

The Scope and Financing of Social Insurance in Sweden 2005–2008

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Information Kent-Rune Sjöholm
08-786 92 24
kent-rune.sjoholm@forsakringskassan.se

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Internet: www.forsakringskassan.se

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Overview

In 2006, Swedish social insurance expenditure totalled SEK 447 billion. Net payments to households accounted for SEK 314 billion, health care benefits for just under SEK 3 billion, preliminary tax payments for SEK 95 billion, national old-age pension contribution payments for SEK 23 billion and administration for SEK 11 billion. Expenditure rose by SEK 12 billion between 2005 and 2006. This is SEK 4 billion higher than in the previous year but it confirms at the same time that the previously rapidly increasing costs for ill health have now levelled out. During 2007 and 2008, expenditure is estimated to rise by SEK 8 or SEK 15 billion annually respectively, given the current regulatory framework, due mainly to increased expenditure for income pension for old-age pensioners. Expenditure is expected to remain largely unchanged in fixed prices until 2008.

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 changes in rules 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 GDP, social insurance payments fell for the third consecutive year to 15.4 per cent in 2006, after having risen from just under 15 per cent in 1998 to a peak of 16.4 per cent in 2003. During 2007–2008, expenditure is expected to continue to fall to under 15 per cent of GDP.

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 the Riksdag, the Swedish Parliament. Of every SEK 100 spent on private consumption, almost a quarter came from social insurance benefits in 2006.

Among Nordic (though not EU) countries, Sweden is the one that redistributes the largest share of GDP 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 GDP.

Benefits are financed through social insurance contributions, general pension contributions, taxes and yield from investment funds. In 2006, income from contributions covered over 90 per cent of total expenditure.

The forecasts presented here are based on the budget documentation submitted to the Government by the Swedish Social Insurance Agency – Försäkringskassan – in February 2007.

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 just over 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 Försäkringskassan. At present, just over 7.3 million people fit this description. In addition, 78,700 persons resident abroad received an old-age pension from Swedish social insurance in 2006. 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 Försäkringskassan in February 2007. 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 Försäkringskassan 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 assistance). 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 Bill and elsewhere. Sections 1 and 2 dealing with social insurance expenditure follow this arrangement. Section 3, dealing with financing, follows a different plan.

Since financial reporting from Försäkringskassan is not broken down according to gender, this report cannot differentiate between conditions for men and women. During 2006, however, Försäkringskassan has looked into the possibility of developing gender-specific statistics and forecasts and the matter is being prepared at present in the Ministry of Health and Social Affairs.

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 breakdown 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.

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 GDP. The figures that form the basis of the report, expressed in current and fixed prices, may be downloaded from Försäkringskassan's website: <http://www.forsakringskassan.se/omfk/socialforsakringen/>

Expenditures are reported in local currency, the Swedish krona – SEK. The rate of exchange in 2006 was (approximately) SEK 1 = 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	Childcare allowance
Pregnancy benefit	Maintenance support
Parental benefit	Pension entitlement for childcare years
Temporary parental benefit	Child pension, etc
Child allowance	Adoption allowance
Housing allowance for families with children, etc.	

Financial security in case of sickness and disability

An operational goal for Försäkringskassan is that the incapacity rate should not exceed 37.0 by December 2008.

The aim of disability policy is to 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 benefit	Housing supplement
Rehabilitation benefit, etc	Disability allowance
Benefit for care of closely related persons	Work injury compensation
Sickness and activity compensation	Annuities
Employment of certain persons with sickness / activity compensation	Sickness benefit, etc
Medical care, international care	Car allowance for the disabled
Dental care	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	Survivor's pension
Income-based pension	Widow's pension
Guarantee pension	Adjustment pension
Maintenance support for the elderly	Housing supplement for pensioners

Other payments

Activity support	Small-business insurance
Compensation to conscripts	Disease-carrier's allowance, etc

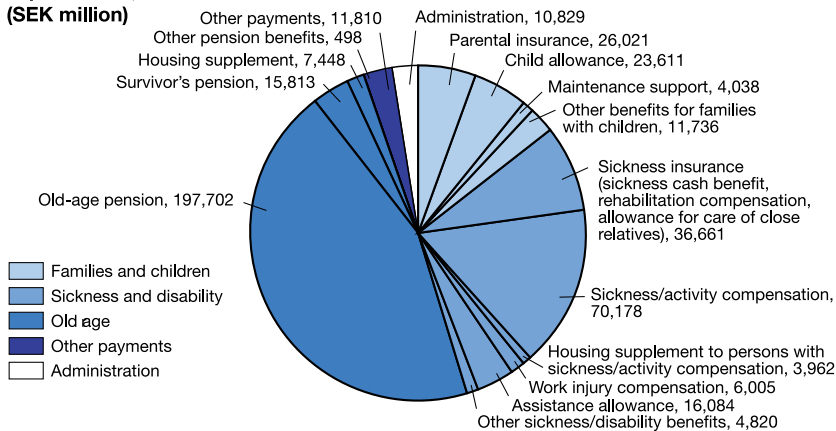
1 Social insurance expenditure 2005–2008

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 2006

In 2006, half of expenditure consisted of payments to old-age pensioners and almost one-third went to compensation for, and the costs of ill health.

Shares of expenditures, 2006 (SEK million)



Out of a total expenditure of SEK 447 billion, SEK 410 billion – or 91.5 per cent – consisted of transfers to households. National old-age pension contributions including pension rights for childcare years made up 5.2 per cent and around 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, over SEK 93 billion was deducted as preliminary tax so that a net total of SEK 316 billion was paid out to households.

1.2 Observed / predicted development 2005–2008

Payments from social insurance increased between the end of the 1990s and 2004 by approximately 3 per cent annually in fixed prices¹. 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 sickness². In addition, payments to pensioners show a steady increase.

In 2006, insurance expenditure including administration totalled just over SEK 448 billion. This increase of SEK 12 billion in current prices compared with the preceding year represents an increase of 1.4 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 for table 2.1 which shows direct transfers to households³. In total, national old-age contributions paid into social insurance amounted to over SEK 23 billion in 2006 and is expected to decrease to SEK 21 billion in 2007.

The Swedish Social Insurance Agency estimates that expenditure under current regulations will increase much more slowly during the period 2007–2008 than during the early years of the twenty-first century. Compared with 2006, the Agency forecasts an increase of the expenditures by SEK 3.6 billion (0.8 per cent) in 2007 and by SEK 13.8 billion in 2008. Increases are expected to be due to rising costs for old-age pensions primarily.

¹ 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.

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

³ 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.

Table 1.1 Social insurance expenditure in current prices

SEK million	2005		2006		2007 forecast		2008 forecast	
	Expend.	Share, %	Expend.	Share, %	Expend.	Share, %	Expend.	Share, %
Financial security for families and children	60,949	14.0	65,406	14.6	67,364	14.9	69,097	14.9
In sickness and disability	137,486	31.6	137,710	30.8	135,838	29.9	138,092	29.7
In old age, etc	215,406	49.5	221,460	49.5	230,025	51.0	241,622	52.0
Other payments	11,583	2.7	11,810	2.6	8,056	1.8	5,556	1.2
Administration	9,855	2.3	10,829	2.4	10,617	2.4	10,357	2.2
Total	435,280	100	447,216	100	450,900	100	464,723	100
In relation to GDP (%)	16.3		15.8		15.0		14.7	

However, social insurance regulations may be revised in the coming years. Both dental insurance and assistance allowance are being reviewed. *The Dental Care Commission has presented a proposal while investigation of assistance allowance has been broadened and extended.* Regulatory changes in line with the ambition expressed in the directive to the commission are likely to 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	2005	2006	2007 forecast	2008 forecast
Parental insurance	21,878	23,698	25,643	27,310
plus old-age pension contribution	2,250	2,322	2,513	2,676
No. of paid days, million ¹⁾				
Parental benefit	43	43	45	46
Temporary parental benefit	5	6	5	5
Pregnancy benefit	1	1	1	1
Child allowance	21,460	23,611	23,464	23,270
children aged 0–15, 000s	1,691	1,674	1,656	1,641
Housing allowance for families with children and for young people	3,605	3,598	3,440	3,363
households, 000s	273	264	252	246
Childcare allowance (for disabled children)	2,319	2,393	2,454	2,515
plus old-age pension contribution	222	232	240	231
recipients, 000s in December	37	37	38	39
Maintenance support	3,811	4,038	3,971	3,937
children, 000s in December	292	2,866	285	282
Child pension, etc	1,048	1,027	1,013	1,001
Income-based child pension	942	918	901	885
Surviving children's allowance	106	109	112	116
Child pension, 000s in December				
Income-based pension	28	28	28	27
Surviving children's allowance	8	8	8	9
Pension rights for childcare years	4,319	4,452	4,592	4,759
Adoption allowance	39	35	35	35
Total SEK million	60,949	65,406	67,364	69,097
In relation to GDP (%)	2.3	2.3	2.2	2.2

¹⁾ Calculated as whole days.

Parental insurance and child allowance dominate financial aid to families with children. In 2006, these two benefits together accounted for 76 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 slightly over SEK 7 billion in 2006.

Parental insurance consists of parental benefit, temporary parental benefit and pregnancy benefit and 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 benefit is the most comprehensive benefit in the parental insurance scheme. In 2006, it accounted for over 79.9 per cent of expenditure and 86.7 per cent of all days paid. Temporary parental benefit refers to compensation for temporary care of children in various situations. It accounted for 18.3 per cent of the expenditure and 11.4 per cent of all parental benefit days. The smallest of the benefits is pregnancy benefit, which accounted for almost two per cent of expenditure and of days paid.

Of all parental insurance days paid out in 2006, 77 per cent were claimed by women and 23 per cent by men. Of the expenditure, 71 per cent went to women and 29 per cent to men. The average daily payment for women was SEK 437 and for men SEK 597.⁴

The steep upward trend in the number of paid days with parental benefit extending 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 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 2006, fathers claimed 20.6 per cent of all parental benefit days and 45 per cent of the days with temporary benefit for the care of children. This proportion may seem high although this is because it includes “father’s days” at the time of the child’s birth, a benefit which is accordingly paid to men. The proportion of fathers claiming benefit for care of children was 37 per cent. The proportion of fathers claiming parental benefit days, which remained relatively static at around 10 percentage points 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 benefit at a level equivalent to sickness benefit had a sickness-benefit-qualifying income level above the ceiling for parental insurance in 2005. The income ceiling was raised on 1 July 2006 from 7.5 to 10 base amounts⁵. Average payments then started to rise at a rate more closely related to the average income trend. For temporary parental benefit and pregnancy benefit, this increase in the income

⁴ Note that pregnancy 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.

⁵ One price base amount (prisbasbelopp) = SEK 39,700 in 2006 and SEK 40,300 in 2007.

ceiling only applied to the latter half of 2006 and the income ceiling for these benefits was restored to 7.5 price base amounts from January 2007. However, the increase in the income ceiling to 10 price amounts remains in force for parental benefit even after 1 January 2007.

The aim of the *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 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 led to an increase in expenditure of just over SEK 2.1 billion despite a decrease of 13,000 in the number of children aged between 0 and 16. 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.

Childcare 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 childcare allowance has been raised from 16 years to 19 years.

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

The number of children receiving childcare allowance continued to increase throughout 2006. In December 2003, the number was just over 38,700. In December 2005, it had increased to almost 42,500, and in December 2006 to over 43,200. 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 over 4,900 in December 2005 and to just over 5,400 in December 2006.

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

Maintenance support is designed to guarantee a child half its need of support in cases where the parent responsible for paying child support 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 child support fails to pay, or pays less than the maintenance support amount. 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 child support 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 lives alternately with both parents.

Expenditure for maintenance support (gross payments before repayment by those liable to pay child support) 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 divorced 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 Försäkringskassan.

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

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

In 2003, the rules governing child pension were changed in order to harmonise them with the new pension system. The reformed child pension is largely income-based. In 2006, the number of child pensions was just under 28,000. The number of child pensions is estimated to decrease slightly during 2007–2008.

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 *pensionable 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 pensionable 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 pensionable 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 date of birth of the child). The law also applies retroactively from 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 rate.

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 2007 and onwards.

1.4 Financial security – sickness and disability

Table 1.3 Financial security in case of sickness and disability

SEK billion	2005	2006	2007 forecast	2008 forecast
Sickness insurance	39,042	36,661	33,371	34,389
Sickness benefit	32,479	30,886	28,663	29,281
Rehabilitation compensation	2,751	2,331	2,390	2,425
Care of close related persons	72	74	78	83
Old-age pension contribution	3,740	3,370	2,240	2,601
Sickness benefit days, millions ¹⁾	67	61	57	57
Rehabilitation days, millions ¹⁾	4	3	3	3
Health care benefits	2,743	3,384	3,464	3,560
Dental care	2,426	2,999	2,995	3,151
Med. care, international	317	385	468	409
Sickness/activity compensation	69,653	70,178	68,503	68,838
Activity compensation	1,261	1,545	1,762	1,848
Sickness compensation	55,531	55,947	56,212	56,380
Old-age pension comp.	12,840	12,655	10,495	10,576
recipients, 000s in Dec				
Activity compensation	17	19	20	21
Sickness compensation	537	536	532	527
Employment guarantee ²⁾	22	32	33	34
Housing supplement to persons with sickness / activity comp.	3,837	3,962	4,083	4,186
recipients, 000s in Dec	134	136	137	138
Disability allowance	1,173	1,171	1,194	1,221
recipients, 000s in Dec	61	61	62	62
Work injury compensation	6,347	6,005	5,941	5,671
Payments	5,957	5,581	5,452	5,272
Old-age pension contribution	390	424	489	399
Annuities, 000s	139	132	126	120
Car allowance	347	257	249	229
Assistance allowance	14,335	16,084	18,026	19,991
recipients, 000s in Dec	13	14	15	15
Other benefits	9	8	7	7
Total SEKm	137,486	137,710	134,838	138,092
in relation to GDP (%)	5.1	4.9	4.5	4.4

¹⁾ Counted as whole days.²⁾ Costs for employment of certain persons with activity or sickness compensation.

Sickness 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 benefit, the sick pay period (during which sick pay is paid by

the employer) was introduced, the length of which has been altered on a number of occasions.

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-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. The special social insurance contribution was charged in 2005 and 2006 but has been terminated from 1 January 2007.

Expenditure for sickness benefit has fluctuated sharply 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 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 benefit for employees are all likely to have been contributory factors in reducing expenditure for sickness 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 benefit fell by 11 million in 2005 compared with the preceding year and by 6 million in 2006. During the period 2007–2010, a further slight decline in the number of net days with sickness benefit is expected to the level of 57 million net days. This can be compared with 44 million net days in 1996.

The average payment will decrease in 2007 as a result of the lowering of the income ceiling and subsequently increase again as real wages rise. In current prices, expenditure on sickness benefit is expected to fall from SEK 30.9 billion in 2006 to SEK 28.7 billion in 2007 to subsequently rise to SEK 30.4 billion in 2010. Expressed in fixed prices, expenditure for sickness benefit is nevertheless expected to decrease by approximately 10 per cent between 2006 and 2010.

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

Expenditure for rehabilitation benefit increased over a number of years, as did the number of days claimed, but fell sharply in 2005 and 2006. During the next few years, it is anticipated that insurance costs for rehabilitation allowance will fall, although at a slower rate than expenditure for sickness benefit.

Sickness insurance also includes the **allowance for care of closely related persons** for people who give up paid work to care for a closely related person who is seriously ill. The allowance 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 2006, the average number of days per person cared for was approximately 11. Women care for close relatives to a greater extent than men. In 2006, the benefit was paid to 9,891 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. On 1 July 2002, the rules were changed for patients aged 65 or over. The level of compensation for basic dental care was raised and a high-cost protection was introduced for dental prosthetics (at present SEK 7,700). As a result, expenditure on dental care insurance increased from SEK 1.6 billion in 2002 to SEK 2.6 billion in 2003 and SEK 3.1 billion in 2004. In 2005, expenditure fell by just over 20 per cent due to streamlined accounting procedures. Expenditure on dental care insurance totalled SEK 3 billion in 2006 and is expected to remain at the same level in 2007. Under current regulations, expenditure is expected to be around SEK 3.1 billion in 2008 and 2009. However, the government has announced its intention to implement a dental care reform in 2008. It is assumed that the coming Riksdag resolution will be based on the proposals submitted by the committee of enquiry into new dental care assistance for adults (the Dental Care Commission).

The Dental Care Commission has reviewed dental care insurance and submitted its final report in March 2007.⁶ The commission recommends that a dental care

⁶ "Friskare tänder – till rimliga kostnader" (SOU 2007:19).

cheque be introduced which can be used for part payment in visits to a dentist or dental hygienist of one's choice every other year or as part payment for contractual dental care. The commission also proposes that there be a high-cost protection that pays 50 per cent of the patient's costs between SEK 3,000 and SEK 15,000 and 85 per cent of costs exceeding SEK 15,000. Government expenditure on dental care assistance has been estimated at SEK 5.9 billion annually in the commission's main alternative, of which SEK 1.1 billion is for the dental care cheque and SEK 4.8 billion for the high-cost protection.

Due 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 385 million in 2006. 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 a number of years. In December 2006, recipients of sickness or activity compensation numbered 555,000, approximately 1,200 more than in the preceding year. The increase was larger between 2004 and 2005, 14,000 persons. The increase was due in both cases primarily to large numbers of people on long-term sick leave transferring to sickness or activity compensation. The fact that the increase of recent years has come to an end is due to the reduced number of long-term sick-listed people, resulting in fewer new recipients of sickness or activity compen-

sation. The number of recipients of sickness or activity compensation is estimated to be around 545,000 during the period 2007–2010.

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 2006, the amount paid out was SEK 32 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 2005 and 2006, 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 2006, 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 2005–2006, expenditure fell slightly since the lower age limit for this benefit was raised in 2003 from 16 to 19. The benefit was paid out on average to 61,000 people. During 2007, the number of disability allowances is expected to increase only slowly since the effect of the transitional provisions will no longer be felt. 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 sharply during the 1990s due to

changes in the rules. During 2002 and 2003, several regulatory changes were introduced, which may entail increased expenditure in the long-term.

The number of annuities dropped in 2005 and 2006. The number of annuities is expected to continue to decline in the next few years. Expenditure is also expected to fall.

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 2006, car allowances were paid out to a value of SEK 257 million. Basic allowance was paid to 1,935 people and adaptation allowances to 1,762. Required funds for 2007 are estimated to amount to SEK 249 million. Available funds, including supplementary appropriations and appropriation credit, amount to SEK 243 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 2006, just over 14,000 persons on average received assistance allowance for on average 100 hours a week. Total expenditure was SEK 16,084 million, of which the municipalities contributed SEK 3,202 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.

A parliamentary committee of enquiry, the Assistance Commission, was appointed in 2004. Its terms of reference were to make a broad review of the laws (the Assistance Allowance Act and the Act on Support and Service for Persons with Certain Functional Impairments) concerning personal assistance, investigate the causes of the rapid rise in expenditure and propose changes in rules which could dampen this increase. Since 2006, its terms of reference have included a review of the whole of the Act on Support and Service for Persons with Certain Functional Impairments. The commission is to submit its final report at the latest by 31 March 2008.

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

1.5 Financial security in old age

Table 1.4 Financial security in old age

SEK million	2005	2006	2007 forecast	2008 forecast
Old-age pension	191,623	197,702	206,383	217,989
Income-based pension	169,175	176,363	185,947	198,423
Guarantee pension	22,448	21,339	20,436	19,566
Recipients, 000s in Dec				
Income-based	1,506	1,543	1,593	1,652
Guarantee pension	846	828	816	808
Transfers to EU	58	25	36	37
Widow's pension	15,281	15,200	15,121	15,108
Income-based widow's pension	14,517	14,497	14,496	14,567
Guarantee pension	764	703	625	541
Recipients, 000s in Dec				
Income-based widow's pension	368	362	356	350
Guarantee pension	33	30	26	21
Adjustment pension	574	613	638	677
Income-based adjustment p.	399	438	466	506
Guarantee pension	175	175	172	171
Recipients, 000s in Dec				
Income-based adjustment p.	6	7	7	7
Guarantee pension	6	6	6	6
Housing supplement to old-age pension, etc	7,333	7,448	7,411	7,378
Recipients, 000s in Dec	295	288	283	276
Maintenance support for the elderly	483	419	385	381
Recipients, 000s in Dec	11	10	10	11
Partial pension	-4	0	-1	0
Payments	0	0	0	0
Old-age pension contribution	-4	0	-1	0
Recipients, 000s in Dec	0	0	0	0
Other pensions	58	53	52	51
Total, SEKm	215,406	221,460	230,024	241,622
In relation to GDP (%)	8.1	7.8	7.6	7.6

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 basic 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 the past three years (2004 to 2006), payments of old age pension have increased by around 3 per cent annually.

Expenditure for income-based pensions is increasing while expenditure for guarantee pensions is decreasing. 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. Harmonisation 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 corresponds 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.

Expenditure for widow's pensions decreased slightly in current prices both in 2005 and 2006 and the reduction in expenditure is expected to continue to fall in fixed prices.

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.

The number of adjustment pensions is expected to increase until 2010 due to certain transitional rules. Expenditure for survivor's pension is also expected to increase.

Housing supplement for old-age pensioners is a means-tested allowance intended to cover the major part of accommodation costs, though not more than 93 per cent of SEK 5,000. 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 older 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 2006, the ceiling for maximum accommodation costs was raised from SEK 4,670 to SEK 4,850 and in 2007, to SEK 5,000.

The compensation level was raised in 2006 from 91 to 93 per cent of the accommodation cost.

Expenditure decreased in 2005 and 2006 as part of the long-term development.

Of old-age pensioners receiving housing supplement in 2006, 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 aged 65 and over whose basic 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 2006, SEK 419 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 2006, 52 per cent were women and 55 per cent were single.

Partial pension could formerly be granted to people aged between 61 and 64. The system has now been phased out. The last partial 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	2005	2006	2007 forecast	2008 forecast
Activity support	11,515	11,755	8,000	5,500
Daily benefit to conscripts, etc	4	3	3	3
Family allowance to conscripts	37	28	29	29
Other	28	24	24	24
Total, SEKm	11,583	11,810	8,056	5,556
In relation to GDP (%)	0.4	0.4	0.3	0.2

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. Försäkringskassan 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, and disease carrier's allowance.

1.7 Administration

Table 1.6 Expenditure for social insurance administration

SEK million	2005	2006	2007 forecast	2008 forecast
Försäkringskassan ¹⁾	8,465	9,251	9,128	8,772
First National Pension (AP) Fund	858	880	916	948
Premium Pension Authority (PPM)	252	296	286	291
The Swedish Tax Agency, etc	279	403	287	346
Total, SEKm	9,855	10,829	10,617	10,357
In relation to GDP (%)	0.4	0.4	0.4	0.3
Administration's share of insurance expenditure, %	2.3	2.4	2.4	2.2

¹⁾ Including changes to estimated pension debt for 2004 and excluding the Medical Insurance Centre (FMC) and the Stress Institute.

The activities of Försäkringskassan are financed primarily through budget appropriations but in part through contributions.

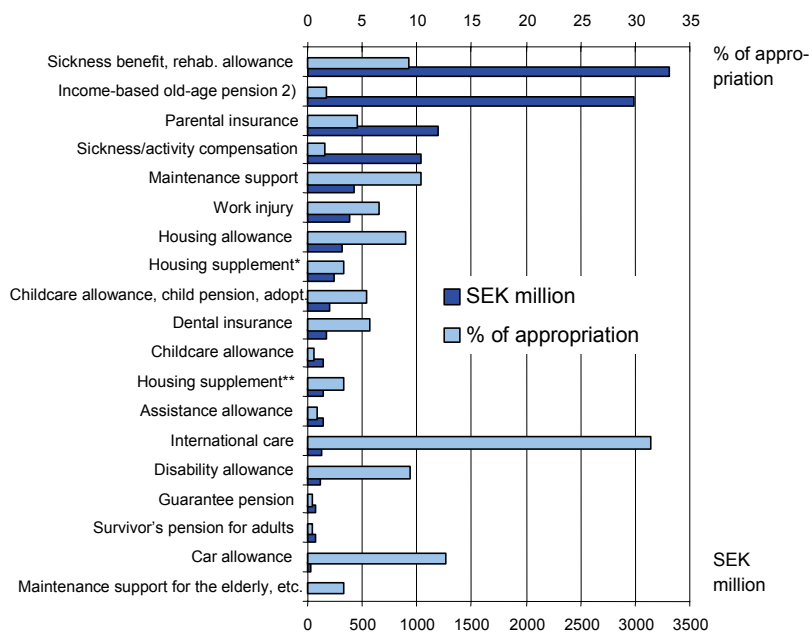
Between 2000 and 2003, costs for the AP funds more than doubled, partly because of new opportunities for investment introduced in 2001 leading to more extensive portfolio administration. Since 2005, commission costs have been included as an integrated part of the calculation of the net yield of the AP funds. These were previously reported separately as part of the funds' management costs.

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

In 2006, the administrative share of expenditure was 2.4 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 Swedish Tax Agency is included, the cost of administration for old-age pension amounted to almost SEK 2.9 billion in 2006, which corresponds to 1.7 per cent of the amount paid out. Administrative costs for sickness benefit and rehabilitation allowance amounted to almost SEK 3.3 billion, or over 9 per cent of the amount paid out. Parental insurance cost over SEK 1 billion, or 4.5 per cent of the amount paid out, 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.

Figure 1.1 Administrative costs in 2006 broken down by benefit¹⁾



* Old-age pensioners.

** Persons with sickness or activity compensation.

¹⁾ Distribution based on Försäkringskassan's time reporting.

²⁾ Including the AP funds, Premium Pension Authority and the Swedish Tax Agency.

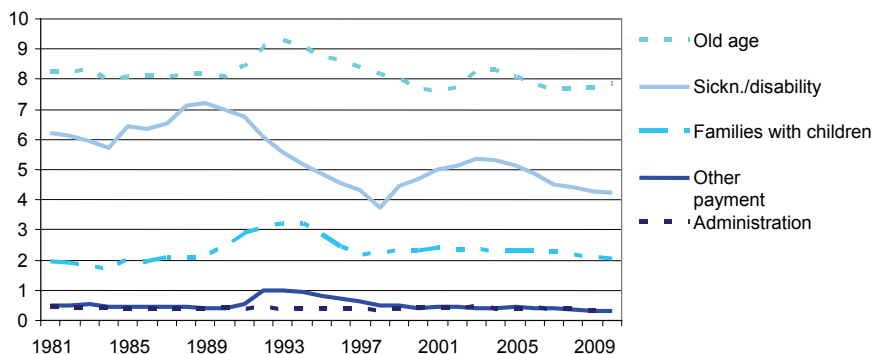
2 Social insurance expenditure from a long-term and an international perspective

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 2006 prices, social insurance expenditure has increased from SEK 264 billion in 1980 to SEK 448 billion in 2006, an increase of 69 per cent⁷. During this period, the increase in expenditure was sharpest in the second half of the 1980s. This was mainly due to the rapidly rising cost of sickness 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 the county councils.

⁷ 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.

Figure 2.1 Social insurance expenditure for the main benefit groups in relation to GDP^{1) 2)}

¹⁾ Forecast for the years 2007–2010.

²⁾ The development for total social insurance in relation to GDP is reported in Section 2.3.

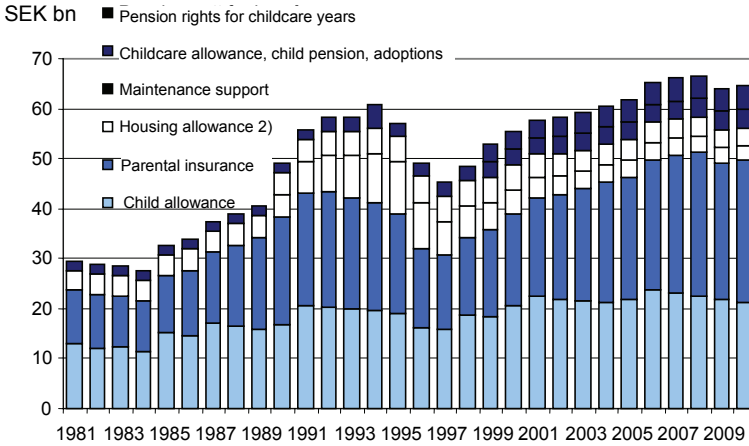
Since 1998, expenditure has once again risen steadily. The introduction of national old-age pension contributions in 1999 raised the level of expenditure sharply. However, the introduction of the national old-age pension contribution in many respects meant that a previously hidden expense was now visibly 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.

Figure 2.2 Financial security for families and children, SEK billion in year 2006 prices¹⁾



¹⁾ Forecast for the years 2007–2010.

²⁾ Housing allowance has been administered by Försäkringskassan 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 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 peak 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 childcare allowance.

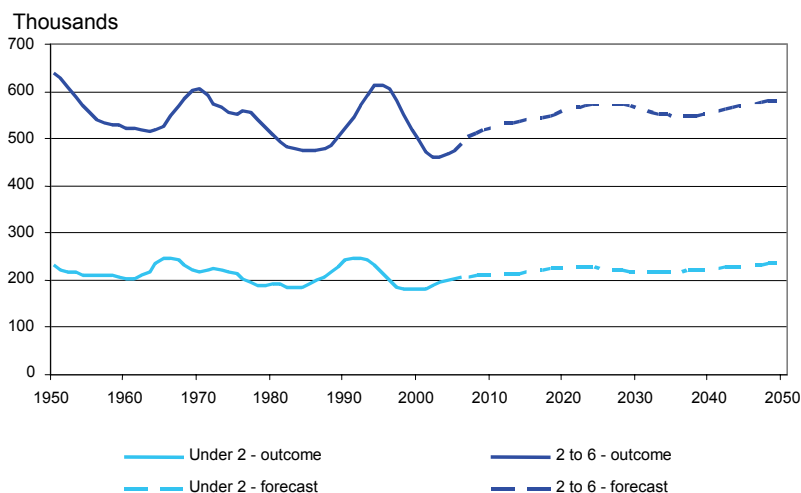
During the first half of the 1990s, parental insurance was the largest item of expenditure within the area of financial support for families with children. Social insurance costs increased partly as a result of an extension of the parental benefit period from 360 days to 450 days in 1989, partly as a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

Figure 2.3 The number of children under the 2 years old and 2–6 years old during 1950–2006 and the forecast for the period 2007–2050



Source: Statistics Sweden population forecast 2005

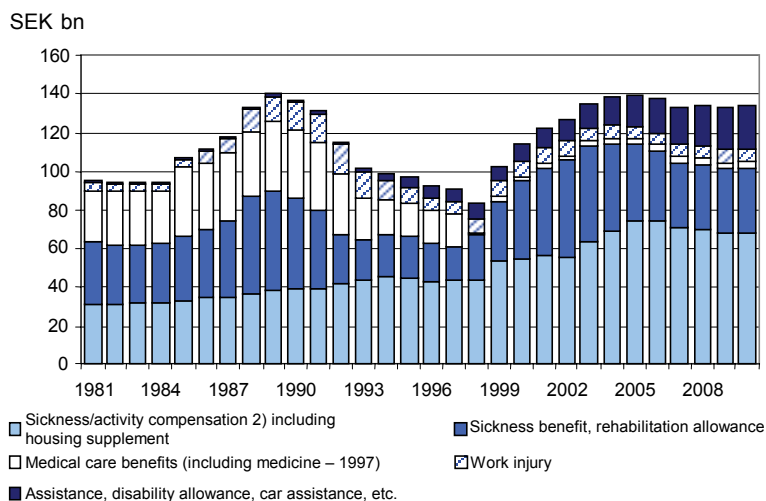
During the period 1996–2002, child allowance was the largest item of expenditure within the area of support for families with children. In 2006, 1.67 million children were entitled to child allowance, including extended child allowance. Since 2002, expenditure has fallen due to large groups of children 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 leave the system on grounds of age. Meanwhile, children cohorts are still relatively small compared with the early 1990s, which means fewer children are entering the system. This fact, in combination with the attempt on the part of Försäkringskassan to get more separated parents to solve the child support 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.

Figure 2.4 Financial security in sickness and disability, SEK billion in 2006 prices¹⁾

¹⁾ Forecast for the years 2007–2010.

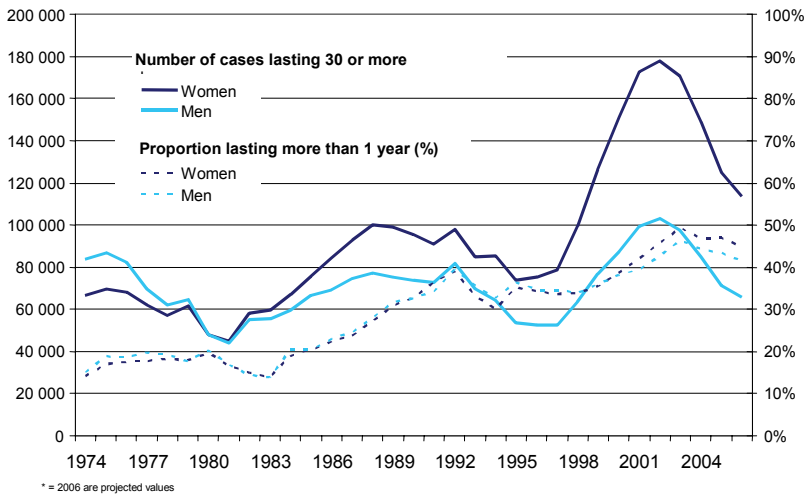
²⁾ Disability pension and temporary disability pension up to 2002.

³⁾ 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 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 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 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.

Figure 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 1974–2006

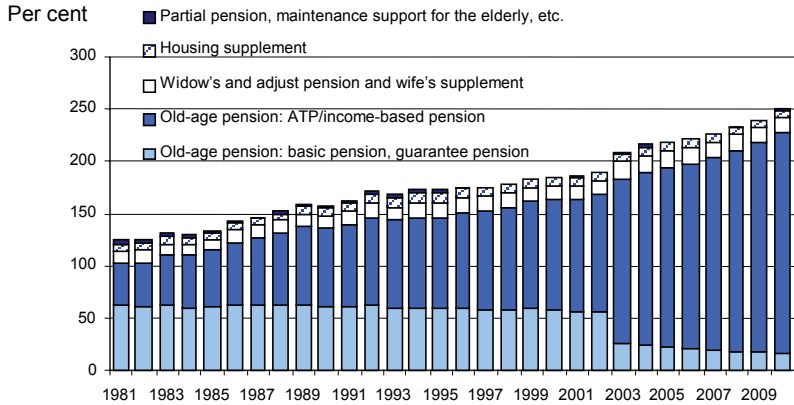


Expenditure for sickness benefit levelled out noticeably in 2003. Since April 2003, the number of days for which sickness benefit had been paid out each month has been lower than the equivalent month of the preceding year⁸. This also applies to expenditure after July 2003. The number of days for which sickness benefit is paid out is expected to continue declining rapidly during the forecast period. However, in parallel, trend expenditure for sickness and activity compensation (disability pension prior to 2003) has increased.

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.

⁸ Refers to cases lasting longer than 29 days.

Figure 2.6 Financial security in old age, SEK billion in year 2005 prices¹⁾

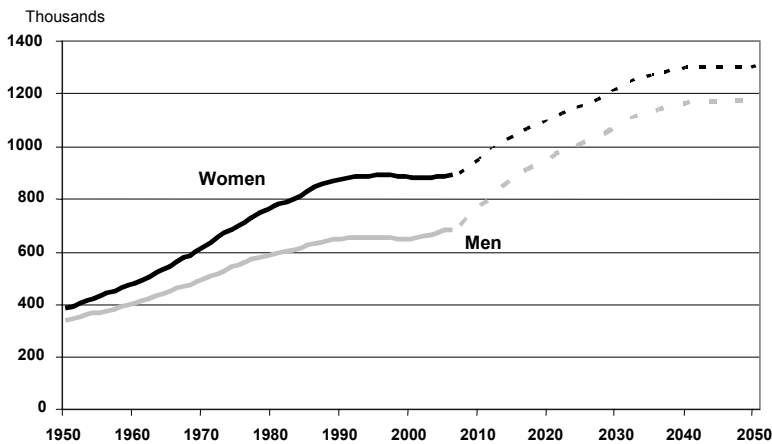


¹⁾ Forecast for the years 2007–2010.

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.

Figure 2.7 Number of persons aged 65 or older during 1950–2006 and forecast for the period 2007–2050



Statistics Sweden population forecast 2006

Source:

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 decreasing 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.

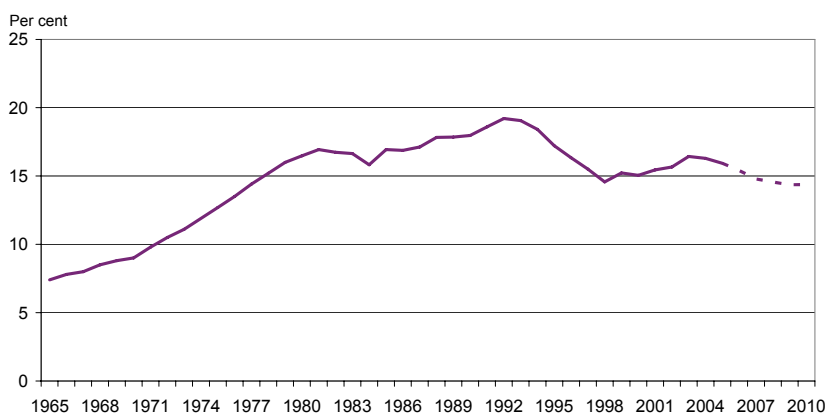
The part-time pension insurance scheme has been discontinued and has not been paid out since December 2004.

2.3 Social insurance and the national economy

Payments from social insurance make up a significant part of the Swedish economy. Figure 2.8 shows social insurance payments in relation to the gross domestic product (GDP) since 1965. During the 1980s, these payments increased continuously in relation to GDP. 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 GDP. 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 GDP, 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 15.5 per cent of GDP in 2006. 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.

Figure 2.8 Social insurance payments in relation to GDP^{1) 2)}



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

²⁾ Forecast for the years 2007–2010.

As Figure 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 2006, transfers from social insurance to households amounted to SEK 409 billion, representing almost 82 per cent of total public transfers to Swedish households. Payments from unemployment insurance correspond to a further 5.5 per cent approximately and financial support (formerly social assistance) 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 assistance both increased sharply. 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 2006 prices

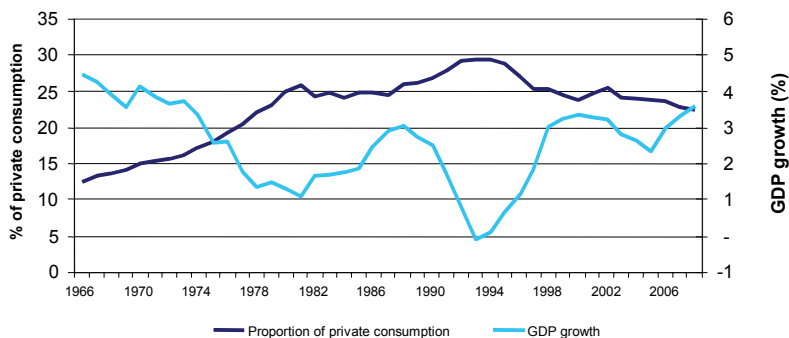
Year	Public transfers to households, gross	Share (%) of total			
		Social insurance	Unemployment insurance	Social allowance/Financial support	Study allowance etc.
1980	278.1	82.1			
1985	305.4	80.0	3.7		
1990	377.2	84.1	2.3		
1991	392.6	82.7	3.8		
1992	424.8	77.8	6.8		
1993	430.3	75.4	11.0	5.1	2.1
1994	440.4	75.3	10.7	3.3	2.4
1995	430.2	75.8	10.5	3.2	2.4
1996	414.8	75.8	10.5	3.7	2.3
1997	413.7	74.7	9.9	3.7	2.9
1998	426.2	74.7	9.1	3.3	4.2
1999	435.0	76.4	8.2	3.1	3.9
2000	440.5	77.7	7.9	2.8	3.3
2001	442.2	79.9	5.7	2.6	3.3
2002	450.9	81.5	5.3	2.4	3.0
2003	476.4	81.9	6.1	2.2	2.6
2004	490.8	81.1	6.8	2.2	2.5
2005	497.0	81.4	6.3	2.2	2.6
2006	501.3	81.7	5.5	2.1	2.4
2007 (forecast)	496.6	82.3	5.1	2.1	2.4
2008 (forecast)	499.0	82.9	4.5	2.0	2.4

Source: Swedish Institute of Economic Research, and Försäkringskassan's 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 2006, social insurance transfers corresponded to almost 24 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 GDP, social insurance grew trendwise in relation to total private consumption during the 1960s and 1970s.

Figure 2.9 Social insurance net transfers to households as a share of private consumption, and the growth of GDP ^{1) 2)}



¹⁾ 5-year average.

²⁾ Forecast for the years 2007–2008.

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 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 that it should have a stabilising 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.

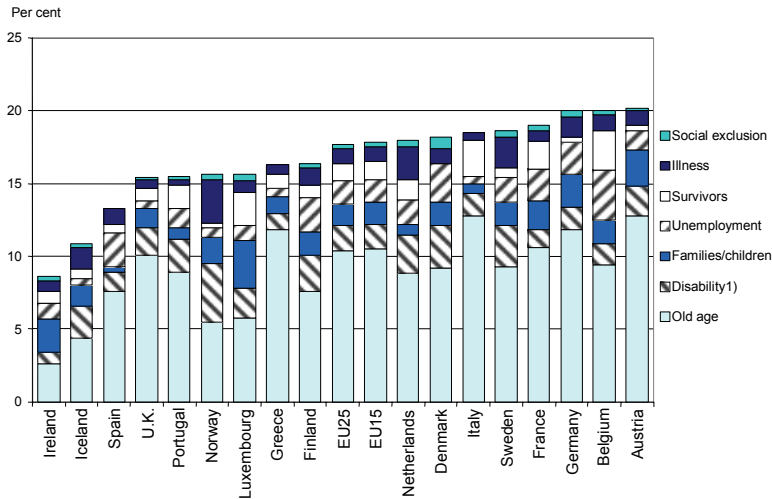
During the period up to 1980, however, the increasing share of social insurance in the consumption potential of households cannot be said to result from declining growth but rather to be a result of the expansion of the insurance made possible in part by the rapid economic growth in the 1950s and 1960s.

2.4 Social insurance 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 subsidised day-care-centre, a cash allowance for childcare, an ear-marked 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 2004.

Figure 2.10 Public transfers in relation to GDP 2003



¹⁾ Including sickness and activity compensation for Sweden.

Source: Eurostat (2006), Social Protection Expenditure Database.

As regards public transfers, Sweden holds fifth place in the EU (EU-15), after Austria, Belgium, Germany 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 GDP is redistributed through public transfer systems to households.

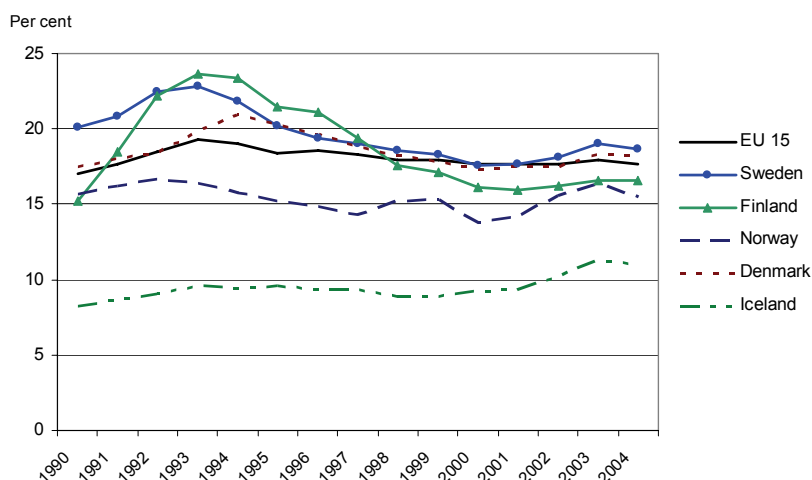
Expenditure for old-age pensions accounts for the major part of public transfers in all countries, with a few exceptions. Forecasts point to a sharp increase in such expenditure in the future. However, this will not occur in Sweden, where the new pension system is designed to stabilise expenditure in relation to GDP in spite of an ageing population⁹.

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 pen-

⁹ European Commission, DG ECFIN, Special Report no. 1/2006.

sion and survivor's pension systems correspond to a lower proportion of GDP 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 GDP in the various Nordic countries.

Figure 2.11 Development of public transfers in relation to GDP



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 GDP 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 GDP 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, taxes¹⁰ 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 benefit insurance, road traffic injury annuities, voluntary occupational injury insurance, small-business insurance and seafarer's pension.

Social security 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 pen-

¹⁰ 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.

sion, 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 2006

SEK million	Income				Expenditure			Surplus/ deficit
	Contributions	National funds by law	Other	Total	Payments	Administration	Total	
Parental insurance ¹⁾	24,819	0	–	24,819	25,627	1,157	26,784	–1,965
Child allowance	–	23,750	–	23,750	23,611	139	23,750	–
Housing allowance to child families, etc	–	3,911	–	3,911	3,598	313	3,911	–
Care allowance for disabled children	–	2,792	–	2,792	2,625	167	2,792	–
Maintenance support	–	2,637	1,816	4,453	4,038	415	4,453	–
Pension rights for childcare years	–	4,452	–	4,452	4,452	..	4,452	–
Sickness insurance ²⁾	99,350	14,116	–	113,466	107,306	4,543	111,849	1,617 ³⁾
Health care benefits	–	3,671	–	3,671	3,384	287	3,671	–
Disability allowance	–	1,279	–	1,279	1,171	108	1,279	–
Activity support	11,755	208	–	11,963	11,755	208	11,963	–
Work injuries	7,683	61	63	7,807	6,005	387	6,392	1,415
Car allowance	–	289	–	289	257	32	289	–
Assistance compensation	–	13,010	3,202	16,212	16,084	128	16,212	–
Old-age pension								
Via AP Fund	183,624	–	83,356	266,980	176,156	2,077	178,233	88,747
Via national budget	11,576	9,835	–	21,411	21,339	72	21,411	–
Premium Pens. Scheme	26,033	–	–	26,033	232	296	528	..
Survivor's pensions	19,206	992	–	20,198	16,840	92	16,932	3,266
Housing supplement, BTP	–	11,782	–	11,782	11,410	372	11,782	–
Maintenance support for the elderly	–	433	–	433	419	14	433	–
Other benefits	21	81	68	170	152	18	170	–
Non-allocated admin.	–	4	–	4	–	4	4	–
Total for 2006	384,067	93,303	88,505	565,875	436,460	10,829	447,290	..

¹⁾ Excluding pregnancy benefit which is financed by the sickness insurance contribution.

²⁾ Including sickness and rehabilitation benefit, sickness and activity compensation, pregnancy benefit and benefit for care of closely-related persons.

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

In 2006, revenue from social insurance contributions, national old-age pension contributions and general pension contributions amounted to SEK 384 billion. When interest and changing exchange rates, etc, are taken into consideration, the total becomes SEK 467 billion. In addition, the statutory proportion fi-

nanced from taxation was almost SEK 93 billion, or just over 20 per cent of expenditure. Payments from municipalities, people liable to pay child support, etc, amounted to just over one per cent. Favourable stock-exchange trends during 2006 meant that exchange-rate differences and interest, etc, from the First National Pension Fund (the AP Fund) gave a surplus of SEK 83 billion. Thus, in total, income exceeded expenditure by almost SEK 119 billion¹¹.

In 2006, among the types of insurance financed through contributions, sickness insurance, work injury insurance and survivor's pensions gave a combined surplus of over SEK 6 billion. At the same time, parental insurance showed a deficit of SEK 2 billion.

Since revenues in the premium pension system – which amounted to SEK 26 billion in 2006 – 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, the amount to be covered by contributions varies according to insurance category.

¹¹ Thus, the statutory SEK 93 billion in expenditure to be financed through taxation is reported here as income (“statutory central government funds”) corresponding to that amount.

Table 3.2 Rates for employer contributions and general contributions

Contribution rates in %	2001	2002	2003	2004	2005	2006	2007
Old-age pension ¹⁾	10.21	10.21	10.21	10.21	10.21	10.21	10.21
Survivor's pension ¹⁾	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Sickness insurance							
– Employers	8.8	8.8	11.08	11.08	10.15	8.64	8.78
– Self-employed contribution	9.53	9.53	11.81	11.81	11.12	9.61	9.61
Parental insurance ¹⁾	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Work injury insurance ¹⁾	1.38	1.38	0.68	0.68	0.68	0.68	0.68
Labour market contribution							
– Employers	5.84	5.84	3.7	3.7	4.45	4.45	4.45
– Self-employed	3.3	3.3	1.16	1.16	1.91	1.91	1.91
General salary contribution ¹⁾	2.69	2.69	3.25	3.13	3.07	4.4	4.4
Total employer contributions	32.82	32.82	32.82	32.7	32.46	32.28	32.42
Total general contributions	31.01	31.01	31.01	30.89	30.89	30.71	30.71

¹⁾ 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 contribution¹² 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.

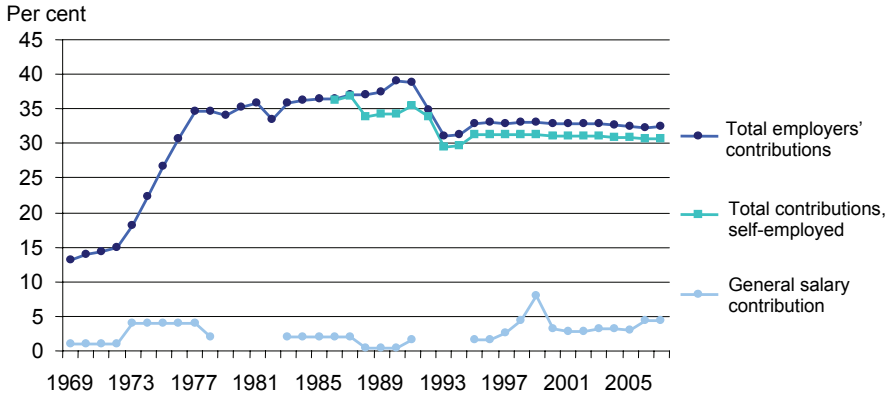
The contribution base for social insurance contributions is made up of total employee salaries and earned income of self-employed persons and is paid by employers and self-employed persons respectively. The general pension contribution is paid by all gainfully employed persons. It is based on salaries and incomes such as sickness benefit, parental 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 benefit paid for employees.

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

¹² This finances unemployment compensation, activity support and a number of minor benefits.

Figure 3.1 Total contribution rates for social insurance 1969–2007



Since 1995, there has been a noticeable stabilisation of the overall level of employer and general contributions. The general salary contribution, levied off and on since the 1960s¹³, 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 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.

¹³ During the 1960s and 1970s, the contribution was called general employer contribution.

3.3 Parental insurance

Table 3.3 Parental insurance: income and expenditure

SEK million	2005	2006	2007 forecast	2008 forecast
Income:				
Parental insurance contribution	23,504	24,819	26,281	27,689
State funds	–	–	–	–
Total income	23,504	24,819	26,281	27,689
Expenditure:				
Parental benefit	17,738	18,939	21,311	22,762
Temporary parental benefit	3,742	4,333	3,898	4,094
National old-age pension contributions	2,207	2,355	2,501	2,524
Administration	945	1,157	1,117	1,152
Total expenditure	24,632	26,784	26,827	30,532
Part financed by contributions	24,632	26,784	28,827	30,532
Surplus/deficit for year	–1,128	–1,965	–2,546	–2,843
Contribution coverage	95 %	93 %	91 %	91%

Parental insurance contributions finance parental benefit and temporary parental 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 2006, the contribution fell short of expenditure by just under SEK 2 billion. Given the current contribution rate, expenditure is expected to exceed income by more than SEK 2 billion for the next few years.

3.4 Sickness insurance

Table 3.4 Sickness insurance: income and expenditure

	2005	2006	2007 forecast	2008 forecast
Income:				
Sickness insurance contribution	108,962	97,573	104,186	109,557
Special sickness insurance contrib.	1,381	1,777	0	0
State funds by statute ¹⁾	14,608	14,115	12,238	12,315
Total income	124,951	113,465	116,424	121,872
Expenditure:				
Sickness benefit and rehabilitation	35,230	33,217	31,052	31,705
Disability pension/sickness and activity compensation	56,792	57,491	57,975	58,228
Pregnancy benefit	397	426	434	454
Allowance for care of close relatives	72	74	78	83
Employment guarantee	22	32	33	34
National old-age pension contributions	16,621	16,066	12,776	13,197
Administration	4,543	4,543	4,384	4,523
Total expenditure	113,677	111,849	106,732	108,224
Total financed by contributions according to the rules	99,068	97,733	94,493	95,909
Surplus ²⁾	+11,274	+1,617	+9,693	+13,648
Contribution coverage	111 %	102 %	110 %	114%

¹⁾ Expenditure not financed by contributions.

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

The sickness insurance contribution finances sickness benefit, rehabilitation compensation, allowance for care of closely-related persons, pregnancy 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 dropped to just under SEK 2 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	2005	2006	2007 forecast	2008 forecast
Income:				
Work injury contribution	7,266	7,683	8,134	8,563
State funds	133	124	118	114
Total income	7,399	7,807	8,252	8,677
Expenditure:				
Compensation to insured	5,957	5,580	5,452	5,272
National old-age pension contrib.	390	424	499	399
Administration	396	387	374	385
Total expenditure	6,743	6,392	6,315	6,056
Part financed by contributions	6,610	6,267	6,197	5,942
Surplus for year	656	1,415	1,937	2,621
Contribution coverage	110 %	123 %	131 %	144%

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 Act 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 work injury contribution was reduced from 1.38 to 0.68 per cent in 2003, which reduced a surplus of over SEK 6 billion in 2002 to SEK 0.5 billion in 2004. From this minimum, the surplus has increased again and amounts to just under SEK 1.5 billion in 2006 and tending to increase further.

3.6 Survivor's pension

Table 3.6 Survivor's pension: income and expenditure

SEK million	2005	2006	2007 forecast	2008 forecast
Income:				
Survivor's pension contribution	18,164	19,206	20,333	21,406
State funds	1,052	992	915	833
Total income	19,215	20,198	21,248	22,239
Expenditure:				
Survivor's pensions	16,903	16,840	16,772	16,786
Administration	119	93	89	93
Total expenditure	17,022	16,932	16,862	16,879
of which, financed by contributions	15,971	15,940	15,947	16,045
Surplus for year	2,193	3,266	4,386	5,361
Contribution coverage	114 %	120 %	128 %	133%

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 pension for widows, 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, consisting of earned income minus the general pension contribution, and are levied in three different ways. The general pension contribution is paid by all gainfully employed persons. Employers and the self-employed pay social insurance contributions. One of the contributions paid by employers and the self-employed is the old age pension contribution calculated at 10.21 per cent of earned income. A third type of contribution to the old age pension system is applied for recipients of income-based transfers, which are charged with a national old age pension contribution, which is paid directly from the state budget to the old age pension system. In general, the national old age pension contribution for transfers is 10.21 per cent. The contribution is 18.5 per cent for pensionable amounts.

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	2005	2006	2007 forecast	2008 forecast
Income:				
Old-age pension contribution to AP Fund	179,552	183,624	190,894	198,478
Of which, social insurance contribution	77,277	81,180	86,042	90,435
General pension contribution	74,762	75,098	80,094	84,475
National old-age pension contribution	26,450	26,564	23,698	22,827
Adjustment of contributions	1,063	782	1,060	741
Exchange-rate differences and interest, etc	114,598	83,356	73,760	68,795
Total "net" income for AP Fund	294,150	266,980	264,654	267,273
Expenditure:				
Pension payments from AP Fund	169,071	176,132	185,533	197,733
Of which, supplementary pension	162,564	165,970	170,504	176,358
Income pension	6,507	10,162	15,029	21,375
Transfers to the EU	57	24	35	36
AP Fund admin and compensation for costs	2,032	2,077	1,717	1,612
Total expenditure	171,160	178,233	187,285	199,381
Surplus/deficit for year	122,990	88,747	77,369	67,892
Contribution coverage	105 %	103 %	102 %	100%
Fund balance 31 December	769,190	857,937	935,306	1,003,198

The old-age pension system is freestanding from disability pension and survivor's pension. Old-age supplementary pension from the previous ATP-system and old age basic pension for those with ATP were financed from the AP Fund until the end of 2002. Since 2001, the new benefits income pension and supplementary pension have been financed from the fund.

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.

3.9 Old-age pension, premium pension

Table 3.8 Premium pension: income and expenditure

SEK million	2005	2006	2007 forecast	2008 forecast
Income:				
Old-age pension contribution to the premium pension system	23,805	26,033	27,119	27,313
Expenditure:				
Paid premium pensions	104	231	414	690
Transfers to the EU	1	1	1	1
Administration	252	296	286	291
Reservations, changed pension liability (net)	23,448	25,505	26,418	26,331
Total expenditure	23,805	26,033	27,119	27,313

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	2005	2006	2007 forecast	2008 forecast
Income:				
Old-age pension contribution to the national budget	11,352	11,576	12,193	14,083
State funds	11,138	9,835	8,303	5,555
Total income	22,491	21,411	20,496	19,638
Expenditure:				
Guarantee pension	22,431	21,322	20,419	19,550
Certain supplementary benefits	18	17	17	16
Administration	42	72	60	72
Total expenditure	22,491	21,411	20,496	19,638

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.

