The Gendered Effects of the Swedish Pension Reform

Kimberly Earles
PhD Candidate (ABD)
Department of Political Science
York University
kim@kimearles.net

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Introduction

From 1959 until the 1990s Sweden had one of the most generous pension systems in the world, viewed as the 'jewel in the crown' of the Swedish Social Democratic Party. The pension system, based on a universal flat-rate entitlement, as well as a national supplementary pension based on one's pre-retirement income (ATP), provided most pensioners with between 60 and 75 per cent of their pre-retirement income. The ATP system achieved income security for all Swedish workers and, as such, was important both materially and symbolically. However, during the 1980s and 1990s the political and economic elite in Sweden began to paint the ATP system as unsustainable and in need of reform. This paper will analyze the reasons for the reform, as well as what the new pension system means for pensioners in Sweden, particularly women. In the end, the pension reform has negative consequences for social democracy in Sweden, in that the new pension system is more individualized, with far more uncertain outcomes, as well as providing an expanded role for the market, challenging the social democratic principles of decommodification, solidarity, and universal entitlements. It also has negative consequences for women, as the new pension system rewards a traditionally 'male' work pattern, working full-time hours during most of one's adult life. Swedish women, who make up the vast majority of part-time workers, and who take more time out of the labour market for caring work, will be punished under this new system unless they change their labour market patterns.

The pension reform which took place in Sweden during the 1990s was significant for it's signaling a real shift in ideology in a critical area of social insurance. The new pension system can be seen as an experiment in neoliberal values, particularly the new Premium Pension portion of the system. The new pension system is underlined by a more direct link between contributions and benefits in order to make the system more financially sustainable in the long-term. It is also an attempt to get back to the goal of full employment, which is necessary if the Swedish model is to run properly. Within the new pension system there is an expanded role for the market and for private pension options, which could have the effect of challenging the universality of the public system. This could have enormous consequences for social democracy in Sweden, as well as for gender equality for Swedes upon retirement.

Pension Reform: Global Context

At this point, it is important to note the global context in which the Swedish pension reform occurred. Since the early 1990s, pension reform has been an important issue for many advanced industrialized countries (OECD, 2007). Göran Therborn argues that "Second only to war, pensions have become the most divisive – and, perhaps, the most decisive - issue of contemporary politics" (2003, 133). The issue of financial sustainability coupled with growing demographic pressures underline this most recent wave of pension reforms, which include increases in retirement age, changes in the calculation of benefits (OECD, 2007), as well as an overhaul of some pension systems. While the scope and extent of the reforms varies, the result has been a reduced pension promise in sixteen Organization for Economic Co-Operation and Development (OECD) countries.[1] Consequently, workers today have to shoulder more of the responsibility when it comes to preparing for their retirement (OECD, 2007).

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[1] The pension promise was cut by an average of 22 per cent, and 25 per cent for women, in 16 countries (OECD, 2007).

At the same time, these reforms reinforce the link between pensions and global capitalism, as pensions and pension funds have become increasingly important to the global economy (Therborn, 2003). Given the massive funds involved (Therborn, 2003), privatizing pensions has been on the agenda of international institutions such as the World Bank for some time. In Sweden, the public pension funds (AP funds), built up as part of the ATP pension system adopted in 1959, accounted for 35 per cent of the total supply of credit in the country at their peak in the 1970s (Pontusson, 1992). In the late 1960s, the housing sector was the dominant borrower of pension-fund capital, but by the early 1970s business replaced housing as the dominant borrower. A Fourth AP Fund was established in 1973 to allow ATP savings to be invested in the stock market, and by 1989 this fund alone held 3 per cent of the corporate shares registered on the stock exchange (Pontusson, 1992). The privatization of a portion of the Swedish pension system in the late 1990s is underlined by the private sector's desire to gain access to these savings directly.

Thus, Sweden was not the only country facing pressures for pension reform but, unexpectedly for many, it went the furthest in overhauling its pension system in the 1990s. The new pension system has even been held up as a model by the World Bank and the European Commission for other countries, with Poland and Latvia following in its footsteps. The Swedish pension reform included a private component and the introduction of great uncertainty into the system as pension benefits are now linked to economic growth. And while there may have been a need for some changes to the old pension system in Sweden, the pension reform is fraught with problems, both in terms of the content of the new pension system as well as the process by which the system was reformed.

Reasons behind the Pension Reform: 1980s-1990s

A number of factors underlying the need for a pension reform emerged over the years. One factor was the notion that the pension system contained some unusual redistributions. Blue-collar workers, who generally have long careers with flat earnings profiles, were paying into the system for a very long time, but the benefits they received were based on a relatively short period of time in the system (Sundén Interview, 2005). The 15/30 years rule[2] benefited those who went to school for a long time, entered the labour market later in life, and then had steep earnings profiles during their career (Palme, 2003), such as academics. So, in a sense, blue-collar workers were subsidizing the pensions of white-collar workers, and many found this to be unfair.

There were also other problems that developed within the ATP system over time. One such problem was that the link between contributions and benefits diminished over the years due to several different changes within the system (Könberg Interview, 2005). Also, there were no incentives within the ATP system to work for more than thirty years (Gennser Interview, 2005; Ståhlberg, 1995a; Ståhlberg, Kruse and Sundén, 2005). This was fine during the 1960s and 1970s when there was full employment, but once unemployment began to rise during the late 1980s and early 1990s, this created a real

[2] The 15/30 years rule meant that in order to qualify for full pension benefits under the ATP system, you were required to work at least thirty years, and your pension was based on the best fifteen years' income. If you worked less than thirty years, there was a penalty applied to your pension for each year you missed. Within such a system, you could work part-time for a number of years, and as long as you had fifteen years of higher earnings you could receive a full pension based solely on those years.

problem for the Swedish welfare state, as the success of the system is based upon a model of full employment. The 15/30 years rule allowed people to enter the labour market at a late stage and to leave the labour market at an early stage (Lundberg Interview, 2005). In addition, the fact that more and more people were earning income above the earnings ceiling within the pension system, meant that the system's goal of income security was being eroded over time (Palme Interview, 2005; Ståhlberg, 1995a; Anderson, 2005), as the ceiling was relatively low in Sweden (Palmer, 2000).

In addition to these problems, a widespread belief in the financial unsustainability of the system began to emerge. This was due to a number of factors including decreased economic growth, reductions in retirement age, and demographic patterns. The perceived financial unsustainability of the system led to new trends in savings in Sweden, as the percentage of people taking up private individual insurance began to increase in the 1980s.[3] Some argue that the feeling that the pension system was unsustainable led many to lose trust in the pension system (Palmer, 2000), which could help to explain the increase in people taking up private individual insurance during the 1980s.

There were many events that occurred in the 1980s and 1990s that led to and shaped the direction of the pension reform. First, it is important to note that by the early 1990s the pension system had become the largest single welfare state program in Sweden in terms of spending (Anderson, 2005). In addition, PJ Anders Linder, Chief Political Editor at *Svenska Dagbladet*, a daily Swedish newspaper, argues:

> [T]he late '80s, early '90s was… an interesting phase of modern Swedish political history, because many things that had been impossible suddenly became possible. There was a tax reform, there was a pension reform, and there was the Swedish application for membership to the European Union… And the whole… currency framework was abolished, and we got free capital markets… There was a general feeling that the old welfare state had run out of steam and that change was needed… (Interview, 2005).

Linder points to the relationship between the pension system and capital formation historically in Sweden where the AP Funds were drawn on for capital investment, giving the state power over where investment would occur and limiting the role of financial capital in capital markets. The introduction of privatization into the pension system is a move in the opposite direction, giving financial capital more freedom.

The Pension Reform

Discussions about the need to reform the pension system did not begin until the early 1980s. It was at this point that economists began talking about how the pension system was unsustainable (Sonnegård Interview, 2005). In 1991 Bo Carlsson, an economist with the Swedish Employers' Association (SAF), published an article entitled "Time to retire the whole ATP system" which suggested replacing the ATP system with private savings with a minimum pension financed by taxes, using the AP Funds to finance the transition into such a system (Marier, 2002). The SAF was also in favour of a stronger link between contributions and benefits within a reformed pension system; in many respects, the SAF and the Moderate Party had similar views on the pension reform,

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[3] In 1980 approximately 5 per cent of the working age population had private individual insurance; but by 1989, the corresponding figure was 15 per cent (Palme, 2003).

including wanting to eliminate contributions above the ceiling that were not counted towards pension benefits (Marier, 2002).

After a first Official Commission of Inquiry (1984 to 1990) failed to come up with any substantial proposals for how to change the pension system (Lundberg, 2005), the government decided to appoint a new parliamentary working group to come up with a solution (Wadensjö, 2005). With the economic crisis of the early 1990s in Sweden came increased unemployment and the double burden of shrinking tax revenues and increasing pension expenditures due to the growing number of pensioners (Anderson, 2005). The economic crisis coupled with having a centre-right government from 1991-1994, allowed the process of the pension reform to take off (Lindberg Interview, 2005). The economic crisis and increasing unemployment were also partly to blame for the lack of public debate about the pension reform. Some argue that people were too concerned with keeping their jobs and with the state of the economy to pay the necessary attention to the pension reform.

The centre-right government introduced the idea of making a big pension reform in their first declaration in 1991, and announced their aim to reach broad political agreement on the reform (Könberg Interview, 2005; Lundberg, 2005). Ulla Hoffmann, Left Party Member of Parliament, and member of the Parliamentary Working Group on Pensions, who was eventually shut out of the process due to her opposition to the reform, believes the centre-right coalition took advantage of the opportunity they had to reform the pension system, a system they had never supported and vowed to get rid of over thirty years earlier when it was first implemented (Interview, 2005). Hoffmann argued that this was a "gigantic shift of ideology" (Interview, 2005). KG Scherman, Former Director General of the Swedish National Social Insurance Board, argued that it was a "paradigmatic shift," a total shift in basic values within the pension system (2004).

Not long after being elected, Prime Minister Carl Bildt, leader of the centre-right coalition government, formed the Parliamentary Working Group on Pensions (PWGP), which ultimately designed the pension reform and the new Swedish pension system, thus making it a state-led reform. Bo Könberg, the Liberal Party representative, and chair of the PWGP, led the reform, writing the directives in November, 1991, which acted as a starting point for the group's work in December that same year (Könberg Interview, 2005). The working group was made up of representatives from the four centre-right coalition parties, as well as the three parliamentary opposition parties, including the Social Democrats. In the beginning each party wanted something different – the Moderate Party wanted to have a smaller system with lower ceilings; the Centre Party wanted to have a system of basic pensions instead of an earnings-related system; the Liberal Party wanted to eliminate collecting employers' fees on income above the ceiling, while the Social Democratic Party (SAP) wanted to retain this system (Könberg Interview, 2005). Clearly the different political parties involved in the pension reform each had their own agenda. However, they were committed to a process of consensus, which meant that there was to be compromise throughout the process. By reaching agreement by consensus, the group sought to "de-politiciz[e] the pension question" (Lundberg, 2005, 19). The broad consensus behind the new pension system strengthened the reform (Palmer, 2000), which lead to the overhauling of the pension system, as the close-knit and, in many ways, closed group became opposed to any alternatives to their vision.

While the PWGP presented their proposals and sent them to different organizations for comments, the process of coming up with the proposals took place very much behind closed doors without public consultation or input. Pensioners' groups, pension experts, and unions were all excluded from having a direct say in the design of the system, which is very unusual in Sweden, where the social partners are generally included in commission and committee work (Wadensjö, 2005). Thus, criticism began to build that the process was "quiet" (Ehnsson Interview, 2005). This is related to the fact that the PWGP had a self-imposed rule of coming to an agreement within the group before consulting with one's party leadership, which effectively kept the content of the negotiations from entering the public sphere during the process (Lundberg, 2005). While opponents of the pension reform argue that the reform came from above and lacks legitimacy (Lundberg Interview, 2005), even proponents of the reform admit that "it's very true that [the reform] was very much a top down process" (Settergren Interview, 2005). Even Anna Hedborg, a SAP member of the PWGP, admits that the "the process wasn't quite good… It's *the* thing you could say about the reform which… I am not really proud of…" (Interview, 2005). However, this top-down approach fit well with the underlying neoliberal ideology of the reform.

The PWGP brought their proposed guidelines and principles for a reformed pension system to parliament in 1994, where they were supported by 85 per cent of the Members of Parliament (Settergren Interview, 2005). In 1998 parliament passed the bill making the new pension system law, and thus began the implementation process (Palme, 2003). For many it was difficult to characterize the reform, as no one involved in the process framed the new system in ideological terms or made it into a politically significant historical event (Lundberg, 2005). There was little fanfare around the pension reform as there had been in the 1950s when the ATP system was the outcome of years of political struggle. Instead, the reform quietly became law while few took notice, capping a very quiet, closed and top-down process of reform.

There is a lot of criticism against the process by which the pension reform came about, but this criticism has never received much media attention or popular support. Dan Josefsson, a journalist, documentary-film maker and pension critic, argued that the pension reform was characterized by a lack of democracy, a lack of transparency and a lack of common sense (2005). In the end, the pension reform reflected a process of restructuring – where the basis or underlying principles of the system were changed (Lundberg Interview, 2005). Many were surprised by the extent of the changes brought about by the reform (Palme Interview, 2005). Karen M. Anderson calls the pension reform "far reaching," "a radical overhaul of the existing system," and "a major departure from existing pension policy" (2005, 94-110). The processes by which the ATP system and the new pension system were developed and adopted could not be more different. Leading up the 1994 election the reform was a closed process, this compared to the enormous political struggle and political debate which preceded the adoption of the ATP system in the 1950s (Lundberg Interview, 2005). "If you were someone who questioned the pension reform [in the 1990s] you were viewed as someone who did not want a sustainable pension system" (Berge Interview, 2005). In the end, Scherman argues that the new pension system is "profoundly undemocratic, and, for this reason, if no other, it will ultimately fail" (2004).

The New Pension System

The new pension system consists of an income pension system, as well as an advance-funded portion with privately managed individual accounts (the Premium Pension, or PP) and a Guaranteed Pension at age 65 for those with low lifetime earnings (Palmer, 2000). The new pension system, like the old, is mandatory for the over four million people in the Swedish workforce (Engström and Westerberg, 2003). The new system contains a minimum retirement age of 61, but no maximum, encouraging people to work for as long as they can. In addition, the new system allows people to retreat from the labour force gradually, combining work and retirement for a number of years before fully retiring (Palmer, 2000). Within the PP system, one can choose 25, 50, 75 or 100 per cent of a full benefit after age 61 (Palmer, 2000; Palme, 2003; Settergren, 2001). This allows people to both work and benefit, while still contributing to the system (Palmer, 2000; Anderson, 2005).

The new system is adjustable to the economic development in society and to demographic changes (Johannisson, 2000). It is based on lifetime earnings, from the age of 16 until retirement (Johannisson, 2000), and includes things other than actual earnings, such as pension-based income, or pension credits, for taking care of one's child, aged four and under (Könberg Interview, 2005), as well as for military service, periods spent in education, and periods spent receiving benefits from unemployment, sickness, work injury and disability insurances (Palmer, 2000; Ståhlberg, 1995a). The total contribution rate is 18.5 per cent on earnings, which is divided into two parts, 16 per cent goes to the income pension component of the system which finances today's retirees, and 2.5 per cent goes to the funded PP component (Johannisson, 2000). The 18.5 per cent contributions are now paid half by employers and half by employees (Palmer, 2000), whereas in the ATP system employers paid the full contribution. However, for those with earnings over the ceiling, the employee will no longer be forced to pay contributions on the amount over the ceiling, while the employer will still pay their share, but as a tax that will go directly to the state treasury (Palmer, 2000). The new pension system is autonomous from the state budget, except for the Guaranteed Pension and the state financed contributions for pension credits (Engström and Westerberg, 2003).

"[T]he goal [of the pension reform] was really to design a system that would be financially sustainable, that would be fair, that would give incentives for work and that would give a good pension benefit" (Sundén Interview, 2005). The issue of fairness applies to the fact that for each krona paid in to the system, you receive a benefit, and everyone gets the same benefit from each krona paid. Two major underlying themes in the new pension system are incentives to work longer and to save more privately (Johannisson, 2000). An attempt to make the pension system more employment-oriented is linked to the fact that the welfare state system needs as many people as possible employed at any given time in order to function properly (Lindberg Interview, 2005). The incentives to work are also closely linked with rising life expectancy.

Income Pension

The income pension is a Notional Defined Contribution (NDC) pay-as-you-go (PAYG) system. This portion of the pension emulates the principles of a market-based defined-contribution scheme, but without the advance funding and with a rate of return based on economic performance rather than the financial market (Palmer, 2000). The new pension system contains a direct link between contributions and benefits (Engström and

Westerberg, 2003). The 'notional' part of NDC comes from the fact that contributions are not physically deposited into individual accounts, but rather recorded into individual accounts while being used for financing current pensions (Engström and Westerberg, 2003). Since current contributions are being used to finance current pensions, no real interest is earned on these contributions, so NDC schemes have to determine an adequate fictitious rate of return for contributions (Cichon, 1999). The NDC system has been "heralded as a new tool to financially stabilize national PAYG pension schemes" (Cichon, 1999, 89). The PAYG part refers to the fact that the system does not require that the pension liability be backed by a certain amount of funded assets (Swedish National Social Insurance Board, 2004).

Under the new pension system, the size of one's income pension is determined by four factors – 1) the amount of contributions paid into the system, 2) the return earned on one's contributions, 3) the current average life expectancy, and 4) one's age at the time of retirement (Swedish National Social Insurance Board, 2004). When a pension is paid out from the income pension it is adjusted to economic growth and life expectancy of the individual. The connection to economic growth is measured in terms of indexation by average wage growth (Engström and Westerberg, 2003). Adjustment to economic growth will result in lower pensions if growth is less than inflation (Johannisson, 2000). This means that if economic growth is good, pension levels will increase, but if economic growth is slow (as it is currently) then pension levels will decrease (Wennemo Interview, 2005). Adjustment to demographic changes is achieved by dividing the pension to be paid out by life expectancy for each pensioner by age cohort (Johannisson, 2000; Engström and Westerberg, 2003). As such, if life expectancy increases, pensions will decrease.

Premium Pension

The Premium Pension (PP) is based on funded individual accounts, and represents a move towards privatization within the Swedish pension system. The PP began in the autumn of 2000, when individuals could choose for the first time how to invest their money. The PP system is self-directed and those involved can invest in a number of domestic and international funds (Sundén, 2004). There are three factors which determine the size of one's PP: 1) the amount of money paid into your PP account, 2) value fluctuations and withdrawal fees for the funds you chose to invest your money in, and 3) your age at retirement (Premium Pension Authority). There are no guarantees within the PP system when it comes to the rate of return (Palmer, 2000). As such, there is a great deal of uncertainty within this system.

The number of investment opportunities in the Swedish system is significantly larger than in most defined-contribution systems (Engström and Westerberg, 2003; Sundén, 2004). In 2000, when the PP system began, there were 460 funds to choose from to invest one's money (Engström and Westerberg, 2003); four years later there were more than 650 funds (Sundén, 2004). People may choose between one and five funds at any given time, and may switch funds whenever they want for no additional cost (Engström and Westerberg, 2003). All funds licensed to operate as investment funds in Sweden are allowed to participate in the PP system, including those owned by foreign interests (Palmer, 2000). This has led to the integration of international fund managers on the Swedish market, which has provided them with an inroad into the Swedish savings market (Palme, 2003). There was pressure from the European Union (EU) to open up the

PP system to all kinds of fund managers, including international fund managers (Palme, 2003). This is a good example of external pressure placed upon the state in terms of the pension system.

Within the PP system, there are different types of funds to choose from, in terms of risk level as well as fund type. The Premium Pension Authority (PPM) organizes its funds into four categories – interest funds, mixed funds, generation funds and share funds (Premium Pension Authority). Contributions are paid into an individual account once per year (Engström and Westerberg, 2003). The capital which accumulates in the individual accounts within the PP system cannot be withdrawn until one retires (at age 61 at the earliest). The annuity is calculated by dividing the individual account value by life expectancy for each pensioner by age cohort on the day you retire. Pensioners have a choice between a fixed or flexible annuity rate (Engström and Westerberg, 2003). Pensioners must also choose whether to retain their balance in fund insurance or to switch to a conventional insurance option (Swedish National Social Insurance Board, 2004).

The default fund exists for those who do not wish to make an active investment decision. However, once you have made an active investment decision, you may not later switch to the default fund (Premium Pension Authority). The default fund is an important design feature of the PP. The target for this fund is that it must be associated with lower risk than the average fund in the system (Engström and Westerberg, 2003). Perhaps because of this, or perhaps because the fee for this fund is lower than other mixed funds within the system (Engström and Westerberg, 2003), the default fund has become very popular. The fee for the default fund is 0.16 per cent, while the average fund fee for those choosing where to invest their money is 0.55 per cent (Sundén, 2004). In addition, the default fund performed better than the average portfolio from the beginning – from the fall of 2000, when the stock markets dropped, to the fall of 2003, the return of the default fund has been –29.9 per cent while the return on the average portfolio chosen by an investor has been –39.6 per cent (Cronqvist and Thaler, 2004). Even today, the average "pension savings have declined… by 0.8 per cent" per year, while the default fund has seen a rate of return of 3.5 per cent per year (The Local, 2009). Those who made active investment decisions and lost money due to the drop in the stock market began to question the need to make an active decision when the default fund performed much better than the average portfolio (Sundén, 2004). Some argue that it is actually a rational choice not to make an active investment decision as there is nothing to indicate that you will make a better choice than the default option (Settergren Interview, 2005; Scherman Interview, 2005). The increase in those choosing the default option has led to a general perception of the failure of the underlying market principles of the Premium Pension system (Settergren Interview, 2005).

Guaranteed Pension

While the income pension and the PP portions of the new pension system provide for a great deal of uncertainty in old age, there is one area of the new system which provides for more assurance – the Guaranteed Pension (GP) provides a pension to those with low lifetime earnings. Those receiving the GP are also entitled to means-tested social assistance programs, such as untaxed housing allowances (Palmer, 2000). The GP is financed by general tax revenue (Settergren, 2001), unlike in the old system where the basic pension was mainly financed by payroll taxes paid by employers (Anderson and Meyer, 2006). If earnings increase at a faster rate than inflation, the GP will become less important, and will gradually be phased out over time, which is a design element of the new pension system that Scherman argues lacks fairness and political credibility (2004).

Automatic Balance Mechanism

The new pension system was designed so that reductions would come out as part of the logic of the whole pension scheme rather than requiring a change in the rules to get the same effect (Settergren Interview, 2005). "If and when liabilities should exceed assets, the basis for indexation is automatically switched to an approximation of the system's internal rate of return, thus automatically adjusting pension levels as well" (Settergren, 2001, 6). This balance mechanism secures the financial stability of the new pension system (Settergren, 2001). Those behind the design of the pension reform are happy that the new pension system runs automatically without any interference from politicians and parliament (Gennser Interview, 2005). The Automatic Balance Mechanism (ABM) ensures that the state does not take on any risk within the pension system (Lequiller, 2004).

Outcomes of the Pension Reform

The consensus upon which the pension reform was based is a pillar that holds the system up, and makes it very difficult to think of changing the pension system today (Sonnegård Interview, 2005; Scherman, 2004). This makes it difficult to propose reforms even in areas of the new pension system that appear to require change, such as the Premium Pension system, which appears to be flawed in numerous ways. This may lead to the need for another big reform again one day, since smaller details that require change today are not being addressed.

In addition, the information campaign that followed the introduction of the new pension system appears to have failed, as most people do not understand the new system (Lundberg Interview, 2005). "[I]f you ask people very few would be able to say how [the pension system] works today… most people… would think that this is a complicated system, and you just have to trust that I will get a fair amount when I'm retired because it's just not possible to understand [how the system works]" (Duvander Interview, 2005). Yet, the pension reform does not seem to be a major issue today in Sweden (Lindbom Interview, 2005). Thus, the system may remain in place even though it is not well understood, because there is little momentum to change it. Resistance from the Swedish people would have to be very strong in order to topple a system supported by a five-party consensus, and this does not appear to be on the horizon.

Gendered Outcomes of the New Pension System

While the new system gives incentives for work and disadvantages those who retire early, the reality is that more and more people are retiring early (Palmer, 2000). In fact, studies indicate that the majority of Swedes would like to retire at the age of 61 or earlier, not 65 or later (Björkman et al., 2001). Also, there is an increase in people on sickness benefits after age 60, but this seems to have more to do with people's attitudes than ill health, as Sweden is a relatively healthy country (Rae, 2005). In addition, the generosity of the Swedish sickness insurance system and the ease of which one can access the system have been pointed to as explanations for the increased number of people on sickness benefits. An OECD Report released in 2005 argues that it is difficult to distinguish between early retirement and those accessing sickness benefits due to illness in Sweden (Rae, 2005). In fact, the two are very interrelated - when there is a decrease in one there is generally a corresponding increase in the other. For example, after four years of steady increase, the level of sickness absence fell in Sweden in 2002, but at the same time there was an increase in the number of people receiving early retirement pensions (Berg, 2003).

With the economic crisis of the 1990s and the subsequent cuts to the public sector, the pressure on workers in this sector, who are mainly women, has increased and it has become a more difficult job; the price for this is early retirement and sickness leave (Ackerby Interview, 2005). The average blue-collar worker in Sweden retires before age 60, but within the new pension system these workers are expected to work until at least 65 (Hoffmann Interview, 2005). This is a serious issue within the Swedish Trade Union Confederation (LO), as many LO members simply do not have the working conditions that would allow them to work until 65 or later (Thoursie Interview, 2005). As such, there is a very real class divide when it comes to retirement age and the types of jobs which older people are able to do, particularly until age 65 or higher, as encouraged by the new pension system in Sweden.

In terms of sickness benefits, there are gender differences in recent uptake. Many more women are on sickness benefits today – in fact women are, on average, twice as likely to be absent from work due to illness than men (Rae, 2005; Berg, 2003). This is a particularly large problem within the health care sector, where women often have to contend with heavy lifting and harsh hours (Sundén Interview, 2005). Employees in the public sector are overall a third more likely than those in the private sector to be absent from work due to illness (Rae, 2005). This is related to the cuts in the public sector during the 1990s and the subsequent harsher working conditions. The Welfare Commission (2002) concluded that "the deterioration [of the psychosocial work environment in the 1990s] was strongest in the welfare service sector (school, health care and care services) as well as in a number of other service sectors" (39), sectors which have a high concentration of women. Expecting women to work full-time hours for their entire life as well as take care of their families helps to explain why so many women are on sickness benefits in Sweden today (Hoffmann Interview, 2005). As such, the gendered division of work in the home plays a crucial role in determining women's retirement age, women's incidence of sickness benefits, and women's pension benefits. Those women who are retiring early or disappearing from the labour market on sickness benefits are losers within the new pension system (Korpi Interview, 2005).

The new pension system also eliminates much of the equality and universality of the previous system. The system is still universal in that everyone is included; but the purpose of universalism is no longer to equalize differences in living conditions (Lundberg, 2005). Gøsta Esping-Andersen argues that an adequate retirement guarantee must be a part of any social model (2002), and this appears to be faltering in Sweden. Scherman argues that the concept of solidarity, an underlying principle of the Swedish model, has been abandoned in the new pension system (2004).

There is much debate and disagreement over the outcomes of the pension reform for people's pensions. One point of contention is the replacement rate. While it is generally agreed that if earnings per capita grow by over 2 per cent per year, the new system will generally provide better benefits (Palmer, 2000), problems arise when this does not occur such as in the current financial crisis. Some argue that for most people in Sweden, the replacement rate in the new system will be lower compared to the ATP system, at about 45-55 per cent (Johannisson, 2000), or 50-60 percent (Swedish National

Social Insurance Board, 2004) of one's pre-retirement income. Some believe that it will be as low as around 40 per cent for those who cannot work until age 67 or 70 (Scherman Interview, 2005; Carlén Interview, 2005).

Könberg freely admits that those who start work later in life or who take more time out of the labour market will get less in the new pension system than in the old ATP system (Könberg Interview, 2005). Michael Cichon agrees, arguing that for those who enter the labour force later, withdraw for long periods, or leave early, the pension amount is automatically reduced (1999). It is important to note that the majority of those who start working later in life and who take more time out during their careers are women, thus they will be affected by the new pension rules more negatively than men. In fact, recent studies have shown that women's pensions are worth between 80-90 per cent of men's on average (Rodas, 2008). "The main reasons for the gaping inequality is that women often have lower salaries than men… [and] many more women than men work part-time" (Rodas, 2008). Thus, Sigrid Leitner argues that pension schemes based on long calculation periods, such as lifetime contributions, privilege men as a group over women (2001). Patrik Marier also points to such criticisms of the life income principle, as this type of system reduces women's pensions on average, as they tend to have more career interruptions and work more part-time hours than men (2007). In addition, as life expectancy continues to increase, people will be forced to work longer or their benefits will decrease (Wennemo Interview, 2005; Scherman, 2004; Swedish National Social Insurance Board, 2004).

Members of the PWGP claim that they were always conscious of how the pension reform would affect women. Hedborg argued that the formulation in the new system was done in a way that the part of the benefits going to women in the new system should be the same as in the old system (Interview, 2005). Könberg claims that the principle of gender fairness was one of the most important questions discussed by the PWGP (Interview, 2005). The PWGP had stated in its principal bill in 1994 that those who stay at home with young children, mainly women, must be compensated for that in the pension system in recognition of this pattern in Swedish society (Sonnegård Interview, 2005). This led to the introduction of pension credits for the care of children four years old and under. Without this the new pension system would have been viewed as discriminatory towards women, as it is based upon lifetime contributions and would penalize women who take time off to spend with their children when they are young (Ståhlberg, Kruse and Sundén, 2005). Thus, the introduction of pension credits for childcare came from a place of justice and gender equality (Sonnegård Interview, 2005).

Margit Gennser, Moderate Party member of the PWGP, claims that the pension credits for childcare make up for any benefits women had in the old ATP system from the 15/30 years rule, thus it was a fair exchange (Interview, 2005). Könberg argues that if you take the new pension system as a whole, including the pension rights for childcare, women will have no lower percentage of men's pension than they had in the old ATP system (Interview, 2005). Yet, Karen M. Anderson and Traute Meyer argue that the pension credits for childcare probably do not compensate for the generous protection built into the old system via the 15/30 years rule (2006), and Marier agrees that this was a controversial aspect of the pension reform, as women were viewed by many as a key group that benefited form the old ATP system's 15/30 years rule (2007). Either way, while women are not directly disadvantaged within the new pension system for taking time off to care for young children, they are disadvantaged indirectly in that time out of the labour market often means fewer promotions, lower wages, and difficulties in changing jobs (Sundén Interview, 2005), all of which affects one's pension. And while the new pension system recognizes childcare for young children through a system of pension credits, there is no recognition for unpaid care work of older children or other relatives. This could lead to lower pensions for women who do such unpaid work, or it could change people's awareness of the consequences of the unequal division of paid and unpaid work in Sweden (Palme Interview, 2005).

Over the post-war period, Swedish women have begun to work more full-time hours and less part-time hours. For example, in 2001, 34 per cent of working women worked part-time, which was a decline of 12 per cent since 1980 (Anderson and Meyer, 2006). Over the years women have improved their relative position within the pension system due to their increasing number of qualifying years (Ståhlberg, 1995b). The differences between men and women's pensions will diminish when older women retire, since younger generations of women participate in the labour market more than older generations (Ståhlberg, 1995b). Marianne Sundström, Professor of Economics at the Swedish Institute for Social Research, argues "that the new pension system gives great incentives for women to work more" (Interview, 2005). But will this be the outcome or will women's pensions simply suffer? Josefsson argues that "you have to really have bend the numbers… to make this [new pension system] look like a good deal for women" (Interview, 2005), as those working part-time will be punished within the new system. The result could be that many women will have little to live on when they retire (Duvander Interview, 2005).

Urban Lundberg, researcher at the Institute for Future Studies, argues that if there are a lot of differences on the labour market, in terms of female participation and compensation, then there will be differences in outcomes in the pension system as well (Interview, 2005). Ann-Charlotte Ståhlberg agrees, arguing that it is women's lower wages and shorter working lives that result in lower pensions for women (1995b). It is clear that men and women face different life course risks due to their sex and their relations to one another (Myles, 2002). This, of course, means that women are disproportionately affected by reforms that reduce or reorganize public sector benefits, since they typically have lower lifetime earnings (Myles, 2002). Hoffmann argues that the result of the new pension system will be that "most women are going to be depending on the guaranteed pension that we have at the bottom" (Interview, 2005).

Over the years, women have consistently had higher guaranteed pensions than men, due to the fact that women on average have lower income pensions than men (Swedish National Social Insurance Board, 2004); on average they are 35 per cent lower, largely due to differences in income during their working years (Anderson and Meyer, 2006). This is confirmed by a study of the new pension system conducted by the Swedish National Social Insurance Board, which concluded that women who work fewer than forty years would be losers in the new system (Anderson, 2001). Marier also argues that those expecting to lose in the new Swedish pension system are those with interrupted careers, blue-collar workers prone to early retirement, and white-collar workers who benefited from the previous 15/30 years rule (2005) or, in other words, women and blue-collar workers.

The new pension system also indicates a shift from a society taking care of people to individuals taking care of themselves, and it does so by transferring risk from the state to the individual (Scherman, 2004; Anderson, 2005; Lundberg, 2005). By guaranteeing a fixed contribution rate and having an ABM, the result will be that pensions will be reduced as much as necessary in order to restore financial equilibrium in times of economic downturn (Scherman, 2004). This shift in ideology also implies a shift from a focus on distributive justice to a focus on procedural justice, where the outcome no longer matters, but rather the way that you earn your pension is the focus (Lundberg, 2005).

The uncertainty within the new pension system is something that most people acknowledge. Because the system is so closely linked with economic growth, no one can predict exactly how much pension one will receive upon retirement (Könberg Interview, 2005; Wennemo Interview, 2005). In addition, due to this close link, there will be times, like today, when the indexation of the benefits will be low due to slow economic growth (Settergren Interview, 2005). Swedish pensions firm AMF Pension[4] announced earlier this year that there was a significant risk that it would have to cut its dividend rate, resulting in lower pensions payments to existing pensioners (Vinthagen Simpson, 2009). Most of the people I interviewed in 2005 recognized this as an abstract possibility, but few had thought about what would happen when this actually occurred. The question remains, will the Swedish people sit by quietly during economic downturns and simply accept lower pensions?

In terms of private savings to supplement the new pension system, Scherman argues that the amounts that people are saving privately are not enough to make up for the low public pension people will receive if they keep the same working patterns (Interview, 2005). Joakim Palme, Director of the Institute of Future Studies and Chair of the Welfare Commission, argues that the "relative importance of private solutions has been on the increase for over two decades" (2003, 161). In addition, the potential for long-term savings is increased with the financial stability of the system (Palme, 2003). Of course this indicates the very real possibility of eroding the public pension system and its' core principle of income security, and the very real possibility of increased inequality among Sweden's retirees.

Conclusions

While the Swedish pension system has been completely overhauled in the past two decades, there are elements of the new system that reinforce the social democratic nature of the Swedish welfare state, and elements which pose challenges to social democracy in Sweden. Social democratic goals of equality and solidarity are reinforced in the continued mandatory nature of the system, the guaranteed pension available to those with little or no income pension, as well as the state's continued involvement in the pension system through financing pension credits for non-paid work or absences from the labour market, and through the publicly managed default fund within the Premium Pension portion of the system. But, at the same time, social democracy is challenged through the introduction of private elements into the public pension system, such as the PP, which carries with it an underlying market logic. In addition, the uncertainty

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[4] AMF Pension is "a limited liability insurance company that is owned equally by the Confederation of Swedish Enterprise and the Swedish Trade Union Confederation (LO)," thus affecting blue-collar workers (AMF Pension).

introduced in the new pension system, by linking benefits to economic growth and life expectancy, also poses a challenge to social democratic values of equality and universalism. While the results of the new system are still unfolding, it is clear that there will be losers within the new system, and that inequality between pensioners could certainly increase over time due to the increase in private savings among the population. Those who can afford to, will save enough privately to supplement their public pension, while those who cannot afford to do so, will simply have less money during retirement.

However, the incentives to work within the new pension system offer an interesting case to determine whether people's work behaviour will change in the future. Because women who work part-time will be disadvantaged within the new pension system, will we see more and more women working full-time hours for their entire working career? Will we see more people working until age 67 or 70 in order to secure a better pension for themselves, or will people still retire at age 60 and simply have less money to live on in retirement? These are questions which will only be answered with time, but the new pension system does open up some interesting possibilities in Sweden. The continued success of the country's social democratic welfare state depends upon full employment, and it will be interesting to see if the pension system will be successful in encouraging this. Ståhlberg argues that "the rules for how pensions are determined are not neutral from a distributional point of view. Some pension rules favour a particular pattern of labour market behaviour" (1995b, 21). This is illustrated within the new Swedish pension system, where the underlying goals of full employment and financial sustainability are clearly outlined. As such, the system favours a more typically male pattern of labour market behaviour and will have negative consequences for women who do not adhere to this pattern.

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