



PENSIONS

MYNDIGHETEN

# **20 years of experience of administrating Financial & Notional Defined Contribution Pension Plans**

Experiences from Sweden

Ole Settergren

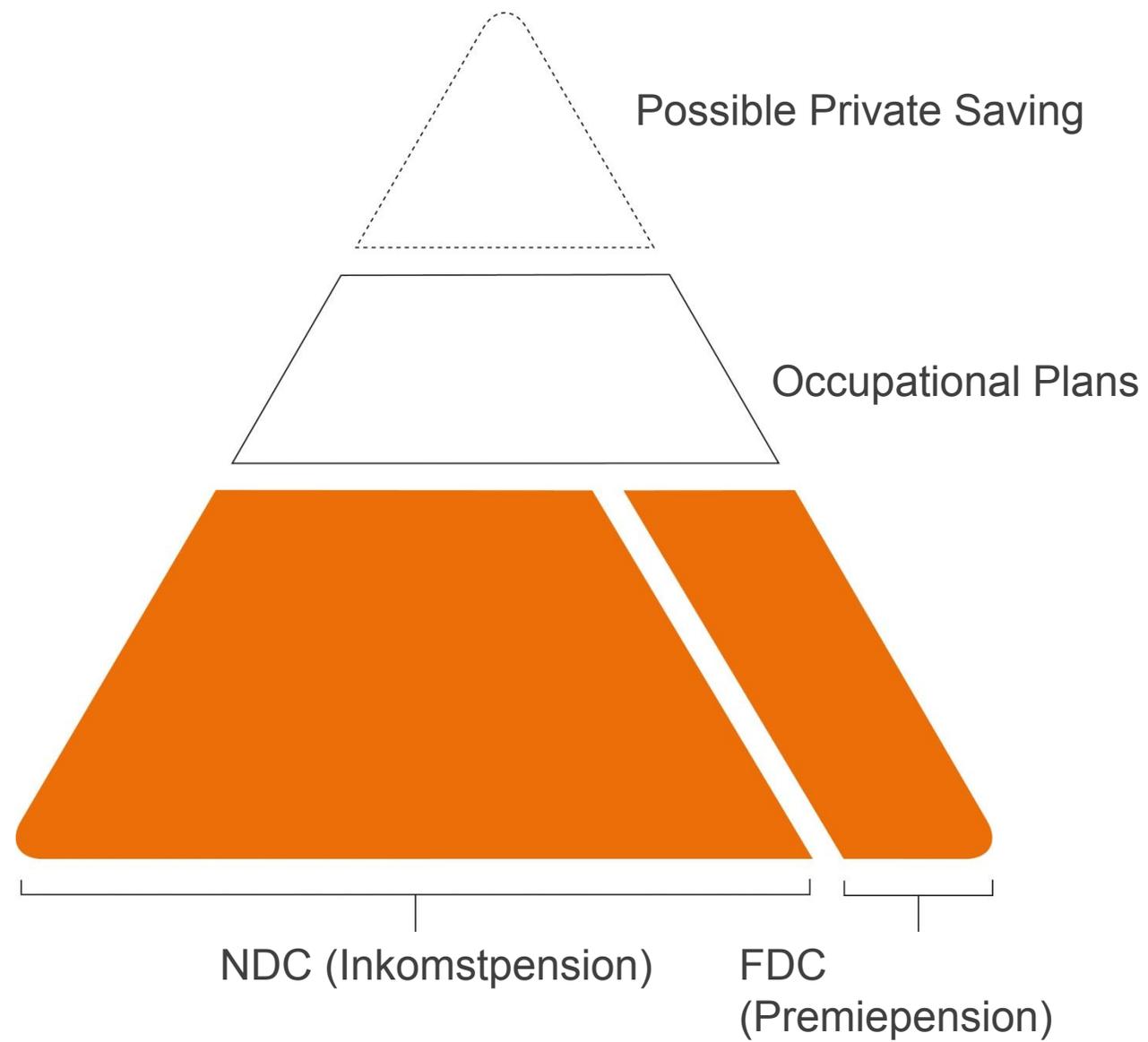
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# Content

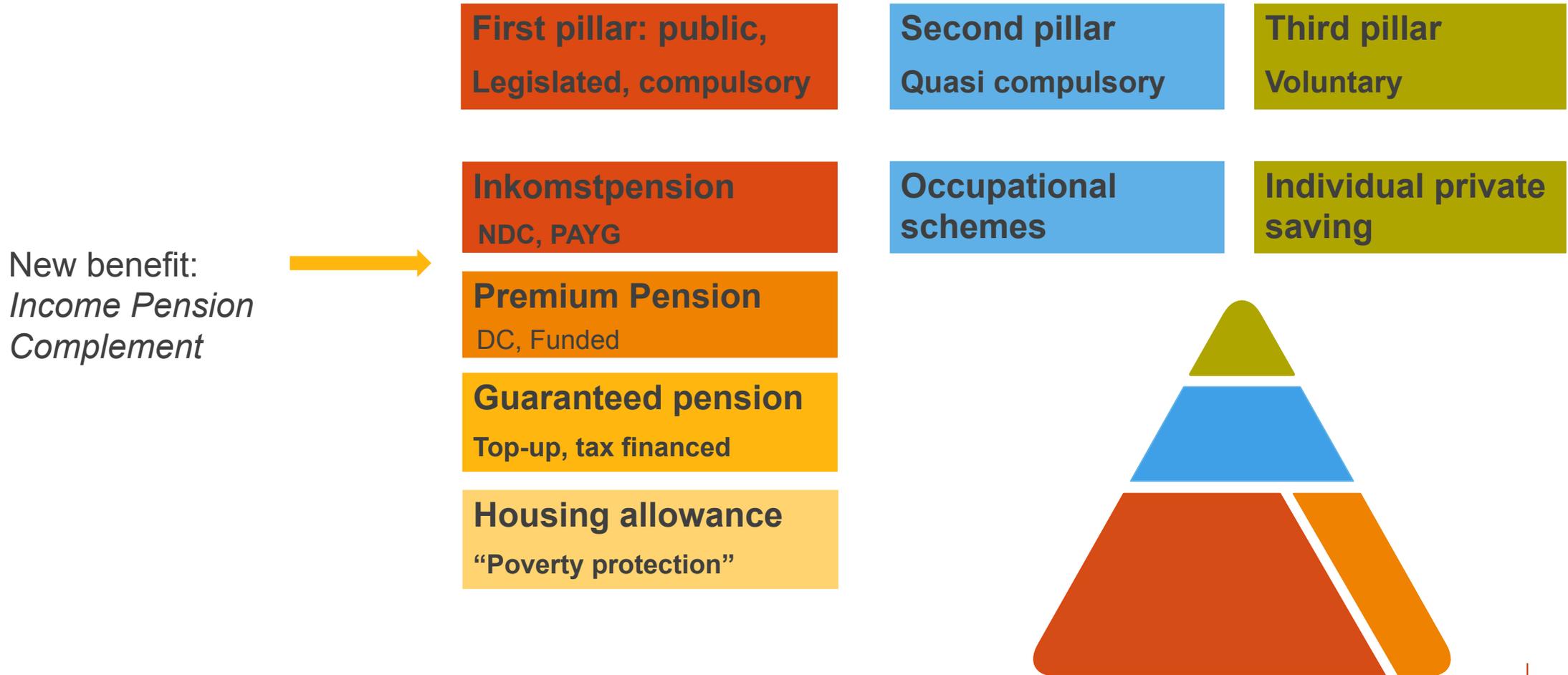
1. Brief contextual background information
2. Pension reform features that had impact on administration
3. The calendar of the NDC administration
4. Administrative Costs
5. Conclusions

# The Swedish Public Pensions Plan

- Covers the entire population
- Statutory
- Individual
- Provides both basic economic protection and income-related benefits
- Income related benefits are financed through contributions (some of which are paid by government with taxes)
- Basic economic protection is financed with taxes



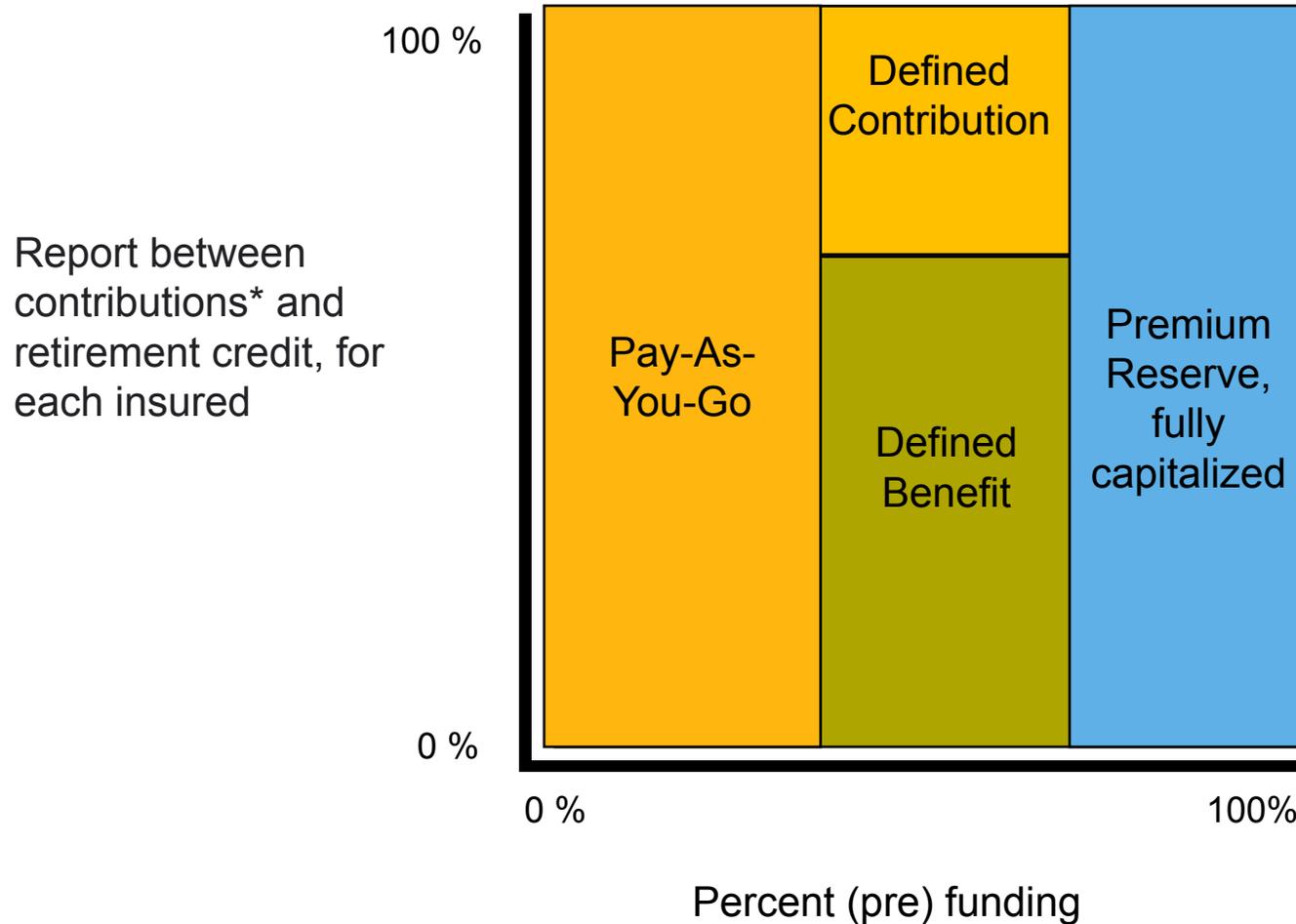
# The Swedish retirement income system



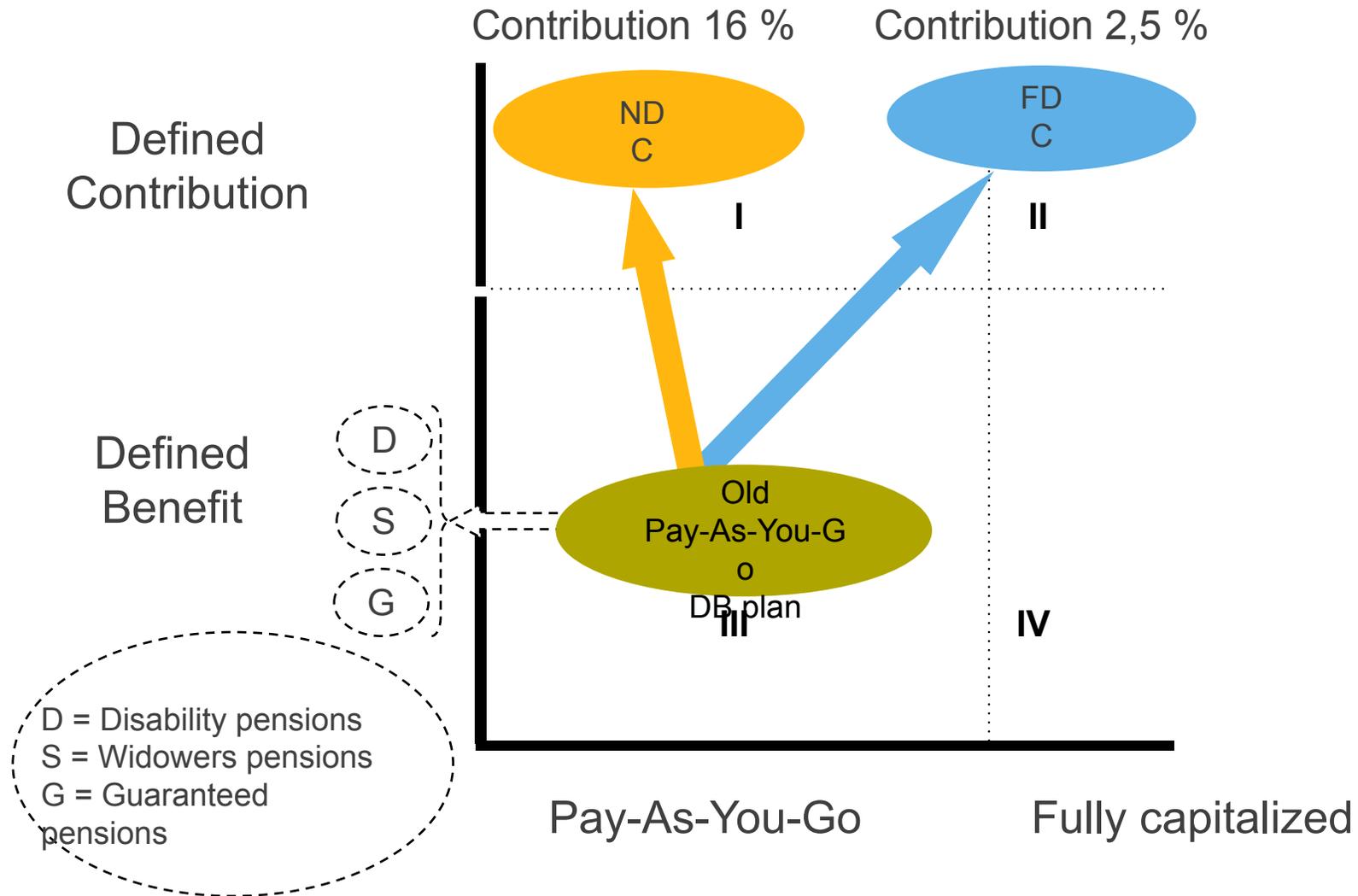
# Contributions/premiums and paid pensions in percent of total wages in Sweden

	Contributions/ Premiums	Paid pensions
Public basic benefits, tax financed (0-pillar)	-	2
Public earnings related (1-pillar)	17	17
Occupational pension (2-pillar)	11	7
Private pension (3-pillar)	0	1
Total	28	27

# Four (?) basic design choices



# Directions of the Swedish 1994 reform



# Administrative effects of the reform

## 1. 1998–2010

PPM, a new government agency, was set up to start and manage the new FDC pension plan (Premium Pension).

## 2. –2010

The (old) Social Insurance Agency continued to manage the Pay-As-You-Go DB plan, the auxiliary benefits such as disability benefits, widow's pensions, housing allowance. The Social Insurance Agency also manages sick-pay, family benefits, etc.

## 3. 1998–2010

The (old) Social Insurance Agency was assigned to start and manage the new NDC plan.

## 4. 2010–

PPM was merged with “pension parts” of the Social Insurance Agency to create the Swedish Pensions Agency. The Swedish Pensions Agency manages FDC, NDC, Guaranteed pension, Housing allowance to retirees.

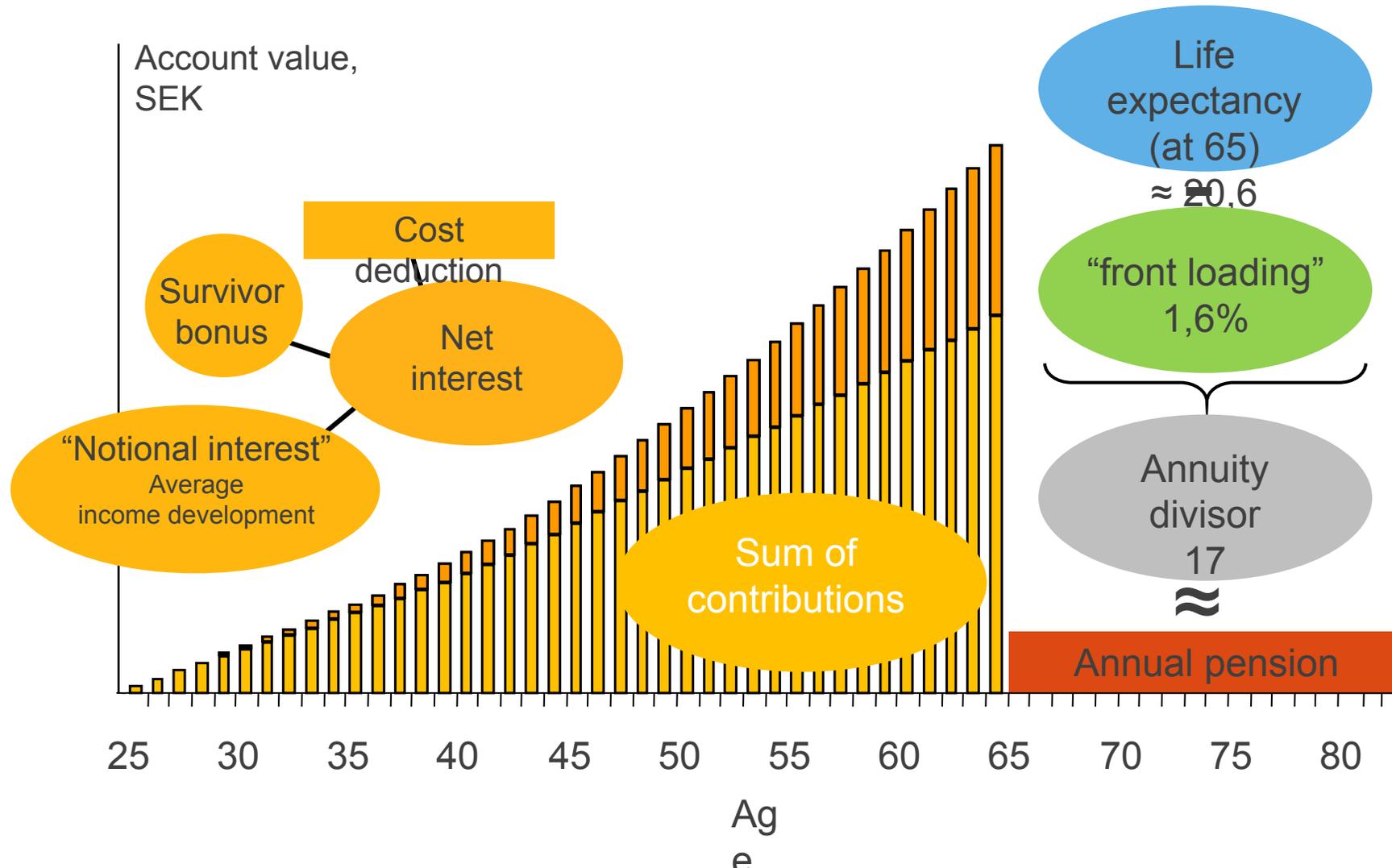
5. The Swedish Pensions Agency does NOT manage disability benefits. Disability pension has (partially) been redefined as a health insurance benefit.

# What is the job of the Swedish Pensions Administration?

1. Manage NDC/FDC individual account information
2. Receive and distribute NDC/FDC contributions. National Tax Agency collects contributions.
3. Calculate and pay NDC/FDC pensions
4. Calculate and pay guaranteed pensions, housing allowance, widow's pensions (run-off benefit) and as from 2021 calculate and pay the new "Income pension complement"
5. Contract FDC private fund managers, presently some 100 fund managers, 500 funds, provide infrastructure to (daily) change funds, execute change of funds. Daily transactions.
6. Administer and manage capital of the "traditional insurance" option survivor options in the FDC scheme
7. Inform **individuals** of their projected public AND occupational pension: a joint venture information together with the pensions industry. Website minpension.se
8. Inform the **government** of the annual financial development of the NDC/FDC pension plans and of expected future development.

# Manage NDC individual account information and calculate benefits

FDC account management and calculation of benefits follow same principles but are different in many details



# Calendar – larger administrative tasks

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Every month	Receive contributions, pay pensions with cash from buffer (NDC) funds and sales of FDC fund shares
January, first half	Individual information to all retirees on their indexed and recalculated benefits
February –March	Individual account information as per 31 December to all insured (Orange envelope)
February, end	Annual report of Swedish Pensions Agency published. Includes NDC & FDC income- and balance sheet statements
April	Annual Report of The Swedish Pensions System (Orange Report). Basically the same income- and balance sheet statements as above, but in different context
April	Inheritance gains and rebate of fund fees, from last year, are distributed to the savers FDC accounts.

## Calendar – larger administrative tasks

August	Calculation of how contributions should have been distributed between NDC, FDC and government. Affects future distribution.
September	New (NDC) survivor bonuses, annuity divisors calculated based on experienced mortality until the year before.
September	Administrative cost factor for NDC accounts is calculated based on estimated administrative costs and total account balances.
October	Income index (NDC) calculated by the Agency.
December	New contributions added to NDC/FDC accounts.
December	Value of FDC funds used to calculate monthly FDC benefits next year
Dec/Jan	“All parameters” applied to recalculate pension accounts/pensions.

# Data sources for parameters

- Annual annuity divisors, NDC

Annual experienced mortality rates published by Statistics Sweden. Divisors reflect experienced unisex 5-year moving average mortality. Calculation of divisors is specified by legislation. New divisors published yearly.

- Annuity divisors, FDC

FDC annuity divisors reflect expected birth-cohort unisex mortality. Calculation by the Swedish Pensions Agency, method according to “insurance principles”

- Income index for year  $t$

Level of average pensionable income for persons aged 16–64, including non pensionable incomes above the “insurance ceiling” year  $t-1$ . Based on a estimate of average income year  $t-1$ .

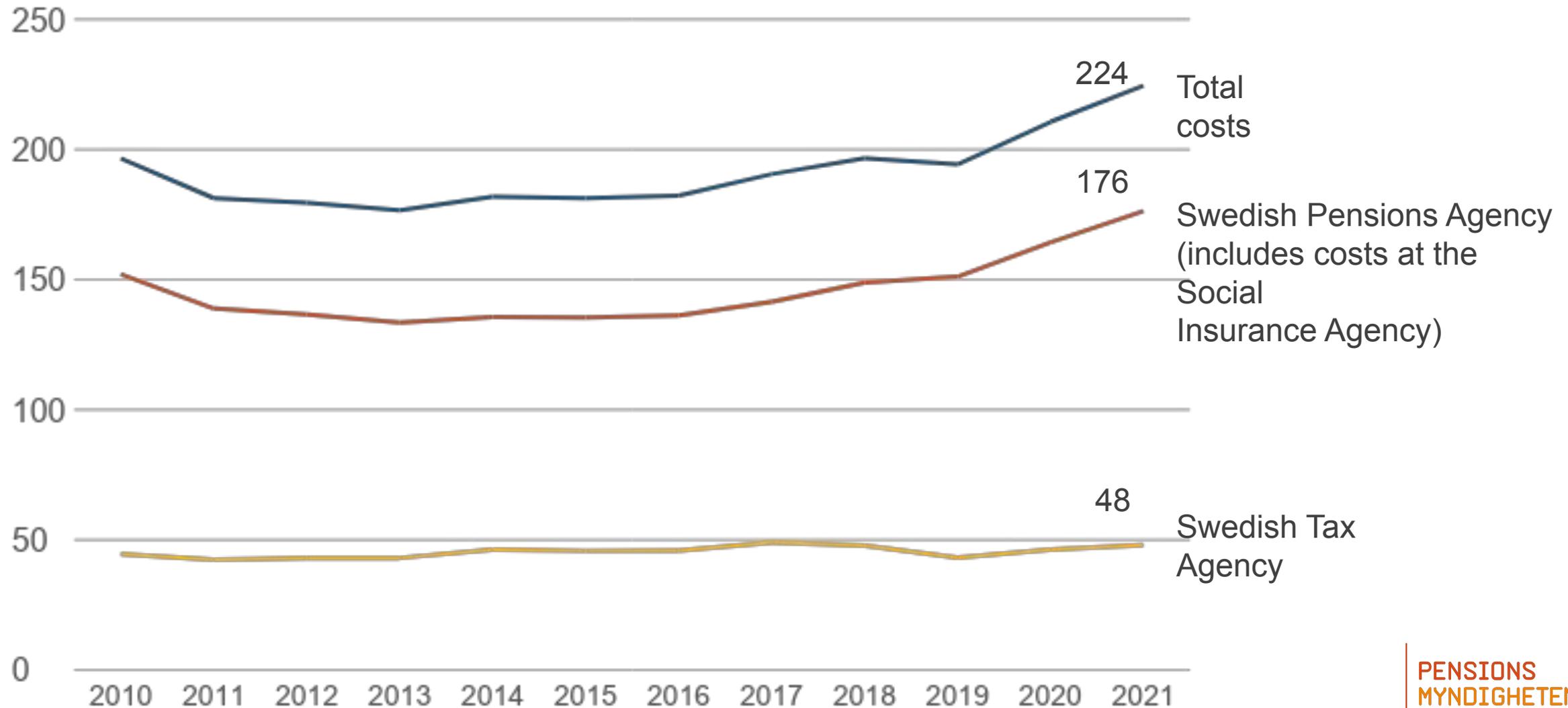
# Example of published annuity divisors, 2020 (NDC)

“Retirement” age	61 år	62 år	63 år	64 år	65 år	66 år	67 år	68 år	69 år	70 år	
1938	17,87	17,29	16,71	16,13	15,56	14,99	14,42	13,84	13,27	12,71	
1939	17,94	17,36	16,78	16,19	15,62	15,04	14,47	13,89	13,32	12,76	
1940	18,02	17,44	16,86	16,27	15,69	15,11	14,54	13,96	13,39	12,82	
1941	18,14	17,56	16,98	16,39	15,81	15,23	14,65	14,08	13,50	12,94	
1942	18,23	17,65	17,06	16,48	15,89	15,31	14,74	14,16	13,59	13,02	
Birth cohort	1943	18,33	17,75	17,16	16,58	15,99	15,41	14,84	14,26	13,68	13,11
	1944	18,44	17,86	17,28	16,70	16,11	15,54	14,96	14,38	13,80	13,23
	1945	18,55	17,96	17,38	16,80	16,22	15,64	15,07	14,48	13,91	13,33
	1946	18,64	18,05	17,47	16,89	16,31	15,73	15,16	14,57	13,99	13,41
	1947	18,73	18,15	17,56	16,98	16,40	15,83	15,24	14,66	14,07	13,49
	1948	18,83	18,24	17,66	17,07	16,49	15,91	15,33	14,74	14,16	13,58
	1949	18,89	18,31	17,72	17,13	16,55	15,97	15,38	14,79	14,21	13,63
	1950	18,98	18,39	17,80	17,21	16,63	16,05	15,46	14,87	14,28	13,70
	1951	19,06	18,48	17,89	17,30	16,71	16,13	15,54	14,95	14,37	13,78
	1952	19,14	18,55	17,96	17,37	16,78	16,20	15,61	15,02	14,43	13,85
	1953	19,20	18,62	18,03	17,44	16,85	16,26	15,68	15,09	14,50	13,91
	1954	19,28	18,69	18,11	17,52	16,93	16,34	15,76	15,17	14,58	13,99
	1955	19,34	18,75	18,16	17,58	16,99	16,40	15,81	15,22	14,63	14,04
	1956	19,42	18,84	18,25	17,66	17,07	16,48	15,89	15,30	14,71	14,12

Divisors are calculated yearly for all ages + 61, since 2020 + 62, but here only presented up to age 70.

# Costs, million Euros, excluding asset managing costs

Divide by 10 million to get cost per capita



# Employees of the Swedish Pensions Agency

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1,037	1,050	1,073	1,048	1,082	1,171	1,189	1,224	1,150	1,435	1,535	1,640

# Conclusions

1. The changes in pension legislation triggered administrative reforms, mainly due to the introduction of a fully funded pension (FDC)
2. The administration of both the transition, the FDC and NDC system has worked well.
3. Serious problems with irresponsible sales activities in the FDC system and fraudulent funds.
4. Calculation of parameters, divisors, inheritance gains, income index, balance ratio is administratively more or less trouble free and may have had some (positive) impact on the public debate on pensions.
5. Administrative costs and cost development seem reasonable
6. Capital management costs are significant per insured, but are perhaps low relative to capital under management.
7. The introduction of the “income pension complement” in 2020 (paid as from September 2021) can be interpreted as the policy aims of the 1994 reform have been abandoned.