Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

BF BETTER FINANCE

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

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The Real Return of Long-term and Pension Savings

2024 Edition — Sweden

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

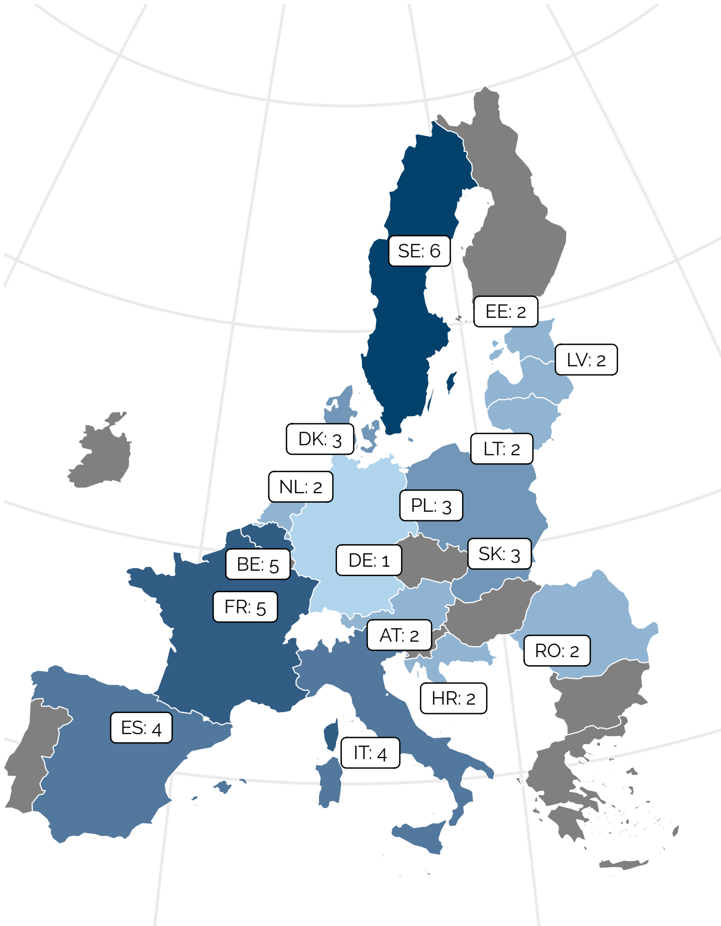
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – Countries and number of product categories included in the report

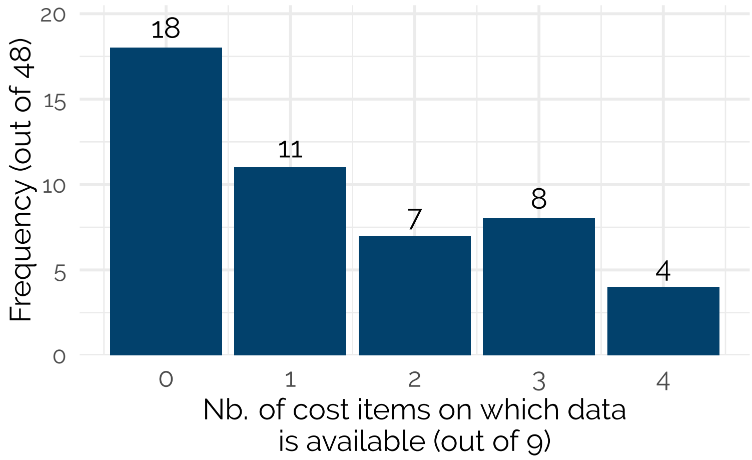


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

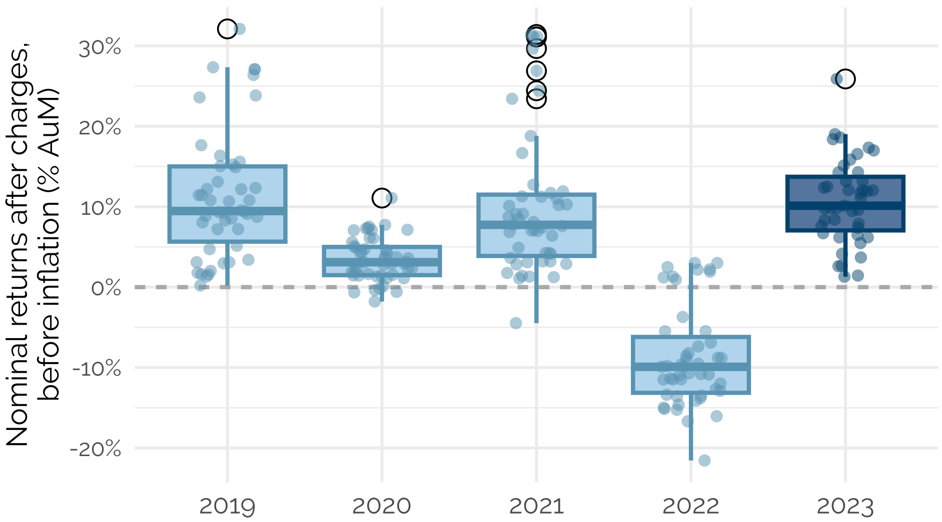
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – Average 1-year return rates of analysed product categories (2019–2023)



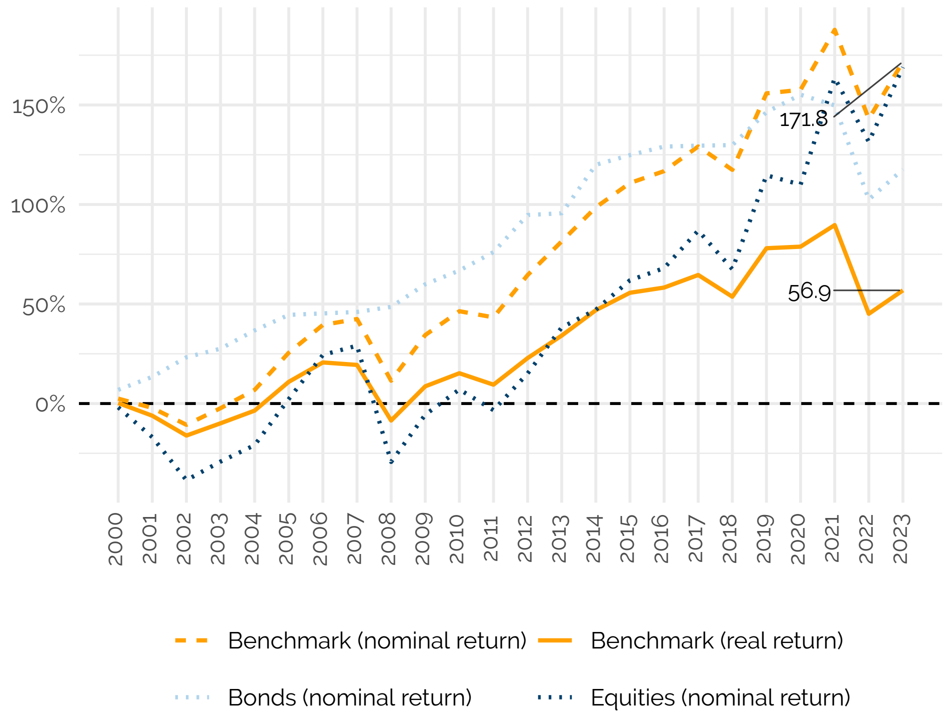
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

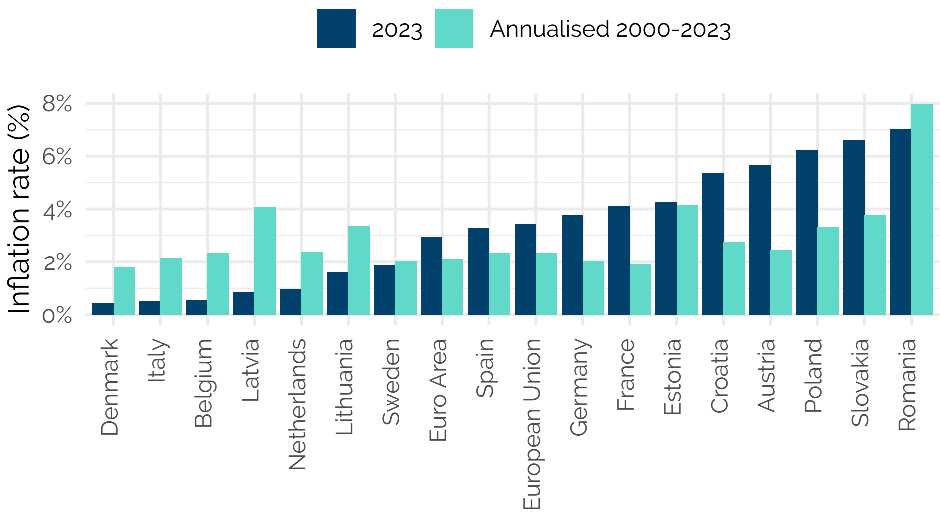
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

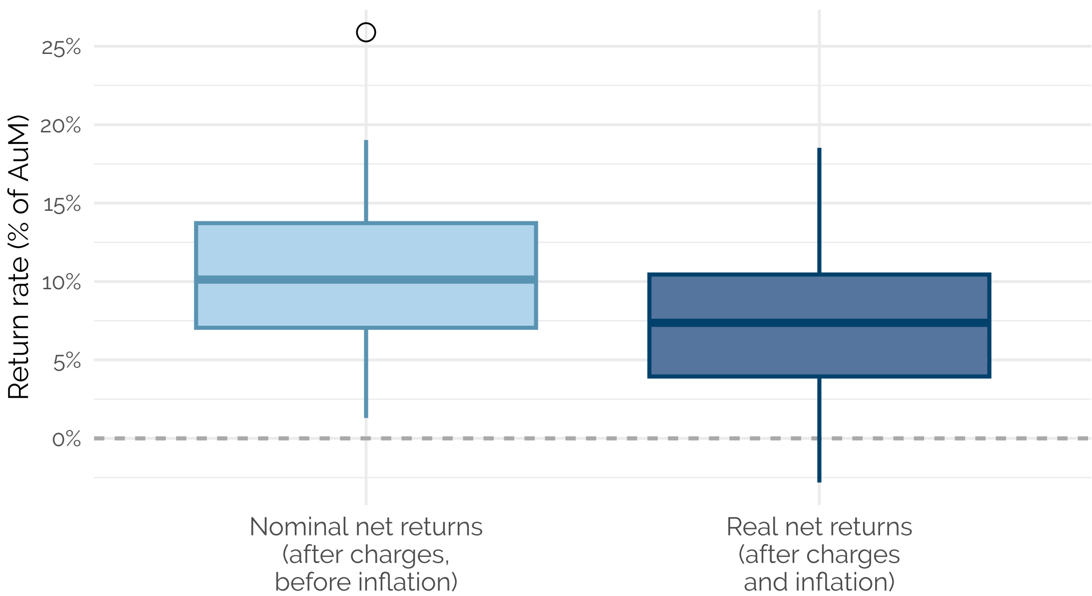
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

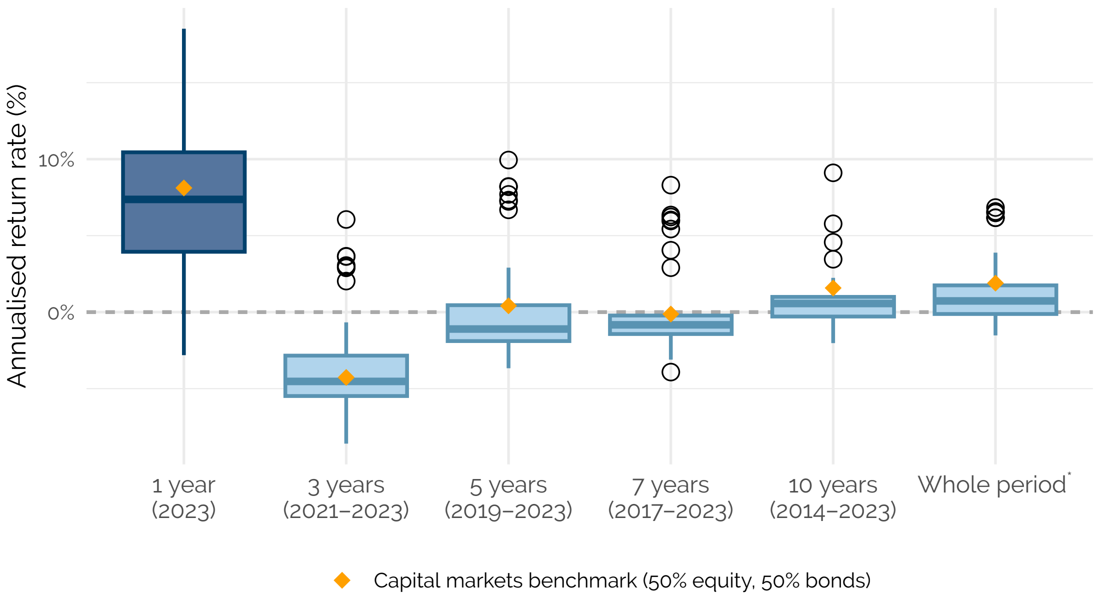


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

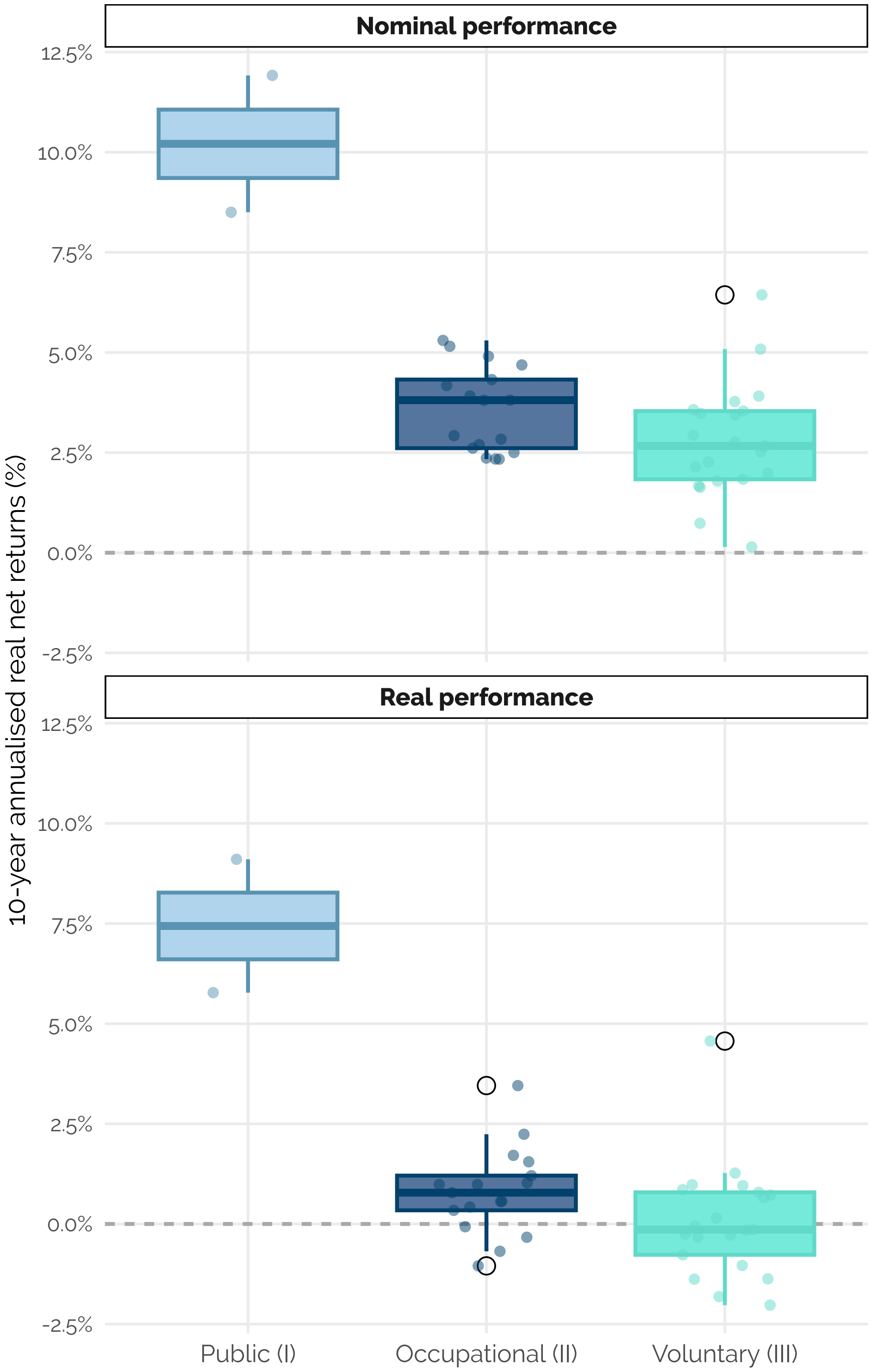
Calculations: BETTER FINANCE
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – **Average 10-year annualised performance per Pillar**



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 14

Sweden

Sammanfattning

Det svenska pensionssytemet består till stor del av avgiftsbestämda/fonderade pensioner. Totalt förvaltas över 8 100 miljarder SEK (EUR 730 miljarder) i pensionskapital. I det allmänna pensionssystemet sätts 2.5% av lönen av till den så kallade premiepensionen. I premiepensionen har förvalsalternativet, AP7 Såfa, haft en genomsnittlig realavkastning på 6.8% sedan 2001, jämfört med 3.9% för alla andra valbara fonder. Tjänstepensionssystemet domineras av fyra stora avtal som täcker över 90% av alla arbetstagare. Tjänstepensionerna har till största del gått från att vara pay-as-you-go (PAYG) till fonderade pensionssystem.

Summary

The Swedish pension system contains a great variety of different retirement savings products with over SEK 8.1 trillion (EUR 730 billion) in AuM. There are funded components in each of the three pillars. In the public pension system, 2.5% of earnings are allocated to the premium pension, whereas the default fund, AP7 Såfa, has had an average real rate of return of 6.8% compared to the 3.9% of all other funds over the last 22 years. The second pillar is dominated by four large agreement-based pension plans, covering more than 90% of the workforce. These have largely transitioned from a PAYG system to a funded system.

Introduction: The Swedish pension system

The Swedish pension system is a combination of mandatory and voluntary components. The system comprises three distinct pillars:

- Pillar 1 — The national pension
- Pillar 2 — Occupational pension plans
- Pillar 3 — Private pension

In 2022, the total pension capital was estimated at SEK 8,100 billion (EUR 730 billion), which corresponds to sixteen times the size of outgoing pension payments.[1] The occupational pension system constitutes 48% of this capital. Within the first pillar, the fully funded segment of the public pension system, known as the premium pension, comprises 52% of the pension capital. In comparison, the remaining 48% is managed by the buffer funds. Table SE.1 shows an overview of the pension system in Sweden and offer valuable insights into the system's diversity of retirement savings vehicles.

The average pension in Sweden was EUR 1 955 (SEK 21 694) per month before taxes in 2023; whereof EUR 1 323 (SEK 14 632) came from the national pension, EUR 543 (SEK 6 026) from occupational pensions and EUR 88 (SEK 985) derived from private pension savings. The outcome furthermore differed quite significantly between genders. For women, the average total pension was EUR 1 672 (SEK 18 558) per month before taxes and for men EUR 2 273 (SEK 25 211) per month before taxes.[2] Although a lot of money is locked in the pension system in Sweden, the Swedish household's savings rate is quite high.

In Sweden, there is no mandated retirement age, allowing individuals to personally determine both their retirement timing and the age at which they access their pension, either in part or in whole. However, individuals can claim their national pension from 63 onwards (raised from 62 in 2022). Additionally, there is no upper age limit for working, and everyone is entitled to work until the age of 69 (raised from 68 in 2022). As for occupational and private pensions, these can be withdrawn starting from the age of 65 onwards. The national pension in Sweden is administered by the Swedish Pensions Agency, which is responsible for managing the national pension and related pension benefits while providing crucial information to the public. The Swedish Social Insurance Inspectorate safeguards that the operations of the Swedish Pensions Agency are executed in a manner that adheres to proper procedures and efficiency standards.

The Swedish national pension system underwent a significant transformation in 1999, marking a pivotal shift from a defined benefit system to a defined contribution system. In the pre-reform era, pensions were regarded as a social entitlement, guaranteeing individuals a specific percentage of their pre-retirement earnings. How-

[1] Outflow payments totalled SEK 603 billion (EUR 54.3 billion) in 2022.

[2] Based on information retrieved from: https://www.pensionsmyndigheten.se/statistik/pensionsstatistik/. Note that the average pension must be weighted with the number of people receiving a pension from a particular pillar.

Table SE.1 – Overview of the Swedish pension system

Pillar I	Pillar II	Pillar III
State pension	Occupational pension	Voluntary pension
Mandatory	Mandatory[1]	Voluntary
PAYG/funded	Funded	Funded
Defined contribution (DC)/notional defined contribution (NDC)	DC/defined benefit (DB)[b]	DC
Flexible retirement age 62-68	ERA of 55 or 62, usually paid out at 65 or 67	Tax rebate abolished in 2016[3]
No earnings test	Normally a restriction on working hours	
Quick facts		
Number of old-age pensioners: 2.3 millions		
Coverage (active population): Universal	Coverage: >90%	Share contributing (2015): 24,2%
	Pension plans: 4 major (agreement-based)	Funds: >30
Average monthly pension: EUR 1 884	Average monthly pension: EUR 488	Average monthly pension: EUR 90
Average monthly salary (gross, age 60-64): EUR 3 200	AuM:EUR 850 bln.	
Average replacement rate: 58%[d]		

[a] Occupational pension coverage is organized by the employer;
[b] The defined benefit components are being phased out;
[c] Self-employed and employees without occupational pension still eligible;
[d] Organisation for Economic Co-operation and Development (OECD) estimate 56%,

ever, post-reform, pensions are primarily determined by the accumulated pension savings amassed during one's active working years. This change aligns pensions with economic and financial developments, resulting in a more uncertain pension outcome, as retirees can no longer anticipate the exact amount of their pension. Consequently, there is a heightened need for comprehensive pension information in this new system. This shift has also influenced the occupational pension system, with most occupational pension plans adopting defined contribution structures or hybrids that combine defined contribution and defined benefit elements.[3]

Table SE.2 offers an overview of the products examined in this report. These products span various pillars of the pension system and focus significantly on public and occupational options, which is good coverage of pension commitments. Table SE.3 presents the returns after charges and inflation (real net returns) of these products over varying holding periods.

Table SE.2 – Long-term and pension savings vehicles analysed in Sweden

Product	Pillar	Reporting period *Earliest data*	 *Latest data*
Premium pension - AP7 Såfa	Public (I)	2001	2023
Premium pension - Other funds	Public (I)	2001	2023
ITP1	Occupational (II)	2016	2023
SAF -LO	Occupational (II)	2016	2023
PA - 16 Avd I	Occupational (II)	2016	2023
AKAP - KL	Occupational (II)	2016	2023

Table SE.3 – Annualised real net returns of Swedish long-term and pension savings vehicles (before tax, % of AuM)

	Premium pension - AP7 Såfa	Premium pension - Other funds	ITP1	SAF -LO	PA - 16 Avd I	AKAP - KL
1 year (2023)	16.2%	14.4%	10.0%	10.0%	11.1%	11.1%
3 years (2021–2023)	6.1%	2.0%	3.0%	2.9%	3.6%	3.7%
5 years (2019–2023)	9.9%	7.3%	7.2%	7.7%	8.2%	8.2%
7 years (2017–2023)	8.3%	5.4%	6.0%	6.0%	6.2%	6.3%
10 years (2014–2023)	9.1%	5.8%	—	—	—	—
Whole period	6.8%	3.9%	6.2%	6.2%	6.5%	6.6%

Data: The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE.

Long-term and pension savings vehicles in Sweden

[3]See Hagen (2017) for a more detailed description of the Swedish Pension System.

First pillar: The national pension

The national pension consists of an income-based pension, a premium pension and a guarantee pension. A share of 18.5% of the salary and other taxable benefits up to a maximum level of 8.07 income-base amount[4] per year is set aside for the national retirement pension. A share of 16% is set-aside for the income pension, where the value of the pension follows earnings trends in Sweden. The income-based pension is financed on a PAYG basis, which means that pension contributions paid in 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 with or, if no choice is made, contributions will be made in the default alternative fund. This system is unique to Sweden and the first individual choices (allocations) 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.[5] 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 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-term, 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-term, demographic factors are most relevant.

Accumulated pension rights and current benefits in the income-based system grow with the increase in the level of earnings per capita. If the rate of growth of one salary would be slower than that of the average salary, for instance as a result of a fall in the size of the work force, 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 is activated and abandons the indexation by the level of average salaries.

In 2020, the parliament approved a new pension supplement in the national pension. The supplement will be paid out to pensioners with an income-based national pension of SEK 9 200–17 400 (EUR 900–1 700) and amounts to maximum SEK 600 per month. The purpose of the supplement is to increase the living standard for low-income workers during retirement. The supplement has been criticized for deviating from the so-called life-income principle and the fact that it is financed from the state budget (as opposed to the income pension which is financed from pension fees).

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 life. It is linked to the price base amount calculated annually by Statistics Sweden. The size of the

[4] EUR 54 037 EUR (SEK 599 601) for 2023

[5] Vägval för premiepensionen, Ds 2013:35.

guarantee pension depends on how long a person has lived in Sweden. Residents of Sweden qualify for a guaranteed pension from the age of 66. To receive a full guaranteed pension, an individual must in principle have resided in Sweden for 40 years after the age of 16. 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. In June 2022, the parliament passed a historically large increase of the minimum guarantee equal to SEK 1 000. This implies that the maximum benefit for singles is raised from SEK 8 779 to SEK 9 781 and from 7 853 to SEK 8 855 for married individuals, i.e. increases of more than 10%.

There is an agreement in the Swedish Parliament to raise the different statutory retirement ages in the public pension system (Pillar I). First, the earliest eligibility age was raised from 61 to 62 in 2020 to 63 in 2023 and is expected to increase to 64 in 2026. Second, the eligibility age for the minimum guarantee has been raised from 65 in 2022 to 66 in 2023 and is then expected to increase to 67 in 2026. Those who have worked for 44 years or longer will be exempt from these changes. Third, the mandatory retirement age was raised from 67 to 68 in 2020 and then to 69 in 2023. A plan is also to index these retirement ages to a so-called "target age". The target age will be based on remaining life expectancy, although the details are yet to be laid out.

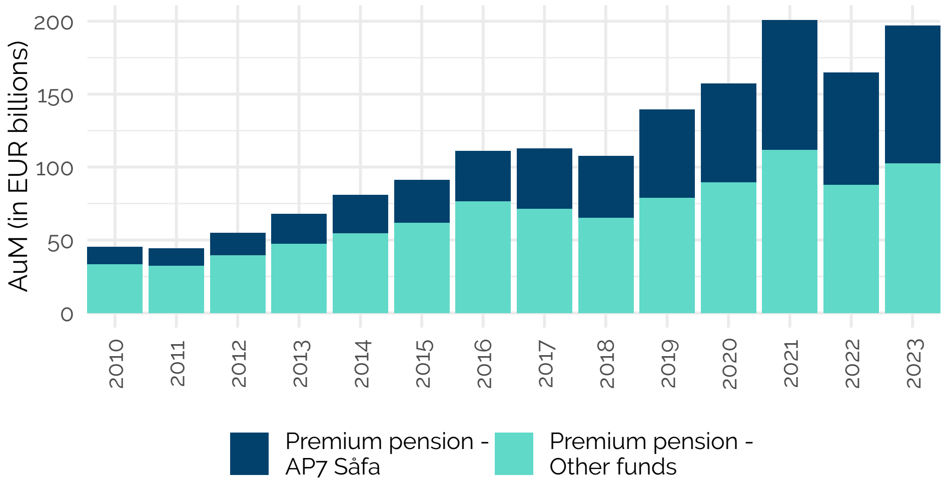
For administering the income-based pension system, a fee is deducted annually from pension balances by multiplying these balances by an administrative cost factor. In 2023, the fee amounted to 0.03%.[6] The deduction is made only until the insured begins to withdraw a pension. At the current level of cost, the deduction will decrease the income-based pension by approximately 1% compared to what it would have been without the deduction.

The premium pension system is a funded system for which the pension savers themselves choose the funds in which to invest their premium pension savings. The premium pension can be withdrawn, in whole or in part, from the age of 63 (62 in 2022). The pension is paid out from selling off the accumulated capital. The individual choice in the premium pension system furthermore results in a spread on return on the pension capital depending on the choice of fund or funds. Figure SE.1 the accumulated savings in the premium pension.

The choices made by individuals within the premium pension system can significantly impact the returns on their pension capital, as it depends on their chosen fund or funds. The premium pension system has faced criticism due to the abundance of available funds and the wide variation in pension outcomes. In response to these concerns, the government announced in December 2017 that it would implement changes proposed by the Pensions Agency to improve the quality and oversight of participating companies.[7] These new regulations went into effect on , and include requirements such as fund companies managing a minimum of SEK 500 million outside the Premium Pension, having a three-year operating history, acting in the best

[6] The Swedish Pensions Agency, Orange report p34.
[7] The Swedish Pensions Agency, Stärkt konsumentskydd inom premiepensionen.

Figure SE.1 – **AuM of Swedish premium pensions**



Data: The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bur
Calculations: BETTER FINANCE.

interests of retirement savers, meeting minimum sustainability criteria, and establishing one contract per fund with the Pensions Agency instead of one contract per company.[8]

Under the new regulations, companies seeking participation in the Premium Pension system were required to (re)submit applications to the Pensions Agency. In early 2019, 70 companies submitted applications, which covered 553 funds, representing a decrease from the prior count of over 800 funds recorded by the end of 2018. The primary objective of these new rules is to prevent the involvement of unscrupulous and fraudulent companies in the system. Concerns about such fraudulent practices were raised following incidents involving fund companies like Falcon Funds, Fondeum and Global Financial Group (GFG) in 2016, Allra and Advisor in 2017, and Solidar in 2018.

In efforts to reform the premium pension, the Swedish government, through the parliament decision, established a new independent agency called the Swedish Fund Selection Agency in 2022, tasked with selecting investment funds available within the premium pension system.[9] This initiative aims to provide savers with a choice of funds managed by reputable and high-quality fund managers who adhere to stringent sustainability standards. The selected funds will undergo periodic evaluations, and those that fail to meet the specified quality standards may be replaced. The primary objective is to ensure that the chosen funds yield favourable investment returns, ultimately securing higher pensions for savers. Additionally, this approach is expected to attract and retain top fund managers at a cost-effective rate. Some ac-

[8] https://www.pensionsmyndigheten.se/nyheter-och-press/pressrum/nytt-avtal-klart-for-premiepensionens-fondtorg

[9] Socialdepartementet, Ett bättre premiepensionssystem, Prop. 2021/22:179.https://www.riksdagen.se/sv/dokument-och-lagar/dokument/proposition/ett-battre-premiepensionssystem_h903179/

tors, including the Swedish Investment Fund Association, argue that the proposed changes may lead to lower pensions, decrease competition among fund providers an limit the freedom of choice for individual investors.[10] For now, all applicants who have met the criteria have been permitted to offer investment funds on the platform, where, as of March 2023, there were 478 eligible funds registered in the Premium Pension.

Second pillar: Occupational pensions

The Swedish occupational pension system is primarily governed by collective agreements. While Swedish companies are not legally obligated to provide pensions to their employees, the presence of a collective agreement at the workplace necessitates the establishment of an occupational pension plan. This system extends coverage to more than 90% of the workforce. It's important to note that self-employed individuals are not included in occupational pension plans, and this primarily affects smaller companies in emerging business sectors that lack collective agreements.[11]

There are four primary collective agreements corresponding to different sectors, each with its dedicated pension plan. These four agreements encompass a significant membership base: the SAF-LO Collective Pension, tailored for blue-collar workers with 2.8 million members; the Supplementary Pension Scheme for Salaried Employees in Industry and Commerce (ITP), designed for white-collar employees, boasting 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/PA-16), which counts 500 000 members among its participants.[12]

In each of the four collectively negotiated pension schemes, employees can select a fund manager for a portion of their pension. To maximize the occupational pension for employees, a dedicated "choice centre" exists for each collective pension plan. The role of these "choice centre" is to secure reputable managers for employees' occupational pensions. Employees can make choices between various forms of traditional insurance and/or unit-linked insurance. The extent of this individual portion depends on factors such as the employer's annual pension provision contributions, the duration of these contributions, and the investment management strategies employed. In the case of two of the collective pension schemes, KAP-KL and SAF-LO, employees can opt to choose a fund manager for the entire pension amount. However, if an individual does not select, their pension capital will be automatically placed in the default alternative. Across all four agreements, this default option consists of traditional insurance from the choice centre affiliated with the occupational pension plan.

Where no collective agreement is in place at the workplace, a company can estab-

[10] https://www.fondbolagen.se/aktuellt/pressrum/pressmeddelanden/forslagen-i-utredningen-ett-battre-premiepensionssystem-gar-emot-malen-med-premiepensionen/

[11] AMF, "Tjänstpensionerna i framtiden — betydelse, omfattning och trender", p. 17; ISF Rapport 2018:15, "Vem får avsättningar till tjänstepension".

[12] https://www.pensionsmyndigheten.se/forsta-din-pension/tjanstepension/det-har-ar-tjanstepension.

lish an individual occupational pension plan for its employees. Among those companies operating without a collective agreement, some opt for such an occupational pension plan, while others choose not to provide any pension benefits to their employees. These individual pension plans can differ in their structure and benefits. Nevertheless, a common feature is that they often offer less favourable terms and entail higher costs when compared to collectively negotiated pension schemes.

In 2017, the Ministry of Finance proposed measures to simplify and reduce the cost of transferring occupational pension funds between providers.[13] Currently, the ability to transfer pension capital is generally limited to funds accrued after 2007 that have yet to be paid out, with associated fees, particularly in individual occupational pension plans. Critics argue that this restricts competition, reduces retirement savings returns, and creates lock-in effects.

In April 2019, the government presented a report advocating lower transfer fees and a specified maximum fee in Swedish Kronor (SEK).[14] The parliament approved these recommendations in November 2019 and urged further exploration. In March 2020, the Ministry of Finance suggested a maximum fee of 0.0127 times the price base amount (600 SEK or EUR 59.8 for 2020).[15] These new regulations came into effect in April 2021. In May 2022, it was decided that the portability right should also apply to pension capital accumulated before 2007.

In December 2016, Sweden adopted the IORP II Directive, aimed at ensuring the financial stability of occupational pensions and enhancing member protection through stricter capital solvency requirements. This directive also clarifies the legal framework for occupational pension businesses. However, critics contend that these rules create competitive imbalances, as they only affect companies exclusively offering occupational pension insurance, not those providing other insurance services. In November 2019, the government supplemented the EU Directive with additional national legislation.[16]

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 percent 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 7.5-income base amount. 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%.

[13] Konkurrensverket, Flyttavgifter på livförsäkringsmarknaden — potentiella inlåsningseffekter bland pensionsförsäkringar, Rapport 2016:12.

[14] Ministry of Finance, "En effektivare flytträtt av försäkringssparande"

[15] Ministry of Finance, "Avgifter vid återköp och flytt av fond- och depåförsäkringar."

[16] Finansutskottets betänkande, "En ny reglering för tjänstepensionsföretag". See https://www.riksdagen.se/sv/dokument-och-lagar/dokument/betankande/en-ny-reglering-for-tjanstepensionsforetag_H701FiU12/ for more information on IORP II.

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, Skandia and SEB and for unit-linked insurance they are Futur Pension (previously Danica pension), SPP, Handelsbanken, Movestic 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 percent 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 percent. 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 percent.

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, Futur Pension, Folksam, Handelsbanken, Länsförsäkringar, Movestic, Nordea, SEB, SPP and Swedbank.

PA 03

The pension plan for central government employees, PA 16 — Avd II (formerly 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 — Avd I (see below).

In 2016, a new pension plan, PA 16 — Avd I, for central government employees was implemented. PA 16 covers those born in 1988 or later. Just like PA 16 — Avd II, PA 16 — Avd I 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%. These contributions are invested in a low-risk pension insurance fund. The eligible insurance companies providing individual retirement pension in the shape of traditional insurance are Alecta, AMF, Kåpan, and as unit-linked insurance they are AMF, Futur Pension, Handelsbanken, Länsförsäkringar, SEB and Swedbank.

KAP-KL

The KAP-KL agreement consists of two parts: the 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 in 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. Employees covered by KAP-KL get 4.5% of the salary contributed to their 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 the final salary at the age of retirement. A new agreement for local government employees, AKAP-KR, was passed in December 2021 and will be phased in from 2023. The new agreement comes with raised contribution rates; 6% and 31.5% for earnings below and above 7.5 income base amounts, respectively. 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 AKAP-KL are Alecta, AMF, KPA and Skandia and for the unit-linked insurance in AKAP-KL they are AMF, Futur Pension, Folksam, Handelsbanken, KPA, Länsförsäkringar, Lärarfonder, Nordea, SEB and Swedbank.

Third pillar: 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. 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 EUR 1195 to EUR 179 (SEK 12000 to SEK 1800) per year, equivalent to EUR 15 (SEK 150) in monthly savings. On , 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.

Several actors in the pension industry advocate the need for new incentives for people to save privately for retirement. One suggestion is that the government match private contributions, like what is already in place in Germany, matching benefits for low- and medium-income earners as opposed to tax subsidies which tend to favour the rich. The problem is of course that the government must bear the costs of matching in the future when the contributors retire. In addition, the redistributional outcome of government-subsidized savings may be different than the intended if low- and medium-income earners are less likely to contribute. The effect on total savings may also be limited if there are substitution effects across different saving forms.

With the abolishment of tax-deductible pension accounts, retirement savers need to find new ways to save for retirement that are not directly related to the pension. The most popular savings vehicle today is called "Investeringssparkontot" (Investment and savings account - ISK) and 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 2019, the number of unique account holders exceeded 2.6 million. In 2023 ISK funds accounted for 9% of the households' total fund assets as compared to 23% for private pension insurance. The relative importance of ISK is however likely to increase in the future; 22% of net savings in funds in 2023 was allocated to ISK accounts.

The costs associated with the administration and management of the funds affect the size of outgoing pension payments. 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 2021, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.35 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 11% lower. Furthermore, the pension savers are in a position to influence the costs of their premium pensions by choosing funds with lower management fees. The net charges (after rebates) in the premium pension system are reported in the upper part of Table SE.5.[17]

[17] The Swedish Pensions Agency, Orange report 2022, page 33.

Table SE.4 – Household fund assets 2022

Fund type	Fund assets SEK mln.	Fund assets € mln.	Net saving (%)	Share of assets (%)
Direct fund investments	578003	*52091*	-11.9%	8.5%
ISK	631917	*56950*	22.3%	9.3%
IPS	150512	*13565*	-3.7%	2.2%
Private pension insurance	1571957	*141669*	41.7%	23.0%
Premium Pension (1st pillar)	2177583	*196249*	25.7%	31.9%
Trustee-registered funds	727463	*65561*	26.0%	10.7%
NGOs	129548	*11675*	-2.5%	1.9%
Swedish companies	713500	*64302*	6.8%	10.5%
Others	141761	*12776*	-4.3%	2.1%
Total	**6822243**	***614838***	**100.0%**	**100.0%**

Data: Swedish Investment Fund Association.

The costs in the income pension are shown in the lower part of Table SE.5. Management fees in the income pension cover the costs of the buffer funds. The capital managed by the buffer funds marginally exceed the capital managed in the premium pension (SEK 1 826 billion in 2022). However, returns to scale in the buffer funds imply lower costs than in the premium pension.

Charges

Charges of Pillar I

The costs associated with the administration and management of the funds affect the size of outgoing pension payments. 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 2021, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.35 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 11% lower. Furthermore, the pension savers are in a position to influence the costs of their premium pensions by choosing funds with lower management fees. The net charges (after rebates) in the premium pension system are reported in upper part of Table SE.5.[18].

The costs in the income pension are shown in the lower part of Table SE.5. Management fees in the income pension cover the costs of the buffer funds. The capital

[18]The Swedish Pensions Agency, Orange report 2023, page 33.

Table SE.5 – Net charges 1st pillar

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Premium pension	0.36%	0.33%	0.30%	0.28%	0.27%	0.25%	0.23%	0.20%	0.15%	0.14%	0.14%
Administrative fee	0.10%	0.09%	0.07%	0.07%	0.06%	0.07%	0.04%	0.04%	0.04%	0.03%	0.02%
Income pension	0.20%	0.20%	0.21%	0.19%	0.18%	0.16%	0.16%	0.15%	0.13%	0.11%	0.10%
Administrative fee	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%

Data: Orange report 2023

managed by the buffer funds marginally exceed the capital managed in the premium pension (SEK 1,826 billion in 2022). However, returns to scale in the buffer funds imply lower costs than in the premium pension.

To meet the new need of 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 get more attention with the help of the special design, the orange colour and a 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 campaign 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 percent of the occupational pension capital today is covered by the portability right.[19] 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. As discussed in the background section, there are also policy proposals to extend the portability rights and reducing the associated moving costs. In May 2022, the parliament decided to extend the portability rights also to pension capital accumulated before 2007.

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 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). The fixed fee is usually low and

[19] SOU 2012:64, page 466

covers administrative costs of the pension company.

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-favoured (pre-2016) private pension vehicles: IPS and private pension insurance. The majority of pension providers of IPS and private pension insurance charge a fixed fee. These typically range between EUR 10 and EUR 40 per year and are hence higher than in the occupational pension system. 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 sizeable.

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 many private pension products (including individual occupational pension plans), there is a cost to move the capital to another company (not reported here). These fees typically range between 0%-3%, reaching 0% after a specific number of years of investment. These fees have been criticized for causing serious lock-in effects. For many it is simply not worth moving the capital, despite high management fees.

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 point (0.75 percentage points before Jan 1, 2018), gives the standard earnings. The standard earnings cannot fall below 1.25%, however. The standard earnings are reported to the tax authority by the financial institutions. The standard earnings are taxed at 30%.

In 2021, the government borrowing rate was 0.23%, which means that the calculated average value of an account is taxed with 0.375% ($0.3 \times 0.0125=0.00375$).

In contrast to individual pension savings accounts, the investment and savings ac-

Table SE.6 – Charges 2nd pillar

Scheme	Fund type	Name	Fixed costs (SEK)	Management fees (%)
ITP 1	Traditional insurance	Alecta (default)	0	0.05
		AMF	40	0.15
		Folksam	0	0.12
		SEB	—	—
	Unit-linked insurance	Skandia	—	—
		Futur Pension	—	—
		Handelsbanken	—	—
		Movestic	—	—
		SPP	0	0
		Swedbank	0	0
SAF LO	Traditional insurance	Alecta	65	0.15
		AMF	40	0.15
		Folksam	65	0.12
	Unit-linked insurance	AMF (default)	40	0.15
		SEB	65	0.09
		AMF	60	0
		Folksam LO	50	0
		Futur Pension	65	0
		Handelsbanken	65	0
		Länsförsäkringar	65	0
		Movestic	65	0
		Nordea	65	0
		SEB	45	0
		SPP	65	0
		Swedbank	65	0
PA 03 & PA 16	Traditional insurance	Alecta	75	0.15
		AMF	75	0.15
		Kåpan Pensioner (default)	0	0.05
	Unit-linked insurance	AMF	75	0
		Futur Pension	65	0
		Handelsbanken	75	0
		Länsförsäkringar	75	0
		SEB	75	0
		Swedbank	75	0
AKAP-KL	Traditional insurance	Alecta	65	0.15
		AMF	65	0.15
		KPA (default)	48	0.06
		Skandia	65	0.16
	Unit-linked insurance	AMF	65	0
		Folksam LO	65	0
		Futur Pension	65	0
		Handelsbanken	65	0
		KPA Pension	65	0
		Länsförsäkringar	65	0
		Lärarfonder	65	0
		Nordea	65	0
		SEB	65	0
		Swedbank	65	0

Data: Pensionsmyndigheten, Konsumenternas, Alecta, Swedbank, MinPension.

counts are free from management fees. The taxation of the accounts is very favourable, and the Swedish Pensions Agency considers the investment and savings account 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. The taxation is also more favourable during periods of stock market rise than stock market decline, compared to saving vehicles with standard capital gains taxation.

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-favoured 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 in 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 the second pillar.[20] When it comes to private pension savings, there was a tax deduction of SEK 1800 (EUR 179) per year available, but it was abolished in January 2016. There is no tax on returns in the first pillar. In contrast, returns in the 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.

Table SE.7 – Taxation of pension savings in Sweden

Product	Phase			Regime
	Contributions	*Investment returns*	*Payouts*	
Premium pension - AP7 Såfa	Exempted	Exempted	Taxed	EET
Premium pension - Other funds	Exempted	Exempted	Taxed	EET
ITP1	Exempted	Taxed	Taxed	ETT
SAF -LO	Exempted	Taxed	Taxed	ETT
PA - 16 Avd I	Exempted	Taxed	Taxed	ETT
AKAP - KL	Exempted	Taxed	Taxed	ETT

Source: Pensionsmyndigheten, Konsumenternas, Alecta, Swedbank, MinPension.

During the decumulation phase, all pension income in Sweden is taxed as earned

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

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.[21] The Swedish tax system works as follows. A proportional local tax rate applies to all earned income, including pension income. Furthermore, for income above a certain threshold, the taxpayer also has to pay central government income tax. The marginal tax rate is 20% for incomes above EUR 50 756 (SEK 509 300) and 25% for incomes there-above.[22]

From a phase taxation point of view as shown in Table SE.7, Pillar I can be described as EET (contributions exempt- capital gains exempt- pay-outs taxed) and Pillars II and III ETT (contributions exempt — capital gains taxed — pay-outs taxed).

Performance of Swedish long-term and pension savings

Real net returns of Swedish long-term and pension savings

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 (Pillar III) — one would have to turn to the homepage of each pension provider for this information.

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.[23] The Swedish tax system works as follows. A proportional local tax rate applies to all earned income, including pension income. Furthermore, for income above a certain threshold, the taxpayer also has to pay central government income tax. The marginal tax rate is 20% for incomes above EUR 50756 (SEK 509300) and 25% for incomes there-above.[24]

From a phase taxation point of view as shown in Table SE.7, Pillar I can be described as EET (contributions exempt- capital gains exempt- pay-outs taxed) and Pillars II and III ETT (contributions exempt — capital gains taxed — pay-outs taxed).

Since the start of the premium pension in 2000, the default fund has on average performed better than the average "active" investor. The average annual real return for the default fund and "active" investors amounts to 6.8% and 3.9% respectively. It is important to remember that the "active" investors also include inert investors, i.e. investors that at some point made active contributions but then remained passive. The average returns for the "truly" active investors are therefore underestimated. In fact, Dahlquist et al. (2017) find that investors who are actively involved in managing

[21]The Swedish earned income tax credit is a refundable tax credit for all individuals aged below 65.

[22]Financial year 2021: https://www.skatteverket.se/privat/skatter/beloppochprocent/2022.4.339cd9fe17d1714c0774742.html.

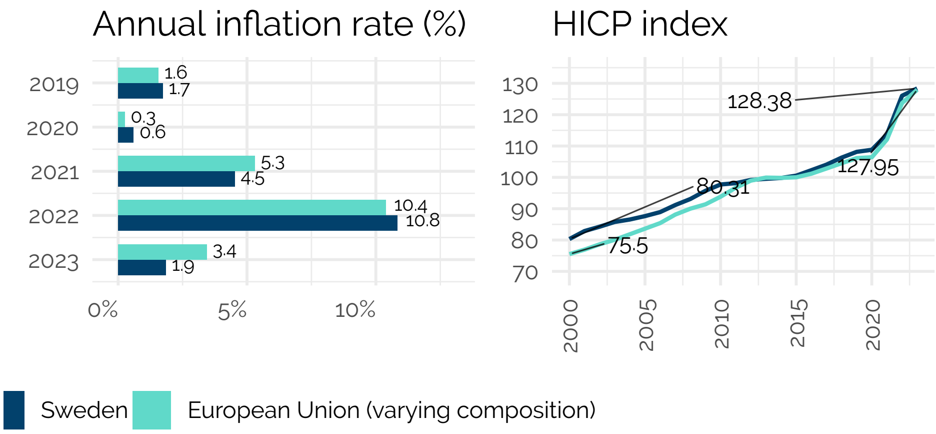
[23]The Swedish earned income tax credit is a refundable tax credit for all individuals aged below 65.

[24]Financial year 2021: https://www.skatteverket.se/privat/skatter/beloppochprocent/2022.4.339cd9fe17d1714c0774742.html.

Figure SE.2 – **Inflation in Sweden**

Period 2000–2023

	Annualised	Cumulated
Sweden	2.0%	62.0%
European Union (varying composition)	2.3%	73.2%



Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

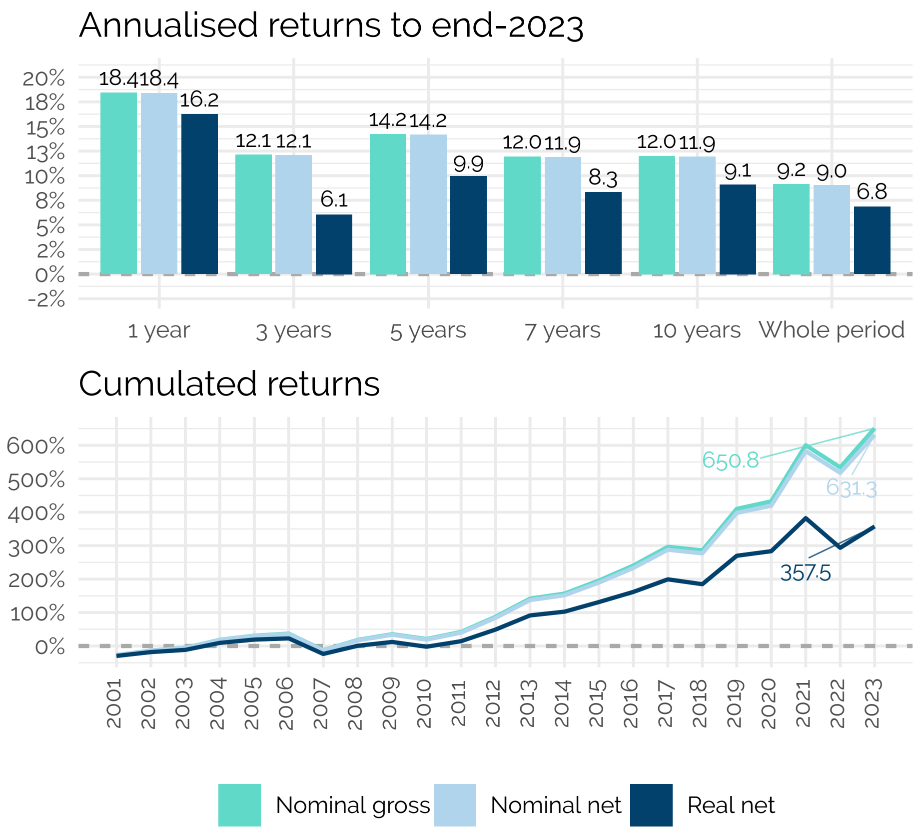
their pension accounts earn significantly higher returns than passive (inert) investors.

Figures SE.5 to SE.8 illustrate returns within the occupational pension system. These figures present the average return, nominal return, nominal return net of charges, and real return (net of charges and inflation) for various occupational pension vehicles across different time horizons.

What we can observe is that, although the different categories of vehicles under the Swedish occupational pensions pillar have different pension products (in sizes and numbers), the returns are very similar from one year to another, as such the average on the last five years are almost the same.

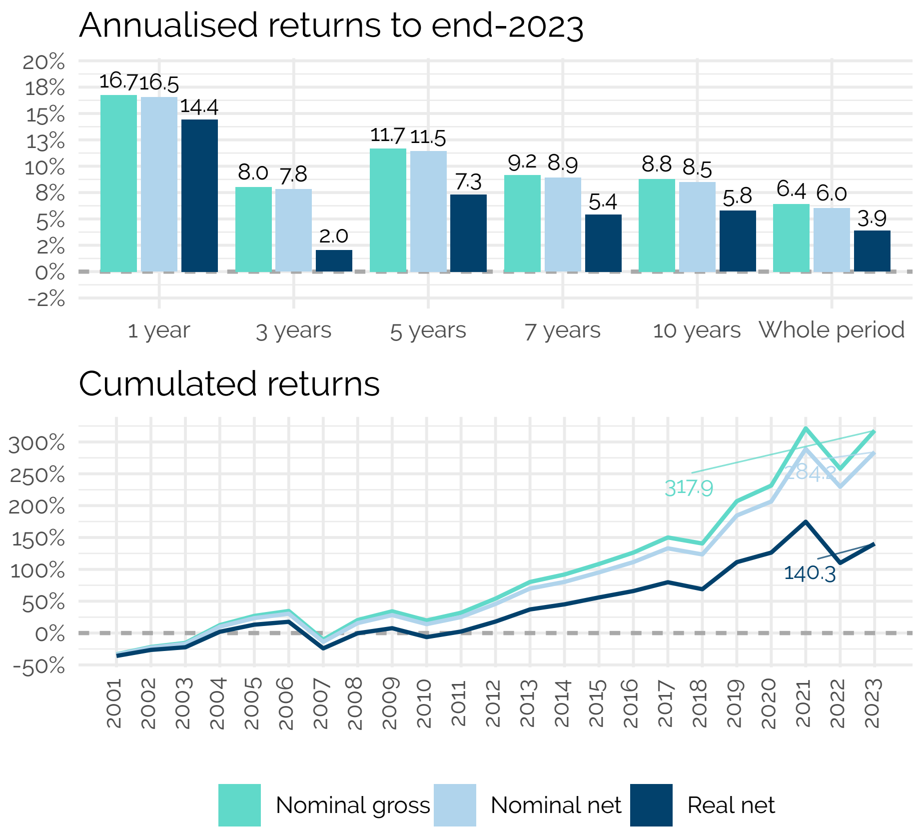
Figure SE.9 summarises the annualized averages in the Swedish Premium Pension System based on standardised holding periods (1 year, 3 years, 7 years, 10 years and since inception or the latest data available for this report). The Figure (which reiterate data from the summary returns table at the beginning) are meant to provide better comparability with other pension vehicles in the countries analysed in this report. Figure SE.10, similarly, offers a comparative perspective of the cumulated performance of Swedish pension products.

Figure SE.3 – **Returns of Swedish Premium pension - AP7 Såfa (before tax, % of AuM)**



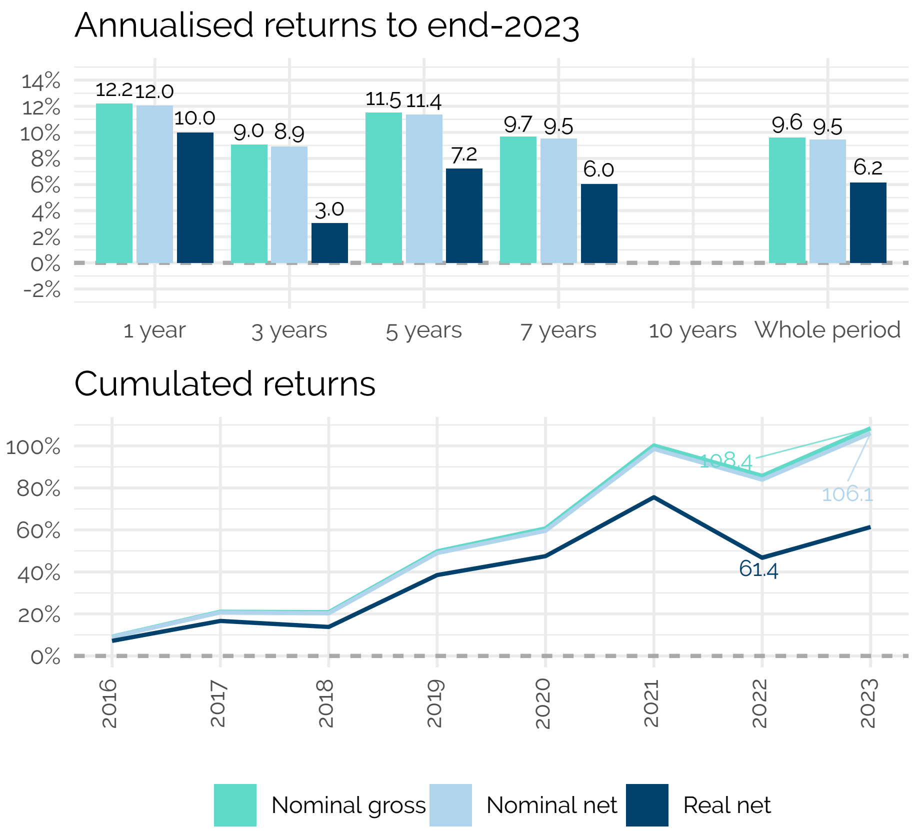
Data: The Swedish Pensions Agency, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

Figure SE.4 – **Returns of Swedish Premium pension - Other funds (before tax, % of AuM)**



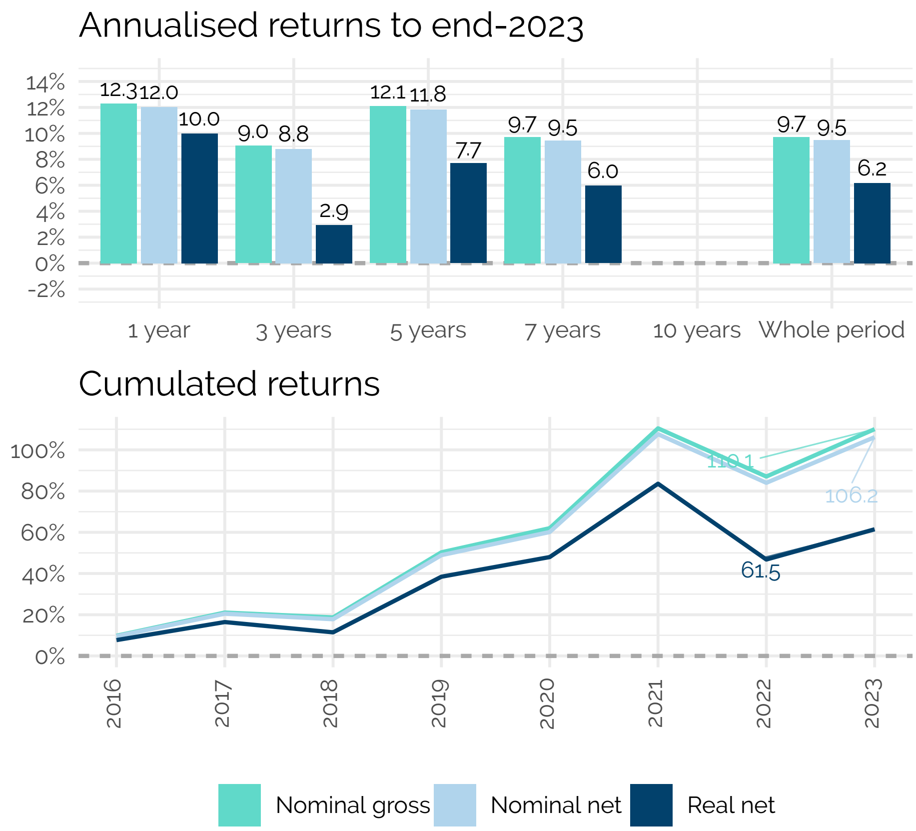
Data: The Swedish Pensions Agency, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

Figure SE.5 – **Returns of Swedish ITP1 (before tax, % of AuM)**



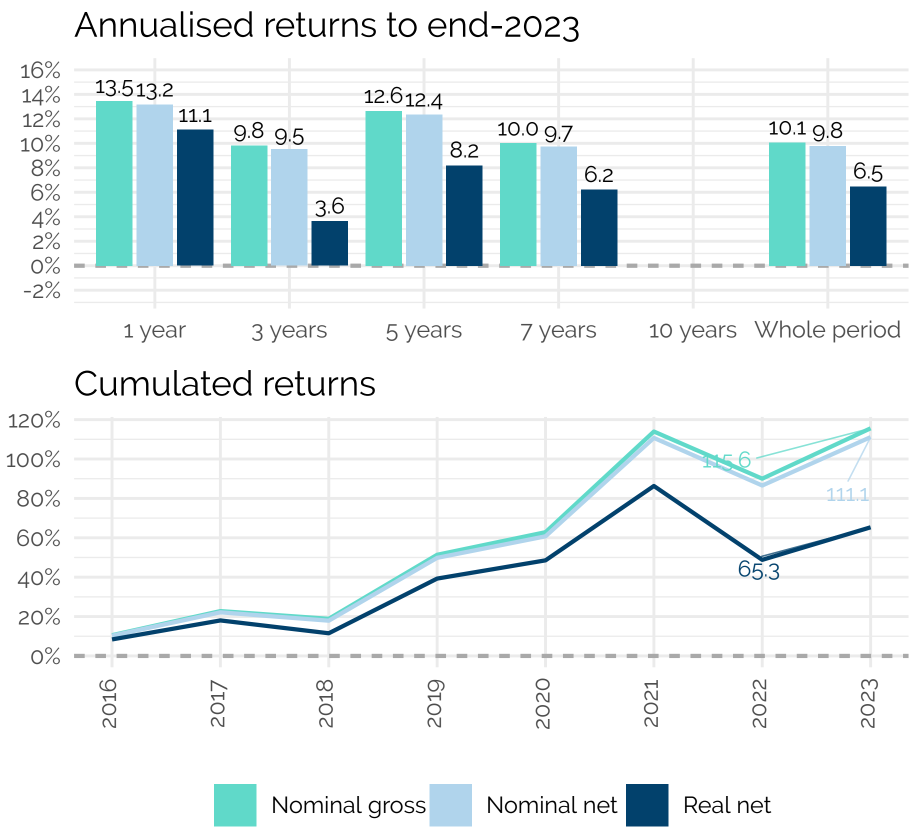
Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.6 – **Returns of Swedish SAF -LO (before tax, % of AuM)**



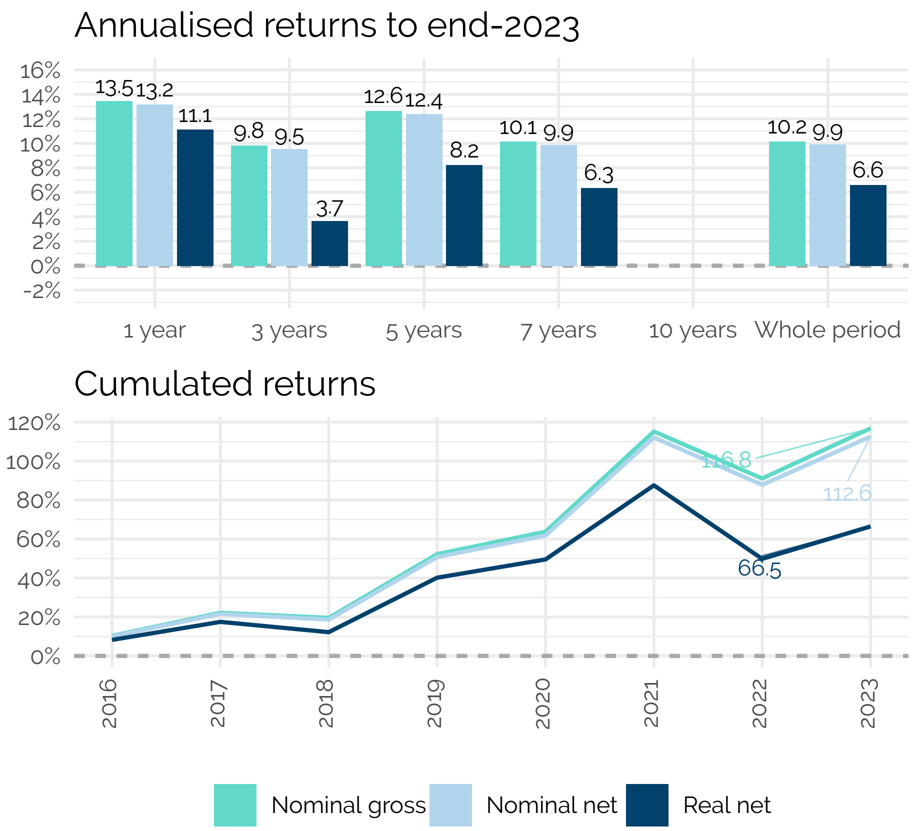
Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.7 – Returns of Swedish PA - 16 Avd I (before tax, % of AuM)



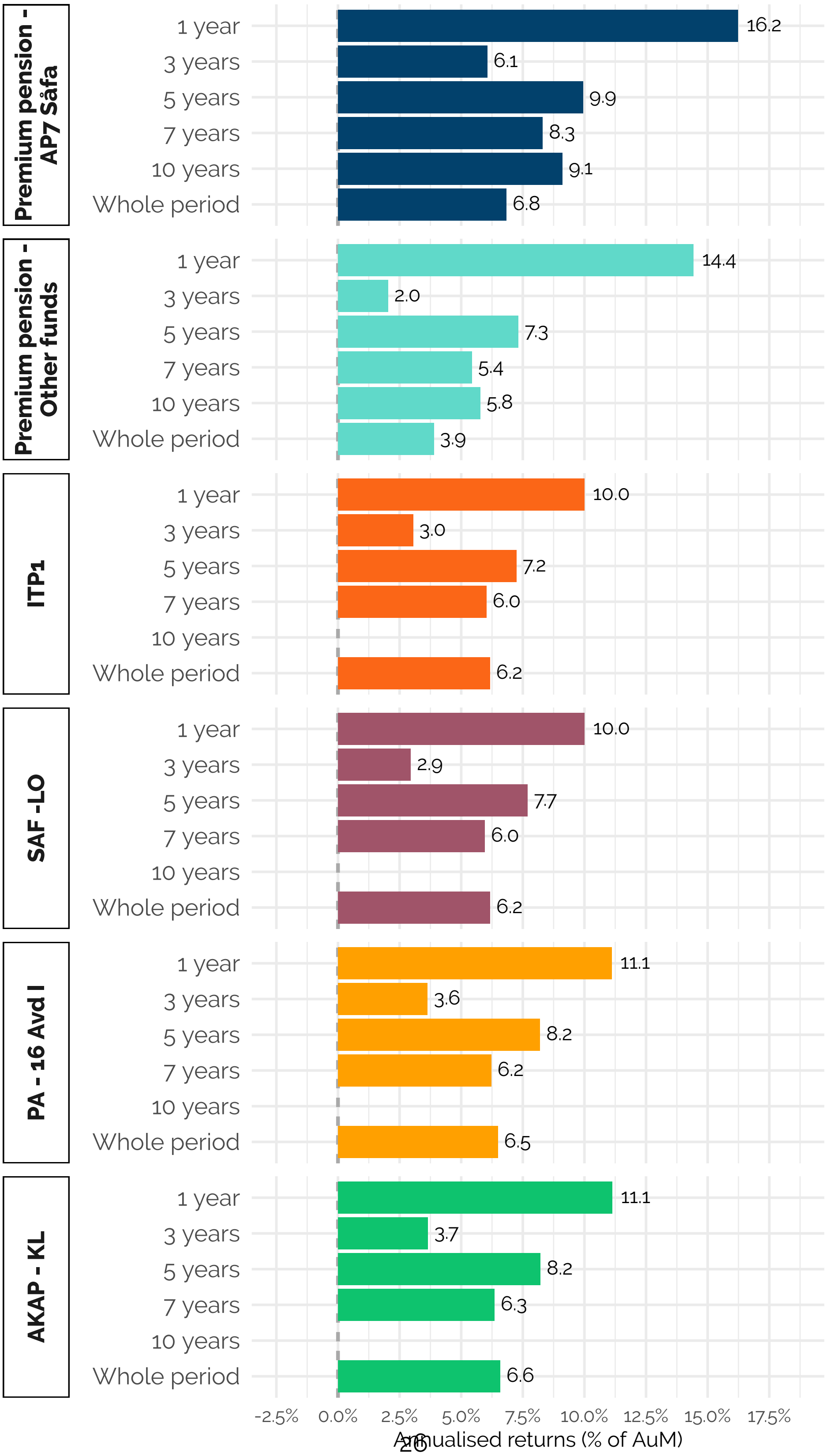
Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.8 – **Returns of Swedish AKAP - KL (before tax, % of AuM)**



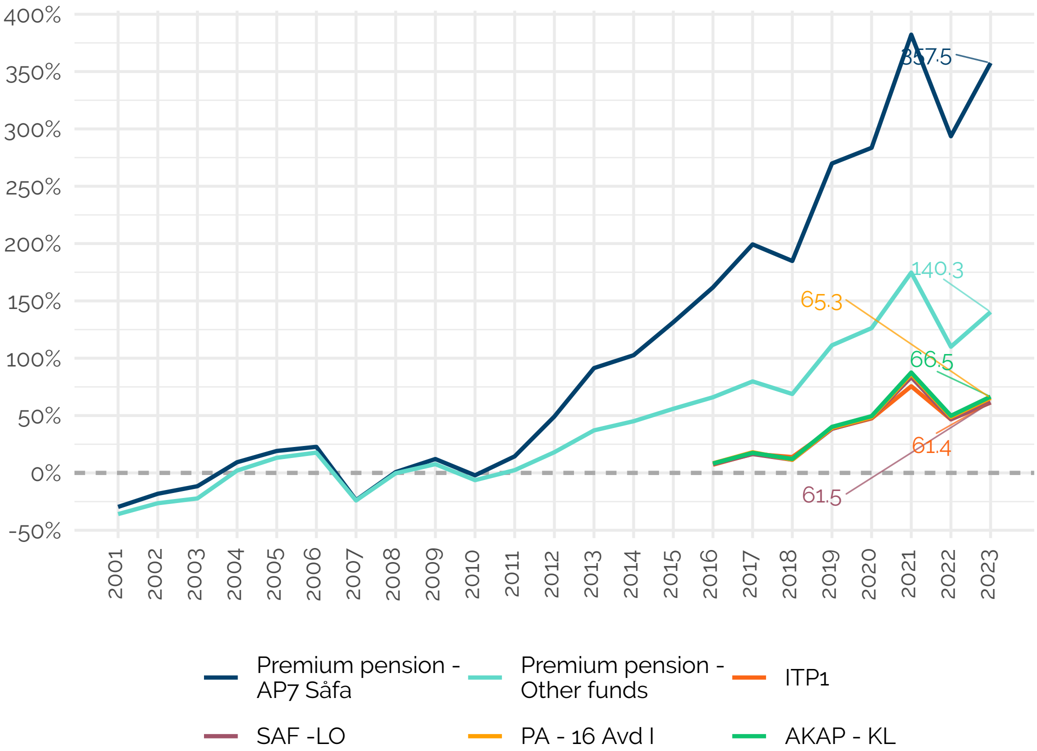
Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.9 – Annualised returns of Swedish long-term and pension vehicles over varying holding periods (before tax, % of AuM)



Data: The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bur Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.10 – **Cumulated returns of Swedish long-term and pension savings vehicles (2000–2023, before tax, % of AuM)**



Data: The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE.

Do Swedish savings products beat capital markets?

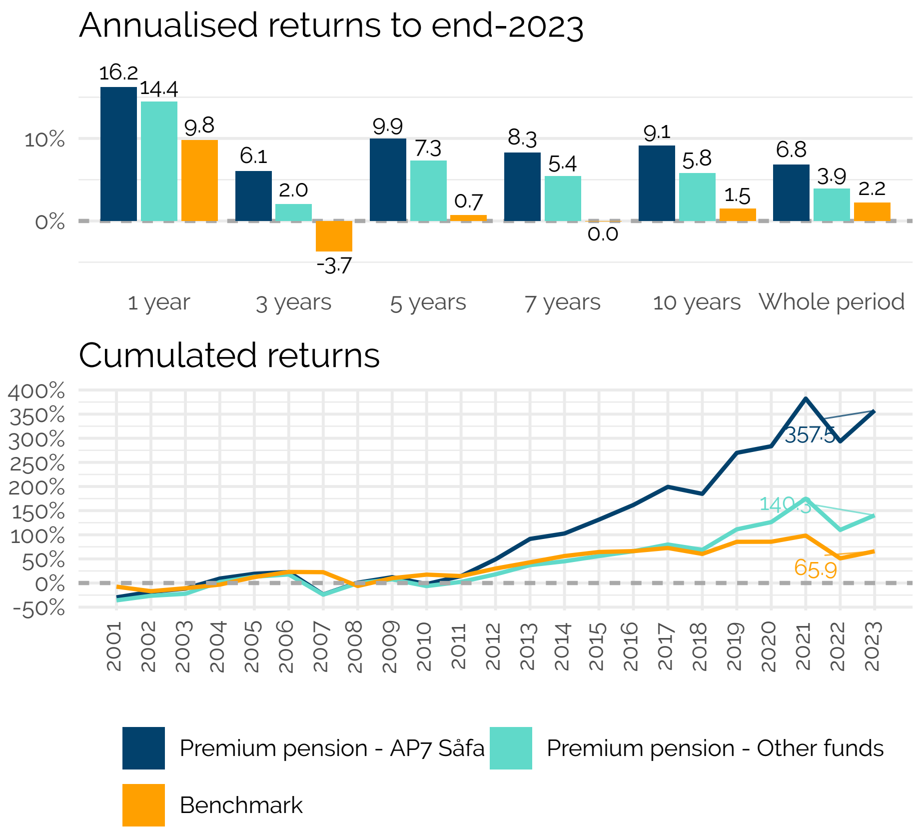
This section presents a comparative analysis of the real net returns for selected pension products in Sweden, specifically focusing on premium pension funds within Pillar I and ITP1 funds within Pillar II. The comparison is made against a "balanced" portfolio, comprised of 50% equity and 50% bonds, based on two Europe-wide indices, STOXX All Europe and Barclays Pan-European Aggregate Index. The assessment is based on annualized returns across various holding periods and cumulative real net returns.

Figures SE.11 to SE.13 illustrate the performance of premium pension and ITP1 funds relative to the benchmark portfolio. Overall, the figures show that the real returns for the pension products in Sweden track the development of the capital markets and have been following a predominantly favourable trend over time. In addition, the results reveal a consistent overperformance of the savings products compared to their respective benchmarks since 2001 and across different investment horizons. For instance, over the 2001–2021 period, the annualized returns of AP7 Såfa and other funds (in Figure SE.11) were 3.1 and 1.7 times higher, respectively, than the benchmark fund. Over a similar period, the cumulative returns (second panel in Figure SE.11) for the default and other funds within the premium pensions exceeded the benchmark by 237% and 50%, respectively.

This trend extends to various asset classes, including occupational pensions, as shown in Figure SE.12 and **??**. It's worth noting that the performance of other Pillar II funds closely mirrors that of ITP1 funds. During the same period, ITP funds delivered an annualized return of 10% , surpassing the benchmark fund, which recorded a return of 0.9%. For ITP1 (dark blue in Figure SE.12, the cumulative return during this period was 61.39%, while the benchmark returned 0.97%.

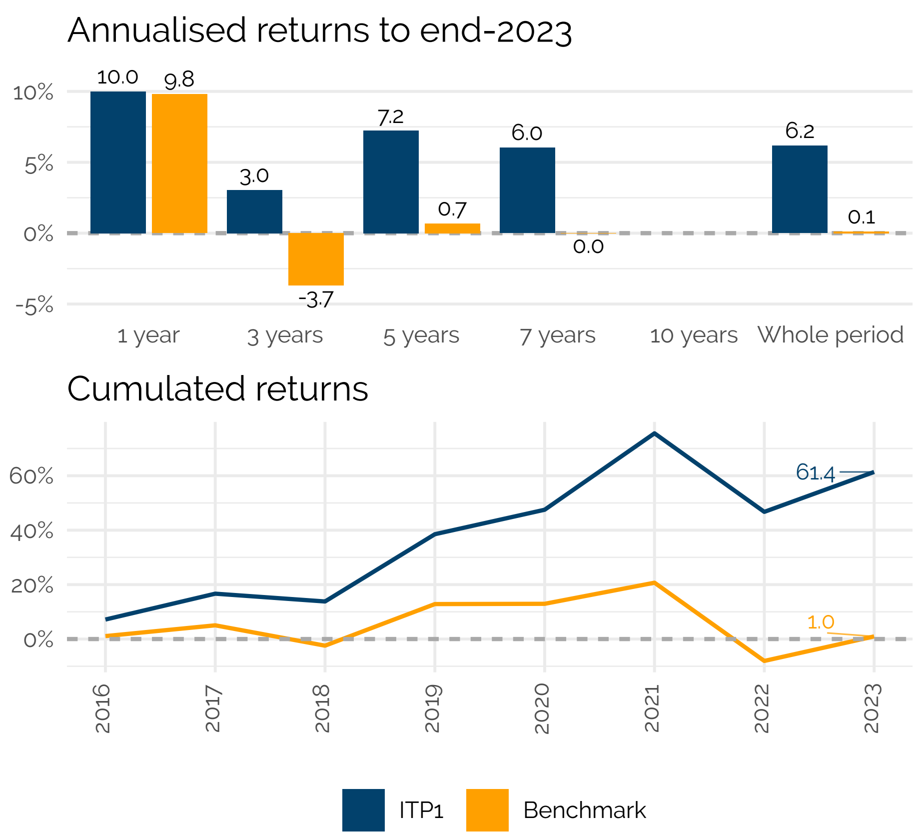
The strengthening of the financial position of the pension products can be attributed to the fact that the products contain a well-balanced portfolio across different products and exposure to the global and Swedish markets, making them positioned to benefit from the prevailing market situation.

Figure SE.11 – Performance of Swedish Premium pensions (returns before tax, after inflation, % of AuM)



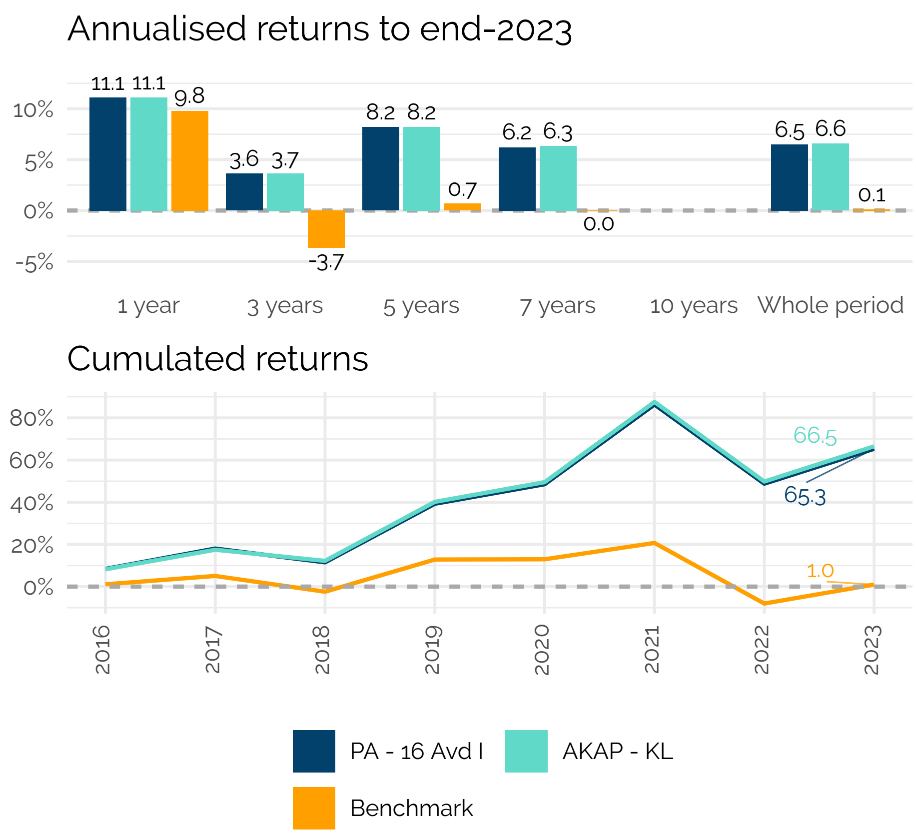
Data: The Swedish Pensions Agency, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

Figure SE.12 – Performance of Swedish ITP1 and SAF-LO funds (returns before tax, after inflation, % of AuM)



Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure SE.13 – Performance of Swedish PA - 16 Avd I and AKAP - KL funds (returns before tax, after inflation, % of AuM)



Data: The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Conclusions

The Swedish pension system is considered robust and sustainable. The balancing of the income-based system contributes to preserving 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 more than 90 percent 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 occupational pension plans and third-pillar pension accounts are, however, often characterized by higher management fees, deposit fees and less transparency.

The statistics on net returns in the second and third pillar pension plans are quite cumbersome to collect. The Swedish Consumers' Insurance Bureau reports fees and returns in most pension plans, but there is no immediately available information on net returns. It is also difficult to calculate historical returns in the second pillar because the set of funds that the retirement savers can choose from might change, for example due to procurement.

A 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 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 accumulation and decumulation phase.

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 average exit age from the labour force has been increasing ever since the new public pension system was implemented in the late 1990s and is currently 64. However, the average claiming age has been constant.[25]

[25] This is mainly due to reduced disability pension rates (through stricter eligibility rules), which affects the exit age but not necessarily the claiming age if people claim their pension instead. Another explanation is that individuals who work past the age of 65 do not postpone the withdrawal of their pension.

The combination of constant claiming age, later labour force entry among youths, and indexation of pension benefits to life expectancy unavoidably means lower pension benefits.

The concern of decreasing replacement rates in the public pension system has spurred an intense political debate about raising the public pension. In June 2022, the parliament passed a historically large increase of the minimum guarantee equal to SEK 1 000 that will be implemented just prior to the national election of 2022. In addition to raising the minimum guarantee (and the means-tested housing allowance), the pension bill of 2022 also stipulates that a "pension gas" should be introduced in the income pension. The pension gas is the equivalent of the automatic balancing mechanism in the sense that it distributes excess capital to pension savers and retirees when system assets exceed system liabilities by a certain amount.

As calls for pension reforms have intensified, there are also recent reports that give a more nuanced picture of pensioners' finances. A report by the Swedish Fiscal Policy Council[26] which was published on 6 May 2022 found that relative to the income development of the working population, the income of pensioners has also risen throughout the distribution since the reformation of the public pension system in the early 90s. Compared to the 34–64 age group, pensioners' disposable income has developed favourably at both the bottom and top of the income distribution — while the development of those in the median income part of the distribution has been similar to the compared age group. According to the report, new pensioners have been able to sustain relatively high replacement rates mainly due to increased labour income and occupational pensions. Occupational pensions constitute 29% of outgoing pension payments and play a relatively more important role for high-income earners.

Since the retirement age has not increased in relation to life expectancy, the accrued pension entitlements have had to suffice for more and more years in retirement. One way to raise pension levels is to increase the pension contribution. But it should be remembered that fee increases reduce the salary space for those who work and are also not a viable path in the long run. The most important thing for pensions is a high level of employment and that working life is extended when we live longer. In particular, the Swedish Fiscal Policy Council points to the low employment rate of low-skilled and foreign-born people as a problem in the future. Also, certain groups on the labour market that are already at risk of receiving a low pension (such as gig workers, self-employed and immigrants) are often not eligible for an occupational pension.

To encourage later retirement, policy makers have agreed to raise various retirement ages in a stepwise manner. By 2026, the minimum claiming age, the eligibility age for the minimum guarantee, and the mandatory retirement are expected to have increased to 64, 67 and 69, respectively (currently at 63, 65 and 68, respectively). The 65-norm is still strong in the second pillar, however. In the private sector, pensions are usually paid out automatically at this age, and pension rights are in most cases

[26] The main results and conclusions are reported by the Swedish Fiscal Policy Council (2022) while Hagen et al. (2022) contain the complete set of empirical analyses.

not earned after this age. As replacement rates fall, individuals also need to take more responsibility for their private pension savings. This makes accessible good pension savings products with low fees even more important.

Policy recommendations

- Expand the portability right of second pillar pension capital.
- Improve information on historical net returns and other fund characteristics in second and third pillar pension plans.
- The digital pension tool www.minpension.se makes it possible for individual retirement savers to collect information on their total pension savings. Since 2019, there is a related tool for planning pension withdrawals. A useful extension would be to allow users to execute their pension fund choices from this site.
- Replace automatic payment of occupational pensions at a certain age with a claiming requirement (as in the public pension system).

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