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Social security in Sweden



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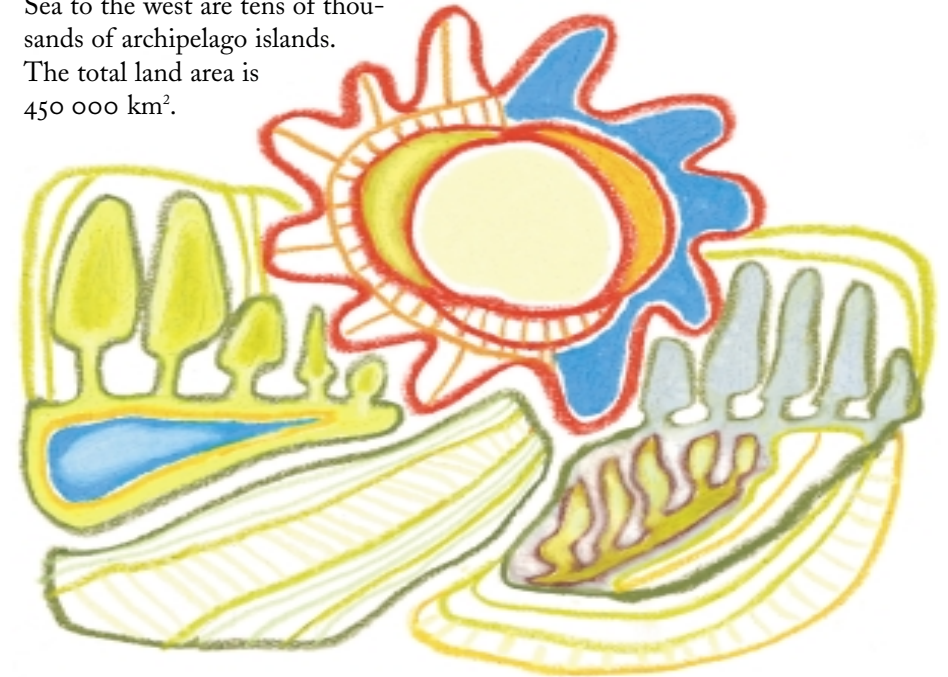
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Sweden in Brief

Geography – a long and narrow country

Sweden shares borders with Norway and Finland. Sweden's geography is characterised by its long coastline, beautiful countryside, dense forests, myriad lakes and extensive mountainous areas. More than half of Sweden's surface area is covered by forest. Approximately 100 000 inland lakes enrich the countryside. Off the long coasts on the Baltic to the east and the North Sea to the west are tens of thousands of archipelago islands.

The total land area is 450 000 km².



Climate – the sun never sets in the summer

Northern Sweden has long, cold and snowy winters but during the summer the sun shines around the clock. In southern Sweden the winters are considerably milder and the summers longer. In northern parts, sometimes the northern lights can be seen – differently coloured light phenomena moving across the heavens.

Population – slowly growing

Today almost 8.9 million people live in Sweden. The population is growing very slowly. Around 85 per cent of the inhabitants live in the southern half of Sweden and are largely concentrated to three cities, among them the capital city of Stock-



holm (1.7 million inhabitants, including those in the suburbs). Of the inhabitants 11 per cent are first generation immigrants and nearly 6 per cent are foreign citizens.

Changes in the numbers of births and deaths have led to a shift in the age structure of the population. The numbers of children have declined and the proportion of elderly people is greater. Falling mortality rates have also led to a dramatic rise in the numbers of elderly people within the population.

Persons over age 80 in the total population

	1850	1900	1950	2000	2050
Total population	3 482 541	5 136 441	7 041 829	8 875 038	9 547 638
Persons 80+	16 069	54 778	106 894	453 051	886 129
Per cent of total population	0.5 %	1.1 %	1.5 %	5.1 %	9.3 %

Recent figures

Population, 8 884 000
Total labour force, 4 362 000
Normal working week, 40 hours

Average life expectancy

Men 77 years
Women 82 years

Average remaining life expectancy at the age of 65

Men 16 years
Women 20 years

Median actual retirement age

Men 63 years
Women 63 years

Employment ratio (employed/total labour force)

Men 77.4 % Women 73.1 % Total 75.3 %

Employed in part-time work

Men 7.3 % Women 22.3 %

Unemployment ratio 3.9 %

From poverty to welfare state

Until a little more than a hundred years ago Sweden was still an agrarian country, one of the poorest in Europe. The nation's circumstances were radically improved by a number of changes towards the end of the 19th century. A series of Swedish inventors and entrepreneurs in the engineering industry laid the groundwork for the industrial revolution. The changes in society following the industrialisation gave rise to new kinds of needs for social protection arrangements, different from those based on the patterns of life in the rural society.

At the end of the 19th and in the beginning of the 20th century the trade unions played a vital role for the emergence of relief funds, which later developed into a social insurance system, the first branch being the employment accident insurance. The post-war period from 1945 to 1970 was one of unprecedented economic prosperity for Sweden. People's living standards improved radically in terms of housing, working conditions, education, child care, health care, elder care and a variety of social benefits and insurance systems.

Hence the Swedish welfare system was gradually established, distinguished by a three-pillar approach based on public schemes, mixed with corporative supplements and, in addition, private insurance policies.

The Swedish Social Security System

Sweden has a long history of social security. Over the last century the system has grown. Nowadays the costs of the total welfare system, health care and social services included, correspond to about 36 per cent of the Gross Domestic Product. The social insurance system, including the unemployment insurance and family benefits, accounts for approximately 20 per cent of the GDP.

Another way of illustrating the scope of the social insurance is to say that income replacement benefits from the social insurance amount to roughly 25 per cent of the total private consumption. Thus, the average resident in Sweden gets one-fourth of his resources to use for daily expenses from the national social insurance system.

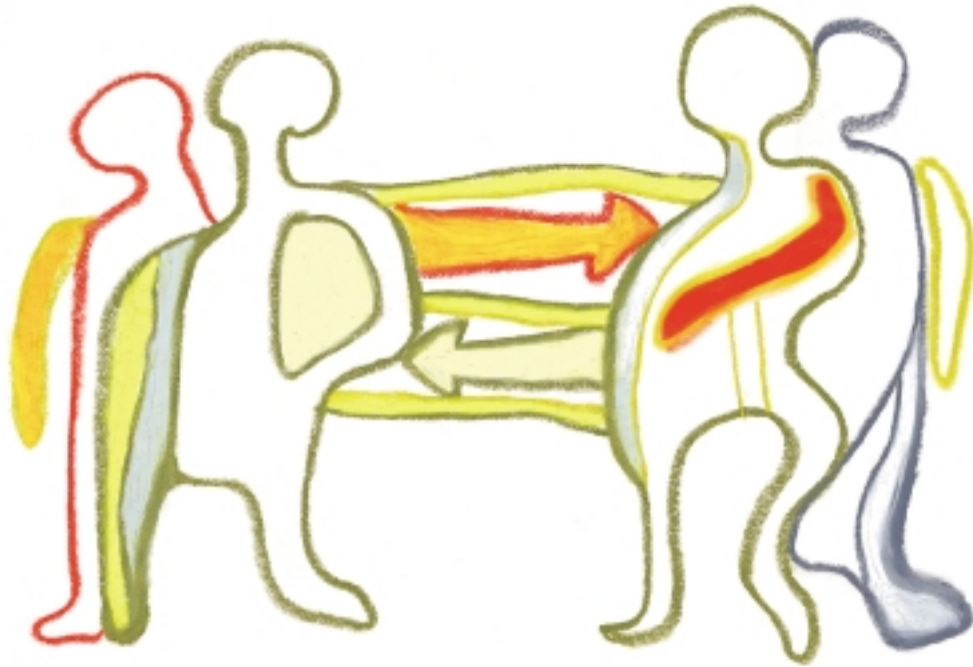
Examples of how the three pillars of the social security system interact.

Main branches	Public schemes	Collective insurance schemes	Private insurance
Families and children	<ul style="list-style-type: none"> • Parental insurance • Child allowance • Maintenance support • Housing allowance 	<ul style="list-style-type: none"> • Supplementary parental cash benefit 	
Working life	<ul style="list-style-type: none"> • Sickness insurance • Rehabilitation benefits • Disability benefits • Work injury insurance • Unemployment insurance • Survivor's pension • Housing allowance 	<ul style="list-style-type: none"> • Supplementary work injury insurance • Sick-pay and disability pension insurance • No-fault liability insurance scheme 	Complementary private insurance policies: <ul style="list-style-type: none"> • Group insurance • Individual voluntary insurance
Prevention	Swedish Work and Environment Act	Agreements and regulations	
Old-age	National old-age pension (PAYG and funded)	<ul style="list-style-type: none"> • Supplementary pension schemes 	Complementary private insurance policies: <ul style="list-style-type: none"> • Pension insurance • Life insurance

Important years in the history of social security

- 1999** A new national pension scheme was introduced, partly funded and based on lifetime earnings
- 1984** Collection of contributions was transferred from the National Social Insurance Board to the National Tax Administration
- 1978** Work Environment Act in force
- 1977** A new work-injury insurance scheme
- 1974** Introduction of parental insurance with income-loss compensation
- 1964** Maintenance advances for single parent families
- 1962** Introduction of a comprehensive national social insurance legislation
- 1960** Introduction of an income related national pension scheme
- 1955** Introduction of a national sickness insurance with income related sickness cash benefits and subsidised health care
- 1948** Introduction of child allowances
- 1917** Introduction of the first occupational pension plan based on an agreement between social partners
- 1914** Introduction of the first national basic old-age and invalidity pension system
- 1902** Introduction of the first occupational injury insurance
- 1890** The first social insurance legislation covering voluntary sickness insurance





Objectives and Principles

Aims of the social security system

The social insurance system is characterised by the fact that it is politically determined, that it is compulsory for everyone, and that it allows for redistribution between risk groups.

Social protection in Sweden aims at providing financial security at various stages of a person's life; for families and children, during working life, in case of unemployment, occupational injuries, sickness, handicap and similar situations as well as for the elderly. The value of the insurance lies partly in the sense of security in knowing, as an individual, that one is adequately insured if one's income ceases.

Social insurance reallocates funds over periods of time and between groups in society. There are essentially three redistrib-

ution elements, over and above the fundamental risk equalisation that occurs in all forms of insurance provided – everyone pays in, but only those who end up in difficulties receive payments:

- Redistribution from low risk to high risk groups
- Redistribution from higher to lower income levels
- Redistribution between different stages of an individual's life

Loss of income principle

The first steps in the direction of state responsibility for the social insurance was taken in the late 1800's. The idea that the social insurance system should cover all citizens in a single system became politically established between 1910 and 1920. At the same time a benefit linked to the individual's previous income, albeit on a very modest scale, was included for the first time within the first public old age and invalidity pension scheme.

It was not until the universal income related old age pension system was introduced in the 1960's, that the principle stipulating that the size of the remuneration should be adapted to the income previously earned was established in full.

1974 also saw the reconstruction of the sickness insurance system in line with the principle whereby cash benefits should be paid in direct relation to the income being lost. Nowadays, the so-called loss of income principle is applied to every individual social security scheme covering loss of income – parental insurance, sickness insurance, work injury insurance, disability pensions, unemployment insurance, and old age pensions.

The public cash benefit schemes cover income loss up to a ceiling that is adjusted every year according to changes in the consumer price index. For persons with higher income levels than the ceiling, the collectively agreed supplementary insurance schemes play an important role. The ceiling for benefits such as sickness and parental cash benefits is currently just above SEK 275 000 per year and around SEK 200 000 per year for unemployment cash benefits. (For example, 275 000 is about ten per cent less than the average salary for a teacher at university level, while 200 000 corresponds to the average salary for a general office secretary.) The indexation method

results, however, in a gradual decrease in the real level of the ceiling compared to the development of real incomes, a problem that is currently being discussed. If nothing is done, the income related benefits would gradually turn into basic flat rate benefits for more and more income earners. The Swedish Prime Minister has recently made a commitment to increase these levels.

General and individual

The trend has shifted from means-tested benefits, with their roots in the traditional poor relief system, to an ever-increasing emphasis on general and income-related insurance systems. The dominant trend has seen the social insurance system extended to cover a wider range of situations for increasingly more people.

The public insurance system is a general one in several senses of the word; it covers the entire population on equal terms. The insurance is financed largely through proportional contributions and taxes, and the provisions are the same for everyone.

All parents, for example, receive the same amount in child allowance irrespective of their financial situation. Equally, a high income earner with disabled children is entitled to the same economic support as equivalent parents who are worse off.

The general aspect of the income-related insurance lies also in the fact that people pay the same contribution as a percentage of their income for the same insurance coverage.

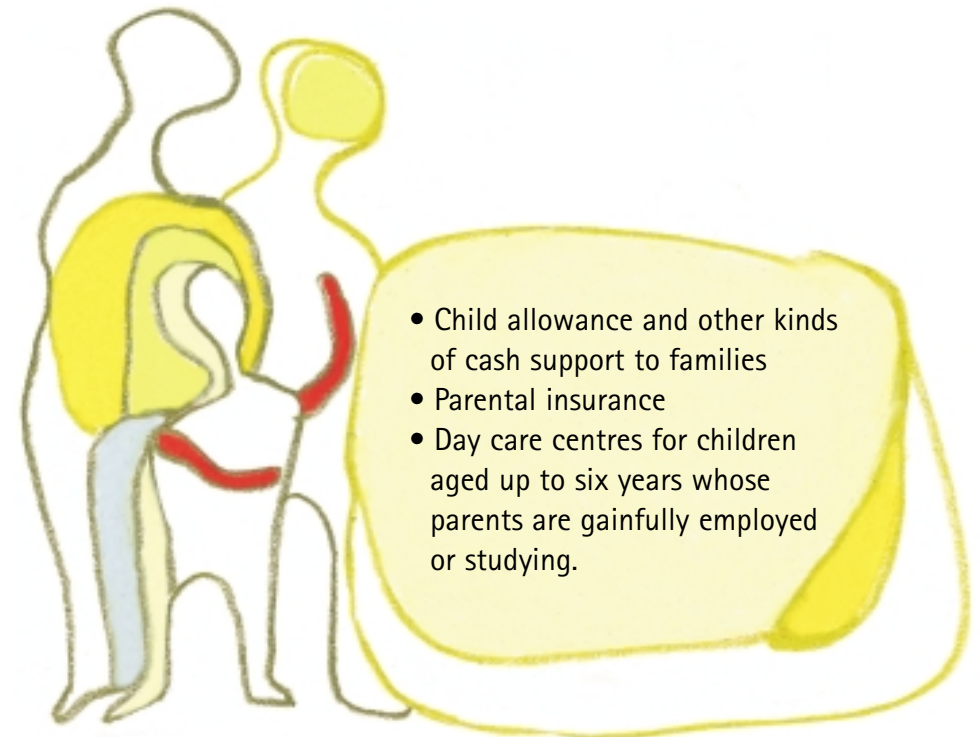


Financial Security for Families and Children

Family policy

The development of the Swedish family policy reflects the changes that have taken place in the labour market participation rate among women, in family patterns and the roles of the sexes since the 1970's. The proportion of women in working life has steadily increased. These days most children in Sweden grow up with parents who share the responsibility for supporting the family.

Swedish family policy is based on principles of universality and individual rights. The support to families and children consists of:



The aim of family policy is to equalise living conditions between households with and without children, to support both parents' opportunity to combine work outside the home with family responsibilities, and to give special support to families in vulnerable situations.

Parental insurance

Parental insurance provides income loss compensation in certain cases during pregnancy, in connection with child-birth, and when children due to sickness or other reasons cannot be taken care of in the usual way. The pregnancy or parental cash benefit corresponds normally to 80 per cent of the lost income, for parental cash benefits in connection with childbirth there is also a guaranteed level. The parental insurance is supplemented by a Parental Leave Act, guaranteeing parents drawing pregnancy or parental cash benefits the right to leave of absence.



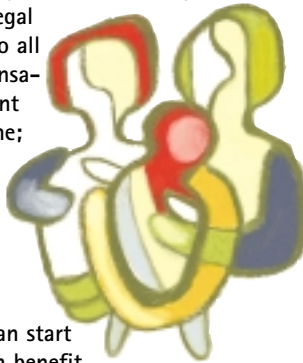
Pregnancy cash benefit

A pregnant woman is entitled to be transferred to other duties if she is performing a job that is unsuitable because of the pregnancy, or if she has been suspended from work under the Work Environment Act. A pregnancy cash benefit can be granted between the 60th and the 10th day before expected confinement.



Parental cash benefit

Parents can draw a parental cash benefit of 450 days in order to stay at home from work to take care of the child. The number of days of parental cash benefit is divided equally between the parents, but the portion allotted to one parent can be transferred to the other parent, except for 30 days. A person who is the sole legal guardian is entitled to all 450 days. The compensation rate is 80 per cent of the previous income; except for 90 of the parental leave days when the compensation is limited to a guaranteed level.



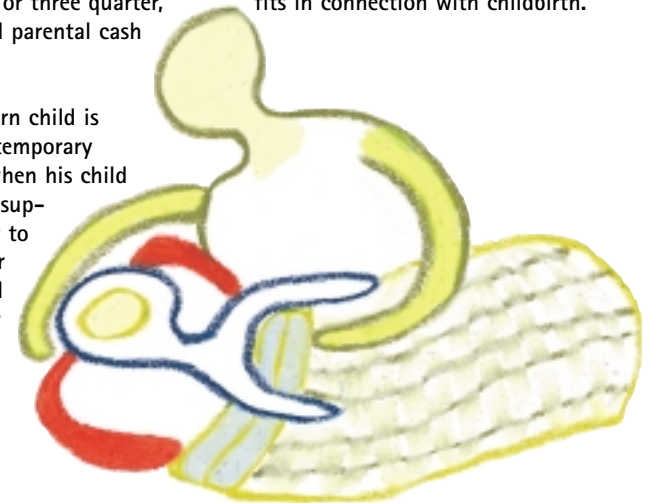
A pregnant woman can start drawing parental cash benefit as early as 60 days before expected confinement. The parental cash benefit may be drawn at any time until the child has reached the age of eight years or has completed the first form at school. It is possible to choose between full or three quarter, half or a quarter of full parental cash benefit. From 1 January 2002, parents will be able to draw also one eighth of the full amount.

Temporary parental cash benefit

Parents may be entitled to a temporary parental cash benefit to stay at home and care for a sick child under the age of 12 or in certain cases, for instance when the child is handicapped, up to the age of 16. This also applies to situations when a visit to a doctor or a health centre is necessary, and when the person who normally takes care of the child is ill.

The parents are entitled to temporary parental cash benefit for a maximum of 60 days per child per year. In certain cases benefits can be paid for an additional number of days. Also in this case it is possible to choose between full or three quarter, half or a quarter of full parental cash benefit.

The father of a new-born child is entitled to 10 days of temporary parental cash benefit when his child is born. These days are supposed to be used either to take care of the mother and the new-born child or to take care of older children in the family.



The role of fathers

An interesting point to note is the increasing involvement of fathers staying home to take care of their children. This reflects the aim of Swedish society, where efforts have been made to encourage this through personal counselling, information material, and information meetings at maternity clinics etc. These efforts together with changes in the regulations have had a favourable effect on fathers' take up of parental allowance. Men's proportion of parental cash benefit days has risen slowly but steadily in the 1990's with regard to both the number of men and number of days. The following table shows figures for parental cash benefits in connection with childbirth.

Parental cash benefit days

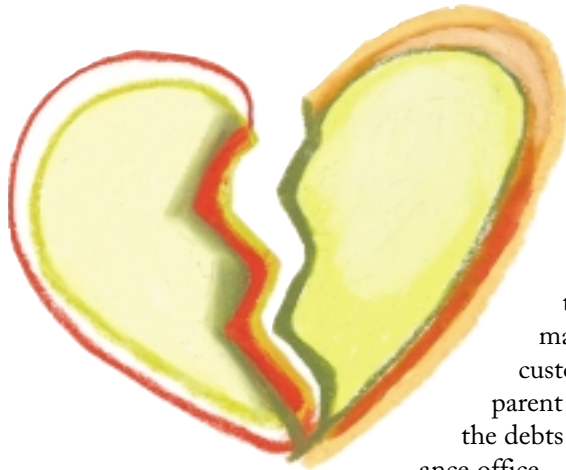
Year	Number of benefit days	Drawn by women, per cent	Drawn by men, per cent
1991	53 746	92.3	7.7
1992	55 594	91.4	8.6
1993	55 330	90.4	9.6
1994	54 361	89.1	10.9
1995	50 593	90.8	9.2
1996	42 177	89.4	10.6
1997	37 905	90.1	9.9
1998	36 327	89.6	10.4
1999	36 036	88.4	11.6
2000	35 661	87.6	12.4

Child allowance

The objective of the child allowances is to level out costs between those who raise children and those who do not. Parents receive a child allowance for each child under the age of 16. If there are three or more children the family is entitled to a large-family supplement. The child allowance is replaced by an extended allowance after the age of 16 as long as the child continues studying.

Maintenance support

If marriages or relationships break up, the children are entitled to maintenance allowance from the parent not taking care of the children. If that obligation is not fulfilled or if the level of the maintenance is insufficient, the social insurance office may pay maintenance support to the parent in custody of the child. In such cases the parent liable for maintenance must pay the debts of maintenance to the social insurance office.



Housing allowance

The housing allowance is designed to enable financially weak households to live in adequate and sufficiently spacious accommodation. Families with children under the age of 19 can apply for a housing allowance (the age limit is extended for children still studying). The amount payable depends on the number of children, the cost and size of the accommodation, and the household's income. Also young people up to and including 28 years of age without children might be eligible to a housing allowance. It is mainly single parents, generally women, who receive this allowance. Around two thirds of all single mothers benefit from housing allowance.

Other family allowances and benefits

The social insurance system also includes a care allowance for handicapped children, the amount corresponding to a basic pension, when a parent has to give up work in order to care for a sick or handicapped child at home. Another benefit is the child pension; a child under the age of 18 is entitled to a child pension if its father, mother or both parents are deceased.



Financial Security during Working Life

Financial security in case of sickness, work injury, handicap and unemployment is provided partly as payment for loss of income and partly as allowances to certain groups of people.



Sickness insurance

Sickness cash benefit is payable in cases of illness that reduces working capacity by at least 25 per cent. The benefit can be paid in full or three-quarters, half or one quarter of the full rate, depending on the extent of the loss of working capacity. To facilitate the return to work after an illness, sickness cash benefit can also be given to cover additional costs of transport to and from work. Sickness cash benefit is also paid for medical treatment or rehabilitation for preventive purposes, in order to prevent or shorten an illness. Sickness cash benefit is payable for an unlimited period.

A medical certificate is required from the seventh day of absence and a more detailed certificate must be produced after the 29th day of absence.

During the first 14 days of a sickness period, the employer pays the income loss compensation to his employee according to the *Sick Pay Act*. No benefit in cash may be paid for the first day of sickness, which is a so-called waiting day. Persons suffering from a chronic disease or a handicap causing repeated sickness periods, are eligible to a sickness cash benefit to cover also the waiting day.

From the 15th day of illness, compensation for income loss is transferred from the employer to the Social Insurance Office. The compensation rate for sick pay as well as sickness cash benefit is 80 per cent of the loss of income up to a ceiling.

In connection with rehabilitation there are a number of payments and cash benefits, which replace the sickness cash benefit at the same compensation level. There are also other allowances to cover other costs and measures in relation to rehabilitation. The social insurance offices have special funds available for purchasing work-related rehabilitation services.

Work injury insurance

For a long time work injury insurance was the sole form of compulsory insurance providing compensation for illness, disability and death. The circumstance under which work injury insurance has to operate has, however, been gradually transformed due to the introduction of general sickness and pension



insurance schemes covering the entire population. Today work injury insurance provides supplements to the general sickness and disability insurance schemes. In work injury cases the benefits, payments to insured persons themselves as well as survivors' annuities, are co-ordinated with benefits under the general social insurance scheme. In case of illness, sickness cash benefits are paid according to the ordinary sickness insurance regulations. Accordingly, the cost of the work injury insurance, as it is described in the statistics, is only a minor part of the total expenditure on social insurance.

Work injury insurance is in principle aimed at placing the insured person in the same economic situation as if the injury



had never occurred. A person whose working capacity has been permanently reduced as the result of a work injury will receive an annuity, which in principle provides full compensation for his loss of earnings. The annuity from the work injury insurance, together with a disability pension if granted, will correspond to, in principle, 100 per cent of the income loss.

Disability benefits

Persons between 16 and 64 who suffer from reduced working capacity due to illness or physical or mental disorders can be granted temporary or permanent disability pension. The disability pension is payable in full or three quarters, half or one quarter of the full rate pension.

The number of disability pensioners has increased gradually. Approximately 8 per cent of the population between 16 and 64 years of age have fully or partially ceased to be professionally active. The proportion of disability pensions in the population increases with advancing age. In the age group 60–64 almost half of the women and one third of the men receive a permanent disability pension.

The current regulations on disability pension are closely linked to the old age pension system, which has currently been redesigned. Therefore these regulations will be reformed in the near future.

Unemployment insurance

Developments in the labour market at the beginning of the 21st century will be decisively different from those that prevailed for the greater part of the 90's. During 1999 there was a steep rise in the number of persons employed, and this growth is expected to continue. Swedish labour market policy aims to maintain a "work for all" strategy, i.e., work before cash support. During the latest recession for instance, active labour market measures were of considerable proportions. More than three per cent of the labour force was engaged in training, practice and other forms of active reintegration activities. Unemployed persons are expected to return to regular employment as soon as possible. Consequently, cash support to the unemployed is only to be used when it is not possible to offer employment or when active labour market policy measures are not successful.

The unemployment insurance system consists of a basic and a voluntary component, the latter with benefits related to the loss of income:

- Benefits related to income are paid out to those who are members of an unemployment insurance fund. There are certain conditions for membership related to working time and working history. The compensation rate corresponds to 80 per cent of the previous daily earnings up to a ceiling.
- The basic component gives flat rate benefits to persons who are not eligible for the income related unemployment benefits.
- The unemployment insurance benefits, basic as well as income related, are payable up to 300 days per unemployment period. The benefit is paid for 5 days per week.

Membership in unemployment insurance funds is usually compulsory for union members, but all funds must be open to voluntary affiliation for any employee in the corresponding field of activity. The voluntary component of the unemployment insurance is open to affiliation by all employees and self-employed without restraints. About 80 per cent of all employees belong to unemployment insurance funds.



Collective Agreements

Supplementary insurance schemes

Collective agreements between the social partners have led to the emergence of complementary, collective insurance solutions, alongside the public insurance coverage. The first collectively agreed insurance plan dates back to the beginning of the 20th century, covering old age and widows' pensions for privately employed persons. Since then the coverage has been gradually extended. Today, most people have complementary insurance coverage based on collective agreement.

The social partners have jointly agreed to set aside part of what is available in wage negotiations for salary increases in order to finance insurance benefits. The insurance coverage can also be complemented in the private insurance market through group insurance policies, or through individual voluntary insurance policies.

Virtually all employees who are established in the labour market are covered by a collective agreement-based insurance

policy. Affiliation is compulsory for anyone working in the contractual sector.

The ISSA member AFA Insurance is the joint organisation handling insurance based on collective agreements. It consists of three companies owned by employers' and employees' organisations. The sickness insurance branch covers employees in industries and in the municipal and county council sectors. The work injury branch supplements the public work injury insurance by giving compensation for indirect damages, such as pain and suffering and general inconveniences. AFA life insurance handles severance pay and occupational group life insurance. AFA Insurance is also one of Sweden's most active sponsors of research development in the field of personal injury prevention.

Prevention

In the transformation from a poor agricultural country a hundred years ago, to a modern industrial nation, working conditions have improved dramatically. This is mainly due to extensive legislation and a general atmosphere of consensus between employers and employees. The current legislation on work environment lays the responsibility for occupational safety and health primarily on the employer. Employees are expected to collaborate by following safety procedures and informing the employer about possible hazardous situations.



The law especially emphasises the employers' accountability for

- internal control,
- introduction, instruction, training and education,
- job modification and rehabilitation.

Thus the employers are obliged to plan, direct and inspect activities in a systematic way, in order to ensure that the working environment meets the requirements of the legislation. The legislation applies to practically all areas of occupational life, including students, self employed persons, military conscripts and inmates in institutions.

The social partners traditionally have a strong influence at Swedish workplaces, not only in wage negotiations but also in other fields. Employers and employees are obliged to jointly set up safety committees in all establishments with more than 50 workers. The employees' representatives in health and safety matters, safety delegates, have legal right of access to all information necessary to fulfil their duties and the employer must grant them the paid time required for performing these tasks.

The social partners also have an important role to play in training and education in the area of safety at work and in providing occupational health services. The foundation for safety and health at work is laid in school. Safety and health is a compulsory subject in high school, and similar subjects can also be studied at university level. All employees are supposed to receive training in these matters, not only those who are directly involved in safety at work in the capacity of appointed safety representatives. There is a basic course produced by the ISSA Member Organisation Prevent for the private and government sector. The material is used by union-related and other study organisations and is available in several versions for different sectors. Another ISSA Member Organisation, the Work Environment Association, is the joint forum in which all actors in the work environment field can co-operate to create safe working conditions through the dissemination of knowledge and influencing public opinion.

Financial Security for Old-Age

By the turn of the century Sweden introduced a new national pension system. The new system is divided into three parts: income pension, premium pension and – for those with a low income or no income – a guaranteed pension. There will be a gradual transition from the old system to the new one for persons born between 1938 and 1953. Persons born in 1954 and later are completely covered by the new system, while those born in 1937 or earlier will remain entirely within the old system.



Old-age pensions

The old pension system has two major parts: basic pension and supplementary pension. The basic pension scheme provides basic security independently of previous income. The supplementary pension scheme is based on previous income from gainful employment, where income earned between the ages of 16 and 64 is taken into account. For a full supplementary pension 30 years of gainful employment is required, and the amount available will depend on the income from the “best” 15 years. The scheme is a pay-as-you-go (PAYG) system, where contributions paid in during one year are in principle used for pension payments during the same year.

Under the **new system**, all earnings from gainful employment during an entire lifetime will give entitlement to a pension. All contributions to the scheme will add to the pension. Pension contributions are collected together with taxes, and the employer and employee will each contribute one half.

Reasons for reform

There were several reasons why a new system had to be implemented. The number of pensioners in relation to the economically active population is continually increasing. Today there are 30 old age pensioners for every 100 economically active persons. In 25 years from now, this number would have increased to 41. The old pension system was shaped for a stable growth in the economy. However, low growth rates over several years combined

with the increasing number of pensioners receiving higher and higher pensions has exposed the weakness of the system. The political decision of the new system involved the consensus between most political parties represented in Parliament, something considered to be a guarantee for future stability. The following diagram illustrates the ageing of the population: the development of the remaining life expectancy for women and men at age 65.

Basic features of the new public pension scheme



Income pension and premium pension

There are two main types of pension under the new system: the income pension and the premium pension. The income pension comes under a PAYG system, while the premium pension is a scheme where contributions are invested in funds chosen by the insured (the "pension savers").

A person who has had a low income – or no income at all – will have the deficiency made up by a supplementary pension, the guaranteed pension.

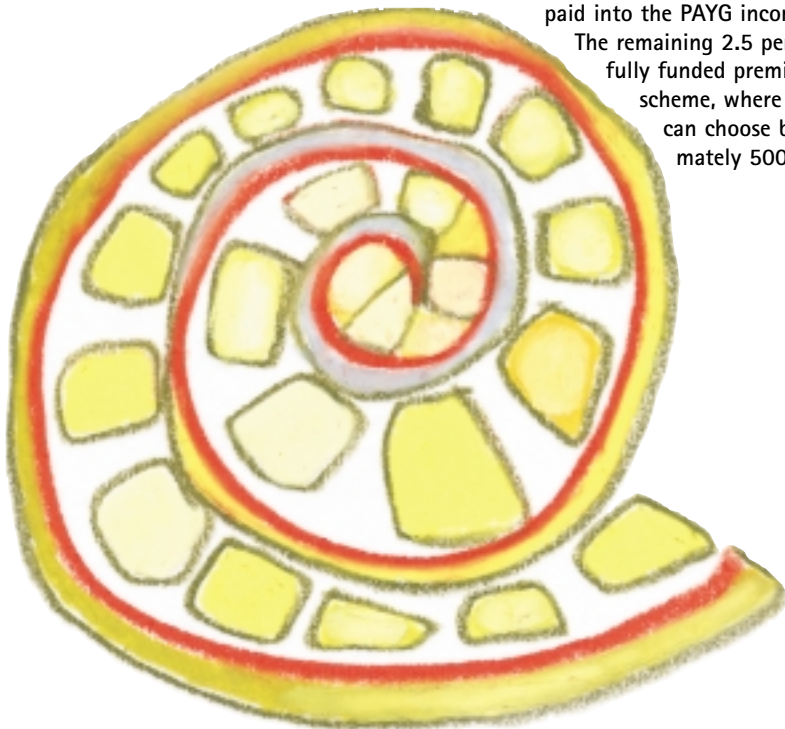


Lifelong earnings: the basis for the pension

Under the new system, the whole of a person's income during the lifetime will form the basis for calculating the pension. Pension rights can be earned from the age of 16 and will be established on an annual basis.

The amount paid into the new pension system is 18.5 per cent of a person's income up to a ceiling. Pensionable income is made up primarily of a person's wages, but also includes other taxable income such as sick pay, parental cash benefit and unemployment benefit. 16 of the 18.5 per cent is paid into the PAYG income pension scheme.

The remaining 2.5 per cent go into the fully funded premium pension scheme, where the pension savers can choose between approximately 500 funds to invest in.



Flexible retirement age

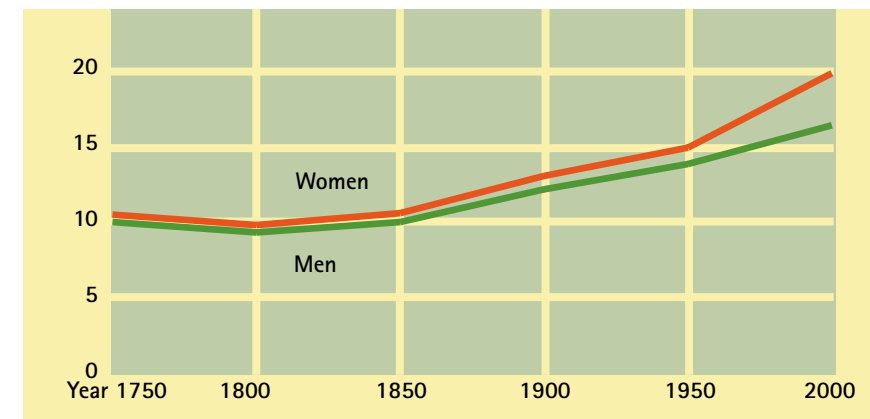
Under the new system, pensions can be claimed from the age of 61. There is no upper age limit for earning pension rights. The guaranteed pension, however, is payable only from the age of 65.



Indexation

In the PAYG scheme, pension entitlements are indexed annually. This index will reflect average income growth in society. In the premium reserve scheme, there is no need for indexing since the growth will be based on yield from investments. Once the PAYG pension is granted, the annual pension will be indexed by economic adjustment indexing, reflecting the consumer price index as well as an assumption of the annual future real average income growth.

Remaining life expectancy at the age of 65 (years)



Supplementary insurance schemes

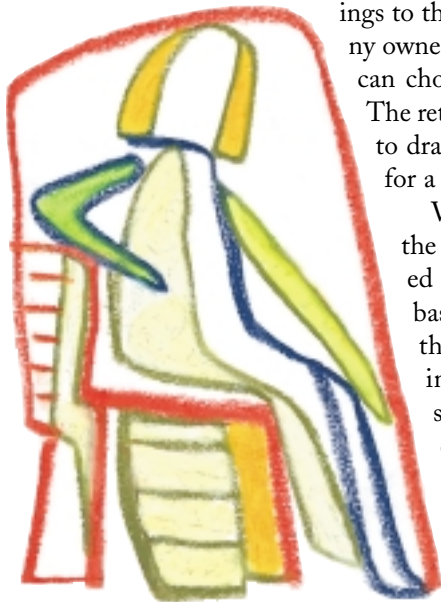
Practically every employee is covered by an occupational pension scheme based on a collective agreement. Approximately 90 per cent are members of one of the four major schemes. There are a couple of smaller schemes and a few large companies administering their pension plans. The occupational pension schemes are comparatively uniform in Sweden. Sweden is supposed to have the highest coverage of the population by occupational pensions in the world.

Since there is a ceiling in the public pension system, resulting in a lower compensation rate for high-income earners, the occupational pension schemes fill this gap. They serve as “top up pensions” for medium- and high-income earners. The occupational pension schemes provide not only pension benefits on incomes exceeding the public pension ceiling, but also a supplement to the public pensions below the ceiling.

For example, blue-collar workers in the private sector are covered by a collectively agreed defined contribution scheme, modelled on the new national old-age pension scheme. It is pre-funded according to the individual’s options. The scheme is built on the principle of lifetime earnings. The employer pays a premium, which is 3.5 per cent of each individual’s earnings to the scheme, which is administered by a company owned jointly by the social partners. The employee can choose from a wide range of investment funds. The retirement age is 65, but the employee can choose to draw his pension earlier, from the age of 55, and for a limited time or for the rest of his life.

White-collar workers in the private sector, on the other hand, are covered by a collectively agreed scheme providing supplementary pensions based on the salary received by the employees at the time of retirement. The scheme also includes a supplementary old age benefit scheme in which the employees themselves decide how the contribution is to be used and managed.

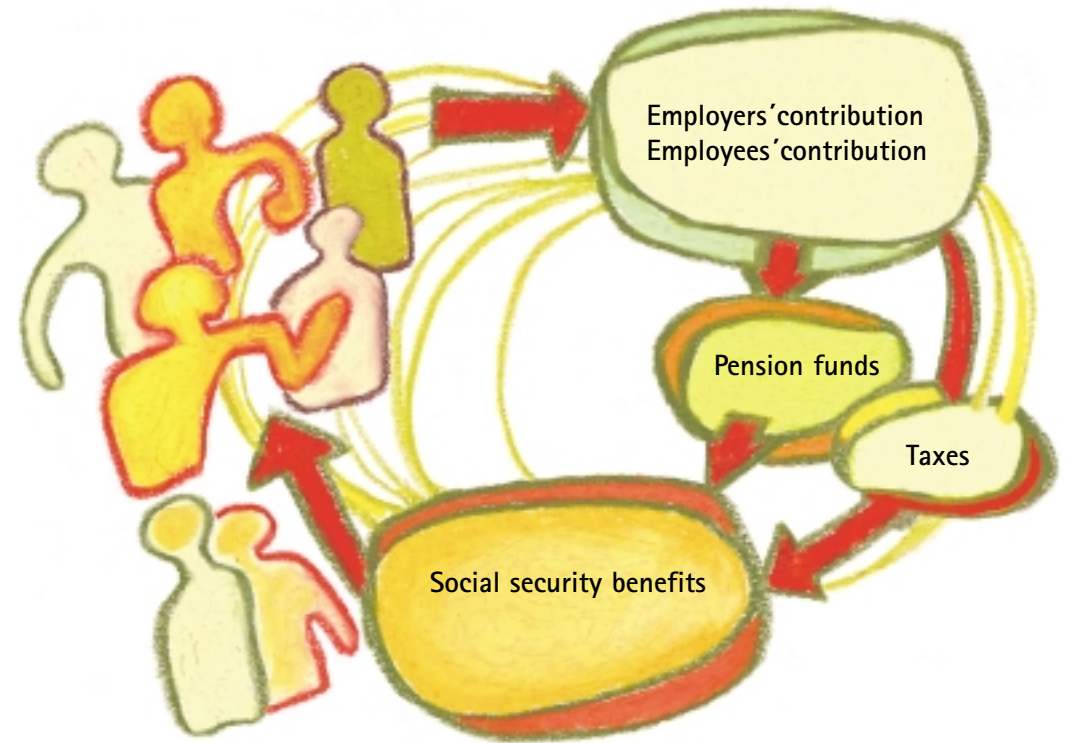
Similar solutions are to be found in other labour market sectors, among them the governmental, municipal, and co-operative sectors.



Social Insurance in Figures

Expenditure

Social insurance expenditure, including the unemployment insurance and various family allowances and grants, corresponds to nearly 20 per cent of the Gross Domestic Product. In 1999, out of the total expenditure for social insurance benefits paid to the aged accounted for 49 per cent. Sickness and disability benefits made up 24 per cent and unemployment benefits 9 per cent, while 13 per cent was paid out as financial

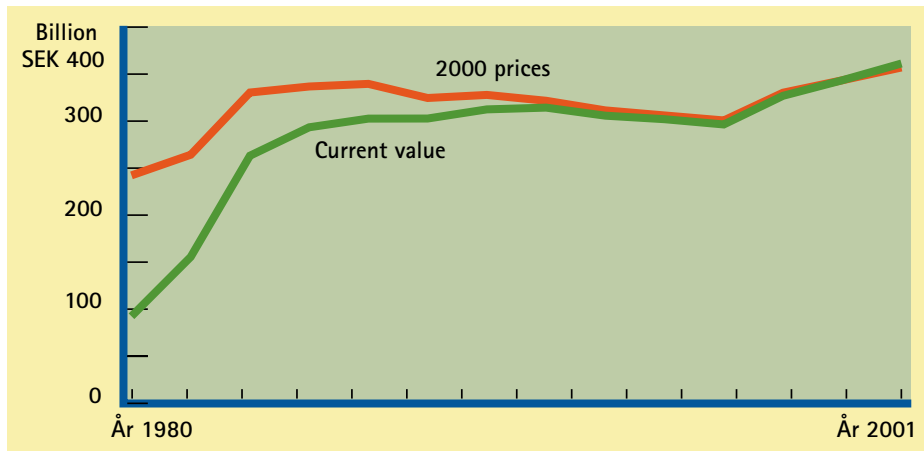


support to families and children. The remaining expenditure was mainly for payments in the labour market area made by the social insurance offices, or for administration.

Expenditure increased from below SEK 100 billion in 1980 to well over SEK 300 billion in 1999 (unemployment benefits

excluded). The increase was particularly sharp from 1985 to 1991. In the early 1990's, the rate of increase levelled off and between 1996 and 1998 expenditure fell. This was mainly due to reduced levels of compensation for sickness and parental insurance, the introduction of employer provided sick pay during the first two weeks of sickness, reduced absenteeism due to illness, and the transfer of responsibility for costs of medicine to the health care authorities. In 1999, expenditure rose again. This was a result of rapidly mounting costs for sickness insurance, mainly due to a strong increase in sickness absenteeism, as well as an increase in supplementary pension payments. During 1999, a number of important changes were made to the social insurance system, including the introduction of state old age pension fees. Many insurance schemes, such as sickness benefit and parental allowance, constitute pension-entitling income. In addition, child care, military service and periods of education also qualify for the right to pension. Thus the state contributes old age pension fees in principle equivalent to these pension rights.

Social insurance expenditure in current and fixed money value



Financial assistance from social insurance and allowances to families with children more than doubled in fixed money value between 1980 and 1994. This was followed by a drop in expenditure lasting until 1998, when costs rose again due to higher child allowance and parental benefit. Costs for assistance to

families with children also went up during 1999, due to the inclusion of state old age pension fees.

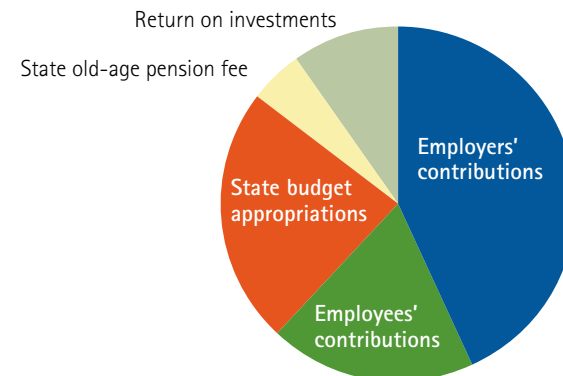
The expenditure for unemployment benefits increased substantially in the first part of the 1990's. The unemployment rate rose from a fairly constant level below 2 per cent up to the year 1990 to over 8 per cent in 1993, and the number of persons undergoing employment training also rose steeply during this period. The expenditure for unemployment benefits have, however, recently decreased, due to a reduction in the open unemployment rate¹⁾ to below 4 per cent. The total expenditure for unemployment benefits during 1999 amounted to approximately SEK 30 billion. At the same time the number of people in employment programmes have fallen from 3.3 per cent to 2.6 per cent in relation to the labour force.

¹⁾ Unemployed drawing unemployment cash benefits. Those in training or other active reintegration measures are not included in this figure

Financing

Social insurance is primarily financed through employers' and employees' contributions, the recently introduced state old age pension fees, yield from invested pension capital, and state budget appropriations. The contributions and fees amount to approximately two-thirds of the total payments. The portion financed by taxes amounts to just less than one fourth, and the share of the yield from the national pension fund used for pension payments corresponds to about one tenth of the annual expenditure. (In this context it should be noted that over 40 per cent of the annual yield from the fund was added to the capital.)

Financing the social insurance system



Who does what?

There are many actors involved in the shaping and implementation of social security in Sweden. Those listed below are a few of several important institutions.

Legislation

The parliament and the government approve laws and regulations and lay down the financial framework for the activities of the social security sector. The Ministry of Health and Social Affairs² is responsible for questions regarding social insurance and health care issues, while the Ministry of Industry, Employment and Communications deals with issues related to the working environment.



Social insurance

The National Social Insurance Board (RFV)¹ is the central government agency for the national social insurance system and supervises the social insurance administration.

The 21 regional social insurance offices provide service to the public and handle matters relating to social insurance and other benefit systems at regional and local level, the only exception being the unemployment insurance.

The Federation of Social Insurance Offices (FKF)² is the joint professional, service and employer organisation of the insurance offices.

The National Labour Market Board (AMS) is the central government agency for e.g. unemployment insurance.

The 39 unemployment insurance funds, mainly linked to the trade unions, administer the unemployment insurance.

The Federation of Unemployment Insurance Funds (so)¹ is the professional and service organisation representing the unemployment insurance funds.

1) Affiliate ISSA Member Organisation

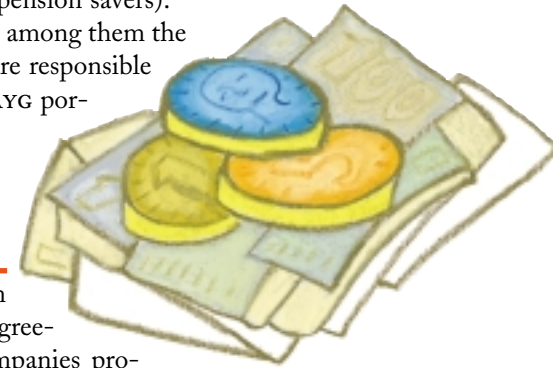
2) Associate ISSA Member Organisation

Financing and fund management

The National Tax Board (RSV) and its regional and local administration is responsible for collection of contributions and taxes, used for financing the social security system.

The Premium Pension Agency (PPM) administers the funded part of the new pension system, where contributions are invested in funds chosen by the insured (pension savers).

The Swedish National Pension Funds, among them the First Swedish National Pension Fund², are responsible for investing the buffer fund under the PAYG portion within the public pension system.



Schemes under collective agreements

AFA Insurance¹ is the joint organisation handling insurance based on collective agreements, consisting of three insurance companies providing life, sickness, and work injury insurance coverage.

Alecta administers and manages supplementary pensions for salaried employees in private industry and commerce, regulated by agreements between the social partners.

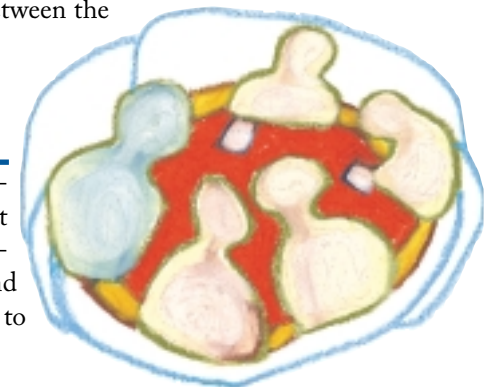
AMF Pension is a life insurance company administering supplementary pensions based on collective agreements for privately employed workers.

SPV and KPA are the institutions administering collectively agreed pensions for government employees and employees in the municipal sector respectively.

Fora Insurance Central is a company owned jointly by the social partners. It collects and distributes premiums for the collectively agreed insurance schemes between the insurance providers.

Prevention

The Swedish Work Environment Authority (AV)² is the central government administrative agency for questions relating to the working environment and working hours. It issues regulations to



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complement the Work Environment Act, it is responsible for the enforcement of safety and health regulations, and it conducts information and education programmes.

The National Institute for Working Life (NIWL) is Sweden's national centre for work life research, development and training in the fields of labour market and occupational safety and health issues.

The Swedish Council for Working Life and Social Research (FAS) finances research and development in the field of health, safety and working life.

Prevent² works to reduce occupational accidents, improve the work environment, and provides training and training materials.

The Development Council for the Government Sector is the labour market parties' joint council on work environment and work life matters in the government sector.

The Work Environment Association² is a centre for work environment questions that aim to promote safe working conditions. It publishes a safety periodical and other literature, and distributes warning signs and posters.







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