



Lessons from Sweden

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 and  show some similarities

- The glass is half-empty
- Polder mentality = Jämtelagen
- Small open economies
- Strong welfare state
- Strong unions
- High level of contributions
- High margin taxes

Warning
Shocking content

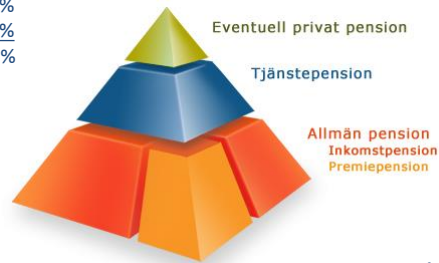
The Swedish pension system in 5 minutes...

Flat contribution rate

Income pension	16.0%
Premium pension	2.5%
<u>Occupational pension</u>	<u>4.5%</u>
Total	23.0%

Pure DC

First pillar - NDC
Second pillar – Insured



No pension funds

Mutual insurance companies
- Traditional life products
- Unit linked products

Robust

1st pillar – Separate from state budget
Pension can be reduced

2nd pillar – Dual contract design
Bad risk management

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Lesson #1: Public and private

Context:

- 1st pillar is a social contract (solidarity / re-distribution)
- 2nd pillar is a financial contract (insurance / pooling)
- Large 1st pillar



Advice:

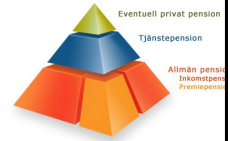
Solve solidarity in the first pillar
Financial contract in the second pillar

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Lesson #2: Flat contribution rate

Context:

- Fixed contribution rate for all employees
- No age discrimination
- Paid on top of gross salary
- Predictability in salary cost and tax revenues



Advice:

Reform the fiscal system

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Lesson #3: Choice architecture

The premium pension - a great example of bad choice design

- The 850+ funds to choose from
- Cost efficient implementation
- 'Advisors' found ways to benefit from system
- Reforms will take place



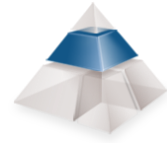
The power of default
98.5% of new entrants selects
the default

Advice:

Provide strong default,
Limited set of choices (if any)

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Lesson #4: Role of social partners



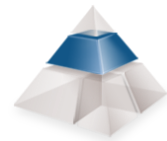
- Collective agreement, setting contribution level
- Runs the election central
- Procurement of pension providers
- Control some of the mutual insurance companies (agency issues)

Advice:

Review role of social partners
Watch out for agency issues

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Lesson #5: Market solutions and costs



- Market solution
- Combination of mutual and commercial providers
- Employee can select individual or collective solution
- Employee can select his/her pension provider
- Employee has transfer rights

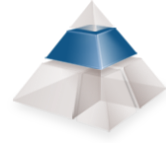
Advice:

Investigate market solutions

ITP1 costs	
Alecta	10 bps
AMF	20 bps
Folksam	17 bps
Skandia	23 bps

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Lesson #6: Traditional life – Mutual insurance



- Insurance company owned by the members
- Natural consolidation vehicles
- Voluntary pooling
- Product is similar to the dual contract (in spirit)
- Current business models needs updated (fairness and capital efficiency)

Advice:

Investigate a modern mutual solution

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Questions

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