

SWEDISH PENSION GUARANTY FUND¹⁶

A rather complex but apparently workable system for assuring the payment of pension benefits has been in operation in Sweden, since 1960. While the institutional environment in which this system functions is quite different from that in the United States, lessons can undoubtedly be learned from the Swedish experience.

The system was an outgrowth of a series of collective bargaining agreements between employer and salaried employee associations, reaching into every branch of industry (and certain trade, service, and agricultural undertakings), pursuant to which certain pension benefits were to be provided as a supplement to the national old-age insurance program. The agreements gave the employers the option of purchasing the benefits from the Swedish insurance company (the Swedish Staff Pensioning Society) established by employers about 40 years ago for the sole purpose of underwriting pension benefits or of assuming legal responsibility for the direct payment of the benefits. If the employer elects the first course of action, he fully discharges his legal responsibility by the payment of the necessary premiums and he does not get involved in the pension guaranty mechanism. If, on the other hand, the employer prefers to keep the equivalent of the premium payments in his own firm, he must set up an internal pension fund and register it with a central registration agency, called the Pension Registration Institute (PRI), which has other functions and indeed plays a very active role in the whole pension process by recording benefit accruals, informing employees of their rights, performing actuarial valuations, and paying benefits underwritten by the aforementioned pension insurance company (SPP). The employer's internal fund, referred to as the "PRI fund," must at all times hold assets equal to the actuarial value of all accrued benefits—as calculated and certified annually by the PRI—but the only assets placed in the funds are unsecured promissory notes of the employer. These notes would be enforceable against the general assets of the employer in the event of insolvency or bankruptcy but without any special creditors' preference, except as noted below.

Since the alternative methods of providing the bargained benefits are supposed to be endowed with equal degrees of security—and to be equal in all other respects—and since the worth of the employer's promissory notes is completely dependent upon the financial well-being of the firm, it was necessary to create another agency to underwrite the credit of the employer. This organization, a mutual credit insurance company formed by the employer associations and known as FPG, assumes the pension obligation of an insured employer who defaults on his pension payments and then discharges its responsibilities by the purchase of annuities in the appropriate forms and amounts from SPP, the pension insurance company. It seeks reimbursement for its premium outlays by taking over the promissory notes in the employer's internal fund and competing with other creditors in the resulting bankruptcy proceedings, with no special preference other than with

¹⁶ For a more detailed description of this system see G. M. Ericsson, "PRI—A Self-Insured Pension Scheme in Sweden", *Transactions of the 17th International Congress of Actuaries*, London-Edinburgh, 1964, pp. 554-567 and Sven Hydén, "A New Approach to Financing Private Pension Schemes in Sweden", *International Review of Actuarial and Statistical Problems of Social Security*, No. 9.