Sweden: Costs, Investments and Continuous Improvement

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The Swedish Pension System

Compulsory system

Contribution = 18.5 % of earnings

16 % to Income Pension (NDC)
- Lifetime earnings
- Benefits indexed to life expectancy changes
- Indexed by average wages
- Automatic Balancing Mechanism

2.5 % to Premium Pension (FDC)
- Funded individual accounts

- Occupational schemes for 90 % of employees
- Contribution = typically 4.5 % of earnings
Funding

Income pension is partially funded
– Funded assets comprise about 13 percent of overall assets
– Managed by four buffer funds

Premium Pension is fully funded
– Individual accounts
– Broad choice – currently about 800 funds participate
– Default fund comprise about 30 percent of overall assets

Total assets = 8 181 billion SEK

Total assets = 602 billion SEK
Rate of Return
Buffer Funds and Income Index

Rate of return 2001-2012
Buffer funds: 4 %
Income index: 3.2 %
## Costs

(Percent of participants’ account balance)

<table>
<thead>
<tr>
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<th>2013</th>
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<tbody>
<tr>
<td>Income Pension</td>
<td>0.03</td>
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<tr>
<td>Buffer Funds – Money Management</td>
<td>0.13</td>
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<tr>
<td>Premium Pension – Fund Management</td>
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<tr>
<td>Gross</td>
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<tr>
<td>Rebate</td>
<td>-0.61</td>
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<tr>
<td>Net</td>
<td>0.31</td>
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<tr>
<td>Premium Pension – Administration</td>
<td>0.10</td>
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The Swedish Pension Agency Acts as Clearing House in the Premium Pension
Participants’ accounts are mostly in equities

- Equity: 40%
- Balanced funds: 15%
- Lifecycle funds: 10%
- Bond funds: 4%
- Default: 30%
The Default Fund

- AP7 Fixed Income Fund
  - 0-55 years: 0%
  - 56 years: 3%
  - 60 years: 15%
  - 65 years: 35%
  - 70 years: 50%
  - 75 years: 65%

- AP7 Equity Fund
  - 0-55 years: 100%
  - 56 years: 97%
  - 60 years: 85%
  - 65 years: 65%
  - 70 years: 50%
  - 75 years: 35%
Rate of Return Premium Pension

Percent

![Graph showing rate of return for various funds from 2000 to 2012. The graph includes lines for Fondrörelsen, AP7 Såfa, and Fondtorget, representing different funds. The y-axis represents percentage, ranging from -60 to 30. The x-axis represents years from 2000 to 2012. The graph illustrates fluctuations in return rates over time.]
Few select their own portfolios

Percent of new participants

Year: 2000 to 2013
Low activity among all participants

- 56 percent of all participants have selected their own portfolio
- Investment behavior is characterized by inertia: half of those who selected their portfolios in 2000 have not changed their allocations
- Managed accounts are increasing – some 10 percent of participants let a company manage their premium pension. Costs are often high
Conclusions

Administrative set-up of pension system keeps costs low

The Premium Pension offers broad choice. Costs are therefore higher

Participant activity is low and managed accounts are growing

Policymakers are discussing changes to the system
Additional slides
Costs in the Premium Pension