



Ministry of Health and Social Affairs

**The Pension Group's agreement on long-term raised and secure pensions**

The following document is the agreement among the parties in the 'Pension Group' (a Swedish multi-party parliamentary working group). It was concluded to develop the Swedish pension system, as a means of safeguarding raised, secure pensions in the long term. The agreement lacks a draft statute but serves as guidelines in the continued drafting work.

## **New agreement for long-term raised and secure pensions**

Sweden has a fundamentally sound pension system, whose unique design attracted much international attention when it was adopted in the 1990s. Several countries, inspired by the Swedish pension system, have now reformed their own. The fact that the pension system is outside the government budget and pays out exactly as much in pensions as money is available for makes the pension system financially sustainable, which means that there is no risk of rolling over debt to future generations. This, combined with political stability — a large majority of Riksdag members backed the system — paves the way for secure pensions.

In the almost 20 years since the pension system came into being, the global environment has changed. This has a bearing on pensions. In the past few years, the parties now backing the pension agreement have therefore carried out a major review of the various components of the system. This work has led the Pension Group to conclude that the basic principles and strengths of the pension system must be maintained, but that the system partially needs modernising to become even better at delivering secure pensions.

The parties supporting the pension system have therefore agreed on continued updating of the pension system to safeguard raised, sustainable and secure pensions in the long term. Accordingly, the Pension Group thus accepts the agreement made in March 2014 and, within the framework of its assignment, continues to maintain the pension system and preserve the pension agreement. In the Group, the starting point for this new agreement is to make several improvements in the system to make more secure and higher future pensions attainable.

### **1. Reform and reinforcement of basic pension**

The scale of the basic cover has successively decreased in relation to median income in society. At the same time, the basic pension makes a strong contribution to improving the situation of the least affluent pensioners. For these reasons, the Pension Group has initiated a fundamental analysis of the structure and effectiveness of the basic cover, to develop proposals for change that, overall, provide better features, in the short and long term, for people with low pensions.

In the basic cover, only the guarantee pension is covered by the pension agreement. However, since there are clear connections, an analysis of the basic cover needs to be considered in conjunction with housing supplement and financial assistance for older people.

Work on reforming the basic cover should, other than providing basic financial security, focus particularly on the need for it to be worthwhile to have worked. Changes should, as far as possible, be characterised by strengthened incentives for work and the principle that for recipients of basic pension, too, there must be drivers for longer working life.

The inquiry will continue until 2 February 2018.

*The Pension Group agrees that the work will concentrate on reinforcing and increasing the basic cover as follows:*

- The basic cover must be improved and made to focus, in particular, on the most economically vulnerable, so as to reduce the income gap between women and men.
- For greater fairness, the guarantee pension must be extended with a more means-tested supplement. This supplement should be integrated into the guaranteed pension, instead of taking the form of a new benefit, with means-testing of the supplementary part carried out through an income test. Entitlement to the supplementary part should be automatically reviewed without a special application being required, and re-examined automatically in the same way as for the current guarantee pension if the recipient's circumstances change.
- The ceiling for the housing allowance should be raised.
- Means-testing for the housing supplement must become more efficient by equal value being assigned to all income to a greater extent and becoming more directly and clearly connected with housing costs.
- Opportunities for recipients of guarantee pension to strengthen their economic situation by working longer should be improved.
- Changes should be permeated by the clear economic advantage of having worked, compared with the level of the basic cover.

## **2. Reformed premium pension system**

The purpose of the premium pension system is to spread risk and contribute to a high return in order to strengthen future pensions. However, disadvantages owing to the difficulty of overseeing the numerous funds, and abuses on the part of some fund companies and advisors, occur.

There is a public interest in people receiving a pension that is possible to live on, and this is why we have an obligatory national pension. The premium pension is part of the national pension and, as such, part of the social insurance for which the state is responsible. The interests of savers and pensioners must always come first. Accordingly, in an initial stage and as soon as possible, measures to tighten up the rules to curb abuses and make the fund marketplace more secure, based on the 30-point programme proposed in the memorandum *A More Secure and Sustainable Fund Marketplace* (PM 2017:xx), are called for. The measures will indeed make the marketplace more secure, but it will still be hard to grasp, which makes it very difficult to maintain adequate supervision and guarantee freedom from abuses, as well as for the individual to make well-informed, rational choices. Controlling criteria by law also means that the system is sluggish in terms of changes in the criteria. Therefore, in a second stage, structural measures need to be implemented to achieve more trust in the system and more secure pensions.

The state should assume greater responsibility for ensuring that the premium pension system is designed according to people's actual behaviour, not according to how it is considered that they should behave. The state should be responsible for ensuring that the outcome is reasonable and secure, especially for those who do not make a selection among the funds. However, this does not include any guarantee of the level of return.

The preset (or default) selection bears a particularly strong stamp of social insurance, and is intended primarily to serve a safe system throughout life. However, this is not the same as freedom from risk. To ensure that the risk in the preset selection (the Seventh Swedish National Pension Fund) is reasonable, its current risk profile should be reviewed. Within the framework of the preset selection, there should be an option for savers' upward or downward adjustment of risk.

An objective for the premium pension system needs to be defined, but its detailed configuration needs further consideration. The objective of the premium pension should be oriented towards delivering an expected rate of return that clearly exceeds the income index in the long term, as it does today.

For those who wish to take charge of managing their own premium pension funds in person, choosing funds with varying emphases should be possible. Responsibility for the outcome is then on the chooser — but the state must

be responsible for ensuring that the choice environment offered is reliable and safe. The range of funds must be characterised by freedom of choice but simultaneously be checked and secure. Sufficient supervision must be made possible, and the risk of abuse by inferior providers thereby minimised. Today's open fund marketplace, which is freely entered on the basis of certain criteria, does not meet these requirements and should therefore be replaced by a professional marketplace in which the funds are procured.

The nature of the new fund marketplace must be determined by three overall principles: freedom of choice, sustainability and controllability. The sustainability requirements, like the new investment rules for the AP funds (see section 9), should take their starting point, at least, in the international conventions signed by Sweden. Which funds are available in the marketplace must be based on professional assessments. The funds are procured on the private market and the state itself has no funds in the marketplace.

A principal subject to overarching principles in law should be responsible for maintaining a qualitatively sound and secure fund marketplace comprising efficient funds. Like the Swedish National Pension Funds, the principal must be disengaged from political control, and the Government should therefore have no means of influencing which individual funds are available in the marketplace. For this reason, responsibility for the range available is transferred from the Swedish Pensions Agency to a special principal. The details of the special principal and the transition to the new fund marketplace need to be investigated in a special procedure. Management of savers' choices will continue to be handled by the Pensions Agency.

When the system shift takes place, the principal will inherit the current fund marketplace and, based on it, must successively bring about its transformation into a cost-effective, safe and controllable fund marketplace.

With the future procured and controlled choice environment, the current assessment is that it is unnecessary to introduce confirmation options for those who have not re-selected their funds for a long time.

*The Pension Group agrees that the premium pension system should be maintained, but reformed to provide better security and higher future pensions. It should be configured on a different basis, with a new structure, in accordance with the following principles:*

- The premium pension is a form of social insurance for which the state must be more clearly responsible. It should be secure, but this entails no guarantee of the outcome.
- The preset selection (the Seventh AP Fund) is the starting point of the insurance, in which the state is responsible for providing cost-effective, safe and stable pension insurance on a lifelong basis, without knowledge or personal actions being required from the saver, with a goal of a long-term return above the income index. Within the preset selection, there must be scope for savers to adjust their individual risk level. The risk level in the preset selection must be reviewed.
- Those who wish must have the opportunity of choosing funds in a safe, controlled and professionally procured fund marketplace, without the risk of being exposed to inferior operators. People who choose to switch to the fund marketplace must be informed that it means assuming responsibility for their own choice and for maintaining their choice. The fund marketplace must bear its own costs.
- A special principal (agency) should be in charge of the new fund marketplace and ensure that it is consistently secure, sustainable and of good quality. The principal must have an independent position and perform its tasks on the basis of principles laid down in law. The funds are procured according to professional principles in the private market. The state should not have any funds in the fund marketplace. The range of funds should be characterised by being qualitative, cost-effective, sustainable in ESG (Environmental, Social and Governance) terms and subject to inspection, with the risk of abuse minimised. The principal will initially inherit the current fund marketplace and then transform it, by applying strictly professional criteria, into a responsible, safe and inspectable fund marketplace. A predicted consequence of this, including implementation of the 30-point programme, is that the number of funds will decrease significantly.
- A detailed proposal for the new structure will be investigated in a special procedure.
- Immediately, measures are introduced to apply transitionally to make the current fund marketplace more secure. The transitional rules include the proposals presented in the memorandum 'A safe and more sustainable premium pension system' (PM 2017:XX), which in turn are based on the 30-point programme drawn up by the Pensions Agency.
- The administrative simplification proposals in the Focus Premium Pension (SOU 2016:61), based on the Pension Authority's previous proposals, will be implemented.
- An option of imposing an annual charge on funds in the fund marketplace is to be introduced, enabling the 30-point programme to be funded.

- The Government's tightened rules for provision of advice and promotion of funds in the fund marketplace are to be introduced.
- Measures will be introduced to ensure that assets in the fund marketplace are invested sustainably.
- With a fund marketplace that is significantly more controllable, introducing the type of confirmation option proposed in the inquiry on the Focus Premium Pension is not considered necessary at present.

### 3. Long-term sustainable pensions

In Sweden, we are living ever longer. Since the pension agreement came into being, average life expectancy has risen by 2.4 years. This is highly gratifying, but means that pensions will be lower since they must suffice for a longer period. For pension levels to be maintained, working life therefore needs to be extended at the same rate as the rise in life expectancy. A longer working life also has a bearing on prosperity, and thus the whole of society. Measures that make possible, and result in, a longer and more sustainable working life concern several policy areas and are more extensive than the scope of the Pension Group's work and the pension agreement. There are therefore needs that are not covered by this framework agreement.

In its 2014 agreement, the Pension Group supported the view that measures are needed to bring about long-term raised, secure and sustainable pensions. It was also stated, however, that this should be preceded by discussions with the parties on the labour market, which play a key role in the practical implementation. Such discussions were conducted under the leadership of Göran Hägglund and Göran Johnsson, who issued a declaration of intent in September 2016.

*The Pension Group agrees, based on the proposals for the government inquiry on retirement age and the declaration of intent, but with minor adjustments, to implement the following measures:*

- 2020
- Minimum age for drawing basic pension to be raised from 61 to 62 years.
  - Upper age limit for the Employment Protection Act (LAS) to be raised from 67 to 68 years.
  - Employers' option of dismissing employees without objective grounds to be made permanent for the entire LAS age range, i.e. the 'window' to be removed.

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| 2023 | <ul style="list-style-type: none"> <li>- Minimum age for drawing basic pension to be raised from 62 to 63 years.</li> <li>- Age limit for guarantee pension to be raised to 66 years.</li> <li>- LAS age limit to be raised from 68 to 69 years.</li> <li>- Associated security systems to be linked to the benchmark age.</li> </ul> |
| 2026 | <ul style="list-style-type: none"> <li>- Minimum age for drawing basic pension to be raised from 63 to 64 years.</li> <li>- Age limit for guarantee pension to be linked to the benchmark age.</li> </ul>                                                                                                                             |

The minimum age for drawing occupational pension should also be raised from the current 55 years, but the details of this reform need investigating (see section 7).

Those who are not entitled to guarantee pension are affected only by the raised 61-year limit and will therefore, as a rule, be able to draw their pension in a manner similar to today. For those entitled to guarantee pension, the above option means that a person aged 60 or over in 2017 (born in 1957 and earlier) is unaffected by the rise in the benchmark age in 2023.

The declaration of intent makes it clear that when the political system has decided on changes in pension-related age limits, the parties will work to achieve contractual solutions that are linked to the new arrangements. This is considered crucial for achieving both longer and more sustainable working life and more gender-equal pensions.

To achieve longer working life and long-term sustainable pensions, there also needs to be a focus on entry into the labour market. In an international comparison, the age of establishment on the employment market and, moreover, the average age of obtaining a university degree are high in Sweden.

### **Benchmark age to be introduced**

A benchmark age is introduced to which all the age limits related to retirement age are linked — after the initial rises are implemented. The purpose of the benchmark age is to enable retirement ages to be automatically adjusted so that prosperity and a reasonable pension level can be maintained. In purely practical terms, the benchmark age constitutes the age limit for guarantee pension and for other benefits as associated systems are adapted to it. The whole of the increase in life expectancy does not necessarily, however, have to be spent in work. Further investigation to clarify the proportion of the rise in

life expectancy that should affect the benchmark age, and also the detailed technical structure of this reform, is needed.

*The Pension Group agrees* that the benchmark age should be linked to the age for drawing guarantee pension. The age limits in the associated public systems of social security are adjusted so that, correspondingly, they are in line with the future benchmark age. The associated social security systems that are linked to the benchmark age are:

- housing supplement, survivor’s pensions, survivor’s annuity and income support for the elderly
- sickness benefit qualifying income (SGI), sickness benefit pay, grants for occupational aids, rehabilitation allowance, sickness allowance, work-injury annuity and housing supplement
- disability allowance, personal assistance and assistance allowance, car support
- financial assistance
- unemployment insurance, establishment inputs, new-start jobs.

Age limits in the tax system are not to be handled within the framework of this agreement.

Flexibility in associated social-security systems entails immediate increases in spending in the government budget. In macroeconomic terms, this is offset by the effects of longer working life. This reform must be neutral in terms of public finances. The Pension Group will monitor developments and propose measures where necessary.

### **Initiatives for people with long working life**

In the great majority of cases, people who have had a long working life have earned pensions high enough to exceed the limit of entitlement to guarantee pension. These people are unaffected by the raised age for entitlement to the basic cover (the benchmark age), and will be able to draw their pension from the age of 63, which is the new lower limit.

People with a long working life behind them who are still dependent on the basic cover should be subject to transitional provisions that allow them to continue to draw guarantee pension at the age of 65, even with a rise in the age limit. As working life is extended, the conditions for these exemption rules can also be linked to the benchmark age.

*The Pension Group agrees* that there should be a special exemption rule for people with a long working life. Those who have worked for at least 44 years should remain entitled to a guarantee pension from the age of 65.

### **Importance of charge for pensions and the pension system**

In the Pension Group's continued task of maintaining the pension system and safeguarding the pension agreement, every component needs clarification.

Ever longer life expectancy means that earned pension must last for more years, and this has consequences for pension levels. To maintain pension levels in the short and long term, it is therefore crucial for more people to enter employment and for working life to become longer and more sustainable. This would result in a more robust distribution system, which would reduce the risk of future imbalances and boost confidence in the capacity of the system to deliver adequate pensions, and thus confidence in the pension system. Raised charges are not an alternative to longer working life, since it will exert its full effect only in several decades' time. The charge is important for attaining sustainable higher pensions in the future, and maintaining the financial strength of the system. For the pension system and society, it is therefore crucial for the charge to be at the right level.

*The Pension Group agrees* that pension levels must primarily be maintained by means of longer working life but that, at the same time, it is important for pensions, the pension system and society for the charge in the pension system to be at the right level. The level of the pension charge should therefore be reviewed.

### **4. Measures related to work environment and education for sustainable working life**

To attain sustainable working life, supply the requisite skills in the future and ensure long-term sustainable pensions, people's scope for readjustment during their working life is crucial. The timing for entry into the labour market is also important. It is vital for people not to be worn out by their work, but rather to be able to stay the whole course.

*The Pension Group agrees* that measures related to the work environment for more sustainable working life must be considered. The new agency for studies in the work environment can play a key role in this context. Continued

improvement in access to high-quality occupational health services and rehabilitation measures in the event of illness is necessary. Further measures related to education and the labour market to improve scope for further education and career changes, and also to facilitate earlier labour-market entry, are also needed.

## **5. Delegation for older workers**

For a well-functioning labour market, everyone's skills need to be utilised. It is therefore important, to attain more sustainable working life and long-term sustainable pensions, to make better use of older people's abilities and counteract the problems of age discrimination that exist in the Swedish labour market today.

*The Pension Group agrees to set up a new delegation for older workers. This delegation's remit will be to help enhance knowledge of research on opportunities for older people, but also to propose measures to combat age discrimination and thereby make better use of their skills and experience.*

## **6. Ongoing consultations with parties on the labour market**

The path to longer working life and secure pensions concerns the whole of society and, in particular, the parties on the labour market. For successful results, all efforts must be concerted. The parties have demonstrated, through their declaration of intent, that they are assuming responsibility for finding the way to prolong working life and implement further measures. Well-developed collaboration therefore has a bearing on both sides' ability sides to follow the pension Group's work, secure support and engage in negotiations.

*The Pension Group agrees that, during the process of implementing longer, sustainable working life, there should be organised, ongoing consultations with the parties on the labour market. A special advisory council for the parties, linked to the Pension Group, should therefore be set up.*

## **7. Overview of deduction rules for occupational pension**

Several studies, including that of the government inquiry on pension age, have highlighted characteristics of certain occupational pension schemes that justify an overview of the rules for entitlement to deductions for pension provisions in the Income Tax Act, to better ensure that the national pension system and agreed pensions together contribute to long-term sustainable, secure pensions.

*The Pension Group agrees to initiate an overview of conditions for entitlement to deductions for pension provisions. Besides the minimum age for drawing pension, this group should review the size of the deduction right, the duration of the payment period, the option of taking a break from pension payments and extending the payment period once pension has begun to be disbursed, and the option of earning pension rights after the age of 65.*

## **8. Measures for more gender-equal pensions**

The national pension system is essentially gender-equal: pension is calculated and paid in the same way, entirely irrespective of gender. Nonetheless, the pension disbursed is, on average, very different for women and men. In practice, then, the gender-equal pension system does not provide gender-equal pensions. This is due to the defined-contribution nature of the pension system and the fact that pension is estimated on the basis of lifelong income.

Gender-unequal pensions are thus due primarily to factors outside the pension system, which are beyond the Pension Group's control, but the effect is inherent in pensions and strikingly affects pensioners' living circumstances today, and will do so for a long time to come. It is therefore also in the Pension Group's interest for involuntary part-time work to be stopped, for pay formation to take place in a gender-equal way and for responsibility for children to be divided equally between the sexes.

In 2015, the Pension Group took the initiative for a comprehensive analysis of pensions in terms of gender equality (*Gender-Equal Pensions?*, Ds 2016:19). In the light of this analysis, the Pension Group concluded an agreement on an action plan for gender-equal pensions in December 2016.

*The Pension Group agrees that specific, long-term efforts are needed to bring about changes to reduce the pension gap between women and men.*

The action plan for gender-equal pensions is attached to this agreement.

## **9. Modernised investment rules for the AP Funds**

The current investment rules for the Swedish National Pension (AP) Funds are based on conditions prevailing in the 1990s. In several respects, updating of investment rules is necessitated by changes that have taken place in and around the financial market. These changes would enable the Funds to invest

responsibly and sustainably to maximise the return for the pension system and optimise pensions.

*The Pension Group agrees* that work on reforming the investment rules for the AP Funds must be implemented in accordance with proposals in the departmental communication ‘Amended Rules for the First to Fourth AP Funds’ (ref. Fi2017/02972/FPM).