

Pensions at a Glance 2023



Sweden

Sweden: Pension system in 2022

The national retirement pension consists of a pay-as-you-go notional accounts system and a mandatory funded defined contribution pension and a defined benefit pension-income-tested top-up. Occupational pension plans with defined benefit and defined contribution elements have broad coverage.

Key Indicators: Sweden

		Sweden	OECD
Average worker earnings (AW)	SEK	494 513	417 324
	USD	48 893	41 261
Public pension spending	% of GDP	7.0	7.7
Life expectancy	at birth	83.5	80.7
	at age 65	86.1	84.6
Population over age 65	% of working-age population	35.9	31.3

Qualifying conditions

The earnings-related national pensions can be withdrawn from the age of 62. Eligibility for the guarantee pension requires three years' residency and the guarantee pension benefit is available from the age of 65, increasing to 66 in 2023 and 67 in 2026. A maximum guarantee pension benefit requires 40 years of residency and shorter periods are reduced proportionally.

The pension ages are increasing. The earliest age for withdrawing the earnings-related national pensions will increase. In 2023 this age will increase to 63, by 2026 the age will increase to 64.

The employment protection legislation was extended to 68 years as of 1 January 2020, it will thereafter be extended to 69 by 1 January 2023. Further changes will be legislated in the coming years to be in line with the Pension Groups agreement on Pensions.

Benefit calculation

Contributions of 18.5% of pensionable pay are credited and then uprated in line with economy-wide average earnings. Pensionable pay is defined as earnings less the employee contribution to the pension system (i.e. to both the notional accounts system and the defined contribution system) of 7% of gross earnings, giving an effective contribution rate on gross earnings of 17.21%, 14.88% to the notional-accounts system and 2.33% to the defined contribution funded pensions (FDC, called also PPM - Premium Pension System).

Contributions are only levied when annual earnings exceed a small floor of SEK 20 431 in 2022, just over 4% of average earnings, although they are due on the whole earnings for those earning above the floor. There is a ceiling to benefits calculated in terms of pensionable earnings of SEK 532 500 in 2022, giving an effective ceiling relative to gross earnings of SEK 572 600 in 2022 (just over 111% of average worker earnings). Employer contributions are paid on all earnings, including above the ceiling. In 2021 an income pension complement was introduced. The size of the income complement depends on the size of the

income-based national pension and the number of years with pensionable income in Sweden. The income pension complement is a maximum of 600 SEK per month.

Earnings-related

The earnings-related scheme uses notional accounts. The notional accounts are increased every year by the distribution of the pension balances of deceased individual of the same age as the survivors (inheritance gains). The inheritance gains from people who die before the earliest possible retirement age (62 years) are relevant. After this age the inheritance gains factor is estimated based on the mortality observed for an earlier period (computed from five-year unisex mortality tables).

At retirement, the accumulated notional capital will be converted into an annuity. This calculation will use a coefficient depending on individual retirement age and contemporaneous life expectancy (based on the previous five-year unisex mortality tables). A real discount rate of 1.6% a year is also included in the calculation of the annuity. After retirement, pension benefits are uprated with the increase in nominal average earnings less the imputed interest rate in the annuity divisor of 1.6%.

There is also a “balance mechanism”: if assets (the buffer fund plus the estimated value of assets in the form of contribution revenues) fall below liabilities (accrued notional pension capital and capital value of outgoing pensions), then indexation of pensions in payment and returns credited to notional accounts are reduced by the ratio of assets to liabilities. The balance ratio for year t is used to calculate the balance index in year $t+2$. An activated balancing mechanism would mean lower replacement rates from the national system but will produce higher results when the pension system recovers, and the balance figure increases (the balance index can exceed the income index during the recovery period). The balancing mechanism was activated between 2010 and 2018. For modelling purposes, the annuity coefficients are calculated using the above rules and the relevant mortality data from the UN population database. It is assumed that the balance mechanism does not affect the uprating of benefits.

Basic (Guarantee pension)

The basic “guarantee pension” is an income-tested top-up pension benefit for individuals with no or low levels of benefit from notional accounts. For a single person, the full guaranteed benefit in September 2022 was SEK 117 369 for a single pensioner born after 1938 or 24% of gross average earnings.

The guarantee pension is withdrawn at 100% against the first SEK 60 858 in 2022 of income, for a single person, from the earnings-related pension, thereafter at 48%. This threshold is equivalent to 13% of average earnings. Only when earnings related pension exceeds SEK 178 584 – 36% of average earnings – is entitlement to the guarantee exhausted. The guarantee level is price indexed.

There is also a housing benefit that covers housing costs up to a maximum of SEK 7 500 per month for a single pensioner. The benefit is an important part of the minimum living standard for Swedish pensioners. This means-tested benefit is not included in the modelled calculations.

As of 1 January 2023 Sweden stopped paying guarantee pension to entitled pensioners living abroad.

Defined contribution

A further 2.5% of pensionable income (giving an effective contribution rate against gross earnings of 2.33%) is paid into personal pension accounts in the mandatory funded defined contribution system where individuals have a broad choice of where these funds are invested.

At retirement, individuals have a choice over the way benefits are withdrawn. The accumulated pension account can convert into an annuity to avoid investment risk. Alternatively, it is possible to choose a variable annuity, where funds continue to be invested by the chosen fund manager. These annuities do

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not have a guaranteed value. The principle of the pension benefit calculation in this case is that the value of the account is divided by an annuity divisor (based on estimated average life expectancy) and the pension benefit is credited with an estimated future interest rate of 3% minus administrative costs. If returns exceed 3%, then either an additional payment is made or the balance of the account is higher and so, therefore, is the base for calculating the annual pension.

Quasi-mandatory occupational

Occupational pension benefit schemes are estimated to cover more than 90% of employees. There are only four major occupational schemes. The modelling has used the ITP scheme for white-collar workers, which is a funded defined contribution scheme for those born 1979 or later.

ITP1

From 1 January 2007, salaried employees born in or after 1979 began to accrue a retirement pension under the new ITP1 plan from the age of 25. It is a complete defined contribution plan. The contribution is 4.5% of gross salary portions up to 7.5 income base amounts (SEK 532 500 for 2022). For salary portions above 7.5 income base amounts (divided by 12 for one month) the contribution rate is 30%. The pensionable salary becomes the gross salary paid out in cash, excluding reimbursement of expenses. Premiums are paid from the first Swedish krona of salary.

The employee can choose the saving form (traditional insurance or unit linked insurance), insurance company and fund manager. However, at least half the contribution is invested in traditional pension insurance. The employee can also choose repayment cover and family cover of 1, 2, 3 or 4 price base amounts per year over 5, 10, 15 or 20 years. The contributions of those who do not specify a choice are invested in traditional pension insurance with no repayment cover or family cover. This default choice is the one that is modelled.

Employees whose yearly salary exceeds ten income base amounts (SEK 710 000 in 2022) may choose to be covered under the new plan upon agreement with their employer. This applies regardless of whether the employee has a traditional ITP2 plan or has taken out an alternative ITP.

Variant careers

Early retirement

Earnings-related pension benefit withdrawal is possible from age 62 in the national pension scheme. There is no fixed retirement age. The notional-accounts and annuity calculations provide an automatic actuarial reduction depending on the age of retirement.

The income-tested guarantee pension benefit cannot be claimed before 65, increasing to 66 in 2023 and 67 in 2026. If the notional-accounts pension is withdrawn before or after age 65, the guarantee pension is still calculated as if the pension had been withdrawn at age 65.

In the new ITP1 plan, pension benefits are normally paid from the age of 65 but may be taken out from the age of 55. Pensions are life-long but can be paid in full or in part for a limited period of at least five years. The annuity is modelled as one that gives lifelong payments. The size of the pension is determined by the amount of premiums paid, the return, fees and taxes, and for how long the pension is to be disbursed.

Late retirement

It is possible to defer the notional accounts and premium pension with no upper age limit, again with automatic actuarial adjustments. It is also possible to combine work and pension receipt. Finally, pensions can be withdrawn partially (at 25, 50 or 75% of the full pension). The guarantee pension is adjusted against other pensions from the Swedish national old-age pension system and from comparable foreign national pensions, but is not reduced by wage income, capital income, occupational pension or private pension insurance. Thus, it is also possible to combine work with receipt of the guarantee pension.

It is possible to defer the ITP1 occupational pension after age 65. No additional pension rights can be accrued after age 65, unless you have reached a special agreement with your employer.

Childcare

Years are credited under the public pension scheme for any period when you have and live with children aged four or below. In a household with two parents the credits go to the parent with the lowest income if an active choice is not made. Individuals receive the best of three different ways of calculating the credit. First, if income is zero or lower than previous earnings, then the credits are based on the earnings the year before the child was born. Secondly, for low-income workers or people who were not working before childcare responsibilities started, the credits are based on 75% of economy-wide average earnings. Thirdly, if income rises or does not decrease to a great extent as childcare responsibilities begin, then the credit is set at one income base amount. In all three cases, the government makes the total contributions to the earnings-related national pension system (covering both notional accounts and funded defined contribution scheme).

Furthermore, parental benefits paid are also considered as pensionable income. The beneficiary pays the employee pension contribution of 7% on benefit income. The government makes all the “employer contributions” of 10.21% for incomes from social security including parental benefits.

The parental benefit is payable for 480 days as follows:

- 390 days at 80% of the parent’s annual income up to a ceiling of 10 price base amounts (equivalent to an annual salary of SEK 483 000 in 2022)
- 90 days at a universally applicable flat rate of SEK 180 per day

The parental benefit is computed daily. Parents on low income or no income at all receive a minimum guaranteed benefit of SEK 250/day. The 480 cash benefit days are divided equally between the parents (i.e. 240 days to each parent). A parent may also transfer up to 180 of his or her days to the other parent.

Unemployment

Unemployment benefits and activity grant paid to the unemployed taking up labour-market programmes count as pensionable income, with the government paying the “employer” contribution. Income-related unemployment benefits equal 80% of previous earnings for the first two hundred days. From day 201 up to day 300 the benefit is 70% of previous earnings. Thereafter the benefit period is ended unless the benefit recipient is a parent of a child below the age of 18. If so, the unemployment benefit remains at 70% of previous earnings for an extended period of 150 days. The unemployment benefits are disbursed up to a ceiling of SEK 1 200 per day for the first 100 benefit days and SEK 1 000 thereafter and subject to a minimum payment of SEK 510 per day (applies only if the unemployed person has worked full time for 12 months preceding unemployment).

When the benefit duration has ended the beneficiary is entitled to be enrolled within the job and development guarantee programme. A participant in the job and development guarantee programme is entitled to activity grant or development benefits. If the jobseeker has had unemployment benefit before

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enrolment in the job and development guarantee, then this benefit will equal 65% of earnings from the time before unemployment (max SEK 760 per day). If the jobseeker has not previously been entitled to unemployment benefits and is above 25 years he or she will receive a daily benefit of SEK 223 per day. There are a lot of variations in this benefit scheme.

Self-employed

The self-employed are covered in the same way as employees by the public pension scheme, for both the contribution base is income net of social security contributions. The self-employed are not mandatorily covered occupational pensions.

Personal income tax and social security contributions

Individuals that are 65 years or older at the beginning of the year receive an additional basic allowance. The basic allowance varies with assessed income. The additional basic amount is given independent of source of income. The tax on earned income is within some income intervals lower than the tax on pension income due to the earned income tax credit

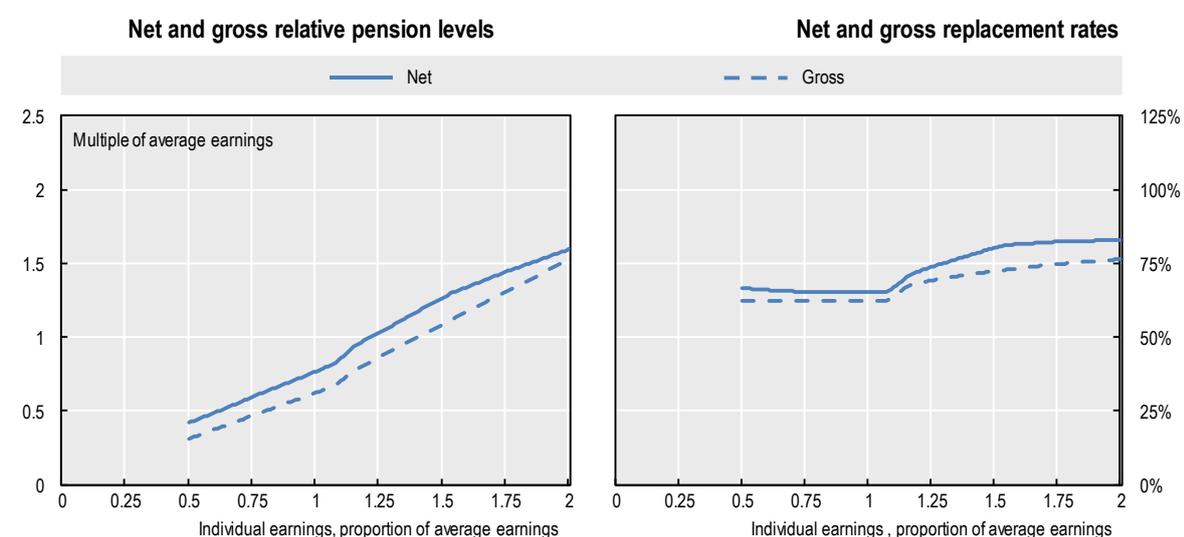
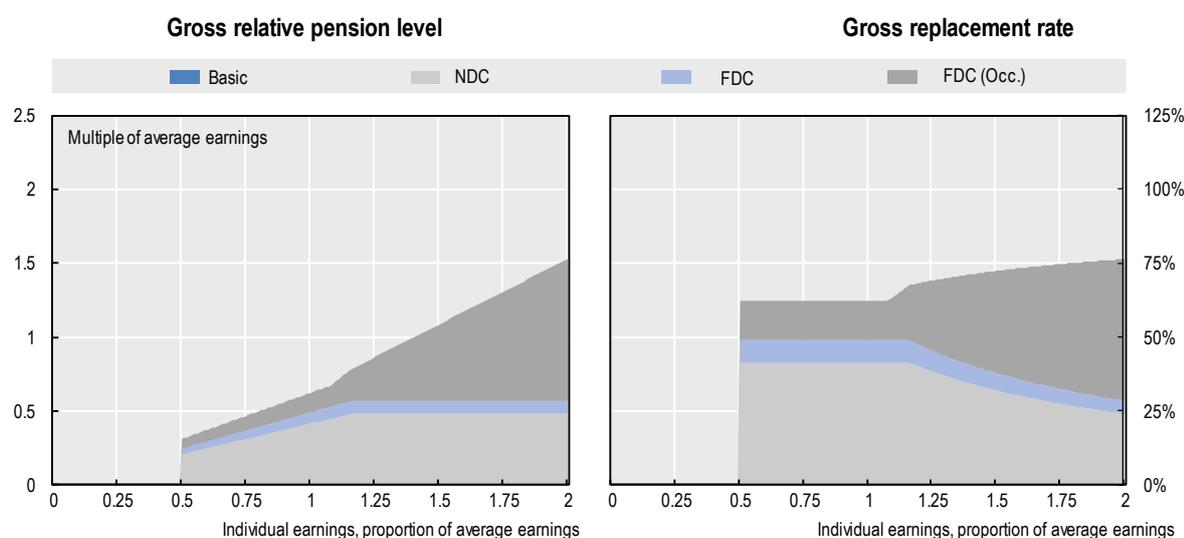
Taxation of pension income

There is no special relief for pension income.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income. Employers' contribution for work-income for persons born between 1938 and 1943 is equal to 10.21% (the ordinary contribution of 31.42%). For persons that are born before 1938 no social security contributions are levied on work-income.

Pension modelling results: Sweden in 2065 retirement at age 65



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level	31.2	46.7	62.3	108.5	152.8	241.4
(% average gross earnings)						
Net relative pension level	41.8	59.3	76.7	126.5	159.6	221.4
(% net average earnings)						
Gross replacement rate	62.3	62.3	62.3	72.4	76.4	80.5
(% individual gross earnings)						
Net replacement rate	66.5	65.3	65.3	80.2	82.9	84.4
(% individual net earnings)						
Gross pension wealth	10.8	10.8	10.8	12.6	13.4	14.1
(multiple of individual gross earnings)	11.7	11.7	11.7	13.7	14.5	15.4
Net pension wealth	11.8	11.6	11.6	14.2	14.7	14.9
(multiple of individual net earnings)	12.8	12.6	12.6	15.4	16.0	16.2

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.