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**Flexible retirement following the Scandinavian Model**

What we can learn from abroad?

Deutscher Bundestag

December 1, 2014

# **SWEDEN: AN INDIVIDUALIZED AND DEMOGRAPHICALLY ROBUST RETIREMENT AGE**

# The Swedish pension system is a multi-pillar system

Compulsory system

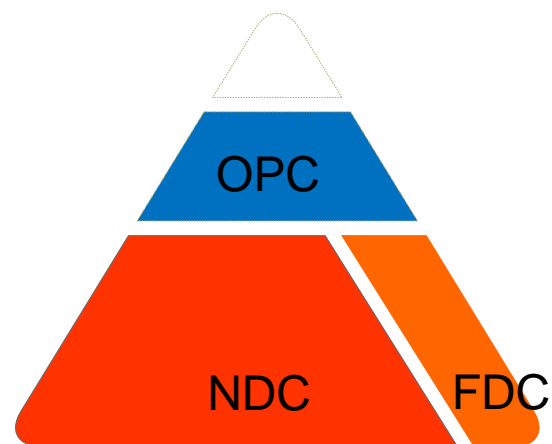
Contribution = 18.5 % of earnings

16 % to Income Pension (NDC)

- Lifetime earnings
- Indexed by average wages
- Benefits indexed to life expectancy
- Automatic Balancing Mechanism

2.5 % to Premium Pension (FDC)

- Funded individual accounts



- Occupational schemes for 90 % of employees (OPC)
- Contribution = typically 4.5 % of earnings

# No fixed retirement age

- Benefits can be withdrawn at any age from age 61.

$$\text{Annuity} = \frac{\text{Account value at retirement}}{\text{Divisor}}$$

- The divisor is calculated using unisex life expectancy at retirement age and with an interest rate of 1.6 % in the income pension
- Guarantee pension from age 65 provides a minimum benefit and tops up the income pension for individuals with low benefits

# Later retirement necessary to maintain level of benefits in Sweden

| Cohort | Life Expectancy at age 65 | "Necessary" Retirement Age to Adjust for Changes in Life Expectancy | Time in Retirement |
|--------|---------------------------|---|--------------------|
| 1930   | 82 and 5 months           | age 65  | 17 yr 5 months     |
| 1950   | 85 and 3 months           | 66 and 6 months   | 19 yr 3 months     |
| 1970   | 87 and 3 months           | 68 and 1 months   | 19 yr 10 months    |
| 1990   | 88 and 10 months          | 69 and 2 months   | 20 yr 5 months     |

Source: Swedish Pensions Agency, Orange Report 2013

## Annual Statement 2014

### Your National Public Pension

According to our forecast, this is how much you will receive as national public pension per month before tax. The amount may vary depending on when you decide to retire.

|            |            |                    |            |
|------------|------------|--------------------|------------|
| age 61     | age 65     | age 68 and 3 month | age 70     |
| SEK 10 300 | SEK 13 100 | SEK 16 000         | SEK 18 500 |

### Do you have a pension from different sources?

In addition to the national public pension, most employees also have a pension from their employer. Some also have private pension savings.

National Public Pension

+

Occupational pension

+

Private pension

=

Your entire pension

# The Orange Envelope

# 2014

## How much will you get per month?

### Forecast for your National Public Pension

| Retirement age   | age 61 | age 65 | age 68 and 3 month | age 70 |
|------------------|--------|--------|--------------------|--------|
| Amount SEK/month | 10 300 | 13 100 | 16 000             | 18 500 |

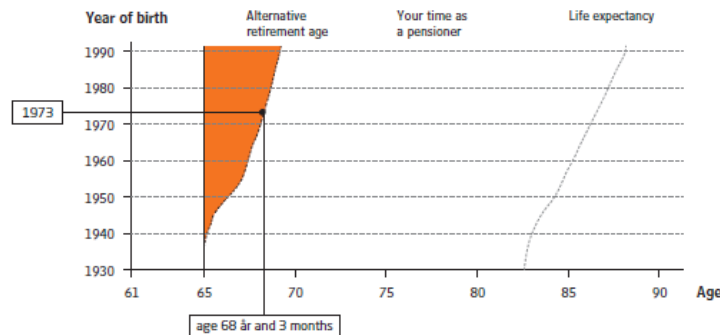
Your national public pension from age 65 (SEK 13 100 per month before tax) is estimated at SEK 9 800 in income pension and SEK 3 300 in premium pension. The pension will be paid out for the rest of your life.

**We calculated as follows.** The forecast is based on the SEK 1 025 977 you have earned towards your national public pension so far and your annual income until you retire. We have assumed that you will have the same pensionable income per year as in 2012, that is SEK 303 300.

The forecast is calculated in today's value. This means that you can compare the amounts in the forecast with your current earnings. The forecast is developed in accordance with the pension industry forecast standard. Read more on [www.pensionsmyndigheten.se/prognosstandard](http://www.pensionsmyndigheten.se/prognosstandard).

**Why 68 years and 3 months?** The life expectancy in Sweden is rising. You, who were born in 1973 need to work until the age of 68 years and 3 months to receive the same pension amount you would have received at age 65 if life expectancy had remained unchanged. Your pension is calculated as your account value divided by the average remaining life expectancy of your age class.

**When is the best time for you to retire?** At [www.pensionsmyndigheten.se/B3](http://www.pensionsmyndigheten.se/B3), you can obtain forecasts that also include your occupational pension and possible private pension. The forecasts make it easier for you to plan and make the right decisions about your future. The forecasts are generated by [Minpension.se](http://Minpension.se), a collaboration between the Swedish Pensions Agency and the private pension companies.

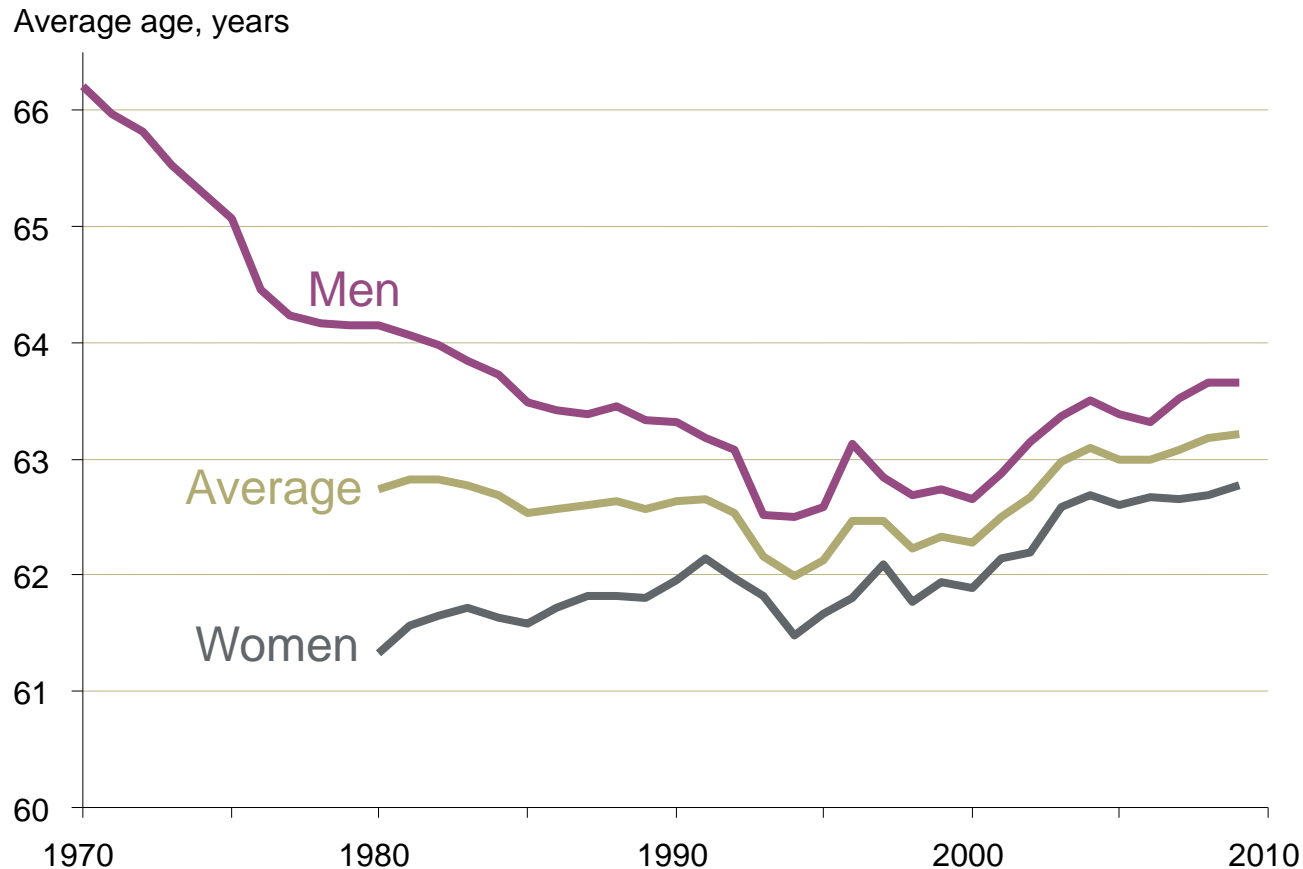


# Fewer claim benefits at 65 in Sweden

| Share of age group that claims benefits | <65  | 65   | >65  |
|---|------|------|------|
| 1938                                    | 10.3 | 77.3 | 12.4 |
| 1944                                    | 18.7 | 63.2 | 18.1 |
| 1948                                    | 25.7 | 55.4 | 18.9 |

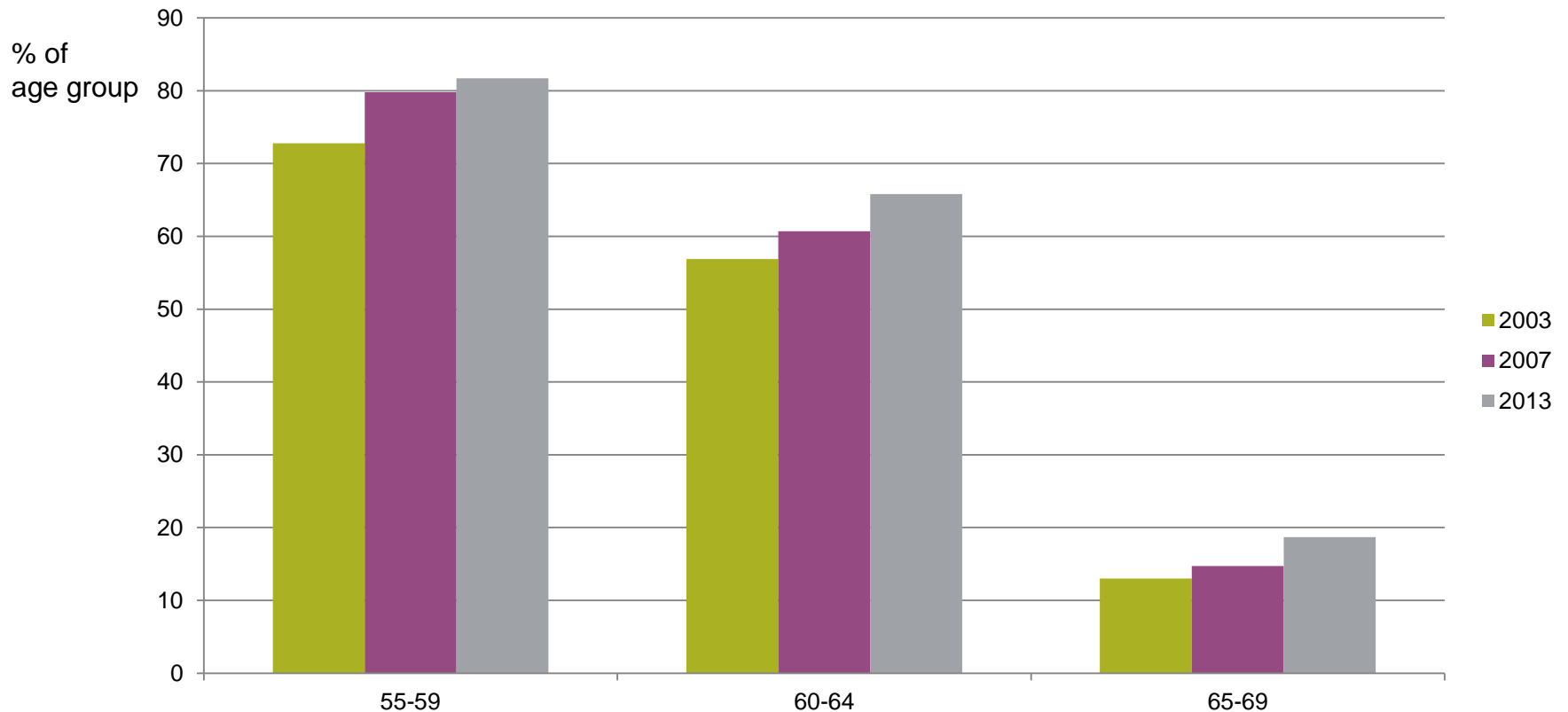
Source: Swedish Pensions Agency, Orange Report 2013

# Average age when leaving the labor force is going up



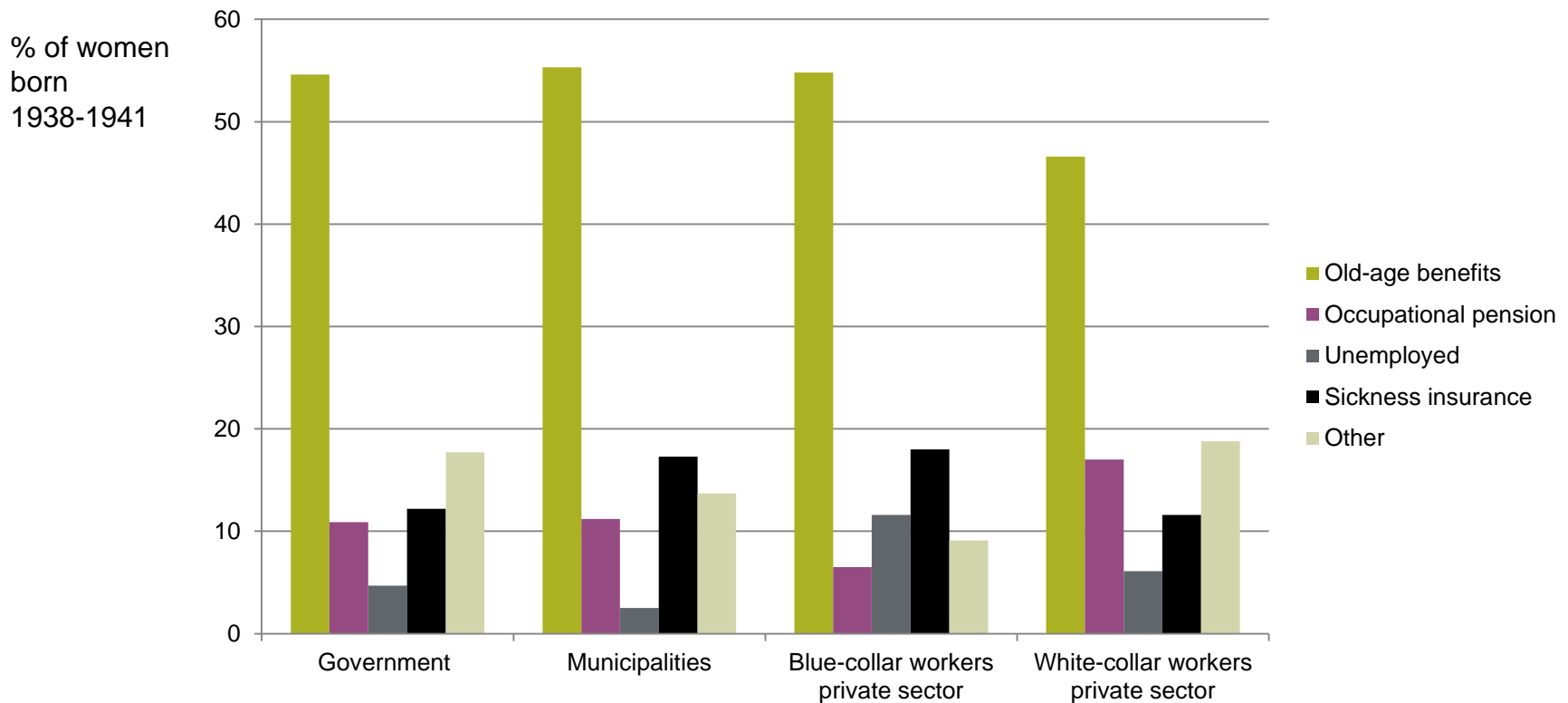
Source: Swedish Pensions Agency

# Labor force participation has increased in all age groups 55 and older



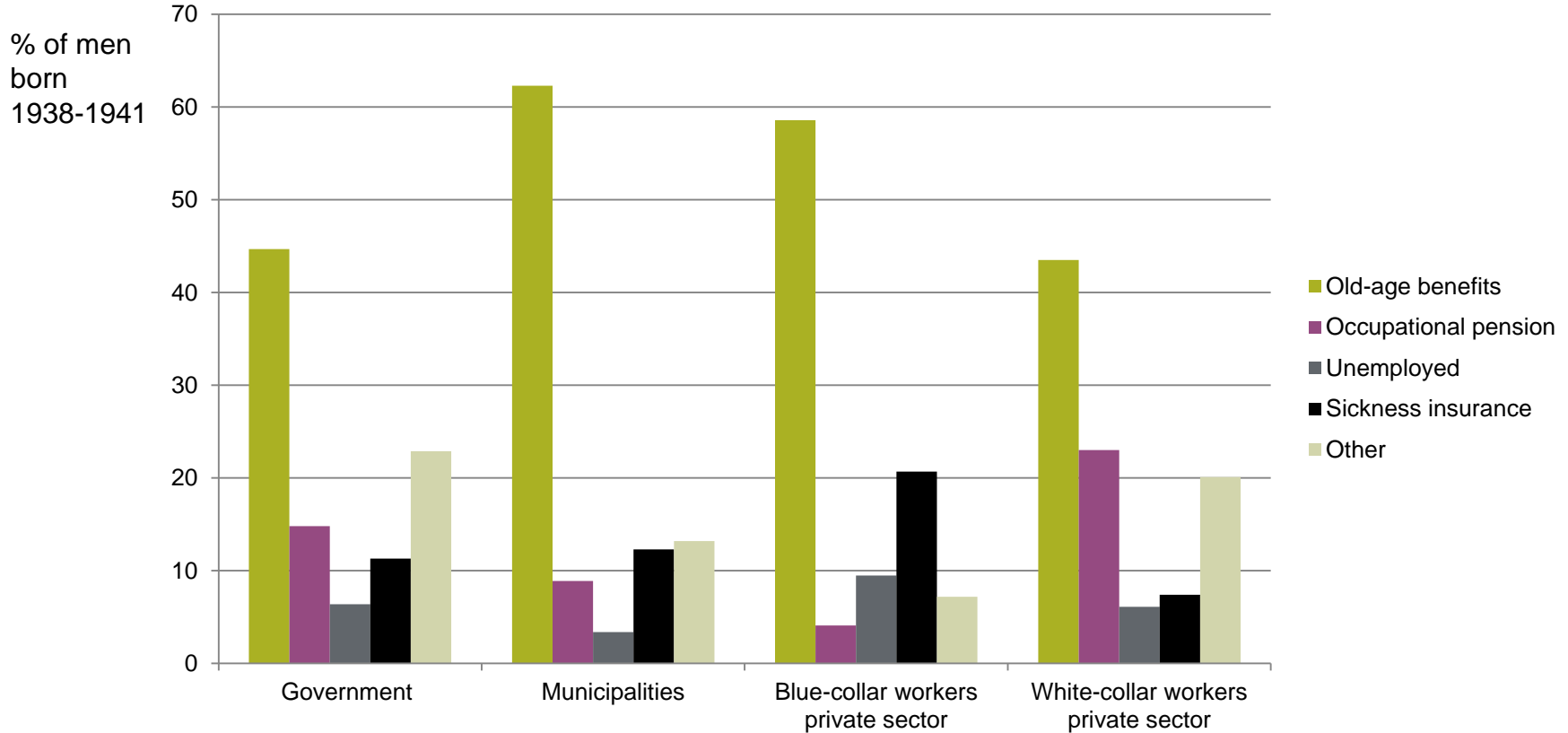
Source: OECD

# Women working in municipalities (often health-care) are more likely to leave the labor force through sickness insurance



Pathways to retirement by occupational sector

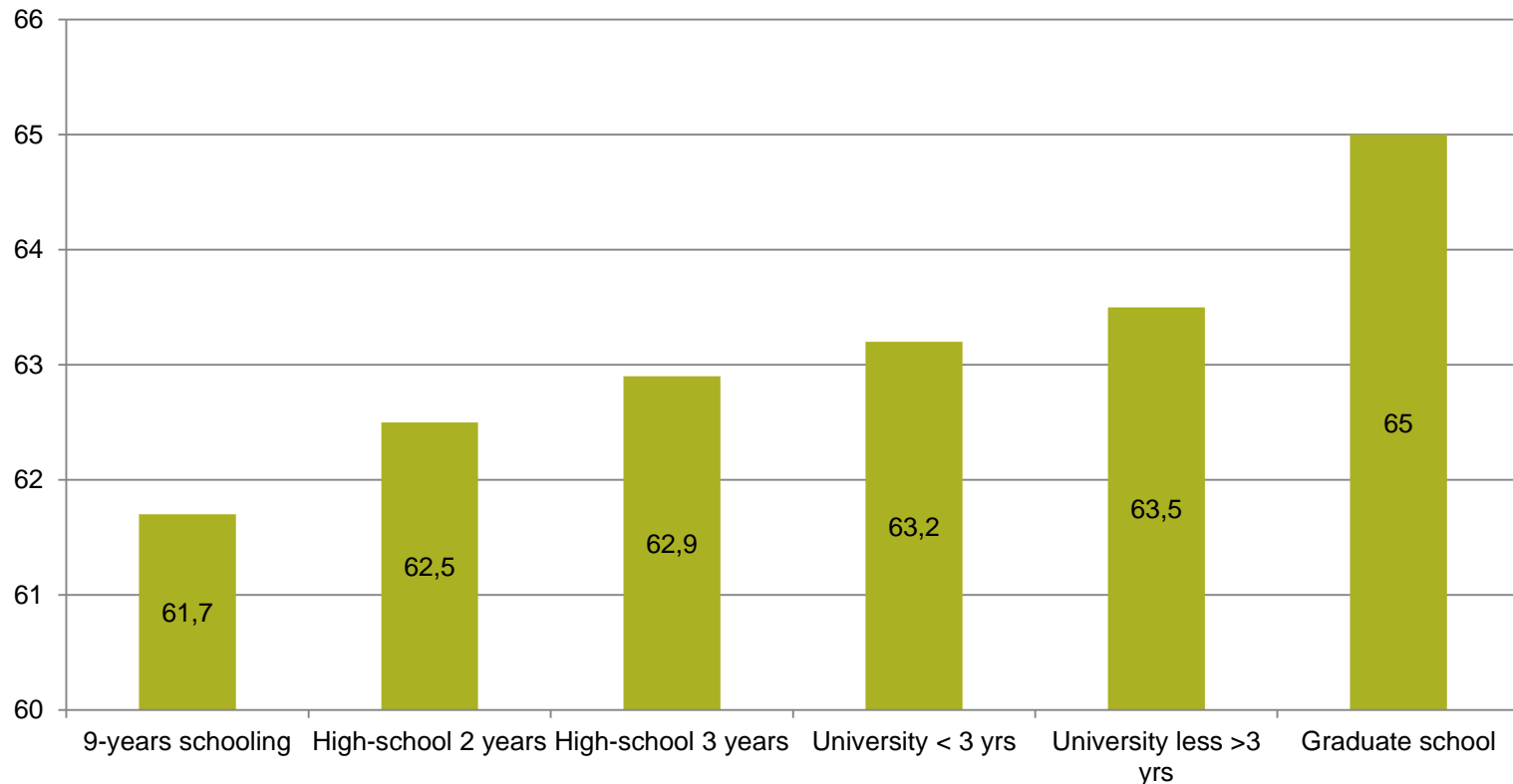
# White-collar men often leave the labor force through occupational plans



Pathways to retirement by occupational sector

# More education is associated with later retirement

Age leaving the labor force for those born 1939 by education



# Conclusions

- The national pension system creates incentives to work
  - Close link between contributions and benefits
  - Lifetime earnings – no age limit for earning pension credits
  - Benefits indexed to life expectancy
- Average age when leaving the labor force has increased
- Differences in retirement age by occupation and education
- Design of occupational plans affect retirement behavior

# Extra slide

# Volatile Benefits from Income Pension Due to Balancing

