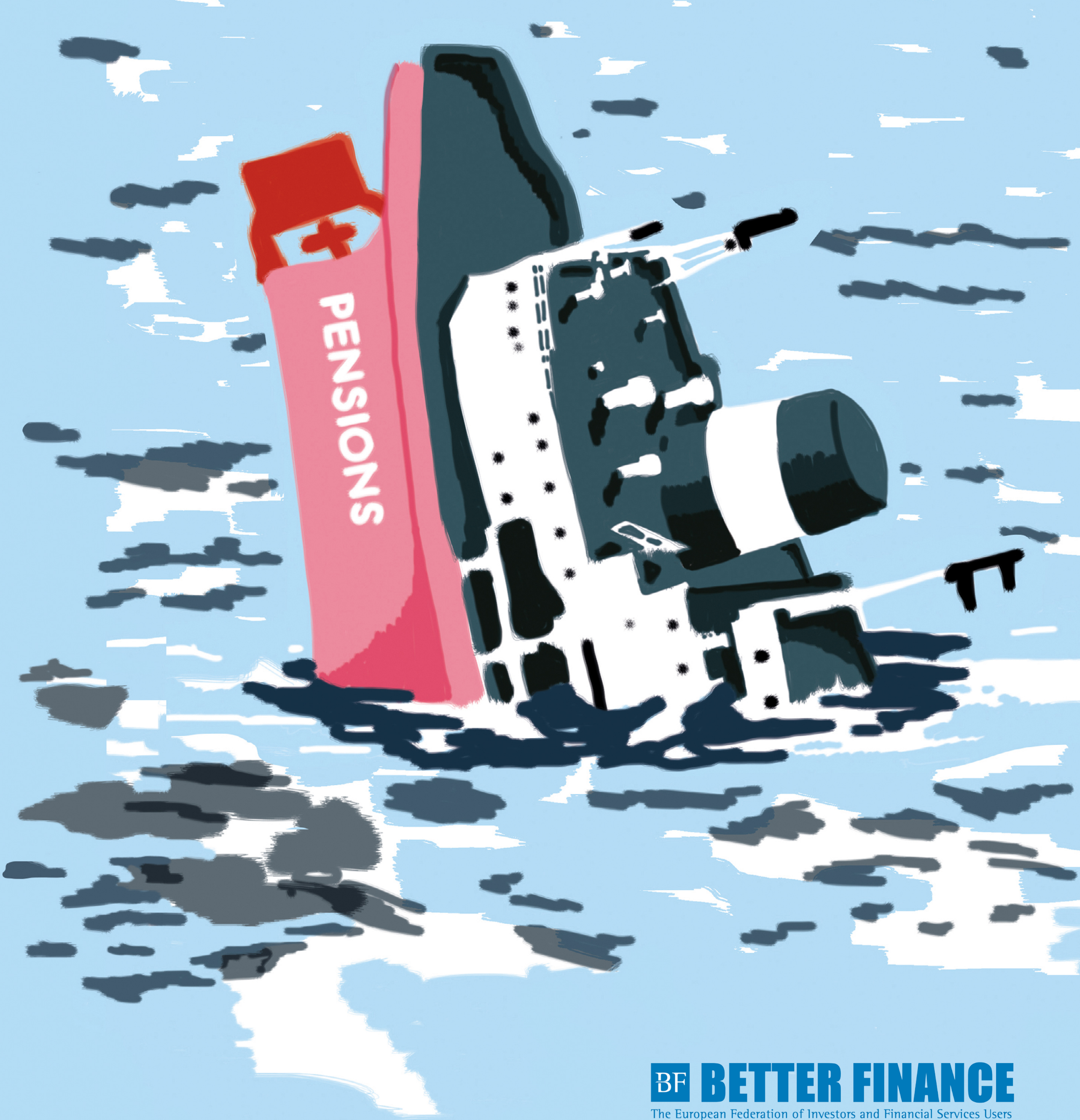
Long-Term and Pension Savings

The Real Return

2020 Edition



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

Pension Savings: The Real Return

2020 Edition

A Research Report by BETTER FINANCE

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Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index
IKZE	'Indywidualne konto zabezpieczenia emerytalnego' – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account

IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom's Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific 'Individual Investment Plan'
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA Scorecard	Standard & Poor Dow Jones' Indices Research Report on Active Management performances
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom

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Country Case: Sweden

Swedish summary

Det svenska pensionssytemet består till stor del av avgiftsbestämda/fonderade pensioner. Totalt förvaltas över 6000 miljarder SEK (€566 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 9.4% sedan 2001, jämfört med 6.1% 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 PAYG till fonderade pensionssystem.

Summary

The Swedish pension system contains a great variety of different retirement savings products with over SEK 6 trillion (€566 billion) in assets under management (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 9.4% compared to the 6.1% of all other funds over the last 19 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 pay-as-you-go (PAYG) system to a funded system.

Introduction

The Swedish pension system is divided into three pillars:

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

The Swedish pension system is a combination of mandatory and voluntary components. Table 1 shows how the pension capital is distributed between the different types of providers in the pension system. In 2018, the total pension capital was estimated at SEK 6,000 billion (€0.566 billion), which corresponds to thriteen times the size of outgoing pension payments. A share of 48% of the capital is accounted for by the occupational pension system. The fully funded component in the public pension system, the *premium pension*, accounts for 43% of the pension capital in the first pillar. The remaining 57% is managed by the buffer funds (see next section).

Introductory table: Pension system in Sweden		
Pillar I	**Pillar II**	**Pillar III**
State pension	Occupational pension	Voluntary pension
Mandatory	Mandatory*	Voluntary
PAYG/funded	Funded	Funded
DC/NDC	DC/DB**	DC
Flexible retirement age 62-68	ERA of 55 or 61, usually paid out at 65	Tax rebate abolished in 2016***
No earnings test	Normally a restriction on working hours	
Quick facts		
Number of old-age pensioners: 2,3 millions	Coverage: >90%	Share contributing (2015): 24,2%
Coverage (active population): Universal	Pension plans: 4 major (agreement-based)	Funds: >30
Average monthly pension: 1,659	Average monthly pension: 446 EUR	Average monthly pension: 89 EUR
Average monthly salary (gross, age 60-64): 2,900 EUR	AuM: 274 billions EUR	

Average replacement rate: 65%
** Occupational pension coverage is organized by the employer*
*** The defined benefit components are being phased out*
**** Self-employed and employees without occupational pension still eligible*

Summary returns table. Sweden nominal returns in 1st and 2nd pillar						
	Public pension		Occupational pension*			
	AP7 Såfa	Other funds	ITP1	SAF-LO	PA-16	AKAP-KL
2019	30.4	25.6	22.1	24.7	25.4	25.0
2018	-2.7	-2.8	-0.2	-1.97	-3.2	-2.12
3-year average (2017-2019)	14.4	14.3	11.56	11.64	11.7	12.0
3-year average (2016-2018)	9.6	5.1	6.6	6.03	6.14	6.13

** For each occupational pension plan, the return is an unweighted average among the available funds.*
Source: *Tables SE11 and SE12*

The average pension in Sweden was €1,659 EUR (SEK 17,588) per month before taxes in 2018; whereof €1,124 (SEK 11,914) came from the national pension, €446 (SEK 4,727) from occupational pensions and €89 (SEK 948) derived from private pension savings. The outcome furthermore differed quite significantly between genders. For women, the average total pension was €1,370 (SEK 14,526) per month before taxes and for men €1,988 (SEK 21,077) per month before taxes[257]. Although a lot of money is locked in the pension system in Sweden, the Swedish household's savings rate is quite high.

[257] 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 SE1. - Capital Managed (billions of SEK)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Income-based pension	895	873	958	1058	1185	1230	1322	1412	1383	1596
Premium pension	443	434	515	648	812	896	1024	1182	1180	1549
Occupational pension	1509	1705	1795	1948	2227	2369	2567	2787	2900	
Private pension	423	406	412	433	465	478	478	484	476	

Source: Sveriges Pensioner 2005-2016, and Orange Report 2019

In Sweden there is no set age at which people must retire, but the national pension can be drawn from the age of 61 onwards. Nor is there an upper age limit on how long a person may work, and everyone is entitled to work until the age of 68 (the mandatory retirement age was raised from 67 to 68 in 2020). The Swedish Pensions Agency administers the national pension and related pension benefits and provides information about them. The Swedish Social Insurance Inspectorate ensures that the Swedish Pensions Agency conducts its administration with due process and efficiency. The occupational and the private pension can be drawn from the age of 55 onwards.

The new national pension system in Sweden was introduced in 1999. The most important change in the reform was going from a defined benefit system to a defined contribution system. Before the reform, pensions were considered a social right and people were guaranteed a certain percentage of the wage before retirement. Following the reform, the outcome of the pension now consists of the pension savings accumulated during active employment before retirement. In this system, pensions depend on economic and financial development, which means that it is not possible to know in advance how much a retiree’s pension will be. With the new pension system, the need for information about pensions is even more important. The occupational pension system has developed in the same direction; most of the occupational pension plans are now defined contribution systems or hybrids with both defined contribution and defined benefit components.[258]

Pillar I: 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 7.5 income-base amount[259] 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 pay-as-you-go (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

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

[259] 49,000 EUR (519,400 SEK) for 2019.

individual choices in the national pension system.[260] 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 9,000 – 17,000 (€849 – €1603.8) 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 guarantee pension depends on how long a person has lived in Sweden. Residents of Sweden qualify for a guaranteed pension from the age of 65. To receive a full guaranteed pension, an individual must in principle have resided in Sweden for 40 years after the age of 25. Residence in another EU/EEA country is also credited toward a guaranteed pension. In addition to the national pension, pensioners with low pensions may be entitled to a housing supplement and maintenance support.

There is 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 to 64 in 2026. Second, the eligibility age for the minimum guarantee will be raised from 65 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. There is also a plan 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 2019, the fee amounted to 0.03%[261]. The deduction is made only until the insured begins to withdraw a pension. At the current level of cost,

[260] Vägval för premiepensionen, Ds 2013:35
[261] *The Swedish Pensions Agency, Orange report 2019*

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. By 2019 there were 490 eligible funds registered in the premium pension system, managed by 66 different UCITS. The premium pension can be withdrawn, in whole or in part, from the age of 62. 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. Table SE2 shows the allocation of assets in the premium pension.

Table SE2. Funds in the Premium Pension System in 2019 and Capital Managed 2009–2019, billions of SEK/EUR

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Equity fund (SEK)	179	214	159	193	240	295	347	388	441	407	517
€	17.5	20.9	15.5	18.8	23.4	28.8	33.8	37.8	43	39.7	48.77
Mixed funds (SEK)	12	17	41	51	63	77	67	69	70	66	69
€	1.17	1.66	4	4.97	6.14	7.51	6.53	6.73	6.83	6.44	6.5
Generation funds	38	43	60	71	90	114	128	147	166	167	209
(SEK)	3.71	4.19	5.85	6.92	8.78	11.1	12.5	14.3	16.2	16.3	19.72
Interest funds (SEK)	21	24	28	24	27	27	25	127	26	30	31
€	2.05	2.34	2.73	2.34	2.63	2.63	2.44	12.4	2.54	2.93	2.92
AP7 Såfa (def.) (SEK)	90	110	105	132	182	246	272	328	407	433	632
€	8.78	10.2	10.2	12.9	17.7	24	26.5	32	39.7	42.2	59.62
Total (SEK):	**340**	**408**	**393**	**471**	**602**	**759**	**839**	**959**	**1110**	**1103**	**1458**
€:	**33.2**	**39.8**	**38.3**	**45.9**	**58.7**	**74**	**81.8**	**93.5**	**108**	**108**	**137.5**

Source: Orange report 2019; EUR 1 = SEK 10.60 in 2019.

The premium pension has been criticized for having too many selectable funds and for generating large variation in pension outcomes. In December 2017, the government announced that it will implement the changes that have been proposed by the Pensions Agency to enhance the quality and regulation of the participating companies.[262] The new rules were implemented on 1 November 2018, and include, among other things, that the participating fund companies manage at least SEK 500 millions outside the Premium Pension, have three years of operating history, act in the best interest of the retirement savers, fulfill minimum sustainability requirements, and establish one contract per fund (rather than one contract per company) with the Pensions Agency.[263]

The new rules also meant that companies that wished to be part of the Premium Pension had to (re)submit an application to the Pensions Agency. In early 2019, 70 companies had submitted an application covering 553 funds (there were more than 800 funds at the end of 2018). The primary purpose of the new rules is to prevent dishonest and fraudulent companies. The alleged fraud of the fund companies Falcon Funds in 2016, Allra in January 2017, and Solidar in 2018[264] sparked discussions on the issue. As of June 2020, there were 490 eligible funds registered in the Premium Pension.

[262] The Swedish Pensions Agency, Stärkt konsumentskydd inom premiepensionen
[263] https://www.pensionsmyndigheten.se/nyheter-och-press/pressrum/nytt-avtal-klart-for-premiepensionens-fondtorg
[264] See Cronqvist et al. (2018) for a discussion of the Allra case.

A government report on the future development of the Premium Pension was published in November 2019. The report highlights that it should be easier for retirement saves to get an overview of and select funds, and for the authorities to exercise control and transparency. The report recommends that the existing, open fund platform should be replaced with a new platform where the participating funds have been procured. The procurement and administration of this platform should be administrated by a new government agency, which also should be responsible for managing the state-run default fund option, AP7 Såfa. The number of funds is expected to fall considerably as a result of these changes and the new structure should be in place at the end of 2023.[265] Some actors, 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.[266]

Pillar II: Occupational pensions

The occupational pension system in Sweden is mainly driven by collective agreements. A Swedish company is not required by law to pay a pension to its employees, but an occupational pension plan is mandatory if there is a collective agreement at the workplace. The occupational pension system covers over 90% of the workforce. The self-employed are excluded from occupational pension plans and it is mostly smaller companies in new sectors of business that do not have collective agreements.[267] There are four main collective agreements for the different sectors and each agreement has its own pension plan. The four collective agreements are: the SAF-LO Collective Pension (blue-collar workers) with 2.8 million members, the Supplementary Pension Scheme for Salaried Employees in Industry and Commerce ITP (white collar employees) with 2 million members, the Collectively Negotiated Local Government Pension Scheme (KAP-KL) with 1 million members and the Government Sector Collective Agreement on Pensions PA-03/PA-16 with 500,000 members[268].

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

If there is no collective agreement at the workplace, the company can choose to have an individual occupational pension plan for their employees. Among the companies that do not have a collective

[265] Socialdepartementet, Ett förbättrat premiepensionssystem, SOU 2019:44
[266] https://www.fondbolagen.se/aktuellt/pressrum/pressmeddelanden/forslagen-i-utredningen-ett-battre-premiepensionssystem-gar-emot-malen-med-premiepensionen/
[267] AMF, "Tjänstpensionerna i framtiden – betydelse, omfattning och trender", p. 17.
ISF Rapport 2018:15, "Vem får avsättningar till tjänstepension".
[268] www.pensionsmyndigheten.se/tjanstepensionen-thml

agreement, some have chosen to have an occupational pension plan, and some do not pay out any pensions at all to their employees. These individual pension plans can vary in shape and level but common to them all is that they often have worse provisions and higher costs compared to the collectively negotiated pension schemes.

In 2017, the Ministry of Finance published a report with several proposals on how to make it easier and cheaper to move occupational pension capital across pension companies and pension plans.[269] Today, the right to move occupational pension is, with some exceptions, limited to pension capital that has been accumulated after 2007 and that has not started to be paid out. There is typically also a fee associated with moving the pension capital to another company, especially in the individual occupational pension plans. Critics argue that this leads to lower competition, lower returns for retirement savers and lock-in effects. In April 2019, the government published a report that highlighted the need for lower moving fees in general and a stipulated maximum moving fee (in SEK).[270] The parliament approved the proposals of the government in November 2019 and recommended the government to pursue the subject further. In March 2020, the Ministry of Finance proposed that the maximum fee should amount to 0.0127 price base amounts (600 SEK/€56.60 for 2020).[271] The new rules are expected to be implemented in 2021, although the recent Corona crisis has spurred discussion among several pension companies to urge the government to postpone this new legislation.

In December 2016, Sweden transposed the IORP II Directive. The purpose of the new Directive is to ensure the soundness of occupational pensions and better protect pension scheme members by means of stricter capital solvency requirements. The new directive also clarifies the legal framework for actors in the occupational pension business. The new rules have been subject to much discussion. Critics argue that they distort competition in the occupational pension arena because not all companies would be affected. The new rules only apply to pension companies that only provide occupational pension insurance, as opposed to pension companies that also provide other insurance services. The government supplemented the EU Directive with new national legislation in November 2019.[272]

Pillar III: Private pensions

Private pension saving is voluntary, but it is subsidized via tax deductions. In 2014, 34.5% of those aged 20 to 64 made contributions to a private pension account.[273] 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

[269] Konkurrensverket, Flyttavgifter på livförsäkringsmarknaden – potentiella inlåsningseffekter bland pensionsförsäkringar, Rapport 2016:12.
[270] Ministry of Finance, "En effektivare flytträtt av försäkringssparande"
[271] Ministry of Finance, "Avgifter vid återköp och flytt av fond- och depåförsäkringar."
[272] Finansutskottets betänkande, "En ny reglering för tjänstepensionsföretag". See https://www.fi.se/sv/forsakring/iorp2/ for more information on IORP II.
[273] http://www.statistikdatabasen.scb.se/

payout is 5 years in both IPS and private pension insurance. However, only money in private pension insurance can be paid out for life (annuity).

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

The deduction for private pension savings has been reduced over the years. From 1 January 2015 it was reduced from €1,130 to €170 (SEK12,000 to SEK 1,800) per year, equivalent to €14 (SEK 150) in monthly savings. On 1 January 2016 the deduction was abolished. The motive for this is that the deduction favours high-income earners. In 2015, the share of private pension savers dropped to 24.2 %. Those who still contribute to private pension accounts are thus subject to double taxation.

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, similar to what is already in place in Germany,[274] matching benefits, in particular, for low- and medium-income earners as opposed to tax subsidies which tend to favor the rich. The problem is of course that the government has to bear the costs of matching in the future when the contributors retire.

ISK

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 2018, the number of unique account holders exceeded 2.4 million (see Table 3). In 2019, ISK funds accounted for 8% of the households' total fund assets as compared to 24% for private pension insurance. The relative importance of ISK is however likely to increase in the future; 24% of net savings in funds in 2019 was allocated to ISK accounts. The Premium Pension (1st pillar) is the most important saving vehicle in funds accounting for 26% of net savings and 29% of total fund assets (see Table 4).

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

[274] OECD Pension Outlook 2018.

Table SE3. ISK accounts		
Year	Number of accounts	Number of account holders
2012	222,664	210,895
2013	493,221	453,911
2014	891,550	788,201
2015	1,840,152	1,528,939
2016	2,305,137	1,853,227
2017	2,818,490	2,163,762
2018	3,267,512	2,420,819

Source: Swedish Tax Agency

Table SE4. Household fund assets 2019			
Fund type	Fund assets	Net saving (%)	Share of assets (%)
Direct fund investments	491,929	-7	10
ISK	414,057	24	8
IPS	118,404	-3	2
Private pension insurance	1,199,618	29	24
Premium Pension (1st pillar)	1,460,136	26	29
Trustee-registered funds	522,388	17	11
NGOs	115,935	0	2
Swedish companies	479,767	15	10
Others	154,212	-1	3
Total	**4,956,445**	**100**	**100**

Source: Swedish Investment Fund Association

Pension vehicles

Occupational pension plans

ITP

The ITP agreement consists of two parts: defined contribution pension ITP 1 and defined benefit pension ITP 2. Employees born in 1979 or later are covered by the defined contribution pension ITP 1. In ITP 1 the employer makes contributions of 4.5 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%.

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 (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.

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.

Charges

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 2019, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.34 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 12 % 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 pension system are reported in the upper part of Table 5. The total cost deduction in the premium pension capital is about 0.23% per year. At this level of cost the deduction will decrease the premium pension by an average of about 8% from what it would have been without any cost deduction. The deduction is expected to decrease in the future.[275]

The costs in the income pension are shown in the lower part of Table SE5. 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 1,596 billion in 2019). However, returns to scale in the buffer funds imply lower costs than in the premium pension.

[275] *The Swedish Pensions Agency, Orange report 2019, page 18*

Table SE 5. Net charges 1st pillar								
	2012	2013	2014	2015	2016	2017	2018	2019
Premium pension	37%	36%	33%	30%	28%	27%	25%	23%
Adminstrative fee	10%	10%	9%	7%	7%	6%	7%	4%
Income pension	19%	20%	20%	21%	19%	18%	16%	16%
Adminstrative fee	3%	3%	3%	3%	3%	3%	3%	3%

Source: Orange report 2019, p40

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.[276] 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.

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

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 covers administrative costs of the pension company. Table SE6 shows the current fee structure in each of the four major occupational pension plans. The charges are relatively low and range between 0.1% and 0.5%.

[276] SOU 2012:64, page 466

Table SE6. Charges 2nd pillar		
ITP 1		
Traditional insurance	Fixed cost, SEK	Management fee, %
Alecta (default)	0	0.11
AMF	50	0.20
Folksam	0	0.20
SEB	51	0.19
Skandia	65	0.195
Unit-linked insurance		
Futur Pension	0	0.11-0.19
Handelsbanken	0	0.07-0.13
Movestic	0	0.13-0.25
SPP	0	0.08-0.14
Swedbank	0	0.17-0.18
SAF LO		
Traditional insurance	Fixed fee, SEK	Management fee, %
Alecta	65	0.19
AMF	40	0.18
Folksam	65	0.18
AMF (default)	40	0.18
SEB	65	0.20
Unit-linked insurance		
AMF	60	0.13-0.20
Folksam LO	50	0.21-0.35
Futur Pension	65	0.19-0.43
Handelsbanken	65	0.29-0.42
Länsförsäkringar	65	0.12-0.20
Movestic	65	0.13-0.45
Nordea	65	0.25-0.30
SEB	45	0.13-0.35
SPP	65	0.14-0.28
Swedbank	65	0.26-0.30
PA 03 & PA 16		
Traditional insurance	Fixed fee, SEK	Management fee, %
Alecta	75	0.19
AMF	75	0.18
Kåpan Pensioner (default)	6	0.11
Unit-linked insurance		
AMF	75	0.13-0.20
Futur Pension	65	0.44
Handelsbanken	75	0.35
Länsförsäkringar	75	0.41
SEB	75	0.14-0.4
Swedbank	75	0.33-0.4
AKAP-KL		
Traditional insurance	Fixed fee, SEK	Management fee, %
Alecta	65	0.19
AMF	65	0.18
KPA (default)	48	0.11

Skandia	65	0.195
Unit-linked insurance		
AMF	65	0.13-0.20
Folksam LO	65	0.22-0.34
Futur Pension	65	0.42
Handelsbanken	65	0.30
KPA Pension	65	0.30
Länsförsäkringar	65	0.31
Lärarfonder	65	0.35
Nordea	65	0.30-0.40
SEB	65	0.31-0.34
Swedbank	65	0.19-0.30

Source: The Swedish Consumers' Association Bureau 2019

Pillar III

For the private pension system, however, it is difficult to get a good overview of the available pension products and hence the charges on these products. There are two tax-favored (pre-2016) private pension veichles: IPS and private pension insurance. The majority of pension providers of IPS and private pension insurance charge a fixed fee (see Tables 7 and 8). These typically range between €10 and €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 €50, which in relation to the invested capital can be sizable.

In private pension insurance accounts, the fee structure depends on whether the capital is unit-linked or traditional. Traditional insurance only imposes a management fee whereas unit-linked insurance both contains management and fund fees. In some cases, investors also pay a deposit fee of 1% - 2%. The savings invested in these products will decrease since the deduction for private pension savings was abolished in January 2016.

In 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.

Table SE7. Individual Pension Savings Account (IPS)– Fees			
	Fixed fee SEK	Management fee %	Fund fee (mixed funds). %
Aktieinvest	0	0.00	0.10-1.90
Avanza Bank	0	0.00	0.20-2.00
Danske Bank	150	0.00	0.83-1.25
Handelsbanken	0	2 (max SEK 125)	0.50-1.50
Indecap	125	2 (max SEK 125)	1.34-1.66
Länsförsäkringar Bank	125	0.00	0.20-2.00
Nordea	140	0.00	0.40-2.75
Nordnet Bank	0	0.00	0.20-2.20
SEB	150	0.00	1.10-1.45
Skandiabanken	0	0.00	0.90-181
Swedbank	0	2 (max SEK 125)	0.20-1.40

Source: The Swedish Consumers' Insurance Bureau 2019

Table SE8. Pension Savings Insurance – Fees			
Traditional insurance	Fixed fee SEK	Management fee %	*Deposit fee. %*
Folksam Pensionsförsäkring	288	0.8	1.00
Nordea Ålderspension	148	0.75	0.00
SEB Traditionell Försäkring	191	0.95	0.00
Skandia Framtid Internet	0	0.6	2.00
Skandia Framtid Rådgivning	0	0.8	2.00
SPP PLUSpension Traditionell	0	0.35	0.00
Unit-linked			*Fund fee %*
Avanza Pension PrivatPension Depå	0	0	0.1
Futur Pension PrivatPension Fond	120	0.5	0.54
Futur Pension PrivatPension Netto Fond	0	0	0.54
Handelsbanken Privatpension	60	0.75	0.28
Länsförsäkringar Privatpension Fond	240	0.5	0.29
Movestic Pension Privat Fond	284	0.4-0.55	0.50
Nordea Ålderspension Fond	148	0.4	0.42
Nordnet Privatpension Depå	0	0	0.13
SEB Privat Pensionsförsäkring Fond	309	0.65	0.48
SEB Svensk Depåförsäkring	304	0.65	0.48
Skandia Privatpension Depå	0	0.75	0.37
Skandia Privatpension Internet Fond	0	0.10-0.65	0.42
Skandia Privatpension Rådgivning Fond	360	0.65	0.42
SPP PLUSpension Fond	0	0	0.26
Swedbank Pensionsförsäkring Depå	240	0.65	0.18
Swedbank Pensionsförsäkring Fond	240	0.65	0.18

Source: The Swedish Consumers' Insurance Bureau (2019)

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 are reported to the tax authority by the financial institutions. The standard earnings are taxed at 30%. In 2018, the government borrowing rate was 0.51%, which means that the calculated average value of an account is taxed with 0.453%. The table below reports the total and average standard earnings for years 2012-2018.

Table SE9. ISK standard earnings

Year	Standard earnings (msek)	In €	Average standard earning per account holder	In €
2012	714	70	3,388	330
2013	2,024	197	4,458	435
2014	5,467	533	6,937	676
2015	3 952	385	2,585	252
2016	7,646	746	4,126	402
2017	8,852	863	4,091	399
2018	12,384	1,207.6	5,116	499

Source: The Swedish Tax Agency

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

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

Taxation

Taxation during the accumulation phase looks different 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.[277] When it comes to private pension savings, there was a tax deduction of 1,800 SEK (€169.8) 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.

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.[278] 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 government income tax consists of two brackets. The marginal tax rates in each bracket are 20% for incomes between €46,300 and €65,000 (490,700 SEK and 689,300 SEK) and 25% for incomes thereabove.[279] The latter tax bracket was, however, removed in 2020.

Table SE10. Taxation on pension schemes

	National pension	Occupational pension	Private pension
Contributions	Individual contribution deductible, not employer's part	Partially deductible	Non-deductible from January 1 2016.
Tax on investments	Not subject to tax, instead the capital is taxed with income tax when payed out.	Subject to tax rate on standard earnings (15 % in 2019)	Subject to tax rate on standard earnings (15 % in 2019)
Pay-out	Income tax	Income tax	Income tax

Source: Pensionsmyndigheten, Konsumenternas, Alecta, Swedbank, MinPension

From a phase taxation point of view, 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).

Pension Returns

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

Pillar I

Table SE11 shows average annual returns for default investors and those who opted out of the default. The average fee for the default fund and for "active" investors in 2019 is 0.09% and 0.26%, respectively.

277 Deductible contributions amount to maximum 35% of the wage of the employee. However, the deduction cannot exceed 10 prise base amounts.
278 The Swedish earned income tax credit is a refundable tax credit for all individuals aged below 65.
279 Financial year 2019, https://www.skatteverket.se/download/18.4a4d586616058d860bcf5b/1535456086712/beloppochprocentkort2019.pdf

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 defualt fund and "active" investors amounts to 9.4% and 6.1%, 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. (2016) find that investors who are actively involved in managing their pension accounts earn significantly higher returns than passive (inert) investors.

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

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

	AP7 Såfa (default)			Other funds		
Year	Nominal	After charges	Net return	Nominal	After charges	Net return
2001	-27.3	-27.4	-29.3	-33.3	-33.9	-35.6
2002	18.4	18.2	16.0	17.3	16.7	14.5
2003	10.1	10.0	7.5	8.1	7.6	5.2
2004	24.9	24.8	23.5	33.0	32.4	31.1
2005	10.5	10.4	9.5	12.9	12.3	11.4
2006	4.6	4.5	2.9	6.0	5.6	4.1
2007	-36.1	-36.3	-37.3	-33.4	-33.8	-34.9
2008	35.0	34.8	30.5	34.5	34.1	29.7
2009	14.6	14.4	12.2	11.3	10.9	8.8
2010	-10.7	-10.9	-12.5	-10.8	-11.1	-12.8
2011	17.6	17.4	15.8	10.2	9.8	8.3
2012	31.8	31.7	30.5	16.8	16.4	15.4
2013	28.9	28.8	28.2	17.0	16.6	16.1
2014	6.3	6.2	5.9	6.5	6.2	6.0
2015	15.2	15.1	14.3	8.6	8.3	7.5
2016	15.2	15.1	13.8	8.6	8.3	7.1
2017	16.4	16.3	14.2	10.5	10.2	8.2
2018	-2.7	-2.8	-5.8	-3.8	-4.1	-7.0
2019	32.2	32.1	29.8	27.6	27.3	25.2
AVG	9.0	8.8	7.1	6.1	5.7	4.0

Source: The Swedish Pensions Agency; Note: methodology to calculate net returns and annualized averages changed slightly compared to previous editions

The two tables below summarise 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).

Table SE12. Standardised returns for the Premium Pension System (other funds)			
Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	32.20%	32.11%	29.85%
3-years	14.40%	14.31%	12.20%
5-years	14.71%	14.61%	12.79%
7-year	15.38%	15.27%	13.85%
10-years	14.18%	14.06%	12.68%
Since inception	8.95%	8.82%	7.13%

Source: Table SE11

Table SE13. Standardised returns for the Premium Pension System (other funds)			
Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	27.60%	27.34%	25.16%
3-years	10.70%	10.41%	8.38%
5-years	9.85%	9.55%	7.81%
7-year	10.35%	10.04%	8.69%
10-years	8.63%	8.30%	6.98%
Since inception	6.08%	5.67%	4.03%

Source: Table SE11

These two tables (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.

Pillar II

Table SE12 shows returns for the occupational pension system. The first column shows the average return over the last 3 years. The next three columns display the nominal return, the nominal return net of charges, and the real return (net of charges and inflation) for year 2018, respectively. The inflation (measured by CPI) in 2019 was 1.7 percent.[280] In 2019, a year characterized by rising stock markets, the unit-linked insurance funds have yielded better returns than the traditional insurance funds. The 3-year average of unit-linked insurance is also higher than the 3-year average of traditional insurance.

[280] https://ec.europa.eu/eurostat/web/products-datasets/product?code=tec00118

Table SE14. Return on capital, 2nd pillar, %				
ITP1				
Traditional insurance	Av. return 3 yrs	Return 2019	Net of charges	Net return
Alecta (default)	8.5%	19.8%	19.7%	17.9%
Folksam	10.3%	20.9%	20.7%	19.0%
AMF	9.5%	18.3%	18.1%	16.4%
SEB	4.0%	4.0%	3.8%	2.1%
Skandia	7.1%	6.1%	5.9%	4.2%
Unit-linked insurance				
Futur Pension	14.1%	33.7%	33.5%	31.8%
Handelsbanken	17.2%	36.0%	35.9%	34.1%
Movestic	14.7%	32.8%	32.6%	30.8%
SPP	14.0%	32.5%	32.4%	30.6%
Swedbank	16.3%	35.8%	35.6%	33.9%
SAF-LO				
Traditional insurance	Av return 3yrs	Return 2019	Net of charges	Net return
Alecta	8.5%	19.8%	19.6%	17.9%
AMF	10.3%	20.9%	20.7%	19.0%
Folksam	9.4%	18.3%	18.1%	16.4%
AMF (default)	10.3%	20.9%	20.7%	19.0%
SEB	4.0%	4.0%	3.8%	2.1%
Unit-linked insurance				
AMF	11.1%	28.5%	28.3%	26.6%
Folksam LO	13.5%	33.4%	33.0%	31.2%
Futur Pension	13.9%	33.3%	33.0%	31.2%
Handelsbanken	14.7%	30.9%	30.5%	28.7%
Länsförsäkringar	12.2%	29.5%	29.3%	27.6%
Movestic	12.4%	31.0%	30.6%	28.8%
Nordea	13.5%	32.4%	32.1%	30.4%
SEB	11.0%	30.6%	30.3%	28.5%
SPP	13.7%	32.1%	31.8%	30.1%
Swedbank	16.1%	34.0%	33.7%	32.0%
PA-16 - Avd I				
Traditional insurance	Av return 3yrs	Return 2019	Net of charges	Net return
Alecta	8.5%	19.8%	19.6%	17.9%
AMF	10.3%	20.9%	20.7%	19.0%
Kåpan (default)	8.7%	17.4%	17.3%	15.5%
Unit-linked insurance				
AMF	11.1%	28.5%	28.3%	26.6%
Danica Pension	13.7%	32.0%	31.6%	29.8%
Handelsbanken	13.6%	32.4%	32.1%	30.3%
Länsförsäkringar	12.9%	31.0%	30.6%	28.8%
SEB	12.0%	30.4%	30.0%	28.3%
Swedbank	14.9%	33.9%	33.5%	31.8%
AKAP-KL				
Traditional insurance	Av return 3yrs	Return 2019	Net of charges	Net return
Alecta	8.5%	19.8%	19.6%	17.9%
AMF	10.3%	20.9%	20.7%	19.0%
KPA (default)	5.5%	11.3%	11.2%	9.4%
Skandia	7.6%	6.1%	5.9%	4.2%

Unit-linked insurance				
AMF	11.1%	28.5%	28.3%	26.6%
Folksam LO	13.3%	33.0%	32.7%	30.9%
Futur Pension	13.7%	32.0%	31.6%	29.8%
Handelsbanken	13.6%	32.4%	32.1%	30.4%
KPA Pension	13.7%	30.9%	30.6%	28.9%
Länsförsäkringar	12.9%	30.9%	30.6%	28.8%
Lärarfonder	13.1%	30.3%	30.0%	28.2%
Nordea	13.5%	32.4%	32.0%	30.3%
SEB	14.2%	33.0%	32.7%	30.9%
Swedbank	16.5%	36.2%	35.9%	34.2%

Source: The Swedish Consumers' Insurance Bureau 2019

Based on the data published by the Swedish Consumers' Insurance Bureau and collected by BETTER FINANCE through this report since the 2017 edition (end of 2016), the authors were able to start aggregating annual return information (based on unweighted averages) for the Swedish second pillar:

Table SE15. Return on capital, 2nd pillar, % (annual)				
AVG	2019	2018	2017	2016
ITP1				
11%	24%	0%	11%	9%
SAF-LO				
11%	27%	-2%	10%	10%
PA-16 - Avd I				
11%	27%	-3%	11%	11%
AKAP-KL				
11%	27%	-2%	11%	10%

Source: Table SE14

What we can observe is that, although the different catgeories 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 four years (2016 – 2019) are almost the same.

Conclusion

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 total pension amount for people born between 1938 and 1946 shrank from 86 % to 77 % of the final salary. And the public pension, which every Swedish citizen with a salary or another taxable benefit is entitled to, shrank from 61 % to 49 % of the final salary for the same age groups. 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 fairly constant.[281] 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.

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 62, 65 and 68, respectively). The 65-norm is still strong in the second pillar, however. Pensions are usually paid out automatically at this age, and pension rights are in most cases 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.

[281] 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 digital pension tool www.minpension.se makes it possible for individual retirement savers to collect information on their total pension savings. 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 (usually 65) with a claiming requirement (as in the public pension system).

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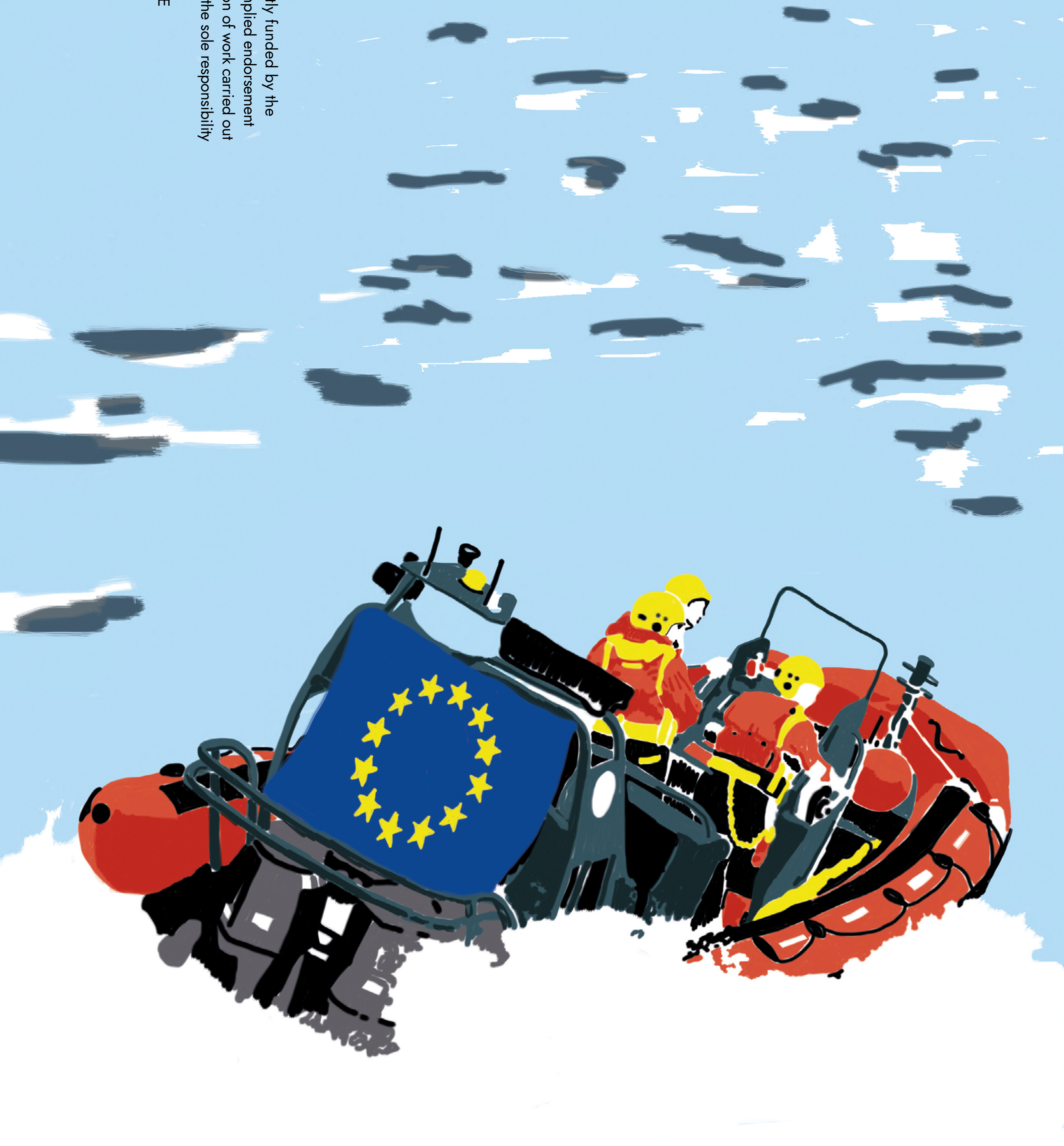

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