

The Scope and Financing  
of Social Insurance  
in Sweden 2004–2007



**Försäkringskassan**

Published by Försäkringsdivisionen  
Utvärderingsavdelningen

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Printers Lenanders Grafiska AB, 2006

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# Overview

In 2005, Swedish social insurance expenditure totalled SEK 435 billion (EUR 46.9 billion, or just under 16 per cent of GNP). Net payments to households accounted for 70 per cent of total expenditure, health care benefits for just under 1 per cent, preliminary tax payments for 21 per cent, national old-age pension contribution payments for just under 6 per cent, and administration for just over 2 per cent. Expenditure rose by just over 2 per cent between 2004 and 2005, the smallest increase since 1998. The lower rate of increase is mainly attributable to the fact that previously soaring costs for ill health have now levelled out. During 2006 and 2007, expenditure is estimated to rise by 2 or 3 per cent annually, given the current regulatory framework, due mainly to increased expenditure for old-age pensions. Expenditure is expected to remain largely unchanged in fixed prices.

Half of expenditure is made up of payments to old-age pensioners, one-third comprises payments to the sick and disabled, while 14 per cent goes to families with children. Administrative costs amount to a little less than 2.5 per cent of total expenditure annually.

Social insurance expenditure increases over time. However, the severe recession of the early nineties prompted a number of regulatory changes curbing increases in expenditure up to 1997. Between 1998 and 2003, expenditure rose sharply due to widespread sickness absence and increasing expenditure for old-age pensions. Relative to GNP, social insurance payments fell to just under 16 per cent in 2005, after having risen from just under 15 per cent in 1998 to a peak of 16.4 per cent in 2003. During 2006–2007, expenditure is expected to continue falling relative to GNP.

Transfers to households from what in Sweden is called social insurance account for over 80 per cent of all public transfers to households. Social insurance also accounts for approximately half of expenditure below the spending ceiling set by Parliament. Of every SEK100 spent

on private consumption, almost a quarter comes from social insurance benefits.

Among Nordic (though not EU) countries, Sweden is the one that redistributes the largest share of GNP through public transfer systems to households. In Western Europe, Norway and Sweden are the countries with the most costly public sickness insurance schemes relative to GNP.

Benefits are financed through social insurance contributions, general pension contributions, taxes and yield from investment funds. In 2005, income from contributions covered almost 90 per cent of total expenditure.

# Introduction

The aim of social insurance in Sweden is to provide the population with protection against financial risks associated with illness, disability and old age. A further aim is to provide financial security for families with children, to even out financial differences between households with and without children, and to spread financial resources over the life cycle.

The population of Sweden currently consists of 9 million people. Of these, 1.7 million are below the age of 16 and almost 1.6 million are 65 or older. All those who have reached the age of 16 and are resident in Sweden are in principle insured and registered with the Social Insurance Office. At present, just over 7.3 million people fit this description. In addition, approximately 75,000 persons resident abroad receive an old-age pension from Swedish social insurance. Of those resident in Sweden but without individual social insurance cover, almost all are below the age of 16 and living with their parents. The latter are in such cases entitled to certain social insurance benefits in their role as parents. Children are also covered directly, for example, by surviving children's allowance.

The purpose of this report is to show the scope of social insurance expenditure, describe how it is financed, and trace its development over time. Equally important are forecasts of expenditure and financing for the years ahead. These are taken from the budget material submitted to the government by the Swedish Social Insurance Agency in February 2006. The forecasts take into account current regulations, regulatory changes already decided upon and legislation drafted in parliamentary bills. In addition to actual forecasts, factors which may influence the long-term development of expenditure are discussed.

In this publication, we describe the types of benefit administered by the Swedish Social Insurance Agency and the Premium Pension Authority. In Sweden, these are referred to under the collective term of

**social insurance.** In other contexts and internationally, this concept may also include other transfers to households, for example, unemployment benefit and financial assistance (formerly social allowance). Health and medical care, medicine and care of the elderly are further examples of welfare components that are regarded as integral to the concept of social insurance in certain countries, though not in Sweden.

Since financial reporting from the Swedish Social Insurance Agency is not broken down according to gender, this report cannot differentiate between conditions for men and women. In 2006, however, the Swedish Social Insurance Agency plans to look into the possibility of developing gender-specific statistics and forecasts.

All amounts quoted in this report relate to expenditure and financing at the national level. However, the impact of social insurance varies greatly between different parts of the country. The financial reporting system allows a break-down according to county and municipality and such information is in fact published regularly, but at present no comprehensive report is made describing the scope of social insurance on a regional basis.

The list on the next page shows social insurance benefits grouped into four areas, according to the division into expenditure areas employed in the budget and elsewhere. Sections 1 and 2 dealing with social insurance expenditure follow this arrangement. Section 3, dealing with financing, follows a different plan, based on how the various elements of social insurance are financed.

*In this report, expenditure is not expressed in current prices further back than two years. Older series are instead expressed in fixed prices or, for example, in relation to GNP. The figures that form the basis of the report, expressed in current and fixed prices, may be downloaded from the Swedish Social Insurance Agency website:*

*<http://www.forsakringskassan.se/omfk/socialforsakringen/>*

*Social insurance expenditure is reported here in **SEK**. In 2005, one Swedish krona was the equivalent of approximately **EUR 0.11**.*



## Survey of benefits

### **Financial security for families and children**

The aim of the policy area of financial family policy is to reduce the discrepancies in financial conditions between families with and without children within the framework of the public welfare system.

Parental insurance	Care allowance for disabled children
Pregnancy cash benefit	Maintenance support
Parental cash benefit	Pension rights for childcare years
Temporary parental cash benefit	Child pension, etc
Child allowance	Adoption allowance
Housing allowance for families with children, etc.	

### **Financial security in case of sickness and disability**

The aim of the policy area of compensation in case of work incapacity is to reduce sickness absence by half, compared with 2002, by 2008. At the same time, the number of newly-granted activity and sickness compensation benefits (earlier: disability pension) should diminish. Demographic developments during the period are to be taken into account.

The aim of disability policy is achieve a community founded on diversity that allows people with disabilities of all ages to participate fully in the life of society and that provides equal opportunities for disabled boys and girls, men and women.

Sickness cash benefit	Housing supplement
Rehabilitation cash benefit, etc	Disability allowance
Allowance for care of close relatives	Work injury compensation
Sickness and activity compensation	Annuities
Employment of certain persons with sickness/activity compensation	Sickness cash benefit, etc
Medical care, international care, dental care	Car allowance for the disabled
	Assistance allowance

## **Financial security in old age, etc.**

The aim of the policy area of financial old-age policy is to provide inflation-proof basic protection for people with low or no income-based pensions. Surviving spouses shall receive reasonable financial support in order to adjust after a death.

Old-age pension

Income-based pension

Guarantee pension

Maintenance support for the elderly

Survivor's pension

Widow's pension

Adjustment pension

Housing supplement for pensioners

## **Other payments**

Activity support

Compensation to conscripts

Small-business insurance

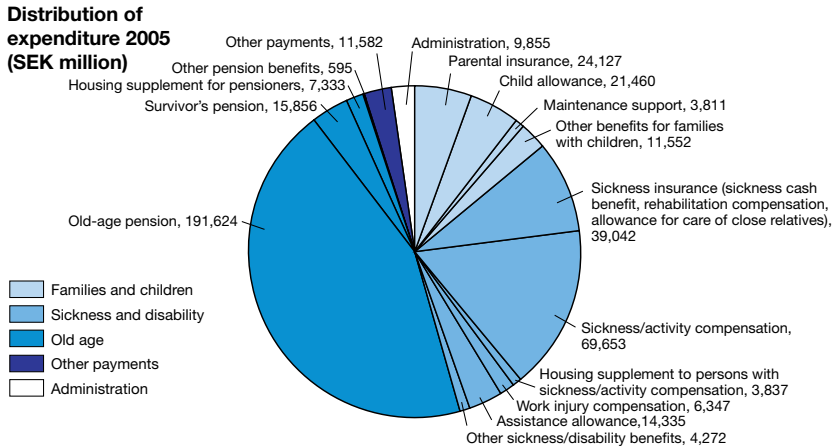
Disease-carrier's allowance, etc

# 1 Social insurance expenditure 2004–2007

*This chapter first describes the distribution of social insurance expenditure between the various main categories: financial security for families and children, financial security in case of sickness and disability, financial security in old age, other payments and administration. Subsequent sections describe the benefits included in each main category together with the most important factors affecting developments in expenditure over recent years.*

## 1.1 The distribution of expenditure in 2005

In 2005, half of expenditure consisted of payments to old-age pensioners and almost one-third went to compensation for, and the costs of, ill health.



Out of a total expenditure of SEK 435 billion, SEK 399 billion – or 92 per cent – consisted of transfers to households. National old-age pen-

sion contributions including pension rights for childcare years made up just over 5 per cent and almost 2.5 per cent comprised administrative costs. The remaining less-than-one per cent consisted of payments for various medical care benefits. From the transfers, SEK 93 billion was deducted as preliminary tax so that a net total of SEK 306 billion was paid out to households.

## 1.2 Development 2004–2005 and forecast development up to 2009

Payments from social insurance increased between the end of the 1990s and 2004 by approximately 3 per cent annually in fixed prices<sup>1</sup>. This development was primarily due to more people taking sick leave and to sick-leave periods tending to become longer. The number of persons with sickness compensation or activity compensation also increased as a result of the high incidence of long-term sickness<sup>2</sup>. In addition, payments to pensioners show a steady increase.

In 2005, insurance expenditure including administration totalled just over SEK 435 billion (EUR 46.9 billion). This increase of just under 2 per cent in current prices compared with the preceding year represents an increase of 1.5 per cent in real prices. This is the lowest rate of increase since 1998, in both absolute and relative terms.

In 1999, the *national old-age pension contribution* was introduced, intended among other things to cover earned pension rights for daily allowances to households and income-related payments in sickness and activity compensation. In addition, pension rights are granted for the care of young children. These national old-age pension contributions are included in expenditure in all the tables in this report except

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<sup>1</sup> In 1999 and 2003, the increase in *gross* expenditure due to various regulatory changes was considerably higher without in itself affecting the increase in net payments.

<sup>2</sup> In 2003, disability pension and temporary disability pension were replaced by sickness compensation and activity compensation benefits.

for table 2.1 which shows direct transfers to households<sup>3</sup>. In total, national old-age contributions paid into social insurance amounted to almost SEK 24 billion in 2005.

The Swedish Social Insurance Agency estimates that expenditure under current regulations will increase much more slowly during the period 2006–2007 than during 1999–2003. Compared with 2005, the Agency forecasts an increase in fixed prices of just under SEK 7 billion (1.6 per cent) for 2006 and a further SEK 2 billion (0.5 per cent) in 2007. Increases are expected to be due almost exclusively to rising costs for old-age pensions.

**Table 1.1 Social insurance expenditure in current prices**

SEK million	2004		2005		2006 forecast		2007 forecast	
	Expend.	Share, %	Expend.	Share, %	Expend.	Share, %	Expend.	Share, %
Financial security for families and children	59,489	13.9	60,949	14.0	65,373	14.6	66,835	14.6
In sickness and disability	135,928	31.8	137,485	31.6	137,180	30.7	137,345	30.0
In old age, etc	212,588	49.8	215,406	49.5	221,770	49.6	231,619	50.5
Other payments	9,854	2.3	11,582	2.7	12,227	2.7	11,968	2.6
Administration	9,378	2.2	9,855	2.3	10,981	2.5	10,623	2.3
<b>Total</b>	<b>427,237</b>	<b>100</b>	<b>435,277</b>	<b>100</b>	<b>447,532</b>	<b>100</b>	<b>458,391</b>	<b>100</b>
<b>In relation to GNP (%)</b>	<b>16.2</b>		<b>15.9</b>		<b>15.5</b>		<b>15.1</b>	

However, social insurance regulations may be revised in the coming years. Two reforms already implemented in 2006 involve raising the income ceiling for daily allowance benefits such as sickness cash benefit and parental cash benefit. These reforms will lead to increased expenditure. Moreover, both dental insurance and assistance allowance are up for review in 2006. Regulatory changes in line with the ambition expressed in the directive to the review body are likely to

<sup>3</sup> By including in this way both state payments of contributions into the old-age pension system and payments from the system to private individuals, a higher expenditure sum is obtained than if public sector net expenditure should be calculated.

curb increasing expenditure for assistance allowance while allowing increases in expenditure for dental care insurance.

### 1.3 Financial security for families and children

**Table 1.2 Financial security for families and children**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Parental insurance</b>	<b>21,309</b>	<b>21,878</b>	<b>23,463</b>	<b>24,926</b>
<b>plus old-age pension contribution</b>	<b>2,160</b>	<b>2,250</b>	<b>2,323</b>	<b>2,468</b>
No. of paid days, million <sup>1)</sup>				
Parental cash benefit	42	43	44	44
Temporary parental cash benefit	5	5	5	5
Pregnancy cash benefit	1	1	1	1
<b>Child allowance</b>	<b>20,873</b>	<b>21,460</b>	<b>23,658</b>	<b>23,498</b>
children aged 0–15, 1000s	1,709	1,693	1,673	1,655
<b>Housing allowance for families with children and for young people</b>	<b>3,614</b>	<b>3,605</b>	<b>3,765</b>	<b>3,625</b>
households, 1000s	271	274	267	264
<b>care allowance (for disabled children)</b>	<b>2,215</b>	<b>2,319</b>	<b>2,421</b>	<b>2,503</b>
<b>plus old-age pension contribution</b>	<b>200</b>	<b>222</b>	<b>232</b>	<b>232</b>
recipients, 1000s in December	35	37	38	40
<b>Maintenance support</b>	<b>3,968</b>	<b>3,811</b>	<b>3,978</b>	<b>3,952</b>
children, 1000s in December	305	292	287	286
<b>Child pension, etc</b>	<b>1,060</b>	<b>1,048</b>	<b>1,043</b>	<b>1,048</b>
<b>Income-based child pension</b>	<b>964</b>	<b>942</b>	<b>933</b>	<b>933</b>
<b>Surviving children's allowance</b>	<b>96</b>	<b>106</b>	<b>110</b>	<b>116</b>
Child pension, 1000s in December				
Income-based pension	28	28	28	28
Surviving children's allowance	7	8	8	8
<b>Pension rights for childcare years</b>	<b>4,051</b>	<b>4,319</b>	<b>4,452</b>	<b>4,544</b>
<b>Adoption allowance</b>	<b>38</b>	<b>39</b>	<b>38</b>	<b>38</b>
<b>Total SEK million</b>	<b>59,489</b>	<b>60,949</b>	<b>65,373</b>	<b>66,835</b>
in relation to GNP (%)	2,3	2,3	2,3	2,3

<sup>1)</sup> Calculated as whole days.

Parental insurance and child allowance dominate financial aid to families with children. Together with municipal childcare they constitute

the mainstay in the field of public support for families with children. In 2005, these two benefits in combination accounted for 75 per cent of expenditure on support for families with children. In this domain, national old-age pension contributions, including pension rights for childcare years, amounted to almost SEK 7 billion in 2005.

*Parental insurance* was created to enable women and men to combine family with work. Parental insurance is based on the principle that children have a right to and a need of both of their parents.

Parental cash benefit is the most comprehensive benefit in the parental insurance scheme. In 2005, it accounted for 81 per cent of expenditure and 88 per cent of all days paid. The smallest of the benefits is pregnancy cash benefit, which accounted for just under two per cent of expenditure and of days paid. Temporary parental cash benefit refers to compensation for temporary care of children in various situations. It accounted for 11 per cent of all parental insurance benefit days and 21 per cent of the expenditure.

Of all parental insurance days paid out in 2005, 78 per cent were claimed by women and 22 per cent by men. Of the expenditure, 73 per cent went to women and 27 per cent to men. The average daily payment for women was SEK 422 and for men SEK 559.<sup>4</sup>

The steep upward trend in the number of paid days with parental cash benefit stretching over many years weakened somewhat in 2005. However, expenditure is expected to continue rising over the next few years. This is partly because the period of parental cash benefit has been extended by 30 days for children born in 2002 or later, partly because the birth rate has been rising for a number of years, and partly because the average size of daily payments from parental insurance is increasing.

Average payments have increased partly due to a rise in general wage levels and partly because fathers, who on average have higher incomes, are increasing their share of claimed days. In 2005, fathers

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<sup>4</sup> Note that pregnancy cash benefit, which can only be paid to women, is included in these figures. However, since this benefit comprises a little less than 2 per cent of total expenditure for parental insurance, it affects the result only marginally.

claimed 19.5 per cent of all parental cash benefit days and 36 per cent of the days with temporary cash benefit for the care of children. The proportion of fathers claiming parental cash benefit days, which remained relatively static at around 10 percentage units during the 1990s, has steadily increased since 2000. The increase in the average size of these benefit payments has been held back for the past few years by the fact that more and more parents exceed the income ceiling built into the insurance. Approximately 10 per cent of women and 30 per cent of men claiming parental cash benefit at a level equivalent to sickness cash benefit had a sickness-cash-benefit-qualifying income level above the ceiling for parental insurance in 2005. The raising of the income ceiling implemented in the summer of 2006 should mean that average payments once again rise at a rate more closely related to average wage developments.

The aim of the general *child allowances*, – child allowance, large-family supplement and extended child allowance as well as EU child-allowance benefits – is to reduce differences in financial conditions between families with and without children. Child allowance is paid to all families with children. As of October 2005, large-family supplement, is paid from the second child onwards. Also the level of general child allowance was raised in October 2005 from SEK 950 to SEK 1,050 per month. Expenditure for this benefit increased as a result of regulatory changes by SEK 742 million in 2005. In 2006, regulatory changes are expected to raise expenditure by just over SEK 2 billion. However, between 2007 and 2009, expenditure is expected to fall due to the decreasing number of children aged 0–16 years.

*Housing allowance* is a means-tested benefit, the size of which is determined by the size of family, cost of accommodation and income. The typical recipient of housing allowance is a single mother. Since 1997, the allowance has been preliminary and is fixed retroactively once final income tax for the year has been determined. Each final adjustment generates a considerable number of repayments and supplementary payments. The repayment period may extend over several years.

*Care allowance* is payable to parents of children with disabilities or to young people in need of special care and attention. As of 2003, the



upper age limit for eligibility for care allowance has been raised from 16 years to 19 years.

The size of care allowance is continuously adjusted to the price base amount. The number of care allowances has increased over many years. The lowest benefit level – the one-quarter care allowance – has increased most.

The number of children receiving care allowance continued to increase throughout 2005. In December 2003, the number was just over 38,700. In December 2004, it had increased to just under 40,300, and in December 2005, was almost 42,500. Due to the change in the upper age limit, the increase is concentrated to the oldest age group. The number of children aged 17–19 increased from just under 700 in December 2003 to just under 3,000 in December 2004 and to just over 4,900 in December 2005.

Percentually, care allowance is increasing equally for girls and boys. But it continues to be more common for care allowance to be paid out to boys, who account for 63 per cent of children receiving care allowance.

***Maintenance support*** is designed to guarantee a child half its need of support in cases where the parent responsible for paying maintenance fails to do so, and to oblige both parents to take financial responsibility for their children.

Maintenance support is provided for children when the person responsible for paying maintenance fails to pay, or pays less than the required amount for maintenance support. This applies to parents who live apart even though they may have joint custody. Maintenance support is also paid to children adopted by a single parent.

Maintenance support is paid to children aged 18 or younger while extended maintenance support is paid to children still studying up to and including June of the year they reach the age of 20. These children are guaranteed financial support, which was raised 1 February 2006 by SEK 100 to SEK 1,273 per month. If the child has an annual income exceeding SEK 48,000, maintenance support is reduced. When maintenance support is paid out at the full rate, the parent liable to pay maintenance must pay a calculated part of the maintenance support to

the state. Maintenance support may also be paid out as supplementary allowance and as maintenance support if the child has two homes.

Expenditure for maintenance support (gross payments before repayment by those liable to pay maintenance) has remained at a fairly constant level over the past ten years but it decreased noticeably in 2004 and 2005 due to fewer children being covered by the scheme. Both the number of children in the relevant age groups and the number of children of separated parents found in the maintenance support system have fallen. Of approximately 500,000 children not living with both of their parents, some 270,000, or 54 per cent, receive maintenance support in some form or other from the Swedish Social Insurance Agency.

**Child pension** is payable to a child if one or both parents have died and if the child, in accordance with the ground rule, has not reached 18 or in certain cases 20.

The number of child pensions has declined since the mid-1990s but rose somewhat in 2002.

In 2003, the rules governing child pension were changed in order to harmonize them with the new pension system. The reformed child pension is largely income-based. In 2005, the number of child pensions was just under 28,000. The number of child pensions is estimated to remain more or less constant during 2006–2007.

In 2003, **surviving children's allowance** was introduced. This basic protection is payable to a child if one or both parents have died and the child has no, or a low, child pension. Surviving children's allowance in certain cases replaced child pensions from the basic pension system and in some cases maintenance support. The number of surviving children's allowances is 8,000, of which 5,000 go to children without a child pension.

The new old-age pension system gives **pension rights for childcare years**. In 1999, a national old-age pension contribution was introduced to finance pension rights for care of children aged 0–4 years and/or adopted children below the age of 11. A *pension-qualifying amount* is calculated on the basis of the most beneficial of three calculation alternatives:

1. A supplement up to the level of the individual's pension rights the year prior to the birth of the child / the year when the adopted child is taken into the care of the adoptive parents.
2. A supplement of 75 per cent of the average pension-qualifying income of all insured persons under the age of 65.
3. A fixed amount based on an income base amount.

The contribution to the old-age pension system for these pension rights is 18.5 per cent of the pension-qualifying amount.

As of 2005, the rules for income-based pension rights for childcare years have been changed. The age limit for pension rights for childcare years for adopted children has been extended to include the year in which the child reaches the age of 10. Pension rights for childcare years are calculated from the time the insured person assumes care of the child (equated with the birth-date of the child). The law applies retroactively as far back as to 1960.

An adjustment of the preliminary contribution is made after three years, at which time interest is also included. The development of expenditure is dependant on a number of factors: the number of children aged 0–4 (excepting adopted children), the development of the income base amount, unemployment and (for the adjustment) the 6-month interest.

Allowance for costs in connection with *international adoptions* amounts to SEK 40,000 per child and is paid out annually for some thousand adoptions. A tightening of the law has meant that fewer people are entitled to this benefit, so payments are expected to diminish in 2006.

## 1.4 Financial security in case of sickness and disability

**Table 1.3 Financial security in case of sickness and disability**

SEK billion	2004	2005	2006 forecast	2007 forecast
<b>Sickness insurance</b>	<b>44,106</b>	<b>39,041</b>	<b>34,884</b>	<b>31,058</b>
Sickness cash benefit	35,944	32,479	28,742	26,354
Rehabilitation compensation	3,377	2,751	2,697	2,586
Allowance for care of close relatives	69	72	75	80
<b>Old-age pension contribution</b>	<b>4,717</b>	<b>3,740</b>	<b>3,370</b>	<b>2,039</b>
Sickness cash benefit days, millions <sup>1)</sup>	78	67	58	51
Rehabilitation days, millions <sup>1)</sup>	5	4	4	3
<b>Health care benefits</b>	<b>3,425</b>	<b>2,743</b>	<b>3,392</b>	<b>3,481</b>
Dental care	3,129	2,426	2,996	3,121
Med. care, international	296	317	396	360
<b>Sickness-/activity compensation</b>	<b>64,185</b>	<b>69,653</b>	<b>70,873</b>	<b>72,462</b>
Activity compensation	925	1,415	1,523	1,712
Sickness compensation	53,210	55,376	56,672	57,518
Old-age pension compensation recipients, 1000s in Dec	10,050	12,840	12,655	13,207
Activity compensation	12	16	18	20
Sickness compensation	527	541	547	548
<b>Employment guarantee <sup>2)</sup></b>	<b>16</b>	<b>22</b>	<b>23</b>	<b>24</b>
<b>Housing supplement to persons with sickness/activity compensation</b>	<b>3,522</b>	<b>3,837</b>	<b>3,922</b>	<b>4,008</b>
recipients, 1000s in Dec	126	134	137	138
<b>Disability allowance</b>	<b>1,205</b>	<b>1,173</b>	<b>1,176</b>	<b>1,194</b>
recipients, 1000s in Dec	61	61	61	62
<b>Work injury compensation</b>	<b>6,487</b>	<b>6,347</b>	<b>6,483</b>	<b>6,799</b>
Payments	6,051	5,957	6,059	6,293
Old-age pension contribution	435	390	424	506
Annuities, 1000s	145	139	135	133
<b>Car allowance</b>	<b>222</b>	<b>347</b>	<b>258</b>	<b>257</b>
<b>Assistance allowance</b>	<b>12,748</b>	<b>14,335</b>	<b>16,207</b>	<b>18,102</b>
recipients, 1000s in Dec	12	13	14	15
<b>Other benefits</b>	<b>11</b>	<b>9</b>	<b>8</b>	<b>8</b>
<b>Total MSEK</b>	<b>135,928</b>	<b>137,485</b>	<b>137,180</b>	<b>137,345</b>
in relation to GNP (%)	5.3	5.1	4.9	4.6

<sup>1)</sup> Counted as whole days.

<sup>2)</sup> Costs for employment of certain persons with activity or sickness compensation.

*Sickness cash benefit* replaces a part of income loss during illness. Sickness insurance underwent a series of changes during the 1990s and the early 2000s. The level of compensation was changed many times, a qualifying day was introduced for sickness cash benefit, the sick pay period (during which sick pay is paid by the employer) was introduced, the length of which has been repeatedly altered.

On 1 July 2003, the sick pay period was extended to 21 days, but as of 1 January 2005 it has once again become 14 days. From 1998 until June 2003, the level of compensation was 80 per cent of the sickness-cash-benefit-qualifying income up to a maximum income of 7.5 times the price base amount. On 1 July 2003, the compensation level was reduced to 77.6 per cent, but as of 1 January 2005, it has once again been raised to 80 per cent. Subsequent to that date, employers pay a special sickness insurance contribution corresponding to 15 per cent of sick-leave costs for full-time sicklisted employees.

Expenditure for sickness cash benefit has fluctuated dramatically over the past few decades. Between 1998 and 2003, the number of those sicklisted increased as did the costs for sickness absence. More and more were sicklisted for ever longer periods. The proportion of women among all sicklisted persons grew from year to year during the 1970s, 1980s and 1990s but since 2000 has remained relatively constant at approximately 63 per cent of all cases.

Since the beginning of 2003, the number of days claimed has fallen compared with corresponding months the preceding year. A stricter application of the rules governing approval of entitlement to sickness cash benefit, new methods for facilitating a return to work by sicklisted persons, a greater awareness of the issues at stake in the public debate, as well as employers' share in financing full sickness cash benefit for employees are all likely to have been contributory factors in reducing expenditure for sickness cash benefit.

The number of sick-leave periods extending over more than one year continued to rise up to December 2003, although more slowly than before. Since January 2004, the number of such cases has also been falling compared with the same month the previous year. In total, the number of net days with sickness cash benefit fell by 12 million in 2004 compared with the preceding year and by 11 million in 2005. During

the period 2006–2009, a continued decline in the number of net days with sickness cash benefit is expected, although at a slower rate. The number of net days in 2009 is expected to be at the same level as in 1996, approximately 44 million days.

Since average rates of compensation continue to rise, expenditure decreases more slowly than total net days. Expressed in fixed prices, expenditure for sickness cash benefit was nevertheless expected to decrease by approximately 35 per cent between 2005 and 2009 under regulations prevailing in February 2006. As the projected raising of the earnings ceiling for sickness cash benefit has been implemented in 2006, cost reductions will be less.

**Rehabilitation compensation** includes rehabilitation cash benefit and other allowances intended to promote occupational rehabilitation of sick and injured persons. Rehabilitation cash benefit represents two-thirds of expenditure for this item. The size of the benefit, as in the case of sickness cash benefit, is 80 per cent of the benefit-qualifying income.

Expenditure for rehabilitation cash benefit increased over a number of years, as did the number of days claimed, but fell dramatically in 2005. During the next few years, it is anticipated that insurance costs for rehabilitation compensation will fall, although at a slower rate than expenditure for sickness cash benefit.

Sickness insurance also includes the **allowance for care of close relatives** for people who give up paid work to care for a closely related person who is seriously ill. The benefit is payable as a rule for a maximum of 60 days.

The cost of the insurance increases constantly as does the number of carers and cared-for. In 2005, the average number of days per person cared for was approximately 11. Women care for close relatives to a greater extent than men. In 2005, the benefit was paid to 9,980 people.

The **health care benefits** funded through social insurance have varied over the years. Dental care and international medical care are now included and since 2004 these constitute two separate appropriations.

Briefly, the rules for dental care insurance imply that all adults should receive financial support for dental care, but that older people and

those with special dental care needs should receive extra financial support. In 2005, dental care benefits amounted to SEK 2,426 million. On 1 July 2002, the rules were changed for patients aged 65 or older. The level of compensation for basic dental care was raised and a high-cost protection was introduced for dental prosthetics. As a result, costs increased in 2003 and 2004. During 2005, costs fell by just over 20 per cent due to streamlined accounting procedures. However, under current regulations, costs are expected to remain at approximately the same level as in 2004 during the period 2006–2009.

An enquiry into dental insurance is to be made in 2006 and if regulations are changed in line with the intentions of the enquiry directive, the insurance will be extended, presumably resulting among other things in increased expenditure.

Thanks to Sweden's membership of the EU and the EEA Treaty and certain conventions and other agreements, people insured in Sweden may be entitled to care benefits abroad. Sweden's expenditure for international medical care was SEK 317 million in 2005. This item of expenditure is expected to increase appreciably during the current and coming year.

Since January 2003, *sickness compensation* and *activity compensation* have replaced disability pension and temporary disability pension respectively. Persons whose work capacity is permanently reduced by at least one-fourth for medical reasons are entitled to activity compensation if they are aged 19–29, or to sickness compensation if they are aged 30–64. Activity compensation may also be paid to persons who on account of their disability have not yet completed their basic or high-school education and in such cases it is granted for the length of time necessary for them to complete their studies.

Persons who were on permanent or temporary disability pension when the rules for sickness and activity compensation came into force had these benefits converted to sickness compensation. Sickness compensation may be granted for a limited period or provisionally. Activity compensation is always for a limited period only and may be granted for one to three years at a time.

Sickness or activity compensation is payable partly as an income-related benefit and partly as a guarantee allowance. The latter is payable to people who had little or no earnings before their work capacity became impaired for medical reasons. Sickness or activity compensation can be awarded as a full, three-quarter, half or quarter benefit.

The number of persons receiving sickness or activity compensation (formerly disability pension and temporary disability pension) has increased over many years. In December 2005, recipients of sickness or activity compensation numbered 557,000, approximately 17,000 more than in the preceding year. The increase was due primarily to large numbers of people on long-term sick leave transferring to sickness or activity compensation. The number of recipients of sickness or activity compensation during 2006–2009 is estimated to be in the region of 565,000. The fact that the increase of recent years has come to an end is due to the reduced number of long-term sicklisted people, resulting in fewer new recipients of sickness or activity compensation.

***Costs for employment of certain persons with sickness and activity compensation.*** For people receiving three-quarter sickness or activity compensation, special efforts should be made to help them find employment in the open labour market, possibly with the help of a wage subsidy. The costs for employment with a wage subsidy that corresponds to remaining work capacity are paid from the general insurance. The uptake of this benefit has grown steadily. In 2005, the amount paid out was SEK 22 million.

***Housing supplement for persons with sickness or activity compensation*** is a means-tested allowance to cover the major part of the cost of a dwelling, but not exceeding 91 per cent of SEK 4,500. The costs for this allowance and the number of recipients have been increasing for many years. In 2003, comprehensive changes in the rules for housing supplement for pensioners (BTP) were introduced as a result of altered rules in the old-age pensions system and in the former disability pensions scheme. The regulatory changes in 2003 had some negative consequences for benefit recipients. A number of BTP recipients with somewhat higher incomes had lower net incomes under the new rules.

During 2004 and 2005, expenditure increased because the number of persons with newly-granted sickness compensation grew. Costs for accommodation also rose.



Of those persons with sickness or activity compensation who had housing supplement in 2005, 56 per cent were women and 87 per cent lived alone.

**Disability allowance** can be granted to people who have impaired functional ability as a result of disabilities arising before the age of 65. Disability allowance is more common among women than men. Depending on the need of assistance and the amount of additional costs involved, the benefit is payable at different proportions of the price base amount.

Expenditure for disability allowance increased gradually every year up to 2004, as did the number of beneficiaries. In 2005, expenditure fell slightly. The benefit was paid out on average to 61,000 people. During 2006, the number of disability allowances is expected to increase only slowly since the lower age limit for this benefit was raised in 2003 from 16 to 19. Insurance expenditure expressed in fixed prices is expected to remain constant.

**Work injury compensation** provides financial security in case of loss of income resulting from permanent occupational injury. The compensation comprises several benefits, chiefly annuities under the work injury insurance scheme. Expenditure for work injury compensation fell during the 1990s due to changes in the rules. During 2002 and 2003, several regulatory changes were introduced. Changed rules for national old-age pension contributions led to reduced expenditure for contributions in 2003. Other regulatory changes are expected to result in substantial increases in expenditure in the longer term.

In 2004, the increase in expenditure was moderate. The number of annuities continued to decline. The year 2005 saw a drop in expenditure resulting from the continued decline in the number of annuities and a lower index adjustment of annuities than in previous years. In 2006 and 2007, expenditure is expected to rise, partly because of higher index adjustment of annuities and partly because the Swedish Social Insurance Agency will put more focus on reducing administrative delays.

**Car allowance for the disabled** is designed to enable people with disabilities to move about more freely without assistance. It is a subsidy for the purchase and/or adaptation of a motor vehicle of one's own.

Car allowance consists of several components. Basic allowance and acquisition allowance for the purchase of a motor vehicle can be re-applied for every seven years. Allowance for vehicle adjustment may be granted if necessary without any time restriction. In 2005, car allowances were paid out to a value of SEK 347 million. Basic allowance was paid to 2,829 people. Required funds for 2006 are estimated to amount to SEK 258 million. Available funds, including supplementary appropriations and appropriation credit, amount to SEK 257 million. Payments that exceed the framework of available funds may by law be postponed until the following year.

*Assistance allowance* expenditure is expanding steadily. The benefit is granted to people with severe functional disabilities – if the disability arose before the age of 65 and the person requires at least 20 hours a week of basic assistance on average. Assistance allowance is payable as a standard amount per hour to the entitled recipient. The recipient engages an assistance provider. Usually, the provider chosen is the municipality, a user cooperative or a private company. The local municipality finances the first 20 assistance hours per week for each beneficiary.

During 2005, just over 13,000 persons on average received assistance allowance for on average 100 hours a week. Total expenditure was SEK 14,335 million, of which the municipalities contributed SEK 2,987 million. The increase in costs forecast for the next few years is based on the assumption that the hourly rate of pay, the number of assistance hours per person and the number of persons granted assistance allowance will all continue increasing.

Assistance allowance is being reviewed during 2006 by the so-called assistance committee, which will present its final recommendation to the Government in March 2007. The brief of the committee is, among other things, to investigate the causes of the sharp increase in costs and to propose regulatory changes that might combat these.

*Other benefits* include road traffic injury annuities, compensation from voluntary occupational injury insurance and annuities from damages. In 2004, voluntary sickness cash benefit insurance was listed under this heading. As of 2005, it is included in the sickness cash benefit amount.

## 1.5 Financial security in old age

**Table 1.4 Financial security in old age**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Old-age pension</b>	<b>186,557</b>	<b>191,624</b>	<b>198,123</b>	<b>208,097</b>
<b>Income-based pension</b>	<b>162,825</b>	<b>169,175</b>	<b>176,664</b>	<b>187,630</b>
<b>Guarantee pension</b>	<b>23,732</b>	<b>22,449</b>	<b>21,459</b>	<b>20,467</b>
Recipients, 1,000s in Dec				
Income-based	1,470	1,506	1,547	1,597
Guarantee pension	870	846	828	816
<b>Special adjustments</b>	<b>1,600</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transfers to EU</b>	<b>383</b>	<b>58</b>	<b>62</b>	<b>36</b>
<b>Widow's pension</b>	<b>15,369</b>	<b>15,281</b>	<b>15,224</b>	<b>15,301</b>
<b>Income-based widow's pension</b>	<b>14,527</b>	<b>14,517</b>	<b>14,529</b>	<b>14,687</b>
<b>Guarantee pension</b>	<b>842</b>	<b>764</b>	<b>695</b>	<b>614</b>
Recipients, 1,000s in Dec				
Income-based widow's pension	373	368	363	357
Guarantee pension	37	33	30	26
<b>Adjustment pension</b>	<b>557</b>	<b>574</b>	<b>639</b>	<b>690</b>
<b>Income-based adjustment p.</b>	<b>377</b>	<b>399</b>	<b>454</b>	<b>499</b>
<b>Guarantee pension</b>	<b>180</b>	<b>175</b>	<b>186</b>	<b>190</b>
Recipients, 1,000s in Dec				
Income-based adjustment p.	6	6	7	7
Guarantee pension	6	6	6	6
<b>Housing supplement to old-age pension, etc</b>	<b>7,442</b>	<b>7,333</b>	<b>7,246</b>	<b>7,051</b>
Recipients, 1,000s in Dec	301	295	288	279
<b>Maintenance support for the elderly</b>	<b>587</b>	<b>483</b>	<b>425</b>	<b>393</b>
Recipients, 1,000s in Dec	12	11	11	11
<b>Partial pension</b>	<b>37</b>	<b>-4</b>	<b>-1</b>	<b>0</b>
<b>Payments</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Old-age pension contribution</b>	<b>12</b>	<b>-4</b>	<b>-1</b>	<b>0</b>
Recipients, 1,000s in Dec	0	0	0	0
<b>Other pensions</b>	<b>59</b>	<b>58</b>	<b>53</b>	<b>52</b>
<b>Total, MSEK</b>	<b>212,588</b>	<b>215,406</b>	<b>221,770</b>	<b>231,619</b>
In relation to GNP (%)	8.0	7.7	7.5	7.4

The pensions system has undergone major changes. The *old-age pension* formerly consisted chiefly of basic pension and general supplementary pension (ATP). In 2001, the new supplementary pension, income pension and premium pension – jointly termed income-based pension – was paid out for the first time to old-age pensioners born in 1938 or later.

In January 2003, the ATP supplementary pension, basic pension and pension supplement were abolished. ATP and basic pension were chiefly replaced by the new supplementary pension, also for pensioners born before 1938. Guarantee pension, providing fundamental security, was also introduced in 2003. This replaced basic pension in some cases, pension supplement and the special basic deduction in the tax system. Thus the old-age pension benefits available from 2003 onwards are income pension, supplementary pension, premium pension and guarantee pension. In addition, the special pension supplement and some other supplementary benefits still remain.

Old-age pension payments rose sharply in 2003 as a result of the new rules. At the same time, many pensioners had to pay more income tax, so net payments increased only marginally. In 2004 and 2005, payments increased by 4 and 3 per cent respectively.

Expenditure for income-based pensions increases while expenditure for guarantee pensions decreases. Under current regulations this development will continue as long as average income-based pensions increase. The new pensions system is more attuned to national economic and demographic developments than its predecessor. Thus the long-term development of costs is affected by changes in prices and real wages, interest levels and share prices and many other elements of socioeconomic development.

In January 2003, the rules for *survivor's pension* were altered in several ways. Harmonization with the rules of the new pensions system has meant that guarantee pension in some cases replaces basic pension and the special basic deduction in the tax system. The special survivor's pension has begun to be phased out.

Fewer women receive *widow's pensions* because this benefit is being phased out. The new income-based widow's pension broadly corre-

sponds to the previous ATP pension. Most widow pensioners under 65 also receive a supplement corresponding to the former basic pension. Here the former means test has been abolished. A widow under 65 with no income-based widow's pension, or a low one, can in certain circumstances obtain a guarantee pension as a supplement to her widow's pension.

Gross expenditure for widow's pensions to widows under 65 rose steeply in 2003, partly due to the abolition of the means test and partly because guarantee pension also compensates the loss of the special basic deduction in the tax system. In 2005, there was a slight drop in the number of widow's pensions as well as in expenditure for widow's pension. In fixed prices, the reduction in expenditure is expected to continue during 2006–2009.

The *adjustment pension* is payable to surviving spouses. During the 1990s, the compensation period varied. In 2003, the compensation period for adjustment pension was extended from six months to ten, and was further extended to 12 months in 2005. A surviving parent with children under 12 may thereafter obtain an extended adjustment pension up to the time the youngest child reaches the age of 12. From 2003, a surviving parent with children between 12 and 18 may also receive extended adjustment pension for one year.

Expenditure for survivor's pension rose in 2003 when the means test for widow's pension was abolished and certain adjustments were made to the new old-age pension system. In 2005, there was a moderate decrease in expenditure. Up to 2009, expenditure for survivor's pension is expected to fall by approximately one per cent annually in fixed prices.

*Housing supplement for old-age pensioners* is a means-tested allowance intended to cover the major part of accommodation costs, though not more than 91 per cent of SEK 4,850 from 2006 onwards. In the long term, the number of old-age pensioners receiving housing allowance (BTP) will decrease. This is because many recipients of housing supplement are more senior pensioners and newly-retired old-age pensioners have higher average pensions.

Women, who as a group receive lower pensions, are more dependent on housing supplement than men. Expenditure development has been uneven due to changes in the rules almost every year.

The year 2003 also saw extensive changes as a consequence of the new pensions system. For pensioners, there were slight improvements partly due to changed rules for income from capital and assets. In 2005, the ceiling for maximum accommodation costs was raised from SEK 4,500 to SEK 4,670 and in 2006, to SEK 4,850.

Expenditure decreased somewhat in 2004 and 2005 as part of the long-term development.

Of old-age pensioners receiving housing supplement in 2005, 82 per cent were women and 90 per cent were single.

In January 2003, **maintenance support for the elderly** was introduced. This is intended for people over 64 whose fundamental maintenance requirements are not met through other benefits in the general pensions system. They may be people who have very low pensions or no pension at all because they have not lived in Sweden for a sufficient number of years. Certain Swedish-born persons may also receive maintenance support for the elderly, for example, those with early retirement pension.

In 2005, SEK 483 million was paid out in maintenance support for the elderly. The level is expected to continue falling in coming years since certain beneficiaries are expected to receive full guarantee pension after 10 years in Sweden. They will then no longer be entitled to maintenance support for the elderly.

Of those persons receiving maintenance support for the elderly in 2005, 54 per cent were women and 57 per cent were single.

**Part-time pension** could formerly be granted to people aged between 61 and 64. The system has now been phased out. The last part-time pension was converted to old-age pension in 2004.

**Other pensions** comprise voluntary pension and seafarer's pension.

## 1.6 Other payments

**Table 1.5** Payments administered by the Swedish Social Insurance Agency

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Activity support</b>	<b>9,745</b>	<b>11,515</b>	<b>12,160</b>	<b>11,900</b>
Daily cash benefit to conscripts, etc	5	4	3	2
Family allowance to conscripts	67	37	30	16
Other	38	27	27	28
<b>Total, MSEK</b>	<b>9,854</b>	<b>11,582</b>	<b>12,220</b>	<b>11,968</b>
In relation to GNP (%)	0.4	0.4	0.4	0.4

*Activity support* accounts for most payments in this group. Activity support is given to participants in labour-market policy programmes, such as labour market training and vocational rehabilitation. County employment boards refer individuals to the labour market programmes that entitle participants to activity support. The Swedish Social Insurance Agency calculates and pays out the benefit and deals with repayment obligations issues.

Other payments also include compensation to conscripts (TPL). The remaining **Other** payments in this Other Payments category include small-business insurance, holiday pay expense insurance, disease carrier's allowance.

## 1.7 Administration

**Table 1.6 Expenditure for social insurance administration**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Social Insurance Office</b> <sup>1) 2)</sup>	<b>5,435</b>	<b>8,465</b>	<b>9,400</b>	<b>9,000</b>
<b>National Social Insurance Board</b> <sup>1)</sup>	<b>1,890</b>	.	.	.
<b>First National Pension (AP) Fund</b>	<b>1,488</b>	<b>858</b>	<b>884</b>	<b>924</b>
<b>Premium Pension Authority (PPM)</b>	<b>221</b>	<b>252</b>	<b>309</b>	<b>315</b>
<b>The National Tax Board, etc</b>	<b>345</b>	<b>279</b>	<b>403</b>	<b>406</b>
<b>Total, MSEK</b>	<b>9,378</b>	<b>9,855</b>	<b>10,996</b>	<b>10,645</b>
In relation to GNP (%)	0.4	0.4	0.4	0.4
Administration's share of insurance expenditure, %	2.2	2.3	2.5	2.3

<sup>1)</sup> Included as of January 2005 in the single public authority, the Swedish Social Insurance Agency. 2004 refers to the former social insurance offices.

<sup>2)</sup> Including changes to estimated pension debt for 2004 and excluding the Medical Insurance Centre (FMC) and the Stress Institute.

The activities of the Swedish Social Insurance Agency are financed primarily through budget appropriations but in part through contributions. The increase in administrative costs for the Swedish Social Insurance Agency between 2004 and 2005 is due to the fact that these years include the reported change in the pension debt, which in 2004 *decreased* by just over SEK 1 billion. When the social insurance offices as of 1 January 2005 together with the National Social Insurance Board were merged into the new public authority, the Swedish Social Insurance Agency, the government took over responsibility for the occupational pensions of employees. This means that any change in the pension debt (apart from pension compensation) is no longer included in the authority's costs.

Between 2000 and 2003, costs for the AP funds more than doubled, partly because of new opportunities for investment introduced in 2001 leading to more extensive portfolio administration. In 2004, costs for the AP funds rose by just over 15 per cent compared with the preceding year. The reduction in administrative costs reported for the AP funds in 2005 is primarily due to the fact that commission costs, pre-



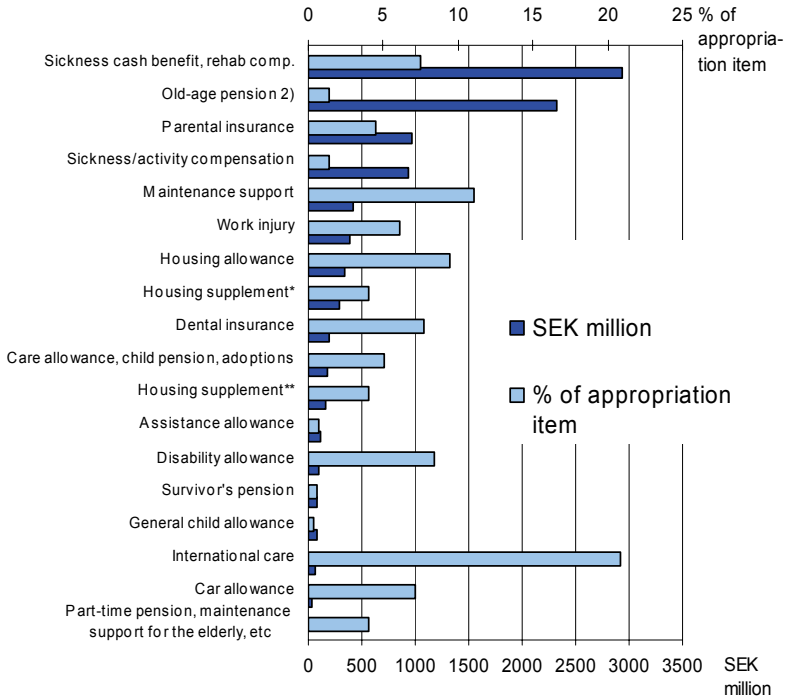
viously included under administration, are reckoned as part of estimated net yield from that year onwards.

Since 1998, there are also additional administration costs for the Premium Pension Authority (PPM).

In 2005, the administrative share of expenditure was 2.3 per cent.

Broken down by specific benefit category, administrative expenditure is strongly concentrated to old-age pension and sickness insurance. If administration of the AP funds, the Premium Pension Authority and the National Tax Board is included, the cost of administration for old-age pension amounted to almost SEK 2.5 billion in 2005, which equates to almost 2 per cent of the amount paid out. Administrative costs for sickness cash benefit and rehabilitation compensation amounted to almost SEK 3 billion, or approximately 7.5 per cent of the amount paid out. Parental insurance cost almost SEK 1 billion to administer, a cost which is, however, expected to fall if more parents take advantage of the automated self-service features provided on the Internet.

**Diagram 1.1 Administrative costs in 2005 broken down by benefit<sup>1)</sup>**



\* Old-age pensioners.

\*\* Persons with sickness or activity compensation.

<sup>1)</sup> Distribution based on Swedish Social Insurance Agency time reporting.

<sup>2)</sup> Including the AP funds, Premium Pension Authority and National Tax Board.

## 2 Social insurance expenditure from a long-term and an international perspective

*This chapter first describes the development of the major types of benefit since 1980. Next, the development of total social insurance expenditure since 1965 is discussed, both in relation to the national economy as a whole and to private consumption. Finally, the development of social insurance expenditure in Sweden is compared with that in other European countries.*

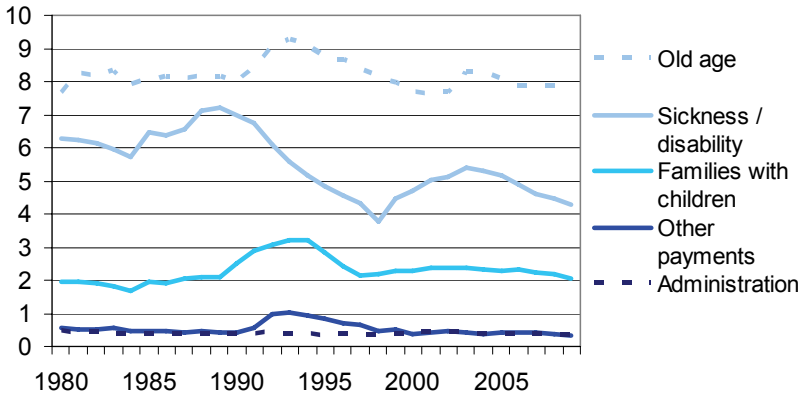
### 2.1 Expenditure development since 1980

Expressed in year 2005 prices, social insurance expenditure has increased from SEK 260 billion in 1980 to SEK 435 billion in 2005, an increase of 67 per cent<sup>5</sup>. During this period, the increase in expenditure was most dramatic in the second half of the 1980s. This was mainly due to the soaring cost of sickness cash benefit at that time. At the beginning of the 1990s, the increase slowed down. This too was primarily due to developments in sickness and work injury compensation. Among other things, a sick pay period and qualifying day were introduced into the sickness insurance scheme. During the years 1996–1997, expenditure dropped even in current money values, largely due to reduced compensation levels in sickness insurance and parental insurance but partly to a transfer of cost responsibility for medicine from social insurance to county council.

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<sup>5</sup> In this presentation, the focus is on the development of social insurance expenditure and its causes. The old-age pension system is therefore included in this report even though it is a financially autonomous system and expenditure developments do not have the same consequences as spending from the national budget.

**Diagram 2.1 Social insurance expenditure for the main benefit groups in relation to GNP<sup>1) 2)</sup>**



<sup>1)</sup> Forecast for the years 2006–2009.

<sup>2)</sup> The development for total social insurance in relation to GNP is reported in Section 2.3.

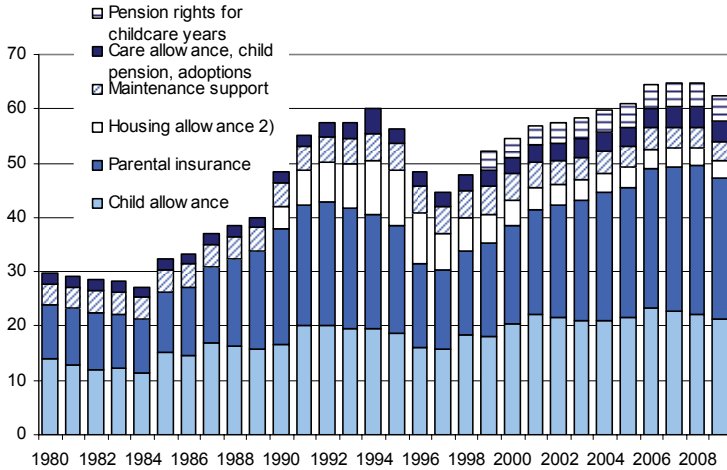
Since 1998, expenditure has once again risen steadily. The introduction of national old-age pension contributions in 1999 raised the level of expenditure dramatically. However, the introduction of the national old-age pension contribution in many respects meant that a previously hidden expense was now visibly reported and thus did not in itself involve any new commitments. From then on until 2002, it was mainly increased sicklisting that lay behind total expenditure increases.

Total expenditure is also continuing to rise and is expected to continue rising, although at a slower pace, during the current and following year, primarily because of steadily increasing pension costs. However, since the major part of the old-age pension system lies outside the national budget, this imposes no budgetary strain comparable to that of, for example, sickness and disability expenditure.

## 2.2 Expenditure by main benefit group since 1980

Below, we discuss expenditure development since 1980 for the three areas of financial support for families with children, compensation in case of sickness and disability, and support in old age.

**Diagram 2.2** Financial security for families and children, SEK billion in year 2005 prices<sup>1)</sup>



<sup>1)</sup> Forecast for the years 2006–2009.

<sup>2)</sup> Housing allowance is administered by the Swedish Social Insurance Agency as of 1994.

Financial support for **families with children** rose by 86 per cent in fixed prices between 1985 and 1994. Subsequently, a falling birth rate and various regulatory changes resulted in reduced expenditure up to 1997. Since 1998, expenditure has once again risen, due among other things to a rising birth rate, an extension of parental insurance and a series of increases in the level of child allowance. However, the increase is slower than earlier and it was first in 2005 that expenditure in this area exceeded in fixed prices the previous record from 1994.

Increased expenditure in this area also depends on the introduction of pension rights for childcare years and on the national old-age pension contribution that since 1999 has been included in expenditure for parental insurance and care allowance.

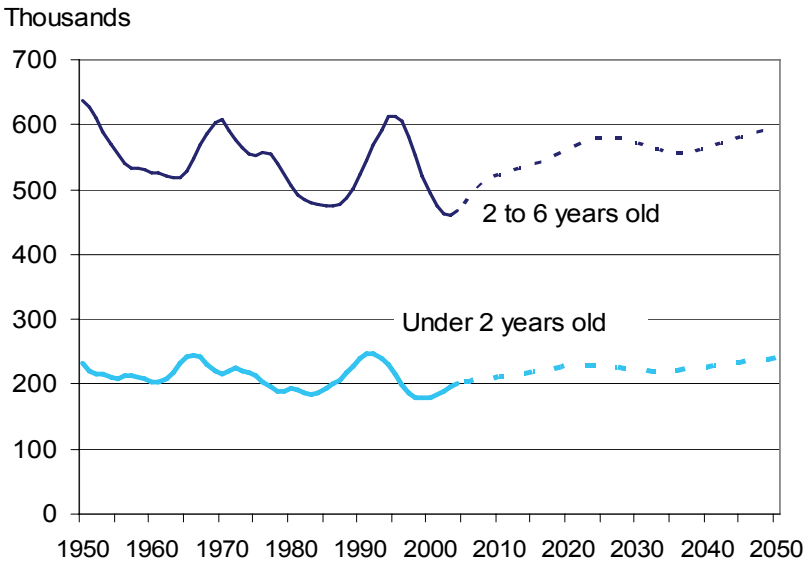
During the first half of the 1990s, parental insurance was the largest item of expenditure within the area of financial support for families with children. Social insurance costs increased partly as a result of an extension of the parental cash benefit period from 360 days to 450 days in 1989, partly as a result of more children being born. Reduced

expenditure from the middle of the 1990s onwards was in turn a consequence of lowering the compensation level and a simultaneous drop in the birth rate.

Within temporary parental cash benefit, variations in the number of paid days compared with the same month of the preceding year can be extremely large depending on when influenza epidemics, etc, occur. However, over the past 11 years, the number of days per child with compensation for childcare has been very stable.

According to the latest population forecast from Statistics Sweden, the number of children, both in age groups 0–2 and 2–6, is expected to increase from 2007 onwards, so that the number of children in these age groups in the mid-2020s will be approximately 10 and 20 per cent larger respectively than today. However, just how many children there will be in a given year is very difficult to forecast in the middle term, given the great variations in birth rate that have occurred historically.

**Diagram 2.3** The number of children under 2 years old and 2–6 years old during 1950–2004, and the forecast for the period 2005–2050



Source: Statistics Sweden population forecast 2005

During the period 1996–2002, child allowance was the largest item of expenditure within the area of support for families with children. In 2005, almost 1.7 million children were entitled to child allowance, including extended child allowance. Since 2002, expenditure has fallen due to large groups of children reaching the age of 16, after which most of them are no longer entitled to the benefit. After a temporary rise in expenditure due to raised child allowance and large-family supplement in 2005, the falling number of children under 16 years of age is expected to result in further reductions in expenditure during the period up to 2009. According to the latest population forecast from Statistics Sweden, the number of children under 16 years of age will be approximately 4 per cent lower in 2010 than in 2005. After that, however, the number is expected to increase up to around the year 2030, when it is expected to be almost 10 per cent higher than in 2005.

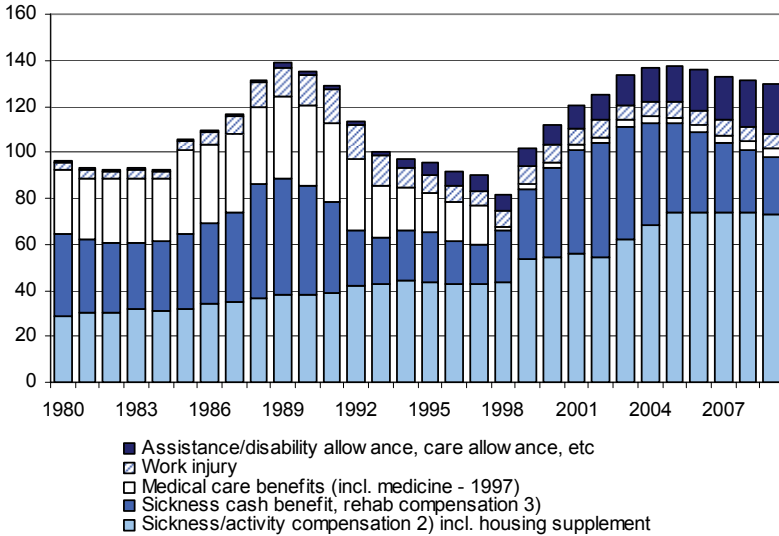
Comprehensive regulatory changes within housing allowance in 1997, aimed at lowering insurance expenditure, considerably reduced both expenditure and the number of households receiving housing allowance. Given current national economic developments, the number of households entitled to the benefit is expected to remain more or less constant.

Expenditure for maintenance support in the long term will also largely depend on the number of children in the relevant age group. Among the children entering the maintenance support system, there is a large concentration of one- to five-year-olds, reflecting a greater frequency of separations than among families with older children.

Of the children present in the maintenance support system in January 2006, more than 40 per cent were older than 14. This means that within a few years, a large proportion of children with maintenance support will be ushered out of the system on grounds of age. Meanwhile, children cohorts are still relatively small compared with in the early 1990s, which means fewer children are entering the system. This fact, in combination with the attempt on the part of the Swedish Social Insurance Agency to get more separated parents to solve the maintenance issue on their own without involving the Agency suggests that the number of children with maintenance support will continue falling for many years to come.

Naturally, changes in the frequency of separations may also play a role in the long term.

**Diagram 2.4 Financial security in sickness and disability, SEK billion in year 2005 prices<sup>1)</sup>**



<sup>1)</sup> Forecast for the years 2006–2009.  
<sup>2)</sup> Disability pension and temporary disability pension up to 2002.  
<sup>3)</sup> Expenditure is not wholly comparable over time since the length of the sick pay period has varied.

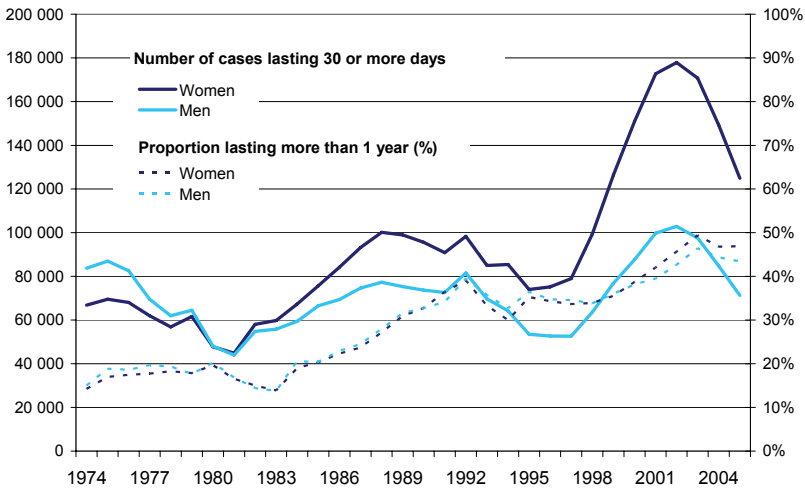
Total social insurance expenditure on payments for **sickness and disability** rose dramatically during the second half of the 1980s. Between 1984 and 1989, there was an increase of 50 per cent in fixed prices. Expenditure then fell sharply, by 40 per cent between 1989 and 1998. Fluctuations in expenditure have mainly been caused by greatly varying costs for sickness cash benefit.

Since the responsibility for pharmaceutical costs was taken over by the medical care principals in 1998, expenditure also sank for that year despite an increase in sickness insurance expenditure. Halving the sick pay period and raising the level of sickness and rehabilitation cash benefit resulted in an increase in expenditure which subsequently continued up to and including 2004 as a result of the high incidence of



sick leave and the subsequent rise in the number of people receiving sickness or activity compensation. The increase in sicklisting and thus in sickness cash benefit expenditure between 1997 and 2003 was in part a mere recurrence of developments during the second half of the 1980s. A decisive difference is that this latest increase has been even more concentrated to cases of long-term sickness. Moreover, gender differences are significantly greater than at the beginning of the 1990s.

**Diagram 2.5** Number of sickness cases that lasted at least 30 days and the proportion of these that lasted at least 1 year in months of December 1974–2005

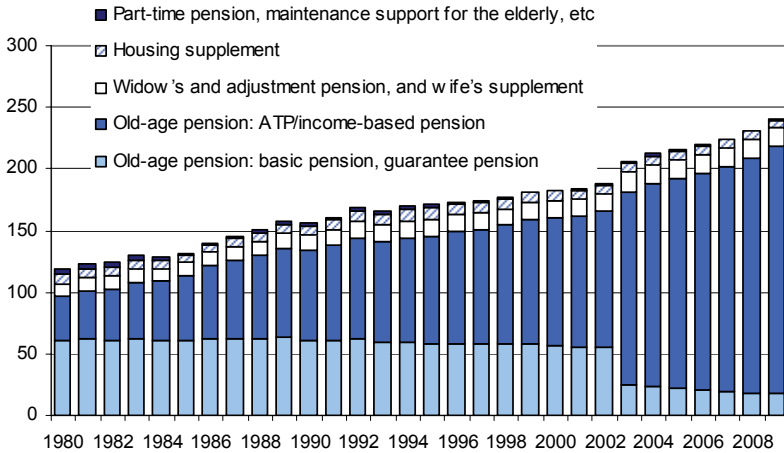


Expenditure for sickness cash benefit levelled out noticeably in 2003. Since April 2003, the number of days for which sickness cash benefit had been paid out each month has been lower than the equivalent month of the preceding year<sup>6</sup>. This also applies to expenditure after July 2003. The number of days for which sickness cash benefit is paid out is expected to continue declining rapidly during the forecast period. However, in parallel, expenditure for sickness and activity compensation (disability pension prior to 2003) has increased trendwise.

<sup>6</sup> Refers to cases lasting longer than 28 days.

Within work injury insurance, regulatory changes often have a delayed effect. First around the years 2010–2015 approximately, the rules from 2002 will be applied to almost all cases handled. Then, approval frequency is likely to be higher than today. Possibly, this will lead to increased application frequency as well. In the long term, changes in work environment and other work conditions may also influence expenditure. Finally, expenditure is also affected by the new indexing of work injury annuities.

**Diagram 2.6 Financial security in old age, SEK billion in year 2005 prices<sup>1)</sup>**

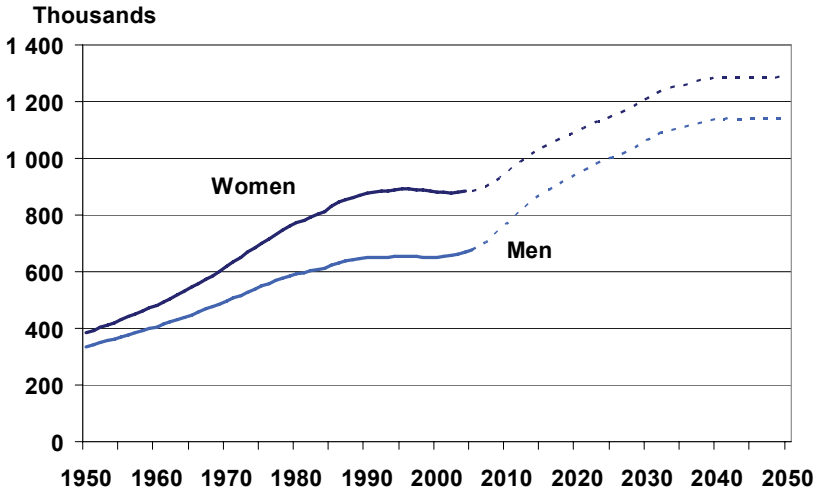


<sup>1)</sup> Forecast for the years 2006–2009.

The increasing number of old-age pensioners and a successive raising of the average pension means that expenditure for **old age benefits** is steadily rising. Expenditure increased by 82 per cent in fixed prices between 1980 and 2005.

According to Statistics Sweden's latest population forecast, the number of people aged over 65 is expected to grow during the next few decades at such a rate that the number of people in this age group in the mid-2030s is expected to be just over 50 per cent greater than today.

**Diagram 2.7** Number of persons aged 65 or older during 1950–2004 and forecast for the period 2005–2050



Source: Statistics Sweden population forecast 2005

Costs for old-age benefits calculated in fixed money values have steadily increased as more and more people reach increasingly high ages and receive ever larger pensions. The predominant item of expenditure is old-age pension. In the reformed old-age pension scheme, income-related pension (together with the former ATP supplementary pension) has increased while guarantee pension (together with the former basic pension) has decreased.

Since 2003, the new old-age pensions system has become fully operational although phasing-out earlier rules will take several decades. The new scheme consists of income-based old-age pension and guarantee pension. In 2003, expenditure for income-based old-age pension showed a sharp rise partly because guarantee pension is designed differently from basic pension and as a result a larger share of expenditure goes to the income-based part of the old-age pension system. Since at the same time the former basic deduction for pensioners was abolished, net payments after tax increased much more slowly. In 2005, payments for income-based old-age pensions increased by just over 3 per cent in fixed prices while expenditure for guarantee pensions fell by almost 6 per cent.

Expenditure for pensions is expected to continue rising for some years, partly due to developments in prices and real wages and partly to the earned pension entitlements of new old-age pensioners. The share of guarantee pension is expected to continue shrinking rapidly since expenditure for it in fixed prices is expected to fall by approximately 5 per cent annually while income-based pension is expected to go on increasing by approximately 4 per cent annually.

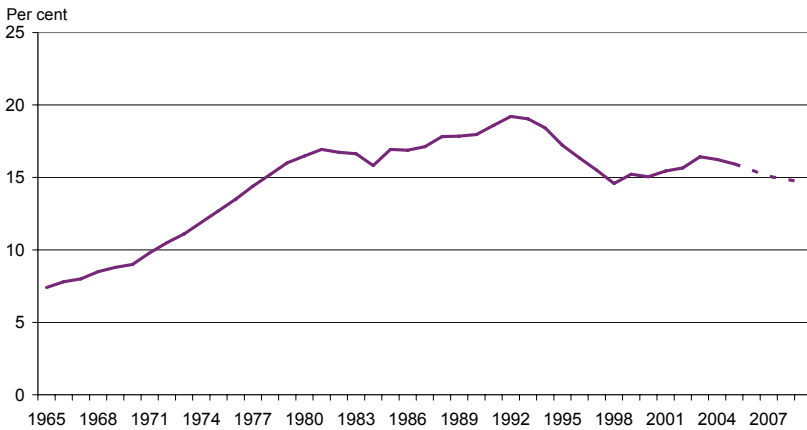
The widow's pension benefit, which currently accounts for approximately 95 per cent of expenditure for survivor's pension to adults, can be expected to have largely disappeared by around mid-century. The benefit is being phased out and the youngest women now receiving widow's pension were born in the early 1970s.

The part-time pension insurance scheme has been discontinued and has not been paid out since December 2004.

### 2.3 The scope of social insurance in relation to the economy as a whole

Payments from social insurance make up a significant part of the Swedish economy. Diagram 2.8 shows social insurance payments in relation to the gross national product (GNP) since 1965. During the 1980s, these payments increased continuously in relation to GNP. During the 1990s, several regulatory changes – reduced levels of compensation, a sick pay period, and a qualifying day in sickness insurance – led to decreased expenditure in relation to GNP. From 1998, however, costs again increased as a result of raised compensation levels and increasing sickness absence.

In 2003, social insurance corresponded to almost 16.5 per cent of GNP, the same level as in the early 1980s. Since expenditure increased much more slowly in 2004 and 2005 and economic growth was still relatively strong, social insurance expenditure dropped to the equivalent of just under 16 per cent of GNP in 2005. Since no sizeable cost-driving regulatory changes have been decided for the next few years, and since sickness absence is now on the decrease, the social insurance share in the economy is also expected to continue diminishing over the next two years.

**Diagram 2.8 Social insurance payments in relation to GNP<sup>1) 2)</sup>**

<sup>1)</sup> Since 1980, the method of calculating GNP has been somewhat modified, reducing the social insurance share by just under one percentage unit.

<sup>2)</sup> Forecast for the years 2006–2009.

As diagram 2.8 shows, the rate of increase during the 1960s and 1970s, when the ATP system was expanded and parental insurance was introduced, was even greater than in the 1980s. This longer-term perspective makes it clear that the social insurance share in the economy has been of a more cyclical nature since the beginning of the 1980s.

In 2005, transfers from social insurance to households amounted to SEK 399 billion, representing 82 per cent of total public transfers to households. Payments from unemployment insurance correspond to a further 6 per cent approximately and financial support (formerly social allowance) accounted for just over 2 per cent each. The table below shows how the social insurance share of total transfers fell during the 1990s, when payments of unemployment benefit and social allowance both increased dramatically. Since 1999, however, its share has once again expanded, due to greatly increased expenditure for sickness insurance and old-age pensions, while unemployment benefit and financial support have now decreased.

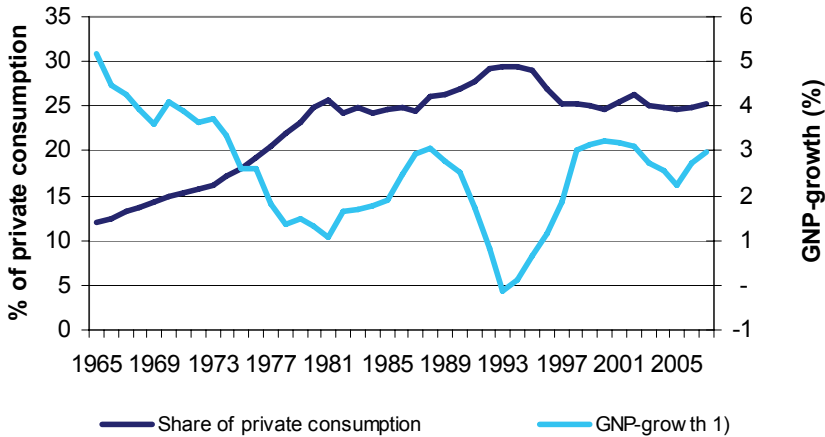
**Table 2.1** Transfers to households, SEK billion in year 2005 prices

Year	Public transfers to households, gross	Share (%) of total			
		Social insurance	Unemployment insurance	Social allowance/Financial support	Study allowance etc.
1980	274.2	82.1			
1985	301.2	80.0	3.7		
1990	372.0	84.1	2.3		
1991	387.2	82.7	3.8		
1992	418.9	77.8	6.8		
1993	424.3	75.4	11.0	5.1	2.1
1994	434.4	75.3	10.7	3.3	2.4
1995	424.3	75.8	10.5	3.2	2.4
1996	409.1	75.8	10.5	3.7	2.3
1997	408.0	74.7	9.9	3.7	2.9
1998	420.4	74.7	9.1	3.3	4.2
1999	429.0	76.4	8.2	3.1	3.9
2000	434.4	77.7	7.9	2.8	3.3
2001	436.1	79.9	5.7	2.6	3.3
2002	444.7	81.5	5.3	2.4	3.0
2003	469.9	81.9	6.1	2.2	2.6
2004	483.7	81.1	6.8	2.2	2.5
2005	490.2	81.4	6.4	2.2	2.5
2006 (forecast)	497.5	81.4	5.3	2.2	2.6
2007 (forecast)	498.3	81.9	4.7	2.1	2.6

Source: Swedish Institute of Economic Research, and Swedish Social Insurance Agency calculations.

Social insurance net payments to households up to the mid-1990s represented an ever larger share of total household consumption. Peaking at just over 29 per cent during the 1993–1994 recession, the proportion sank to 25 per cent in 2000, after which it once again rose somewhat.

In 2005, social insurance transfers corresponded to approximately 25 per cent of household expenditure on consumption. The historical development of the significance of transfers for private consumption is illustrated in the following diagram. As in its relation to GNP, social insurance grew trendwise in relation to total private consumption during the 1960s and 1970s.

**Diagram 2.9** Social insurance net transfers to households as a share of private consumption, and the growth of GNP <sup>1) 2)</sup>

<sup>1)</sup> 5-year average.

<sup>2)</sup> Forecast for the years 2006–2009.

In theory, a large social insurance sector may exert both a positive and negative effect on economic growth. High costs require high contributions or income from taxation, which may give rise to so-called tax wedges. This means that the difference between what employers pay and what employees receive in net income becomes very large. High compensation levels may also lessen the incentive for gainful employment. However, a comprehensive social insurance scheme may also provide a safety net that facilitates entrepreneurship and avoids permanent labour market exclusion of people during economic restructuring.

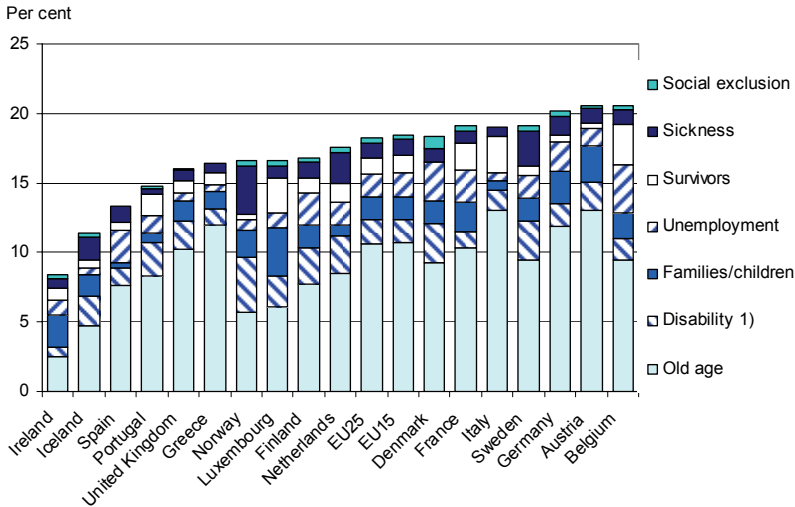
A more obvious consequence of a social insurance scheme as comprehensive as that of Sweden is its stabilizing effect on the economic cycle. During periods of strong growth, social insurance expenditure generally falls in relation to private consumption and vice versa. When as much as a quarter of private consumption derives from social insurance, the latter naturally has a certain stabilising effect on the economic cycle.

During the period up to 1980, however, the increasing share of social insurance in the consumption potential of households cannot be said to result from declining growth but rather to be a result of the expansion of the insurance made possible in part by the rapid economic growth in the 1950s and 1960s.

## 2.4 Social insurance expenditure from an international perspective

International comparisons of the scope of social insurance are not made easier by the fact that the needs met in some countries by transfers to households are met in others by tax deductions, direct services, etc. For example, families with children may be offered a place in a subsidized day-care-centre, a cash allowance for childcare, an earmarked tax deduction, or a combination of these. However, in order to compare how much of the national wealth of other countries is redistributed by the public sector through direct transfers to households in a manner similar to what is known in Sweden as social insurance, the following diagram shows such statistics for 2003.

**Diagram 2.10 Public transfers in relation to GNP 2003**



<sup>1)</sup> Including sickness and activity compensation for Sweden.

Source: Eurostat (2005), Social Protection Expenditure Database



As regards public transfers, Sweden holds fourth place in the EU (EU-15), after Belgium, Austria and Germany. Differences in the share of total public transfers in the national economy are relatively small between Western European countries. With the exception of Ireland, Iceland and Spain, between 15 and 21 per cent of GNP is redistributed through public transfer systems to households.

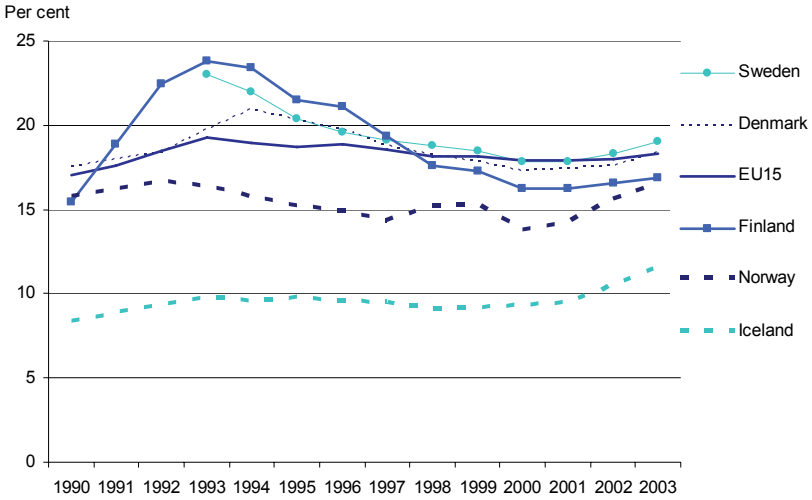
Expenditure for old-age pensions accounts for the major part of public transfers in all countries, with a few exceptions. Forecasts point to a dramatic increase in such expenditure in the future. However, this will not occur in Sweden, where the new pension system is designed to stabilize expenditure in relation to GNP in spite of an ageing population<sup>7</sup>.

On the other hand, there are great differences between countries when it comes to distribution between the various categories of transfers. The Nordic countries reveal several similarities in this respect. In these countries, public old-age pension and survivor's pension systems correspond to a lower proportion of GNP than in the EU on average. However, in the Nordic countries, a higher proportion than average is devoted to benefits aimed at people with disabilities. Benefits aimed at families and children correspond to approximately the same share in the Nordic countries as in the EU on average. However, within the area of transfers relating to sickness, which in Sweden corresponds to sickness insurance, Norway and Sweden rank highest of all the countries reported here, while Finland and Iceland lie near the EU average and Denmark lies significantly lower than this. Also transfers aimed at the unemployed correspond to very shifting proportions of GNP in the various Nordic countries.

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<sup>7</sup> European Commission, DG ECFIN, Special Report no. 1/2006.

**Diagram 2.11 Development of public transfers in relation to GNP**



Source: Eurostat (2005), Social Protection Expenditure Database

Both Sweden and Finland exhibit a dramatic development during the 1990s, with rapidly rising social insurance expenditure relative to a declining GNP at the beginning of the decade followed by a stable reduction due both to budget restrictions and relatively strong economic growth over the past ten years.

Between 2001 and 2003, public transfers increased in relation to GNP more rapidly in all Nordic countries than on average in the 15 countries making up the European Union prior to May 2004. In the case of Sweden, however, the increase was largely the result of the introduction of the new old-age pension system, which was accompanied in 2003 by a rise in gross pensions when the special basic deduction was abolished. Net transfers from Swedish social insurance thus remained more or less constant in fixed prices between 2002 and 2003.

### 3 How social insurance is financed

*This chapter discusses the various sources of financing for social insurance benefits, the design of social insurance contributions, and incoming and outgoing payments for benefits financed through social insurance contributions.*

#### 3.1 The sources of financing for social insurance benefits

In Sweden, social insurance benefits are financed primarily through social insurance contributions from employers and self-employed people, a general pension contribution, national old-age pension contributions that are a part of social insurance contributions, taxes<sup>8</sup> and yield on funds.

Certain insurance benefits are financed entirely out of national funds. These include child allowance, housing allowance and some other allowances for families with children, as well as some benefits for people with disabilities, and housing supplement for pensioners or people with sickness or activity allowance. Maintenance support is paid out of taxes insofar as the expenditure is not covered by payments from those liable to pay maintenance. Assistance allowance is financed partly by the municipalities.

A number of smaller insurance schemes administered by the Swedish Social Insurance Agency are financed through premiums and the like and/or yields from funds. This category includes voluntary pension, voluntary sickness cash benefit insurance, road traffic injury annuities,

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<sup>8</sup> In this report, we refer to any social insurance benefits not financed either through contributions or from the AP funds as being “financed by tax revenue”. It is true that government income also derives partly from contributions and interest, but to say that this group of benefits is financed via the national budget would be misleading since this also applies to benefits financed through contributions with the exception of old-age pension.

voluntary occupational injury insurance, small-business insurance and seafarer's pension.

Social insurance contributions are the largest source of financing. Five types of insurance are financed wholly or in part through general social insurance contributions. These are parental insurance, sickness insurance, work injury insurance, survivor's pension and old-age pension. The proportion to be covered by contributions varies according to the type of insurance and has varied over time.

The financial relationship between incoming contributions and the benefits they are intended to finance is relatively tenuous. With the exception of old-age pension, contributions are not transferred to a specific fund but go instead to the national budget, from which social insurance benefits are paid out. However, since contributions are by statute intended to finance particular benefits, in this section we report contributions and benefits together as in a more financially autonomous system.

**Table 3.1 Social insurance income and expenditure in 2005**

SEK million	Income				Expenditure			Surplus/ deficit
	Contri- butions	National funds by law	Other	Total	Pay- ments	Admini- stration	Total	
Parental insurance <sup>1)</sup>	23,504	0	–	23,504	23,687	945	24,632	–1,128
Child allowance	–	21,546	–	21,546	21,460	86	21,546	–
Housing allowance to child families, etc	–	3,944	–	3,944	3,605	339	3,944	–
Care allowance for disabled children	–	2,693	–	2,693	2,541	152	2,693	–
Maintenance support	–	2,356	1,875	4,231	3,811	421	4,231	–
Pension rights for childcare years	–	4,319	–	4,319	4,319	..	4,319	–
Sickness insurance <sup>2)</sup>	110,341	13,969	–	124,311	109,134	3,903	113,037	11,273 <sup>3)</sup>
Health care benefits	–	2,995	–	2,995	2,743	252	2,995	–
Disability allowance	–	1,272	–	1,272	1,173	99	1,272	–
Activity support	11,515	200	–	11,715	11,515	200	11,715	–
Work injuries	7,266	133	–	7,399	6,347	396	6,743	656
Car allowance	–	372	–	372	347	25	372	–
Assistance compensation	–	11,454	2,987	14,441	14,335	106	14,441	–
Old-age pension	0	0	0	0	0	0	0	0
Via AP Fund	179,552	–	114,598	294,150	169,128	2,032	171,160	122,990
Via national budget	11,352	11,139	–	22,491	22,449	42	22,491	–
Premium Pens. Scheme	23,805	–	–	23,805	105	252	357	..
Survivor's pensions	18,164	1,052	–	19,216	16,903	119	17,022	2,193
Housing supplement, BTP	–	11,620	–	11,620	11,170	451	11,620	–
Maintenance support for the elderly	–	503	–	503	483	19	503	–
Partial pension	–	–4	–	–4	–4	0	–4	–
Other benefits	31	90	64	185	173	12	185	–
Non-allocated admin.	–	3	–	3	–	3	3	–
<b>Total for 2005</b>	<b>385,530</b>	<b>89,655</b>	<b>119,525</b>	<b>594,710</b>	<b>425,423</b>	<b>9,855</b>	<b>435,278</b>	<b>..</b>

<sup>1)</sup> Excluding pregnancy cash benefit which is financed by the sickness insurance contribution.

<sup>2)</sup> Including sickness and rehabilitation cash benefit, sickness and activity compensation, pregnancy cash benefit and close relatives allowance.

<sup>3)</sup> The difference between sickness insurance contributions received and the costs they are intended to finance by statute.

In 2005, revenue from social insurance contributions, national old-age pension contributions and general pension contributions amounted to almost SEK 386 billion. When interest and changing exchange rates, etc, are taken into consideration, the total becomes SEK 500 billion. In addition, the statutory proportion financed from taxation was almost

SEK 90 billion, or just over 20 per cent of expenditure. Payments from municipalities, people liable to pay maintenance, etc, amounted to just over one per cent. Favourable stock-exchange trends during 2005 meant that exchange-rate differences and interest, etc, from the First National Pension Fund (the AP Fund) gave a surplus of SEK 115 billion. Thus, in total, income exceeded expenditure by just over SEK 160 billion<sup>9</sup>.

In 2005, among the types of insurance financed through contributions, sickness insurance, work injury insurance and survivor's pensions gave a combined surplus of SEK 14 billion. At the same time, parental insurance showed a deficit of just over SEK 1 billion.

Since revenues in the premium pension system – which amounted to SEK 24 billion in 2005 – are reserved funds, it is not meaningful to say what proportion of total old-age pension expenditure was covered by revenue from contributions.

### 3.2 The design of social insurance contributions

Since 1999, the structure of social insurance contributions has remained basically unchanged. Contribution rates for the seven social insurance contributions levied after that year are shown in Table 3.2. Rates for employer contributions and self-employed persons' contributions differ in the case of sickness insurance and labour market contributions.

There is a fundamental difference between the old-age pension scheme, which has defined contributions, and other types of insurance, which have defined benefits. The reformed old-age pension scheme is financed through various contributions paid by employers, self-employed persons, the state and the individuals themselves. These contributions are fixed and pension payments are adjusted according to a predetermined set of rules to what is possible given available funds. For other types of insurance, by contrast, contribution rates are adjusted when necessary to developments in expenditure. Moreover,

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<sup>9</sup> Thus, the statutory SEK 90 billion in expenditure to be financed through taxation is reported here as income ("national funds by law") corresponding to that amount.

the amount to be covered by contributions varies according to insurance category.

**Table 3.2 Rates for employer contributions and general contributions**

<b>Contribution rates in %</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Old-age pension <sup>1)</sup>	10.21	10.21	10.21	10.21	10.21	10.21	10.21
Survivor's pension <sup>1)</sup>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Sickness insurance							
– Employers	8.5	8.8	8.8	11.08	11.08	10.15	8.64
– Self-employed contribution	9.23	9.53	9.53	11.81	11.81	11.12	9.61
Parental insurance <sup>1)</sup>	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Work injury insurance <sup>1)</sup>	1.38	1.38	1.38	0.68	0.68	0.68	0.68
Labour market contribution							
– Employers	5.84	5.84	5.84	3.7	3.7	4.45	4.45
– Self-employed	3.3	3.3	3.3	1.16	1.16	1.91	1.91
General salary contribution <sup>1)</sup>	3.09	2.69	2.69	3.25	3.13	3.07	4.4
Total employer contributions	32.92	32.82	32.82	32.82	32.7	32.46	32.28
Total general contributions	31.11	31.01	31.01	31.01	30.89	30.89	30.71

<sup>1)</sup> Same contribution rates apply to employers and self-employed persons.

The above table shows the statutory proportion of various contributions relative to the contribution base. In addition to the contributions that finance social insurance benefits, there is also a labour market contribution<sup>10</sup> and a general salary contribution. Decreases and increases in contributions have been compensated for by corresponding increases and decreases in the general salary contribution, so that the total contribution rate has only changed marginally from year to year.

The contribution base for social insurance contributions is made up of total employee salaries and earned income of self-employed persons and is paid by employers and self-employed persons respectively. The general pension contribution is paid by all gainfully employed per-

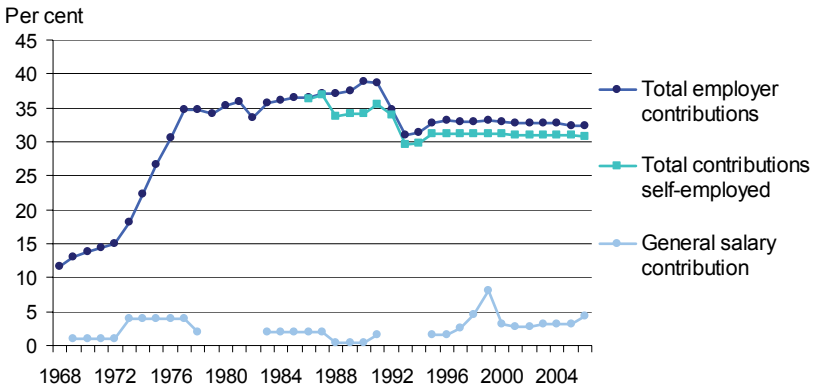
<sup>10</sup> This finances unemployment compensation, activity support and a number of minor benefits.

sons. It is based on salaries and incomes such as sickness cash benefit, parental cash benefit, unemployment insurance, etc.

In 2005, changes were introduced in several contributions – for example, sickness insurance contribution was reduced. To compensate for this, a new contribution, special sickness insurance contribution, was introduced, paid by employers. The contribution is based on full-time sickness cash benefit paid for employees.

Over a longer time span, starting out from 1970, contributions of employers and self-employed persons have developed as in Diagram 3.1.

**Diagram 3.1 Total contribution rates for social insurance 1968–2006**



Since 1995, there has been a noticeable stabilization of the overall level of employer and general contributions. The general salary contribution, levied off and on since the 1960s<sup>11</sup>, was re-introduced in 1995 and has been calibrated so that the total level of social insurance contributions remains largely unchanged or is only marginally modified from year to year. Thus, adjustments to other contribution rates, partly designed to follow the cost developments of particular benefits, have scarcely affected the total contribution rate. This ensures a stable

<sup>11</sup> During the 1960s and 1970s, the contribution was called general employer contribution.



contribution rate but also means that the financial link between contributions and the benefits they are intended to finance is weak.

Developments in the financing of benefits financed by social insurance contributions are further discussed in connection with Tables 3.3–3.9.

### 3.3 Parental insurance

**Table 3.3 Parental insurance: income and expenditure**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Parental insurance contribution	22,738	23,504	24,656	25,971
State funds	118	–	–	–
Total income	22,856	23,504	24,656	25,971
<b>Expenditure:</b>				
Parental cash benefit	17,240	17,738	18,878	20,199
Temporary parental cash benefit	3,671	3,742	4,169	4,289
National old-age pension contributions	2,118	2,207	2,355	2,346
Administration	827	945	976	1,012
Total expenditure	23,856	24,632	26,378	27,846
Part financed by contributions	23,738	24,632	26,378	27,846
Surplus/deficit for year	–1,000	–1,128	–1,722	–1,875
Contribution coverage	96 %	95 %	93 %	93 %

Parental insurance contributions finance parental cash benefit and temporary parental cash benefit as well as the major part of their administration. The contributions also finance the old-age pension contributions paid into the pensions system to cover earned pension rights for these benefits. In 2005, the contribution fell short of expenditure by a little over SEK 1 billion. Given the current contribution rate, expenditure is expected to exceed income by approximately SEK 2 billion for the next few years.

### 3.4 Sickness insurance

**Table 3.4 Sickness insurance: income and expenditure**

	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Sickness insurance contribution	113,083	108,961	97,293	101,529
Special sickness insurance contrib.	–	1,380	1,431	1,253
State funds by statute <sup>1)</sup>	13,309	13,969	14,133	14,484
Total income	126,392	124,310	112,857	117,266
<b>Expenditure:</b>				
Sickness cash benefit and rehabilitation	39,321	35,230	31,439	28,940
Disability pension/sickness and activity compensation	54,136	56,792	58,172	59,207
Pregnancy cash benefit	398	397	416	438
Allowance for care of close relatives	69	72	75	80
Employment guarantee	16	22	23	24
National old-age pension contributions	14,808	16,621	16,066	15,286
Administration	3,868	3,903	3,967	4,005
Total expenditure	112,616	113,037	110,158	107,980
Total financed by contributions according to the rules	99,307	99,068	96,025	93,496
Surplus <sup>2)</sup>	13,776	11,273	2,699	9,286
Contribution coverage	114 %	110 %	101 %	109 %

<sup>1)</sup> Expenditure not financed by contributions.

<sup>2)</sup> No real deficit can arise as the law does not require contributions to cover total expenditure.

The sickness insurance contribution finances sickness cash benefit, rehabilitation compensation, allowance for care of close relatives, pregnancy cash benefit, income-based sickness and activity compensation, as well as the major part of the administrative costs for these benefits. The costs for the employment guarantee are met out of tax revenue, as are guarantee allowances. The contribution also finances national old-age pension contributions for the above benefits.

There is no rule stipulating that the sickness insurance contribution must finance these benefits in their entirety so no real deficit is possible. As a result of raising the sickness insurance contribution from

2003 onwards, revenue from contributions has surpassed the expenditure to be financed by contributions by approximately SEK 10 billion each year in 2003, 2004 and 2005. This surplus is expected to drop to just under SEK 3 billion in 2006, due to the reduced contribution rate. However, assuming contribution rates remain unchanged, the surplus is expected to rise rapidly after that.

### 3.5 Work injury insurance

**Table 3.5 Work injury insurance: income and expenditure**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Work injury contribution	7,246	7,266	7,631	8,039
State funds	180	133	125	120
Total income	7,426	7,399	7,756	8,159
<b>Expenditure:</b>				
Compensation to insured	6,051	5,957	6,059	6,293
National old-age pension contrib.	435	390	424	506
Administration	403	396	470	485
Total expenditure	6,889	6,743	6,953	7,284
Part financed by contributions	6,709	6,610	6,828	7,164
Surplus for year	537	656	803	875
Contribution coverage	108 %	110 %	112 %	112 %

The work injury insurance contribution finances compensation payments under the Work Injury Insurance Act and corresponding older benefits, as well as the major part of the administration of these. In addition, the contribution finances national old-age pension contributions for paid-out work injury annuities, etc. Also compensation payments under the Government Personal Injury Protection Law are included in expenditure. These are financed by state funds. Some benefits are paid out by former central government public utilities in line with earlier regulations. This too is reported in the table as financing via state funds.

The work injury insurance scheme formerly reported serious deficits. Several cost-cutting regulatory changes limiting the scope of the insurance have resulted in an annual surplus since 1993. The surplus has been used to repay the earlier debt, which was entirely repaid in 2000. The reduced work injury contribution has led to a smaller surplus since 2003. In both 2004 and 2005, the surplus was just over SEK ½ billion.

### 3.6 Survivor's pension

**Table 3.6 Survivor's pension: income and expenditure**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Survivor's pension contribution	17,577	18,164	19,079	20,100
State funds	1,228	1,052	998	928
Total income	18,805	19,216	20,077	21,028
<b>Expenditure:</b>				
Survivor's pensions	16,987	16,903	16,907	17,039
Administration	146	119	122	127
Total expenditure	17,132	17,022	17,029	17,165
of which, financed by contributions	15,904	15,971	16,030	16,238
Surplus for year	1,673	2,193	3,049	3,862
Contribution coverage	111 %	114 %	119 %	124 %

Formerly, the survivor's pension contribution financed child pension, widow's pension, adjustment pension, etc. As of 2003, only income-based survivor's pension is financed from this contribution. Guarantee pensions for widow's pension, adjustment pension and surviving children's allowance are financed from taxes. In addition, the major part of the administration of these benefits is to be financed from the contribution.

Contributions have more than covered expenditure for survivor's pensions and it is calculated that they will exceed the income-based survivor's pension for some years to come.

### 3.7 Old-age pension

Contributions to the old-age pension scheme are fixed at 18.5 per cent of the income base and are levied in three different ways. The income-based contribution is divided up into a social insurance contribution of 10.21 per cent called old-age pension contribution – paid by employers and self-employed persons – and a general pension contribution paid by all gainfully employed persons. The general pension contribution is 7.0 per cent. Income-based transfers are debited a national old-age pension contribution that is paid from the national budget into the old-age pension scheme. In general, the national old-age pension contribution for transfers is 10.21 per cent. For so-called pension-qualifying amounts, the contribution is 18.5 per cent.

The old-age pension contributions paid by employers and self-employed persons are distributed among the AP Fund, the Premium Pension Scheme and the national budget. The general pension contribution is transferred in its entirety to the AP Fund. The national old-age pension contributions are shared between the AP Fund and the Premium Pension Scheme.

### 3.8 Old-age pension from the National Pension (AP) Fund

**Table 3.7 AP Fund: income and expenditure**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Old-age pension contribution to AP Fund	171,600	179,552	183,785	192,083
Of which, social insurance contribution	73,421	77,277	80,562	84,922
General pension contribution	72,287	74,762	75,098	80,137
National old-age pension contribution	24,004	26,450	26,778	26,018
Adjustment of contributions	1,888	1,063	1,347	1,006
Exchange-rate differences and interest, etc	65,162	114,598	76,424	73,008
Total "net" income for AP Fund	236,762	294,150	260,209	265,091
<b>Expenditure:</b>				
Pension payments from AP Fund	162,783	169,071	176,458	187,269
Of which, supplementary pension	159,217	162,564	166,160	171,892
Income pension	3,566	6,507	10,298	15,377
Special adjustments	1,600	0	0	0
Transfers to the EU	379	57	61	35
AP Fund admin and compensation for costs	2,737	2,032	2,081	1,988
Total expenditure	167,499	171,160	178,600	189,292
Surplus/deficit for year	69,263	122,990	81,609	75,799
Contribution coverage	104 %	105 %	103 %	101 %
Fund balance 31 December	646,200	769,190	850,798	926,596

The AP Fund finances old-age pensions from income pension and supplementary pension as well as the administration of these benefits. AP Fund revenue consists of social insurance contributions, general pension contributions and yield on investments. The fund also receives national old-age pension contributions from various allocations in the national budget.

Market value is used for reporting the balance of the AP Fund. In 2005, positive exchange rate developments and the fact that contributions exceeded expenditure by SEK 8.4 billion produced a surplus of almost SEK 123 billion. It is estimated that the current distribution of contributions will also cover expenditure during 2006–2007.

For civil servants within the European communities, the value of pension rights may be transferred from the AP Fund and the Premium Pension system to the EU civil service pension scheme.

In 2004, the AP Fund was debited SEK 1.6 billion as a retroactive adjustment for the period 1999–2002.

### 3.9 Old-age pension, premium pension

**Table 3.8 Premium pension: income and expenditure**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Old-age pension contribution to the premium pension system	20,021	23,805	26,154	27,690
<b>Expenditure:</b>				
Paid premium pensions	42	104	206	361
Reservations (net)	19,754	23,448	25,638	27,013
Transfers to the EU	4	1	1	1
Administration	221	252	309	315
Total expenditure	20,021	23,805	26,154	27,690

A part of the old-age pension contribution is transferred to the premium pension system administered by the Premium Pension Authority. Also linked to the premium pension system is the Seventh AP Fund. Since the system is new, outgoing payments so far have been small. Income is considerably higher. However, there is no real surplus, since the contributions are placed in funds or reserved for future payments.

### 3.10 Old-age pension payments from the national budget

**Table 3.9 National budget: income and expenditure for old-age pension**

SEK million	2004	2005	2006 forecast	2007 forecast
<b>Income:</b>				
Old-age pension contribution to the national budget	12,462	11,352	10,730	11,279
State funds	11,402	11,139	10,766	9,219
Total income	23,863	22,491	21,496	20,498
<b>Expenditure:</b>				
Guarantee pension	23,714	22,431	21,441	20,450
Certain supplementary benefits	18	18	18	17
Administration <sup>1)</sup>	131	42	37	31
Total expenditure	23,863	22,491	21,496	20,498
Contribution coverage	52 %	50 %	50 %	55 %

<sup>1)</sup> Including the social insurance offices in 2004.

Up to and including 2002, basic pensions for pensioners without ATP, pension supplement and some other supplementary benefits were financed from the national budget. In January 2003, basic pension and ATP were discontinued and replaced by supplementary pension and guarantee pension. Guarantee pension is financed via the national budget.

Old-age pension contribution above the income ceiling is transferred to the national budget. There is no statutory guideline as what this contribution should finance. However, it has been estimated that since 2004 this portion of the old-age pension contribution has amounted to just over 50 per cent of expenditure for guarantee pension, etc, that is, the portion of the old-age pension system financed from the national budget.



