

ISF Report 2012:14

Pensions information,  
simpler, but more detailed  
and more comprehensive –  
is it possible?

Swedish Social Insurance Inspectorate

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# Summary

The Swedish Social Insurance Inspectorate (Inspektionen för Socialförsäkringen or ISF) is an independent supervisory agency for the Swedish social insurance system. Its objectives are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the system through supervision, efficiency analysis and evaluation.

The ISF's work is mainly conducted on a project basis and is commissioned by the Government or initiated by the agency. This report has been commissioned by the Government.

## *Background*

In the late 1990s the Swedish pension system shifted from being a defined benefit system to a system that combines pay-as-you-go notional defined contributions (NDC) with a privately managed financial account scheme (FDC).

The reforms within the pension sector meant that there was a transfer of risk from society (the state, the employers and the trade unions) to the individual. Under the new system, the pension is based on lifetime earnings, hence making individual choices during the working years more important. As individual choices are key elements in the new system, there is now more pressure on individuals to make well-founded financial decisions. The regulatory framework for the content of pension information has expanded, i.e. there are higher demands on providers of services and products in the pension market. As the number of stakeholders - such as pension agencies and authorities, trade unions, employers, non-governmental organizations and the financial services industry – increases, so does the variety of information available. Communicating information about pensions is a challenge for the providers of information. The challenge for the

beneficiaries is to be able to evaluate and understand the information in order to make choices about their pensions.

### *Objectives*

The report focuses on the available information about pensions. This includes examining ways in which stakeholders within the pensions sector perceive the beneficiaries' needs for information, how the beneficiaries themselves perceive their needs for information and what lessons can be learned from the experience of how information on pensions is being communicated in other countries.

### *Method*

The report is based on interviews with various stakeholders in the pension sector, in order to account for different interests and points of view on the distribution of information within the pensions sector. The stakeholders include agencies and authorities, trade unions, providers of pension administration, interest groups and independent bodies within the pensions sector. Interviews with beneficiaries were conducted, using focus groups and questionnaires.

### *Findings and conclusions*

The report shows that beneficiaries face difficult financial decisions due to the existence of many options within the pensions sector. This can cause anxiety. However, it is not certain that more information is the appropriate solution to the problem. A system based on many options, as is the case with the *Swedish Premium Pension*, has to have a transparent default option. The beneficiaries need to understand the consequences of making active choices. However, merely supplying information about the default options would not be sufficient to meet the beneficiaries' needs. As long as the system entails an extensive amount of options, it will be necessary to supply detailed information about the many different factors that have an impact on the process saving for pensions.

The report concludes that the information provided needs to accommodate the needs of different individuals or groups of individuals, with respect to age, circumstances of life or interest in pensions. The beneficiaries would like to see simpler, but more detailed and more comprehensive information on pensions; a

combination that can be difficult to achieve. In Denmark the beneficiaries can get access to both concise and detailed information on the website *PensionsInfo*. In the Netherlands the beneficiaries are informed about their pensions in specific situations (e.g. when changing jobs), and in Germany the information includes warnings about upcoming changes in the regulations and indicates when the hypothetical pension falls below a set minimum. Sweden can learn from their experiences.

The results of this report indicate that most of the beneficiaries would like to see information on pensions being delivered by an independent body, and both *The Swedish Pensions Agency* and the independent website *Min Pension* are mentioned as possibilities. There is also a need for independent consultation on pensions. However, most stakeholders are not perceived as being independent but as being primarily interested in making a profit. *The Swedish Consumers' Banking & Finance Bureau* and *The Swedish Consumers Insurance Bureau* may be suitable organisations for taking on the role of independent bodies that can offer consultations on pensions.

A pension system consisting of several elements requires coherent and uniform information. One way to simplify this for the beneficiaries would be if the stakeholders agreed on a harmonised flow of information. At present the beneficiaries find it difficult to locate the information offered on various websites. For that reason they often need assistance with looking for the available information. An overall pension forecast, based on standardized assumptions, is required. Standardization in the Swedish pension sector is already on its way. However, lessons could be learned from the examples of Finland, Poland and Denmark, where the terminology of pensions is also in the process of standardization.

Finally, it is clear that— even though there is a lot of information on pensions – many beneficiaries are lacking in the information and knowledge that is needed in order to make well-founded financial choices about their pensions. Continued investments in *Min Pension* and the standardized pension forecasts are useful, but it is also important to bear in mind that the need is not only for forecasts. Besides overall information and knowledge of the main factors that have an effect on pensions, an element of interpretation and evaluation of a large amount of minor details within pension information is needed. The report shows that several examples exist

of how other countries have solved issues related to information about pensions and that Sweden can learn from them.