

The Scope and Financing  
of Social Insurance  
in Sweden 2003–2006

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# Foreword

*The Scope and Financing of Social Insurance* is an annual report describing the financial scope of social insurance in Sweden and how it is financed.

Social insurance benefits are vital not only to individual welfare but to the economy as a whole. During 2004, a total of SEK 418 billion was paid out in pensions, replacement of lost income, various kinds of means-tested allowances and other benefits. In addition, there were administrative costs of just over SEK 9 billion. In total, social insurance amounted to the equivalent of one-sixth of GNP and accounted for a major share of all expenditure below the expenditure ceiling set by the Swedish Parliament. For every SEK 100 spent on private consumption in 2004, SEK 25 came from social insurance benefits.

The users are many. Families with young children are entitled to child allowance and parental cash benefit among other benefits. At some time or other we may need sickness cash benefit or other help because of illness or disability. In due course we reach pensionable age and are entitled to an old-age pension. Half of expenditure for 2004 was on payments to old-age pensioners and almost one-third represented compensation and costs for ill health.

This report reviews the scope of social insurance today and over the past few decades, and includes forecasts for the coming years. The scope of social insurance in Sweden is compared with that of other countries. An account is also given of the relatively complex way it is financed. It contains important information for anyone interested in the Swedish economy.

Curt Malmberg  
Director General



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# Summary

In 2004, social insurance expenditure totalled SEK 428 billion, of which SEK 391 billion was made up of payments to households. Between 2003 and 2004, expenditure increased by SEK 13 billion, which was the lowest rate of increase since 1998. This slower rate of increase is expected to continue during 2005 and 2006, primarily because the previous rise in expenditure for financial security in case of sickness and disability has now levelled out.

Half of expenditure is made up of payments to old-age pensioners, one-third comprises payments for sickness and disability, and 14 per cent goes to families with young children. Administrative costs account for approximately 2.5 per cent of the total annually.

Social insurance spending has risen over a long period of years. Radical changes to the regulations at the beginning of the 1990s checked the increase for most of the decade. Between 1998 and 2003, expenditure rose sharply.

In relation to GNP, social insurance expenditure dropped in 2004 to the equivalent of 16.4 per cent after having risen from just under 15 per cent in 1998 to a peak of 16.6 per cent in 2003. During 2005–2006, expenditure is expected to continue falling relative to GNP. Transfer payments from social insurance to households account for more than 80 per cent of all public transfers to households. Social insurance also accounts for approximately half of spending below the ceiling set by government. For every SEK 100 spent on private consumption, SEK 25 stem from social insurance benefits.

Benefits are financed through social insurance contributions, general pension contributions, taxes and yield from investment funds. In 2004, income from contributions covered almost 90 per cent of total expenditure. Thanks to interest on investments, gains from market price differences and additional government funding for certain parts of social insurance, income exceeded expenditure by SEK 104 billion.

# Introduction

The aim of social insurance is to provide financial security for families with young children and for the sick, disabled and elderly. A further aim is 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 more than 1.5 million are 65 or older. All people aged 16 and over and resident in Sweden are in principle insured and registered with the Social Insurance Agency. At present, just over 7.2 million people fit this description. In addition, 70,000 persons resident abroad receive an old-age pension from Swedish social insurance. Of those persons resident in Sweden but not individually covered by social insurance, almost all are under the age of 16 and living with their parents. The latter are entitled to certain social insurance benefits by virtue of being parents. Moreover, children are also directly eligible for survivor protection benefits.

The purpose of the present report is to indicate the scope of social insurance expenditure, to describe how social insurance is financed and to examine its socioeconomic impact over time. Equally important are the forecasts of expenditure and financing for the coming years. These are taken from the budget material submitted to the government by the Social Insurance Agency in May 2005. The forecasts take into account current regulations, regulatory changes known to be in the pipeline and legislation drafted in parliamentary bills.

This publication describes the types of benefit administered by the Social Insurance Agency which fall under the collective heading of *social insurance*. In other contexts and internationally, this term may also refer to other transfers to households such as unemployment benefit and financial support (formerly social assistance). The table on page 10 shows social insurance benefits grouped in four categories according to the division into expenditure areas used, for example, in



the budget proposal. Sections 1 and 2 on social insurance expenditure use this classification. Section 3 on financing follows a different order.

*In this report, we do not present expenditure in current prices further back than 2 years. Instead, older series are expressed in fixed prices or, for example, in relation to GNP. The figures upon which the report is based, expressed in current and fixed prices, are available from the Social Insurance Agency website:*

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

## Brief survey of benefits

### Financial security for families and children

Parental insurance pregnancy cash benefit parental cash benefit temporary parental cash benefit	Care allowance for disabled children Maintenance support Pension right for childcare years Child pension, etc Adoption costs allowance
Child allowance Housing allowance to child families, etc	

### Financial security in case of sickness and disability

Sickness cash benefit Rehabilitation cash benefit, etc Allowance for care of close relatives Sickness and activity compensation Employment of certain persons with sickness and activity compensation Medical care, international conditions Dental care	Housing supplement Disability allowance Work injury compensation annuities sickness cash benefit, etc Car allowance for the disabled Assistance allowance
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### Financial security in old age, etc

Old-age pension ATP/income-based pension Basic pension/guarantee pension Maintenance support for the elderly	Survivor's pension Widow's pension Adjustment pension Housing supplement for pensioners Part-time pension
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### Other payments

Activity support Conscript's allowance	Small business insurance Disease carrier's allowance, etc
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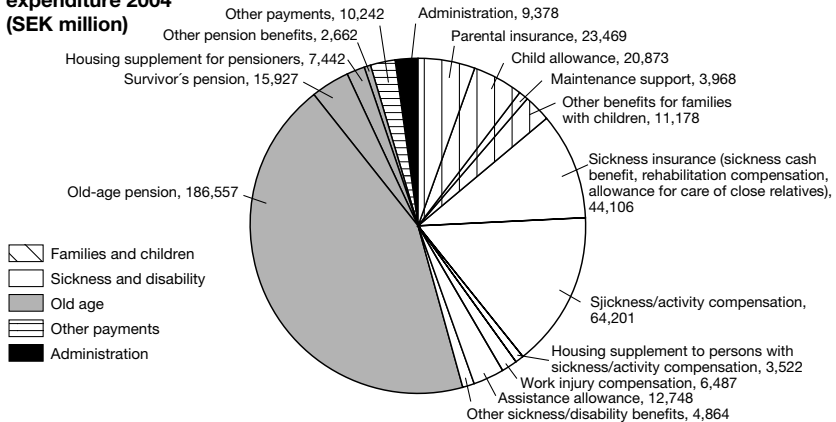
# 1 Social insurance expenditure 2003–2006

*In this chapter, we start by describing 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. Following sections describe the benefits included in each main category together with the most important factors determining developments in expenditure during recent years.*

## 1.1 Distribution of expenditure in 2004

In 2004, half of expenditure was made up of payments to old-age pensioners and almost a third went to compensation and costs for ill health.

**Distribution of expenditure 2004 (SEK million)**



Out of a total of SEK 428 billion, 91 per cent of expenditure was made up of transfers to households. National old-age pension contributions, including pension rights for childcare years, accounted for 5 per cent

while administrative costs made up just over 2 per cent. The remainder – just under 1 per cent – was made up of payments for various forms of health care benefits.

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

SEK million	2003		2004		2005 forecast		2006 forecast	
	Expend.	Share in %	Expend.	Share in %	Expend.	Share in %	Expend.	Share in %
Financial security								
For families and children	57,797	13.9	59,489	13.9	61,599	14.1	64,198	14.4
In sickness and disability	132,255	31.9	135,928	31.8	139,070	31.7	139,382	31.2
In old age, etc	204,064	49.2	212,588	49.7	215,592	49.2	221,692	49.6
Other payments	9,804	2.4	10,242	2.4	11,218	2.6	10,819	2.4
Administration	10,565	2.5	9,378	2.2	10,860	2.5	11,150	2.5
<b>Total</b>	<b>414,486</b>	<b>100.0</b>	<b>427,624</b>	<b>100.0</b>	<b>438,339</b>	<b>100.0</b>	<b>7,241</b>	<b>100.0</b>

Since the end of the 1990s, payments from social insurance have increased. This development is primarily due to an increase in the number of people taking sick leave and to sick-leave periods tending to get longer. The number of persons with disability pension, sickness compensation or activity compensation has also risen as a result of the high incidence of long-term sickness<sup>1</sup>. Moreover, an ageing population has meant that payments to pensioners are constantly rising.

In 1999, the national old-age pension contribution was introduced, intended to cover earned pension rights for, among other things, daily allowances to households and income-based benefits in the form of sickness and activity compensation. In addition, pension rights are granted for the care of small children. These national old-age pension contributions are included as expenditure in all tables in this report with the exception of tables 2.2–2.3, which refer to direct transfers to

<sup>1</sup> In 2003, disability pension and temporary disability pension were replaced by sickness compensation and activity compensation.

households<sup>2</sup>. In 2004, national old-age pension contributions deriving from social insurance totalled almost SEK 22 billion.

In 2004, social insurance expenditure including administration totalled almost SEK 428 billion. This represented an increase of SEK 13 billion in current prices compared with the preceding year. In both fixed and current prices, this was the lowest rate of increase since 1998

The Social Insurance Agency estimates that expenditure will continue to increase more slowly during the period 2005–2006 than during 1999–2003. Compared with 2004, an increase of just over SEK 11 billion is anticipated for 2005 with a further SEK 9 billion in 2006. The increases are calculated mainly on the basis of rising costs for old-age pensions and sickness compensation.

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<sup>2</sup> Including *both* government payment of contributions to the old-age pension scheme *and* the scheme's payments to individuals, we get a higher *expenditure* figure than if public sector *costs* were to be calculated.

## 1.2 Financial security for families and children

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Parental insurance</b>	<b>19,986</b>	<b>21,309</b>	<b>23,105</b>	<b>24,926</b>
<b>plus old-age pension contrib.</b>	<b>1,984</b>	<b>2,160</b>	<b>2,228</b>	<b>2,378</b>
Number of paid days, million <sup>1)</sup>				
Parental cash benefit	40	42	44	45
Temporary parental cash benefit	6	5	5	5
Pregnancy cash benefit	1	1	1	1
<b>Child allowance</b>	<b>20,956</b>	<b>20,873</b>	<b>20,735</b>	<b>20,646</b>
children 0–15 years, 1000s	1,718	1,709	1,698	1,680
<b>Housing allowance for child families and young people</b>	<b>3,595</b>	<b>3,614</b>	<b>3,621</b>	<b>3,743</b>
households, 1000s	274	271	271	266
<b>Care allowance for disabled children</b>	<b>2,047</b>	<b>2,215</b>	<b>2,333</b>	<b>2,466</b>
<b>plus old-age pension contribution</b>	<b>185</b>	<b>200</b>	<b>222</b>	<b>229</b>
recipients, 1000s in Dec.	34	35	37	40
<b>Maintenance support</b>	<b>4,127</b>	<b>3,968</b>	<b>3,945</b>	<b>4,253</b>
children, 1000s in Dec.	317	305	302	302
<b>Child pension, etc</b>	<b>1,045</b>	<b>1,060</b>	<b>1,051</b>	<b>1,048</b>
<b>Income-based child pension</b>	<b>965</b>	<b>964</b>	<b>949</b>	<b>942</b>
<b>Surviving children's allowance</b>	<b>80</b>	<b>96</b>	<b>102</b>	<b>106</b>
Child pensions, 1000s in Dec.				
Income-based pension	28	28	28	28
Surviving children's allowance	6	7	8	8
<b>Pension right for childcare years</b>	<b>3,831</b>	<b>4,051</b>	<b>4,319</b>	<b>4,472</b>
<b>Adoption allowance</b>	<b>41</b>	<b>38</b>	<b>40</b>	<b>37</b>
<b>Total SEK million</b>	<b>57,797</b>	<b>59,489</b>	<b>61,599</b>	<b>64,198</b>

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

Parental insurance and child allowance dominate financial support for families and children. During 2004, they represented together almost 75 per cent of expenditure for families and children. In the category of financial security for families and children, national old-age pension contributions for 2004 amounted to just over SEK 6 billion, including pension rights for childcare years.

**Parental insurance** is designed to enable women and men to combine family and work. It is based on the principle that children have the right to and need of both parents.

Parental cash benefit is the most comprehensive benefit in the parental insurance scheme, accounting for almost 81 per cent of expenditure and 88 per cent of all paid days. The smallest of the benefits is pregnancy cash benefit, which represented just under two per cent of expenditure and of paid days. 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 17 per cent of the expenditure.

Of all parental insurance days paid out in 2004, 79 per cent were claimed by women and 21 per cent by men. Of the expenditure, 74 per cent went to women and 26 per cent to men. The average daily payment for women was SEK 414 compared with SEK 548 for men.<sup>3</sup>

Expenditure for parental insurance is expected to continue rising for some years to come. This is partly because the period of parental cash benefit has been extended by a further 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 proportion of days claimed by fathers is expected to continue increasing.

The aim of the general **child allowances** – child allowance, large-family supplement, extended child allowance and EU benefits – is to reduce the differences in financial conditions between families with and without children. Child allowance is paid to all families with children. Large-family supplement is paid from the third child onwards.

**Housing allowance** is a means-tested benefit the size of which is determined by the size of family, housing costs and income. The most common recipients of housing allowance are single mothers. Since 1997, the allowance has been preliminary and is fixed retroactively when the annual income tax is complete. Each final adjustment gener-

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<sup>3</sup> Note that pregnancy cash benefit, which is only paid to women, is included in these figures. Since this benefit comprises just under 2 per cent of total expenditure for parental insurance, it only has a marginal effect on the result.

ates many SEK millions' worth of repayments and supplementary payments. The repayment period may extend over several years.

**Care allowance** is payable to parents of children with functional 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 the most.

**Maintenance support** is designed to guarantee a reasonable standard of living for children not living with both their parents and to ensure that both parents take financial responsibility for their children. Maintenance support is normally given for children under the age of 18 and in certain cases up to and including 20. The parent living with the child can obtain maintenance support if the person responsible for paying maintenance fails to pay or if the amount payable is less than SEK 1,173 a month. As of 2006, the limit will be raised to SEK 1,273, largely explaining the expected increase in expenditure for that year. The parent liable to pay maintenance must repay, fully or in part, the maintenance support paid out to the other parent.

At present (year 2004), in over 65 per cent of cases where parents of children are living apart, the parents have chosen to regulate the maintenance issue via the maintenance support system.

Expenditure for maintenance support (gross payments prior to repayment by those liable to pay maintenance) has remained at a fairly constant level over the past ten years but dropped noticeably in 2004 due to fewer children being covered by the scheme.

**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 for child pensions were changed in order to comply with the new pension system. The new child pension is based entirely on income. In 2004, the number of child pensions was just under 28,000. The number of child pensions is expected to remain more or less constant during 2005–2006.

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 has 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 just over 7,000 of which 4,000 go to children who receive no child pension at all.

The new old-age pension system gives a *pension right for childcare years*. In 1999, a national old-age pension contribution was introduced to finance the pension right for care of children aged 0–4 years. The preliminary contribution is adjusted after three years at which time interest is also included. Expenditure will vary according to the number of children aged 0–4 (with the exception of adopted children), the development of the income-based amount, and (in the case of adjustment) the six-month interest rate.

*International adoption allowances* amount to SEK 40,000 per child and are paid each year for some thousand adoptions. A tightening up of the law may mean that fewer people are entitled to the benefit so payments are expected to decrease in 2006.

## 1.3 Financial security in case of sickness and disability

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Sickness insurance</b>	<b>48,552</b>	<b>44,106</b>	<b>39,674</b>	<b>36,188</b>
<b>Sickness cash benefit</b>	<b>40,523</b>	<b>35,944</b>	<b>32,503</b>	<b>29,631</b>
<b>Rehabilitation compensation</b>	<b>3,181</b>	<b>3,377</b>	<b>3,359</b>	<b>3,587</b>
<b>Allowance for care of close relatives</b>	<b>65</b>	<b>69</b>	<b>74</b>	<b>79</b>
<b>Old-age pension contribution</b>	<b>4,783</b>	<b>4,716</b>	<b>3,739</b>	<b>2,891</b>
Sickn. cash benefit days, millions <sup>1)</sup>	90	78	67	59
Rehabilitation days, millions <sup>1)</sup>	5	5	5	5
<b>Health care benefits</b>	<b>2,829</b>	<b>3,425</b>	<b>2,973</b>	<b>3,079</b>
<b>Dental care</b>	<b>2,607</b>	<b>3,129</b>	<b>2,616</b>	<b>2,750</b>
<b>Medical care, international</b>	<b>222</b>	<b>296</b>	<b>357</b>	<b>329</b>
<b>Sickness/activity compensation</b>	<b>58,527</b>	<b>64,185</b>	<b>70,063</b>	<b>71,725</b>
<b>Activity compensation</b>	<b>249</b>	<b>925</b>	<b>1,267</b>	<b>1,431</b>
<b>Sickness compensation</b>	<b>49,810</b>	<b>53,210</b>	<b>55,956</b>	<b>57,682</b>
<b>Old-age pension contribution</b>	<b>8,467</b>	<b>10,050</b>	<b>12,840</b>	<b>12,613</b>
Recipients, 1000s in Dec.				
Activity compensation	5	12	15	17
Sickness compensation	502	527	550	556
<b>Employment guarantee <sup>2)</sup></b>	<b>14</b>	<b>16</b>	<b>19</b>	<b>20</b>
<b>Housing suppl. to persons with sickness/activity compensation</b>	<b>3,370</b>	<b>3,522</b>	<b>3,873</b>	<b>4,106</b>
Recipients, 1000s in Dec.	125	126	134	139
<b>Disability allowance</b>	<b>1,200</b>	<b>1,205</b>	<b>1,186</b>	<b>1,179</b>
Recipients, 1000s in Dec.	61	61	61	61
<b>Work injury compensation</b>	<b>6,371</b>	<b>6,487</b>	<b>6,446</b>	<b>6,553</b>
<b>Payments</b>	<b>5,984</b>	<b>6,051</b>	<b>6,056</b>	<b>6,138</b>
<b>Old-age pension contribution</b>	<b>386</b>	<b>435</b>	<b>390</b>	<b>415</b>
Annuities, 1000s	148	143	139	136
<b>Car allowance</b>	<b>215</b>	<b>222</b>	<b>356</b>	<b>249</b>
<b>Assistance allowance</b>	<b>11,165</b>	<b>12,748</b>	<b>14,470</b>	<b>16,274</b>
Recipients, 1000s in Dec.	11	12	13	14
<b>Other benefits</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>10</b>
<b>Total, SEK million</b>	<b>132,255</b>	<b>135,928</b>	<b>139,070</b>	<b>139,382</b>

<sup>1)</sup> Calculated as whole days.<sup>2)</sup> Costs for employment of certain persons with activity and sickness compensation.

***Sickness cash benefit*** replaces a part of the loss of income during illness. Sickness cash benefit saw a number of changes during the 1990s. The level of compensation was altered several times, a qualifying day was introduced for sickness cash benefit, a sick pay period (during which sick pay is paid by the employer) was introduced and its length altered.

On 1 July 2003, the sick pay period was extended to 21 days, but as of 1 January 2005, it is once again set to 14 days. From 1998 to June 2003, the benefit level was 80 per cent of benefit-qualifying income up to an income ceiling of 7.5 times the price base amount. On 1 July 2003, a lower benefit level of 77.6 per cent was introduced, but as of 1 January 2005 it has again been raised to 80 per cent. After this date, employers pay 15 per cent of sick-leave costs for employees on full-time sick leave.

Insurance expenditure for sickness cash benefit has fluctuated greatly over the past few decades. Since 1998, the number of people reporting sick has increased and so have the costs for sick leave. More and more people are off sick for longer and longer periods. The proportion of women among those reporting sick has grown constantly since the beginning of the 1990s. In December 2004, this proportion had reached almost 64 per cent.

Since the end of 2003, the number of days claimed has fallen compared with corresponding months of the preceding year. The number of periods of sickness lasting longer than one year continued to grow up to December 2003, though at an ever slower rate. Since January 2004, the incidence of such cases has also decreased compared with the corresponding month of the preceding year.

***Rehabilitation compensation*** includes rehabilitation cash benefit and other allowances intended to promote occupational rehabilitation of sick and injured persons. Rehabilitation cash benefit makes up two-thirds of expenditure on this item. The compensation level is calculated as for sickness cash benefit, that is, 80 per cent of benefit-qualifying income.

Expenditure for rehabilitation cash benefit has risen over several years as has the number of days claimed. During the next few years, insur-

ance costs for rehabilitation compensation are expected to continue climbing at a relatively even pace.

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 costs for this insurance are increasing continually, as are the numbers of carers and cared-for. In 2004, the average number of days per person cared for was 11. Women care for close relatives to a greater extent than men. In 2004, the benefit was paid to 9,839 people.

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

Briefly, the rules for dental care insurance imply that all adults receive financial support for dental care but that older people and those with special dental care needs receive additional financial support. In 2004, dental care benefits amounted to SEK 3,129 million. In July 2002, the rules were altered for patients aged 65 and older. The compensation level for basic dental care was raised and a high-cost ceiling set for prosthetics. This led to increased costs in 2003 and 2004. However, costs are expected to decrease during the current year and coming years.

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 medical care in such international contexts was SEK 296 million in 2004. This item of expenditure is expected to increase appreciably during the current 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 per-

sons 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 period of time necessary to complete such studies.

Persons who were on permanent or temporary disability pension when the rules for sickness and activity compensation came into force have 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 and can 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 (or, formerly, disability pension) has risen over many years. In December 2004, recipients of sickness or activity compensation numbered 540,000 – just over 33,000 more than the number of disability pensioners the preceding year. The increase was primarily due to large numbers of people on long-term sick leave transferring to 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 are to be made to help them find employment on the open labour market, in some cases with the aid of a wage subsidy. The costs for employment with a wage subsidy equivalent to remaining work capacity are paid from the general insurance system.

The take-up of this benefit has increased steadily. During 2004, the amount paid out was SEK 16.5 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, at most 91 per cent of SEK 4,500. The cost of this allowance and the number of recipients have been increasing for many years. In 2003, extensive changes in the rules for housing supplement

for pensioners (BTP) were introduced in response to altered regulations in the old-age pensions system and the former disability pensions scheme. The new rules of 2003 had some negative consequences for beneficiaries. A number of BTP recipients with somewhat higher incomes had lower net incomes under the new rules.

During 2004, expenditure increased because the number of persons receiving newly-granted sickness compensation increased. The cost of accommodation also increased.

Of those persons with sickness or activity compensation who had BTP in 2004, 56 per cent were women. 87 per cent of recipients lived alone.

**Disability allowance** can be granted to people who have impaired functional ability due to functional disabilities that arose before the age of 65. Disability allowance is more common among women than among men. Depending on the need for assistance and the size of the extra costs involved, the amount of benefit payable is based on different proportions of the price base amount.

Expenditure for disability allowance showed a slight annual increase up to 2002, as did the number of beneficiaries. During 2004, the benefit was paid out on average to 61,000 people. Up to and including 2006, the number of disability allowances is expected to increase only marginally, since the lower age limit for this benefit was raised in 2003 from 16 to 19. The costs for the insurance are expected to fall marginally.

**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 decreased during the 1990s because of changes in the rules. During 2002 and 2003, a number of regulatory changes were implemented. A change in the rules for national old-age pension contributions led to reduced expenditure for contributions in 2003. Other regulatory changes are expected to lead to considerable increases in expenditure in the longer term. In 2004, however, the increase in expenditure was moderate. The number of annuities continued to decline.

**Car allowance for the disabled** is designed to enable people with disabilities to move about more freely on their own. It is a subsidy for the purchase and/or adaptation of a motor vehicle of one's own. Car allowance consists of several components. The basic allowance and the allowance for the purchase of a motor vehicle can be re-applied for every seven years. The allowance for adaptation of a vehicle can be granted when the need arises without any time limit. During 2004, allowances were paid out to a value of SEK 222 million. Basic allowance was paid to just over 1,900 people. The expenditure for 2005 is estimated at SEK 356 million, but available funds, including supplementary appropriations and appropriation credit, amount to only SEK 328 million. Payments that exceed the framework of available funds may, under the provisions of the government ordinance 1997:707 on amendments to the government ordinance 1988:890, be postponed until the following year.

Expenditure for **assistance allowance** is growing 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 of basic assistance per week on average. Assistance allowance is paid at a standard rate for each hour of assistance granted to the person entitled to the assistance. The latter hires the assistance provider. In most cases, the municipality, a user cooperative or a private provider is employed. The local municipality finances the first 20 assistance hours per week for each beneficiary.

In December 2004, just over 12,600 persons received assistance allowance for an average of 99 hours a week. During 2004, total expenditure was SEK 12,748 million, of which the municipalities contributed SEK 2,726 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 continue increasing.

**Other benefits** include road traffic injury annuities, compensation from voluntary occupational injury insurance, voluntary sickness cash benefit insurance and annuities from damages.

## 1.4 Financial security in old age

Table 1.4 Financial security in old age

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Old-age pension</b>	<b>180,046</b>	<b>186,557</b>	<b>191,663</b>	<b>197,892</b>
<b>Income-based pension</b>	<b>155,421</b>	<b>162,825</b>	<b>169,123</b>	<b>176,413</b>
<b>Guarantee pension</b>	<b>24,625</b>	<b>23,732</b>	<b>22,540</b>	<b>21,479</b>
Recipients, 1,000s in Dec				
Supplementary pension	1,441	1,470	1,504	1,543
Guarantee pension	889	870	845	827
<b>Special adjustments</b>	<b>0</b>	<b>1,600</b>	<b>0</b>	<b>0</b>
<b>Transfers to EU</b>	<b>0</b>	<b>379</b>	<b>86</b>	<b>0</b>
<b>Widow's pension</b>	<b>15,170</b>	<b>15,369</b>	<b>15,274</b>	<b>15,166</b>
<b>Income-based widow's pension</b>	<b>14,318</b>	<b>14,527</b>	<b>14,504</b>	<b>14,475</b>
<b>Guarantee pension</b>	<b>852</b>	<b>842</b>	<b>770</b>	<b>691</b>
Recipients, 1,000s in Dec				
Income-based widow's pension	377	373	367	362
Guarantee pension	40	37	33	29
<b>Adjustment pension</b>	<b>442</b>	<b>557</b>	<b>606</b>	<b>694</b>
<b>Income-based adjustment p.</b>	<b>293</b>	<b>377</b>	<b>420</b>	<b>494</b>
<b>Guarantee pension</b>	<b>149</b>	<b>180</b>	<b>186</b>	<b>200</b>
Recipients, 1,000s in Dec				
Income-based adjustment p.	5	6	7	7
Guarantee pension	5	6	6	7
<b>Housing supplement to old-age pension, etc</b>	<b>7,607</b>	<b>7,442</b>	<b>7,415</b>	<b>7,405</b>
Recipients, 1,000s in Dec	319	301	296	291
<b>Maintenance support for the elderly</b>	<b>634</b>	<b>587</b>	<b>496</b>	<b>481</b>
Recipients, 1,000s in Dec	11	12	11	11
<b>Part-time pension</b>	<b>104</b>	<b>37</b>	<b>-4</b>	<b>-1</b>
<b>Payments</b>	<b>85</b>	<b>25</b>	<b>0</b>	<b>0</b>
<b>Old-age pension contribution</b>	<b>19</b>	<b>12</b>	<b>-4</b>	<b>-1</b>
Recipients, 1,000s in Dec	3	0	0	0
<b>Other pensions</b>	<b>61</b>	<b>59</b>	<b>57</b>	<b>55</b>
<b>Total MSEK</b>	<b>204,064</b>	<b>212,588</b>	<b>215,592</b>	<b>221,692</b>

The pensions system has undergone major changes. The *old-age pension* formerly consisted chiefly of basic pension and general supple-



mentary 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 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, premium pension, supplementary 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, payments rose by just over 3 per cent.

In the longer term, expenditure for income-based pensions will increase while expenditure for guarantee pensions will decrease. The new pensions system is more closely tied to national economic and demographic trends than its predecessor. Thus the long-term development of costs will be affected by developments in prices and real wages, fluctuating interest rates and share prices and many other factors 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 taxation system. The special survivor's pension is being phased out.

Fewer women receive a *widow's pension* because this benefit is being phased out. The new income-based widow's pension broadly corresponds to the former ATP pension. Most widow pensioners under the age of 65 also receive a supplement corresponding to the former basic pension. In these cases, 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.

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 2004, expenditure for widow's pensions increased somewhat but the number of widow's pensions decreased.

The *adjustment pension* is payable to surviving spouses. During the 1990s, the compensation period varied for different groups of beneficiaries. In 2003, the compensation period for adjustment pension was extended from six to ten months. In 2005, the compensation period was extended to twelve months. 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 13 and 18 may also receive extended adjustment pension for one year.

The *housing supplement for old-age pensioners* is a means-tested allowance. The need for housing supplement has successively decreased as the size of old-age pensions has increased. Women, receiving lower pensions on average, are more dependent on housing supplement than men. The development of expenditure has been uneven due to regulatory changes being made almost every year.

The year 2003 also saw extensive changes as a consequence of the new pensions system. For pensioners, this was a slight improvement. Regulatory changes in combination with higher registered housing costs pushed up expenditure. Changed rules for income from capital and property in particular affected costs. Previously, a standard rate of 5 per cent of assets was used for deciding income from capital. From now on, actual income from capital is used instead. The regulatory changes also mean that certain incomes today are only declared up to 80 per cent of their value, for example, occupational pension, work or occupational injury annuity and salary. Previously, these incomes were declared up to their full value.

In 2004, expenditure decreased somewhat as a result of the regulatory changes in 2003. The decrease was due to the fact that persons who were entitled to housing supplement under the old rules though not under the new rules could receive housing supplement during the first half of 2003. Beneficiaries' incomes also rose somewhat during 2004, reducing expenditure still further.

Of those persons with old-age pension who received housing supplement in 2004, 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 from the general pensions system. They may be people who have very low pensions or no pension at all, due, for example, to not having been resident in Sweden for a sufficient number of years. In 2004, SEK 587 million was paid out in maintenance support for the elderly. The level is expected to continue falling for some years to come since it is estimated that certain beneficiaries will receive a full guarantee pension after ten 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 2004, 58 per cent were women and 60 per cent were single.

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

**Other pensions** are the voluntary pension and the seafarer's pension.

## 1.5 Other payments

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

SEK million	2003	2004	2005 forecast	2006 forecast
Activity support	9,684	10,133	11,111	10,711
Daily cash benefit to conscripts, etc.	5	5	5	5
Family allowance to conscripts	78	67	67	68
Other	37	38	35	35
<b>Total SEK million</b>	<b>9,804</b>	<b>10,242</b>	<b>11,218</b>	<b>10,819</b>

*Activity support* and other labour-market measures dominate expenditure in this group. Activity support is given to participants in labour-market policy programmes, such as labour market training and vocational rehabilitation. The county labour board refers individuals to labour-market training programmes that qualify for activity support. The Social Insurance Agency calculates and pays out the support and deals with questions concerning repayment obligations. Other payments include benefits to conscripts. Under *Other* in Table 1.5, we find small-business insurance, holiday pay insurance and disease carrier's allowance.

## 1.6 Administration

**Table 1.6 Expenditure for social insurance administration**

SEK million	2003	2004	2005 forecast	2006 forecast
Social insurance offices <sup>1)2)</sup>	6,914	5,435	8,730	8,935
National Social Insurance Board <sup>1)</sup>	1,792	1,890	.	.
AP Fund	1,574	1,833	1,834	1,914
PPM (Premium Pension Authority)	285	221	297	301
<b>Total MSEK</b>	<b>10,565</b>	<b>9,378</b>	<b>10,860</b>	<b>11,150</b>
Administration's share of social insurance expenditure, %	2.5	2.2	2.5	2.5

<sup>1)</sup> From January 2005, integrated in the common national authority, the Social Insurance Agency.

<sup>2)</sup> Including updated estimates of pension debt for 2003 and 2004.

The work of the Social Insurance Agency is financed partly through contributions and partly through national budget appropriations. The decline in the social insurance offices' administrative costs in 2004 reflects the reported change in pension debt, which that year *decreased* by just over SEK 1 billion. When the regional social insurance offices were integrated into the new government agency, the Social Insurance Agency, along with the Social Insurance Board, on 1 January 2005, the state assumed responsibility for employees' occupational pensions so that these no longer directly burden the agency's budget.

Costs for the AP Funds more than doubled between 2000 and 2003, partly due to the new opportunities for investment introduced in 2001, which led to increased portfolio administration. In 2004, AP Fund costs rose by over 15 per cent compared with the preceding year.

Since 1998, there have also been administrative costs for the new Premium Pension Authority (PPM).

In 2004, administrative costs accounted for 2.2 per cent of social insurance expenditure but from 2005 onwards this proportion is expected to return to the level of approximately 2.5 per cent, where it has lain since 2000.

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

*In this chapter, we start by tracing the development of the chief benefit categories since 1980. Next, we comment the development of total social insurance expenditure since 1965, in relation to both the national economy as a whole and to private consumption. Finally, we compare the development of social insurance expenditure in Sweden with other OECD countries.*

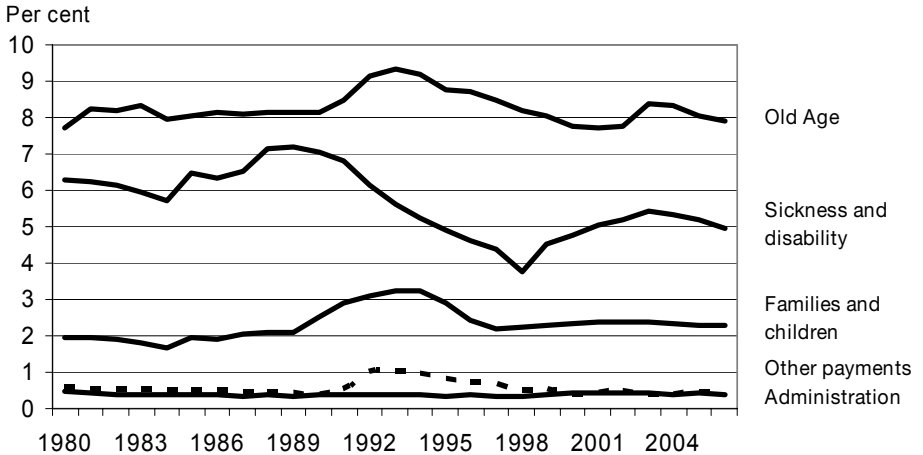
### 2.1 Development of expenditure since 1980

Expressed in year 2004 prices, social insurance expenditure increased from SEK 260 billion in 1980 to SEK 428 billion in 2004, an increase of 60 per cent<sup>4</sup>. The greatest increase during this period occurred in the second half of the 1980s. The rapidly mounting costs for sickness cash benefit at the time were mainly to blame. At the beginning of the 1990s, the rate of increase slowed down. Here too, the change depended largely on developments in sickness and work injury compensation. Among other things, a sick pay period and qualifying day were introduced into sickness insurance. During 1996–1997, expenditure fell in current money values, primarily because of reduced benefit levels in sickness and parental insurance but also due to the transfer of responsibility for pharmaceutical costs from social insurance to the county councils.

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<sup>4</sup> In this report, the focus is on the development of social insurance expenditure and its causes. Therefore, we *include* the old-age pension despite its being a financially autonomous system, and consequently the development of expenditure does not have the same consequences as expenditure from the national budget.

**Diagram 2.1 Social insurance expenditure by main benefit category in relation to GNP<sup>1)</sup>**



<sup>1)</sup> Forecast for the years 2005–2006.

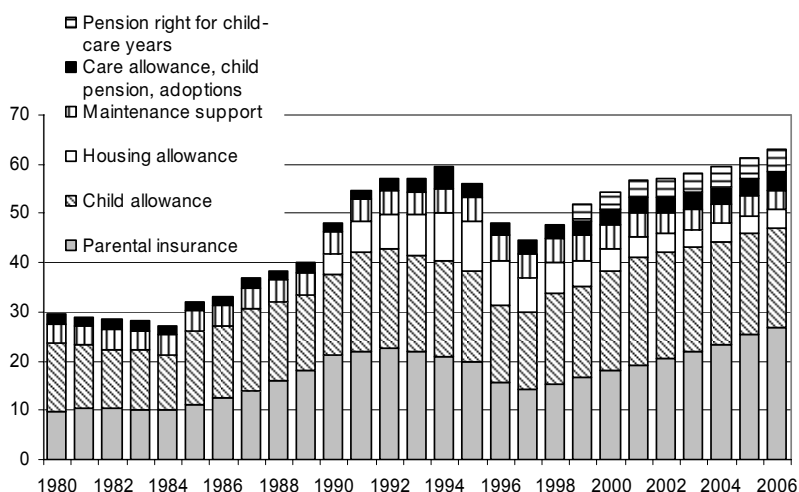
Since 1998, expenditure has once again risen steadily. The introduction of national old-age pension contributions in 1999 produced a sharp rise in the level of expenditure. However, this meant that a previously hidden item of expenditure was now reported visibly and thus did not signify any new commitments. Up to and including 2002, increasing sick leave was subsequently the main factor behind the overall increase in expenditure. This increase is ongoing and is expected to continue, albeit at a diminishing rate, throughout the current and following year, though due now mainly to steadily rising costs for pensions. However, since the greater part of the old-age pension system lies outside the national budget, this does not pose as great a problem for government finances as the costs for sickness and disability.

The table on the next page shows the development of expenditure for the various benefit categories in year 2004 money values.

**Table 2.1 Social insurance expenditure by main benefit category**

SEK billion in year 2004 prices	Families/Children	Sickness/Disability	Old age	Other	Administration	Total
1980	29,6	96,4	117,8	8,6	7,1	259,4
1985	32,1	105,4	131,6	7,5	6,2	282,9
1990	48,1	134,7	155,4	7,7	7,5	353,5
1995	56,0	95,2	170,1	16,1	6,8	344,2
2000	54,4	111,7	181,9	9,3	9,6	367,1
2001	56,6	120,1	182,5	10,3	9,9	379,4
2002	57,2	124,7	186,6	11,5	10,0	389,9
2003	58,0	132,8	204,9	9,8	10,6	416,1
2004	59,5	135,9	212,6	10,2	9,4	427,6
2005 (forecast)	61,4	138,7	214,9	11,2	10,8	437,0
2006 (forecast)	62,9	136,6	217,3	10,6	10,9	438,5

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

**Diagram 2.2 Financial security for families and children, SEK billion in year 2004 prices<sup>1)</sup>**


\* Housing allowance has been administered by the Social Insurance Agency since 1994.

<sup>1)</sup> Forecast for the years 2005–2006.



Financial support for **families with children** increased by 86 per cent in fixed prices between 1985 and 1994. After that, a falling birth rate and various regulatory changes led to a drop in expenditure up to 1997. Since 1998, expenditure has once again risen, due in part to a rising birth rate, expanded parental insurance and higher child allowance. Nevertheless, the rate of increase is slower than before and expenditure for this benefit category in 2004 was still less, in fixed prices, than in the peak year of 1994.

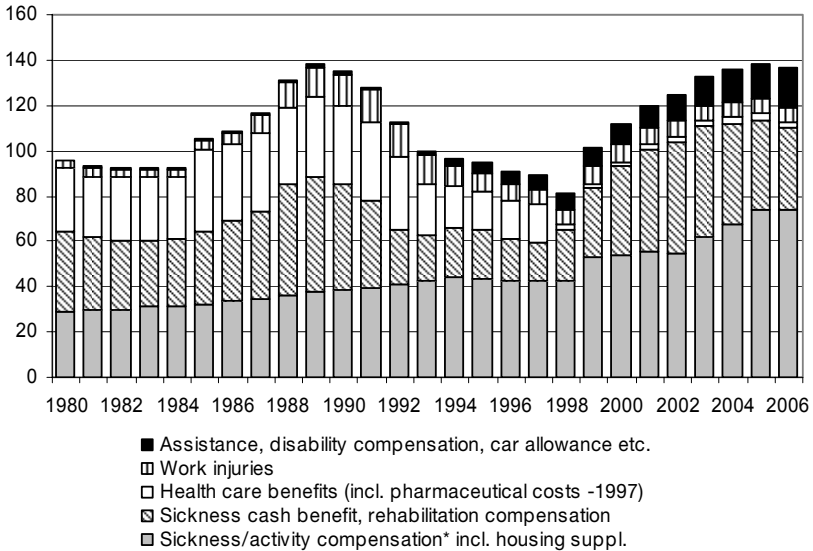
The increase in this benefit category is also due to the introduction of pension rights for childcare years as well as to the fact that since 1999 the national old-age pension contribution has been included under expenditure.

During the first half of the 1990s, parental insurance was the largest item of expenditure in the category of financial support to families with children. Insurance costs increased partly because the period of parental cash benefit was extended from 360 days to 450 days in 1989, and partly because the number of children born remained high. The drop in expenditure from the mid-1990s onwards was in turn a consequence of reduced benefit levels and a simultaneous fall in the number of births.

During the period 1996–2002, child allowance represented the largest item of expenditure within the category of financial support to families with children. Just over 1.7 million children are 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.

Extensive rule changes in 1997 designed to reduce insurance expenditure have appreciably reduced both expenditure and the number of households receiving housing allowance. With current economic developments, it is estimated that the number of households entitled to the benefit will remain more or less constant.

**Diagram 2.3 Financial security in case of sickness and disability, SEK billion in year 2004 prices <sup>1)</sup>**



\* Disability pension and temporary disability pension up to and including 2002.

<sup>1)</sup> Forecast for the years 2005–2006.

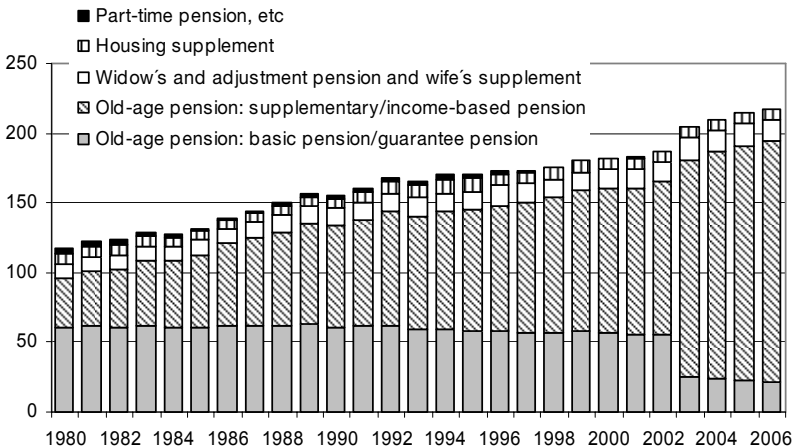
Total insurance expenditure for **sickness and disability** benefits rose steeply during the second half of the 1980s. In fixed prices, there was an increase of 50 per cent between 1984 and 1989. Thereafter, the level of expenditure fell sharply, by 40 per cent between 1989 and 1998. The main reason for the ups and downs in expenditure has been the dramatic fluctuations in expenditure 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 has subsequently continued due to the high incidence of sick leave. The increase in sick-listing and the consequent rise in expenditure for sickness cash benefit between 1997 and 2003 was in part merely a repeat of what happened during the second half of the 1980s. Sickness cash benefit expenditure

levelled out noticeably in 2003 and is expected to fall sharply during 2005 and 2006.

Meanwhile, however, there has been a trendwise increase in expenditure for disability pensions (as of 2003, sickness and activity compensation). Furthermore, the rate of increase has accelerated. During the 1980s, expenditure for disability pension (including BTP) rose by 2.9 per cent per annum on average in fixed prices. During the 1990s, the rate of increase was 3.5 per cent and during the period 2000–2004, this item of expenditure increased by 5.9 per cent per annum on average.

**Diagram 2.4 Financial security in old age, SEK billion in year 2004 prices <sup>1)</sup>**



<sup>1)</sup> Forecast for the years 2005–2006.

The growing number of old-age pensioners and successive increases in the value of the average pension means that expenditure for **old-age benefits** is constantly rising. Expenditure increased by 79 per cent between 1980 and 2004.

The costs for old-age benefits calculated in fixed money values have steadily increased since more and more people get progressively older and receive larger and larger pensions. The predominant item of ex-

penditure is old-age pension. In the old-age pension scheme, the income-related part (and formerly the ATP supplementary part) has increased while the guarantee pension part (and former basic pension part) has decreased.

Since 2003, the new old-age pensions system has been fully operational, though the phasing out of previous regulations will take several decades. The new scheme consists of income-based old-age pensions and guarantee pensions. In 2003, expenditure for old-age pensions rose sharply since guarantee pension is designed differently from the previous basic pension and increased expenditure burdens the income-based part of the old-age pension system. Since meanwhile the earlier basic deduction for pensioners was abolished, net payments after tax increased much more slowly. In 2004, payments for the income-based old-age pension increased by 4 per cent in fixed prices while expenditure for guarantee pensions fell by approximately 4 per cent.

Pension expenditure is expected to continue rising in the years to come, due partly to developments in prices and real wages and partly to the earned pension entitlements of new old-age pensioners. The guarantee pension share is expected to continue falling since expenditure on this in fixed prices is expected to fall by approximately 5 per cent annually while the income-based pension is expected to continue rising by approximately 4 per cent annually.

Expenditure for survivor's pensions increased in 2003 when the means test for widow's pensions was abolished and certain adjustments were made to the new old-age pensions system. In 2004, the increase of expenditure was moderate.

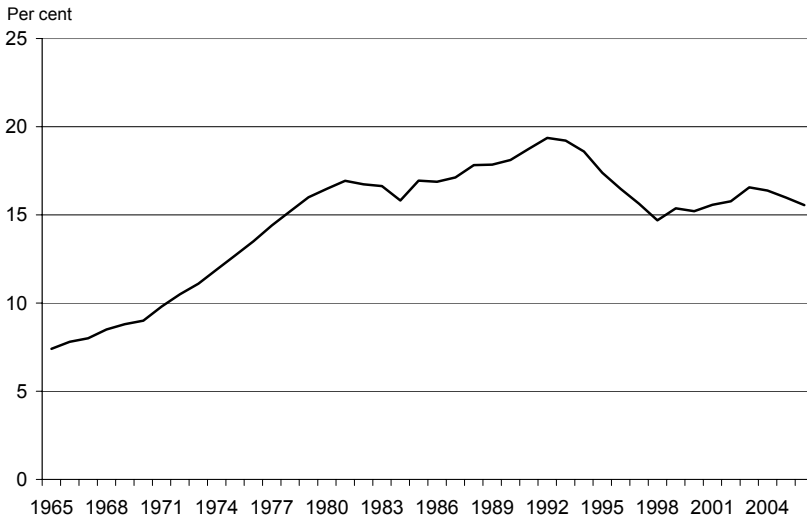
The part-time pension insurance scheme has been discontinued and has not been paid out since December 2004.

## 2.2 Social insurance's share of the economy

Payments from social insurance make up a significant part of the Swedish economy. Diagram 2.5 shows social insurance payments as a share of the gross national product (GNP) since 1965. During the 1980s, these payments grew continuously in relation to GNP. During the 1990s, several cost-cutting regulatory changes – reduced levels of

compensation, a sick pay period, and a qualifying day in sickness insurance – caused social insurance expenditure to shrink in relation to GNP. From 1998, however, it once again increased as a result of raised compensation levels and increasing sickness absence. In 2003, social insurance expenditure amounted to the equivalent of 16.5 per cent of GNP, the same level as at the start of the 1980s. Because expenditure increased much more slowly in 2004 and since economic growth is still relatively strong, social insurance payments dropped to the equivalent of 16.4 per cent of GNP. Because no cost-driving regulatory changes have been decided for the next few years, and because sickness absence is now declining, the social insurance share of the economy is also expected to decrease somewhat over the next two years.

**Diagram 2.5 Social insurance payments in relation to GNP<sup>1) 2)</sup>**



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

<sup>2)</sup> Forecast for the years 2005–2006.

As diagram 2.5 shows, the rate of increase during the 1960s and 1970s, when the ATP system was implemented and parental insurance was introduced, was even faster than in the 1980s. In this longer per-

spective, the social insurance share of the economy since the beginning of the 1980s has gone both up and down, revealing no clear long-term trend.

Expenditure in the social insurance system is dominated by payments to insured people. In 2004, transfers from social insurance to households amounted to SEK 391 billion, making up 81 per cent of total public transfers to Swedish households. Payments from unemployment insurance amounted to a further 7 per cent approximately<sup>5</sup>. The following table shows how social insurance's share of total transfers fell during the 1990s when payments of both unemployment allowance and social allowance noticeably increased. Since 1999, however, the share has once again expanded, due to greatly increased expenditure for sickness insurance and old-age pensions while unemployment benefits and financial support (formerly social allowance) have now decreased.

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<sup>5</sup> Transfers from the municipalities, study grants and financial support (formerly social allowance) account for the major part of other public transfers.

**Table 2.2** Transfers to households, SEK billion in year 2004 prices

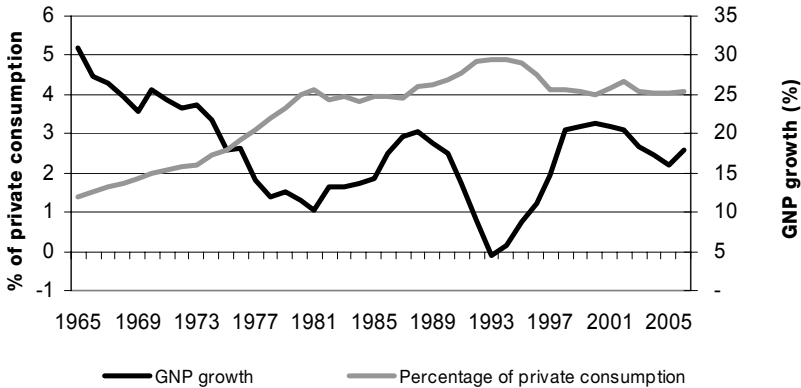
Year	Gross public transfers to households	Share (%) of the total		
		Social insurance	Unemployment insurance	Social allowance/Financial support
1980	273,1	82.1		
1985	299,9	80.0	3.7	
1990	370,4	84.1	2.3	
1991	385,5	82.7	3.8	
1992	417,1	77.8	6.8	
1993	422,5	75.4	11.0	5.1
1994	432,5	75.3	10.7	3.3
1995	422,4	75.8	10.5	3.2
1996	407,3	75.8	10.5	3.7
1997	406,3	74.7	9.9	3.7
1998	418,6	74.7	9.1	3.3
1999	427,2	76.4	8.2	3.1
2000	432,5	77.7	7.9	2.8
2001	434,2	79.9	5.7	2.6
2002	442,8	81.5	5.3	2.4
2003	468,3	81.8	6.1	2.2
2004	481,4	81.3	6.8	2.2
2005 (forecast)	490,6	81.4	6.2	2.1
2006 (forecast)	494,9	81.2	5.4	1.9

Up to the mid-1990s, social insurance payments to households represented an ever increasing proportion of individual household consumption. Peaking at just over 29 per cent during the 1993–1994 recession, the proportion sank to 25 per cent in 2000, rising somewhat subsequently.

In 2004, social insurance transfers corresponded to just over 25 per cent of household expenditure on consumption. The historical development of the significance of social insurance transfers for private consumption is illustrated by the following diagram. As social insurance grew relative to GNP, so it grew relative to total private consumption to the extent that it constituted a trend during the 1960s and 1970s.

In theory, a large social insurance sector may have both positive and negative effects on economic growth. High costs require high revenue from contributions or taxes, which may lead to so-called tax wedges. This is when there is a very large difference between what employers pay and employees take home as net income. Theoretically, high benefit levels may also reduce the incentive to do paid work. However, a comprehensive social insurance system may also provide a safety net facilitating entrepreneurship and reducing the risk of people becoming permanently marginalized as the result of structural changes.

**Diagram 2.6 Social insurance's net transfers to households as a proportion of private consumption and GNP growth** <sup>1) 2)</sup>



<sup>1)</sup> 5-yearly averages.

<sup>2)</sup> Forecast for the years 2005–2006.

A more clear-cut effect is that a social insurance system as comprehensive as that of Sweden exerts a certain stabilizing influence on the business cycle. In years of high growth, social insurance expenditure as a whole tends to drop in relation to private consumption, and vice-versa. With social insurance accounting for as much as one-quarter of private consumption, it clearly has a certain stabilising effect on the business cycle.

However, during the period prior to 1980, social insurance's growing share cannot be attributed to slower economic growth but was rather

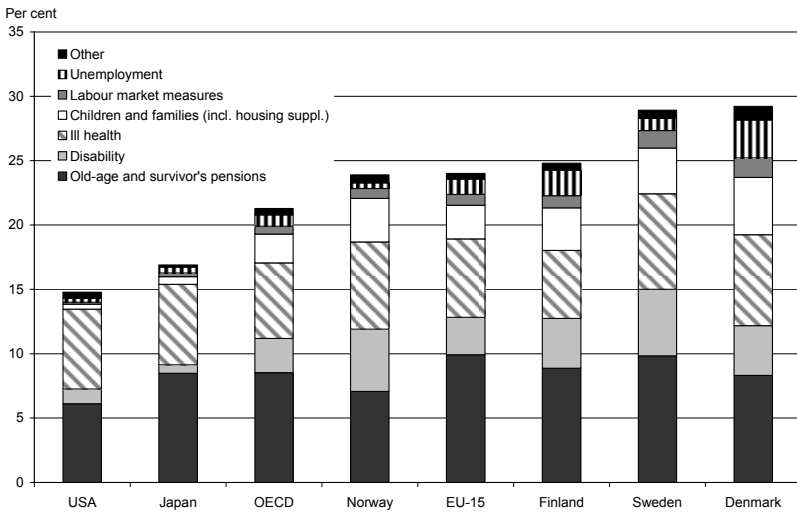


the result of the expansion of social insurance made possible in part by the rapid economic growth of the 1950s and 1960s.

### 2.3 Social insurance expenditure from an international perspective

International comparisons of the size of social insurance are rendered difficult by the fact that certain needs which in some countries are met via transfers to households can be met through direct services. For example, families with children may have the option of choosing a place in a subsidized daycare centre, a cash care allowance, or a combination of both. Therefore, the following diagram shows total so-called *social expenditure* reported by the Organisation for Economic Co-operation and Development, OECD.

**Diagram 2.7 Public social expenditure<sup>1)</sup> in relation to GNP in 2001**



<sup>1)</sup> Not only transfers.

Source: OECD (2004), Social Expenditure Database.

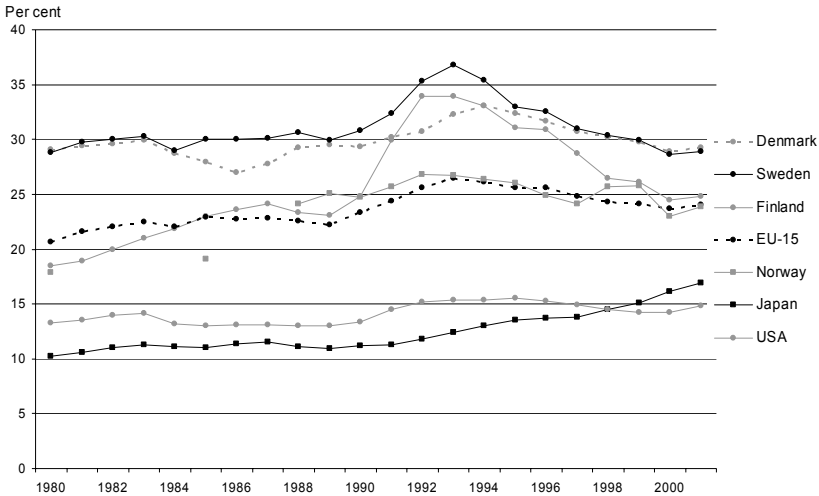
What these expenditure levels show is primarily the proportion of the population's needs met by public expenditure in each country. A lower proportion, as in the USA and Japan, is a sign that market solu-

tions, and sometimes the family, play a greater role in the creation of social security.

As regards total public social expenditure, Sweden and Denmark are among the highest in the EU (EU-15), which in turn spends much more than Japan and the USA. In Europe as a whole and Sweden in particular, public support for the disabled represents a much larger proportion of GNP than in Japan and the USA. Also, public support for children and families is considerably higher in Western Europe than in the USA and Japan. In this area, Sweden differs less from other European countries. The proportion of GNP that goes to the publicly financed health care sector (from sickness cash benefit to hospital) varies relatively little among OECD countries.

Sweden is also distinguished by its relatively low expenditure on unemployment benefit, especially in comparison with the internationally large share of GNP that goes to financing active labour market measures.

**Diagram 2.8 The development of public social expenditure in relation to GNP**



Source: OECD (2004), Social Expenditure Database

Viewed over a longer period, the differences between Western Europe on the one hand and the USA and Japan on the other have diminished over time. This applies particularly to Japan, where, among other things, an ageing population has led to a steady increase in public social expenditure. Both Sweden and Finland showed dramatic developments during the 1990s, with rapidly increasing social expenditure in relation to a falling GNP at the beginning of the decade and subsequently a steady decline due both to budget restrictions and to relatively positive economic growth over the past ten years.

### 3 How social insurance is financed

*In this chapter, we describe the various ways in which social insurance benefits are financed, the design of social insurance contributions, and payments in and out for those benefits financed through social insurance contributions.*

#### 3.1 Sources of finance for social insurance benefits

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 which are part of social insurance contributions, taxes<sup>6</sup> and yields 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

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<sup>6</sup> In this report, we refer to any social insurance benefits financed neither through contributions nor from AP funds as being “financed by tax revenue”. It is true that government income also stems 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

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.

There are a number of minor insurance schemes administered by the Social Insurance Agency which are financed with premiums, etc, and/or the yield from funds. These include voluntary pension, voluntary sickness insurance, road traffic injury annuities, voluntary work injury insurance, small-business insurances and seafarer's pensions.

Social insurance contributions are the major 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 covered by contributions varies according to insurance category and has changed over time.

The financial link 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 alongside each other as in more financially autonomous systems.

**Table 3.1 Social insurance income and expenditure in 2004**

SEK million	Income				Expenditure			Surplus/ deficit
	Contributions	National funds by law	Other	Total	Payments	Administration	Total	
Parental insurance <sup>1)</sup>	22,742	118	–	22,860	23,029	826	23,855	–995
Child allowance	–	20,974	–	20,974	20,873	101	20,974	–
Housing allowance to families with children, etc	–	3,951	–	3,951	3,614	337	3,951	–
Care allowance for disabled children	–	2,566	–	2,566	2,415	150	2,566	–
Maintenance support	–	2,411	1,941	4,352	3,968	384	4,352	–
Pension rights for childcare years	–	4,051	–	4,051	4,051	..	4,051	–
Sickness insurance <sup>2)</sup>	113,083	13,309	–	126,392	108,748	3,868	112,616	13,776 <sup>5)</sup>
Health care benefits	–	3,681	–	3,681	3,425	256	3,681	–
Disability allowance	–	1,293	–	1,293	1,205	87	1,293	–
Activity support	10,133	189	–	10,321	10,133	189	10,321	–
Work injuries	7,246	180	–	7,426	6,487	403	6,889	537
Car allowance	–	250	–	250	222	28	250	–
Assistance allowance	–	10,127	2,726	12,853	12,748	105	12,853	–
Old-age pension								
Via AP Fund	171,600	–	65,162	236,762	164,762	2,737	167,499	69,263
Via national budget <sup>3)</sup>	12,462	11,402	–	23,863	23,732	131	23,863	–
Premium Pens. scheme	20,021	–	–	20,021	42	221	263	..
Survivor's pensions	17,577	1,228	–	18,696	16,987	146	17,132	1,673
Housing supplement, BTP	–	11,359	–	11,359	10,964	396	11,359	–
Maintenance support for the elderly	–	594	–	594	587	6	594	–
Partial pension	–	37	–	37	37	1	37	–
Other benefits	46	127	72	245	218	27	245	–
Non-allocated admin <sup>4)</sup>	–	–1,021	–	–1,021	–	–1,021	–1,021	–
<b>Total for 2004</b>	<b>374,909</b>	<b>86,825</b>	<b>69,902</b>	<b>531,635</b>	<b>418,246</b>	<b>9,378</b>	<b>427,625</b>	<b>..</b>

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

<sup>2)</sup> Including sickness and rehabilitation cash benefit, sickness and activity compensation, pregnancy cash benefit and closely related person's allowance.

<sup>3)</sup> Including administrative costs for the social insurance offices.

<sup>4)</sup> Mainly changes in pension debt reported by the Social Insurance Agency.

<sup>5)</sup> The difference between incoming sickness insurance contributions and the statutory part of costs they are intended to finance.

In 2004, revenue from social insurance contributions, national old-age pension contributions and the general pension contribution amounted to SEK 375 billion. When interest and changing exchange rates, etc,

are included, the total becomes SEK 445 billion. The statutory proportion to be financed out of taxes was SEK 87 billion or just over 20 per cent of expenditure. Payments from municipalities, from people liable to pay maintenance, etc, amounted to just over one per cent. Favourable stock-exchange developments during 2004 meant that rate-of-exchange differences and interest, etc, from the National Pension Fund (the AP Fund) gave a plus of SEK 65 billion. As a result, income<sup>7</sup> exceeded expenditure by just over SEK 104 billion overall.

Among the types of insurance financed through contributions, sickness and work injury insurance and survivor's pensions gave a combined surplus during 2004 of SEK 16 billion. Meanwhile, parental insurance resulted in a deficit of SEK 1 billion.

Since revenues in the premium pension system – just over SEK 20 billion in 2004 – are reservations, it is not possible to state what proportion of total old-age pension expenditure is covered by revenue from contributions.

### 3.2 The design of social insurance contributions

Since 1999, the structure of social insurance contributions has remained virtually unchanged. The various rates applying to the seven types of social insurance contribution payable since that year are shown in Table 1. The contribution rates for company payroll tax and self-employed persons differ in regard to sickness insurance and labour market contributions.

There is a basic difference between the old-age pension system, which has defined contributions, and other types of insurance, which have defined benefits. The reformed old-age pension system is financed by various contributions paid by employers, self-employed persons, the state and private individuals. Such contributions are fixed, and pension payments are adjusted according to predetermined rules to what is possible in the light of available funds. For other types of insurance, the opposite applies: rates are adjusted if necessary to developments in

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<sup>7</sup> The statutory SEK 87 billion of expenditure to be financed by taxation has thus been entered here as income ("national funds by law") up to the corresponding amount.

expenditure. Moreover, the proportion to be covered by contributions varies according to the type of insurance.

**Table 3.2 Employer contribution and general contributions rates**

Contribution rate in %	1999	2000	2001	2002	2003	2004	2005
Old-age pension contrib. <sup>1)</sup>	6.4	10.21	10.21	10.21	10.21	10.21	10.21
Survivor's pension contrib. <sup>1)</sup>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Sickness insurance contrib.							
– Employer contribution	7.5	8.5	8.8	8.8	11.08	11.08	10.15
– Self-empl. Pers. contrib.	8.23	9.23	9.53	9.53	11.81	11.81	11.12
Parental insurance contrib. <sup>1)</sup>	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Work injury contrib. <sup>1)</sup>	1.38	1.38	1.38	1.38	0.68	0.68	0.68
Labour-market contribution							
– Employer contribution	5.84	5.84	5.84	5.84	3.7	3.7	4.45
– Self-empl. Pers. contrib.	3.3	3.3	3.3	3.3	1.16	1.16	1.91
General salary contrib. <sup>1)</sup>	8.04	3.09	2.69	2.69	3.25	3.13	3.07
Employer contribution: total	33.06	32.92	32.82	32.82	32.82	32.7	32.46
General contribution: total	31.25	31.11	31.01	31.01	31.01	30.89	30.89

<sup>1)</sup> Employer contribution and general contribution have the same contribution rate.

The table above summarises the contributions as statutory proportions of the contribution base. Over and above the contributions that finance social insurance, there is a labour-market contribution and a general salary contribution.

The contribution base for social insurance contributions is made up of total salaries for employees and earned income for self-employed people and is paid by the employer and the self-employed person respectively. The general contribution is paid by gainfully-employed persons. It is based on salaries and incomes such as sickness cash benefit, parental cash benefit, unemployment insurance, etc.

The years 1999 to 2001 saw many changes in contributions. In 1999, contributions for basic and part-time pensions were abolished and contributions for parental insurance and survivor's pension introduced. Contributions for sickness insurance and old-age pension have changed. Reductions and increases in contributions have been com-

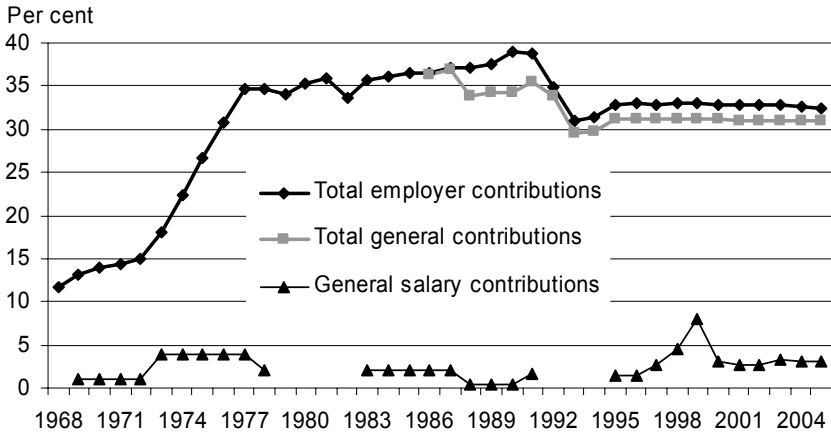
compensated for by corresponding increases and reductions in the general salary contribution.

In 2004, no changes were made in contribution rates for social insurance (the general salary contribution was, however, reduced somewhat) and the aggregate percentage rate for social insurance contributions remained unchanged between 2003 and 2004.

In 2005, changes were made in several contributions, for example, the sickness insurance contribution was reduced and in compensation, a new contribution was introduced – the special sickness insurance contribution. This is paid by the employer. The contribution base is full-time sickness cash benefit paid for employees.

Diagram 3.1 shows the development of employer contributions and general contributions from a longer perspective, starting in 1970.

**Diagram 3.1 Combined contribution rates for social insurance contributions 1970–2004**



Prior to 1988, the contribution level for self-employed persons (without qualifying days in sickness insurance) and for employers was virtually the same, except that the self-employed paid no employee protection contribution until 1986 (0.2 per cent). In 1988, there appeared for the first time a clear differentiation in contribution rates between employer contributions and general contributions. Between 1999 and



2004, the difference remained constant at 1.81 percentage units, after having peaked at 4.78 percentage units in 1990. In 1990, the overall contribution rate for employers reached an all-time high of 38.97 per cent. A total of twelve different social insurance contributions were payable during this year<sup>8</sup>.

Since 1995, there has been a marked stabilization of the total level of employer and general contributions. The general salary contribution, which has been payable off and on since the 1960s<sup>9</sup>, was re-introduced in 1995 and set in such a way that the total level of social insurance contributions has remained largely unchanged or has varied only marginally from year to year. Thus, adjustments to other contribution rates, fixed partly to meet cost developments in the benefits concerned, have not been reflected in overall income from contributions. As a result, income from contributions remains stable while the financial link between contributions and the benefits they are intended to finance has been weakened.

Further comments on developments are given in connection with tables 3.3–3.9.

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<sup>8</sup> Contributions for sickness insurance, basic pension, ATP, part-time pension, work injury, worker protection, labour market, wage guarantee, childcare, adult education, work environment and general salary contribution.

<sup>9</sup> During the 1960s and 1970s, the contribution was called the general employer contribution.

### 3.3 Parental insurance

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Parental insurance contribution	22,148	22,742	23,673	24,849
State funds	168	118	–	–
Total income	22,316	22,860	23,673	24,849
<b>Expenditure:</b>				
Parental cash benefit	15,690	17,240	18,681	20,270
Temporary parental cash benefit	3,915	3,671	3,998	4,206
National old-age pension contributions	1,946	2,118	2,207	2,319
Administration	896	826	855	882
Total expenditure	22,447	23,855	25,741	27,677
Part financed by contributions	22,279	23,737	25,741	27,677
Surplus/deficit for year	–131	–995	–2,068	–2,828
Contribution coverage	99 %	96 %	92 %	90 %

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 and are calculated to cover earned pension rights for these benefits. In 2004, insurance contributions fell short of expenditure by almost SEK 1 billion. If contribution rates remain unchanged, expenditure is expected to exceed income by almost SEK 3 billion in 2006.

### 3.4 Sickness insurance

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Sickness insurance contribution <sup>1)</sup>	108,278	113,083	110,823	115,352
State funds by statute <sup>2)</sup>	12,653	13,309	14,457	14,432
Total income	120,931	126,392	125,280	129,784
<b>Expenditure:</b>				
Sickness cash benefit and rehabilitation	43,704	39,321	35,861	33,217
Disability pension/sickness and activity compensation	50,060	54,135	57,223	59,112
Pregnancy cash benefit	381	398	426	450
Allowance for care of close relatives	65	69	74	79
Employment guarantee	14	16	19	20
National old-age pension contributions	13,288	14,808	16,621	15,547
Administration	3,724	3,868	4,662	4,811
Total expenditure	111,236	112,616	114,886	113,236
Total financed by contributions according to the rules	98,583	99,307	100,429	98,805
Surplus <sup>3)</sup>	9 695	13 776	10 394	16 547
Contribution coverage	110 %	114 %	110 %	117 %

<sup>1)</sup> Including the special sickness insurance contribution as of 2005.

<sup>2)</sup> Expenditure not financed by contributions.

<sup>3)</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. Guarantee benefits are financed by taxation. The contribution also finances national old-age pension contributions for the above benefits.

Since there is no rule saying that the sickness insurance contribution must finance these benefits in their entirety, no real deficit can arise.

As a result of the sickness insurance contribution rate being raised from 2003 onwards, revenue from contributions exceeded contribution-financed expenditure by approximately SEK 10 billion annually in 2003 and 2004. Given unchanged contribution rates, this surplus is expected to continue rising from 2006 onwards.

### 3.5 Work injury insurance

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

SEK billion	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Work injury insurance contribution	7,665	7,246	7,317	7,680
State funds	196	180	186	180
Total income	7,861	7,426	7,503	7,860
<b>Expenditure:</b>				
Compensation to insured persons	5,984	6,051	6,056	6,138
National old-age pension contributions	386	435	390	415
Administration	394	403	486	501
Total expenditure	6,765	6,889	6,932	7,054
Part financed by contributions	6,569	6,709	6,746	6,874
Surplus for year	1,096	537	571	806
Contribution coverage	117 %	108 %	108 %	112 %

The work injury insurance contribution finances compensation payments under the Work Injury Insurance Act and corresponding earlier benefits as well as the major part of the administration for these. The contribution also finances national old-age pension contributions for paid-out work injury annuities, etc. In addition, compensation payments under the Employee Protection Law are included in expenditure. These are financed via the national budget. Some forms of compensation are paid by former public enterprises in accordance with older regulations. This too is shown in the table as being financed by 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. The surplus has been used to repay the earlier debt, which was repaid in its entirety in 2000. The reduced work injury contribution has led to a smaller surplus since 2003. In 2004, the surplus was just over SEK ½ billion.

### 3.6 Survivor's pension

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Survivor's pension contribution	17,115	17,577	18,297	19,205
State funds	1,114	1,228	1,189	1,135
Total income	18,229	18,805	19,486	20,340
<b>Expenditure:</b>				
Survivor's pensions	16,656	16,987	16,931	16,908
Administration	74	146	174	182
Total expenditure	16,730	17,132	17,105	17,090
Part financed by contributions	15,617	15,904	15,917	15,956
Surplus for year	1,498	1,673	2,380	3,249
Contribution coverage	110 %	111 %	115 %	120 %

The work injury insurance contribution formerly financed child pension, widow's pension, adjustment pension, etc. Since 2003, it only finances income-based survivor's pension. Guarantee pension for widow's pension and adjustment pension as well as surviving children's allowance are financed from taxation. In addition, the greater part of the administrative costs for these benefits is financed by the contribution.

The contribution has more than adequately covered expenditure for survivor's pensions and is expected to exceed income-based survivor's pensions in the next few years.

### 3.7 The old-age pension system

Contributions to the old-age pension system are fixed at 18.5 per cent of the income base and are payable in three different ways. The contribution from income is divided into a social insurance contribution of 10.21 per cent, called the 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 incur a national old-age pension contribution paid from the national budget to the national old-age pension scheme. Generally, 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.

Old-age pension contributions from employers and self-employed persons are shared between the AP Fund, the premium pension scheme and the national budget. General pension contributions go entirely to the AP Fund. National old-age pension contributions are shared between the AP Fund and the premium pension system.

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

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

SEK million	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Old-age pension contribution to AP Fund	165,107	171,600	180,120	185,239
Social insurance contribution	72,423	73,421	77,795	80,805
General pension contribution	69,957	72,287	74,762	77,259
National old-age pension contrib.	21,817	24,004	26,519	26,031
Adjustment of contributions	910	1,888	1,044	1,145
Market price differences and interest, etc	82,059	65,162	44,341	46,264
Total "net" income for AP Fund	247,166	236,762	224,461	231,503
<b>Expenditure:</b>				
Pension payments from AP Fund	155,410	162,783	169,019	176,216
Supplementary pension	154,103	159,217	162,573	166,145
Income pension	1,307	3,566	6,446	10,071
Special adjustments	0	1,600	0	0
Transfers to the EU	0	379	86	0
AP Fund administration and compensation for costs.	2 359	2,737	2,729	2,761
Total expenditure	157,769	167,499	171,834	178,977
Surplus/deficit for year	89,397	69,263	52,627	52,526
Contribution coverage	105 %	104 %	105 %	103 %
Fund balance 31 December	576,937	646,200	698,827	751,353

The new old-age pension system is separate from disability pension and survivor's pension. Up to and including 2002, the AP Fund financed old-age pensions from the supplementary pension scheme (ATP) as well as basic old-age pensions for people in the ATP scheme. As of 2001, the new income-pension and supplementary-pension benefits are also financed from the fund.

AP Fund revenue consists of social insurance contributions, general pension contributions and yield on investments. The fund also re-

ceives national old-age pension contributions from various allocations in the national budget.

Market value is used for reporting the balance of the AP Fund. Positive stock exchange developments in 2004 and the fact that contributions exceeded expenditure by SEK 4.1 billion produced a surplus of just over SEK 69 billion. It is estimated that the current distribution of contributions will cover expenditure for the next few years.

For salaried employees in the European communities, the value of pension rights may be transferred from the AP Fund and premium pension scheme to the EU occupational pension scheme or vice versa.

In 2004, the AP Fund was debited with SEK 1.6 billion in 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	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Old-age pension contributions to the premium pension system	20,267	20,021	24,039	25,453
<b>Expenditure:</b>				
Paid premium pensions	11	42	104	197
Reservations (net)	19,971	19,758	23,638	24,955
Administration	285	221	297	301
Total expenditure	20,267	20,021	24,039	25,453

A portion 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, 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	2003	2004	2005 forecast	2006 forecast
<b>Income:</b>				
Old-age pension contributions to the national budget	12,515	12,462	11,502	11,611
State funds	12,241	11,402	11,168	9,991
Total income	24,756	23,863	22,670	21,602
<b>Expenditure:</b>				
Guarantee pensions	24,607	23,714	22,522	21,461
Other basic pensions with supplementary benefits	18	18	18	18
Administration <sup>1)</sup>	130	131	130	123
Total expenditure	24,756	23,863	22,670	21,602
Contribution coverage	51 %	52 %	51 %	54 %

<sup>1)</sup> Including the social insurance offices during 2003–2004.

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

Old-age pension contribution above the income ceiling is transferred to the national budget. It has not been stipulated by law what this contribution is to finance. However, it is estimated that after 2004 this part of the old-age pension contribution will correspond to just over 50 per cent of expenditure for guarantee pension, etc, that is, the part of the old-age pension system financed from the national budget.

