New Graduated Pension System in Sweden*

During 1959 both Great Britain and Sweden have adopted graduated benefit systems, which will be superimposed on the current programs paying flat-rate pensions. Great Britain's new provisions, described in the September issue of the Bulletin, apply mainly to retirement benefits. The Swedish legislation, reported in the following pages, affects old-age, invalidity, and survivor benefits.

A MAJOR addition to the pension program of Sweden has been made by three new laws, all enacted on May 14, 1959. The principal law, known as the General Supplementary Pensions Insurance Act, establishes a system of supplementary pensions, which will be payable in addition to the universal flat "national pensions" provided in the past. The amounts of the supplementary pensions are to be graduated on the basis of earnings and will be payable with respect to old-age, invalidity, and death. The second law, containing a single clause, fixes the contribution rates payable by employers during the first 5 years of the program. The third law deals with the administration of the general pension fund that will be built up under the new program. The effective date of the new legislation is January 1, 1960, when contributions will begin. Supplementary pensions will first become payable in 1963.

Background

The Swedish Social Democratic Government had introduced a bill in February 1958 that contained both a 10-year plan for substantial improvements in existing national pensions and an outline of principles on which to base legislation providing supplemental, wage-related pensions. The pension provisions were based largely on the majority report, submitted in February 1957, of the Eckerberg committee (composed of a chairman, four Riksdag members representing the four leading parties, and one representative each of the trade unions, the salaried employees' organization, and the employer federation). The pension fund provisions of the bill were based on recommendations submitted in January 1958 by a committee of experts headed by the Governor of the National Bank. Both chambers of the Riksdag approved that part of the Government bill dealing with national pensions, but on April 24, 1958, the lower chamber refused to endorse the principles concerning supplemental pensions. This chamber was then dissolved, and election for a new chamber was held on June 1, 1958. The result was a parliamentary stalemate, with 115 non-Socialist members confronting 110 Social Democrats and five Communists. On March 18, 1959, the Social Democratic Government introduced three bills, embodying the principles rejected earlier but with some additions and amendments. The passage of these bills in May in the lower chamber by a vote of 115 to 114 was made possible by the abstention from voting of one member of the Liberal Party.

Existing National Pensions

The pension system established by the National Pensions Act of 1946 is retained. Under this system, every Swedish citizen aged 18–65 (except those whose taxable income is less than 1,200 crowns[1] a year) pays a special pension tax equal to 4 percent of his assessed income, along with his regular income tax, toward the financing of national pensions. The pension tax of any individual may not, however, exceed 600 crowns a year. Revenue from this special tax has met about one-third of the cost of national pensions; the National Government meets about half the cost from general taxation, and local governments pay the remaining one-sixth. There is no employer contribution to the national pension program.

Every Swedish citizen (and aliens covered by reciprocity agreements) receives a national old-age pension at age 67, without any contribution, retirement, or means test. This pension is not graduated according to earnings. For a single person it now amounts to 1,700 crowns a year, plus a fixed supplement of 350 crowns and a cost-of-living supplement (varying automatically with changes in the national pension price index and currently 400 crowns) that brings the total to 2,450 crowns. For an aged couple the pension is 2,720 crowns plus supplements of 560 crowns and 640 crowns, or a total of 3,920 crowns. If the wife is aged 60–66 a wife's supplement is payable (subject, however, to an income test); the total maximum pension is the same as when both spouses are aged 67 or over. A housing supplement, varying in amount by locality, is payable by local governments, and it also is subject to an income test.

Invalidity pensions under the existing system consist of the following: (1) a basic flat pension of 600 crowns a year, irrespective of other income; (2) an invalidity supplement, payable subject to an income test, that may bring the total pension to a maximum of 2,450 crowns for a single person and 3,920 crowns for a couple; (3) a special housing supplement, varying by locality and subject to an income test; and (4) when relevant, an additional blindness or constant-attendance allowance of 1,200 crowns, which is not subject to an income test.

Widows aged 55–66 or caring for a child under age 12 receive up to 1,960 crowns a year and a housing supplement, both subject to an income test. No orphan's benefits are provided under the older pension program, but

* Prepared in the Division of Program Research, Office of the Commissioner, on the basis of the text of the laws, report of the Riksdag committee on the bill, and a dispatch from the American Embassy at Stockholm.

[1] One Swedish crown equals 19.3 cents in United States currency, according to the official rate of exchange.

each full orphan receives, in addition to the standard allowance of 290 crowns a year under the family allowance program, a special allowance (subject to an income test) that may be as much as 600 crowns a year.

As noted earlier, the above provisions are not affected by the legislation on supplementary pensions, which superimposes the new system on them. The 10-year reform plan approved in February 1958, however, means that important changes will be made in the national pension system in the future. These revisions will improve in particular the invalidity and survivor benefits now being provided under that system.

New Provisions

Coverage

The new supplemental pension system will, in general, cover on a compulsory basis all Swedish citizens (as well as aliens who are registered with the tax authorities) who are aged 16 or over and who are employees or engaged in self-employment. Public employees as well as private employees will be covered. Swedish citizens living abroad will be covered if they work for a Swedish employer. Persons who earn less than 4,000 crowns in any year, however, are not covered under the supplementary provisions during that year.

There are two forms of optional exemption from coverage. A self-employed person may elect not to be covered by the supplementary pension plan with respect to income earned through self-employment. Employees can be exempted from the supplementary system if their labor union concludes a collective contract on pensions with an employer or an employer organization. The collective contract must be concluded before July 1, 1961, it must be effective as of January 1960 (being retroactive if necessary), and it must guarantee inalienable old-age, disability, and survivor pension rights in a manner approved by the central pension insurance authority. It appears that, though a number of self-employed persons may choose to stay out of the system, few unions will do so because of their general satisfaction with the new statutory system.

Source of Funds

The new system of supplementary benefits will be financed exclusively, apart from interest on accumulated funds, from contributions paid by employers with respect to their employees and from those paid by self-employed persons. There will be no employee contributions, and no Government subsidies are foreseen. (The Government, will, of course, pay the employer contribution with respect to its own employees.)

Employers will pay a contribution with respect to that part of the annual wages of each of their employees aged 16–65 that is more than a "base amount" of 4,000 crowns and less than an upper limit of 30,000 crowns. Both the base amount and upper limit on taxable wages for contribution and benefit purposes will vary automatically, upward or downward, with changes in the national pension price index, which has been used in determining cost-of-living increments to national pensions. The upper limit, however, will always be seven and one-half times the base amount or lower limit. December 1957 will be used as the base period in these adjustments, which will be computed monthly. For technical reasons, there will be a 3-month lag between a change in consumer prices and its effect on the base amount, just as there is a 3-month lag between the ordinary consumer price index and the pension price index.

The Supplementary Pensions Insurance Act provides that contribution rates shall be fixed in separate legislation for 5-year periods at a time. The rates are to be set at such a level that the revenue from contributions, together with interest from any accumulated assets, will suffice to cover outlays for pensions and administration.

One of the three laws enacted in May fixes the employer contribution rate at 3 percent of taxable wages in 1960, 4 percent in 1961, 5 percent in 1962, 6 percent in 1963, and 7 percent in 1964. If wage levels remain unchanged, these percentages will represent, on the average, 1.9 percent of total payroll in 1960, 2.6 percent in 1961, 3.2 percent in 1962, 3.8 percent in 1963, and 4.5 percent in 1964, according to the estimates on which the law was based.

Self-employed persons will pay an annual contribution, based on earnings of 4,000–30,000 crowns a year, as assessed for income-tax purposes. It is provided, however, that the part of their annual earnings in excess of 8,000 crowns but less than the 30,000-crown ceiling will be reduced by one-third for purposes of computing contributions and pensions. This adjustment is based on the assumption that part of most incomes from self-employment, except in the lower brackets, is a yield from capital rather than work. The contribution rate payable by self-employed persons on their taxable earnings will be the same as that payable by employers.

Old-Age Benefits

Supplementary old-age pensions will become payable, simultaneously with the national old-age pension, to qualified beneficiaries under the new insurance system when they reach age 67. Retirement is not required as a condition of eligibility for either type of pension. At the beneficiary's request, a supplementary pension may be paid as early as age 63, but the amount is subject to a reduction of 0.6 percent for each month between the first pension payment and the sixty-seventh birthday. A beneficiary may also request deferral of his supplemental pension until as late as age 70, and the pension is then increased by 0.6 percent for each month of postponement.

The qualifying periods and pension formulas for supplementary old-age pensions, as well as for other types of supplementary pensions, are expressed in terms of "pension points." An employee or self-employed worker will be credited with a pension point for each year in which he has earnings from gainful employment in excess of the current base amount (4,000 crowns, adjusted in 100-crown intervals for price changes). The size of this point is computed by dividing his annual earnings above the current base amount and below the current ceiling (after rounding such earnings up to the next higher 100 crowns) by the current base amount. The resulting quotient, which is computed to two decimals and may vary from about 0.02 to 6.50, is his pension point for the year in question. The crediting of a pension point to an individual employee is based on his income-tax return; it is not contingent on the payment of contributions, which are computed and paid separately by employers for all workers in their employ.

To qualify for any supplementary old-age pension, a Swedish citizen must have been credited with pension points for at least 3 years, except that only 2 years will be required for pensions starting in 1963. An alien, to qualify, must have pension points in at least 10 years, unless this requirement is modified by a treaty with the country of which he is a citizen. To qualify for a "full" pension rather than a partial one, a claimant must normally have been credited with pension points in at least 30 years. For the first two decades of the new system, however, the 30-year requirement is replaced by one of 20 years, and during the third decade the qualifying period will rise gradually from 20 years to 30.

The rate of a "full" supplementary old-age pension will be equal to 60 percent of the base amount applicable at the time of the claim, multiplied by the annual average of the pension points earned during the 15 years (not necessarily consecutive) in which such points were the largest. The average is computed for the whole period of coverage when that period is 15 years or less. If the claimant has not completed the entire qualifying period required for a full pension, one-thirtieth of the amount of the latter will normally be deducted for each missing year. In the first two decades, however, the reduction will be one-twentieth for every missing year, and a transitional basis will apply between the twentieth and thirtieth years.

It may be useful to illustrate the manner in which a supplementary old-age pension will be calculated. Assume that an individual born in 1903 receives wages of 8,800 crowns in each year from 1960 through 1964 and wages of 11,000 crowns in each year from 1965 through 1969. Assume also that the "basic amount" remains at 4,000 crowns uniformly throughout the first 5 years and then rises because of price changes to 4,400 crowns during the second 5 years. The pension point credited to the worker for each of the first 5 years would therefore be equal to 8,800 crowns minus 4,000, or 4,800 crowns, divided by 4,000 crowns; the resulting quotient or annual pension point is 1.20. The pension point credited to him for each of the second 5 years would be 1.50—11,000 crowns minus 4,400, or 6,600 crowns, divided by 4,400 crowns.

If the individual claims a pension when he reaches age 67 in 1970, his average pension point for the entire 10-year period would be 1.35. If it is assumed that the basic amount has risen to 4,600 crowns in 1970, his pension would then be computed by first multiplying 60 percent of 4,600 crowns, or 2,760 crowns, by his average pension point of 1.35, and the resulting amount is 3,726 crowns. This would be the amount of his "full" pension. Since he lacks 10 years out of the total of 20 required for a full pension in 1970, however, this amount would be reduced by ten-twentieths. His final supplementary pension would thus be 1,863 crowns, which would be added to the national pension.

The seemingly rather complex formula in the law may be summarized in somewhat more general terms. If it is assumed that prices remain level, the supplementary pension during the first 20 years of the system will be equal to 3 percent of average taxable earnings (that is, those in excess of 4,000 crowns and less than 30,000 crowns a year, adjusted for price changes) multiplied by the number of years of coverage (years in which more than 4,000 crowns were earned). In the long run, the pension will equal 2 percent of average taxable earnings times years of coverage, up to a maximum of 30 years. A full pension at the 60-percent level can thus be achieved only after 20 years of coverage during the early period and after 30 years in the long run.

The fundamental purpose of the system of pension points is to help to assure the constant value of pensions. By crediting pension rights earned in each year in the form of pension points, rather than in crowns, and by reconverting them into crowns from pension points only when benefits become payable, the impact of inflation upon the value of such rights is avoided. The use of a base amount and a ceiling that vary with the price index as a factor in computing the pension points when earned, as well as the benefits when claimed, contributes to this process.

The reason for not making supplementary pensions payable with respect to the first 4,000 crowns of annual earnings (the base amount) lies in the existence of the universal national pensions payable to every aged person. The latter pension is currently equal to about 61 percent of the 4,000-crown figure for single persons and about 98 percent for aged couples. Since these national pensions are flat amounts, while supplementary pensions vary directly with wages, the percentage of wages represented by the combined total pension will tend to vary inversely with individual wages.

Invalidity Benefits

To achieve close coordination of the two types of pensions, eligibility for a disability benefit under the supplementary pension system is made contingent on being eligible for and receiving a national invalidity pension. A revision of national invalidity pensions is under preparation, and the invalidity provisions of the supplementary system have been drafted in such a way as to make easier future adjustments to the expected changes.

A national pension is now payable to any person who, because of sickness or other handicap, cannot support himself by work within his capacity and skill, if the disability is permanent or expected to be long-lasting. In practice, invalidity is deemed to exist whenever working ability is reduced by at least two-thirds and, in case of sickness, if the condition has lasted 6 months and can be expected to continue for at least another year. The Supplementary Pensions Insurance Act provides that persons who are receiving a national invalidity pension may also receive a supplementary pension if the disability arises after coverage under the new system and if they have had a specified minimum number of pension points (years of coverage) under it.

Swedish citizens who have been credited with pension points in at least 2 of the 4 years immediately preceding their incapacity receive a supplementary invalidity pension, in case of total incapacity, equal to the full supplementary old-age pension they would have received at age 67 if they had continued working until age 65 at an earnings rate equal to their average rate in the 2 highest years of the 4 years preceding disability. A disabled citizen who is not able to satisfy this condition but who has earned enough pension points so that he would have been entitled to an old-age pension if he had already attained age 67 when disabled, will receive a supplementary invalidity pension equal to the supplementary old-age pension that would have been payable at age 67. A supplementary invalidity pension equal to 60 percent of a full invalidity pension is payable when the disability is partial rather than total.

Aliens cannot qualify for either a national invalidity pension or a supplementary invalidity pension unless there is a treaty to this effect with their home country. To qualify for a supplementary pension they must also be credited with pension points in at least 5 years before the year of incapacity.

Survivor Benefits

Supplementary widow's benefits will be payable under the new program to widows of deceased workers and pensioners, if they were married to their deceased husband for at least 5 years and if the marriage had occurred before the husband reached age 60. Benefits will also be payable to other widows if children were born to them of the marriage and survive the father. The rights to these widow's benefits will cease on remarriage. Benefits will also be payable to those half orphans and full orphans under age 19 who survive a parent covered by the supplementary pension system.

One survivor, whether a widow or a child, will receive 40 percent of the old-age or invalidity pension that the deceased person had been receiving or of the invalidity pension to which he would have been entitled if he had become totally disabled at the time of his death. Two survivors will receive together 50 percent of such pension; the widow will receive 35 percent and the child 15 percent, or, if both survivors are children, each child receives 25 percent. For each additional child, the pension will be increased by 10 percent, until the total, payable to five or more dependents, reaches 80 percent of the deceased person's pension.

Like other supplementary pensions, these survivor benefits will be added to any national pensions that are payable. The reform of survivor pensions under the national pension system that is being planned will raise widow's pensions to the amount of a single person's old-age pension, liberalize the terms on which they are granted, and introduce orphan's pensions of 1,000 crowns a year. The details of this legislation are still being studied, and the Government is planning to submit a bill to the Riksdag in its 1960 spring session. Various details pertaining to supplementary pensions for survivors have therefore been left open in the 1959 legislation, which will be amended in the light of the changes in the national pension law.

Administration

The supplementary pensions insurance law does not, in general, deal with the administrative organization of the new system. Legislation on this subject is being prepared and will be introduced subsequently. The Minister of Social Affairs has indicated, however, that the greatest possible use will be made of existing agencies. Under present plans, local tax-collecting authorities will ascertain the income of employees and self-employed persons for pension purposes and will also collect contributions from the self-employed. The State Insurance Institution, which now collects work-injury insurance contributions from employers, will probably—at least initially—collect supplementary pension contributions from them as well. The task of maintaining continuing records of the pension points of individual workers may be entrusted either to the Royal Pension Board or to the public sickness funds.

All contributions under the supplementary pension program will be paid into a general pension fund, and all expenditures under it will be met from the fund. This fund will be treated as a single entity with respect to legal claims and obligations. The third law passed in May, which deals exclusively with the fund's administration, divides the fund into three parts for administrative purposes, however, with each part to be governed by a separate board. One board will administer the money paid into the fund by any government unit as employer, estimated to account for about 20 percent of all contributions. A second will administer the money paid in by private employers having 20 or more employees, representing about 50 percent of contributions. The third will handle the amounts contributed by small private employers and by the self-employed, accounting for the remaining 30 percent. This three-way dispersal of authority was adopted in response to criticism of the possible concentration of Government control over a huge sector of the capital market that might have resulted if the entire fund were administered by a single board. Each of the boards will contain representatives of Government, employers, and insured persons. The members representing employers and insured persons are to be appointed by the Government from nominations of the respective groups.

The State Insurance Institution and local tax authorities will transfer the contributions they collect to

Table 1.—*Supplementary pension system: Estimated amount of contributions, expenditures for pensions, and assets of pension fund, 1960–64*

[In millions of crowns]

Year	Total contributions	Expenditures for pensions	Assets of fund at end of year [1]
1960	480		500
1961	740		1,200
1962	940		2,200
1963	1,130	40	3,400
1964	1,320	90	4,700

[1] Includes effect of probable interest income and administrative expenditures.

the appropriate boards, from whom in turn the central pensions authority that pays benefits will later requisition the amounts required for current expenditure. The boards will invest unneeded assets at their disposal, in accordance with rules set forth in the law. Up to one-half the contributions received in any year will be available for loans to the employers and self-employed persons who paid them. The remaining revenues, including contributions and interest, that are not required for meeting current expenditures are to be invested in either Government bonds or specified types of private bonds.

The provision for lending a part of the amounts collected back to those making the contributions has been included as a partial substitute for existing private pension funds. Payments by employers into such funds have been tax free, and business firms have been able to reinvest the money in their own business; the total amount invested in Swedish enterprise is believed to be substantial. The loans will be extended through the intermediary of commercial banks and other credit institutions, which will assume all risks involved and relieve the three boards of much administrative work. The banks may lend to employers and self-employed persons up to half the supplementary pension contributions they paid in the preceding year if such contributions total 1,000 crowns or more. The contributor will not have an unconditional right to borrow part of the contributions he has paid, however, since the bank will judge his credit according to its usual procedures. After making a loan, the bank in turn will acquire a claim to a 10-year loan of corresponding size from the appropriate administrative board, at an interest rate to be set by the Government. This rate is to exceed by one-half of 1 percent the highest interest paid by banks on deposits.

Future Income and Outgo

Estimates of total supplementary pension contributions under the new program, expenditures for supplementary pensions, and the size of the pension fund during the first 5 years of the program are presented in table 1. These estimates are based on the assumptions that all gainfully occupied persons will be covered by the new system, that real income (nominal income in relation to prices) will remain unchanged, that the monetary value of the crown will remain constant, and that a 3-percent yield will be received on fund investments.

Expenditures for supplementary pensions are expected to continue to rise for many years after 1964, as both the number of eligible pensioners and the average size of the pension increase. On the basis of the assumptions mentioned, such expenditures are estimated to reach about 530 million crowns in 1970, 1,900 million crowns in 1980, and 3,400 million crowns in 1990. If real income should rise instead of remaining constant as assumed, the increase will be still greater because of the larger pension points that will be earned. The pension fund is also expected to continue to grow during the first two or three decades of the system, but the pace of this growth will eventually slacken as pension outlays continue to rise.

The financial structure of the new system has been described as "pay-as-you-go," in the sense that, after it will have been in operation long enough for large numbers of persons to qualify for pensions, annual contributions plus interest are calculated to equal annual outlays for pensions. This pay-as-you-go approach will be significantly modified, however, not only by the collection of contributions from January 1, 1960 — the effective date of the legislation — rather than from 1963 when pensions will first start, but still more by the large excess of contributions over outlays anticipated during the early years of operation, when pension outlays will still be relatively small. In fact, if contributions after 1964 continue at the 1964 level, it will not be until after 1975 that pension outgo will exceed contribution income. Through 1975, aggregate contributions are expected, on the basis of official estimates and assuming continuation of the 1964 level, to exceed aggregate pension payments by about 13.4 billion crowns, on the basis of level wages. The fund will probably exceed this figure, since interest earnings are likely to be larger than administrative costs. Thus, the fund in 1975 will be more than 11 times larger than expected pension outgo in that year; in fact, interest income will be one-third as large as contribution income (or benefit outgo).[2]

The decision to build up a large fund seems to have been prompted by the need to compensate for the decrease in private savings and private pension funds that may result from the adoption of an expanded public pension system. It also reflects a desire to create capital resources for financing large-scale investment.

[2] When the old-age and survivors insurance system in the United States had been in operation for the same period (16 years), the trust fund was only about four and one-half times contribution income and eight times benefit outgo. At the end of 1958 (after 22 years of operation), the ratios were about 2¾ for both contribution income and benefit outgo.

PROGRAM OPERATIONS

(Continued from page 3)

all payments for aid to dependent children by 15 percent, and the average payment per recipient declined from $23 to $19. In West Virginia, average payments dropped roughly $3–$6 in the special types of public assistance; these decreases tended to offset the increases that had occurred in July when the State included a temporary extra allowance for personal incidentals.

Nationally, the August increase in the average payment per general assistance case reflected, at least in part, the effect of a higher proportion of family cases in the caseload. The average payment per case rose 93 cents, but the estimated average payment per person declined 65 cents.