

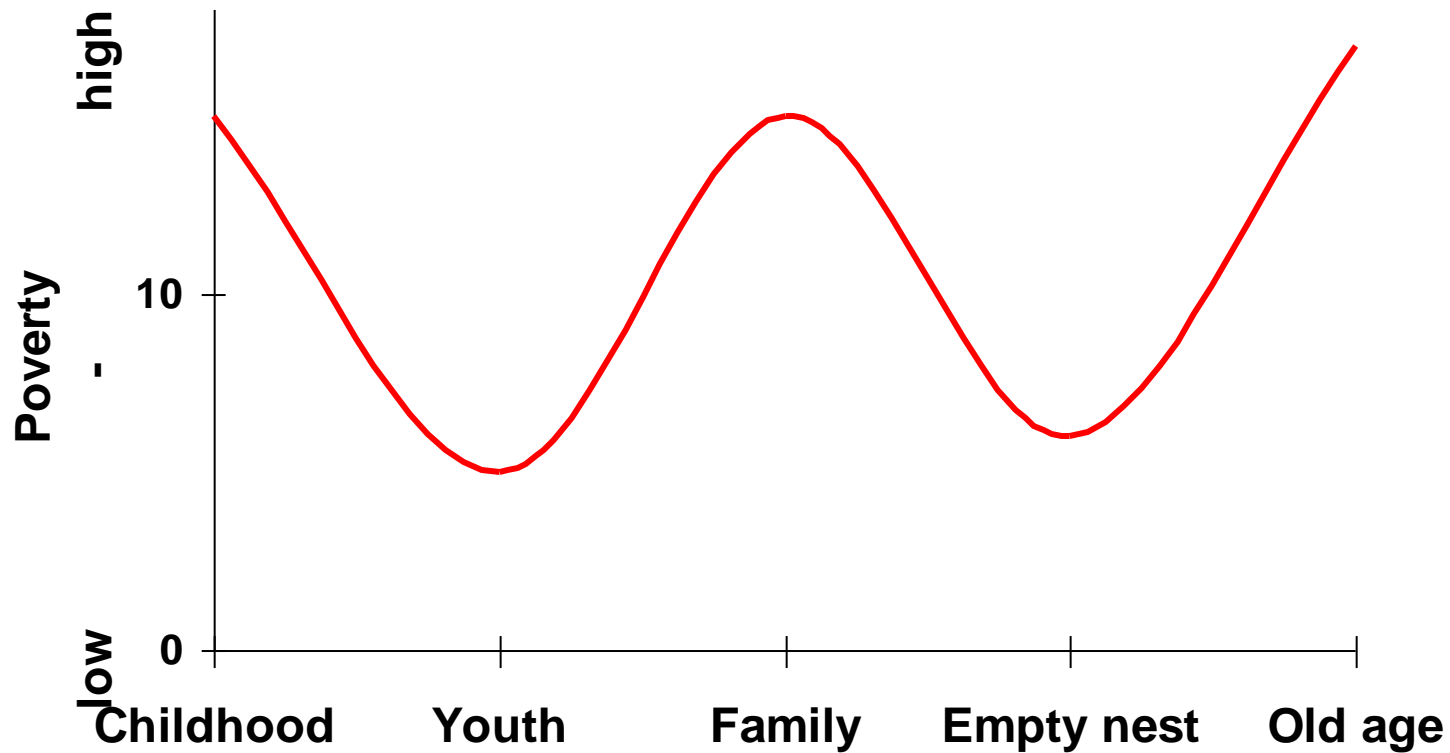
The Swedish Pension Reform

Joakim Palme

Institute for Futures Studies

Partner of RECWOWE

Rowntree's Poverty Cycle



The world of pensions and reforms

- From a poverty issue to 'Averting the Old-Age Crisis'
- From *Funding* to *Pay-as-you-go* back to *Funding*
- Are there any lessons from the Swedish experience?

Shaping the Swedish Model

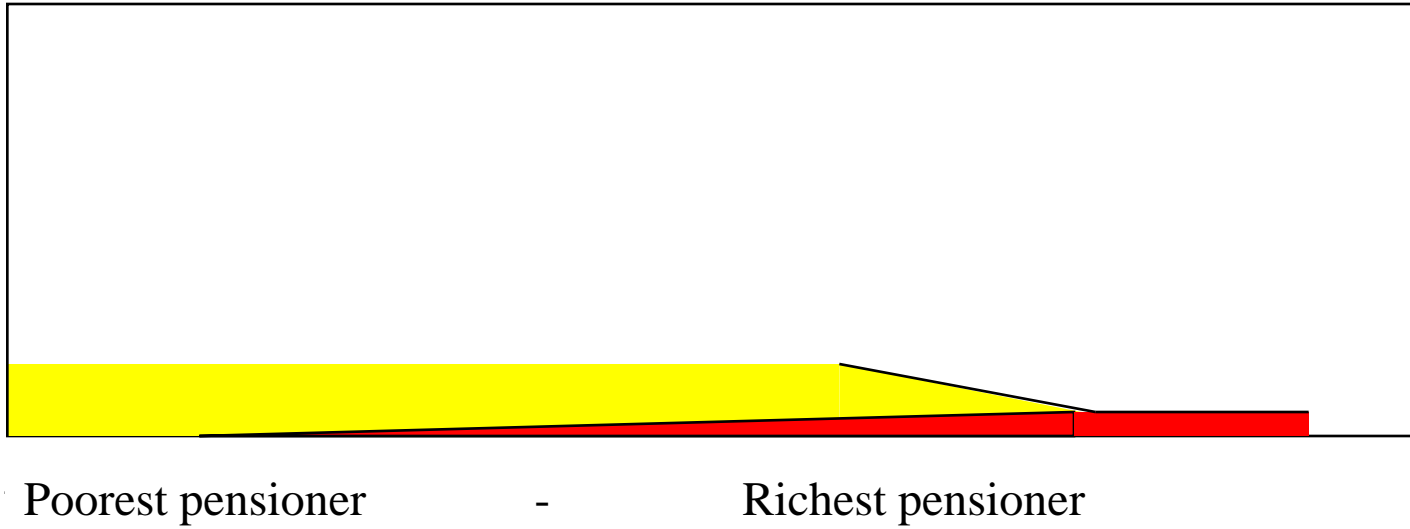
- Gerhard Lenski's perspective on inequality:
 - *inequalities in human societies are shaped by political conflicts as well as economic structures*
- The emergence of universalism
- 1930s Population crisis and Depression
- Social citizenship
- Earnings-related social insurance
- Modern family policy
 - dual-earner model
- *What about ageing societies?*

Swedish model of social protection

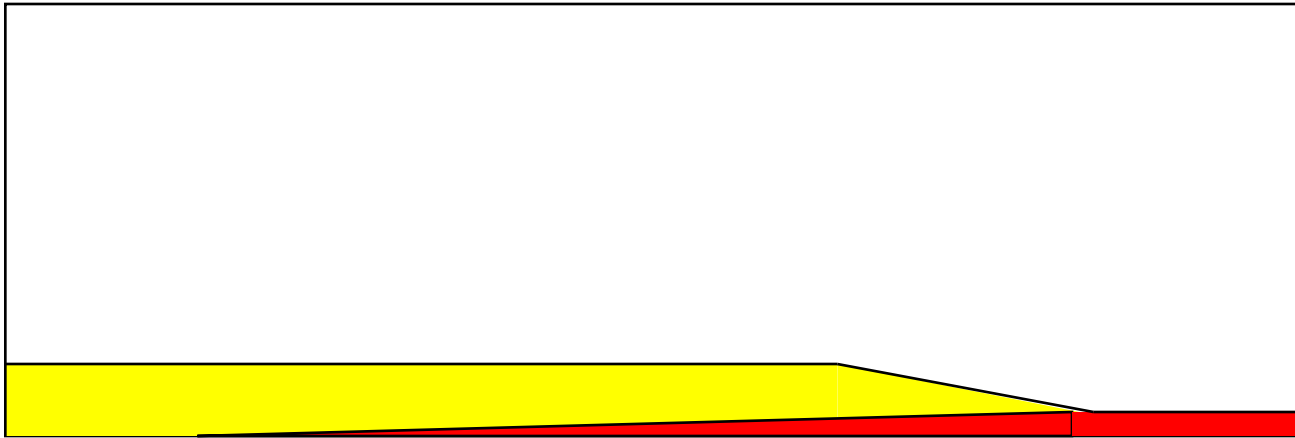
- Universal benefits
- Earnings-related social insurance
- Targeted benefits to poor
- Social services
 - universal
 - decentralized
 - separated from cash benefits
- Individual social rights
- Taxation
- Employer contributions, + employee contributions
- Central/local taxes
- Local taxes with state subsidies
- Dual-earner model

Full employment and active labor market policies

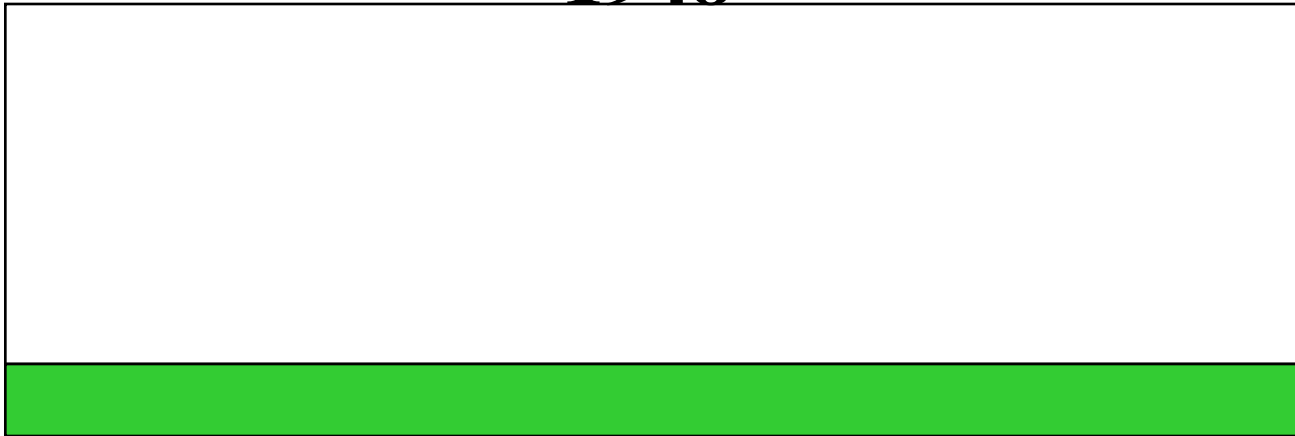
People's pension 1913



People's pension 1935

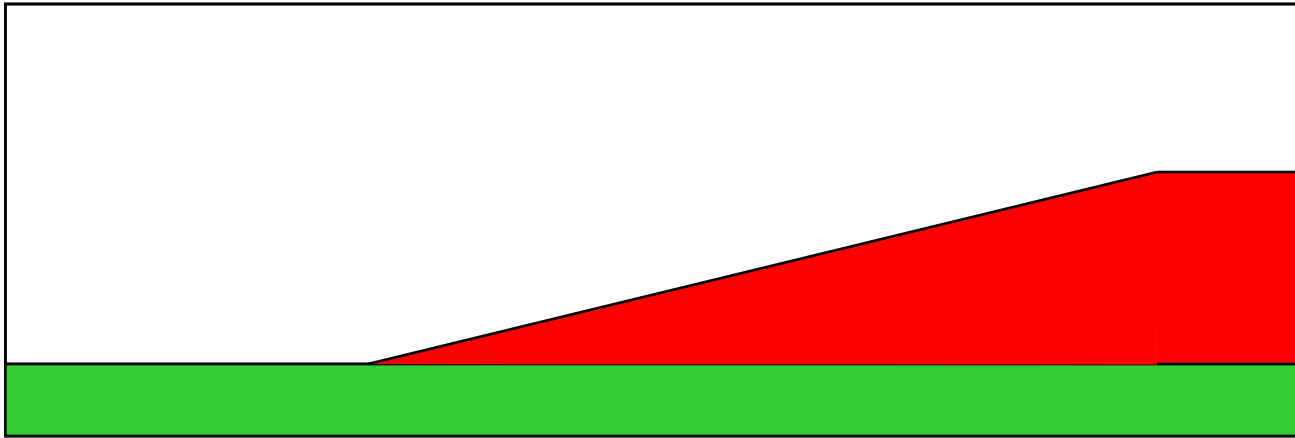


People's pension 1948

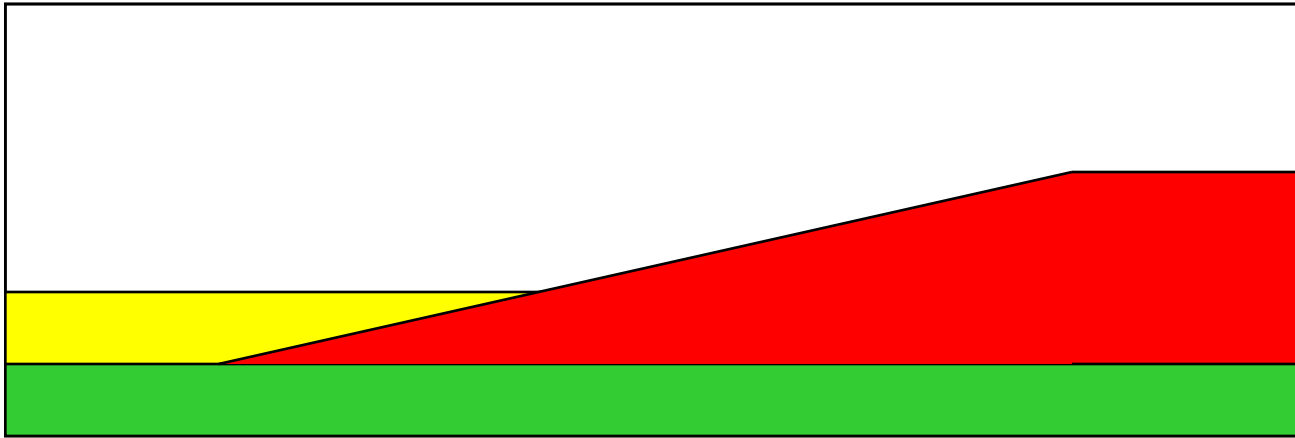


People's pension + ATP

1960



People's pension+ ATP + Supplement 1969-



Why reform such a successful system?

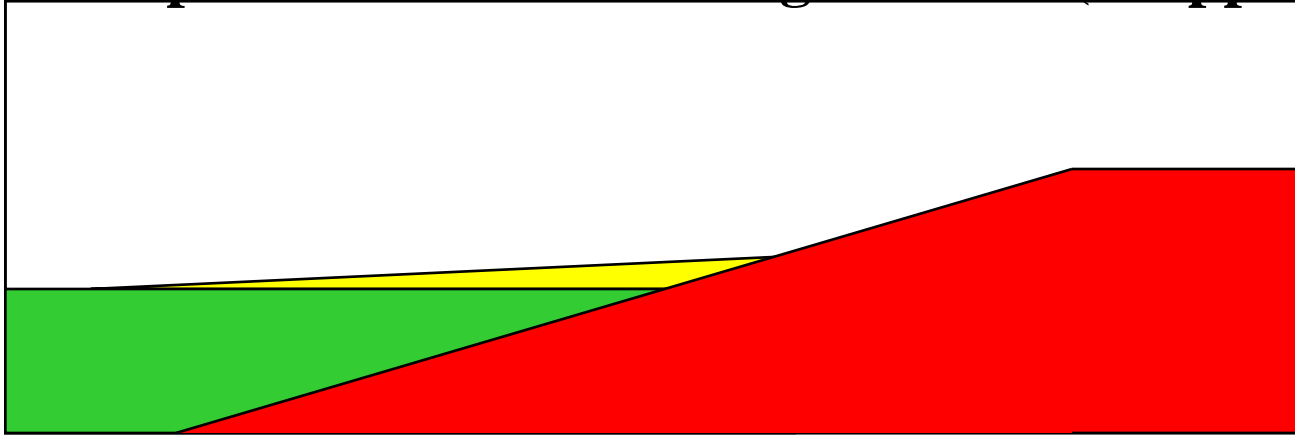
- Ageing society
- Problems of cost control
- Incentive problems
- Demand for individual choice in a compulsory system
- Political compromise in the most controversial policy field

The 'Great' Pension Reform 1994/98

- Defined contribution formula 18,5 % of income
- 16 % Notional Defined Contribution Accounts NDC
- 2,5 % Fully Funded Accounts FDC
- Guarantee pension, no means-testing!
- Buffer funds and automatic balancing

Reformed system:

Income pension and universal guarantee (+supplement)



Income pension - NDC

- 16 %
- NDC
- Indexing "real"
- Contributions paid on "all" income
- Parental leave bonus
- Buffer funds

Guarantee pension

- Redistribution of the reformed system is associated with the provisions for low-income pensioners.
- Only those who lack an IP will get a GP at the maximum rate.
- Those who have an IP below the guaranteed level will get a supplement of GP.
- Compared to the old system is hence that those who have earned entitlements to IP will get a slightly higher total public pension (sum of GP and IP) than those with only a GP.
- The universality of the basic provisions critical for combating poverty.

Fully funded accounts

- FDC individual risk taking within a social insurance
- Contribution rate is 2.5 per cent of gross income
- The Pensions Agency (PA) manages the individual accounts of all contributors to the system
- Large number of funds, large flexibility
- Funds can be withdrawn flexibly from the system starting at the age of 61
- Withdrawal is always an annuity provided by PA.
- The individual risk taking does not provide any security in the savings phase

How was the big compromise possible?

- Something had to be done!
- Why do the Social democrats choose to compromise this time?
- Why does the political centre/right support a big public commitments in an area where there are functioning private alternatives?
- Long termism vs. populism i public debate:
 - Politics in a medialized society

Pension reforms in the Nordic countries

- Finland ahead and behind Sweden
- Norway learns from Sweden's trials and errors?
- Danmark no earnings-related ATP gives different mix
- Iceland on the Danish path but working longer, and large occupational plans

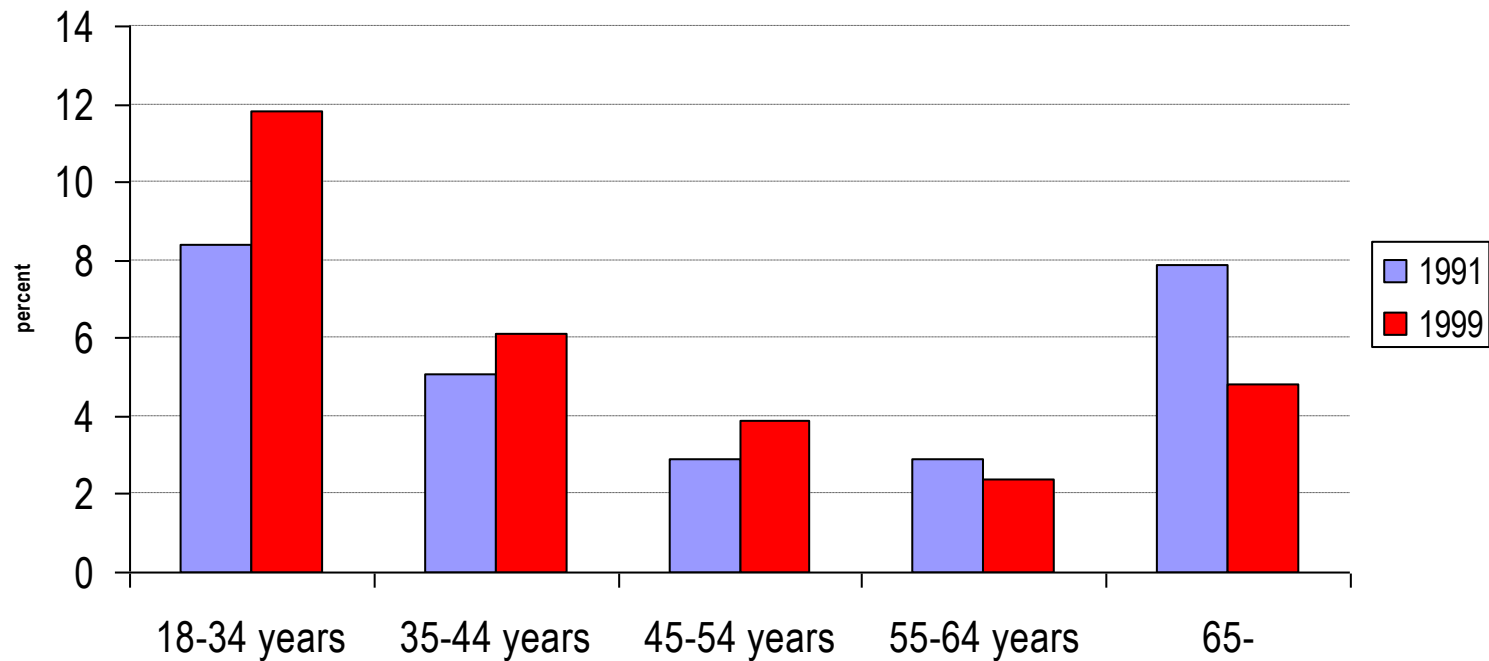
Criteria for evaluation

- poverty
- inequality
- labour supply
- savings
- What next?

The Swedish Context

- Relative income of the elderly population
- Occupational pensions
- Private individual pensions
- Labour force participation and retirement age

Share with low income 1991 och 1999 (below 60% of median)



Problems and potentials

- *NDC*; 16% not enough with current retirement age and future longevity
- *FDC*; PPM costly and risky, benefits lower and more unequal, replacement and indexing!
- *Guarantee pension*; Can always be used to adjust for unfavorable development but is the political economy right
- *Private/Occupational pensions*; crowding out support for benefits to poor elderly

For discussion

- How do we compare income of elderly to families with children?
- *Taxation*; Critical for assessing the adequacy of retirement income
- The retirement age must be affected by health and life expectancy
- Gender equality; how to reduce without cementing
- Disability and retirement; equity dilemma
- *Health and elderly care*; user charges burden on low income: we must take the funding of health- and elderly care into account

Redefining the social contract

- From a 'weak' generational contract needs to renegotiated from time to time
- To a 'strong' generational contract that does not need to be re-negotiated

(Lindh, T., B. Malmberg, and J. Palme. 2005. 'Generations at War or Sustainable Social Policy?' *Journal of Political Philosophy* 13:470-89.)

Strategies of Redistribution

- R H Tawney
 - *Welfare State as a Strategy of Equality*
 - G Tullock and J Le Grand
 - *middle class inclusion damages the poor*
- The Paradox of Redistribution*
- Robin Hood
 - Simple Egalitarianism
 - Within Group Redistribution
 - Matthew's principle: Give to those who have

Equality *and* efficiency

- Universal coverage – combating poverty and exclusion
- Transaction costs - low with nationwide systems
- Portability – good for labour mobility
- Incentive structure – poverty traps avoided
- Investments in health and education – productive labour force
- Stable institutions positive for growth: social rights as property rights
- Expenditure levels not the critical factor but program design

Rethinking social policy in ageing societies

- Social security is strongly redistributive over the life cycle: the ageing of societies puts tough fiscal pressures on public spending
- The debate on ageing issues has been overly focussed on pension reforms and savings
- How social policy interact with fertility, education and labour supply (the future tax base) is of vital concern
- We need to reform the system of social protection in order to make it sustainable for the future

Why the founding principles of social policy reforms are critical

- How benefits are distributed: coverage and adequacy
- How social security create interest coalitions and political support
- How social security programs may contribute to increase the number of taxpayers