

Norway 20 years after:  
The pension reform from a  
Swedish perspective

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# Déjà vu

The Swedish pension reform and beyond...

- NHO Årskonferense 2004
- FAFO Pensjonsforum 2007

World Bank: Averting the old-age crisis 1994

Repeating the trick of following the Swedish path at 75 percent of the cost?

# Background

What is the problem?

- Cost control
- Incentive problems
- Ageing populations
- Ad hoc policy actions
- War between the generations?
- Blame avoidance replacing credit claiming

# Reform process compared

- Different political legacies
- Swedish hasted process
- Norwegian long 'peaceful' process
- Different political economies:  
unions and employers
- Policy process learning!

# Reform contents

## **Similarities**

- 18+ % in contributions
- NDC income pension
- Universal guarantee pension

## **Differences**

- Retrenchment
- Indexing
- Occupational welfare

# Evaluation criteria

- Equitable entitlement structure
- Poverty
- Inequality
- Divisions of welfare
- Employment
- Sustainability:
- Mix: statutory, collective private, individual pensions
- Pensions, age and ill-health
- Old-age care and its funding
- Universalism in work society – political economy

# Statism eroded?

- Fixing contribution rates
- Tax expenditures
- What do the unions do?

# Early exit and ill-health

- Life expectancy
- Ill-health
- What should old-age pensions do?
- What about sickness and invalidity insurance?
- What about quality of jobs?



# Sustainable policies in ageing societies

The bigger picture

# Rethinking social policy in ageing societies

- Social security is strongly redistributive over the life cycle: the ageing of societies puts tough fiscal pressures on public spending
- The debate on ageing issues has been overly focussed on pension reforms and savings
- How social policy interact with fertility, education and labour supply is of vital concern: ***secure the future tax base!***

# Social investments

Are about investing in  
an equal distribution of human  
capital  
in order to promote  
a good economic life-cycle for all  
and reduce the pre-redistribution  
inequality

# Future:

## Beyond averting the old-age crisis:

### Divisions of welfare

- Class
- Gender
- Age
- Migrants

Reforming the reform?

# Fully funded individual accounts (DC) in the reformed system

## 1994/98

- FDC individual risk taking within a social insurance
- Contribution rate is 2.5 per cent of gross income
- The Pensions Agency (PA) manages the individual accounts of all contributors to the system
- Large number of funds (800+), large flexibility
- Funds can be withdrawn flexibly from the system starting at the age of 61
- Withdrawal is always an annuity provided by PA.
- The individual risk taking does not provide any security in the savings phase

# Statutory reform and financial markets

## *Individual accounts:*

Open competition for fund managers

800+ fund managers

Public default fund

From majority to minority active choices

Minority increase no of choices

## *Buffer funds:*

From strong restrictions to looser

- Stock market

- Internationalization

- 900+ billion SEK in toto

50%+ on the stockmarket, massive internationalization

# Re-negotiating the occupational plans

- Private blue-collar, from CC to DC
- State employees, from DB to DC + DB
- Municipality employees, from *DB* to DC + DB
- Private white-collar, from DB to DC

## *Common trends:*

- Increased contribution rates, 4,5%
- Lower age for start of contributions



# What is wrong with the funding?

## *FDC:*

- Administration costly, choice risky
- Benefits lower and more unequal
- 'Meaningless' choices

## *Buffer:*

- Four costly buffer funds
- Economic shocks and generational justice
- Unintended macro-economic consequences, currency and reserves

# A new political economy?

Interests, ideas, realities:

- The financial sector
- The employers
- The trade unions
- The pensioners
- The political parties

# Policy choices on the agenda

- Lowering funded contribution, increasing PAYG contribution
- Restricting choice and number of fund managers, consumer protection
- Restricting the number of buffer funds, not the activity on global financial markets
- Pension-age, tax expenditures and need to change occupational plans?

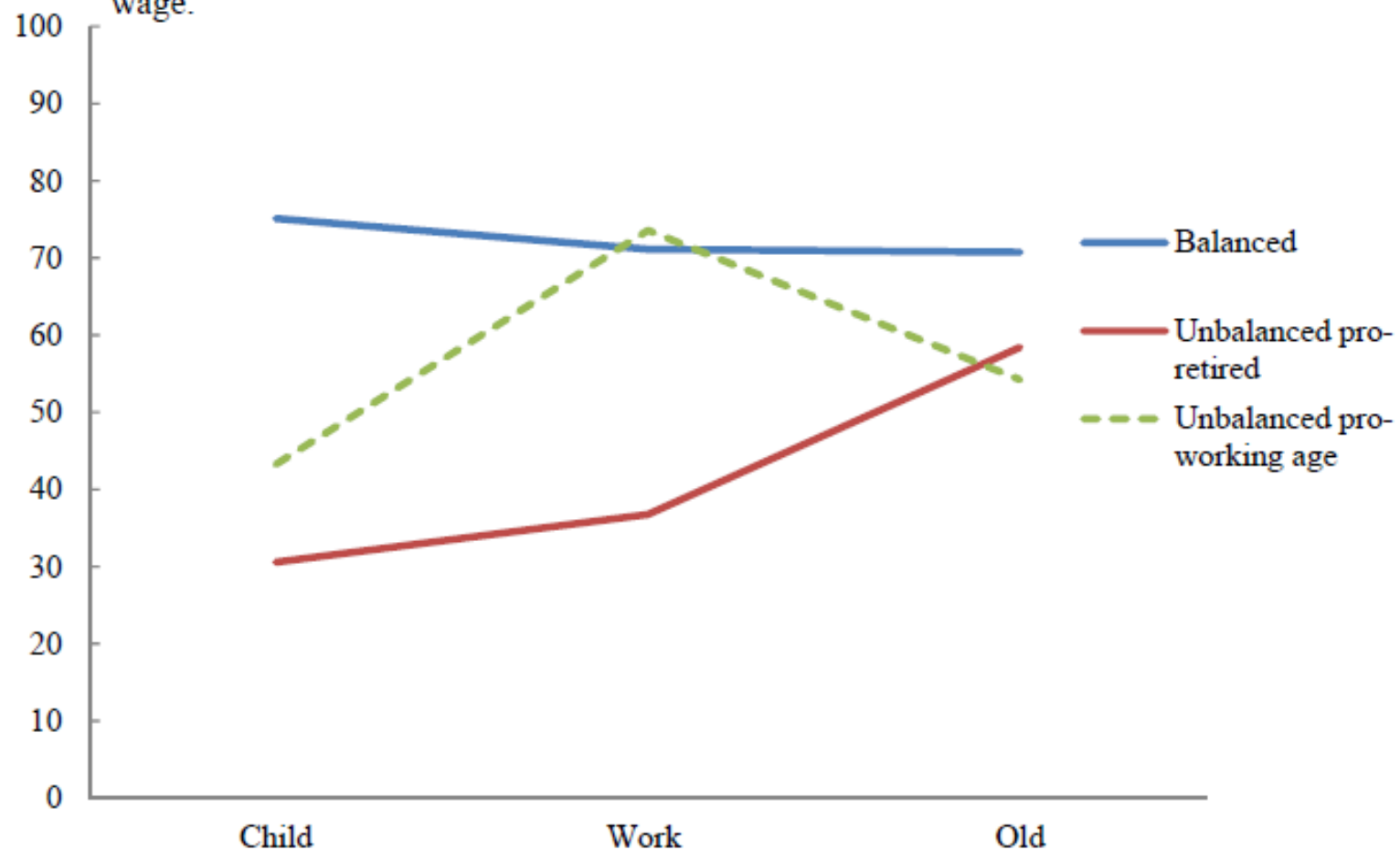
# Svenska Dagbladet 1 March 2017

- **Efter skandalerna: S redo överge premiepensionen**
- – Ingen ska riskera att bli lurad, säger statsminister Stefan Löfven.
- Skandalerna kring fondbolagen Falcon Funds och Allra gör att regeringen vill göra om systemet för premiepension.

# The Generational Welfare Contract

Birnbaum, Ferrarini, Nelson, Palme  
Forthcoming on Edvard Elgar 2017

**Figure 1.** Three types of intergenerational welfare contracts in 18 welfare states 1980-2010. Average replacement rates in percent of an average production workers wage.



**Figure 3.2. Ideal-typical configuration of the balanced generational welfare contract.**

