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Summary

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How do the Swedes invest their pensions?

Observations of the Swedish funded pension scheme.

By European standards, the Swedish funded pension system is highly productive and fast-growing. Its significance for Swedish pension recipients will be accentuated in the coming decades.

Funded pensions are based on pension contributions and investment returns that accumulate in individual pension accounts. The individual pension saver carries all investment risks. The annual performance of the funds directly affects both pension savings and pension benefits. There is no guaranteed minimum return or minimum amount of funded pensions, nor are they protected against inflation.

The long-term return of the Swedish funded pension system has been good. The annual return of the capital-weighted system in 2000–2021 was 8.8 per cent and the real return 7.5 per cent. The largest and most popular pension fund is AP7 Såfa, government-run since 2010. It yielded an average annual return of 15 per cent in 2010–2021. Its good investment performance is based on, among other things, AP7's focus on global and passive index investing. Using investment debt and low costs have also boosted returns.

According to the Swedish government, the aim of funded pensions has been to improve the investment returns of the Swedish pension system and to diversify risks to the capital markets. The funded pension system assumes that citizens are informed consumers who are able and willing to make decisions relating to their pension investments. By several measures, the Swedish financial literacy is among the best in developed countries, but research shows that the funded pension system is too complicated for citizens. Research literature and statistics suggest that the average pension saver has little interest in funded pensions and risk management. Although the system includes hundreds of funds, most pension savers remain customers of the government-run default fund. On the other hand, the default fund has yielded better returns, on average, than the private funds.

After the mid-2010s, Sweden's funded pension system was rocked by a series of crimes that undermined public confidence in pensions. In December 2021, following years of negotiations, the Swedish government presented a legislative package to reform the system. The reform means stricter regulations and supervision of the funds. At the same time, the fund selection architecture has been changed, strengthening the role of the government-run AP7 Såfa fund. As a result of the new selection architecture, the position of private funds in the system may become weaker and their role may be reviewed in the future.

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