a single post) due to the lack of knowledge regarding the size of the managed capital at the time of taxation, change of value and so on. It is also difficult to find statistics on performance in the so-called ISK accounts, the new, and very popular, low-tax alternative to private pension insurance. All of the 12 financial institutions that provide ISK accounts offer a vast number of selectable funds.

Another source of concern is that the pension system is becoming increasingly complex. The number of occupational pension plans per individual is increasing, both because job switches across sectors has become more common and because pension capital can be moved between companies. The ongoing transitions between old and new occupational pension plans also contribute to the increased complexity of the second pillar. All three pillars also contain many elements of individual choice both during the accumulation and decumulation phases. Pension systems that are too complex risk leading to inertia and distrust, which in turn could lead to worse saving and retirement outcomes. Well-designed default fund options with low fees and appropriate risk exposure as well as comprehensive, user-friendly information/choice centers are necessary features in a complex pension system.

Although the Swedish pension system is considered robust and sustainable there is reason to be concerned. As life expectancy increases, the gap between wages and pensions will increase. The total pension amount for people born between 1938 and 1946 shrank from 86% to 77% of the final salary. In addition, the national pension, which every Swedish citizen with a salary or another taxable benefit is entitled to, shrank from 61% to 49% of the final salary for the same age groups. To stop this development, the actual retirement age must be raised and the individual also needs to take more responsibility for their private pension savings. This makes it even more important to have accessible good pension savings products with low fees.

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Imprint

Editor and Publisher
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BETTER FINANCE activities are partly funded by the European Commission. There is no implied endorsement by the EU or the European Commission of work carried out by BETTER FINANCE, which remains the sole responsibility of BETTER FINANCE.