

PROVIDING MEMBER SECURITY IN SWEDEN

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Overview of the Swedish pension system

- State Pension scheme
compulsory basic scheme + compulsory funded individual savings scheme
- Occupational pension schemes
- Personal pensions/Individual agreements

The second pillar in Sweden

BLUE COLLAR WORKERS

- Defined contribution
- 3.5% of salary (no upper limit) from the age of 21
- Individual investments choice from list of approved traditional life insurance with profits and unit linked insurance
- Benefits can not be paid out before the age of 55
- Benefits are paid in the form of annuities

The second pillar in Sweden

- WHITE COLLAR WORKERS
- Defined benefits + Defined contributions
- Defined benefits

- Defined contributions
2 % of salary

White collar Defined benefits

- Old age -, family – and disability pension
- Premiumreserve method
- "Final salary"

White collar Defined contributions

- 2 % of salary
- Individual investment choice from list of approved traditional life insurance with profits and unit linked insurance
- Benefits can not be paid out before the age of 55
- Benefits are paid out in the form of annuities

Safeguarding occupational pensions

- Life insurance (occupational pension insurance)
- Life insurance (mutual benefit society)
- Book reserve
- Pension foundation

Life insurance (occupational pension insurance)

- Transfer of the fulfilment of the employer's obligation to an insurance company.
- Main player is Alecta where there is a "promise" to index according to the inflation
 - ◆ Influence through board of directors 50% employer elected, 50% employee elected (both sides by the central organisations).
- If an ordinary life insurance company is chosen with profits life insurance
 - ◆ No influence

Life insurance (mutual benefits society)

- Transfer of the fulfilment to a mutual benefit society
- Direct influence through the board of trustees
 - 50% elected by the employers organization
 - 50% elected by the employees organizations
- Possibility to have "tailormade" pension plans

Book reserve (FPG/PRI)

- Allocation by the employer to an account (provision) in the balance sheet.
- Allocation should normally correspond to the pension liabilities
- Pension provisions must be safeguarded by a pension guarantee in form of credit insurance, state or municipal guarantee
- NOTE the employer is always responsible for the commitment even though the the allocation is too small

Credit insurance (FPG)

- FPG (Pension Guarantee Mutual Insurance Co)
- monitors the creditworthiness of each company
- FPG's premium for credit insurance 0.2 % of the liabilities
- Total cost
Increase in pension liability + pension payments
+ premium to FPG and fees to PRI + yield tax

Credit Insurance (PRI)

- PRI Pensionstjänst administers the ITP pensions for companies who have chosen to enter their pensions as a liability
 - ◆ Register the size of the pension entitlement each salaried employee has earned
 - ◆ Calculate the pension liability the company is to enter in its balance sheet
 - ◆ Handle the payment of the pensions

Pension foundation

- Founded by the employer with sole purpose to safeguard pensions
- Employer allocates funds to the foundation for future pensions payments
- But the responsibility for the commitments always remain with the employer (and thus the financial risk connected to the allocation of the foundation capital)
- Employer can be compensated by the foundation for his pension payments under the condition that, even after such compensation, the capital of the foundation is not less than the total pension liabilities

Supervision

- Finansinspektionen
(the Swedish Financial Supervisory Authority)
 - ★ Occupational pension insurance
 - ★ Mutual benefits society
 - ★ FPG
- Local regional council
pensions foundations

Pension foundation special

There is no mandatory appointment of an actuary for pensions foundation

(the auditor of the pension foundation is responsible for checking the evaluation of the pensions provisions and the sufficiency of assets)