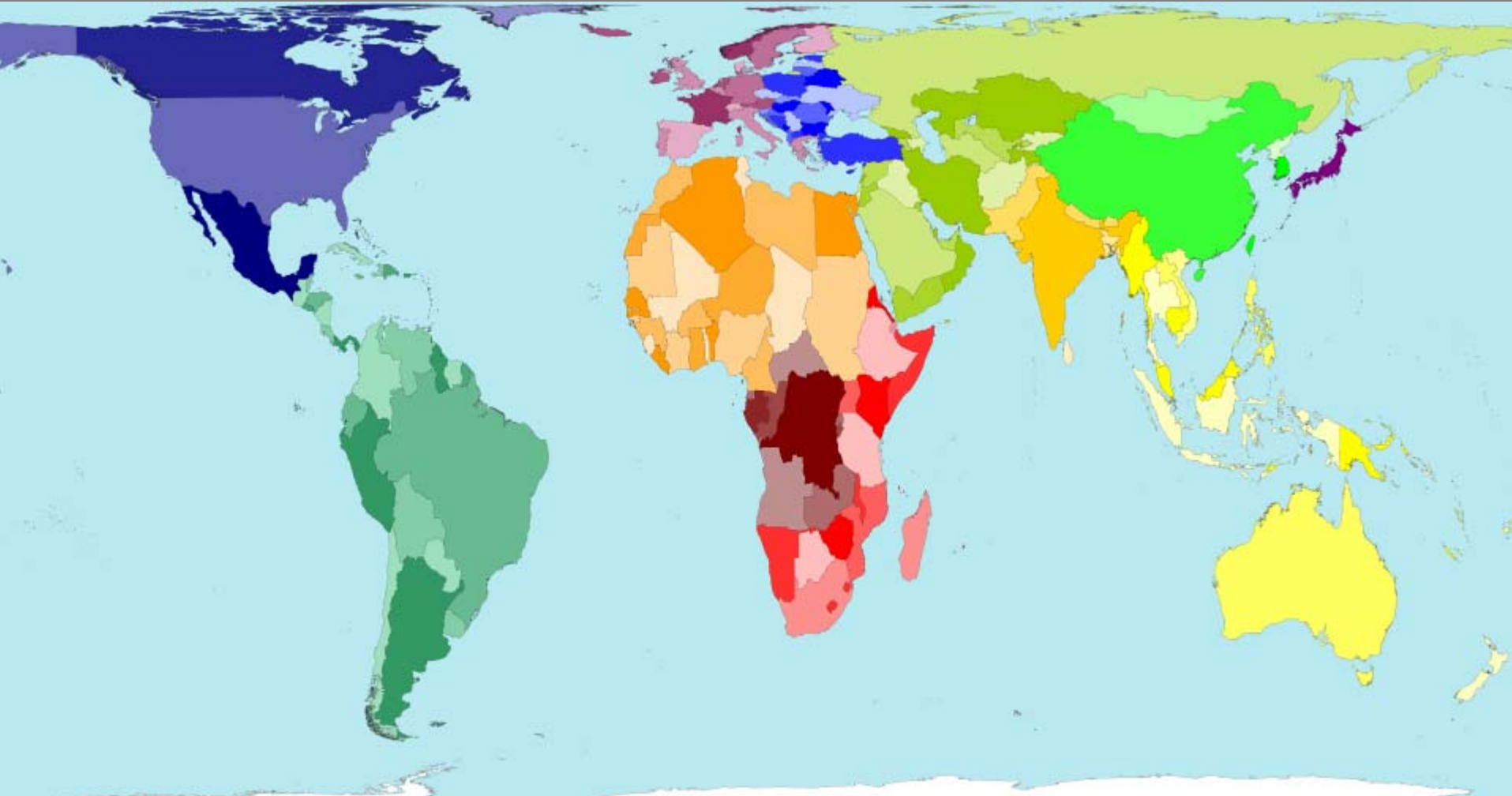


# The geography

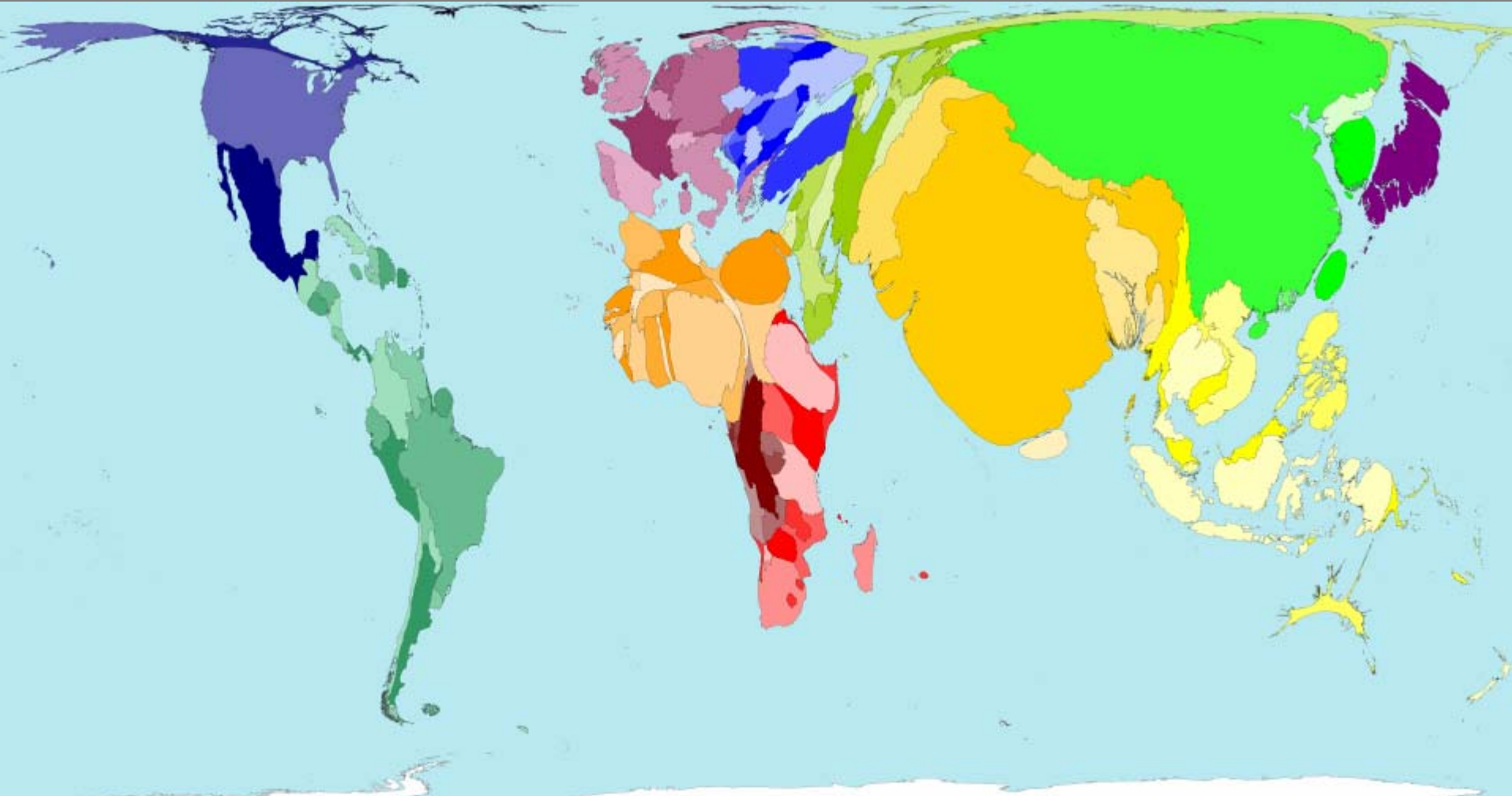
(political and real)

Source: [www.worldmapper.org](http://www.worldmapper.org)



# The population

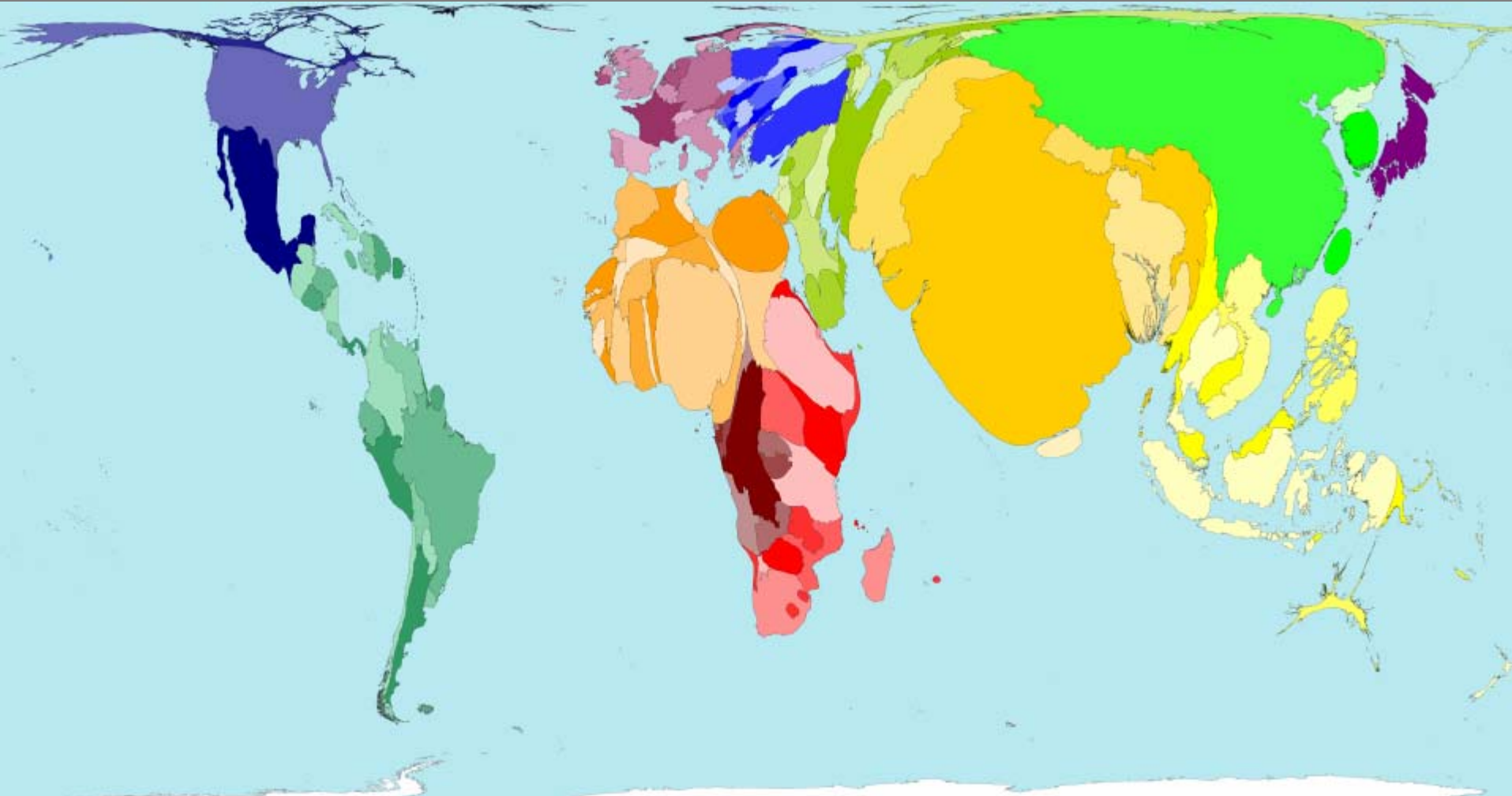
Source: [www.worldmapper.org](http://www.worldmapper.org)





# Children

Source: [www.worldmapper.org](http://www.worldmapper.org)

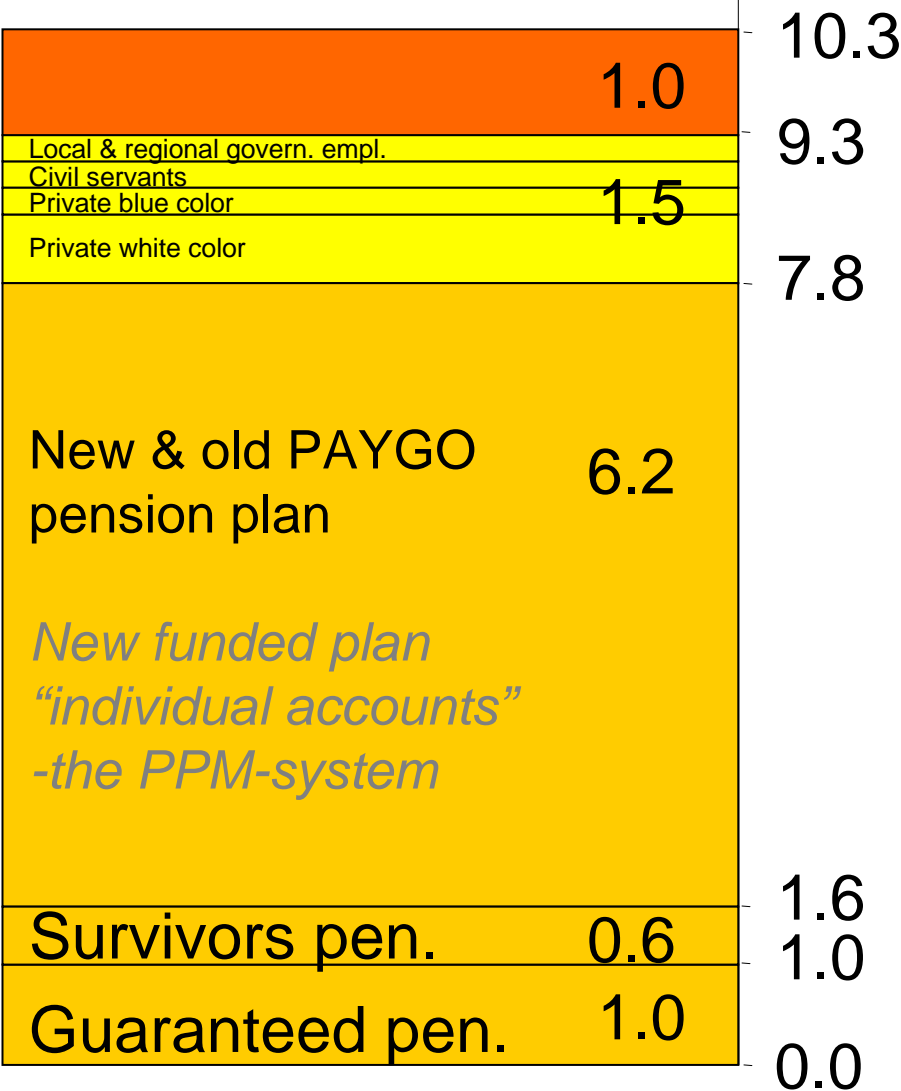


# Swedish “pension market”, payments

“Market share”

Payments as percent of GDP

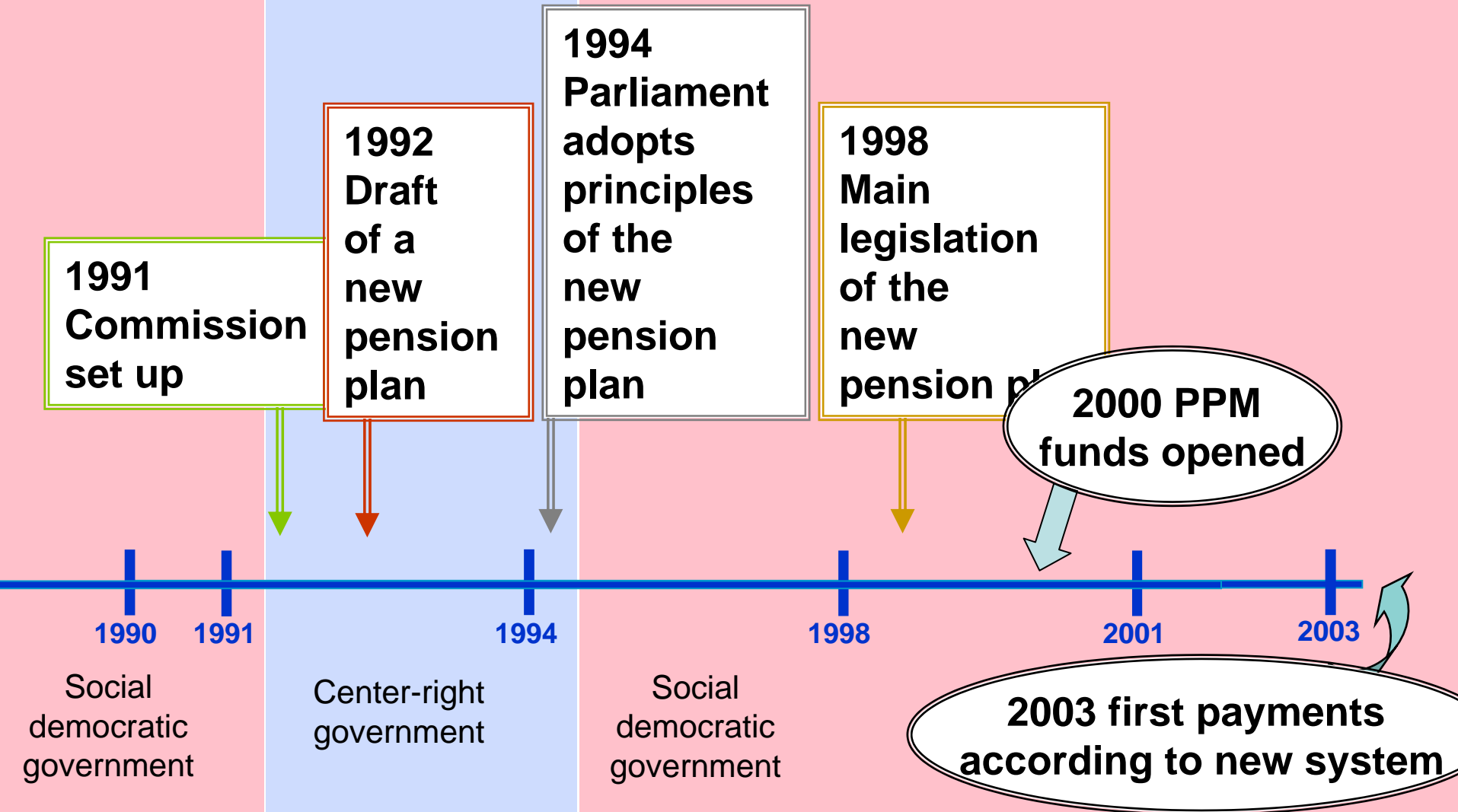
Private	10
Occupational	15
Public	75



# Reform Objectives

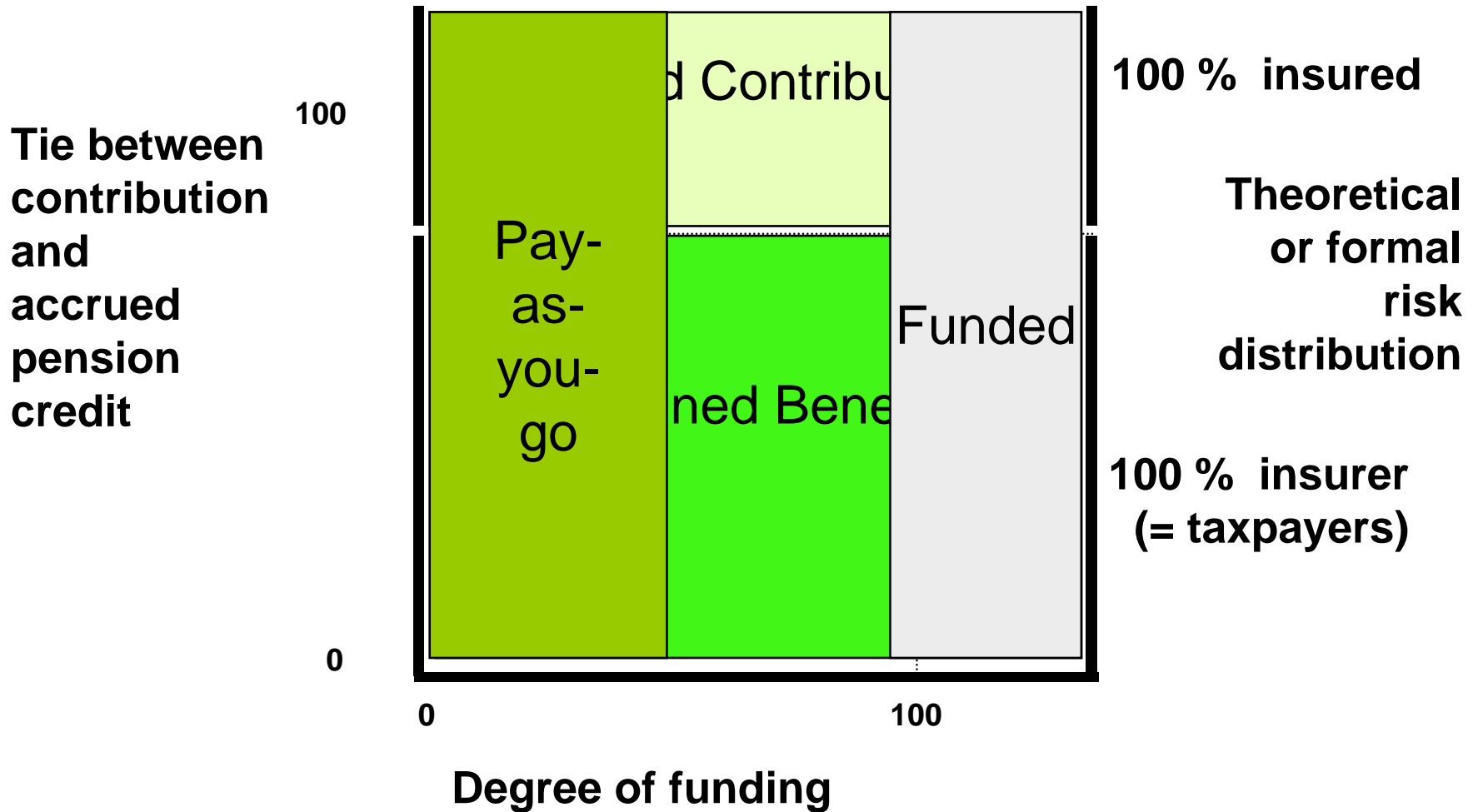
- A** Financial & political stability  
(= Credibility?)
- B** Transparency
- C** Maximize inter-generational fairness
- D** Better work incentives
- E** Maintain old age basic income security features of old system

# Pension reform process - very long

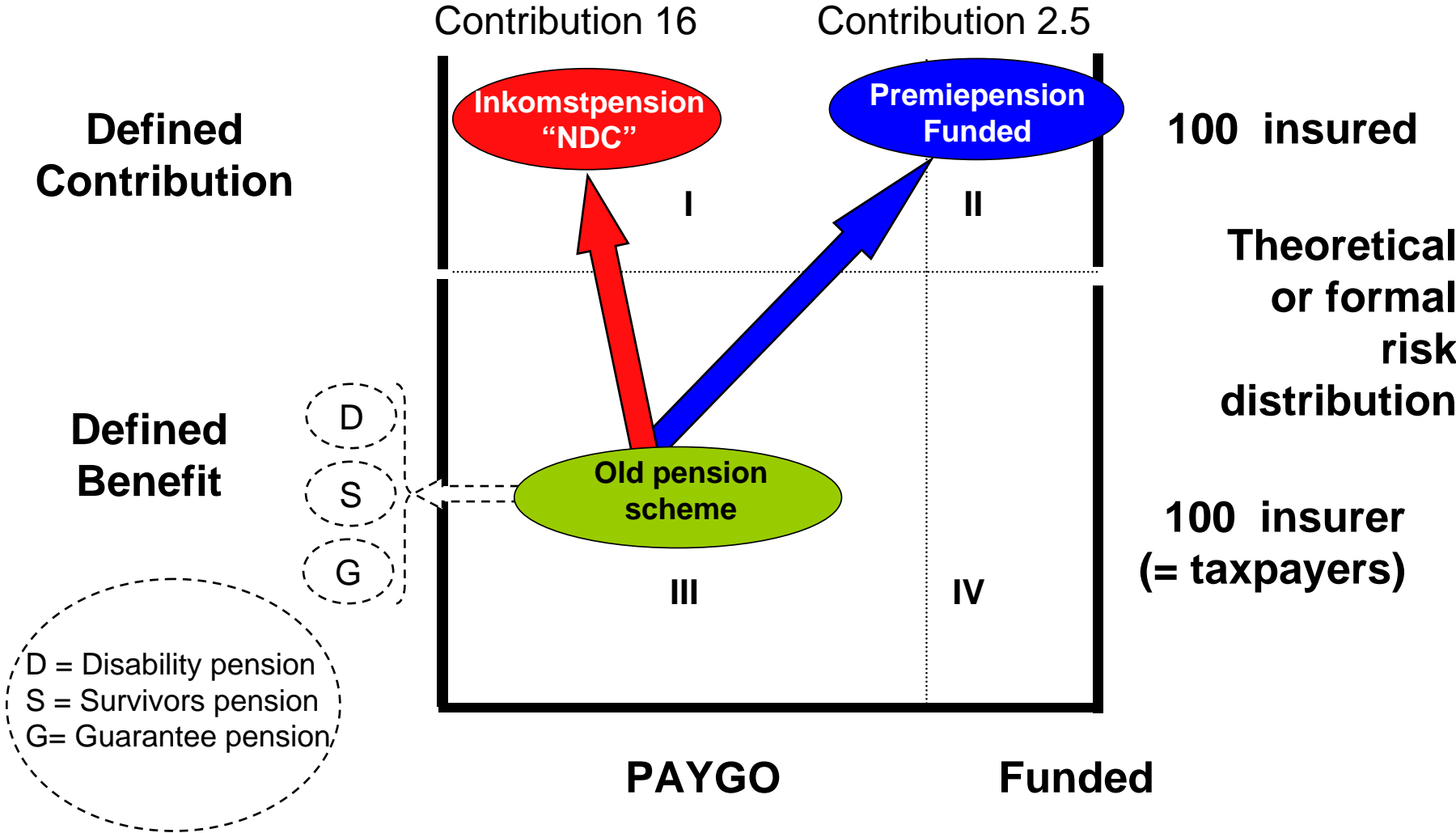


**But transition quick i international comparison**

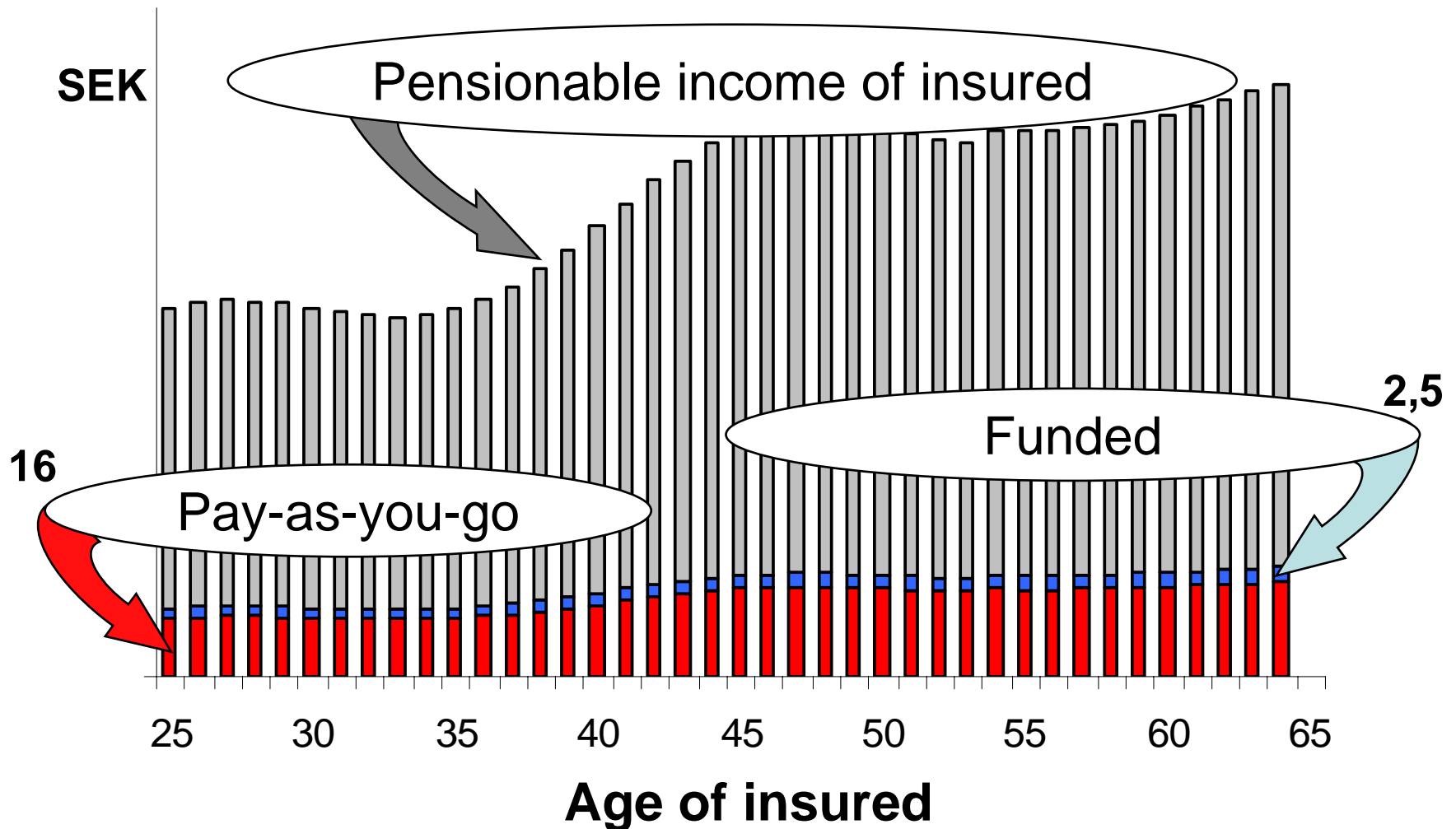
# Four basic design options



# Reform Strategy



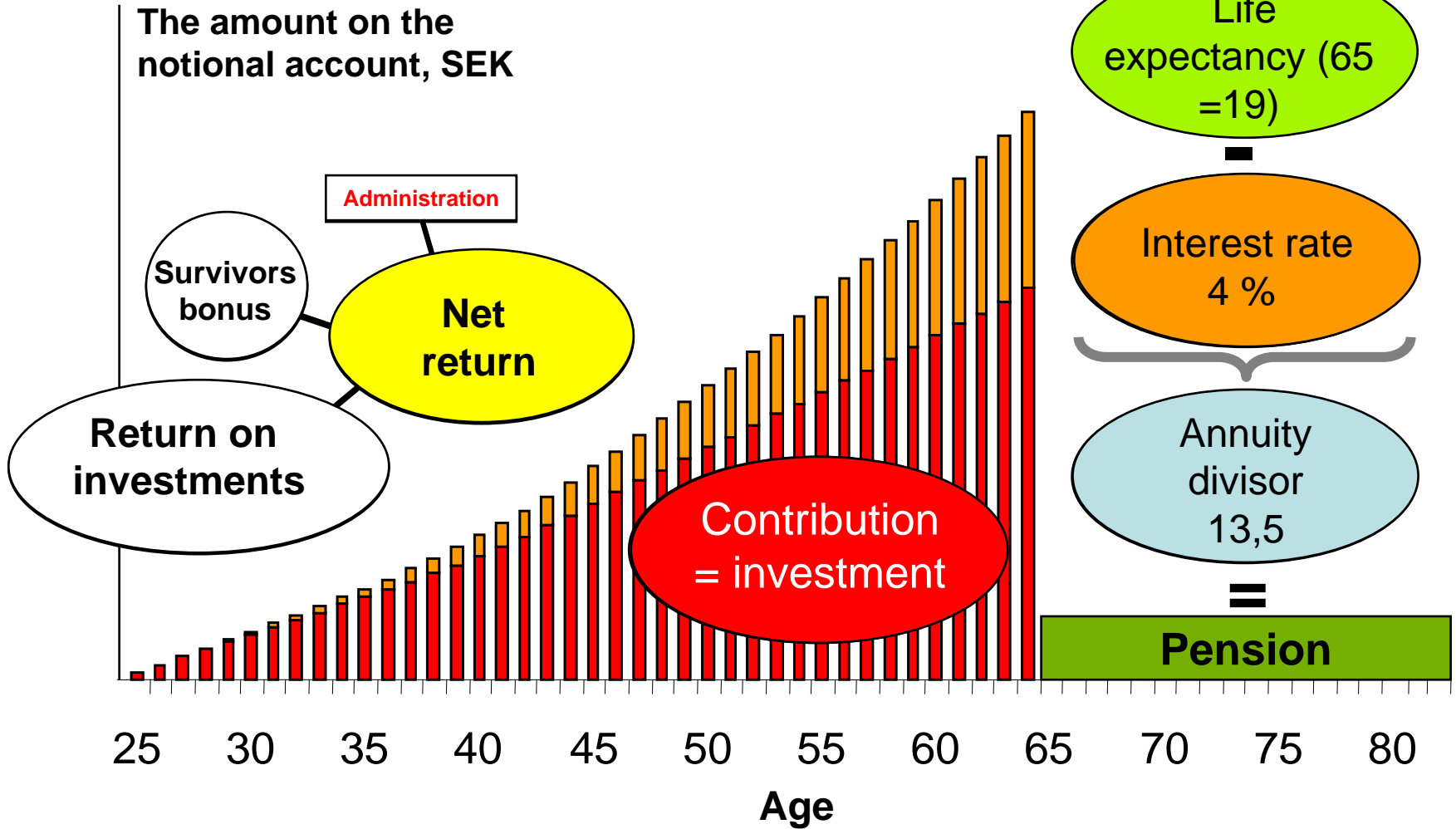
# Each crown paid during life result in the same amount of pension credit



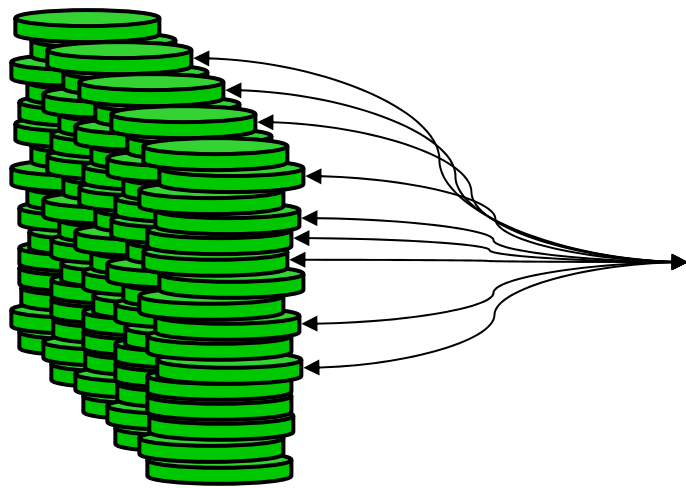
# Development of funded account

# Conversion to an annuity

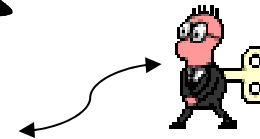
The amount on the notional account, SEK



# Premium Pension System



Ap. 800 funds



Individual portfolio  
composed of 1-5 funds  
can be changed daily

The government agency PPM can be compared to a **clearing house**. PPM **nets** all buy and sell orders of the pension savers

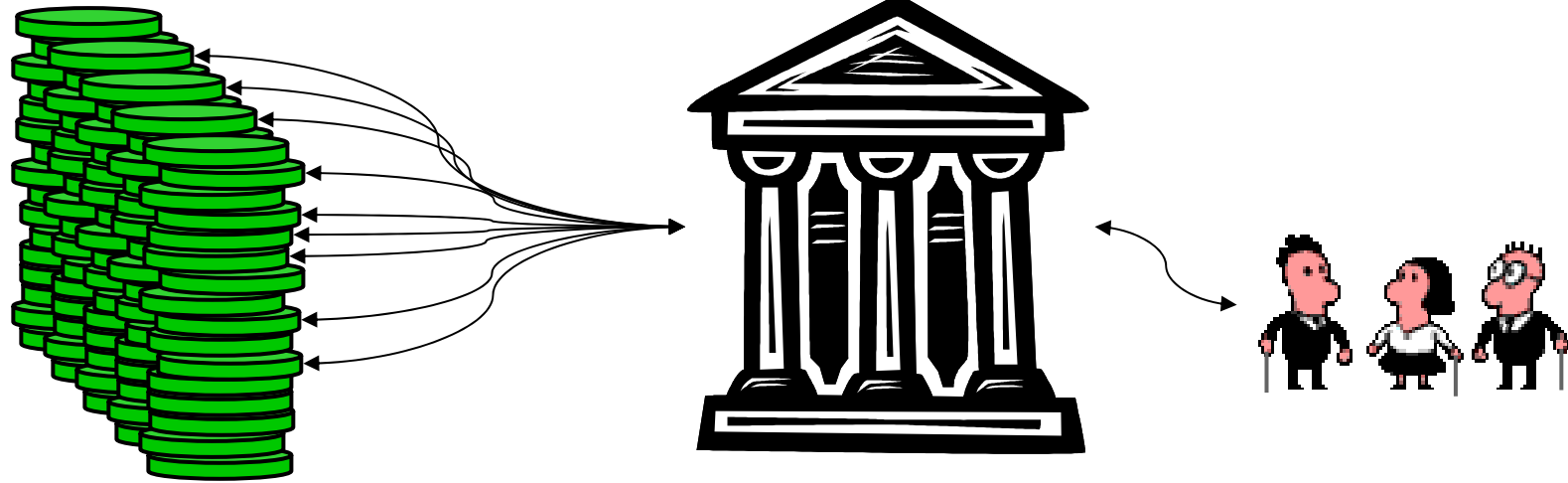
To be able to join the PPM system fund managers must:

- a) comply with EU legislation defining a mutual fund
- b) accept PPM's **discount demands** on management fees

The fund managers do not see the end investor

The premium pension is an insurance system in the sense that longevity risks are pooled within the system – surviving relatives do not inherit premium pension capital, such capital is distributed as survivor bonus to all insured

# Premium Pension System



Ap. 800 funds

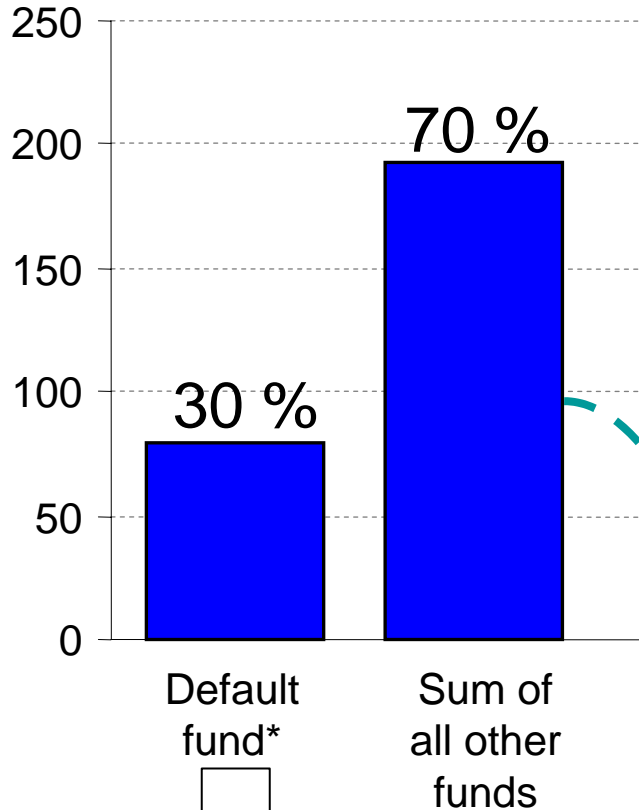
PPM issues two type of annuities

- Fixed interest annuity (traditional)
- Variable annuity

# How are premium pension assets invested?

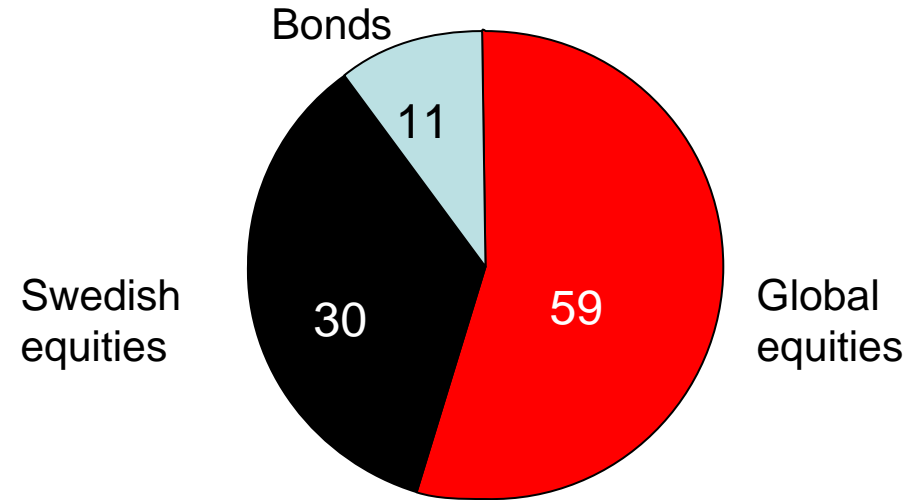
## Managed capital,

billions SEK

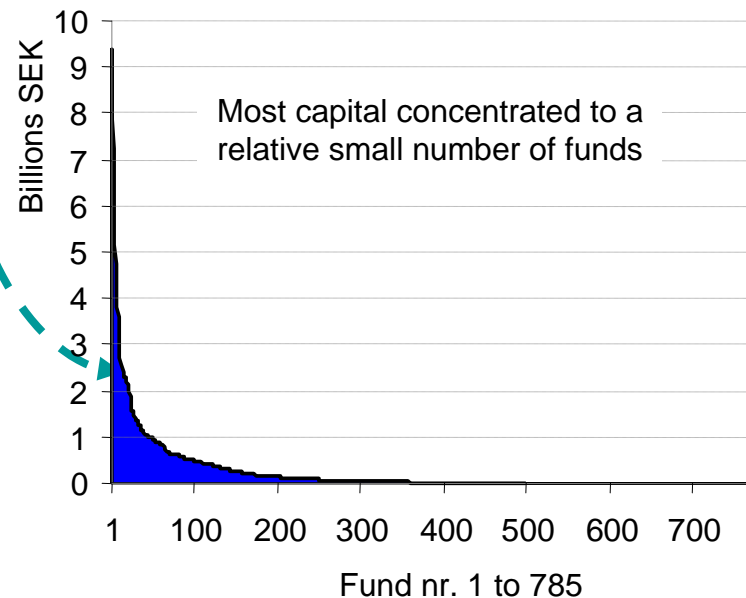


Roughly  
90 percent  
global equity

## Asset classes



## Distribution of capital among funds



\*A government agency

# Eight years of administrative experiences of the funded plan

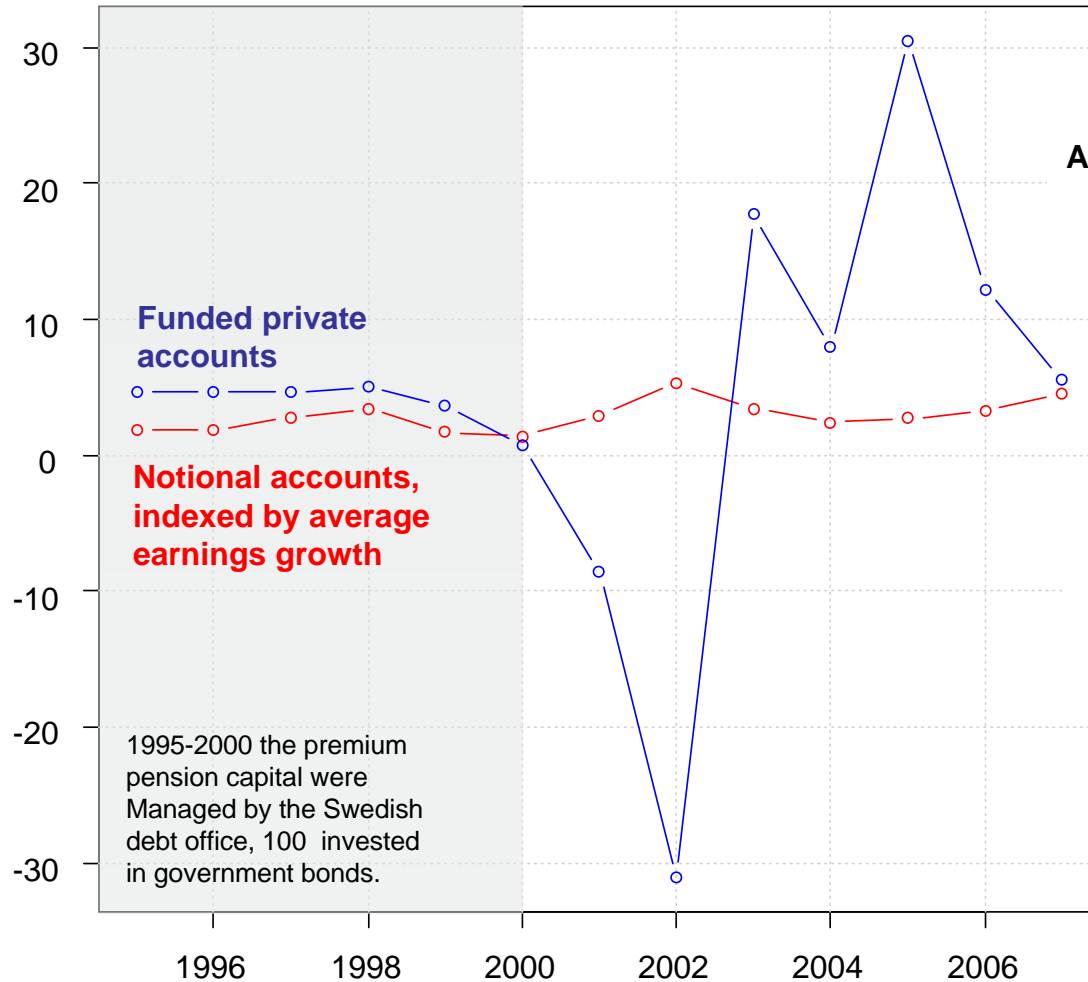
The population of Sweden is some 9 million persons, size of work force some 5 million persons.

	2000	2001	2002	2003	2004	2005	2006	2007
Accumulated number of pension savers, million	4.4	4.9	5.1	5.3	5.4	5.5	5.6	5.7
Number of funds	465	597	644	626	670	727	780	785
Percent of new savers who made an active choice of funds	67	18	14	8	9	8	8	2
<b>In percent of total number of insured (=accounts)</b>								
Number of logins on personal account, %	-	31	35	62	107	229	312	480
Number of fund changes, %	-	3	5	7	12	23	32	44
Phone calls to service center, %	5	2	2	2	2	2	2	2

# Five + Eight Years of Annual Return Experiences

Internal rate of return

Percent



**Funded private accounts**

**Notional accounts, indexed by average earnings growth**

1995-2000 the premium pension capital were Managed by the Swedish debt office, 100 invested in government bonds.

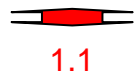
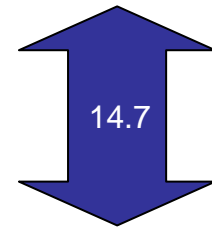
Average annual return '95-'07

5.8\*

3.1

Average annual inflation 1.1

Standard deviation in annual return '95-'07

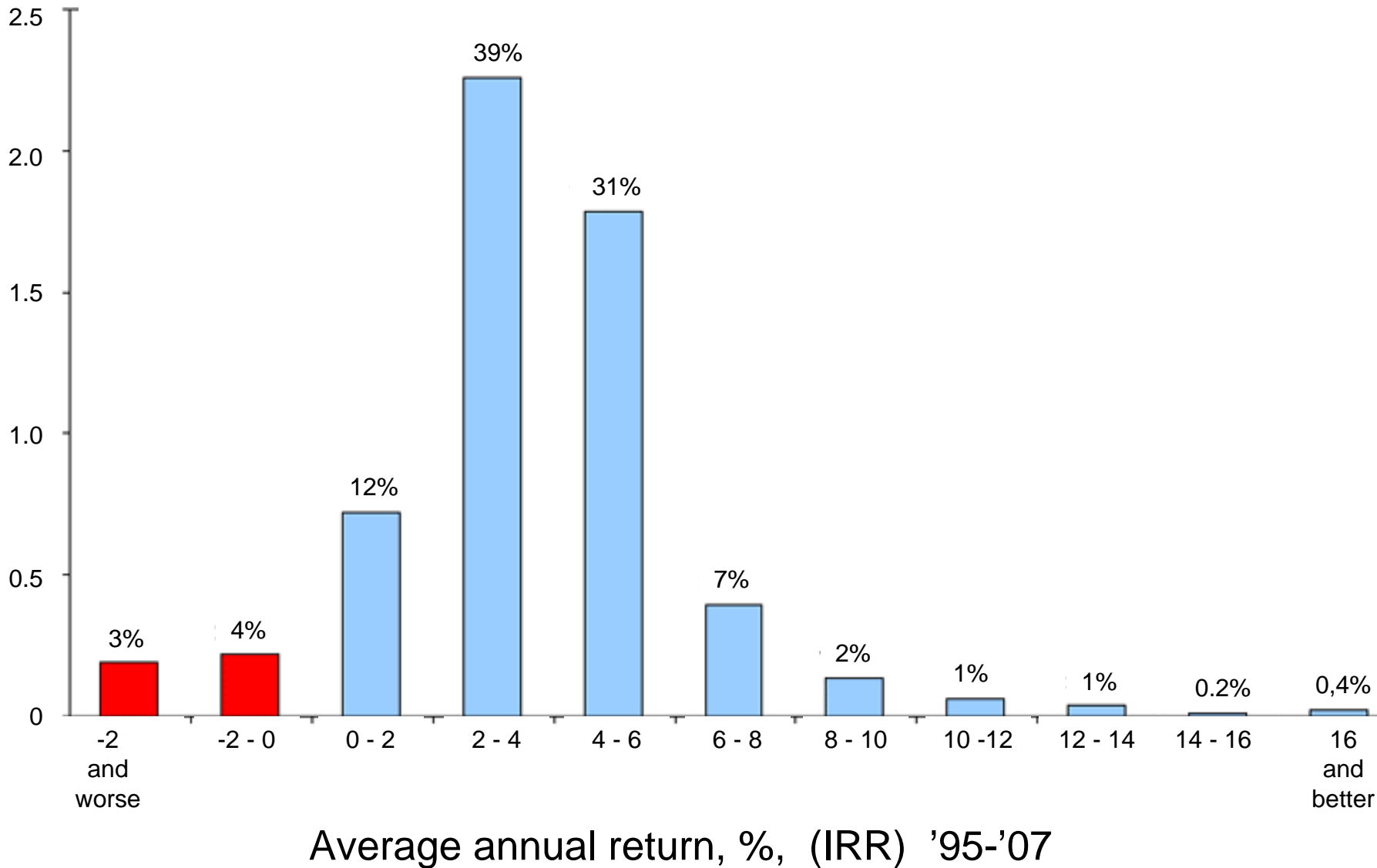


\*By 31 januari 2008 this average dropped to 3.9

Year

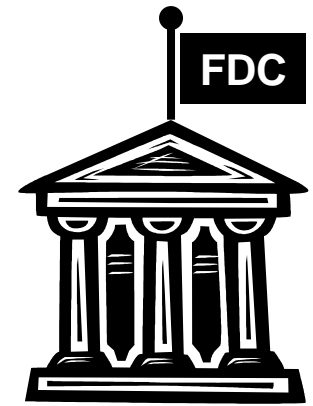
# Distribution of return, so far...

Pension savors, millions



# Fees in the Premium Pension System

All charges are drawn as a fee in percent of capital, there are no up front or per account charges (This can be considered as an advantage for low income earners)



Fees expressed as a percent of managed capital

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
PPM	0,30	0,30	0,30	0,27	0,22	0,16	0,13
Fund management	0,44	0,43	0,42	0,42	0,42	0,40	0, ?
Combined	0,74	0,73	0,72	0,62	0,62	0,56	0, ?

Fees, expressed as a percent of managed capital, are projected to drop significantly as the managed capital grows. The PPM agency projects that in 2020 combined PPM and Fund management fees will be ap. 0.3 percent.

Fund managers also have transaction costs that are not included in the fund management fees. In 2007 transaction costs were estimated at 0.24 percent of managed capital.

## Reasons for the left to accept the funded DC pension

It reduced the (by some perceived) risk for a low contribution rate and thus low public pensions – a potential for a “add on” rather than “carve out”.

The funded part was reassuringly small and the design of the new PAYGO system was considered to efficiently prevent any future “carve outs”.

It was necessary to reach a political agreement on the large PAYGO scheme

## Reasons for the right to want the funded DC pension

Ideological & historical reasons. Conservatives and liberals, in the old world’s sense, have disliked PAYGO and wanted funding, preferably individual, partly to:

..promote individual ownership, personal responsibility, economic rationality, and to make pensions more safe from political decisions.

Core constituencies would not have accepted an agreement, that in some aspects expanded government social policy, with arch rival Social Democrats with out an individually funded part.

Possibility to give higher pensions from higher returns than increase in wages. High (expected) return on capital also good for workers.

Risk distribution within the public pensions scheme – one part depends on earnings growth, the other on capital market return.

# Factors that made the reform politically possible

The post WW II negative Swedish political experiences in pensions policy

Clear goals and a clear will to create a long-term solution

Knowledgeable, strong, engaged, hard working politicians

An ongoing severe economic crisis brought about a general crisis awareness (crisis also a obstacle for reform)

Economically the existence of a large - 500 percent of annual payments – buffer fund in the PAYGO system gave financial/political “room for manoeuvre”, without it I doubt that the premium pension system could have been implemented

That's all for now...

Thank you very much for your attention!

[ole.settergren@social.ministry.se](mailto:ole.settergren@social.ministry.se)

The question was

What can America learn from its allies? (?)

How Sweden's pension reforms, especially the introduction of private accounts through the PPM helped secure the solvency of the Swedish pension system and increase the economic freedom of Swedish citizens planning their retirement?

First conclusion: America – we all - can learn a lot; Is there an advantage of being second or third to decide weather to make a move or not? Or are opportunities lost by indecisiveness?

The initial design is terrifyingly important. There is no legislated “beta version” that is easily replaced. You risk /have the chance/ to get stuck with what you legislate.

The introduction of the funded, private accounts have not helped secure the solvency of the Swedish pension system, but is expected to reduce the drop in benefit levels from the public pension system. (The private accounts are considered to be a part of the public pension system)

The economic freedom of Swedish citizens, planning their retirement, has been increased if the funded part is considered to be financed by a reduced contribution (“carve-out”) to the pay-as-you-go system. It is difficult to say if the premium pension represents an “add-on” or a “carve out”

*...more potential lessons from a small, old, neutral ally...*

This potentially increased freedom is much appreciated by a relatively small share of the population. The larger share appears quite disinterested.

If there were ideological goals to get a more engaged, knowledgeable citizens, some would say more “economistic” or even capitalistic citizens, I think those goals to some extent have and increasingly will be achieved. (But there is also a possibility /risk/ that the system will prove counter productive relative to this goal..)

Administrative efficiency is very important. Here I think Sweden is relatively successful – given the 800 funds in the system. The premium pension may well prove to be the worst thing that ever happened the finance industry in Sweden... and the best thing for their customers

Similar point: information efficiency is very important. Here I think Sweden is a clear (potential) success... The combined PAYGO and funded system are almost identical construction and thus neatly packed together. Ought to be easy to understand.

Broad political consensus is a most valuable asset in pension politics. But it is difficult to achieve and just as difficult to maintain – much political logic speaks against it.

Do not fall into the trap of believing that the issue is funding vs PAYGO – that is only one fundamental design issues of many... several very important

# Eight years of administrative experiences of the funded plan

The population of Sweden is some 9 million persons

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