

Sweden: Costs, Investments and Continuous Improvement

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The Swedish Pension System

Compulsory system

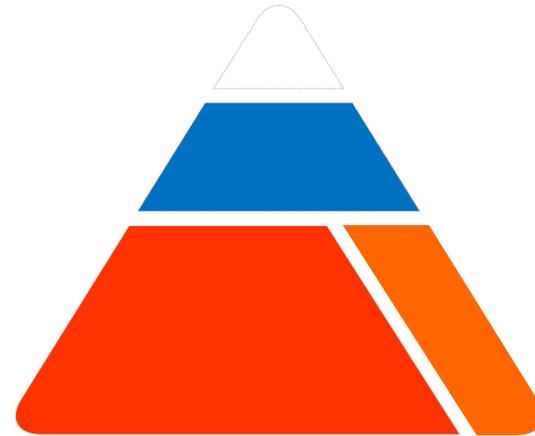
Contribution = 18.5 % of earnings

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

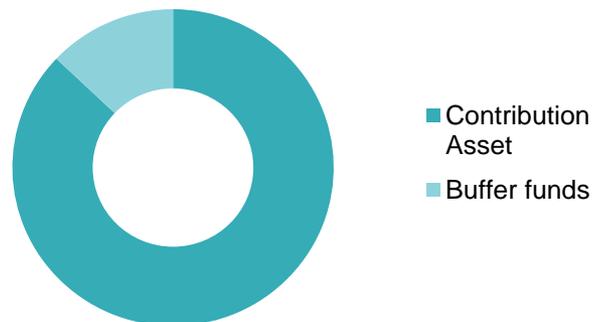
Income pension is partially funded

- Funded assets comprise about 13 percent of overall assets
- Managed by four buffer funds

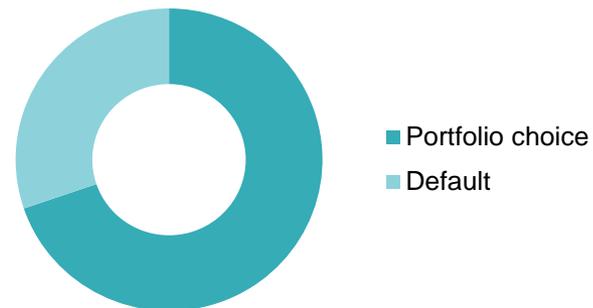
Premium Pension is fully funded

- Individual accounts
- Broad choice – currently about 800 funds participate
- Default fund comprise about 30 percent of overall assets

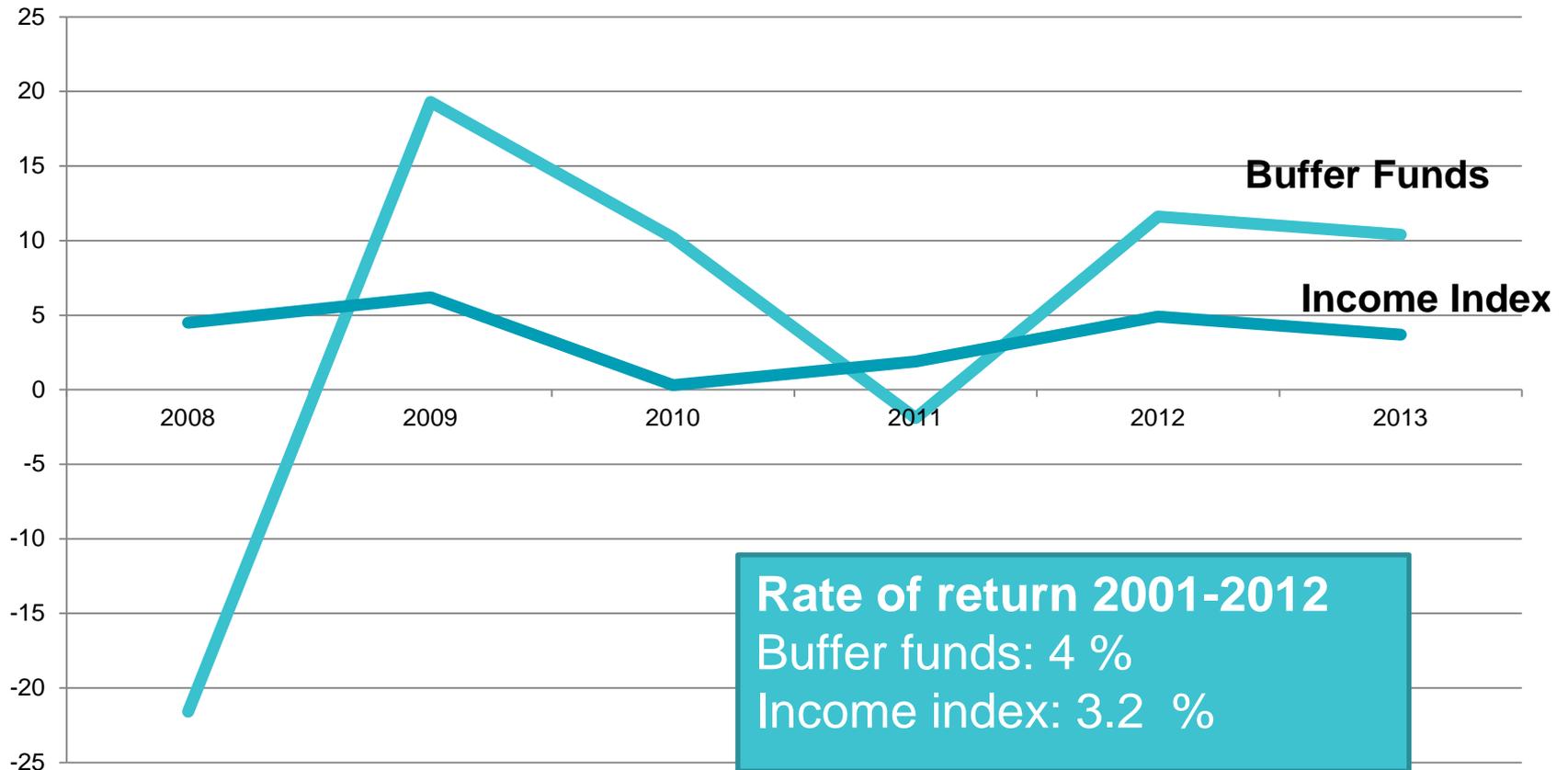
Total assets = 8 181 billion SEK



Total assets = 602 billion SEK



Rate of Return Buffer Funds and Income Index

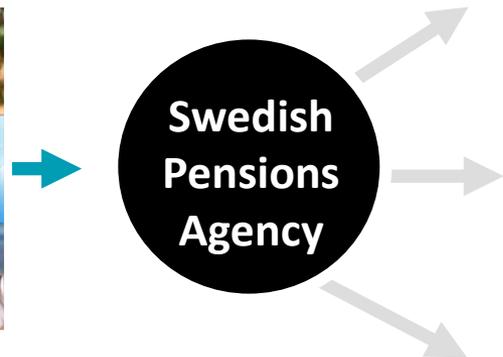
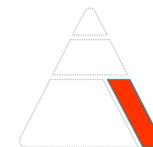


Costs

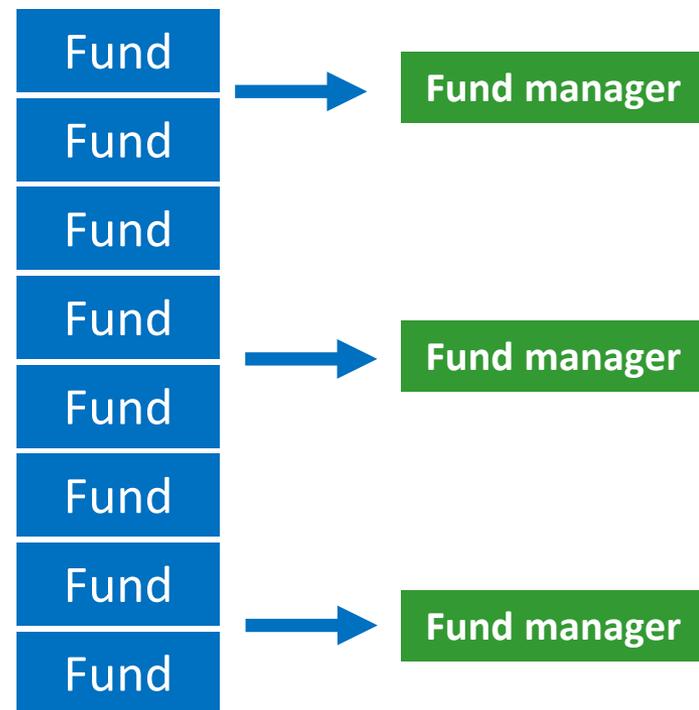
(percent of participants' account balance)

	2013
Income Pension	0.03
Buffer Funds – Money Management	0.13
Premium Pension – Fund Management	
Gross	0.92
Rebate	-0.61
Net	0.31
Premium Pension – Administration	0.10

The Swedish Pension Agency Acts as Clearing House in the Premium Pension



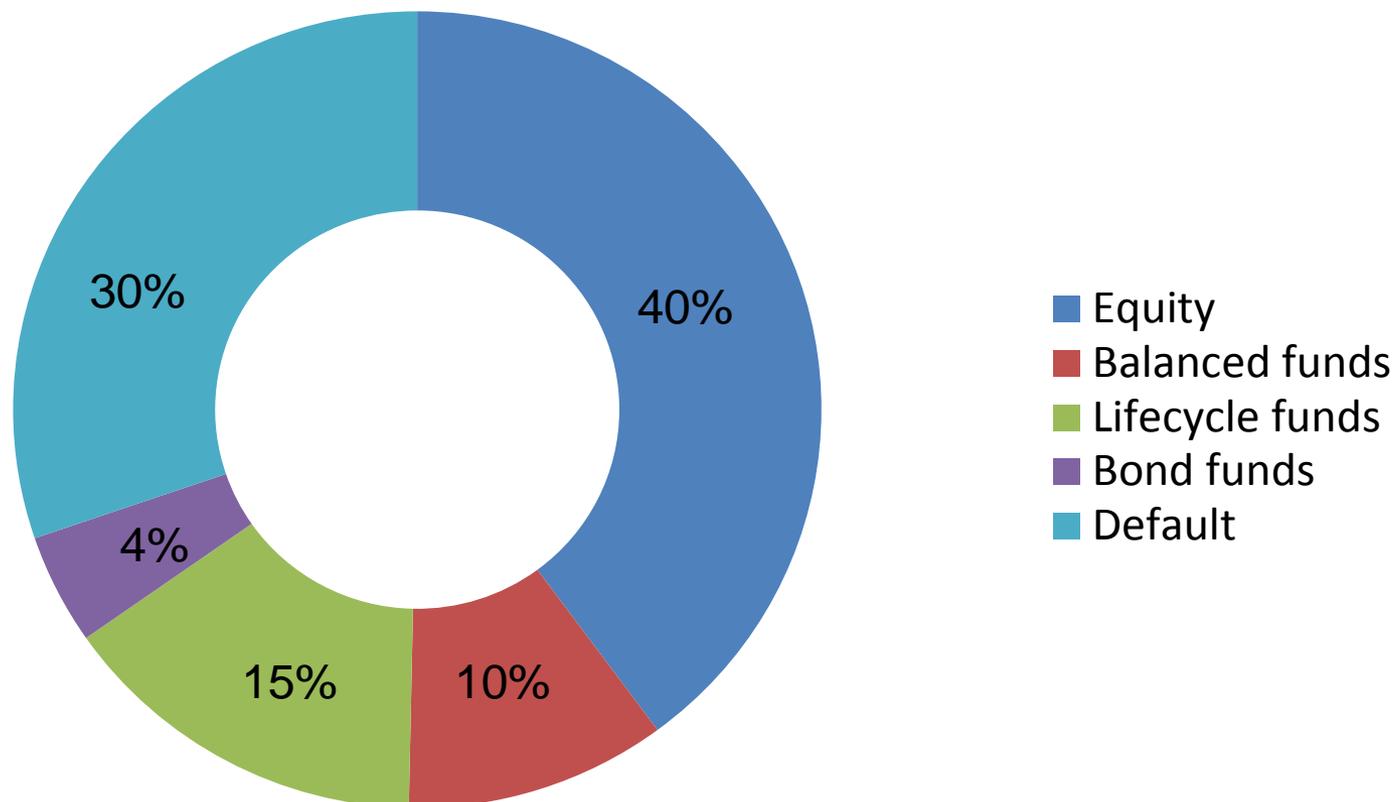
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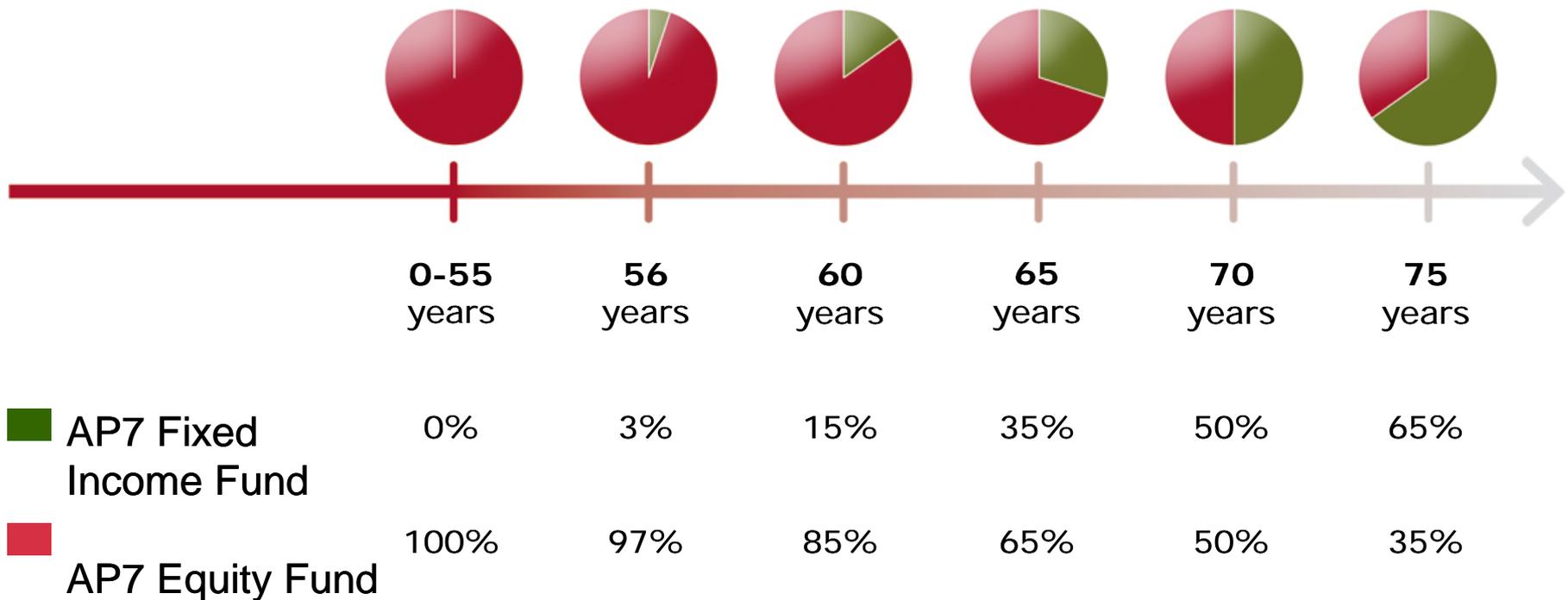
800

6,400,000

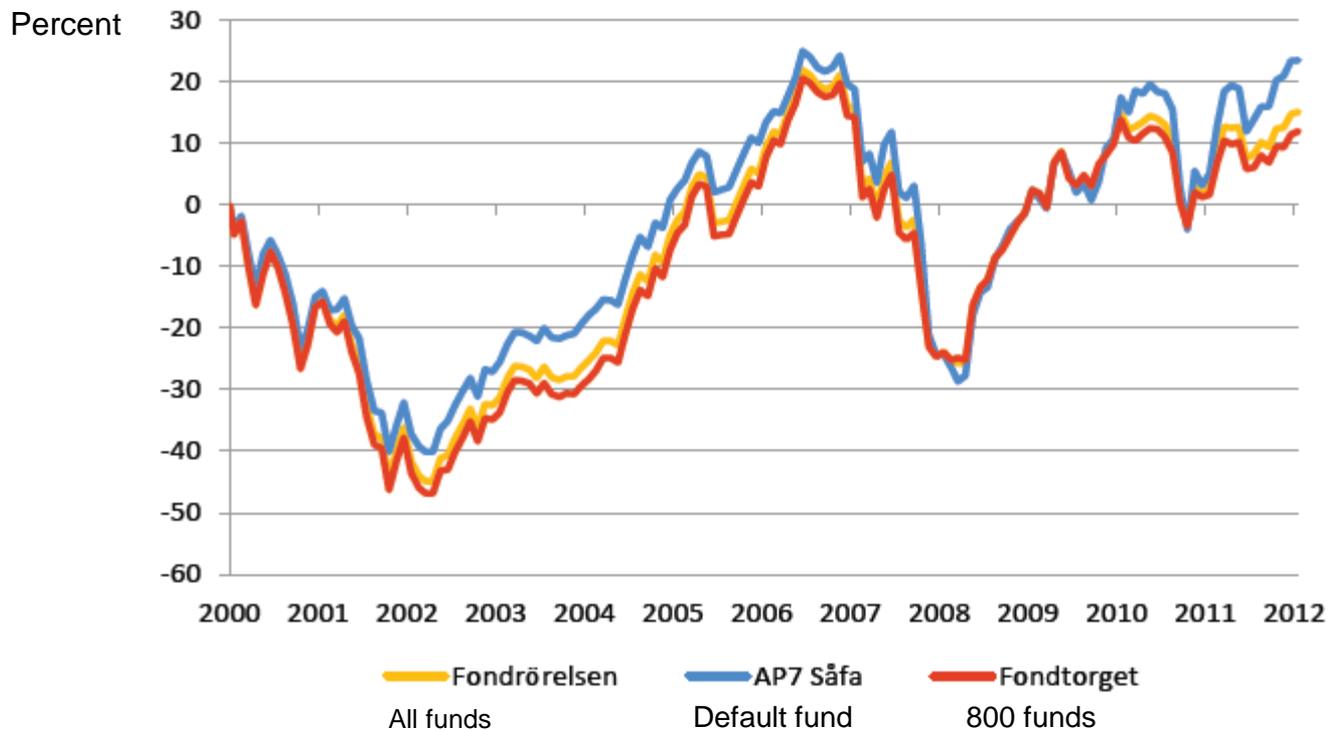
Participants' accounts are mostly in equities



The Default Fund

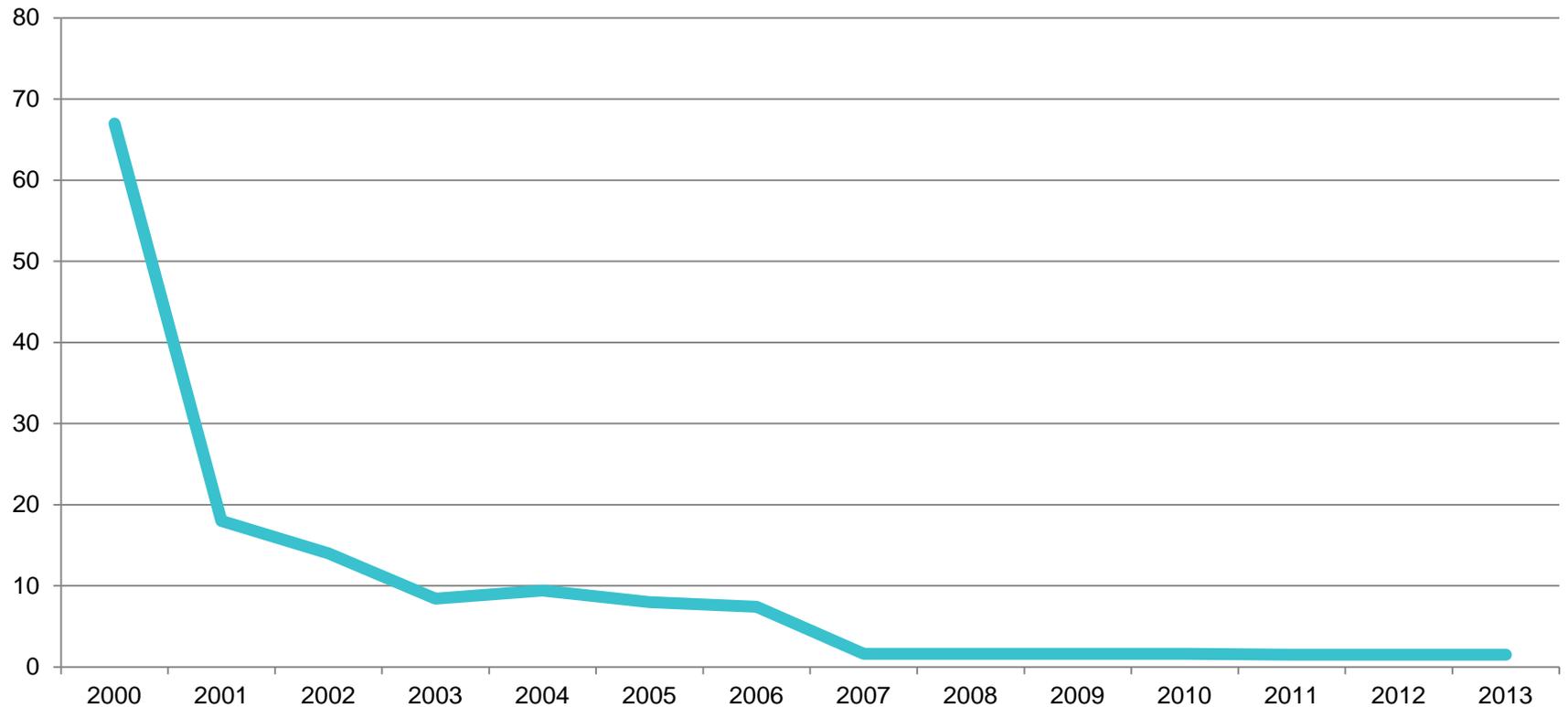


Rate of Return Premium Pension



Few select their own portfolios

Percent of new participants



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

