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DIPLOMA THESIS

The Main Reasons behind the Success of Swedish Social Security Reform

Ljubljana, April 2010   IGOR VALANTIČ

STATEMENT

I, Igor Valantič, hereby declare that I am the author of this thesis, which was written under the guideline of dr. Igor Masten. Furthermore, I allow the publication of this thesis on the faculty home page.

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1 Introduction

The demographic ageing in several developed countries across the world poses a threat to the long-term financial stability in countries that still use traditional unfunded PAYG (pay-as-you-go) social security systems. In the face of rising costs, as the beneficiary cohort is expanding and the base of contributors is getting smaller, some sort of reform is inevitable. Whether this should take the form of a more "parametric" reform, as presented by Chad and Jaeger (1996), where one would raise the age of retirement, cut benefit accrual rates and so on, or a partial to full transition to a fully funded system, each country must decide for itself. Whatever the decision is, one can assume that the plans for reform should be prepared in advance, so that the transition can be as smooth as possible, and also because it might be harder to implement any radical reforms in the future, as the society ages even further. In addition, as the reform affects the population as a whole, particularly minors and unborn children, who are unable to vote, it is rather complicated to find a solution suitable for each age group. One should therefore look into solutions that convey benefits to the largest majority possible. One such solution that incorporated the aspects of both the old PAYG systems and the "new" fully-funded systems is Sweden's solution. As any system, it has its advantages and disadvantages, but what is noteworthy is the reason why the Swedish parliament was able to agree to it. Therein lies the research question of this thesis: "What are the main aspects that enabled Sweden to reform its pension system in a way that provided benefits for most generations?"
In order to answer this research question, one must first establish some basic concepts with regard to pension systems in general. Consequently, the first part of this thesis provides a description of the old unfunded system, the problems it had and its benefits. Also, the opposite, fully-funded system is presented, along with its aspects.

The second part of the thesis then continues with the specific situation of Sweden, and starts by showing the way in which Sweden's long-term financial stability would be threatened if no reform took place. After the need for reform is established, the thesis carries on by explaining the reform legislated by the Swedish parliament. The description of the goals it had, its implementation, the features of the NDC (notional defined contribution) scheme, design issues, the transition from the old system, guarantees for the poor and some more specific issues are presented in this section. Moreover, one of the questions that must also be answered in this part is the way the overall costs of the reform will be treated. Here the financial stability of the reformed system is presented, along with the specific adjustment mechanisms the reformists have implemented in order to maintain stability in times of financial distress. The conclusion of this part is reserved for the presentation of the fully funded part of the Swedish system, also known as The Mandatory Advance Funded second pillar with individual privately managed accounts, and the way it operates.

Lastly, one must show why and how all these factors contributed to the reform's success. As Sweden's legislative hand operates in a majority voting system, the voting cohort plays an essential role. This section is based on Selen & Stahlberg's paper (2007), and examines the electorate of Sweden at the time of the reform as well as in later times, particularly how the reform affected each specific age group of the population. As their findings reflect the way the majority makes decisions and how majority transformation through time affects the ability of a country to advance a reform, their findings pose a solid starting point, as well as forewarning for any country that finds itself in a similar position, but has not yet made any effort to reform its pension system.

2 Pension Systems in General and Their Problems

2.1 Unfunded system

The most common system used worldwide is the unfunded system, also known as the pay-as-you-go system. This system is based on intergenerational redistribution, which means that the people currently employed are paying for those who are retired. To understand how the system works, a simple mathematical equation can be derived (Rosen, 2008):

$Nb * B = Nw * W * t$ (Rosen, 2008, p. 236)

(Equation 1)

On the left side of the equation is the number of beneficiaries (Nb) and the average benefit (B) paid out. On the right side is the number of workers (Nw), the average wage (W) and the average tax level (t). The left side represents the total amount of benefits paid out, and the right side stands for the total amount of taxes gathered. The conclusion from this equation is that in order to maintain the system's stability, the amount of total benefits should be equal to the amount of total taxes.

There are three main advantages of this system. The first is that it is possible to implement it immediately, which means no prior saving is required for the starting generation of beneficiaries. The second advantage is that it provides a decrease in risk[1] for everyone participating in the system This is possible because as long as people work and pay their taxes, some assets will always be available for those who have already finished their working life. This aspect of the system is founded on the grounds of intergenerational solidarity. Lastly, this system can be easily adapted if the population and/or productivity increase. Productivity, in this case, is represented as an average wage (W) (Selen, 2007).

All these advantages, however, lead to an inherent problem, which can be shown by rearranging the previous equation through the use of simple algebra.

$B = Nw/Nb * W * t$ (Rosen, 2008, p. 236)

(Equation 2)

The ratio between the number of workers and the number of beneficiaries, also known as the dependency ratio, is represented by Nw/Nb. This ratio is the key problem in maintaining the system's financial stability. If the population is ageing and the number of workers starts to decrease in comparison to the number of retirees, the system will no longer be able to provide the same benefits if taxes and/or wages do not increase.

It is vital to understand that this math equation is only a simple way of capturing the basic idea behind the PAYG system. In reality, such a system is much more complicated. All the specific details have to be defined in some form of legal documents, and these documents provide a certain promise to the beneficiaries that their pensions will be provided for. A name for such a promise in a legal document is "defined-benefits clause". Hence if such a clause exists, the government is legally forced to pay out the pensions, even if that means

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[1] Risk in this case refers to the probability that one's savings might disappear due to instability of the market.

taking the funds from somewhere else. Gonzales-Eirez and Niepelt (2007) explain that the government should either raise taxes in order to keep the benefits the same or lower benefits to keep the taxes the same. In either of these two cases, the government is forced to change legislation, and that takes time.

This is the inherent problem of the PAYG system, and as such is forcing the governments of the developed world to start changing their pension systems. When the reforms are taking place, governments try to find a solution, which would be somewhat independent from the ageing problem.

2.2 Fully funded system

A system that is independent from demographic changes is called a fully-funded system. Fully-funded means that each individual is responsible for his own social security. Participation in the system can still be forced, but the main difference is that during a person's working life, a part of his or her wage is put into an individual account, in contrast to giving it directly to the retirees. When that person retires, benefits are paid directly from that account, including all the accumulated interest. Such a system is no longer dependent on the country's age demographic changes. Furthermore, the government no longer has a problem in maintaining the financial stability of the system. It does, however, cause some social problems.

The first of these problems arises from the fact that an individual's savings are invested into a pool of capital or financial assets. This makes them vulnerable to market conditions, which means that if the individual retires when the market is at its cyclical bottom, the value of the savings at the point of retirement can be considerably low. The opposite can also hold true. If the time of retiring is "right", the value of the savings can be relatively high. Each individual is therefore facing a certain amount of risk, with some being better off in the long run while some are worse off. But because most people have no control over the time of their retirement, exposing them to such risk is somewhat unfair and controversial.

Secondly, if people save for themselves, fully-funded systems will have long transitional periods (Supan, 2007) before they can start paying the benefits. Also, from a young person's perspective, the time of retirement is to a certain extent quite distant. Therefore, if people's myopic behavior causes them to start saving too late or too little, they will not have enough savings accumulated to survive through their retirement. However, this problem can be avoided by making participation in the system mandatory.

A social security system can also be a combination of both PAYG and fully-funded. It is up to each individual country to decide which combination suits it best. Sweden's reform transformed the system from a classical PAYG system to a combination of both. To show what the reasons that lead to a reform were, one first needs to show the way the old system operated and why the need for reform was even present.

3 Design of the old Swedish system and how this contributed to long-term financial instability

3.1 Overview

To start with, the system was an unfunded PAYG system, financed from taxes paid by the working population. Furthermore, it was divided into two parts. The first, social part was a pension that was available to everyone, regardless of the amount paid into the system during one's working life. This part amounted to around $4,000 of the annual income for a single retiree and $6,500 for a married couple. The second part of the benefits was determined according to contributions paid into the system (Normann & Mitchel (2000)). One was able to obtain a full-benefit pension with 30 years of work, retiring at the age of 65. According to Palmer (2000), at that point the benefit was calculated using the average earnings of 15 highest income years. To finance these benefits, two types of taxes were levied on workers. The first was a 6 percent tax, which was used to finance the social part of the pension. The other was a 13 percent payroll tax, and that financed the second part. Moreover, the system also had a trust-fund, and all the surpluses gathered were put in it. The trust-fund was designed to ease the transition period that will occur when the baby-boom generation retires (Palmer, 2000).

3.2 Issues

As any classical PAYG system, Sweden's system was also inherently instable due to the benefits paid out. Beneficiaries were entitled to them through legislation, so the government was obliged to pay them out. As the population of Sweden was ageing, there was a decrease in the number of contributors, and an increase in the number of beneficiaries. Old-Age Dependency[2] in Sweden was projected to increase from 30 percent in 2000 to 46 percent in 2050 (Holtzmann, 2004). In light of *Equation 1*, that would mean significant increases in contribution rates to cover such an enlargement. As Selen et al. (2007) put it, **"**contribution rates would need to be raised from 23.5 percent in 1990 to 28.3 percent (annual real wage growth of two percent) or 40.3 percent (annual real wage growth of zero percent) in 2015" (p. 1178). Furthermore, there was also the issue of unfair income redistribution. The income was being redistributed from those with long working lives and weak wage growth to those with short working lives and an unevenly distributed lifetime income, instead of from the poor to the wealthy (Selen et al., 2007).

There were also some other minor faults: the former system was too distortive towards the economy, as it provided weak work incentives. If the system was indeed too generous, it is possible that fewer people were willing to work than in the case of having no social security system at all. Moreover, the trust-fund designed to accompany baby-boomers into retiring had a substantial amount of misleading assets, such as government bonds, which could only be redeemed by issuing more bonds in the future, pushing the country further into debt (Palmer, 2000).

All these reasons slowly contributed to the gradual increase in political support for the reform. In fact, when the legislation was passed in 1994, five of the seven parties in the Swedish parliament supported it, which amounted to more than 80 percent of the votes. (Selen et al., 2007)

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[2] The ratio between people aged over 64 and the working age population expressed as a percentage.

4 The reform

4.1 Overview

Briefly explained, the system was transformed from a defined-benefit PAYG system to a notional defined-contribution (NDC) plan. Subsequently, the advance-funded second pillar was also introduced, where one's assets would be privately managed.

In a NDC plan, each individual owns a notional account, which tracks the contributions paid in and earns a rate of return. The latter is arbitrarily set by the government, and is not the product of the market return (unless the government sets it as such). Furthermore, these accounts do not actually hold funds; they merely represent a series of individual claims on the future public budget. When an individual retires, the account is transformed into an annuity and the retiree begins to receive his or her pension.

According to Selen et al. (2007), the amount of contributions is set at 18.5 percent of the income, which is then split into two parts. The majority of that amount goes to the notional account, while the smaller part goes to the individual fund, which imitates the fully-funded system. The notional account return rates are determined by average annual wage growth. This return is much closer to the return on the economy than to the return on the financial market.

As it was the aim of the Swedish government to provide some sort of fair and adequate earnings-related retirement benefit, while at the same time keeping some sort of social component, it committed itself to achieving four goals:

a) Fair treatment of persons with different contribution rates

> Benefits should be dependent solely on one's lifetime contributions into the system and the age of one's retirement. If two people have contributed the same amount of funds into the system and retire at the same age, they should receive the same pension, and all other variables should be irrelevant.

b) Transparent redistribution

> It must be clear what the source and destination of all financial currents is. For example, the social component of the new system is not financed from the new system, but from the general budget. It is designed to provide some sort of support and protection for the life-time poor.

c) Financial stability in the face of changes in demography and the economy

> In the NDC system, individual decisions about work and retirement are more precisely reflected in the benefits. Also, the system has a fail-safe mechanism that automatically lowers the benefits paid out when it faces a deficit, which works to help overcome the ageing problem.

d) Financial saving managed by private financial institutions

> "during the period in which the large birth cohorts of the 1940s will drain the reserves of the present PAYG pension fund, public financial saving will be

maintained through the creation and growth of new second pillar saving from younger workers." (Palmer, 2000, p. 3)

4.2 Implementation

The first part in the process of implementation of the new system was the creation of individual accounts using historical files since the 1960s. Then the reformist had to determine the value of notional capital. For those retiring by 1994, a contribution rate of 18.5 percent was used; for those retiring between 1995 and 1998, 16.5 percent; and for those in 1999, 16 percent. The difference between the contribution rate and 18.5 percent was attributed to the second pillar. Once all the information was converted, account statements were sent out to the entire covered population in early 1999.

The second part was the establishment of the funded pillar. It had more than 500 different funds in which contributions could be paid. In autumn of 2000, individuals were able to make the first choices on which privately managed fund they will select. For those that did not choose, the government set up a default low-risk fund.

Lastly, as the system was established, it could start paying out benefits. First benefits from the new NDC scheme were paid out on January 1, 2001, and the first recipient was a person born in 1938. That person, however, did not receive full benefits from the new system, as Sweden designed a transitional period for certain age groups. If one was born in 1934, one would receive 20 percent of the benefits from the old system and 80 percent of benefits from the new system. For each later year, a person receives five percent less from the old system and five percent more from the new, until the people born in 1954 retire and receive 100 percent of the benefits from the new system.

4.3 Characteristics of the reformed system

4.3.1 Defined-Contribution PAYG with Notional Accounts

The basic principle behind notional accounts is that contributions flowing into the system are used to finance current social security obligations, and as such do not differ as much from the traditional PAYG system. However, the values recorded on individual accounts present a future claim by the individuals towards the system. The value in the account is the sum of contributions during the present and previous years.

At one's retirement, he or she receives an annuity. In its simplest form, the annuity is calculated by dividing the capital balance at the time of retiring by the unisex life expectancy. As society ages and demographic instability is introduced, a change in the life expectancy factor automatically counters this problem. In this manner, the system is actuarial in nature, as it allows the individual to handle this factor by working and contributing more.

4.3.2 Front-loading

What is also intriguing is the way annuity incorporates a real rate of return of 1.6 percent. This is called front-loading and enables the population to benefit from the real economic growth in advance. They are given higher initial benefits than under a straightforward NDC in exchange for lower benefits at the end of their retirement (Palmer, 2000).

The transfer of funds from the future to the present can be justified by the assumption of people having a positive time preference, meaning they prefer more benefits now rather than later.

4.3.3 Replacement rates

One of the most important issues that people are interested in when it comes to social security reform are the replacement rates. They define, in percentage, how high one's pension will be in comparison to one's wages. Figure 1, as done by Palmer (2000, p. 7), demonstrates how the replacement rate changes at different years of retirement for the typical individual.

Figure 1: Illustration of replacement rate in NDC accounts

Age	Earnings (Individual growth of 2 % per annum)	Capital index (2% per annum)	Capital balance (End of year)	Unisex life expectancy (Swede born 1975)		Annuity (Based on life expectancy and a real return of 1.5%ž)	Replacement rate (% of earnings last year)
22	27061	1.082	5006				
23	27602	1.104	10213				
24	28154	1.126	15626				
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.							
60	57432	2.296	414368				
61	58580	2.342	433493	24.24	0.3	21043	**0.37**
62	59752	2.389	453217	23.41	0.32	22654	**0.39**
63	60947	2.437	473557	22.59	0.34	24397	**0.41**
64	62166	2.486	494528	21.78	0.36	26287	**0.43**
65	63409	2.535	516150	20.97	0.38	28342	**0.46**
66	64677	2.586	538438	20.16	0.4	30580	**0.48**
67	65971	2.638	561411	19.36	0.43	33024	**0.51**
68	67290	2.691	585088	18.55	0.46	35716	**0.54**
69	68636	2.744	609488	17.76	0.49	38654	**0.57**
70	70009	2.799	634629	16.96	0.52	41906	**0.61**

4.3.4 Features of the NDC Scheme

The NDC scheme provides some significant advantages over the old system. The system is fair because workers that contribute the same amount of funds into the system and retire at the same age get the same annuity. Moreover, with the establishment of NDC accounts, the government created the option of investing the so-called "rights" into people's accounts. One can receive special rights for military conscription, care of younger children, participating in higher education and compensated days of sickness and unemployment, as well as disability. These rights can be used to fill one's NDC account, or second pillar.

Next, the reform also had to incorporate increases in longevity in the pension system. Failure to do so could result in substantial costs in the future. As the NDC responds automatically to changes in life expectancy, the appeal for its usage is even greater. In addition, people are notified about life expectancy projections, so they are able to include such information in their calculations and decisions about the time of their retirement.

4.3.4.1 Easier flexible retirement

The government sets the statutory minimum retirement age, but after one passes it, one is free to choose partial or full retirement. The choice is given between 25 percent, 50 percent and 75 percent of a full pension, if one chooses partial retirement. The benefit from early partial retirement is that an individual can still continue to work and build up capital in his notional account (Palmer, 2000). The second benefit is that the transition from one's working life to one's retirement is smoother and less radical.

4.3.4.2 Periods of unemployment, sickness and disability

The benefits that one receives during unemployment, sickness and disability are treated as proper income, and as such, they are taxed normally by 18.5 percent, with the taxed amount credited to one's individual account.

4.3.4.3 Childcare and other social policy motives for enhancing pension accounts

The rights system mentioned before enables the accruing of rights for childcare or military conscription. The process itself is rather complicated, as there are three possible computations, and the one used is always the one that is the most favorable:

- A supplement equal to 75 percent of average earnings for all covered persons

    o Covers persons without earnings immediately prior to childbirth

- A supplement up to the individual's own earnings the year prior to childbirth

    o Replaces own earnings for a person who leaves his or her job after childbirth and is wholly or predominantly at home.

- A supplement consisting of a fixed amount, indexed in time to the (covered) wage per capita

    o An extra supplement after return to work – thus not discriminating against those women (men) who return quickly (in Sweden usually after 8-12 months) with earnings equal to or higher than those prior to childbirth.

All the contributions that come from these rights are paid for from the budget.

4.3.4.4 Survivors

When people die prior to their retirement period, they create a surplus in the system. This surplus is then divided between the beneficiaries, thus providing them with higher benefits. By doing that, the system provides more fairness towards the survivors.

4.3.4.5 A Guarantee for the poor

The reform also incorporates some sort of social pension, which is known as a guaranteed minimum pension. There are several possibilities in determining the size of the guarantee. Sweden guarantees a graduated guarantee, which provides a flat guarantee plus a benefit from the NDC scheme even in cases where such a benefit is very small.

Full guarantee can be claimed at the age of 65, with 40 years of residence. One fortieth of the fee is deducted for each year under 40, and a married pensioner receives 11 percent less.

In spite of all these improvements, the NDC has, nevertheless, a few design issues.

4.3.5 NDC design issues
The first issue is setting the minimum retirement age. One has to consider that an individual should have an adequate replacement rate at retiring, so that no one retires into poverty. Furthermore, life expectancy should be reflected in the age of retirement, so that a typical claimant gets adequate benefits.

Next, when one retires and an annuity is granted, how should future changes in life expectancy affect it? One can assume that if any of the variables in the equation that determines financial stability change, the annuities should be recalculated.

Thirdly, Sweden's system does not allow voluntary contributions in its public schemes; nonetheless, it is possible to put them into private financial accounts. As the latter is understandable, the former is somewhat controversial, and could be a matter of further political dispute in the future.

Lastly, there is still a problem with female income. The most common reasons for smaller female wages in most countries are: women choose to work fewer hours, are usually employed in occupations with lower salary levels, and are employed fewer years as full-time workers due childcare.

As population ageing is mostly the consequence of women having fewer children, one can conclude that bearing and raising children should be desirable. Therefore, a mandatory pension system should not disfavor persons who spend time out of the labor force during early childcare years. There are arguments for and against the transfer of capital from men to women. The s calculates pensions based on some average unisex life expectancy. Assuming that women live longer, an indirect transfer of funds from men to women already occurs.

On the other hand, women earn less, and therefore have lower pensions. To neutralize such an effect, one could provide some sort of adjustment for individual accounts. But as the knowledge about future relative wages is fairly limited, the Swedish scheme does not include such an adjustment.

4.3.6 Transition from the old system
When the transition from the old to the new system occurred, reformist faced two main issues; how to convert old rights into new rights, and which age cohorts should be included in the new system.

Since the old defined-benefits system calculated the benefits from the 15 highest income years, and one cannot tell when the best years have happened until all the years are accounted for, one can see why this was a problem.

People born in 1938 are the first affected by the new system. A partial reason for selecing that year is that women born in 1940 were the first whose participation in the labor force was somewhat equal to that of men. According to Palmer (2000), for the new system to be gender neutral, 1938 is a logical choice (the two years' difference can be easily accounted for by childbearing).

One of the reasons why the transition was so gradual (1938-1954) lies in fairness towards those who planned their careers in such a way that resulted in their late entry to the labor force, for example, due to education.

4.4 Medium and long-term financial stability

4.4.1 Rising contribution rates with the old system

One of the major arguments for reforming the system was the inevitable collapse it was facing in light of demographic changes. Increased longevity and earlier retirement are mostly responsible for undesirable future prospects. Part of the problem lied in benefits being price-indexed in the old system. Due to that reason, the old system was extremely responsive to economic growth. As real wage growth rose, contribution costs increased. Conversely, if a fall occurred, the burden on current workers would increase. Palmer (2000) showed that "*the contribution rates would have to increase to 24-27 percent by the year 2030 .... In the pessimistic scenario, the contribution rate needed to pay benefits at the time children born in the late 1980s become pensioners hovers around 29 percent.*" (p. 22). One of the conclusions was that such an increase is somewhat unreasonable and most likely unsustainable. Only with consistent long-term real wage growth of three percent would the cost of the old system resemble the cost of the new system (18.5 percent in a worst-case and 17.5 percent in a best-case scenario).

4.4.2 The financial stability of the reformed system

Benefits in the new system, on the other hand, are calculated to reflect longevity exactly. As such, the new system is financially stable with regard to demographic changes (except for the minimum guarantee pension, which is paid for from the budget, and is as such exempt from the system).

NDC annuity is calculated with the assumed knowledge of exact longevity outcome for a cohort, and a real rate of return of 1.6 percent. The compensation between the real rate of return and the actual rate of return is also provided for by applying economic indexation. Such a mechanism provides the financial balance for the system, or, to quote Palmer (2000), "*for the individual pension, this results in an annual deduction of 0.01 – 0.016 = -0.006 per year with real growth of two percent, but there will be an increment of 0.02 – 0.006 = +.004 per year with two percent real growth, and 0.03 – 0.016= +0.014 per year with three percent growth.*" (p. 23)

Economic indexation can be applied in two ways. One is per capita and the other is wage-sum indexation. With a stable labor force they should yield the same result; however, if the labor force is volatile in any way, wage-sum indexation alone will keep the system in financial balance.

Basically, per capita indexation of notional accounts and benefits means that the sum of benefits will increase faster than the sum of contributions in the case of an ageing population. That will result in an unstable financial deficit. Wage-sum indexation alone maintains the financial balance.

The main point, however, is that the new system is at least inherently financially stable, while the old one was heavily dependent on the demographic and economic outcome.

4.4.3 Automatic real-growth adjustment – economic indexation – of benefits acquired under the old system

As the transition is gradual, one still has to ask the question, what are the prospects in the medium run, when the majority of the beneficiaries are still receiving funds from the old system? The reform provides a solution for that as well, by employing "the economic adjustment factor".

One of the issues that Palmer (2000) also highlighted was the fact that with a real per capita growth rate of two percent, the benefits cost more in the reformed system than in the old. The reason for this, apparently, is that the Swedish politicians did not want to upset elderly voters, who are on very fixed incomes. Also, the projections for growth at that time were well below two percent, as the recession in the early 90s reduced growth rates substantially. In fact, it is possible that the recession actually helped Sweden to reform the system more rationally.

Next, one of the major sources of medium term instability is that there is no adjustment factor (for increased longevity) for the benefits granted under the old system. It is expected that such cost will incur in the next two decades. Furthermore, the baby-boom cohort will get part of their pension from both of the systems. They represent a significant part of the population, and could threaten stability as they retire, if the reserve fund is not big enough. According to Palmer (2000), it is likely that the reserves will not be sufficient to cover costs of commitments to persons born before 1950. Moreover, the government is to make two big transfers from the pension fund to the state treasury, thus decreasing the total pension reserves by up to 50 percent. If it turns out that the reform was too generous to persons born before the 1950s, the system has one more adjustment mechanism that can correct the mistake. It is called the "pension-debt adjustment mechanism" and it was designed to correct every downside technical failing of the system.

It is an interesting popular choice by the politicians, especially because it looks like they promised the "old" that they will have a generous transition, but if it happens that the calculations and predictions are wrong, which according to Palmer (2000) they likely are, the adjustment system will more or less eradicate all the signs of generosity.

4.4.4 The cost of guarantee

The funds for the guarantee do not come from the pension system, but from the budget. Currently, the guarantee costs more than in the old system, because the pre-tax amount has been set so that it will be neutral after the extra tax deduction for old-age pensioners in the year 2001. To achieve this, the gross amount has to be high enough so that no one loses because of high taxes (different taxes in different municipalities). For many, this reform thus provides an improved benefit.

The problem exists if more and more people are in need of this guarantee as they retire. Currently, the cost for this guarantee after taxes is around 1.5 percent in terms of the contribution base. As it comes from the budget, there is no demand for internal stability, and as such it might be a problem in the future if more and more poor people entitled to the guarantee retiree. It could therefore threaten external stability. However, according to Palmer (2000), the future retirees will have higher pensions and will not need this guarantee. Evidently, by the year 2015, the guarantee is expected to cost around one percent after taxes and less than 0.5 percent by 2050. These predictions are rather optimistic, but the guarantee is a political decision, so it can be changed more easily than the whole pension system if need for such a change emerges.

4.4.5 Long-term financial equilibrium and reserves

When large cohorts retire, reserves created by these same large cohorts will need to be used in order to pay for their benefits. The long-term equilibrium financial balance is maintained if the development of the labor force is stable; in this case, the type of indexation (wage-sum or wage per-capita) is irrelevant. Financial disequilibrium happens, however, if, at the same time, per-capita wage indexation is used and the demographics are volatile. Whether one gets lasting surpluses or deficits depends on whether the cohort size is increasing or decreasing.

Politics have chosen the pessimistic 1997 scenario, where the labor force decreases slowly over time. In that case, wage per-capita indexation of notional capital and benefits creates costs that on average exceed the equilibrium level of 18.5 percent (but only slightly). "Pension-debt adjustment mechanism" is designed to counteract the downside risk by making the system behave as if it is a wage-sum index when facing deficits.

4.4.6 Financial stability in the face of lower mortality rates

There is another aspect that threatens the system. Stability demands that the benefits are regularly recalculated, as the life expectancy changes. The law, however, prevents any changes to the pensions once they are granted. Currently, the life expectancy calculation is based on the average of observed outcomes prior to retirement, and is biased towards producing too high benefit levels. According to Palmer (2000*) "if people live on average 2.5 years longer in 2050, the fact that benefits are not adjusted after retirement will result in a cost of around an additional one percent in contributions. While this feature gives the starting generation a "free ride", eventually the "pension-debt adjustment mechanism" will bring the system into financial equilibrium."* (p. 28)

Currently, the system is rather new, and the average person probably needs some time to completely grasp all of its aspects. When this happens, however, one might observe a pressure from younger voters on politicians to end some of these privileges for people born before 1951.

4.4.7 Is the reform financially neutral?

There are many aspects that determine risk neutrality, and so the debate about the Swedish reform from that perspective could last forever. One can conclude, however, that except for the additional costs because of childcare years, disability recipients, compensated sick leave and compensated unemployment, which account for around 4.5 extra percent of the wage-bill, the foreseeable costs in the long run are around 18.5 percent of the contribution base. Furthermore, the former can be renegotiated through political processes. Palmer also points out that this sort of "transparent" accounting helps in showing what the true costs of unemployment, sickness and disability really are. By doing that it might help to encourage politicians to consider structural changes that could reduce these costs.

4.4.8 The second pillar and the development of total reserves in the public systems

Any PAYG system that takes away funds from the working population will have some effect on private and, hence, national saving. To counteract such an effect, tax collectors collected more taxes then needed in the period from 1960 through to 1990. Because of that, the current reserves in the PAYG fund stand at 40 percent of the GDP, which amounts for five years of current benefits. Until 2035, reserves are expected to decline to about five to ten percent of the GDP, and afterwards they should increase.

Note also that as the PAYG reserves decline, the second pillar reserves will be increasing. During the transition period, the sum of all contributions to the second pillar will grow, as more and more people enter the new system, and the older ones retire. In fact, the reserves should be equivalent to 25 percent of the GDP by 2025, despite using a conservative real rate of return (Palmer, 2000).

5 The Mandatory Advance Funded second pillar with individual privately managed accounts

5.1 Introduction

Fully-funded security or insurance can be organized in several ways. The most liberal is the private insurance system where individuals sign contracts directly with privately managed insurance companies. All the details are specified by the parties involved, and government interference is limited to legislation in civil law. The insurance provider can be chosen by the employer or by the individual. This type of solution is based on an upgrade from normal insurance services already provided.

Alternatively, if the system is viewed as an important social policy instrument, the government can choose to interfere. The social security agency makes a deal with fund managers and insurance providers on behalf of the whole cohort of the working population. This is more or less the way Swedish system operates, and the reason why it was organized in this way lies in the fact that the system is already a part of the overall mandatory system for all persons residing in Sweden.

5.2 Capital accumulation and insurance

When it came to a decision on which system to choose in Sweden, there were three basic models already present in the world – the United Kingdom, Chilean and Australian models. When those countries introduced reforms at home, they chose them because they suited the initial conditions in each of them in the best way possible. Sweden has developed yet another model that fits it in a better way.

During their working lives, the contributions paid by individuals are transferred into an individual financial account, becoming part of an investment portfolio, which grows along with the securities in the fund. When a worker retires, a choice is made between withdrawing funds gradually and making a lump-sum withdrawal. Additionally, if one chooses gradual withdrawal, one can decide between different options: regular annuity, annuity combined with a survivor benefit, and fixed or fluctuating annuity. The latter fluctuates in value with the rate of return on the individual's fund. Moreover, if an insurance company is a mutual one (owned by clients), a "fixed-rate" annuity provided by them can be increased in value if the company's investments perform better than expected.

There is one aspect of the Swedish model that resembles one of the features of the UK model, and it is an important source of saving funds. Instead of creating a new government body to collect contributions for the second pillar, it is cheaper to just use the tax authority, which already has all the data about taxpayers. The marginal costs are then close to zero.

The disadvantage in this approach, however, is the loss of potential competitive advantages to administrative costs. But, as it was not clear that private companies would be able to

compete solely on this basis, Swedish politicians favored state monopoly over the system. By doing that, "Sweden diverged from all three of the existing second pillar models." (Palmer, 2000)

5.3 The Swedish "clearing house" model of administration

When one creates a government body to operate on the private market, one has to somehow address the problem of high operating costs. According to Palmer (2000), the Chilean and UK systems do generate high costs, and to avoid that, the Swedish "clearing house" was created.

As individuals make decisions about which fund to invest in, they are the ones holding the risk of value fluctuation of their funds. That being the case, they have to be allowed to transfer their funds from one fund to another in a reasonably short period of time. If each individual's transfer were to be processed separately, high costs would be generated, and the "clearing house" is designed to overcome this obstacle. All individual transactions are summed up at the end of the day, with the clearing house only calculating net transactions between different funds and settling them. In addition, funds have no information about the individual participants, which lowers costs even further. To a certain extent, this also broadens security and protects private information about the participants.

5.4 Guarantees

First, there are no specially designed guarantees that would cover any aspects of the second pillar. The second pillar operates on the financial market, and is as such subject all the general legislation and regulations that control any fund, private or public. The question is whether more guarantees should be available, in case of fraud committed by fund managers, for example. It is doubtful whether their personal wealth would be enough to cover potential losses of the fund. That is why increased owner capital requirement could act as an indirect guarantee, thereby raising the stakes for the owner.

Second, there is no guarantee on return. As one of the goals of the system was to provide great diversity between different funds, allowing people to choose what they regard as the best fit for themselves, it would be unreasonable to provide such a guarantee.

5.5 Timing of the conversion of the capital account into an annuity

It would be somewhat unfair if individuals were forced to convert their second pillar assets into an annuity at a pre-determined time, as they cannot control the time of their retirement. Therefore, the Swedish system allows conversion at any time after an individual passes the given minimum age (61). The claim for a second pillar benefit has no affect on one's NDC scheme claim. The options available are:

- Single life annuity

- Joint life annuity

- Single life annuity with a survivor's benefit

- Survivor benefit

5.6 Taxation

Benefits are included in one's income, which is taxed normally, like any other income. Fund capital, on the other hand, is not taxed. One can see a certain amount of logic behind this, as taxing capital provides incentives for people to minimize their second pillar capital while maximizing their assets abroad.

5.7 How the Swedish second pillar operates

The premium pension authority is responsible for the operation of the second pillar. According to Palmer (2000), the authority has five principal responsibilities:

- to enter into contracts with funds applying to participate in the system,

- to execute aggregate purchases *vis-a-vis* the participating funds,

- to collect and make available information on fund share values on a daily basis,

- to keep the individual accounts for the system, and

- to provide the insurance products specified by law.

In theory, no limit is put on how many times an individual can change a fund, or in how many funds one can participate at one time. Furthermore, the transaction costs of changing funds are shared by everyone participating in the system. The rationale behind this decision lies in the fact that the system is rather new, and most people make such important investment decisions with zero or limited experience. Do note that Palmer (2000) believes that after some time, an individual fee could be charged for persons who make more than the "usual" number of transactions per year.

5.7.1 Conditions for participating funds
If a fund has the license to operate as a regular investment fund, there is no special condition that is necessary for its participation in this system. Also, companies licensed within the EU and supervised in their own countries can operate in the system as well. By allowing the participation of foreign funds, Sweden has taken one step forward towards greater competitiveness between these funds, which could result in increased lowering of costs in the long run.

5.7.2 A public fund for non-choosers
Participation in the second pillar is mandatory, and the government had to design a fund for all the non-choosers. This fund holds a mix of assets (bonds, domestic and foreign equities). The Board of Directors decides on the policy, with only general restrictions of maximum portfolio shares for the various components.

6 Why was Sweden successful in reforming their system?

6.1 Research

Selen et al. (2008), researched the electorate at the time of the reform. They counted the percentage of people that would be in favor of the reform at the time when it was first

proposed. Sweden uses a majority voting system, so it is reasonable to assume that if more than half of the electorate is in favor of the reform, it will be accepted. More specifically, Selen et al. (2008) made the assumption that everyone who is a financial net-gainer would support the reform, and every financial net-loser would be against it. This is a strong assumption, one might say, as not everyone is rational, and people might vote against or for the reform for completely different reasons. Selen et al. (2008) made such an assumption in order to be able to compare how the portion of people who are financial net-gainers is changing from year to year.

The years investigated in the research are 1990, 1995, 1999, 2005 and 2015, and the underlying question was whether "changes in population structure or economic growth affect the expected proportion of winners". Also, at the time of the research, the required data was only available for the years 1990 and 1995, so income after those years had to be simulated. For the simulation, two percent annual real growth, fixed voting age, and steady life-cycle income were assumed.

Selen et al. (2008) assumed that in a hypothetical referendum, those whose net present value of the benefits is higher in the new system than in the old should favor the reform. Also, those above age 62 are not affected by it, because they would receive full pension under the old rules.

Figure 2: Proportion of winners, ages 18+, when the new rules are implemented in various years. Growth rate = 0.02, return rate = 0.0325(Selen et al., 2007)
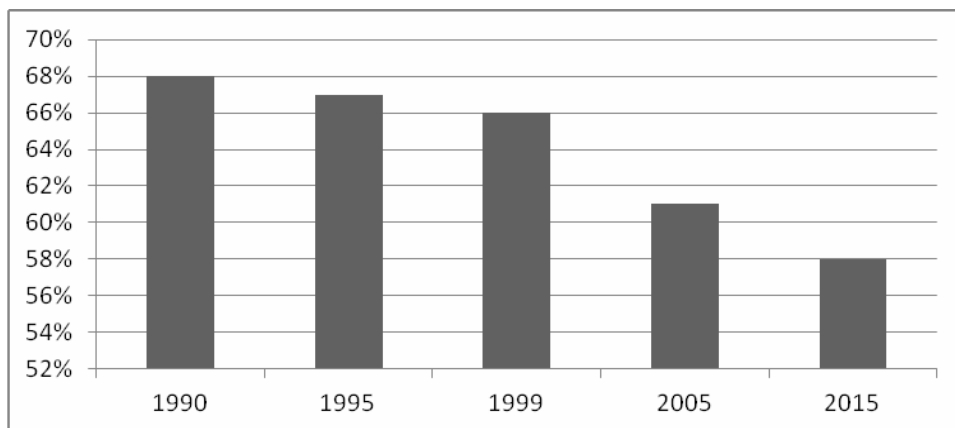

Figure 2 only represents the main findings of the research. The results of the research all show that there was always a majority in favor of the reform, but that the majority would drop from 69 percent in 1990 to 59 percent in 2015. The results also show that younger people are more likely to be net-gainers and therefore in favor of the reform, than the elderly.

It can be concluded that it is easier to reform a system sooner rather than later. Even though many countries are reluctant to reform now, they might face even greater difficulties in the future.

6.2 Design issues

What Selen did is only a model based on some specific assumptions and might not be completely accurate. While a steady voting age seems reasonable, a long-term real growth

of two percent can be disputed, as well as the assumption regarding people preferring steady life-cycle income. As even Selen et al. (2008) asked themselves, does an average person even know whether he is a net-gainer or net-loser of the reform? Nevertheless, in Sweden's case, the choice was made in the parliament, not via referendum, which means the average person was not obliged to know his or her outcome. Moreover, five of the seven parties agreed on the reform, representing over 85 percent (Selen, 2008) of the votes. This strong majority shows that the larger part of the population should be better off after the reform, and serves as a reassurance for the carefully designed details of the reform.

Despite the design issues the research had, one can still draw one important conclusion. As the society ages, and the majority in favor of the reform is decreasing, it becomes increasingly difficult to pass more radical reforms. That is also a sign that countries do not have an indefinite amount of time to reform their pension system. In fact, at one point, it might no longer be possible to do it through a democratic process, because so many people would be made worse off by the reform that they would never elect members of parliament who would support it.

7 Conclusion

As stated in this thesis, the reasons for reforming social security systems are essentially the same all over the developed world. As ageing of the population results in higher costs for most PAYG pension plans, Sweden was facing long-term financial distress. The old-age dependency ratio was projected to increase to 46 percent in 2050, with income contribution rates expected to increase to 40.3 percent. In light of certain additional minor problems, the country's system was forced to reform. The system was changed into a NDC plan, with an added, second, fully funded pillar. Contributions were set at 18.5 percent, persons with different contribution rates were treated differently, and redistribution and accounting were transparent. To see why the reform was eventually accepted, the next paragraph sums up the main costs and benefits that the reform established.

The main cost of the reform is that the average benefit is bound to decrease in the long run. This cannot be avoided, but it was not actually the goal of the reform. The reform's main purpose was to make the system inherently stable in the long run and to achieve long-term predictable costs. The system also does not allow voluntary contributions, which could be seen by some people as unfair. Also, favorable treatment of women bearing children might be regarded as controversial by some, although women not bearing enough children was one of the core causes for financial distress. Furthermore, white collar workers with high peak wages, might be opposed to the reform, as it disfavors them, in spite of being fairer towards them[3]. To compensate for these losses, the reform had to introduce other advantages for the population.

Initially, the transition had to be smooth; therefore Sweden proposed gradual transition to the new system, with people being born in different years being treated differently. This

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[3] White collar workers' benefits were »too high« before the reform, since the pensions were calculated using 15 best income years, and not the contributions paid into the system during their whole working life. That unfairness will be corrected with the reform, although it will result in lower white collar workers' pensions.

made it attractive for the old, who stood to lose the most in the case of reform, as well as for the young, who stood to lose the most in the case of no reform. It also gave people more time to adapt to the new system, allowing them to find ways to fully enjoy its benefits and avoid its costs. Additionally, aspects such as front-loading, acceptable replacement rates, accruing of rights (for childcare, military conscription, participation in higher education, etc.), along with compensation for sick days, unemployment, and disability, made it even more appealing. Lastly, a guarantee for the poor is present, guaranteeing every retiree his or her social security, to a certain extent.

The second pillar offers one of the more original approaches seen in reforms across the globe. It tries to reduce costs for the taxpayer by using an already present institution, such as the tax authority. The second pillar is competitive and allows foreign funds to enter as well. The clearing house model of administration brings more security into the system and reduces costs further.

After the reform, all these costs and benefits result in one being a net-gainer or a net-loser. In a hypothetical referendum it was shown that net-gainers would be a 69 percent majority in 1990 and a 59 percent majority in 2015. When the reform was actually passed, 85 percent of the parliament supported it, which is substantially more than 69 percent. There are quite a few reasons that can explain such a difference. First, one could argue that Swedish politicians did not fully understand whether their voters are net-gainers or not. Second, the politicians do not fully represent their voters' point of view, and/or have an agenda of their own. Third, they are not only interested in the net result of an individual, but in the future financial stability of their country as well. The real explanation is probably a combination of all the above mentioned reasons. Even so, the hypothetical referendum does show that reforming the system sooner rather than later is an advantage, and could contribute some points to the success of the reform.

One can conclude by saying that, when it comes to reforming the pension system, transparency and speed play a big role. The reforms are inevitable in a way, so countries should implement them sooner rather than later. They should pay careful attention to them, ensuring they go through with as few costs as possible, all the while maintaining the welfare of the population at the highest level possible. Regardless, welfare is bound to decrease, but with careful planning, the decrease can be small and not damaging.

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Appendix A (Holtzman, R. (2004), pg. 36)

Table 1. Projections of Old-Age Dependency in EU and EUA Countries 2000-2050 (ratio of people aged over 64 to working age population, percent)

Country	2000	2010	2020	2030	2040	2050
Austria	25	29	32	44	55	55
Belgium	28	29	36	46	51	50
Denmark	24	27	34	39	45	42
Finland	25	28	39	47	47	48
France	27	28	36	44	50	51
Germany	26	33	36	47	55	53
Greece	28	32	36	42	51	59
Ireland	19	19	25	30	36	44
Italy	29	34	40	49	64	67
Luxembourg	23	26	31	40	45	42
Netherlands	22	25	33	42	48	45
Portugal	25	27	30	35	43	49
Spain	27	29	33	42	56	66
Sweden	30	31	38	43	47	46
United Kingdom	26	27	32	40	47	46
EU average	27	30	35	44	52	53
Bulgaria	24	24	29	34	41	53
Cyprus	18	20	26	32	34	39
Czech R.	20	22	32	38	47	59
Estonia	23	25	30	36	42	57
Hungary	21	23	29	33	40	50
Latvia	23	26	29	37	44	56
Lithuania	21	24	26	35	40	43
Malta	18	22	32	39	40	46
Poland	18	18	26	33	37	50
Romania	20	20	24	26	36	45
Slovak R.	16	17	23	30	36	47
Slovenia	20	24	32	44	53	64
EUA average	20	22	28	35	41	51

Sources: EU countries - EPC 2001, EUA countries - UN Population Division 2002

Appendix B

Povzetek diplomskega dela v slovenskem jeziku

Uvod

Ena izmed glavnih težav s katerimi se srečujejo nosilci ekonomske politike v razvitih državah je staranje prebivalstva. Pokojninski sistemi, ki so bili oblikovani v preteklosti so temeljili na načelih medgeneracijske solidarnosti, a niso upoštevali sprememb v demografski konjukturi, ki so se pripetile po njihovi implementaciji.

Pokojninski sistemi na splošno

Najbolj pogost pokojninski sistem na svetu je organiziran na tak način, da trenutna delovna populacija plačuje prisevke, iz katerih se financira trenutna populacija upokojencev. Znesek, ki ga upravljalec sistema pobere je zmnožek povprečne plače, povprečnega davka na to plačo in števila vseh delavcev. Tak sistem ima tri prednosti. Možno ga je implementirati takoj in že prva generacija upokojencev lahko začne s prejemanjem pokojnine, kljub temu da morda pred uvedbo niso varčevali zase. Tveganje, ki bi ga posameznik nosil sam, če bi tekom življenja varčeval sam zase, se razporedi čez vse udeležence sistema. Poleg tega, pa je sistem lahko prilagodljiv v primeru, da se produktivnost (povprečna plača) dvigne ali populacija poveča.

V primeru, da bi se pobrani znesek preprosto razdelil med vse upokojence, bi bil sistem stabilen in solventen. Problem nastane, ker sistem ni organiziran na tak način.Ko se delavci upokojijo, je v nekem zakonu zapisano do kakšne pokojnine so upravičeni. Upravljalec sistema, ki je ponavadi država, jim je dolžen izplačevati pokojnine ne glede na to, koliko denarja pobere od zaposlenih. Če se torej vreča iz katere se pobira denar začne zmanjševati (zaradi staranja prebivalstva na primer), mora upravljalec razliko pokriti tako, da ali poveča davke na plače, ali pa zniža pokojnine. Denar si sicer lahko tudi sposodi, a vsakršno sposojanje države posredno pomeni višje davke v prihodnosti. Ne glede na vse je potrebna sprememba zakonodaje, kar pa terja čas in poslansko večino v parlamentu. Zaradi teh razlogov, poizkušajo države pri reformah pokojninskih sistemov najti tak sistem, ki bi bil neodvisen od staranja prebivalstva.

Eden od takih sistemov je tako imenovani samofinanciran sistem. Pri takem sistemu je vsak posameznik odgovoren za lastno socialno varnost. V udeležbo v sistemu se posameznika še zmeraj lahko prisili, a glavna značilnost po kateri se tak sistem razlikuje od prejšnega, je v tem, da namesto da bi se sredstva prenašala od zaposlenega do upokojenca, gredo na nek račun, ki je v lasti zaposlenega. Ko se le-ta upokoji, ima na voljo več možnosti, kako si bo ta sredstva izplačal v obliki pokojnine. V kolikor država uporablja tak sistem, sama nima več težav z izplačevanjem pokojnin, saj sistem ni več neposredno po njenim nadzorom. Kljub temu, ima samofinanciran sistem tudi nekaj slabosti.

Ko posameznik varčuje, del svojih dohodkov vlaga v neko košarico vrednostnih papirjev, katere vrednost je bolj ali manj odvisna od trenutnih razmer na trgu. Trg naj bi sicer na dolgi rok rasel, a poslovni cikli lahko bistveno spreminjajo vrednost te košarice na krajši oziroma srednji rok. Če imajo zaposleni srečo in se upokojijo ob vrhu poslovnega cikla, potem bodo to občutili v relativno visoki pokojnini, če pa je nimajo in se opokojijo ob dnu cikla, je pokojnina lahko občutno majhna. Ker pa nihče ne more izbirati časa svoje

upokojitve, je izpostavljanje zaposlenih trgu pri tako pomembni stvari rahlo kontroverzno in morda celo nepravično.

Naslednja težava, ki jo imajo samofinancirani pokojninski sistemi je dolga prehodna doba, preden lahko pričnejo izplačevati pokojnine. Nadaljne, če je udeležba v sistemu neobvezna, lahko naivnost mladih ljudi povzroči da pričnejo z varčevanjem prepozno oziroma varčujejo premalo, kar jih lahko pahne v revno upokojenost.

Star švedski sistem

Pregled

Pred reformo so na Švedskem uporabljali klasični pokojninski sistem, v katerem je trenutna populacija delavcev plačuje prispevke za trenutno populacijo upokojencev. Pokojnina je bila razdeljena na dva dela in sicer na socialni del in na del, ki je bil odvisen od prispevkov, ki jih je posameznik plačal v sistem tekom delovne dobe. Socialna pokojnina je znašala približno $4,000 za posameznika oziroma $6,500 za poročeni par (zneski so letni). Nekdo je lahko pridobil polno pokojnino s 30 leti delovne dobe, ob upokojitvi pri 65 letu. Pokojnina se je izračunala na podlagi tistih 15 let delovne dobe, ko je zaposleni prejamal najvišjo plačo. Financirala se je s pomočjo dveh različnih davkov. Prvi je bil 6 odstotni davek na plačo in se je uporabljal za financiranje socialnega dela pokojnine, drugi pa je bil 13 odstotni davek in se je uporabljal za financiranje drugega dela. Poleg tega je sistem imel tudi vzajemni sklad, ki je bil koriščen za zbiranje presežkov baby-boom generacije, ki se bodo koristili ko se ta-ista generacija začne upokojevati.

Težave sistema

Kot vsak tak klasičen sistem, je bil tudi švedski notranje nestabilen, ker se je skupna vrednost pokojnina povečevala bolj kot skupna vrednost prispevkov. Razmerje med ljudmi starejših od 64 let in delovno populacijo naj bi se povečalo iz 30 odstotkov leta 2000 na 46 odstotkov leta 2050. Nadaljne je imel sistem težavo še s tem, da se je dohodek prerazporejal od tistih z dolgo delovno dobo in majhno rastjo plač, k tistim s kratko delovno dobo in neenakomerno razporejenim dohodkom. Če sistem že prerazporeja, je bolje da prerazporeja dohodek od bogatih k revnim.

Bile so tudi manjše nepravilnosti. Prejšen sistem je preveč kvaril gospodarsko klimo, saj ni spodbujal ljudi k delu. Morebitna prevelika radodarenost je morda vplivala na manjšo zaposlenost ljudi, kot bi bila v primeru, če bi država bila brez pokojninskega sistema. Prej omenjen vzajemni sklad pa je imel v svojem portfelju večinoma državne obveznice, ki bi se lahko odplačale le tako, da bi država izdala nove in se pahnila še bolj v dolg.

Vsi ti razlogi so prispevali k počasnemu večanju podpore za reformo, ki je šla skozi parlament leta 1994. Pet od sedmih strank jo je podprlo, kar je preračunano v glasove volilcev več kot 80 odstotkov prebivalstva.

Reforma

Pregled

Če se povzame na kratko, je reforma v zakonodaji ukinila definirane pokojnine in prinesla definirane prispevke. Z njo je vsak posameznik dobil svoj račun, poznan tudi kot teoretično definiran račun (TDR). V TDR sistemu se prispevki posameznikov beležijo na njihovih individualnih računih, na njih se beležijo letne obresti, velikost katerih arbitrarno določi država. Računi so teoretični zato, ker se sredstva na njih dejansko ne zbirajo, ampak se uporabljajo za financiranje tekočih obveznosti. Dobi pa vsak posameznik s tem računom terjatev do države, ki se ob njegovi upokojitvi pretvori v annuiteto preko katere potem začne prejemat pokojnino.

Davčna stopnja je z reformo enotna in je nastavljena na 18.5 odstotka, se pa nadaljne deli še na dva dela. Večina sredstev gre v TDR (prvi steber), ostanek pa na individualni račun posameznika, ki je samofinanciran (drugi steber). Obresti na TDRje so podobne letni rasti plač, kar je dosti bližje gospodarski rasti kot pa rasti trga (delniškega npr.).

Švedska reforma si je postavila štiri cilje: poštena obravnava oseb z različnimi velikosti prispevkov, pregledna redistribucija, finančna stabilnost v luči demografskih in ekonomskih sprememb ter finančno varčevanje upravljano s strani privatnih inštitucij.

Implementacija

Na začetku prehoda na nov sistem so se zakonodajalci morali odločiti, kako bodo ustvarili TDRje tistim, ki že imajo nekaj delovne dobe za seboj. Za to so uporabili podrobne zgodovinske podatke od leta 1960 naprej. Zatem so določili vrednost teoretičnega kapitala za ljudi, ki so se upokojili od leta 1994 do 1999.

Naslednja naloga je bila ustanovitev drugega stebra. Omogočili so vplačilo v več kot 500 različnih skladov in hkrati oblikovali nekega privzetega, nizko-tveganega, za vse tiste, ki se ne bodo odločili za nobenega.

Značilnosti reforme

Prispevki vseh zaposlenih se torej beležijo na TDRjih in ob njihovi upokojitvi lahko z njimi kupijo anuiteto. Anuiteta je vrednostni papir, za izdajo katerega mora izdajatelj poznati neko povprečno življensko dobo kupitelja. S staranjem prepivalstva in večanjem pričakovane življenske dobe se morajo spremeniti tudi spremeljivke v izračunu anuitete. Naslednja značilnost je ta, da se upokojencem omogoči, da požanjejo prednosti gospodarske rasti, še preden se ta zgodi. Tako po upokojitvi prejamajo višjo pokojnino, v zameno za manjšo proti koncu upokojitve. Naslednja stvar, ki upokojence zanima je višina njihove pokojnine v primerjavi s plačo, ki so jo prejemali v času zaposlitve. Za povprečnega človeka, ki se upokoji pri 65ih pokojnina predstavljala 46 odstotkov plače. Obstaja še ena novost, ki je prišla z reformo in sicer tako imenovano koriščenje pravic na posameznikov račun. Pravice se izdajajo za naborno služenje vojaškega roka, skrb za majhne otroke, študiranje v višji izobrazbi, bolniško odsotnost, nezaposlenost in invalidnost. Vse te pravice lahko ljudje koristijo s povečanjem kapitala na TDR računu ali pa v drugem stebru. Še ena lepa lastnost je ta, da se TDR avtomatsko odzivajo na spremembe v pričakovani življenski dobi. Kar se pa časa same upokojitve tiče, obstaja

sicer neka minimalna starost, a se lahko po njej človek odloči med delno ali polno upokojitvijo. Naslednja stvar je tako imenovani bonus za preživele, kar pomeni, da se presežki tistih ki umrejo hitreje kot je pričakovana življenska doba, razdelijo med tiste, ki še živijo. Da bi ohranili neko socialnost, obstaja tako imenovana socialna pokojnina. Polno je možno dobiti pri 65ih, z vsaj 40 letnim statusom rezidenta.

Kot vsak sistem, pa ima tudi ta probleme. Kakšna na bo npa primer minimalna starost pri kateri se lahko ljudje upokojijo, da se nihče ne upokoji reven. Kako se bo anuiteta spreminjala, če se življenska doba spreminja? Na srečo je bila tranzicija iz starega sistema v novi počasna, tako da so imeli ljudje dovolj časa da se prilagodijo, sploh tisti, ki so se recimo zelo pozno vključili na trg dela, zaradi tega ker so se na primer udeležili visokega izobraževanja.

Srednjeročna in dolgoročna stabilnost

Eden glavnih razlogov za reformo je bila finančna nevzdržnost starega sistema. Del težav je ležal v tem, da so bili pokojnine vezane na rast cen, kar pomeni da so bile zelo odzivne na gospodarsko rast. V enem izmed scenarijev naj bi se prispevki od plač povečali na skoraj 27 odstotkov do leta 2030. Prispevki v TDR sistemu pa so izračunani tako, kot da je življenska doba natančno poznana, realna obrestna mera pa je 1,6 odstotka. Ena izmed bolj populističnih potez, ki so jo švedski politiki izvedli, je bila obljuba starejšim volilcev da bo njihova upokojitev mirna in varna. Tako so obljubljene pokojnine relativno visoke, a vsebujejo klavzulo (ekonomski prilagoditveni faktor), ki jih vedno zniža navzdol, ko se sistem sooča s primankljajem. Sredstva za socialno pokojnino pa ne pridoejo iz stebrov ampak iz proračuna. Ker se predvideva, da se bo delež tistih, ki bi potrebovali socialno pokojnino, zniževal, to ni tako resna težava. Naslednja potrebna stvar za ohranjanje stabilnosti je neprestano prilagajanje pokojnin, tako novim kot starim upokojencem. Da se stabilnost ohrani, je potrebno spremembe spremenljivk ki vplivajo na izračun pokojnin, odraziti v dejanskih izplačilih.

Obvezen drugi steber

Drugi steber je tisti v katerega se zliva 2,5 odstotka od plače. Ko se nekdo upokoji, ima na boljo več načinov črpanja svojih sredstev, več različnih anuitet. Noviteta na področju pokojninskih sistemov je način pobiranja prispevkov. Namesto, da bi ustvarili novo telo, ki be se s tem ukvarjalo, so uporabili že obstoječe davčne oblasti. Te so tako ali tako že imale vse podatke o davkoplačevalcih, tako da je bil to le še en vir dodatnega prihranka za državo. Slaba stran tega je izguba potencialnih prednosti, ki bi jih konkurenčnost prinesla pri zniževanju stroškov.

Entiteta, ki skrbi za prenose sredstev med skladi je centralna poravnalna hiša. Izvajaja jih dnevno na agregatnem nivoju, poleg tega ne upravlja z osebnim podatki upravičencev, kar še dodatno poveča varnost. Ker drugi steber deluje na finančnem trgu, ne obstajajo nobene garancije za finančno varnost sredstev. Vprašanje, ki je tu na mestu, je, kaj naj se zgodi s sredstvi, ki izginejo zaradi prevare manegerjev na primer?

Razlogi za uspeh reforme

Raziskava

Nazadnje se mora človek vprašati, kateri so bili glavni razlogi, ki so vodili v uspeh reforme? S tem namenom so Selen et al. (2008) naredili raziskavo in preučili značilnosti volilnega telesa v času sprejetja reforme in kako naj bi se to telo spreminjalo skozi v prihodnosti. Na kratko, za vsako obdobje so izračunali kakšen odstotek volinega telesa je dobitnik reforme in kako se ta odstotek manjša skozi čas in morebitno vpliva na njen neuspeh. Glavna napaka storjena med raziskavo, je predpostavka da naj bi se ljudje odločali le na podlagi neto sedanje vrednosti po reformi, ki je morda sploh ne poznajo. V parlamentu na primer, je bila reforma podprta s kar 85 odstotki vseh glasov, medtem ko avtorjem v raziskavi kaže da naj bi bil delež ljudi, ki je bil po reformi na boljšem nekaj čez 60 odstotkov. Iz tega se da sklepati, da poslanci ali niso poznali točnega neto rezultata reforme, ali pa so upoštevali tudi druge prednosti, ki morda nisto razvidni iz neposrednih izračunov. Na primer dolgoročne stabilnosti javnih financ, ali pa nezmožnost glasovanja še ne rojenih rodov, ki so največji dobitniki reforme, a ne morejo še vplivati na glasovanje.