PROCEEDINGS OF THE
INTERNATIONAL WORKSHOP ON

SOCIAL SECURITY REFORM

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Chapter 1:

Problems and Experience of the Social Security Reforms

Overview of the Swedish and Latvian pension reforms

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In the spring of 1994 the Swedish parliament passed legislation designed to completely reshape the Swedish pension system. Sweden's present system is to be replaced by a universal defined-contribution pay-as-you-go (PAYG) pillar with notional accounts, and a universal, mandatory funded pillar with privately managed financial accounts. The reform will be completely implemented in the year 2001. Briefly, the system is designed as follows:

- The total contribution rate is 18.5% of earned income (covering up to ca 40 000 USD), with 16.5% going to a an individual PAYG notional account and 2% to a privately managed individual financial account.
- Notional individual accounts are indexed with wage growth.
- Credits, paid by transfers from the state budget, are given for child birth and military service.
- Credits for compensated sickness, disability and unemployment are paid by these (social) insurance schemes.
- Upon retirement, a PAYG annuity is calculated from the notional account balance, life expectancy and an assumed real rate of return.
- Benefits are indexed to inflation and adjusted annually by the difference between the assumed real rate of return (wage growth) applied in calculating the annuity and actual real wage growth.

- Retirement can be partial or full at any age up from 61. Additional earnings – and contributions – with partial retirement enhance the remaining capital balance and yield an additional benefit increment.
- There is a guarantee for low income pensioners presently equivalent to about 33% of an average full-time wage.

The Latvian parliament passed similar legislation in the summer of 1995 and implemented the notional accounts PAYG component on January 1, 1996. Latvia plans to implement the funded second pillar in the year 2000. The Latvian system's design is as follows:

- The total contribution rate is 20% of income. Beginning with 2% in 2000 and following a time schedule still to be determined, as much as 6-7% of will go to the second pillar with privately managed individual financial accounts for persons born 1949 and later.
- Notional accounts are indexed with wage growth.
- Credits, paid by transfers from the state budget, are given for child birth and military service.
- Credits for compensated sickness, disability and unemployment are paid by these (social) insurance schemes.
- Upon retirement a PAYG annuity is calculated on the basis of the notional account balance and life expectancy.
- PAYG benefits are inflation-indexed to the year 2000, and then to wages and inflation in a manner yet to be determined.
- Retirement can be partial or full at any age from age 60. Additional earnings – and contributions – with partial retirement enhance the remaining capital balance and yield an additional increment to the benefit.
- There is a guarantee for low income pensioners, the social pension, that is presently equal to about 25% of an average wage.

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