

2nd PBSS Colloquium
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Topic B. Longevity and annuitisation, risk sharing in pension design

The Swedish NDC System - A critical assessment.

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The pension reform in Sweden is subject to much comment, and the “Swedish model” is being recommended by the World Bank, the European Commission and numerous finance ministries. Swedes are saying: “With so much international praise, it must be a good reform we have implemented”.

There is an obvious need to sort out what this new “Swedish model” really is, and to realize that it contains a whole range of different features.

From a pension system point of view, there are the following features:

- A completely changed PAYG scheme, ending up in the “notional defined contribution” (NDC) model; including
 - Life-time earnings as the basis for the level of retirement pension;
 - Abolishing the “normal pension age”;
 - Taking increasing life expectancy into account in the calculation of pensions, thereby steadily raising the age when a person can retire with an adequate pension.
- The introduction of a funded pension component alongside the PAYG part;
- A successive phasing out of the minimum pension in the face of economic growth.

From the point of view of pension politics, other features come to the fore:

- There was a broad political consensus behind a reform that effectively reduces pensions and pension expenditure;
- There was no public opposition despite reductions in future pensions.
- Sweden’s reputation as an advanced welfare state makes it useful for politicians elsewhere to refer to their reform proposals as following the Swedish model.

Given the above aspects of the Swedish reform, it is clear why it is claimed that many reforms follow the Swedish model. Indeed, this can be claimed for every reform which reduces pension expenditure. Second, it can be claimed for every reform that, in the face of raising life expectancy, increases retirement ages and/or accomplishes a corresponding result by reducing benefits drawn at a certain age (such as has happened in Finland and Germany and is proposed in Norway). Third, such a resemblance can be claimed following the introduction of a funded component in the public pension arrangements (for example, in Poland, Hungary and in the voluntary scheme in Germany). Finally, it can be claimed whenever an NDC approach is adopted (such as in Latvia, Poland and Italy)

There is a need to know what a reference to “the Swedish model” really means. This is needed in order to avoid confusion that otherwise might arise from an association of various features of the new Swedish model with what Swedish welfare arrangements have traditionally stood for, but which does not apply to this pension model. And such a clarification it is needed for Swedes better to understand the reasons for the international praise of our reform.

In his report Mr. Scherman will give an account for the new pension system, its targets, rules and function and for the financial sustainability and social adequacy of the system. Against a

background of general challenges and needs that face every aging society, particularly its pension systems, he will discuss the outcome of the reform. His thesis is that the reform is based on sound financial and social principles but that a whole range of measures must be designed and implemented in order to make the system acceptable from a social point of view.