

02/2013

FINNISH CENTRE FOR PENSIONS, SURVEYS

Administrative Expenses in Statutory and Occupational Pension Schemes: A Cross-country Comparison

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Helsinki 2013

ISSN-L 1798-7113

ISSN 1798-8519 (online)

ABSTRACT

The Finnish earnings-related pension forms part of statutory social security, but our earnings-related pension scheme has many features that are connected to occupational pensions (so-called Pillar II supplementary pensions), that are based on labour market agreements. Compared to other countries, the Finnish earnings-related pension is proportional to the statutory pension provision as well as the occupational pension provision agreed on by the labour markets, and fulfils the assignment of both. Occupational pensions, common in many other countries, are rare in Finland.

This review examines the administrative expenses of the statutory pension schemes of Denmark, Germany, the Netherlands, Norway, Sweden and Switzerland (so-called Pillar I schemes) and of the occupational pension schemes (so-called Pillar II schemes) that together form the overall pension provision in Finland. The review does not examine private pension saving or the administrative expenses of organisations supervising the pension schemes. By administrative expenses is meant operating expenses and investment expenses.

Operating expenses are formed from expenses arising from indemnity operations and pension insurance management, as reported by companies and pension providers in their profit and loss accounts, as well as from expenses arising from insurance acquisition and administration. The review also reports on the management expenses of investment operations to the degree that this is possible, considering the limitations of the information available. Due to said limitations, a comparison between countries concerning the total administrative expenses, in other words the combined operating expenses and management expenses deriving from investment operations, is not sufficiently comprehensive.

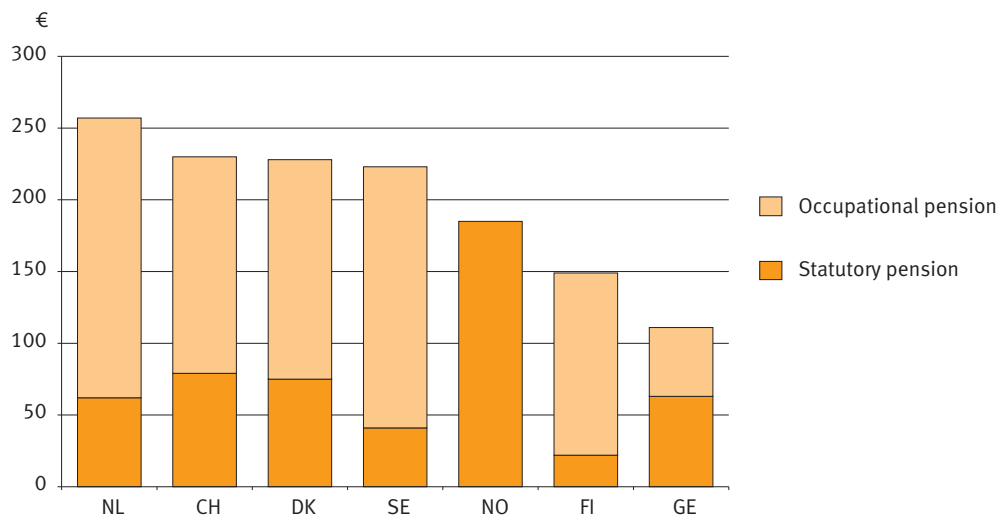
Information on the administrative expenses of different countries are mainly based on the statistics, accounting and budget information of actors in the social insurance field of each country, as well as on various official reports. Where occupational pensions are concerned, the information has primarily been gathered from the annual reports of pension companies and providers in the occupational pension sector and from the statistics and publications of the supervisory authority in each country. Figures directly requested from the authorities of the different countries, or similar interest organisations, have also been used as sources.

Figure 1 presents the operating expenses of statutory and occupational pension schemes of the participating countries, listed per member. By members is meant the total number of insured and pensioners per scheme. By summing up the scheme-specific expenses, we have formed a representative case that depicts the administrative expenses of a person who is simultaneously a member of the different schemes.

In this review, the Finnish earnings-related pension scheme has been classified as an occupational pension scheme, and the national pension scheme as statutory, in order to facilitate comparability. The administrative expenses of voluntary occupational pensions in Finland are not included in the below figure. Due to the marginal scope, there is no real basis for including them in the depiction of an example case typical of the country. The administrative expenses of voluntary occupational pensions have been presented in a separate appendix.

Figure 1.

The operating expenses of statutory schemes and occupational schemes, per member.



Additionally, expenses have been compared to the premium income and pension expenditure, as well as the numbers of insured, pensioners and pensions in payment. Caution is advised when interpreting the figures, and straightforward comparisons between countries are best avoided. The information is not complete for all countries. In the case of Norway, the figure only shows the information of the statutory scheme, since it was not possible to separate the investment expenses of occupational pensions from the operating expenses as a whole. In the case of some countries, we have had to resort to estimating expenses based on the benefit expenditure. However, our understanding is that the comparison provides a correct indication of the differences between countries.

The comparison shows that the administrative expenses of occupational pension arrangements are greater than the administrative expenses of Pillar I schemes, in virtually all countries under comparison. Having multiple layers of pension schemes serves to increase the number of actors, and also appears to raise administrative expenses in relative terms. This is true especially in the case of Switzerland and the Netherlands, where earnings-related pension security is managed between numerous different players, and the relative administrative expenses are the highest in all the countries under review.

The above figures do not include investment expenses, due to complications in the reporting. They do, however, form a significant share of the overall administrative expenses, particularly of occupational pensions, and have been reported in the country reports to the extent that the information has been available.

In spite of certain deficiencies in the review, it is clear that the administrative expenses of the Finnish earnings-related pension scheme are, by comparison, on a competitive level with other countries or even to be considered low, depending on the point of reference.

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1 Introduction

A special and noteworthy feature of Finnish earnings-related pension provision is that actors operating under civil law manage the earnings-related pension provision of the private sector, which forms part of statutory social insurance. The implementation of the earnings-related pension scheme has been decentralized among several different actors. The statutory pension provision is managed by pension insurance companies, special pension institutions, industry-wide pension funds and company pension funds in the private sector, as well as by pension institutions in the public sector. Certain functions are managed centrally by the liaison body of the earnings-related pension scheme, the Finnish Centre for Pensions.

There are a few dozen pension provision actors in Finland, while the number in other countries may run into the hundreds. By international comparison, statutory pension provision is most often arranged in social insurance institutions governed by public law. In spite of this, the administration of statutory pension provision may be fairly fragmented and divided between, for instance, several branch-specific or regional institutions. There is also a functional division of administration. For example, the tax authorities collect contributions, and disability pensions are managed by health insurance funds. The number of actors in the Swedish statutory earnings-related pension scheme is increased by the options of the insured to choose a fund in which to invest a share of the pension contribution. In many European countries, unlike in Finland, pension is accrued from more than one pension scheme for the same gainful employment. The total pension is formed from statutory pension and supplementary pension arrangements, agreed by the labour markets.

The Finnish earnings-related pension forms part of statutory social security, but our earnings-related pension scheme has many features that are related to supplementary pensions (so-called Pillar II supplementary pensions), that are based on labour market agreements. The most important of these are the lack of a ceiling in the statutory earnings-related pension scheme, the central role of labour market organisations, decentralized earnings-related pension scheme primarily governed by private law, competition between actors and the (partial) funding of pensions. In relation to other countries, the Finnish earnings-related pension provision can be compared to both statutory and labour market agreed supplementary pension provision, and fulfils the assignment of both. This is also evident from the low popularity of voluntary supplementary pension arrangements, by international comparison.

International comparisons of pension schemes are usually limited to statutory pension provision. One of the main reasons for this is the central role that statutory schemes play in maintaining the sustainability of the public economy. Occupational pensions are normally not reviewed from this perspective, although occupational pensions and supplementary pension savings that remain outside the public economy have been considered by the EU as a recommended method of improving sustainability deficits. Another significant issue impacting the low number of total pension comparisons is the incoherence of occupational pensions, and subsequent difficulties of obtaining comprehensive statistical data.

The absence of occupational pensions from international comparisons not only makes comparisons more difficult, but can also give the wrong image of pension provision in these countries. In the countries participating in this review, with the exception of Germany, occupational pensions are, in practice, mandatory. For example in Norway, the act on statutory supplementary pension provision came into force in early 2006.

In addition to Finland, this publication reviews the administrative expenses of pension schemes in six other countries. In addition to actors within statutory pension provision, the review covers all major actors within occupational pension provision. The countries are Denmark, Germany, the Netherlands, Norway, Switzerland and Sweden. In all these countries, occupational pensions form a significant share of the earnings-related pension provision. For instance in the Netherlands and Denmark, earnings-related pension provision is completely covered by occupational pension arrangements. In Germany, Pillar II pension provision is primarily based on voluntary arrangements by the employer or the insured, and occupational pensions cover approximately half of all wage earners. In other countries, occupational pensions are either mandatory by law, or based on collective labour agreements and thereby mandatory, covering over 80 per cent of wage earners.

Central international organisations (the World Bank, the OECD, IMF, ISSA) have carried out several reviews of administrative expenses that have focused on defined contribution pension schemes and individual pension account systems. Additionally, various consultancy firms, such as CEM Benchmarking Inc¹, that carries out benchmarking of pension providers, carry out reviews ordered by individual pension providers that measure their administrative efficiency and quality based on information sent by the providers to CEM Benchmarking. The data of CEM Benchmarking has also been used more widely, in comparisons of administrative efficiency between countries (see e.g. Jacob Bikker, Onno Steenbeek and Federico Torracchi 2010²). The reviews and comparisons in question are focused on single providers or schemes and do not take into account the total costs arising from pension provision administration.

This review continues the more comprehensive approach laid down in earlier publications by the Finnish Centre for Pensions, by also including occupational pensions in the comparisons of countries. The starting point is a broader review of management expenses, taking into account both statutory and occupational pensions based on collective labour market agreements and employer-specific occupational pensions. This review aims to describe how pension schemes are administered in various countries, and at what level the administrative expenses are when reviewed at the national level and from the perspective of comprehensive pension provision.

The review is consists of two parts. The first part presents a summary of the main results of the review. The second part of the review contains more detailed information about the administrative expenses of each country under review.

1 <http://www.cembenchmarking.com/>

2 The impact of scale, complexity, and service quality on the administrative costs of pension funds: A cross-country comparison. De Nederlandsche Bank. Working Paper No. 258/2010. http://www.dnb.nl/en/binaries/Working%20paper%20258_tcm47-237716.pdf

2 Data and methods

The information on the administrative expenses of different countries is mainly based on the statistics, accounting and budget information of the social insurance actors in each country, as well as on various official reports. Where occupational pensions are concerned, the information has primarily been gathered from the annual reports of pension companies and providers and from the statistics and publications of the supervisory authority in each country. Figures directly requested from the authorities of the different countries, or similar interest organisations, have also been used as sources. The latest available, comprehensive statistical data of the years 2010 and 2011 have been used.

We have not received benefit-specific itemizations of administrative expenses from all providers and companies administering pensions. In such cases we have been forced to make an estimation of the administrative expenses connected to pensions, for instance, based on pension benefit expenditure in relation to the total benefit expenditure.

By administrative expenses is meant operating expenses and investment expenses. In order to view administrative expenses in a comparative manner, they have been reviewed with reference to premium income, pension expenditure and the number of insured, pensioners and output paid i.e. the combined amounts of different kinds of pensions.

Operating expenses are formed from expenses arising from indemnity operations and pension insurance management, as reported by companies and pension providers in their profit and loss accounts, as well as from expenses arising from insurance acquisition and administration.³ They include personnel costs, real estate costs, other operating expenses, expenses arising from external services, financing costs and depreciations.

Investment expenses have been reviewed by way of direct or internal system costs. Outsourced expenses, i.e. indirect ones, have either been insufficiently reported or are not reported as costs at all, in which case they directly reduce profit from investment operations (in the Netherlands in 2004, approximately one quarter of funds did not report investment expenses at all.) Investment expenses reported in the review can be considered only indicative, as they are underreported in most of the countries under review.

The review does not take into account components that significantly relate to administration expenses, in other words to quality factors in the service level, the scope of services offered and customer satisfaction, or the complexity of benefits. For this reason, comparing countries in order to name the best administration is not something that should be undertaken based on these results alone. Investment management expenses are also reviewed separately from the investment result i.e. cost-effectiveness of investment operations. Not to mention that management expenses also vary based on the investment product.

³ Following the rules given by Financial Supervisory Authority for pension providers. For a closer look take a look at (only in Finnish though): http://www.finanssivalvonta.fi/fi/Saantely/Maarayskokoelma/Vakuutussektori/Vakuutusyhtiot_yhdistykset_edustustot/Documents/maarays_9-101-2011.pdf (1.9.2012).

3 Administrative expenses in countries under review

The review covers institutions that take part in the administration of statutory and occupational pensions. Ministries and supervisory authorities have been omitted. The number of actors grows considerably when we take into account occupational pensions in addition to the statutory actors. There are tens of actors in Finland, whereas their number in Sweden, Denmark and the Netherlands is several hundred and in Germany and Switzerland, there are thousands. A summary of the number of executive bodies per country have been presented in Table 2. The table does not comprise service points or regional offices.

However, the significance of the different actors varies in the case countries. For example in Germany, those insured for occupational pensions are divided quite evenly between insurance companies, industry-wide pension funds (*Pensionskassen*) and employer bookkeeping reserves (*Direktzusagen, Unterstützungskassen*). The traditional method has been to arrange the occupational pension as employer-specific bookkeeping reserves, which again shows in the distribution of pension funds (see Figures 2a and 2b).

Figure 2a.

Occupational supplementary pensions in Germany (Betriebliche Altersversorgung) according to organizer (private sector).

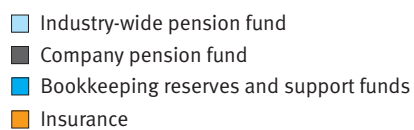
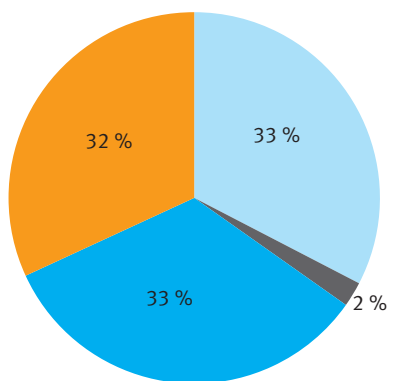


Figure 2b.

The distribution of occupational supplementary funds according to method of arrangement.

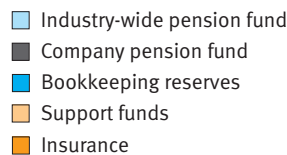
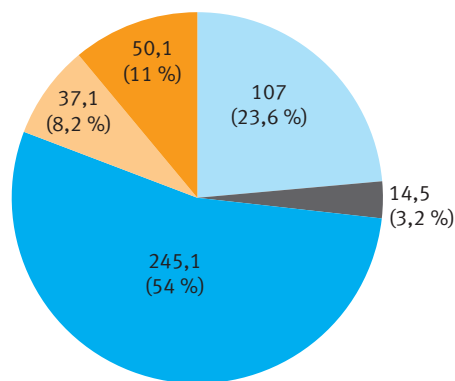


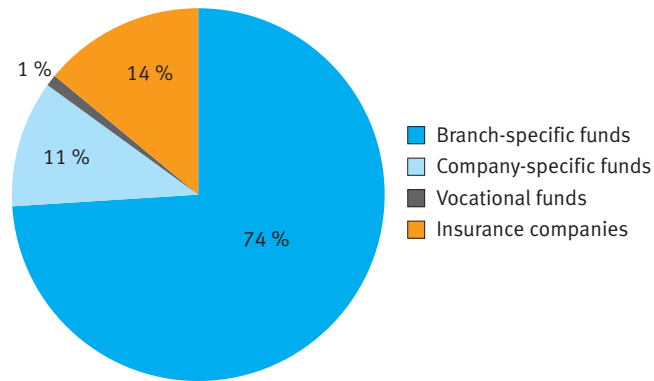
Table 2.
The number of administrative bodies in 2011.

	Number of actors
The Netherlands	
• branch-specific funds	82
• company funds	419
• funds per profession	12
• life insurance companies	50
• social insurance institutions	2
Total	565
Norway	
• social insurance institution NAV	1
• life insurance companies	12
• pension funds	95
• State pension fund	1
• AFP central institutions	3
• early retirement pension for fishermen	1
• early retirement pension for seafarers	1
Total	114
Sweden	
• funds (reg.)	77
• industry-wide pension funds	80
• insurance companies	14
• others (Fora, Collectum, PRI Pensionsgaranti, SPV, Kåpan Pensioner)	5
• Swedish Pension Agency	1
• AP buffer funds	5
• Tax Agency	1
• Swedish Social Insurance Agency	1
• Fund companies (incl. AP7)	99
Total	283
Germany	
• general statutory pension institution	16
• local pension funds of the public sector	80
• farming funds	9
• state-specific funds of independent professionals	100
• pension funds of the states	16
• support funds (Unterstützungskassen) of the private sector	11,000
• pension funds (Pensionskassen – IORP) of the private sector	149
• company pension funds (Pensionsfonds – IORP) of the private sector	30
• life insurance companies functioning as pension insurers in the private sector – IORP	76
• joint co-operation bodies	6
Total	11,482
Finland	
• company pension funds	14
• industry-wide pension funds	7
• earnings-related pension providers	7
• other pension funds (Keva, Kela, MELA, MEK, the State Treasury, others)	5
• the Finnish Centre for Pensions	1
Total	34
Switzerland	
• AHV indemnity funds	26
• IV unemployment funds	27
• AHV-IV joint funds	52
• industry-wide pension funds of the private sector	1,900
• public-sector benefit societies	13
• life insurance companies functioning as pension insurers in the private sector	8
• joint co-operation bodies	8
Total	2,034
Denmark	
• company pension funds	29
• industry-wide pension funds	21
• insurance companies	34
• ATP	1
• unemployment funds	28
• local government	98
• Pension Board	1
Total	212

In the Netherlands, on the other hand, industry-wide funds hold a significant position in occupational pension provision and a clear majority of active members are insured in these funds. Industry-wide funds have long traditions. For example, the largest fund, the ABP pension fund for employees in the public sector, was established already in 1836. The share of life insurance companies has only started to grow in the last few years (see Figure 3).

Figure 3.

The insured for occupational pension in the Netherlands, per actor.

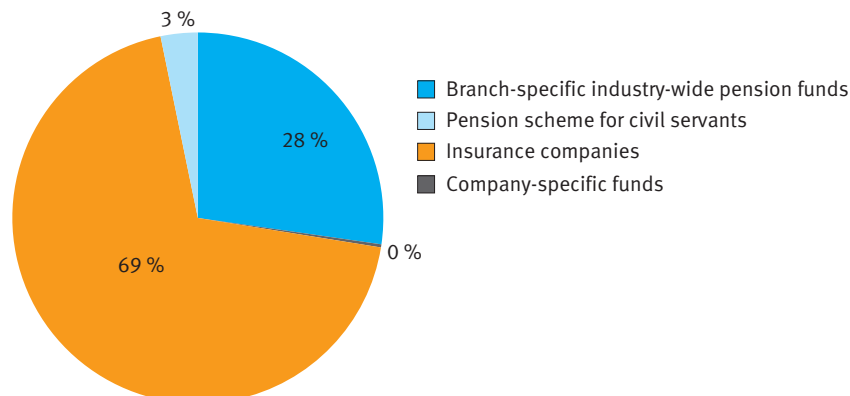


The significance of employer-specific funds is the greatest in Switzerland. Regardless of their large number, the insured and the pension funds have been centralised to a few large funds. In 2008, slightly fewer than a hundred (91) of the largest funds administered 56 per cent of all insured and 65 per cent of wealth.

In the Nordic countries, the occupational pension is most often arranged with insurance companies. For example in Denmark, the pension provision of 70 per cent of the insured has been arranged in insurance companies (see Figure 4).

Figure 4.

The insured for occupational pension in Denmark, per actor.



3.1 Operating expenses

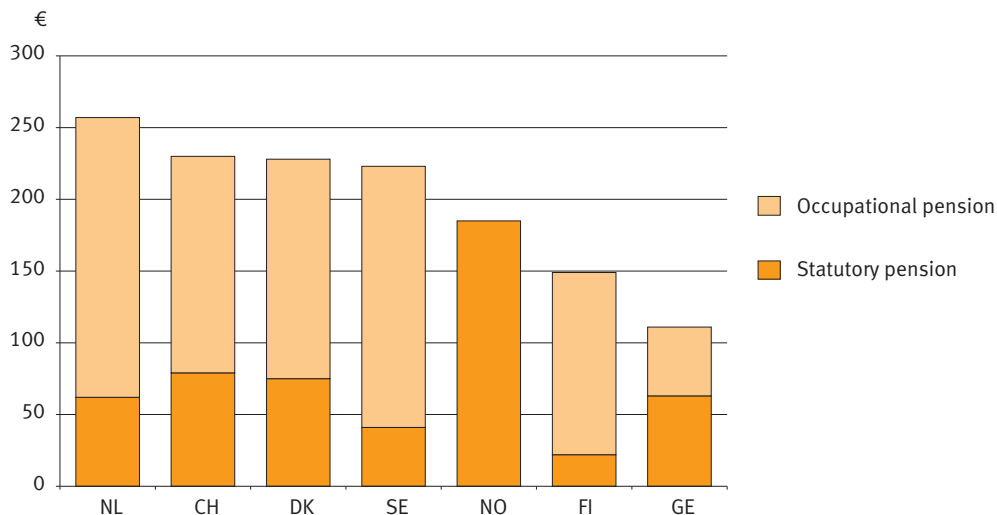
Figure 5 presents the combined operating expenses of the statutory and occupational pension schemes in the countries studied. A more detailed description, and a presentation of costs in actual amounts, are provided in the country-specific sections of the review.

Operating expenses have been presented in relation to the total number of insured and pensioners per system, i.e. in relation to pension scheme members. By members is meant the total number of insured and pensioners per scheme. By summing up the scheme-specific expenses, we have formed a representative case that depicts the administrative expenses of a person who is simultaneously a member of the different schemes. In this review, the Finnish earnings-related pension scheme has been classified as an occupational pension scheme, and the national pension scheme as statutory, in order to facilitate comparability. The administrative expenses of voluntary occupational pensions in Finland are not included in the below figure. Due to the marginal scope, there is no real basis for including them in the depiction of country-specific representative cases. The administrative expenses of voluntary occupational pensions have been presented in a separate appendix.

Member-specific operating expenses of the statutory and occupational pension schemes have been presented in Figure 5. The administrative expenses of occupational pension arrangements are larger than Pillar I administrative expenses in virtually all countries under comparison. In the case of Norway, figures only show the information of the statutory scheme, since it was not possible to separate the investment expenses of occupational pensions from the operating expenses as a whole.

Figure 5.

The operating expenses of statutory schemes and occupational schemes, per member.



Expenses have also been reviewed in relation to the number of pensions in payment, in order to arrive at an estimate of how costs are distributed among the number of accruals to be paid, not only in relation to pension recipients. Amount of pensions correspond to the combined

number of benefits calculated from different types of pensions or schemes. Additionally, expenses have been compared to the overall income and pension expenditure (see Table 3).

Table 3.

Operating expenses (OE) of statutory schemes (S) and occupational schemes (O).

	NL		SE		CH		NO ^a		GE ^b		DK		FI	
	S	O	S	O	S	O	S	O	S	O	S	O	S	O
OE / total income	1.6%	5.9%	0.75%	8.8%	1.5%	1.4%	3.2%	-	1.4%	2.5%	1.0%	2.3%	3.5%	2.5%
OE / pension expenditure	1.7%	6.9%	0.81%	11.9%	1.6%	2.8%	3.2%	-	1.6%	6.7%	1.0%	4.0%	3.5%	2.5%
OE / insured ^c	69€	287€	48€	267€	122€	190€	252€	-	100€	62€	92€	188€	26€	194€
OE / pension recipient	199€	606€	103€	570€	227€	719€	698€	-	172€	210€	174€	827€	131€	369€
OE / pensions	199€	606€	81€	570€	227€	719€	698€	-	140€	-	106€	827€	126€	264€
OE / member ^d	62€	195€	41€	182€	79€	151€	185€	-	63€	48€	75€	153€	22€	127€

a) OE-data not separately available for occupational pensions.

b) For Germany, occupational pensions only contain information on private-sector *Pensionsfonds* and *Pensionskassen*.

c) Depicts a person insured in the statutory and occupational pension schemes.

d) Insured and pension recipients.

Caution is advised when interpreting the figures, and direct comparisons between countries are best avoided. The information is not complete for all countries. For Sweden, the most significant deficiencies can be found in the fact that coverage of the company and industry-wide pension funds is only partial. For the Netherlands, occupational pensions arranged by life insurance companies are missing from the review. In Germany, there is no comprehensive statistical information on bookkeeping reserves despite the important role they play, and expenses for this sector are thus missing. In the Danish national pension scheme, expenses for disability pensions do not include expenses arising from the evaluation of disability. In some cases, we have had to resort to estimating expenses based on benefit expenditure. In Norway, for instance, pensions form part of other social insurance management, and the evaluation of administrative expenses of the statutory insurance provider (NAV) equals a relative share of pension expenditure in the overall benefit expenditure. This means that the calculated estimate is likely an estimate of the upper limit of management expenses, since the administration of old-age pensions, in particular, may be more affordable than that of other social benefits.

3.2 Investment management expenses

In addition to operating expenses, the administrative expenses of pension schemes are also formed from the management expenses of investment operations, to the extent that the system is fully or partly funded. Pensions are financed through investments, especially in the occupational pension schemes, where expenses that arise can be even more significant than the operating expenses.

Management expenses of investments are formed from management expenses within the system, i.e. the the organisation's own investment operations, as well as from expenses charged by external investment companies and corresponding funds. Investment companies are greatly utilized in the countries of comparison, and a considerable share of investment management expenses may come from external investment companies.

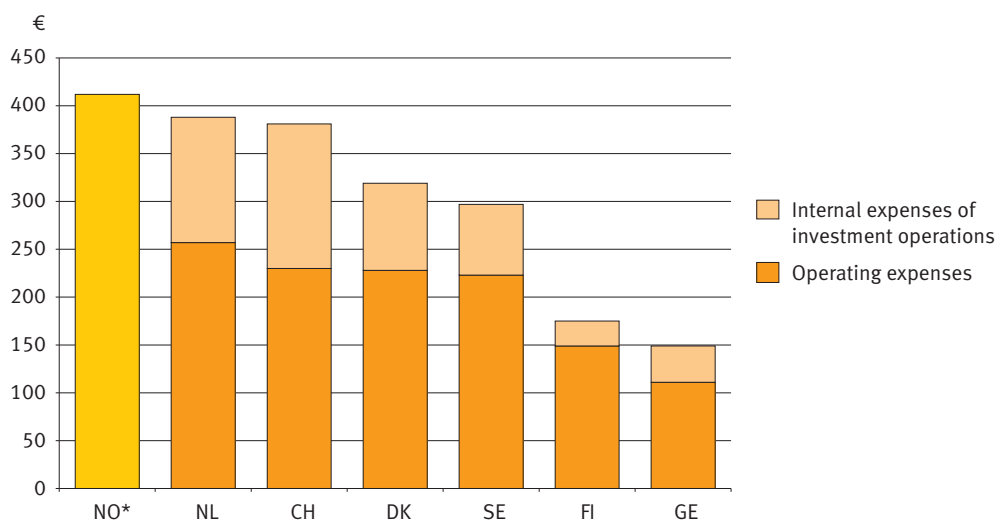
For example, the largest occupational pension scheme in the Netherlands, ABP, for employees of the public sector, and the second largest system PFZW, use external investment funds to a significant degree. In 2010, the investment expenses of ABP amounted to a total of EUR 936 million, of which the organisation's own expenses accounted for 19 per cent or EUR 178 million, while the share of external expenses was 81 per cent, or EUR 758 million. Investments made through external investment companies still only account for a quarter of total investments at ABP, and three out of four investments are managed from within the organisation. According to ABP, the investment products of external companies are more complicated and expensive to administer, but on the other hand, their better profit compensates for higher expenses. Also the indirect investment expenses of PFZW are considerably higher than the direct expenses, which are EUR 73 million and the (estimated) indirect expenses are approximately EUR 495 million, in other words seven times as high as the direct expenses. Correspondingly, ATP, which administers statutory supplementary pensions in Denmark, reports the internal administration expenses of investment operations at EUR 34 million, and the amount of external costs at EUR 131 million.

The review only takes into account the internal investment expenses reported by the companies and pension funds. A more detailed itemization of expenses can be found in the country-specific appendices.

Figure 6 and Table 4 present the overall administration expenses, comprising operating expenses (OE) as well as internal expenses of investment operations (IEI).

Figure 6.

Total administrative expenses per member, €.



* Includes investment and operating expenses.

Table 4.*Total administrative expenses.**

	NL	SE	CH	NO	GE	DK	FI
Administrative expenses / Total income	4.8%	3.5%	2.4%	4.0%	1.6%	2.2%	3.0%
Administrative expenses / pension expenditure	5.2%	3.9%	3.4%	4.5%	1.8%	2.7%	3.0%
Administrative expenses / insured	549€	416€	496€	542€	212€	392€	259€
Administrative expenses / pensions	543€	333€	601€	800€	140€ ^a	333€	266€
Administrative expenses / member ^b	388€	297€	381€	412€	149€	319€	175€

* Contains internal management expenses of investments, in addition to operating expenses.

a) Statutory pension only (GRV).

b) Pension recipients and the insured. The example person, insured or a member of both the statutory and occupational pension schemes.

4 Summary

The review focuses on the combined administrative expenses of statutory pension schemes and occupational pension schemes. It is not possible to compare the actors of different countries to each other, but the aim is rather to provide an image of how pension schemes are administered in different countries and at what level the administrative costs are from the perspective of total pension provision. The starting point is challenging since, as the review shows, there are several actors in all countries. There are many times the number of actors in the countries of comparison, compared to the Finnish scheme. Additionally, there is a lack of comprehensive statistical data available on all actors. One of the aims of the review has indeed been to investigate how comparable the data on administrative expenses generally is, considering international comparisons, and what the greatest deficiencies are from the perspective of comparisons.

The greatest deficiencies when it comes to comparing countries comes in the investment management costs. There are considerable fluctuations between actors, depending on the use of external funds. These expenses are usually not reported as administrative expenses of the company or fund. External investment management expenses may be many times that of internal expenses. The differences in annual reports and in information reported to the financial supervisory authorities in respective country, and those between actual investment management costs, are also great.

Data on benefit-specific administrative expenses are also not always available. This relates particularly to countries whose administrative bodies not only manage pensions but also other social benefits, such as Norway and Denmark, for example. Due to economies of scale connected with the administration of pensions, estimates carried out based on benefit expenditure raise the administration expenses compared to the actual costs. Administering social benefits that carry with them less expenditure but more income tests and administrative work, such as housing allowances or unemployment allowance, is more expensive than the expenditure share they stand for.

Having multiple layers of pension schemes serves to increase the number of actors, and also appears to raise administrative expenses in relative terms. This is true especially in the case of Switzerland and the Netherlands, where earnings-related pension is managed between numerous different players, and relative administrative expenses are the highest in all the countries under review. However, it is important to note that regardless of the disparity, those insured in these countries are concentrated to a few large funds, and over the last few decades the number of actors has been in steady decline. A development towards centralization seeks the economies of scale made possible by large actors. On the side of the statutory pension scheme, a similar development has taken place in Denmark lately, where the management of national pension diversified to the municipalities is being centralized to a single administrative body.

The large number of actors is usually evidence of competition on the markets and the aim of achieving lower administrative expenses. On the other hand, competition involves customer acquisition expenses, marketing expenses and a possible business profit aim that

may diminish the benefits achieved from competition. Particularly in the Netherlands, the administrative expenses of life insurance companies have proved to be clearly higher than those of pension funds. A special feature of the Dutch system is that joining branch-specific pension funds is mandatory, meaning that to this extent, there is no corresponding competition and employer choice of pension provider as, for instance, in Finland.

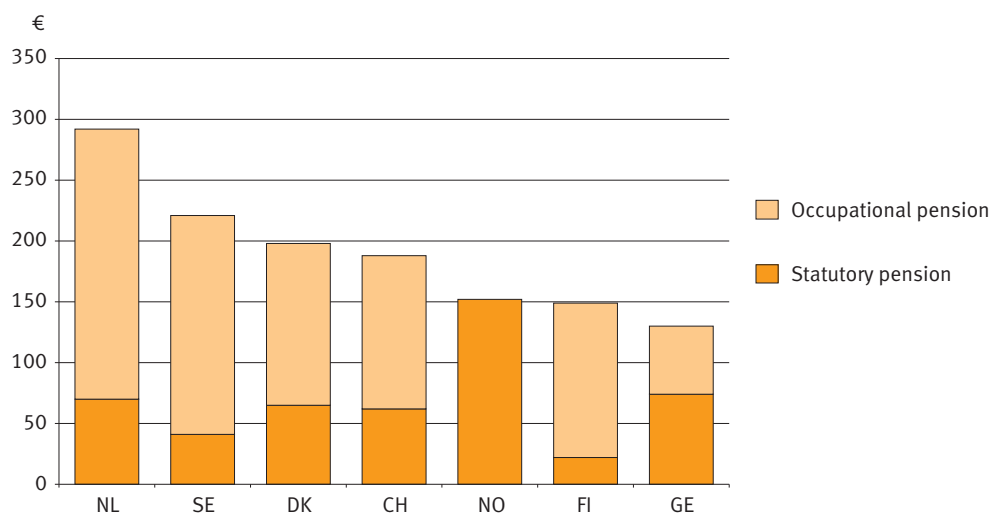
Occupational pensions are usually fully funded schemes, and investment management costs form a significant share of the overall costs. This report could provide only indications of the actual investment costs. However, costs have an impact on the pension security of the insured, especially in countries where the pension is defined contribution. In defined-benefit pension schemes, costs have an impact due to the contribution burden. An interesting observation is that for example in Sweden, the investment expenses of a relatively small statutory funded pension scheme are larger, and the overall expenses almost at the same level as for the PAYG earnings-related pension. However, it must be noted that high management expenses in investment operations are also motivated by better profit from complex investment products. In spite of certain deficiencies in the review, it is clear that the administrative expenses of the Finnish earnings-related pension scheme are, by comparison, on a competitive level with other countries or even to be considered low, depending on the point of reference.

Appendix

Administrative expenses adjusted by purchasing power

Figure 1.

The operating expenses of statutory schemes and occupational schemes, per member and adjusted by purchasing power.



Source: OECD, Eurostat.

Table 1.

Operating expenses (OE) of statutory schemes (S) and occupational schemes (O).*

	NL		SE		CH		NO		GE		DK		FI	
	S	O	S	O	S	O	S	O	S	O	S	O	S	O
OE / insured	78€	326€	48€	264€	95€	158€	207€	-	118€	73€	80€	163€	26€	194€
OE / pension recipient	226€	687€	102€	564€	177€	599€	572€	-	202€	247€	151€	719€	131€	369€
OE / pensions	226€	687€	80€	564€	177€	599€	572€	-	165€	-	92€	719€	126€	264€
OE / member	70€	222€	41€	180€	62€	126€	152€	-	74€	56€	65€	133€	22€	127€

* See the explanations of the Table 3.

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ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN DENMARK

Mika Vidlund

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Summary¹

This country review clarifies the administrative expenses of Danish statutory (so-called 1st Pillar) and occupational (so-called 2nd Pillar) pensions, primarily from the year 2011, which is the last available comprehensive statistical year.

In Denmark, the administration of the pension system has been decentralized among several actors. The statutory national pension is administered by the municipalities. Information about the administrative expenses of municipalities that administer old-age and disability pensions is based on a municipality survey ordered by the Danish Ministry of Social Affairs in 2009. The background to the survey is an administrative reform taking place between 2012–2013, during which the administration of national pension will be focused to a new administrative authority. In clarifying the administrative expenses of the statutory supplementary pension (ATP), the provider's own annual reports have been used. The administrative expenses of early retirement pension, granted by the unemployment funds, have been estimated based on reports issued by the Ministry of Labour and the Pension Authority (Pensionsstyrelsen). In order to clarify the administrative expenses of occupational pensions, we have used the statistical data produced by the Danish Financial Supervisory Authority (Finanstilsynet), covering the data of the funds and life insurance companies that manage the occupational pensions of the private and public sector. The administrative expenses of the pension scheme for civil servants have been clarified based on state budget data.

The administrative expenses and other key data of the statutory and occupational pension schemes are presented in the underlying tables 1 and 2 from the year 2011. A more detailed description of administrative expenses has been presented in the following chapters.

1 1 € = 7,4506 DKK (2011 average exchange rate, www.bof.fi).

Table 1.*Administrative expenses of the pension schemes and other key data in 2011.*

	Statutory pension				Occupational pension	Total
	National pension	Early retirement pension	ATP	Tot.		
Administrative expenses Total	MEUR 142	MEUR 41.6	MEUR 80 (MEUR 210.6)	MEUR 263.7 (MEUR 394.2)	MEUR 634.1	MEUR 897.8 (1,028.3 million)
Operating expenses	Old-age and disability pension MEUR 142 (DKK 1,059)	MEUR 41.6 (DKK 310)	MEUR 43.9 (DKK 327)	MEUR 228.7	MEUR 413.4 (DKK 3 079)	MEUR 642.1
			SUPP: MEUR 1.2 (DKK 9)			
Investment expenses	-	-	MEUR 164.7 (DKK 1,227)	MEUR 35 (MEUR 165.5)	MEUR 220.7 (DKK 1 644)	MEUR 255.7 (MEUR 386.2)
			direct: MEUR 34.2 (DKK 255)			
			indirect: MEUR 130.5 (DKK 972)			
			SUPP: MEUR 0.8 (DKK 6)			
Overall income (Incl. State share)	MEUR 19,142 (DKK 142,611)	MEUR 2,722 (DKK 20,281)	MEUR 1,154.6 (DKK 8,602)	MEUR 23,081.3	MEUR 17,608 (DKK 131,180)	MEUR 40,689.3
			SUPP: MEUR 62.7 (DKK 467.1)			
(Insurance) premium	-	MEUR 709 (DKK 5,284)	MEUR 961.5 (DKK 7,163)	MEUR 1,691.4	MEUR 17,608 (DKK 131,180)	MEUR 19,299.4
			SUPP: MEUR 20.9 (DKK 155.7)			
Pension expenditure	MEUR 19,142 (DKK 142,611)	MEUR 2,722 (DKK 20,281)	MEUR 1,487 (DKK 11,080)	MEUR 23,370.2	MEUR 10,449 (DKK 77,847)	MEUR 33,819.2
			SUPP: MEUR 19.2 (DKK 143.4)			
Investment assets	-	-	bnEUR 104 (DKK 776) 44% of GDB ^b	bnEUR 104.3	bnEUR 235 (DKK 1,750) 100% of GDB ^b	bnEUR 339.3
			SUPP: MEUR 310 (DKK 2.3 bn)			
Insured	3,625,974 ^a (15–64y)	1,070,000	3,114,300	-	2.2 million	-
Pensioners	1,198,994	114,287	838,000	1,313,281	0.5 million	-
			SUPP: 3,900			
Pensions	1,198,994	114,287	841,900	2,155,181	0.5 million	2.7 million

a) DST 2012, www.statistikbanken.dk/folk1.b) GDP, million, DKK 1,782,515 (2011); DKK 1,754,648 (2010), <http://www.statbank.dk/nat01>.

Table 2.
Administrative expenses in relation to key figures in 2011.

	Statutory schemes				Occupational schemes	Total
	National pension	Early retirement pension	ATP	Total		
Operational costs / gross income	0.74%	1.5%	3.9%	1.0%	2.3%	1.6%
Operational costs / pension expenditure	0.74%	1.5%	3.0%	1.0%	4.0%	1.9%
Operational costs / insured	EUR 39	EUR 39	EUR 14	EUR 92	EUR 188	EUR 280 ^a
Operational costs / pensioner	EUR 119	EUR 365	EUR 54	EUR 174	EUR 827	-
Operational costs / member ^b	EUR 29	EUR 35	EUR 11	EUR 75	EUR 153	EUR 228 ^a
Operational costs / pension	EUR 119	EUR 365	EUR 54	EUR 106	EUR 827	EUR 238
Administrative expenses/ gross income	0.74%	1.5%	6.6%	1.1%	3.6%	2.2%
Administrative expenses/ pension expenditure	0.74%	1.5%	5.3%	1.1%	6.1%	2.7%
Administrative expenses/insured	EUR 39	EUR 39	EUR 26	EUR 104	EUR 288	EUR 392 ^a
Administrative expenses/pensioner	EUR 108	EUR 365	EUR 95	EUR 201	EUR 1 268	-
Administrative expenses/pension	EUR 119	EUR 365	EUR 95	EUR 122	EUR 1 268	EUR 333
Administrative expenses/member ^b	EUR 29	EUR 35	EUR 20	EUR 84	EUR 235	EUR 319 ^a

a) Depicts a person insured in the statutory schemes and occupational scheme.

b) Insured and pensioners.

1 Introduction

Statutory pension in Denmark comprises a residence-based national pension scheme and a supplementary pension scheme (ATP, Arbejdsmarkedets Tillægspension). In addition a specific early retirement pension (efterløn) is paid from the unemployment insurance scheme. The significance of national pension is central to the overall pension security, and it is at a high level. The management of the national pension scheme has been decentralized to the municipalities. Old-age pension and disability pensions are paid from the national pension scheme. Actual survivors' pensions are not paid, but if both spouses receive some benefit from the national pension scheme, the combined pensions of both are paid as survivors' pension for three months following the death of the spouse. National pensions are financed through taxes.

It is mandatory for all wage earners to be covered by the ATP pension scheme. The independent ATP pension provider is responsible for the administration of the scheme. Old-age and survivors' pensions are paid from the ATP scheme, but not disability pensions. The share of pensions paid from the ATP system in the overall pension provision is small. The ATP pension (based on contributions paid since the year the ATP was established in 1964) of a 65-year-old employee retiring in 2011 from a full-time career was DKK 24,800 per year (ca. EUR 3,300). A full ATP pension is approximately 40% of the basic national pension. The average annual ATP pension was approximately DKK 12,700 (EUR 1,700). The average ATP pension of a person retiring in 2011 at the age of 65 was approximately DKK 15,600 (EUR 2,090). The system is jointly funded by the employer and the employee. The contribution is flat rate and corresponds to approximately 1% of the average salary.

The mandatory special pension savings scheme that came into force in early 1999 (SP, Særlige Pensionsopsparing) was discontinued on 30 April 2010. A contribution of 1% of the wage was collected into personal pension accounts for the SP savings pensions, and it was managed by the ATP pension provider.

The earnings-related pension has been arranged based on various labour market agreements. Supplementary, occupational pension schemes cover over 80% of wage earners. They are primarily defined contribution schemes and normally arranged in company-specific pension funds (firmapensionskassor), branch-specific pension funds (tvaergående pensionskasser), and life insurance companies (livsforsikringsselskaber). A majority of all supplementary pensions are arranged in life insurance companies. Some civil servants have their own defined benefit pension scheme (tjenestemandspension), administered by a separate personnel administration connected to the Ministry of Finance (formerly Personalestyrelsen, personnel administration).

2 Administrative expenses of statutory pensions

The administration of national pensions has been decentralized to the municipalities. A municipal reform took place in Denmark in 2007. Municipal mergers decreased the number of municipalities from 271 to the current 98. The number of provinces also decreased as a result of the reform. Five regions were established in place of the fourteen provinces, the main purpose of which is to administer healthcare and hospitals.

The administrative structure and implementation of national pensions are still being comprehensively reformed. In October 2012, a new administrative authority called Udbetaling Danmark² began operating. It is responsible for calculating and paying the statutory national pension decentralized to the municipalities as well as certain other social security benefits such as family benefits and housing supplements. National pension benefits will be taken over by the new authority by 1 March 2013. The Ministry of Social Affairs (Social- og Integrationsministeriet), The Ministry of Finance (Finansministeriet), the Municipal Federation (KL, Kommunernes Landsforening) and the ATP provider have been the founders of the new administration, and it will be implemented through five regional units. Centralization is estimated to save administration costs of DKK 300 million per year. There were no actual administration costs in 2011. The costs of establishing an administration were reported at DKK 93.5 million in 2011. The municipalities fund operations by paying a separate administration fee to be charged for the first time in 2013.

Table 2.1 presents recipients of statutory national pensions and early retirement pension during 2009–2011. Expenditure for statutory national pension and early retirement pensions amounted to a total of 9% of GDP³ in 2011 (see Table 2.2).

Table 2.1.

Recipients of statutory national pension and early retirement pension in the years 2009–2011.

	2011	2010	2009
Old-age pension	953,428	921,309	883,711
Disability pension, total	245,566	244,552	241,299
- Højeste/ mellemste førtidspension (old)	109,050	118,057	126,553
- Almindelig /forhøjet almindelig førtidspension (old)	24,984	28,228	31,633
- Førtidspension (new)	111,532	98,267	83,113
Early retirement pension (full)	114,287	123,915	131,519
Total	1,313,281	1,289,776	1,256,529

Source: DST, <http://www.statistikbanken.dk/PEN11>; <http://www.dst.dk/da/Statistik/emner/offentligt-forsroegede/fuldtidsmodtagere.aspx>

² <http://www.atp.dk/X5/wps/wcm/connect/udbetalingdanmark/ud.dk>.

³ DKK 1782,5 billion (DST 2012).

Table 2.2.

Statutory national pension and early retirement pension expenditure in 2009–2010, million DKK.

	2011	2010	2009
Old-age pension*	101,626	95,469	88,864
Disability pension	40,983	39,748	37,513
Early retirement pension	20,281	21,345	21,479
Survivors' pension	2	2	1
Total	162,892	156,564	147,857

* Contains a pension supplement (personlige tillæg).

Source: <http://www.dst.dk/pukora/epub/upload/16252/headword/dk/139.pdf>

DST, <http://statistikbanken.dk/statbank5a/default.asp?w=1920>

2.1 National pension scheme

Old-age pension (folkepension) and disability pensions (førtidspension) are paid from the national pension scheme. There is no actual survivors' pension (efterlevende). It is only granted to the surviving spouse for three months (efterlevelsespension), if both spouses were pension recipients, or received as an income tested lump-sum (efterlevelseshjælp).

There is no benefit-specific itemization of administration costs when it comes to benefits and services administered by the municipalities. In this report, the administration expenses of national pensions come from the Danish Ministry of Social Affairs and from a separate questionnaire. The questionnaire has been carried out in order to chart the cost benefits of the Udbetaling Danmark administrative reform. Based on this information, the administration expenses for old-age pensions, with the exclusion of the IT system, were DKK 394 million and DKK 88 million for the disability pensions.⁴ Costs for disability pensions do not include costs arising from the evaluation of disability. IT costs for old-age and disability pensions amounted to DKK 417 million, and significant cost savings are expected from inviting tenders for the administrative reform.

Pensions paid abroad, insurance of work abroad and social security agreements are the responsibility of the Pension Board (Pensionsstyrelsen), under the jurisdiction of the Ministry of Social Affairs. The Pension Board will be discontinued and its functions transferred to Udbetaling Danmark. The administrative expenses of the Pension Board were DKK 90.9 million in 2009, DKK 109.2 million in 2010 and DKK 160.1 million in 2011 (Pensionsstyrelsen 2012).

2.2 The early retirement scheme of the unemployment fund

Wage earners and self-employed persons who belong to the unemployment fund (A-kasse) may be eligible for early retirement pension (efterløn) granted from the unemployment insurance scheme, from the age of 60 onwards. The precondition for receiving the early

⁴ Data at 2011 price level.

retirement pension is paying a separate early retirement contribution to the unemployment fund. However, early retirement pensions are largely financed with state funds. In 2011, premium income amounted to approximately DKK 5.3 billion and the contribution was charged from approximately 1.1 million insured. (Finanslov 2011.)

Currently there are 28 unemployment funds administering benefits and early retirement pension. The funds have approximately 2.2 million insured. The Ministry of Labour and the Pension Board (Pensionsstyrelsen) annually publish information about the administrative expenses of the unemployment funds. The administrative expenses of the unemployment funds have dropped from a level of approximately DKK 4 billion during 2000–2002 to the current DKK 3 billion. The administrative expenses of the unemployment funds vary between approximately DKK 800 and DKK 1900 per member in 2012⁵.

Of all the benefits granted by the unemployment funds, the early retirement pension is the single most significant benefit expense item after the unemployment allowance. Where administrative costs are concerned, there is no benefit-specific itemization available, but the Ministry of Labour and the Pension Board publish evaluations of time usage in order to measure the efficiency of services and benefits granted by the unemployment funds. The share of the early retirement pension in administrative time usage was 11 per cent in 2009 and 10 per cent in 2010 (Pensionsstyrelsen 2010; Beskæftigelsesministeriet 2011).

This review utilizes the estimate in question to evaluate the administration expenses of the early retirement pension. A corresponding share of the overall administration expenses leads to administration expenses for early retirement pension of DKK 337 million in 2009 and DKK 310 million in 2010. Estimated as such, we can assume that the administrative expenses will be lower than they actually are, but based on the results of the time usage data, the evaluation in question will, regardless, provide a more correct picture of the size of the administrative expenses than the evaluation based on the benefit expenditures.

2.3 ATP, statutory supplementary pension

The administrative costs of the ATP pension provider have been presented in Table 2.3 and the number of insured in Table 2.4. The operating expenses for ATP were DKK 69 per member and the direct investment expenses were DKK 54. If also taking into account the indirect investment expenses, the costs of the investment expenses were DKK 261 per member. The statistics of the Danish Financial Supervisory Authority (Finanstilsynet) only contain direct investment expenses. Also in this review only the direct expenses are taken into account in calculation of the total administrative expenses (see Table 1).

⁵ <http://www.a-kasser.dk/>, see also: <http://www.penst.dk/~media/PST/Files/Publikationer/2011/A-kassernes%20administration-sudgifter%20011211.pdf.ashx>, <http://www.penst.dk/~media/PST/Files/Publikationer/2011/Benchmarking%20af%20akassernes%20statusrapport%202010.pdf.ashx>

Table 2.3.

Administrative expenses of the ATP pension provider 2009–2011, in DKK millions.

	2011	2010	2009
Premium income	8,602	8,293	8,185
Pension expenditure	11,080	10,170	9,222
Administrative expenses			
- Operating expenses	327	318	196
- Investment expenses (direct)	255	243	166
- Investment expenses (indirect)	972	888	621

Source: ATP; Finanstilsynet.

The total figure of members was 4.7 million in 2011. The figure includes also pensioners. The members paying insurance contributions, i.e. the active members, numbered 3,114,300 in 2011.

Table 2.4.

Insured and pensioners of the ATP scheme in 2009–2011.

	2011	2010	2009
Members	4,732,000	4,678,000	4,641,000
- of which pensioners	838,000	795,000	756,000

Source: ATP; Finanstilsynet.

ATP had 686 full-time employees in 2011. The whole concern had 794 employees. ATP offers administrative services and also administers certain other social security benefits in addition to pensions (e.g. wage protection fund for wage earners). Additionally, ATP provides technical and administrative know-how to the new administrative unit, Udbetaling Danmark, which takes responsibility not only for the statutory national pensions decentralized to the municipalities but also for calculating and paying survivors' benefits.

ATP funds amounted to approximately DKK 776 billion in 2011; approximately 44 per cent in relation to GDP. ATP pension expenditure was 0.6% of GDP in 2011.

2.3.1 Supplementary pension scheme of the disabled

ATP manages the voluntary supplementary pension (SUPP) for disability pensioners. Since 2003, disability pensioners have had the opportunity to improve their future old-age pension by paying a voluntary contribution towards a supplementary pension. By the end of 2011, 96,300 disability pensioners, approximately 39 per cent, had applied for supplementary pension security. Of these, 94% had selected ATP to manage their SUPP pension. The contribution is fixed and was DKK 459 in 2011. The municipality pays 2/3 of the insurance contribution (306 DKK), and the insured pays 1/3 (153 DKK). The

contribution income was DKK 467 million in 2011. Funded capital was DKK 2.3 billion in 2011. Pension expenditure was 0.03% of GDP in 2011. Administrative expenses have been presented in table 2.5.

Table 2.5.

The SUPP supplementary pension scheme, DKK million.

	2011	2010	2009
Premium income	467.1	425	381
Pension expenditure	143.4	119.9	86.0
Administrative expenses			
- Operating expenses	9	14	14
- Investment operations	6	3 (+3 indirect expenses)	0.2 (+2 indirect expenses)

Source: ATP.

3 Administrative expenses of occupational pensions

With the exception of the pension scheme for civil servants, occupational pensions are defined contribution and fully funded. Pension funds of occupational pensions were estimated at DKK 1,750 billion (EUR 235 billion) in 2010, in other words approximately 100% compared to GDP (MoF 2011). Occupational pension expenses were approximately 4.4% of GDP compared to the year 2011.

The number of insured who had paid contributions to one or several occupational pension schemes was approximately 2.2 million in 2011. There were circa 500,000 pensioners (Forsikring og Pension 2012.)

3.1 Occupational pensions administered by life insurance companies

A large share of occupational pensions have been arranged with life insurance companies. Life insurance companies numbered 34 in 2011 (see Appendix 1). The number of insurance contracts tied to employment was 3,364,074 in 2011.

The following table summarizes the insurance contribution income, claims expenditure and administrative expenses of the life insurance companies. The companies do not itemize administrative expenses according to the type of benefit. In this report, the administrative expenses of occupational pensions have been assessed based on the claims expenditure reported by the life insurance companies. The result is thus only indicative (see table 3.1). The share of occupational pensions has been slightly over half of the companies' overall claims expenditure. In the contribution income the share is significantly higher. This can be explained by the fact that the current, comprehensive occupational pension schemes have developed at quite a late stage, in the 1980s and 1990s.

Table 3.1.

Key figures of the life insurance companies 2009–2011, 1,000 DKK.

	2011	2010	2009
Contribution income, total ^a	104,384,446	97,014,690	88,897,902
- Occupational pension ^b	87,504,278	81,529,393	73,649,642
- Individual ^c	7,861,277	6,895,380	6,919,073
- Group life insurance	9,018,891	8,589,917	8,329,187
Claims expenditure, in total ^a	73,051,446	64,927,825	57,368,286
- Occupational pension ^b	40,015,838	33,582,851	30,978,263
- Individual ^c	25,384,656	23,568,188	19,156,160
- Group life insurance	7,650,951	7,776,786	7,233,863
Administrative expenses ^a	6,477,180	6,000,961	6,146,061
- Operating expenses	4,598,561	4,196,175	4,490,493
- Investment expenses	1,878,619	1,804,786	1,655,568
Administrative expenses of occupational pensions ^d	3,543,017	3,102,496	3,318,873
- Operating expenses	2,515,413	2,169,422	2,424,866
- Investment expenses	1,027,604	933,074	894,007

a) I alt forsikrings-/pensionsydelse,

b) Livsforsik. kontrakter tegnet som led i et ansættelsesforhold.

c) Livsforsik. kontrakter tegnet uden for ansættelsesforhold.

d) Estimate based on claims expenditure.

Source: Finanstilsynet.

3.2 Field-specific pension funds

There were 21 pension funds in 2011 (see Appendix 2). The total number of insured in the funds was approximately 600,000. The average number of full-time staff in 2011 was 271.

Table 3.2.

Field-specific pension funds (Tværgående pensionskasser), 1,000 DKK.

	2011	2010	2009
Contribution income, total	19,420,032	18,983,810	17,892,539
- Occupational pension ^b	18,477,504	18,132,592	17,081,872
- Individual ^c	613,304	530,153	524,354
- Group life insurance	329,224	321,065	286,313
Claims expenditure, in total ^a	13,288,281	12,510,578	11,729,247
- Occupational pension ^b	11,697,330	10,884,045	10,894,426
- Individual ^c	1,157,768	1,125,546	397,881
- Group life insurance	433,183	500,987	436,94
Administrative expenses			
- Operating expenses	529,335	481,947	442,795
- Investment expenses	573,491	596,516	637,086

a) I alt forsikrings-/pensionsydelse.

b) Livsforsik. kontrakter tegnet som led i et ansættelsesforhold.

c) Livsforsik. kontrakter tegnet uden for ansættelsesforhold.

Source: Finanstilsynet.

Table 3.3.

Administrative expenses, 1,000 DKK. (Pensionsmæssige driftsomkostninger for tværgående pensionselskaber).

	2011	2010	2009
Personnel expenses	152,584	150,704	149,385
Administrative payments (administrationsvederlag)	182,413	233,779	198,048
Real estate expenses (huseje, driftsomkostninger vedrørende domicilejendomme)	16,015	15,161	14,684
Write-offs and depreciations	23,045	15,404	4,987
Other acquisition and administrative expenses	169,684	88,345	98,625
Compensations from liaison bodies	14,676	21,446	22,934
Total	529,335	481,947	442,795

Source: Finanstilsynet.

Table 3.4.

Insured/members and pensioners.

	2011	2010	2009
Members	598,891	586,76	572,742
- vested rights	185,979	184,873	177,836
Pensioners	124,729	117,928	112,309

Source: Finanstilsynet.

3.3 Company-specific pension funds

Company-specific pension funds (company pension funds) numbered 29 in 2011. The majority (22) were small pension funds with less than 50 insured. (See Appendix 3.) Average full-time staff in 2011 was 35. The number of insured in company pension funds has been steadily declining.

Table 3.5.

Key figures of company pension funds in 2009–2011, 1,000 DKK.

	2011	2010	2009
Premium income	857,912	1,244,146	842,74
Pension expenditure	1,794,174	1,874,895	1, 873,905
Administrative expenses			
- Operating expenses	34,668	32,119	25,358
- Investment expenses	42,772	42,482	35,221

Source: Finanstilsynet.

Table 3.6.

Insured/members and pensioners, 2009–2011.

	2011	2010	2009
Members	5,824	6,409	6,441
Pensioners	11,405	11,852	11,547

Source: Finanstilsynet.

3.4 Pension scheme for civil servants (Tjenestemandspensioner)

The pension scheme for civil servants is a defined benefit scheme. Pensions are partly financed with state tax funds. Approximately 71,000 insured were covered by the pension scheme for civil servants. The number of insured has decreased strongly for a number of reasons, one being that many insured have moved to occupational pension schemes that are funded and defined contribution schemes. Pensions were paid to approximately 145,000 beneficiaries, of which approximately 110,000 received pension in their own right. Pension expenditure was approximately 1.4 per cent of GDP in 2011.

Table 3.7.

Key figures for the civil servant pension scheme during the period 2009–2011, million DKK.

	2011	2010	2009
Pension expenditure	24,340	23,535	22,842
Premium income	3,939	3,217	3,280
Administrative expenses	-	52.2	63.8

Source: DST, <http://www.dst.dk/pukora/epub/upload/16252/headword/dk/139.pdf>;

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Where the pension scheme for civil servants is concerned, this report utilizes the administration expenses from 2010 due to the restructuring of pension administration. On 31 October 2011, Moderniseringsstyrelsen (“The modernization board”) replaced Personalestyrelsen (the HR board) which previously administered the pensions of civil servants. There were 114 employees in the administration in 2011 (127 in 2010).

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Appendices

Appendix 1.

Life insurance companies and their expenses per insured, 2007–2011, DKK

	2007	2008	2009	2010	2011
AP Pension livsforsikringsaktieselskab	1,203.00	1,175.00	1,186.00	1,163.00	1,355.00
Bankpension, livs- og pensionsforsikringselskab A/S			236,406.00	22,599.00	33,630.00
Danica Liv III, Livsforsikringsaktieselskab	1,362.00	1,394.00	1,131.00		
Danica Pension I, Livsforsikringsaktieselskab	3,942.00	2,915.00	2,222.00		
Danica Pension, Livsforsikringsaktieselskab	1,100.00	1,065.00	1,033.00	1,233.00	1,212.00
Forsikrings-Aktieselskabet ALKA Liv II	198.00	204.00	221.00	204.00	0.00
Forsikringselskabet Alm. Brand Liv og Pension A/S	824.00	748.00	723.00	811.00	820.00
Forsikringselskabet SEB Link A/S	2,701.00	2,531.00	2,616.00	2,406.00	2,319.00
Forsikringselskabet SEB Liv III A/S	2,127.00	1,990.00	2,153.00	2,326.00	
FunktionærPension, Pensionsforsikringsaktieselskab	378.00	396.00	380.00	471.00	437.00
Industriens Pensionsforsikring A/S	318.00	365.00	369.00	316.00	307.00
Læremes Pension, forsikringsaktieselskab	532.00	489.00	566.00	581.00	529.00
Nordea Liv & Pension, livsforsikringselskab A/S	1,950.00	1,451.00	1,417.00	1,393.00	1,395.00
Nordea Liv & Pension, livsforsikringselskab III A/S	1,215.00	569.00			
Nordea Liv og Pension A	512.00	1,967.00			
Nykredit Livsforsikring A/S	1,642.00	2,032.00	2,331.00	3,361.00	3,506.00
PBU - Livsforsikringselskabet A/S			10,668.00	635.00	3,119.00
PenSam Liv Forsikringsaktieselskab	561.00	583.00	585.00	412.00	1,095.00
PensionDanmark Pensionsforsikringsaktieselskab	335.00	336.00	354.00	362.00	352.00
PFA Pension, forsikringsaktieselskab	1,322.00	1,434.00	1,318.00	842.00	1,162.00
PFA Soraarnej, forsikringsaktieselskab	995.00	865.00	1,045.00	1,077.00	1,385.00
PKA+Pension Forsikringselskab A/S	334.00	354.00	342.00	378.00	396.00
PMF-Pension, Forsikringsaktieselskab	347.00	347.00	344.00	556.00	528.00
Sampension KP Livsforsikring A/S	503.00	557.00	513.00	511.00	530.00
SEB Pensionsforsikring A/S	1,117.00	1,164.00	1,177.00	1,124.00	1,231.00
SHB Liv Forsikringsaktieselskab	1,472.00	1,067.00	832.00	1,274.00	3,124.00
Skandia Link Livsforsikring A/S	2,362.00	2,598.00	2,702.00	1,753.00	1,762.00
Skandia Livsforsikring A A/S	3,013.00	1,571.00	1,307.00	1,467.00	1,392.00
Skandia Livsforsikring A/S	4,384.00	4,916.00	4,212.00	3,760.00	3,037.00
Topdanmark Link Livsforsikring A/S	5,220.00	2,436.00	1,823.00	1,767.00	2,294.00
Topdanmark Livsforsikring A/S	1,556.00	1,886.00	1,689.00	1,516.00	1,474.00
Topdanmark Livsforsikring II A/S	1,035.00	1,085.00	1,143.00	1,217.00	1,283.00
Topdanmark Livsforsikring III A/S	3,635.00	3,768.00	3,307.00	3,384.00	3,696.00
Topdanmark Livsforsikring V A/S	1,034.00	1,062.00	1,121.00	1,125.00	1,435.00

<http://www.finanstilsynet.dk/en/Tal-og-fakta/Statistik-noegletal-analyser/Noegletal.aspx>

Appendix 2. Pension funds and their expenses per insured, 2007–2011, DKK

Pension funds	2007	2008	2009	2010	2011
Arbejdstagernes Pensionskasse	329.00	288.00	278.00	302.00	293.00
Arkitekternes Pensionskasse	746.00	843.00	990.00	976.00	1,055.00
BANKPENSION, Pensionskasse for Finansansatte	1,038.00	1,827.00	1,334.00	1,100.00	1,378.00
Danske civil- og akademiingeniørers Pensionskasse	866.00	811.00	1,040.00	941.00	992.00
Finanssektorens Pensionskasse	1,961.00	2,389.00	2,182.00	2,432.00	2,822.00
Juristernes og Økonomernes Pensionskasse	923.00	902.00	971.00	986.00	1,311.00
Lægernes Pensionskasse	595.00	593.00	592.00	591.00	578.00
MP Pension, Pensionskassen for magistre og psykologer	677.00	748.00	679.00	596.00	711.00
Pensionsk. for sygehjælpere, beskæftigelsesvejledere, plejere og plejehjemsass.	603.00	385.00	400.00	531.00	402.00
Pensionskassen for amtsvejtmænd m. fl.	716.00	419.00	439.00		
Pensionskassen for Apotekere og Farmaceuter	987.00	1,260.00	1,290.00	1,036.00	1,185.00
Pensionskassen for Bioanalytikere	533.00	377.00	558.00	531.00	
Pensionskassen for Børne- og Ungdomspædagoger	556.00	573.00	440.00	687.00	670.00
Pensionskassen for Farmakonomer	1,042.00	1,133.00	1,080.00	1,075.00	1,120.00
Pensionskassen for Håndværk og Industri	326.00	374.00			
Pensionskassen for Jordbrugsakademikere og Dyrlæger	856.00	876.00	1,000.00	978.00	1,137.00
Pensionskassen for Jordemødre	535.00	399.00	571.00	537.00	
Pensionskassen for Kontorpersonale	529.00	400.00	525.00	519.00	526.00
Pensionskassen for Kost- og Ernæringsfaglige	529.00	400.00	518.00	522.00	
Pensionskassen for Lægeseekretærer	526.00	380.00	530.00	518.00	527.00
Pensionskassen for Nærings- og Nydelsesmiddelområdet	313.00	391.00			
Pensionskassen for portører	689.00	421.00	436.00	1,048.00	920.00
Pensionskassen for Socialrådgivere og Socialpædagoger	529.00	404.00	516.00	521.00	529.00
Pensionskassen for Sundhedsfaglige	534.00	397.00	540.00	528.00	535.00
Pensionskassen for Sygeplejersker	533.00	371.00	543.00	533.00	533.00
Pensionskassen for teknikum- og diplomingeniører	933.00	943.00	874.00	1,046.00	1,056.00
Pensionskassen for trafikfunktionærer og amtsvejtmænd m.fl.	751.00	428.00	447.00	446.00	799.00
Pensionskassen for Værkstedsfunktionærer i Jernet	3,323.00	4,046.00	4,842.00		

<http://www.finanstilsynet.dk/en/Tal-og-fakta/Statistik-noegletal-analyser/Noegletal.aspx>

Appendix 3. Pension funds 2011

1.	Alm. Brand Fpk.
2.	Arb. Landsbanks Fpk.
3.	Berlingske Fpk.
4.	Bornholms Fpk.
5.	Carlsbergfondets Fpk.
6.	Cerestar Fpk.
7.	Classenske Fideic
8.	Dahl A/S Fpk.
9.	Danmarks Natbank Fpk.
10.	Danmarks Radio Fpk.
11.	Danske Banks Fpk.
12.	DFDS Fpk.
13.	Direktører Bikuben
14.	Ford Motor Fpk.
15.	Forenede Kredit
16.	Gudenaacentralen
17.	IBM Pension
18.	Jyllands Kredit
19.	Kolding By Fpk.
20.	Kredit Danmark Fpk.
21.	Kronjylland Fpk.
22.	Københavns Havn Fpk.
23.	Købstædernes Alm. Br.
24.	Roskilde Spk. Fpk.
25.	SAS Pilot Fpk.
26.	SDS Direktører Fpk.
27.	Shell-dansk Fpk.
28.	Shell-Funkt. Fpk.
29.	TDC Fpk

http://www.finanstilsynet.dk/da/Tal-og-fakta/Statistik-noegletal-analyser/Statistik-om-sektoren/2010/~-/media/Tal-og-fakta/2011/Statistik/Statistisk_Materiale_Livsforsikringsselskaber/Register_LIV_TPK_FPK.ashx

ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN GERMANY

Hannu Ramberg

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Summary

In Germany, pensions have a long history. In terms of population, the country is the largest EU Member State with a complex business structure. It is a federation with a central government and states, which all have their own state and local governments. The overall pension system conforms to these structures and is compiled of various different parts. The country has a statutory earnings-related pension scheme, and 60 per cent of those in employment are covered by a supplementary occupational pension scheme. Both types of pension schemes are further divided into various pension schemes specific for their target groups.

Finding information on other German pension schemes than the statutory general pension scheme is not easy. There are many institutions, several schemes and much of the data used in this review is not reported in an easily accessible manner, if reported at all. The pension expenditure examined in this review concerns circa 70 per cent of all German statutory and occupational pensions, so the scope of this review can be considered to be close to that level.

Table 1 contains the administrative expenses of the statutory general pension scheme and two occupational pension schemes¹, as well as other key figures. Some of the data is for 2010 and some for 2011. The table does not cover all German pension schemes because data on all of them was not available at the time of compiling this review. To be able to form an overall view, some of the missing data in Table 1 has been estimated.

Missing from the table are individuals covered by federal state pension schemes, the liberal professions and farmers. Missing from occupational pensions are private-sector pensions handled through book reserves and pensions handled through support funds, as well as the occupational pensions of the large insured group of local government and church parish employees (AKA). A considerable share of occupational pensions of private-sector employers have been arranged through book reserves and support funds that are closely related to the employer.

The references (a–j) in the table are listed underneath the table.

¹ Bundesministerium für Arbeit und Soziales: Sozialbudget 2011, Tabelle I-2 / Leistungen nach Institutionen ja Tabelle III-2 / Leistungen nach Funktionen und Institutionen.

Table 1.
Administrative expenses and other key figures of the German pension scheme.

Variable	Statutory pension scheme, GRV	Private sector – occupational pension ^c	Occupational pension of public administration, VBL	Assessment of other schemes	Total
Total administrative expenses	MEUR 3,522	MEUR 560	MEUR 169	MEUR 2,151*	MEUR 6,402
Net operating expenses	MEUR 3,522	MEUR 309	MEUR 95	MEUR 1,884* ^e	MEUR 5,810
Investment expenses	EUR 0 € ^a	MEUR 251 ^d	MEUR 74 (Investments' administrative expenses MEUR 6)	MEUR 267*	MEUR 592
Gross income (incl. State's share)	MEUR 251,254	MEUR 12,486	MEUR 5,312	..	..
Premium income	MEUR 185,287	MEUR 12,003	MEUR 5,286	..	..
Pension expenditure	MEUR 224,352	MEUR 4,622	MEUR 4,488	..	MEUR 270,000* ^f
Investment assets	MEUR 18,604 (buffer)	MEUR 133,224	MEUR 16,440	..	..
Insured	35,369,935 (actives) 52,222,842 (all)	5,010,000 (actives) ^j	1,829,000 terminated: 2,400,973 (at the end of 2010)	..	41,684,000* ^g
Pensioners	2 0,534,000 ^b	1,472,652	1,170,000	..	24,600,000* ^h
Pensions	25,168,000	..	..	..	30,000,000* ⁱ

a) The assets consist of a buffer to the amount of approx. one month's pensions.

b) On 1 July 2011, Sphere of Deutsche Rentenversicherung, DRV Bund: Jahresbericht 11.

c) Only Pensionskassen and Pensionsfonds. The figures are calculated as a combined figure for both institutional forms. There are differences in expenditure depending on type of institution. Source: Statistik der BaFin – Erstversicherungsunternehmen 10 (Pensionskassen and Pensionsfonds).

d) Regular expenses (*Laufende Aufwendungen*).

e) Expenses relating to private-sector book reserves, support funds and pension insurances, estimated in relation to the expenses of Pensionskassen, the insured, pensioners and fund amounts. The figure has been supplemented with Versorgungsverken and Pensionen und Zusatzversorgung (Statistisches Bundesamt: Statistisches Jahrbuch 2012, Table 8.1 Sozialbudget nach Institutionen 2010).

f) Estimated based on the joint report prepared by the European Commission (DG ECFIN) and the Economic Policy Committee (AWG): "The 2012 Ageing Report": 2010 level, $0.108 \times \text{GDP BnEUR } 2,498.8 = \text{BnEUR } 269.87$.

g) The number of insured is the number of the workforce, 16–64-year-olds. OECD: Annual Labour Force Statistics, ALFS Summary tables, Total labour force 2010, Germany

h) Estimated number = $1.2 \times 20,534,000$ (BMAS: Alterssicherungsbericht 2010, p. 11. GRV's share of the content of the report is approx. 83%. The estimated adjustment factor is 1.2).

i) Estimated using the following factor: $\text{GVR pensions} / \text{GVR pensioners} = \text{factor} = 1.226$.

j) Bundesministerium für Arbeit und Soziales: Ergänzender Bericht des Bundesregierung zum Rentenversicherungsbericht 2012 gemäß § 154 Abs. 2 SGB VI (Alterssicherungsbericht 2012), p. 135.

Based on the previous values, relative and unit-cost indicator values have been calculated in Table 2. As the real data of some pension schemes is missing from the table of key figures, the review does not present the exact, realised total administrative expenses of German pensions. Due to the use of key figures based on estimates, the nation-wide values should be viewed somewhat critically. This review presents a truthful image of the expenses of only the statutory general pension scheme (GRV), the private-sector Pensionskassen and Pensionsfonds and the share of public-sector expenses that are covered by VBL. However, these schemes represent the bulk of German pension schemes.

In the column titled 'Total', the number of insured replaced by the workforce volume depicts the burden of administrative expenses per person belonging to the workforce. The unit cost depicting profitability calculated on the basis of the insured depends on whether the insured includes only the insured actives or also the insured passives. Both generate expenses, but because the measures targeted at the actives outnumber those targeted at the passives, the expenses per individual are higher for the insured actives.

Table 2.

Administrative expenses of the German pension scheme, by key figures.

Variable	Statutory pension scheme, GRV	Private sector – occupational pension ^a	Occupational pension of public administration, VBL	Total (all schemes of the country) *
Net operating expenses / Gross income	1.4%	2.5%	1.8%	..
Net operating expenses / Pension expenditure	1.6%	6.7%	2.1%	2.2%
Net operating expenses / insured (actives)	EUR 100	EUR 62	EUR 52	EUR 139
Net operating expenses / pension recipient	EUR 172	EUR 210	EUR 81	EUR 236
Net operating expenses / pensions	EUR 140	..	..	EUR 194
Net operating expenses / member ^b	EUR 63	EUR 48	EUR 32	EUR 88
Total administrative expenses / Gross income	1.4%	4.5%	3.2%	..
Total administrative expenses / Pension expenditure	1.6%	12.1%	3.8%	2.4%
Total administrative expenses / insured (actives)	EUR 100	EUR 112	EUR 92	EUR 154
Total administrative expenses / pension recipient	EUR 172	EUR 380	EUR 144	EUR 260
Total administrative expenses / pensions	EUR 140	..	..	EUR 213
Total administrative expenses / member ^b	EUR 63	EUR 86	EUR 56	EUR 97

a) Pensionskassen handled as one institution.

b) Member = insured + pension recipients.

* See the following comment.

The values of the unit costs in the 'Total' column would be untrue even if real data was used because there is a very marginal amount of actual cases corresponding to such unit costs. It is probably rare that the same person would be insured under, for example, the private-sector occupational pension scheme and the public-sector supplementary pension scheme VBL. Case examples presented later represent realistic expenses per unit.

1 Statutory pension scheme

The German statutory pension scheme consists of the general earnings-related pension scheme and the special pension scheme for miners, seafarers and railroad workers. Wage earners and craftsmen are covered by the general pension scheme, while civil servants of the German Federation and the states (*Länder*) have their own pension scheme. Employees working under an employment contract within public administration are covered by the general pension scheme. The professional pension scheme of liberal professions, such as physicians, pharmacists and lawyers, is state-specific, while the above-mentioned schemes are all subject to federal legislation. Farmers also have their own pension scheme.

The earnings-related pension scheme is implemented by 14 regional pension institutions (*Deutsche Rentenversicherung Regionalträger*) and *Deutsche Rentenversicherung Bund – DRV B*, which acts as the implementing and steering pension and central institution. In addition, *Deutsche Rentenversicherung Knappschaft-Bahn-See* handles the pensions of miners, seafarers and railroad workers. The scheme also includes 1,000 customer information offices and is supported by 5,000 advisers in a position of trust.

All DRV-institutions handles the statutory pensions of federal officials and the employees working under an employment contract.

Farmers and liberal professions have their own special statutory pension schemes. The pensions and other social security of farmers are handled by 9 regional branches of administration and their central association *Der Spitzenverband der landwirtschaftlichen Sozialversicherung*. The pensions of about 850,000 liberal professions (physicians, lawyers, notaries, pharmacists etc.) are handled by approximately 100 industry-wide pension funds which are covered by state-specific legislation. *Die Arbeitsgemeinschaft berufsständischer Versorgungseinrichtungen e.V. – ABV* is their umbrella organisation.

Artists and journalists have their own pension fund, *Künstler Sozialkasse*, but DRV B is in charge of the implementation of their pensions.

1.1 Demand for reduced expenses

The administrative expenses of the statutory pension scheme have been in focus for a long time. As a result, the entire statutory pension field was reformed in 2005. Cooperation was intensified in connection with the reform by establishing a German pension institution, *Deutsche Rentenversicherung*, which consists of three previously-mentioned pension institutions: German regional pension institutions (*Deutsche Rentenversicherung Regionalträger*), German federal pension institution (*Deutsche Rentenversicherung Bund*), and the German pension institution for miners, railroad workers and seafarers (*Deutsche Rentenversicherung Knappschaft-Bahn-See*). After the reform, the 27 pension institutions had become 16. In addition, the union of pension institutions focusing on research and centralised data administration, *Verband Deutscher Rentenversicherungsträger (VDR)*, was merged into the federal pension institution.

In terms of administrative expenses, it is worth noting that, in connection with the restructuring of the pension scheme, it was legislated that a saving (*vermindert*) in the realised (*tatsächlich*) administrative expenses worth 10 per cent of the 2004 level had to be made by 2010². It was further legislated that DRV Bund must submit an annual report to the Ministry of Labour and Social Affairs of the administrative expenses per pension institution and of measures taken to optimise these costs.

The aim was exceeded and achieved prematurely. The administrative expenses of the statutory pension scheme during the reduction period were as follows³:

Year	2004	2005	2006	2007	2008	2009	2010
Expenses MEUR	3,819	3,821	3,693	3,573	3,575	3,607	3,522

In comparison with figures outside this review period, the nominal value expenses for 2010 were close to the values in the year 2000 (MEUR 3,509).

It would appear that the cost savings resulting from the merger of the special pension funds of miners, seafarers and railroad workers into one, joint pension institution (DRV KBS) in 2005 have been considerable. The total expenses have been reduced from EUR 163 million in 2004 to EUR 110 million in 2010⁴.

In connection with the cost discipline measures, the individual pension institutions of the statutory pension scheme were benchmarked with each other. They also engaged in a competition of operative quality. At the same time, the operations of pension institutions were developed by implementing the best practices of one institution in the others⁵.

2 SGB VI: § 220.

3 Deutsche Rentenversicherung Bund: Rentenversicherung in Zeitreihen 2011, s. 223.

4 Deutsche Rentenversicherung Bund: Rentenversicherung in Zeitreihen 2011, s. 235.

5 Deutsche Rentenversicherung Bund: Jahresbericht 11, s. 37.

2 Occupational pension schemes

In addition to statutory pensions, there are occupational pensions. More than 60 per cent of wage earners are covered by such pensions. The coverage varies greatly between the different lines of business. Significant differences are also generated when the coverage increases as the number of employees grows⁶.

In the private-sector, the content and administration of occupational pensions varies. Occupational pensions are arranged through book reserves, with support funds, industry-wide or company institutions of Occupational Retirement Provision (*Pensionskassen and Pensionsfonds*) or insurance policies. Measured in number of currently insured actives, book reserves together with support funds, as well as *Pensionskassen* and pension insurance companies each have approximately one third of the insured.

Those employed in the public sector have their own supplementary pension schemes – civil servants do not have supplementary pensions. The basic and supplementary pensions of regional public administration are handled by a vast number of local industry-wide pension funds. Their central associations are *Die Arbeitsgemeinschaft kommunale und kirchliche Altersversorgung* (AKA e.V.) and *Versorgungsanstalt des Bundes und der Länder* (VBL).

Pensionskassen handling private-sector occupational pensions covered 6.8 million insured (actives 4,6 million) and 1.2 million pension recipients in 2011. The gross insurance premiums collected by *Pensionskassen* amounted to EUR 6 billion. The administrative expenses for the insurance business were EUR 298 million and the funds totalled EUR 115.5 billion. The administrative expenses of the total *Pensionskassen* field were 5.0 per cent of the received gross insurance premiums. The average net operating expenses per insured was EUR 64, per pension recipient EUR 250 and by insured and pension recipients combined EUR 51.⁷

There are differences in the size, structure of pensions in payment and expenses of *Pensionskassen*. The average figures and values cover up the differences between the institutions. To gain a more realistic notion, Table 3 below includes samples of key figures for the largest private-sector *Pensionskassen*.

⁶ Bundesministerium für Arbeit und Soziales: Ergänzender Bericht des Bundesregierung zum Rentenversicherungsbericht 2012 gemäß § 154 Abs. 2 SGB VI (Alterssicherungsbericht 2012), s. 138–139.

⁷ Bundesanstalt für Finanzdienstleistungsaufsicht: Ausgewählte Posten der Gewinn- und Verlustrechnung, Pensionskassen, Tabelle 240 ja Ausgewählte Kennzahlen der Pensionskassen 2011 in der Rangfolge der Bilanzsumme, Tabelle 260.

Table 3.

The administrative expenses in relation to premium income of Pensionskassen with a balance sheet of more than EUR 1 billion (24 out of 149 Pensionskassen) in 2011 per pension Kasse.⁸

Insured	Pension recipients	Insured and pension recipients combined	Received gross insurance premiums, EUR 1,000	Percentage of net operating expenses of insurance business / gross insurance premiums
<i>Anwärter</i>	<i>Rentner</i>	<i>Anwärter und Rentner insgesamt</i>	<i>Verdiente Brutto Beiträge in Tsd. Euro</i>	<i>Aufw. für den Versicherungsbetrieb</i>
343,045	98,893	441,938	546,284	1.4
49,048	55,534	104,582	133,783	1.4
53,277	51,054	104,331	131,615	0.9
854,306	4,549	858,855	745,212	5.6
88,726	43,700	132,426	155,987	0.5
52,088	23,063	75,151	51,687	..
597,225	39,282	636,507	205,019	1.2
662,069	402,543	1,064,612	402,722	6.3
35,932	23,886	59,818	130,205	0.6
341,565	1,321	342,886	320,313	5.7
41,365	13,868	55,233	50,529	1.7
38,504	21,551	60,055	39,398	8.0
6,148	51,88	6,148	17,037	1.5
26,449	1,010	27,459	85	..
16,874	7,333	24,207	61,919	0.9
5,431	5,696	11,127	20,492	0.2
283,702	890	284,592	167,535	8.5
65,671	14,857	14,857	62,694	2.2
67,318	9,350	76,668	79,915	1.0
155,387	435	155,822	166,653	8.1
176,655	419	177,074	162,889	8.2
249,347	5,522	254,869	172,657	1.4
168,085	298	168,383	171,472	16.9
8,265	18,496	26,761	12,650	1.4

The reason for the extensive difference has not been examined. Explanatory factors may include, for example, differences in types, assets, premium income and the size of the covered group of individuals of *Pensionskassen*. A *Pensionskasse* can be company-specific or joint. It can also be a traditional mutual fund – *regulierte Pensionskasse* – or a “new”, competing, joint-stock-type of fund, established for tax purposes.

⁸ Bundesanstalt für Finanzdienstleistungsaufsicht: Ausgewählte Kennzahlen der Pensionskassen 2011 in der Rangfolge der Bilanzsumme, Tabelle 260. Table 240, rivi 10: Expenses relating to new acquisitions are included in the administrative expenses for insurance operations.

Pensionfonds handling private-sector occupational pensions covered 0.5 million insured (0.38 million actives) and 0.3 million pension recipients in 2011. The received gross insurance premiums amounted to EUR 2.4 billion. The administrative expenses for the insurance business were EUR 27 million and the funds totalled EUR 24.8 billion. The administrative expenses of the *Pensionfonds* field, including expenses for new acquisitions, amounted to 1.1 per cent of the received gross insurance premiums. The management expenses of *Pensionfonds* also vary considerably. The average net operating expenses per insured actives was EUR 70, per pension recipient EUR 89 and by insured and pension recipients together EUR 39.⁹

For *Pensionsfonds*, the share of management expenses in insurance contributions was merely 1.1 per cent and for *Pensionskassen* 5.0 per cent. The expenses include the costs for new acquisitions (*Abschlussaufwendungen*). In terms of percentages, the difference in expenses is considerable, but when the expenses are calculated as a unit price per pension recipient, the difference is no longer significant. Part of the difference is explained by the considerably higher share of administrative expenses relating to new acquisitions of *Pensionskassen* compared to those of *Pensionsfonds*.

The expenditure of life insurance companies regarding occupational pensions has not been specified separately. In total, the established average administrative expenses of life insurance companies amounted to approximately 2.4 per cent of the gross premium income in 2010. On top of that are the expenses for new acquisitions, which amounted to 5 per cent of the contributions of the new business¹⁰.

9 Bundesanstalt für Finanzdienstleistungsaufsicht: Ausgewählte Posten der Gewinn- und Verlustrechnung, Pensionsfonds, Tabelle 740 ja Ausgewählte Kennzahlen der Pensionsfonds 2011 in der Rangfolge der Bilanzsumme, Tabelle 760.

10 Gesamtverband der Deutschen Versicherungswirtschaft e.V. – GDV: Die deutsche Lebensversicherung in Zahlen 2012, pp. 24, 26.

3 Expenses per case example

As data on administrative expenses is not available for all pension schemes, we have reviewed the expenses by cumulating the average expenses of case examples from some schemes. The notion of the expenses is comprehensive for the case examples used. The case examples are reviewed separately as ratio of cash flow in Table 4 and per unit costs in Table 5.

Of the partially available data on statutory and occupational pensions, we have created three case examples. The first case example depicts a person who has been covered by the statutory pension scheme only.

Table 4.
Portion of costs per case examples.

Case example	Net operating expenses/ premium income	Total administrative expenses/ premium income	Net operating expenses/ gross income	Total administrative expenses/ gross income	Net operating expenses/ pension expenditure	Net operating expenses/ pension expenditure
Only GRV	1.9%	1.9%	1.4%	1.4%	1.6%	1.6%
GRV + IORPs ^a	1.9%	2.1%	1.5%	1.5%	1.7%	1.8%
GRV + VBL	1.9%	1.9%	1.4%	1.4%	1.6%	1.6%

a) IORPs = *Pensionskassen* and *Pensionsfonds*.

When reviewed based on the ratio, the administrative expenses of the different example cases do not differ greatly. The impact of the stratification of the schemes is not visible. This is due to the size of the statutory scheme compared to the much smaller occupational pension schemes. Ratios are not sensitive indicators in such cases.

Table 5.
Unit costs per example cases per year.

Case example ^a	Net operating expenses/ insured	Total administrative expenses/ insured	Net operating expenses/ pension recipients	Total administrative expenses/ pension recipient	Net operating expenses/ insured + pension recipients	Total administrative expenses/ insured + pension recipients
Only GRV	EUR 100	EUR 100	EUR 172	EUR 172	EUR 63	EUR 63
GRV + VBL	EUR 152	EUR 192	EUR 235	EUR 316	EUR 95	EUR 170
GRV+ IORPs ^b	EUR 234	EUR 313	EUR 511	EUR 747	EUR 153	EUR 209
GRV + BV (<i>Pensionskassen</i>)	EUR 164	EUR 217	EUR 422	EUR 627	EUR 114	EUR 156
GRV + BV (<i>Pensionsfonds</i>)	EUR 170	EUR 196	EUR 261	EUR 292	EUR 102	EUR 116

a) GVR and VBL at 2010 level, *Pensionskassen* and *Pensionsfonds* at 2011 level.

b) Insured in both *Pensionskasse* and *Pensionsfonds*.

The GRV+IORPs values of the case example are the sums of the own expenses of each individual arrangement. The values of the case example, excluding GRV, cannot be calculated based on the key figures in Table 1 or the values in Table 2. The occupational values of Table 2 have been weighted according to the key figures of the *Pensionskassen* and *Pensionsfonds*.

If a person is covered only by the statutory pension scheme, the administrative expenses are clearly the lowest. Being covered by two pension schemes raises the individual administrative expenses.

4 Supplementary pensions

The third type of pension arrangements are the individual pension arrangements, often connected to federal incentives (*Rürup-Rente*, *Riester-Rente*). This type of pension provision can be arranged in the form of pension insurance policies, bank savings, unit-linked savings or housing investments. By the end of Q2 of 2012, there were approximately 15.6 *Riester* arrangements and 1.6 million *Rürup* arrangements.¹¹

11 Bundesministerium für Arbeit und Soziales: Ergänzender Bericht des Bundesregierung zum Rentenversicherungsbericht 2012 gemäß § 154 Abs. 2 SGB VI (Alterssicherungsbericht 2012), pp. 142, 152.

5 Actors and their main assignments

Tables 6 (a) and 6 (b) below, based on the two pillar system, contain an overview of nearly all pension providers in Germany and their principal tasks. The table also includes joint organisations of the pension providers. The role of the latter in the earnings-related pension scheme varies per pension scheme from implementation to communication.

Table 6 (a).

Actors of statutory pension schemes.

Institution	Pension scheme	Assignment	Number
German federal pension institution <i>Deutsche Rentenversicherung Bund</i>	<ul style="list-style-type: none"> General earnings-related pension scheme (incl. public-sector employees working under an employment contract and self-employed) 	<ul style="list-style-type: none"> General implementation, excl. pension payment provided by the postal services. Joint issues of pension institutions and issues of principle. Statistics and research of the German pension scheme 	1
German regional pension institutions <i>Deutsche Rentenversicherung Regionalträger</i>	<ul style="list-style-type: none"> General earnings-related pension scheme 	<ul style="list-style-type: none"> General implementation, excl. pension payment provided by the postal services. 	14
German institution for miners, seafarers and railroad workers (KBS) <i>Deutsche Rentenversicherung Knappschaft-Bahn-See</i>	<ul style="list-style-type: none"> Pensions of miners, seafarers and railroad workers as well as pensions of the general earnings-related pension scheme 	<ul style="list-style-type: none"> General implementation, excl. pension payment provided by the postal services. 	1
Customer information offices of the pension scheme <i>Auskunfts- und Beratungsstellen</i>	<ul style="list-style-type: none"> Statutory pension scheme 	<ul style="list-style-type: none"> Individual guidance Assessment of pension 	1,000
Pension advisors in a position of trust <i>Versichertenberater</i>	<ul style="list-style-type: none"> Statutory pension scheme 	<ul style="list-style-type: none"> Individual guidance Assessment of pension 	5,000
Pension fund for artists <i>Künstler Sozialkasse</i>	<ul style="list-style-type: none"> Statutory pension of artists and journalists 	<ul style="list-style-type: none"> Decision on coverage by the insurance. Collecting and transferring contributions to social insurance providers. Advisory services and communication. 	1
Local branches of administration within agriculture <i>Alterskasse</i>	<ul style="list-style-type: none"> Agricultural pensions 	<ul style="list-style-type: none"> General implementation 	9
Central association of local agricultural institutions <i>Der Spitzenverband der landwirtschaftlichen Sozialversicherung</i>	<ul style="list-style-type: none"> Agricultural pensions 	<ul style="list-style-type: none"> Guidance Communication 	1
State-specific pension funds of liberal professions	<ul style="list-style-type: none"> Pensions based on legislation 	<ul style="list-style-type: none"> General implementation 	100
Cooperative body of the pension funds for liberal professions <i>Die Arbeitsgemeinschaft berufsständischer Versorgungseinrichtungen e.V. (ABV)</i>	<ul style="list-style-type: none"> Pensions based on legislation 	<ul style="list-style-type: none"> Umbrella organization Member communication and supervision of interests Contact institution in foreign pension matters 	1

Table 6 (b).*Actors of the German occupational pension schemes.*

Book reserves <i>Direktzusage^a</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> General implementation 	80,000*
Support fund <i>Unterstützungskasse^a</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> General implementation 	11,000*
(IORP) <i>Pensionskasse</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> General implementation 	149
(IORP) <i>Pensionsfonds</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> General implementation 	30
Insurance company (IORP) <i>Direktversicherung</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> General implementation 	76
Joint organisation of occupational pensions <i>Arbeitsgemeinschaft für betriebliche Altersversorgung e.V. (aba)</i>	<ul style="list-style-type: none"> Occupational pension 	<ul style="list-style-type: none"> Supporting law-makers, politicians and civil servants in all issues relating to occupational pensions Communication to members Training 	1
Federal and state occupational pension fund <i>Versorgungsanstalt des Bundes und der Länder – VBL</i>	<ul style="list-style-type: none"> Federal occupational pensions and occupational pensions of state employees working under employment contract who have joined the pension fund 	<ul style="list-style-type: none"> Payment transactions Investments Pension payment 	1
Local pension funds of public administration – the church and local governments <i>Zusatzversorgungskassen ja Beamtenversorgungskassen</i>	<ul style="list-style-type: none"> Basic pensions Supplementary pension 	<ul style="list-style-type: none"> General implementation 	45
Cooperation body of local municipal and church pension funds <i>Die Arbeitsgemeinschaft kommunale und kirchliche Altersversorgung – AKA e.V</i>	<ul style="list-style-type: none"> Supplementary (=occupational) pensions 	<ul style="list-style-type: none"> Umbrella organization of <i>Zusatzversorgungskassen</i> and <i>Beamtenversorgungskassen</i> Guidance of member institutions Legislative proposals and statements Co-operation with other associations 	1
Insurance company, bank, construction fund	<ul style="list-style-type: none"> <i>Riester-Rente</i> <i>Rürup-Rente</i> 	<ul style="list-style-type: none"> General implementation 	..

a) PENSIONS-SICHERUNGS-VEREIN – Versicherungsverein auf Gegenseitigkeit – PSVaG: Bericht über das Geschäftsjahr 2011 ja Mitteilung zum Jahresabschluss.

6 Supervision, guarantees and joint services

The German postal services, *Deutsche Post*, handles the pension payment, index adjustments of the pension benefits, mortality data and excess payments of the general pension scheme and, partly, of the occupational pension scheme and of state officials.

Bundesversicherungsamt (BVA) supervises the statutory pension schemes, excluding the state-specific and public-sector schemes. *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin) supervises life insurance companies, *Pensionskassen* and *Pensionsfonds* that administer private-sector occupational pensions.

In addition to reinsurance and depending on the way in which the pension arrangement is implemented, occupational pensions are guaranteed by *PENSIONS-SICHERUNGS-VEREIN – Versicherungsverein auf Gegenseitigkeit (PSVaG)* and *Protector Lebensversicherungs-AG*.

7 Method

To compile this review, we have studied German pension provision, the implementing organisation and the financial statements, reports and statistical data of the institutions and their joint organs, as well as comments for which we are deeply grateful. The complexity of the pension scheme made it a challenge to acquire and interpret data. This complexity is due to occupational pensions, public-sector pension arrangements – the states of the federation, the municipalities and the public-sector service or employment relationships – and the pension arrangements of the liberal professions and farmers. Comprehensive data on the statutory and occupational pensions outside the general statutory pension scheme is either partially or completely missing.

In order to create an appropriate overview of the country, attempts have been made to estimate the missing data concerning the entire country, based on the figures used in this review and data from other sources. In order to clarify overall figures for the country, some of the key figures have been estimated by using the values of *Pensionskassen* and *Pensionsfonds* in the shares of book reserves, support funds and life insurance companies, as well as by studying the AWG report, OECD data, the Federal Statistical office and the federal old-age pension report. Hence, occupational pensions are reviewed within the limitations of the available data, usually as pension schemes and through case examples.

The numerical data is based on 2010 and 2011 data. Some of the 2011 data was published at such a time that, within the deadline of compiling this review, they were unfortunately unavailable. Nevertheless, the aims of and conclusions made in this review have not been greatly compromised because of this.

The structure, content and use of data of this review have been steered by the needs of the Finnish national evaluation. The content of and interpretations and conclusions made in the review are the responsibility of the reviewer.

Symbols

- .. = Data not available
- . = Category not applicable
- * = Estimate or provisional data

Abbreviations used

- BV: Betriebliche Altersversorgung (Occupational Pension, private sector).
- DRV: Deutsche Rentenversicherung.
- GRV: Gesetzliche Rentenversicherung (Statutory Pension Scheme).
- IORP: Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (IORP Directive).
- SGB: Sozialgesetzbuch (German Social Security Code).
- VBL: Versorgungsanstalt des Bundes und der Länder.

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ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN THE NETHERLANDS

Antti Mielonen

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1 Summary

This country review surveys the administrative expenses of the statutory (first pillar) and occupational pension (second pillar) schemes in the Netherlands. The review covers all of the actors in the statutory schemes but occupational pension schemes are covered only partly, as the collective pension schemes operated by life insurance companies are not included in the review due to limitations in data availability. The covered schemes represent approximately 85 per cent of the insured in the second pillar pension schemes in the Netherlands. Also, the review does not include administration costs arising from the supervision of the pension schemes.

Concerning the statutory pension schemes, the data used in the review are mainly collected from annual reports, other statistical reports and reviews published by the relevant institutions and actors. Due to the fragmented nature of the occupational pension schemes, the data concerning this sector are mainly gathered from the comprehensive sector statistics and publications by De Nederlandsche Bank (DNB).

The administrative expenses and other key data of the statutory and occupational pension schemes are presented in the underlying tables 1 and 2 for the statistical year 2010 which, at the time of writing, was the latest available year with comprehensive statistical data. A more detailed description of the administrative expenses of the different actors and institutions are presented in the following sections.

Table 1.

Administrative expenses of the pension schemes and other key figures in 2010.

	Statutory schemes			Occupational schemes ^a	Total
	<i>Old age and survivors' schemes</i>	<i>Disability schemes</i>	<i>Total</i>		
Administrative expenses (MEUR)	154	603	757	2,810	3,567
Operating expenses (MEUR)	154	603	757	1,678	2,435
Investment expenses (MEUR)	-	-	-	1,132	1,132
Gross income (MEUR) (Incl. State's share)	31,923	14,247	46,170	28,660	74,830
Pension expenditure (MEUR)	30,954	13,051	44,005	24,232	68,237
Investment assets (MEUR)	-	-	-	774 170	774,170 (ca 132% of GDP)
Insured (million)	11.02 ^b	11.02 ^c		5.85	
Pensioners (million)	old age 2.88 survivors' 0.10	0.83	3.81	2.77	
Pensions (million)	2.98	0.83	3.81	2.77	6.58

a) Covers pension funds.

b) Number of 15–64-year-old residents. (Source: CBS.)

c) Assessed figure. Includes insured in the employees' and young persons' schemes.

Table 2.

Operational and administrative expenses in relation to key figures in the Netherlands in 2010.

	Statutory schemes			Occupational schemes	Total
	<i>Old age and survivors' schemes</i>	<i>Disability schemes</i>	<i>Total</i>		
Operational expenses / pension expenditure	0.48%	4.6%	1.7%	6.9%	3.6%
Operational expenses / gross income	0.48%	4.2%	1.6%	5.9%	3.3%
Operational expenses / insured	EUR 14	EUR 55	EUR 69	EUR 287	EUR 356 ^a
Operational expenses / pensioner	EUR 52	EUR 730	EUR 199	EUR 606	
Operational expenses / pension	EUR 52	EUR 730	EUR 199	EUR 606	EUR 370
Operational expenses / member ^b	EUR 11	EUR 51	EUR 62	EUR 195	EUR 257 ^a
Administrative expenses / pension expenditure	0.48%	4.6%	1.7%	11.6%	5.2%
Administrative expenses / gross income	0.48%	4.2%	1.6%	9.8%	4.8%
Administrative expenses / insured	EUR 14	EUR 55	EUR 69	EUR 480	EUR 549 ^a
Administrative expenses / pensioner	EUR 52	EUR 730	EUR 199	EUR 1,014	
Administrative expenses / pension	EUR 52	EUR 730	EUR 199	EUR 1,014	EUR 543
Administrative expenses / member ^b	EUR 11	EUR 51	EUR 62	EUR 326	EUR 388 ^a

a) Depicts a person insured in the statutory schemes and occupational scheme.

b) Insured and pensioners.

2 Introduction

Pension provision in the Netherlands rests on a statutory national pension scheme, an employee disability pension scheme and occupational pension schemes. The national insurance scheme covers all 15–64-year-old residents of the Netherlands. Pensions paid from this scheme form the basis of Dutch pension provision. The old-age pension is not adjusted based on received earnings or earnings-related pension.

The employee disability pension scheme is the only statutory earnings-related pension scheme in the Netherlands. In practice, it covers all wage-earners except the self-employed. The statutory disability pension scheme for the self-employed was abolished in 2004. However, the self-employed can take out a voluntary insurance equal to that for employees, either under the statutory scheme or from a private insurance company.

Occupational pension schemes cover nearly all employees, and these pensions form approximately half of the total pension of a pensioner with an average income. The popularity of individual pension insurance is low due to broad coverage and good total pension provision of the aforementioned pension schemes.

The administration of the national pension insurance scheme is centralised. The Social Insurance Bank (SVB) handles the implementation of old-age and survivors' pensions. The employee disability pension scheme is handled by the Institute for Employee Benefits (UWV). Occupational pension schemes, on the other hand, are decentralised and managed by several hundred institutions. Around 75 per cent of the insured are members of industry-wide pension funds and the remaining 25 per cent are insured with company funds and life insurance companies.

The pension schemes also involve supervisory organisations and pension contribution collecting. De Nederlandsche Bank (DNB), and the Netherlands Authority for the Financial Markets (AFM), supervise the operations of the occupational pension schemes and their conformity to law. The Dutch Ministry of Social Affairs and Employment (SZW) supervises the statutory schemes and appoints their board of directors. The Dutch tax authority, Belastingdienst, collects the statutory pension scheme contributions in connection with taxation. The aforementioned actors also have other assignments, external to the pension scheme. The administrative costs relating to those assignments are not included in this report.

Table 3 presents the actors, their assignments and the numbers of insured in the Netherlands at the end of 2010.

Table 3.*Actors of the pension scheme and the insured in the Netherlands at year-end 2010.*

Institution	Assignment	The insured
Statutory schemes		
Social Insurance Bank (SVB)	Implementation of basic old-age and survivors' pension scheme	Old-age and survivors' pension: All 15–64-year-olds residing in the Netherlands and those residing abroad who have taken out a voluntary insurance. insured: 11 million old-age and survivors' pension recipients: 3 million
Institute for Employee Benefits (UWV)	Implementation of disability pension schemes for employees, entrepreneurs and young people	Employees, young disabled and students under the age of 30 insured: approx. 7.1 million employees. No exact figure available for the insured under the <i>wajong</i> -system. pensioners: 826 000
Occupational pensions schemes		
82 Industry-wide funds	Employees' earnings-related old-age, disability and survivors' pension provision	Employees who earn at least as much as the minimum AOW limit* insured: 5.1 million pension recipients: 2.3 million
419 company-specific funds	Employees' earnings-related old-age, disability and survivors' pension provision	Employees who earn at least as much as the minimum AOW limit insured: 0.7 million pension recipients: 0.5 million
12 occupation-specific funds	Employees' earnings-related old-age, disability and survivors' pension provision	Employees and self-employed who earn at least as much as the minimum AOW limit insured: 0.05 million pension recipients: 0.02 million
50 life insurance companies	Employees' earnings-related old-age, disability and survivors' pension provision	Employees who earn at least as much as the minimum AOW limit insured: 1.0 million pension recipients: ca 0.24 million**

* Amount of national pension. For part-time employees, the limit is lower.

** DNB's estimate, an exact figure is not available.

3 Social Insurance Bank (SVB)

The Social Insurance Bank (SVB) is responsible for the implementation of the basic old-age pension scheme (AOW), the basic survivors' pension scheme (Anw) and other social insurance benefits and services unrelated to pensions.

In addition to the headquarters located in Amstelveen, the organisation of SVB consists of nine branch offices and three special offices. On average, 3,205 persons were employed by SVB in 2011.

The pension benefits paid by SVB are financed mainly by pension contributions collected by the tax authority in connection with taxation and employees' pension contributions accounted to SVB. The benefits are partly financed by state budget funds: social benefits relating to pensions are financed in full by the State, while a quarter of the financing for old-age pension expenditure comes from government funds. SVB conducts no investment operations and thus has no investment expenses, nor does the tax authority charge fees from SVB for collecting pension contributions.

3.1 Key figures for pension provision administered by SVB

Table 4 contains key figures for pension provision administered by SVB in 2007–2010. The number of old-age pension recipients and pension expenditure has been growing steadily during the review period. The growth is connected with the baby boom generation reaching retirement age and also the population's continually increasing lifespan¹.

Table 4.

Key figures for SVB pension benefits 2007–2010.

	2010	2009	2008	2007
Insured* (million)	11.02	11.01	10.99	10.97
Old-age pensioners (million)	2.88	2.81	2.73	2.66
Survivors' pension beneficiaries (thousands)	98.4	106.5	115.2	123.4
Gross income** (MEUR)				
Old-age pension	30,526	28,759	25,175	28,529
Survivors' pension	1,397	1,306	1,348	1,798
Pension expenditure (MEUR)				
Old-age pension	29,796	28,797	26,929	25,637
Survivors' pension	1,158	1,247	1,309	1,365

* Insured for old-age and survivors' pension: persons aged 15–64 years and residing in the country

** The figures include pension contributions, state's shares and other income.

¹ See for example: <http://www.cbs.nl/en-GB/menu/themas/arbeid-sociale-zekerheid/publicaties/artikelen/archief/2011/2011-3410-wm.htm>

3.2 SVB's Administrative Expenses

In addition to expenses relating to the handling of basic tasks, the administrative expenses of SVB include consultation fees and other external expenses. Administrative expenses also arise as a result of former organizational changes and related redundancies and expenses related to other items (dotatie voorziening SVB)², which have been included in the administrative expenses for pension provision in this review.

Table 5 depicts the development of administrative expenses related to pension benefits during 2007–2010. During this time, expenses have remained steady in the survivor's pensions but increased by approximately 17 per cent in old-age pensions.

Table 5.

Administrative expenses of pension provision administered by SVB, per type of benefit, (MEUR).

	2010	2009	2008	2007
Old-age pension	128.8	127.2	117.0	109.9
Survivors' pension	25.2	24.3	23.4	25.2
Total	154.0	151.5	140.4	135.1

The administrative expenses reviewed by benefit type can be further divided into smaller expense items. The most significant expense item is that of personnel costs, amounting to approximately 70 per cent of the total expenses. These expenses are followed by automation and real estate expenses with 20 per cent share while office, service and other expenses form the remaining 10 per cent share of the total costs³.

The relative expenses have remained relatively stable with old-age pensions during the review period. The expenses of survivors' pensions in relation to the beneficiaries have increased significantly since 2007, by around 25 per cent.

Table 6.

Proportional administrative expenses of the pension provision administered by SVB in 2007–2010.

	2010	2009	2008	2007
EUR / beneficiary				
Old-age pension	45	45	43	41
Survivors' pension	256	228	203	204
EUR / insured				
Old-age pension	12	12	11	10
Survivors' pension	2	2	2	2
% of benefit expenditure				
Old-age pension	0.43	0.44	0.43	0.43
Survivors' pension	2.18	1.95	1.78	1.85
% of contribution income				
Old-age pension	0.42	0.44	0.46	0.39
Survivors' pension	1.80	1.86	1.74	1.40

² SVB reports its administrative expenses in two ways in its annual reports: both including and excluding these items of expenditure.

³ An itemization of the expenses in 2010 is included in the appendix.

4 Institute for Employee Benefits (UWV)

The Institute for Employee Benefits (UWV) administers social security and benefits relating to work. These include benefits under the Work and Income (Employment Capacity) Act (WIA, formerly known as the Invalidity Insurance Act [WAO]), the Disablement Assistance Act for Handicapped Young Persons (Wajong), the Unemployment Insurance Act (WW), the Sickness Benefit Act (ZW) and some other social insurance benefits.

UWV was established in 2002 out of five institutions that administer social security. In 2009, the Centre for Work and Income (CWI) was incorporated into UWV and operates as a separate department under the name of UWV Werkbedrijf. The organisation of UWV consists of local branch offices, employment offices, three Call Centres and a head office located in Amsterdam.

The number of employees at UWV has been cut by approximately 8,000 persons in 2003–2008. The organisation of UWV will be reduced again according to a government bill in 2011. The goal is to save nearly EUR 300 million of UWV's annual expenditure between 2012 and 2015. UWV has estimated this to result in a reduction of its personnel by nearly one third, i.e. by 5,000–6,000 employees. Personnel reductions will be carried out in particular within employment services, which are to go electronic to an increasing degree. At the end of 2011, UWV employed a total of 19,529 persons.

The pension benefits administered by UWV are financed both through employer contributions and state budget funds. UWV does not engage in investment operations to any significant degree. Employer contributions are used to finance pensions under the Work and Income (Employment Capacity) Act (WIA/WAO), while pensions under the Disablement Assistance Act for Handicapped Young Persons (Wajong) are financed by tax revenues. The Tax and Customs Administration (Belastingdienst) collects the employer contributions, which are transferred via the Ministry of Finance to UWV. The Tax and Customs Administration does not charge UWV for any expenses relating to the collection of contributions.

Contributions are no longer collected for the Self-Employed Persons Disablement Benefits scheme (WAZ). Pensions in payment under that scheme are financed with employee disability pension scheme's contributions.

4.1 Key figures for pension provision administered by UWV

Table 7 presents the beneficiaries, insured and contributions collected (or state tax revenues) to finance the benefits that UWV administered 2007–2010. The benefit expenditure include both the actual pension benefit, rehabilitation expenses covered by the UWV, as well as the social insurance contributions of UWV's pension benefits and other expenses relating to the payment of benefits.

Table 7.
Key figures for the disability pension scheme in 2007–2010.

	2010	2009	2008	2007
Number of beneficiaries (x 1,000)*				
- Employees' disability pension under WIA	110.1	82.8	59.4	38.4
- Employees' disability pension under WAO	486.3	521.7	558.1	596.0
- Young persons' disability pension	205.1	192.0	178.6	166.8
- Self-employed persons' disability pension	24.5	29.9	33.4	43.0
Number of insured (x 1,000)**	7,128	7,094	7,190	6,874
Contribution income (MEUR)				
- employees' disability pension***	11,463	11,277	10,714	10,618
State tax revenues (MEUR)				
- Young persons' disability pension	2,784	2,539	2,308	2,053
Benefit expenditure (MEUR)				
- Employees' disability pension under WIA	1,683	1,299	936	516
- Employees' disability pension under WAO	8,391	8,881	9,386	9,434
- Young persons' disability pension	2,645	2,417	2,220	2,000
- Self-employed persons' disability pension	332	366	406	420

* Year-end figures for beneficiaries and insured .

** Insured employees. Source: UWV Kennisversalg 2012-2.

*** WIA and WAO benefits are financed with a joint contribution.

4.2 UWV's Administrative Expenses

The administrative expenses of the UWV consist of the administrative and implementation expenses of pensions and other benefits. UWV does not conduct (significant) investment operations. Thus there are no investment expenses. Similarly to SVB, UWV breaks down its total administrative expenses into personnel, real estate, automation and other expenses. This breakdown can be found in the appendix. Total costs cannot, however, be broken down by type of benefit.

All in all, UWV's administrative expenses amounted to EUR 1,905 million in 2010. A considerable part of this amount is generated by the administration of unemployment benefits (MEUR 992) and health insurance benefits (MEUR 281). The administrative expenses for pension provision were MEUR 603.

Since 2007, the administrative expenses related to disability pensions have decreased by more than EUR 200 million. The reduction is due to UWV's organisational readjustments and the entry into force of the new disability pension scheme for employees (WIA) as of the beginning of 2006.

In the new WIA scheme, pension conditions have been tightened, resulting in a reduced disability pension commencement rate. This rate peaked in 2001, when 104,000 new

disability pensions (WAO) were granted. In 2010, only approximately 40,000 new disability pensions (WIA and WAO) were awarded.

Contrary to the WIA-scheme, the administrative expenses of disability pension scheme for young persons have increased considerably during the review period. This is likely due to the significant growth of the commencement rate of pensions during the past decade. In 2001, roughly 7,000 new pension benefits were granted, while the equivalent figure in 2010 was 17,800. Nevertheless, the new act that came into force in 2010 has made the granting criteria stricter, and in 2011, only 16,300 new pensions were granted⁴.

The separate disability pension scheme for self-employed persons (WAZ) was closed for new benefits already in 2004, but the administration of pensions in payment continues to generate expenses.

Table 8.

Administrative expenses of disability pension provision administered by UWV, MEUR.

	2010	2009	2008	2007
The new disability pension for employees (WIA)	252	233	294	234
The former disability pension for employees (WAO)	198	297	414	489
Total disability pension for employees	450	530	708	723
Disability pension for young persons	140	122	88	53
Disability pension for self-employed persons	13	15	33	30
Total	603	667	829	806

Source: UWV annual reports 2007–2010.

When reviewing the proportional administrative expenses, the decreasing trend of expenses relating to the disability pension scheme for employees and the disability pension scheme for the self-employed is noteworthy. This corresponds to the decreasing trend of the absolute administrative costs of the schemes. The proportionate expenditure of the disability pension scheme for young persons, on the other hand, has increased significantly in the last few years.

⁴ UWV Kennisverslag 2012-2.

Table 9.*Proportional administrative costs of the pension provision administered by UWV in 2007–2010.*

	2010	2009	2008	2007
EUR / beneficiary				
Disability pension scheme for employees	755	877	1,147	1,140
Disability pension scheme for young persons	683	635	493	318
Disability pension scheme for the self-employed	531	502	988	698
Disability schemes in total	730	807	999	955
EUR / insured*				
Disability pension scheme for employees	63	75	98	105
% of benefit expenditure				
Disability pension scheme for employees	4.5	5.2	6.9	7.3
Disability pension scheme for young persons	5.3	5.0	4.0	2.7
Disability pension scheme for the self-employed	3.9	4.1	8.1	7.1
Disability schemes in total	4.6	5.1	6.4	6.5
% of premium income or tax revenue				
Disability pension scheme for employees	3.9	4.7	6.6	6.8
Disability pension scheme for young persons	5.0	4.8	3.8	2.6
Disability schemes in total	4.2	4.8	6.4	6.4

* No exact figure available for the insured in the young people's disability scheme.

5 Occupational pension provision

Occupational pension provision is provided through both pension funds (stichting) and life insurance companies. The majority are insured in pension funds, ca 6 million people, compared to 1 million insured in life insurance companies. The number of insured covers only the number of actively insured employees. In other words, the figure does not include persons with vested rights or pension recipients as opposed to some studies (see for example DNB, 2006)⁵. All in all, approximately 95 per cent of all employees have occupational pension insurance.

Occupational pension schemes are mainly defined benefit schemes that supplement the statutory pension provision. Occupational pensions are fully funded, as stipulated in the Pension Act (Pensioenwet). The value of assets rose at the end of 2010 to over EUR 774 million, corresponding to approximately 132 per cent of GDP.

Table 10.

Key figures in occupational pension schemes in 2007–2010.

	2010	2009	2008	2007
Insured (million)	5.85	5.82	5.82	5.98
Pensioners (million)	2.77	2.71	2.61	2.58
Assets (bn euros)	774.2	693.5	604.7	718.0
Premium income (bn euros)	28.7	30.3	27.2	24.9
Pension expenditure	24.2	23.0	21.8	20.5

Source: DNB.

5.1 Actors in the occupational pension provision

Sector-wide pension funds make up for the most part of the assets and number of insured members in the occupational pension sector. The public sector employees' pension fund ABP and healthcare sector employees' PFZW are the largest funds in terms of members and assets. Both of the funds have approximately 1.2 million active members (2010) and ABP has assets amounting to around 225 billion euros while PFZW's assets amount to approximately 100 billion euros. All in all, sector-wide funds numbered 82 at the year end in 2010 with 5.1 million active members and nearly 544 billion euros of assets.

Company-specific pension funds numbered a little over 400 with average number of active members approximately 1,700 persons. Total amount of active members was around 0.7 million persons. The number of this type of funds has decreased significantly in the last decade. Company-specific funds had assets amounting to around 210 billion euros at the year end in 2010.

⁵ In the study, the insured comprised the active members, those with vested rights and pension recipients. In 2010, the number of persons with vested rights amounted to nearly 8.9 million, while 2.8 million were pension recipients and 5.9 were active. In other words, the definition of 'insured' included nearly 17.6 million persons. In this review, the insured comprised the number of active members, i.e. 5.9 million persons.

Correspondingly, a collective occupational pension insurance arranged by life insurance companies has increased in popularity with the number of active members reaching around 15 per cent of all active members in the occupational pension schemes.

There are some occupation-specific pension funds within the occupational pension scheme (e.g. general physicians and lawyers), but their share of the sector's total number of insured and overall assets is small.

5.2 Administrative expenses of the occupational pension schemes

Table 11 contains the figures for available administrative expenses in the occupational pension sector and a calculation of the proportional administrative costs of pension funds. The data is based on statistics collected by DNB, which supervises the occupational pension sector⁶.

The administrative expenses are divided into operational expenses and investment expenses. Operational expenses contain administrative, advisory and auditing expenses as well as rent and other expenses. Investment expenses are the expenses reported to the DNB as the pension fund internal investment expenses.

During the recent years, pension funds have transferred investment activities more and more to external investment management companies. The expenses incurred by these companies are often included in the net investment return and consequently not reported to DNB as investment expenses. This means that the investment expenses are likely to be underrated because of the aforementioned deficiencies in the reporting and, consequently, the table 11 figures should be considered as indicative figures of the investment expenses.

The administrative expenses for collective occupational pension provision administered by life insurance companies are also excluded from the administrative expenses since they are not reported to DNB separately from the other operations of life insurance companies. According to some estimates, the companies' administrative expenses in relation to premium income may rise to up to three times to those of pension funds.⁷ This is due to, among other things, the demand for profit and incurring marketing expenses that are not relevant for the pension funds.

As the number of insured in life insurance companies is approximately 1 million, i.e. approximately 15 per cent of those insured under all occupational pension schemes, the total administrative expenses of these companies could rise even under conservative estimates to hundreds of millions of euros⁸. Also, as the expenses were, on average, higher compared to pension funds, the proportional costs of the total sector would rise somewhat were the life insurance companies' expenses included in the table below.

If we look at the overall development of the administrative expenses for the sector, we can see that they have been on a downward trend during the last few years. This development is influenced, among other things, especially by the outsourcing of investment activities with consequent reporting deficiencies.

⁶ DNB's statistical tables 8.3, 8.4, 8.6 and rr10.

⁷ See for example Bikker ja de Dreu: Operating costs of pension schemes kirjassa Costs and Benefits of Collective Pension Systems.

⁸ DNB Statistical Bulletin September 2010.

Table 11.*Administrative expenses of the occupational pension sector in 2007–2010.*

	2010	2009	2008	2007
Operational expenses (MEUR)	1.678	1.734	2.080	1 736
Investment expenses (MEUR)	1.132	1.296	1.458	1 446
Total administrative expenses (MEUR)	2.810	3.030	3.538	3 182
Administrative expense in relation to:				
- pension recipients (EUR)	1.014	1.118	1.356	1 235
- insured (EUR)	480	521	608	532
- members (EUR)	326	355	420	372
- investment assets (%)	0.4	0.4	0.6	0.4
(investment operation expenses / investment assets)	0.15	0.19	0.24	0.20
- pension expenditure (%)	11.6	13.2	16.2	15.5
- premium income (%)	9.8	10.0	13.0	12.8
Operational expenses in relation to:				
- pension recipients (EUR)	606	640	797	673
- insured (EUR)	287	298	357	290
- members (EUR)	195	203	247	203

Source: DNB.

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Appendix

UWV's total administrative expenses per type of expense, 2010.

	MEUR
Personnel expenses	1,380
Real estate expenses	178
Automation expenses	283
Office expenses	43
Other expenses	21
Total	1,905

AOW administrative expenses per type of expense, 2010.

	MEUR	%
Personnel expenses	91.7	71.2
Data administration expenses	15.4	12.0
Real estate expenses	9.0	7.0
Office expenses	6.6	5.1
Service and other expenses	6.1	4.7
Total	128.8	100.0

Anw administrative expenses per type of expense, 2010.

	MEUR	%
Personnel expenses	18.9	75.0
Data administration expenses	2.1	8.3
Real estate expenses	1.8	7.1
Office expenses	0.8	3.2
Service and other expenses	1.6	6.4
Total	25.2	100.0

ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN NORWAY

Antti Mielonen

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1 Summary

This country review surveys the administrative expenses of the statutory (first pillar) and occupational pension schemes (second pillar) in Norway. The review covers the whole statutory pension provision and in the case of occupational pension schemes, approximately 90 per cent of the sector. Private pensions (third pillar) or the supervisory organizations are not included in the review. Also, the state pension fund's (Statens pensjonsfond) administrative expenses are not covered in the review, as despite the name of the fund, it is also used to cover the state budget deficits in addition to pension expenditure.

The main sources used in the review are the annual reports of the actors and the statistical information provided by the Statistics Norway (SSB), Finance Norway (FNO) and the Norwegian Labour and Welfare Service (NAV). Also, reports and reviews made by different working groups have been used in collecting information for the review.

It is noteworthy that in connection with the occupational pension schemes in the review, there is no division of the administrative expenses into operating and investment expenses because of the limitations in the data used. The administrative expenses have been calculated based on the insurance operations expenses including both of the aforementioned expense categories.

Within the statutory pension schemes, there are no investment operations that incur investment expenses and the reported administrative expenses consist solely of operating expenses by NAV. However, because the available data only includes the operating costs of the whole social insurance provided by NAV, we have had to estimate the pension schemes' administrative expenses by the proportion of the pension benefit expenditure to all other social security benefit expenditure provided by NAV. The reported administrative expenses of the statutory pension schemes must, therefore, be considered as an approximate figure.

The tables 1 and 2 below present an overview of the administrative expenses in the statutory, occupational and early retirement pension schemes in Norway in 2010, which is the latest available statistical year at the time of writing. They also contain other key figures for the pension schemes. A more detailed description of the administrative expenses of various schemes as well as time series of the expenses is presented in the following sections.

Table 1.

Administrative expenses of pension schemes in Norway in 2010, million €, NOK.

Variable	Statutory pension scheme	Occupational pension schemes (incl. Publ. Sect. AFP)	Private sector AFP scheme ^a	Early retirement schemes for seamen and fishermen	Pension schemes in tot.
Administrative expenses	820	638	4	5	1,467
Pension contribution income	(25,796) ^b	9,675 (NOK 77,440)	477 (NOK 3,818)	173 (NOK 1,383)	(37,137)
- State shares		1,016 (NOK 8,132)			
Pension expenditure in tot.	25,796 (NOK 206,482)	5,922 (NOK 47,406)	644 (NOK 5,152)	182 (NOK 1,463)	32,544
- Life insurance companies		2,815 (NOK 22,534)			
- Pension funds		638 (NOK 5,108)			
- State pension fund		2,469 (NOK 19,764)			
Insured (million)	3.25 ^c	2.2 ^d	0.57	0.034	
Pension recipients	1,174,162	616,389 (588,044 + 28,345 publ. sect. AFP)	24,663	18,095	
Pensions	1,174,162	616,389	24,663	18,095	1,833,309

a) LO/NHO scheme.

b) Equal to benefit expenditure.

c) 16–66 year old residents.

d) Concerns year 201.

Table 2.

Operational and administrative expenses in relation to key figures in Norway in 2010.

	Statutory pension scheme	Occupational pension schemes (incl. Publ. Sect. AFP)	Private sector AFP scheme	Early retirement schemes for seamen and fishermen	Pension schemes in tot.
Administrative expenses / pension expenditure	3.2%	10.8%	0.6%	2.7%	4.5%
Administrative expenses / premium income	3.2% ^a	6.0%	0.8%	2.9%	4.0%
Administrative expenses / insured	EUR 252	EUR 290	EUR 7	EUR 147	EUR 542^b
Administrative expenses / pension recipient	EUR 698	EUR 1,035	EUR 162	EUR 276	
Administrative expenses / pension	EUR 698	EUR 1,035	EUR 162	EUR 276	EUR 800
Administrative expenses / member ^c	EUR 185	EUR 227	EUR 7	EUR 96	EUR 412^b

a) Contribution income estimated similar to pension expenditure.

b) Depicts an insured person who is covered by the national insurance scheme and the occupational pension scheme (incl. the public sect. AFP-scheme).

c) Insured and pension recipients.

2 Introduction

The first and second pillar pension schemes in Norway in 2010 consist of the statutory national insurance schemes, occupational pension schemes as well as early retirement schemes for employees, fishermen and seamen.

The national insurance scheme covers everyone resident or working in the country. The scheme has been fundamentally reformed in the last few years, with both services and benefits combined under a single agency, NAV. Although the statutory pension scheme has been centralized, NAV has offices in every municipality in Norway and employs approximately 13,000 people, making it a large organization that is, in practice, responsible for the implementation of the entire social security.

The occupational pension schemes nowadays cover up to 86 per cent of the work force¹. Coverage has greatly increased since 2006, when the new act (lov om obligatorisk tjenstepensjon) made participation in occupational pension schemes mandatory for virtually all employees in the private sector. The public sector has its own occupational pension schemes, which have been obligatory even earlier.

In addition to the occupational schemes, private and public sector both have their own early retirement schemes (AFP), with retirement benefits payable before the national pension scheme retirement age (67) to 62-66 year old members. Fishermen and the seafaring personnel also have their own separate early retirement schemes.

The occupational pension schemes (tjenstepensjon) are implemented mainly by life insurance companies and pension funds. In the private sector, the life insurance companies command the major part of the sector with 78 per cent of the premium income. Pension funds' share is respectively 22 per cent.

In the public sector, the State pension fund (Statens pensjonskasse) arranges pension security for State employees and certain other groups. The municipal pension fund (Kommunal Landspensjonskasse), which despite its name is an insurance provider, is the largest provider of occupational pension security for employees in the municipal sector. Public-sector employees are also insured by life insurance companies and their own pension funds.

The AFP-schemes are administered by three separate actors in the private sector and NAV. In the public sector, the early retirement scheme is administered by the occupational pension actors and NAV, respectively.

Occupational pension provision is usually arranged as funded pension security. An exception to this is the pension scheme of the State pension fund, which functions largely based on the pay-as-you-go principle. In the public sector, the form of the occupational pension schemes are also defined benefit, whereas in the private sector, schemes may be both defined benefit and defined contribution. The new schemes (est. after 2006) are, however, generally defined contribution schemes. Funds in the defined benefit schemes amounted to approximately NOK 1,000 billion by the end of 2011, and in defined contribution schemes to approximately NOK 50 billion by the end of 2010².

1 Source: Statens pensjonskasse, årsrapport 2011.

2 Source: Statistics Norway.

3 Administrative expenses of the statutory pension schemes

The administration and implementation of the statutory pension system in Norway is the responsibility of NAV (Ny Arbeids- og Velferdsforvaltning), an agency under the jurisdiction of the Ministry of Labour. NAV was established in July 2006 for the implementation and administration of all statutory pension benefits (old-age, disability and survivors' pensions) in addition to other social benefits (unemployment security, sickness allowance, support for families with children etc.). Additionally, NAV is responsible for calculating and paying the pensions of the AFP early retirement scheme of the private sector, and also partly for the AFP pensions of the public sector.

NAV is organized into 457 local offices and approximately 100 administrative and special departments. In practice, a NAV office can be found in every municipality in Norway. Local offices are usually small, a third of all offices have 3 or fewer employees and only two local offices have employees numbering more than 80. A total of approximately 18,000 people work in the different offices of NAV, 13,000 of which are part of State administration (NAV) and 5,000 as part of local administration. The employees in local administration are not included in the administration expenses of NAV.³

Table 3 contains the administrative expenses (driftskostnader) of NAV for the years 2007–2010. Administrative expenses consist of wage and social security expenses, IT and equipment expenses, real estate maintenance and rental costs, as well as the costs of payment functions and other costs. The statutory pension system is pay-as-you-go, and NAV has no investment operations or expenses thereof.

In its financial statements, NAV reports the overall administrative expenses of the social security it administers and implements, and these have not been divided based on the type of benefit. For this reason we have, in addition to the reported overall administrative costs, added an estimate of administrative expenses relating to pension benefits (old-age, disability and survivors' pension), which has been arrived at by calculating the ratio of this pension benefit expenditure to the overall expenses, and by multiplying this figure by the overall administrative expenses. We then arrive at an indicative estimate of the administrative costs of pension benefits.

The reform of NAV principally came into force already in 2006, but the new organisation has been fully operational only since 2010. The new old-age system, on the other hand, came into force in early 2011. A separate item for administrative expenses relating to the reforms has been included in the financial statements already since 2007. These expenses have not, however, been taken into account when calculating estimates of the administrative expenses of pension benefits, in order to achieve a more realistic picture of the development of administrative expenses and the expenses of the system itself. This calculation gives an estimate of the administrative expenses relating to pension benefits at NOK 6.6 billions (820 million euros)⁴ for the year 2010.

3 Additional information: "NAV's organisasjon og virkemåte Delrapport 1 fra Ekspertgruppa som vurderer oppgave- og ansvarsdelingen i NAV", <http://www.regjeringen.no/pages/3738696/master.pdf>.

4 Amounts in euros are calculated by using year-average exchange rates provided by the Bank of Finland: year 2010: € 1 = NOK 8.0043, 2009: € 1 = NOK 8.7278, 2008: € 1 = NOK 8.2237, 2007: € 1 = NOK 8.0165.

Table 3.*Administrative expenses, insured, pension recipients and pension expenditure of NAV.*

	2010	2009	2008	2007
Administrative expenses in tot MEUR (MNOK)	1,324 (10,602)	1,218 (10,630)	1,325 (10,900)	1,123 (9,000)
- normal administrative expenses of the system MEUR (MNOK)	1,218 (9,746)	1,041 (9,090)	1,131 (9,300)	973 (7,800)
- reform of organization and pension system MEUR (MNOK)	107 (856)	176 (1,540)	195 (1,600)	150 (1,200)
Benefit expenditure in tot. MEUR (MNOK)	38,595 (308,926)	33,413 (291,624)	32,200 (264,805)	30,833 (247,172)
Estimate of administrative expenses of pension benefits MEUR (MNOK)	820 (6,562)	708 (6,177)	790 (6,499)	679 (5,444)
The insured^a (16–66 year olds)	3,251,714	3,207,513	3,152,714	3,101,573
Pension recipients^b				
Old-age pension	663,799	650,871	642,815	639,255
Early old-age pension (AFP) ^c	29,239	48,238	48,428	44,251
Disability benefits ^d				
- disability pension	301,088	296,354	295,968	294,850
- compensation for work capacity evaluation	174,275	-	-	-
- temporary disability pension	-	49,885	43,273	38,694
- rehabilitation allowance	-	55,033	47,222	47,056
- vocational rehabilitation	-	58,068	54,992	57,469
Survivors' pension				
- surviving spouse's pension	21,475	22,277	22,905	23,310
- orphan's pension (0–21yrs)	13,525	13,758	13,377	13,786
Pension expenditure (million NOK)				
old-age pension	121,088	112,845	105,383	97,310
(early old-age pension (AFP))	(1,525)	(1,294)	(1,000)	(1,000)
disability benefits	82,909	81,547	76,170	71,796
survivors' pension	2,485	2,482	2,495	2,417
Total	208,007	198,168	185,048	172,523

Sources: NAV, SSB, Bank of Finland.

a) Number of persons resident in the country.

b) The situation at year-end.

c) Figures for the year 2010 only comprise AFP pension recipients of the private sector and the members of Spekter.

d) From the beginning of 2010, rehabilitation support (rehabiliteringspenger), temporary disability pension (tidsbegrenset uførestønning) and vocational rehabilitation allowance (yrkesrettet attføring) have all been discontinued and replaced by a work capacity evaluation compensation (arbeidsavklaringspenger) that replaces all of the abovementioned benefits.

4 Administrative expenses of occupational pension schemes

Administrative expenses of the occupational pension schemes consist of the administrative expenses of the State pension fund (Statens Pensjonskasse) and those of the life insurance companies and pension funds. The occupational pension provision is comprehensive. Practically all employees in the public sector (State, municipalities and municipal companies and public sector entities) are covered by occupational pension security. The scope of occupational pension has increased also in the private sector, when the act on mandatory occupational pension (lov om obligatorisk tjenestepensjon – OTP) came into force in early 2006. All in all, active members of occupational pension schemes numbered 2,192,000 by the end of 2011, a figure corresponding to approximately 86 per cent of the workforce. Of these, approximately 817,000 worked in the public sector and 1,375,000 in the private sector. Recipients of occupational pension numbered a total of 588,000⁵.

4.1 State pension fund

The State pension fund is a statutory company owned by the Ministry of Labour (forvaltningsbedrift), and its main assignment is the administration and implementation of occupational pension security and the AFP system for State employees.

The membership of State employees in the fund is by default mandatory, with the exception being nurses and doctors in the employment of the State as they have their own occupational pension schemes. The State pension fund also grants mortgages to its members, the profits of which are used (in addition to State shares) to cover pension expenditure in case of a pension contribution deficit. The fund also arranges workers' compensation and life insurance policies for State employees.

The State pension fund also arranges occupational pension security for teachers, educational institutions and pharmacies in the municipal as well as the private sectors. Pension security of pharmacy personnel is funded, in contrast to other groups in the State pension fund, and by the end of 2010 the size of the fund was MEUR 640 (MNOK 5,120).

Pension insurance contributions paid into the State pension fund formed approximately 15 per cent of the pension insurance contribution income of the whole occupational pension sector. The combined pension liabilities of the State pension fund were approximately EUR 45 billion (NOK 360 billion) in 2010, and it was the second largest pension actor in Norway after NAV.

Table 4 presents the administrative expenses and other key figures of the State pension fund for the year 2010. As administrative expenses have been used the administrative expenses paid by SPK forsikring and those paid by other actors to SPK forvaltning.

5 Sources: Statens Pensjonskasse, SSB.

Table 4.
Key figures of the State pension fund in 2010.

Members	
- Active	282,000
- Vested rights	445,000
- Pension recipients	215,000
- Part-time pensioners	29,000
Members in total	971,000
Premium income	MEUR 1,453 (MNOK 11,632)
Pension expenditure	MEUR 2,469 (MNOK 19,764)
State share and profit from mortgage business*	MEUR 1,016 (MNOK 8,132)
Personnel	397
Administrative expenses	
- SPK	MEUR 51 (MNOK 406)
- Pension scheme for pharmacy personnel	MEUR 2 (MNOK 14)
Total	MEUR 53

Sources: Annual report of SPK and the Pharmacy personnel 2010, SSB.

* Calculated instalment.

4.2 Life insurance companies

In Norway, life insurance companies form the largest group in occupational pension provision. They manage occupational pension schemes in both the private and the public sector (municipal, regional and public-sector entities). In 2010, life insurance companies collected approximately 70 per cent of the pension premiums of the whole occupational pension sector (private + public sectors)⁶.

By the end of 2010, companies offering collective occupational pension security numbered 12, the biggest of which were Vital Forsikring ASA (currently DNB Livsforsikring), Storebrand Livsforsikring AS and Nordea Liv. The combined market share of these companies in relation to the pension premium income of the private sector was approximately 87 per cent⁷.

In the public sector, the lion's share of pension premium income paid to insurance companies is collected by Kommunal Landspensjonskasse (approximately 71%). Despite its name, KLP is a mutual insurance company and also operates as a pension provider in the private sector, through its subsidiary KLP Bedriftspensjon. Vital, Storebrand and the pension provider of the municipality and municipal federation of Oslo, Oslo Pensjonsforsikring, collect the rest of the pension premiums paid into life insurance companies in the public sector.

⁶ Source: SSB, www.ssb.no.

⁷ Life insurance company data is based on the statistics of FNO and the annual reports of the companies.

Table 5 presents the administrative expenses and other key figures of the above mentioned life insurance companies. The administrative expenses of the insurance companies consist of investment expenses as well as operating expenses, but separating these from each other based on the available data is not possible. In practice, administrative expenses have been collected from operating expenses relating to insurance operations in the financial statements data (forsikringsrelaterte driftskostnader), as they form the main part of expenses, as well as from other insurance expenses (andre forsikringsrelaterte kostnader). Expenses relating to insurance operations consist of the following instalments: administrative expenses, sales expenses and administrative expenses of insurance operations.

Table 5.

Administrative expenses of life insurance companies and other key figures from 2010, in MEUR.

	Vital	Storebrand	Nordea Liv	KLP*	Oslo	Total
Pension premium income**	1,531	1,449	434	2,520	368	6,302
Active members (x1,000)	398	457	175	309	28	1,367
Administrative expenses						
- Private-sector pension insurance	114	110	36	3	-	263
- Public	33	22	-	169	15	239
- Corporations	2	-	-	-	-	2
Administration expenses in total	149	132	36	172	15	504

Sources: FNO, annual company reports.

* Contains the pension insurance data of the private sector, managed by KLP Bedriftspensjon AS.

** The insurance contribution income does not include contributions transferred from other companies.

4.3 Pension funds

Single companies or actors in the public sector may also arrange occupational pension provision in pension funds. In 2010, pension funds were paid approximately 15 per cent of the pension premiums of the whole occupational pension sector (private and public.) During the recent years, the number of pension funds has been on the decline and by mid-2012 pension funds numbered 91 of which 58 operate in the private sector and 33 in the public sector⁸.

The administrative expenses, contribution income and pension expenditure data have been collected from statistics published by the statistics authority of Norway (SSB). The statistics cover all pension funds in both the private and the public sector. Administrative expenses include investment expenses, as they have not been reported separately.

⁸ Source: Pensjonskasseforeningen, www.pensjonskasser.no.

Table 6.*Administrative expenses of pension funds and other key figures from 2010–2008, MEUR, (MNOK).*

	2010	2009	2008
Premium income	1,495 (11,966)	1,449 (12,650)	1,860 (15,297)
Pension expenditure	638 (5,108)	556 (4,856)	553 (4,408)
Administrative expenses			
- personnel expenses	38	32	36
- provisions and bonuses	11	8	11
- real estate expenses	3	4	9
- other expenses	29	24	22
Administration expenses in total	81 (649)	68 (598)	78 (646)

Source: SSB.

5 Early retirement schemes

5.1 Early retirement schemes for seafaring personnel and fishermen

The seafaring personnel have their own early retirement scheme with retirement benefits paid to the members between the ages of 60 and 67 (until the insured have the right to national insurance pension.). The pension scheme is financed through pension premiums and State support and it is administered by Pensjonstrygden for sjømenn (PTS), which is a public enterprise (offentlig virksomhet) under the Ministry of Labour. However, the payment of pensions is done by NAV.

The early retirement scheme for fishermen is administered by the Fishermen's pension fund (Garantikassen for Fiskere) under the Ministry of Fisheries and Coastal Affairs. Just like in the scheme for seamen, the pension scheme pays early retirement (old-age) pensions to fishermen aged 60–67.

Table 7.

Administrative expenses and key figures of the pension scheme for seafaring personnel and fishermen in 2010, MEUR (MNOK).

	Pension scheme for seafaring personnel	Pension scheme for fishermen
Premium income*	169 (1,354)	4 (29)
Pension expenditure	165 (1,324)	17 (139)
Active members	28,913	5,505
Pension recipients	16,044	2,015
Administrative expenses**	4 (31)	1 (8)

Sources: Annual reports of pension schemes and the pension fund of fishermen.

* Including also State support and other income.

** Administrative expenses of the pension scheme for fishermen include the administrative expenses of the fund (NOK 1.7 million) as well as the investment expenses (NOK 4 million).

5.2 AFP scheme of the private sector

The AFP scheme was comprehensively reformed in the beginning of 2011, when the three separate AFP-schemes (LO/NHO, Spekter and Finansnaeringen) were merged into one single AFP scheme for the private sector. Old schemes stopped awarding new benefits in 2011 and by 2015 the schemes will be wound down.

The old AFP-schemes were early retirement schemes which paid benefits to members until the age 67. In the new system, the benefit is payable earliest at the lowest retirement age of the national insurance scheme, age 62, and it is a lifelong supplementary benefit.

The new AFP scheme is administered by the former LO/NHO central organisation, Fellesordningen for Avtalefestet Pensjon, which collects the pension contributions from the

member companies, handles the pension applications and confirms the pension right. NAV administers the calculation and payment of the benefits.

In this review, we have looked at the administrative expenses of the biggest AFP-scheme of the old system in 2010, namely the LO/NHO-scheme. Spekter and Finansnaeringen schemes' expenses are not covered because of data deficiencies. The reported administrative expenses (driftskostnader) of the LO/NHO scheme from the year 2010 consist of the central organisation personnel and implementation expenses and depreciation. Investment expenses are not reported separately.

Table 8.

Administrative expenses of the private-sector AFP pension scheme and key figures, MEUR (MNOK).

	2010
Contribution income*	477 (3,818)
Pension expenditure**	644 (5,152)
Active members	570,000
Pension recipients	24,663
Administrative expenses	4 (33)

Source: AFP annual report 2011, 2010.

* Contains deductible of the companies, 25%.

** Contains State shares, approx. 1/3 of the expenditure.

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ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN SWEDEN

Mika Vidlund

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Summary¹

This country review outlines the administrative expenses of Swedish national (so-called pillar I) and occupational (so-called pillar II) pensions in 2011, which is the latest comprehensive statistical year available.

We have used the annual reports published by the Swedish Pension Agency (Pensionsmyndigheten), Swedish Social Insurance Agency (Försäkringskassan) and AP-funds to examine the administrative expenses of the statutory pension system. To clarify the administrative expenses of the administratively more decentralised occupational pensions, we have used the statistical report on Swedish insurance companies compiled by Statistics Sweden (SCB) and the Swedish financial supervisory authority Finansinspektionen (FI). The report covers the data of the fund management companies and life insurance companies that administer the private and public-sector occupational pensions and KPA Pension, the municipal pension institution that is the key actor in the municipal occupational pension scheme. The data of the central actors in the government occupational pension scheme – the National Government Employee Pensions Board (SPV), and Kåpan Pensioner, the association that administers premium pensions – are not included in the above statistics. Therefore we have examined their administrative expenses separately in this review. We have also reviewed the administrative expenses of PRI Pensionsgaranti, which handles the administration of employers' pension arrangements based on provisions. In addition, PRI Pensionsgaranti handles the administration of some company pension funds, which would otherwise be excluded from the review since there is no comprehensive statistical data available on them. The statistical report on Swedish insurance companies which lacks the data of industry-wide pension funds has been supplemented by statistical data published by Insurance Sweden (Svensk Försäkring).

The administrative expenses and other key data of the statutory and occupational pension schemes are presented in the underlying tables 1 and 2 for 2011. A more detailed description of the administrative expenses is included in the following sections.

1 EUR 1 = SEK 9.0298 (2011 average exchange rate, www.bof.fi).

Table 1.*Administrative expenses of the pension schemes and other key data in 2011.*

	Statutory pension				Occupational pension	Total
	Old-age pension (earnings-related)	Sickness pension	Guarantee pension, survivors' pension, others	Total		
Administrative Expenses Total	MEUR 516.6 Income pension: MEUR 279.6 milj. Premium pension: MEUR 237 milj.	MEUR 110.6	MEUR 33.6	MEUR 660.8	MEUR 972.6	MEUR 1,633.3
Operating expenses	Income pension: MEUR 97.1 (MSEK 883) Premium pension: MEUR 37.7 (MSEK 340)	MEUR 110.6 (MSEK 999)	MEUR 33.6 (MSEK 303.4)	MEUR 279	MEUR 855 (MSEK 7,719.2)	MEUR 1,134
Asset management expenses	AP1.–AP6: MEUR 182.5 (MSEK 1,648) Premium pension: MEUR 199.3 (MSEK 1,800)	-	-	MEUR 381.8	MEUR 117.6 (MSEK 1,061.6)	MEUR 499.4
Gross income (Incl. state's share)	bnEUR 27.72 Income pension (incl. ATP): (bnSEK 215.6) Premium pension: (bnSEK 34.7)	MEUR 5,939 (MSEK 53 627)	MEUR 3,679 (MSEK 33,219)	bnEUR 37.3	MEUR 9,733 (MSEK 87,883)	bnEUR 47.0
(Insurance) premium income ^a	bnEUR 25.04 Income pension (incl. ATP): (bnSEK 194.8) Premium pension: (bnSEK 31.3)	-	-	-	MEUR 9,733 (MSEK 87,883)	bnEUR 34.8
Pension expenditure	bnEUR 24.94 (bnSEK 225.2)	MEUR 5,939 (MSEK 53,627)	MEUR 3,679 (MSEK 33,219)	MEUR 34,556 (MSEK 312,040)	bnEUR 7.2 (bnSEK 65) ^b	bnEUR 41.76
Investment assets	AP1–AP6: bnEUR 96.7 (bnSEK 873) Premium pension: bnEUR 43.5 (bnSEK 393)	-	-	bnEUR 140.2 (bnSEK 1266)	bnEUR 167.1 (bnSEK 1,509) ^b	bnEUR 307.3 (ca 80% of GDP) ^c
Insured	Income pension: 6,010,904 (16–64 yrs) Premium pension: 5 375,429	5,477,229 (19–64 yrs)	6,010,904 (16–64 yrs)	-	3.2 million ^d	-
Pensioners	Earnings-related pension: 1,854,111 (Income pension: 994,874) (Premium pension: 898,204) (ATP-pension: 1,834,713)	400,684	1,182,860	2,723,040 1,958,411 ^f + 400,684 + 363,945 (other)	1.5 million ^e	-
Pensions	1,854 111	400,684	1,182,860	3,437,655	1.5 million	4.9 million

a) Premium income component below the earnings ceiling steered into the pension scheme. In addition, as for the component exceeding the earnings ceiling, bnSEK 13.9 steered into the state budget.

b) Swedish Pension Agency's estimate in 2010.

c) bnSEK 3,503 (SCB 2011).

d) SOU 2011, 12. The scope of coverage of the four largest occupational pensions.

e) SCB; Swedish Pension Agency.

f) All old-age pension recipients.

Table 2.
Administrative expenses in relation to key figures in 2011.

	Statutory pension				Occupational pension	Total
	Old-age pension (Earnings-related)	Sickness pension	Guarantee pension, survivors' pension, others	Total		
Operational costs / gross income	0.49% Income pension: 0.41% Premium pension: 0.98%	1.86%	0.91%	0.75%	8.80%	2.40%
Operational costs / pension expenditure	0.54%	1.86%	0.91%	0.81%	11.90%	2.70%
Operational costs / insured	Earnings-related pension: EUR 22 Income pension: EUR 16 Premium pension: EUR 7	EUR 20	EUR 6	EUR 48	EUR 267	EUR 315 ^a
Operational costs / pensioner	Earnings-related pension: EUR 73 (Premium pension: EUR 42)	EUR 276	EUR 28	EUR 103	EUR 570	-
Operational costs / member ^b	Earnings-related pension: EUR 17	EUR 19	EUR 5	EUR 41	EUR 182	EUR 223 ^a
Operational costs / pension	EUR 73	EUR 276	EUR 28	EUR 81	EUR 570	EUR 231
Administration costs / gross income	1.87% (Income pension: 1.17%) (Premium pension: 6.17%)	1.86%	0.91%	1.77%	10.00%	3.50%
Administration costs / pension expenditure	2.07%	1.86%	0.91%	1.91%	13.50%	3.90%
Administration costs / insured	Earnings-related pension: EUR 86 (Income pension: EUR 47) (Premium pension: EUR 44)	EUR 20	EUR 6	EUR 112	EUR 304	EUR 416 ^a
Administration costs / pensioner	Earnings-related pension: 279 (Premium pension: 263)	276	28	243	648	600
Administration costs / pension	279	276	28	192	648	333
Administration costs / member ^b	Earnings-related pension: 66	19	5	90	207	297 ^a

a) Depicts a person insured in the statutory schemes and occupational scheme.

b) Insured and pensioners.

1 Introduction

The Swedish national old-age pension scheme consists of the earnings-based pension and the guarantee pension (which guarantees a minimum income). The earnings-based pension is determined on the basis of defined contributions and divided into two components: the income pension and premium pension. Income pension covers all wage-earners and self-employed persons. The earnings-based pension will take effect gradually and the defined benefit ATP pension of the former pension scheme will be partly in force during the transition period.

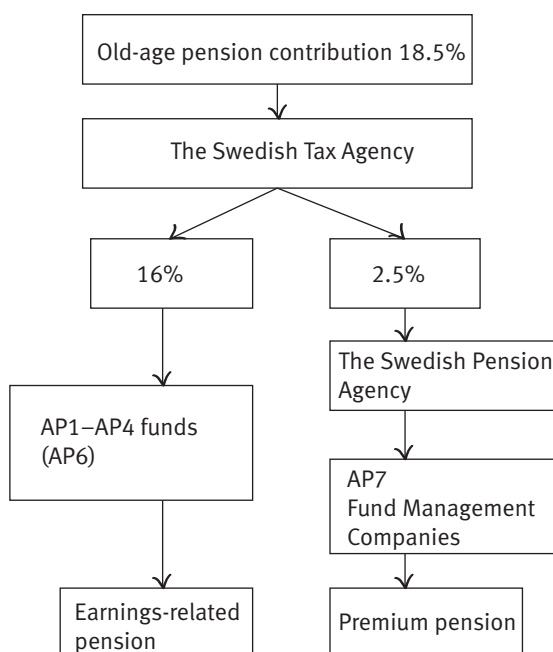
The guarantee pension covers all residents in Sweden, and the pension is linked to the number of years of residence. The earnings-based pension reduces the guarantee pension so that when the earnings-related pension is sufficiently high, no guarantee pension is paid. The pension scheme also pays out survivors' pensions. Old-age pensions and survivors' pensions are administered by the Swedish Pensions Agency (Pensionsmyndigheten).

Sickness pensions are paid out of the health insurance scheme, which is administered by the Swedish Social Insurance Agency (Försäkringskassan).

The Swedish Tax Agency (Skatteverket) collects the pension contributions in connection with taxation. Old-age pension contributions are steered into pension buffer funds, a so-called general pension fund (the National Pension Fund, AP). The assets are reserved solely for the financing of income-related old-age pensions. The buffer fund consists of five administratively separate funds: the First to the Fourth National Pension Funds (AP1–AP4) and the Sixth National Pension Fund (AP6). Nevertheless, the old-age pension contributions are steered only into the first four pension funds. Each fund receives a fourth of the old-age pension premium income and participates correspondingly in the financing of old-age pension expenditure. The state-governed Seventh National Pension Fund (AP7) that administers premium pensions is not part of the buffer fund but functions as a default fund of the premium pension scheme.

Figure 1.1.

Course of national old-age pension scheme's financing (earnings-related pension).



In addition to the national pensions, Sweden has extensive occupational pension schemes for both public and private-sector employees. Enrollment in the schemes is obligatory for all employers and employees that work in fields subject to a collective agreement. The occupational pension schemes cover more than 90 per cent of the employees.

The four major occupational pension schemes are the supplementary pension scheme for salaried employees in industry and commerce (ITP), the SAF-LO Collective Pension Insurance Scheme, the public-sector Occupational Pensions Agreement Scheme PA-03 and the KAP-KL collective pension scheme for municipalities and regions. These schemes cover approximately 85 per cent of the employees.

The administration of occupational pensions is decentralised to private companies, foundations or industry-wide pension funds, or entered as provisions. If the employer arranges pensions based on provisions or in the form of a foundation, the scheme must take out credit insurance with PRI Pensionsgaranti (Mutual).

Since 1998, employees in the private-sector SAF-LO pension scheme have had the opportunity to themselves select in which insurance company or fund their pension capital is managed. The employee pays pension contributions to a company called Fora, which transfers the contributions to the fund management company selected by each employee. If the insured does not make a selection, Fora takes out a pension insurance with AMF Pension, in which employees' pension insurance has been arranged already since the initial stages of the scheme.

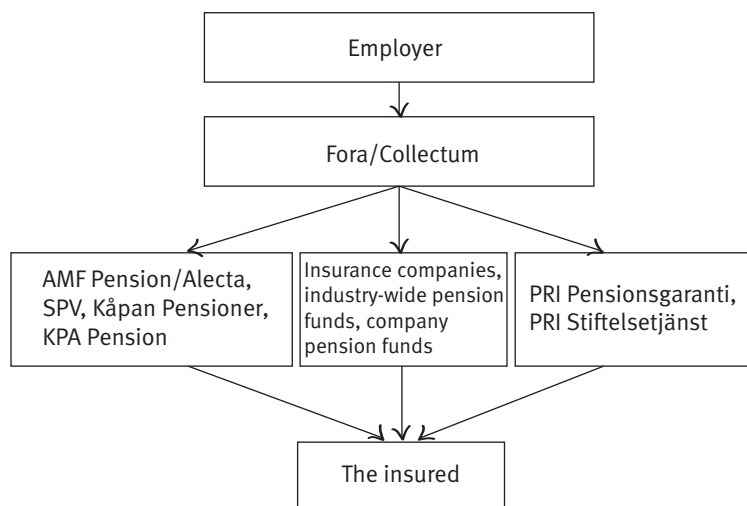
The general administration of the scheme, registration and customer information services as well as contribution collection of private-sector ITP pension insurances is handled by the holding company Collectum. If the insured does not make a selection, the pension

insurance is taken out with Alecta insurance company. Previously, Alecta monopolised the administration of private-sector ITP pension insurances. The insured has been free to invest the complementary defined contribution pension component ITPK that is part of the ITP pension also in other companies.

In the public sector, the state's pension insurance company SPV and the municipal pension insurance company KPA are central administrative authorities of the decentralised administration. SPV administers defined benefit supplementary pensions. KPA administers circa 80 per cent of municipal pensions. Unless the insured selects otherwise, KPA functions automatically as the municipal pension asset manager. One of the key actors of the state's occupational collective pension scheme's defined contribution premium pensions (PA-03 and PA-91) is Kåpan Pensioner (until 2005, the Pensions Insurance Society for Government Employees, FSO). If the insured does not make an "active" selection regarding his or her investments, Kåpan Pensioner is selected as the default fund for the premium pension assets.

Figure 1.2.

Actors in the occupational pension scheme.



2 Administrative expenses of statutory pensions

2.1 Total administrative expenses of old-age pension granted from the earnings-related pension scheme

According to the annual report of the Swedish pension system published by the Swedish Pensions Agency (the so-called Orange Report), the total administrative expenses of the old-age pension granted based on the earnings-related pension scheme amounted to SEK 4,671 million in 2011 (see Table 2.1; time series for 2007–2011 presented in Appendix 1).

Table 2.1.

Administrative expenses of old-age pensions granted from the statutory earnings-related pension scheme in 2011, MSEK.

	Income pension	Premium pension	Total
The Swedish Tax Agency	377	59	436
The Swedish Pensions Agency	506	281	787
Total administrative expenses for insurance business	883	340	1,223
Net operating expenses of National Pension Funds / fund management companies	791	1,155	1,946
Fixed management fees of National Pension Funds	437	-	437
Performance-based fees	241	-	241
Courtage/transaction costs	179	645	824
Total administrative expenses for investments	1,648	1,800	3,448
Total expenses	2,531	2,140	4,671

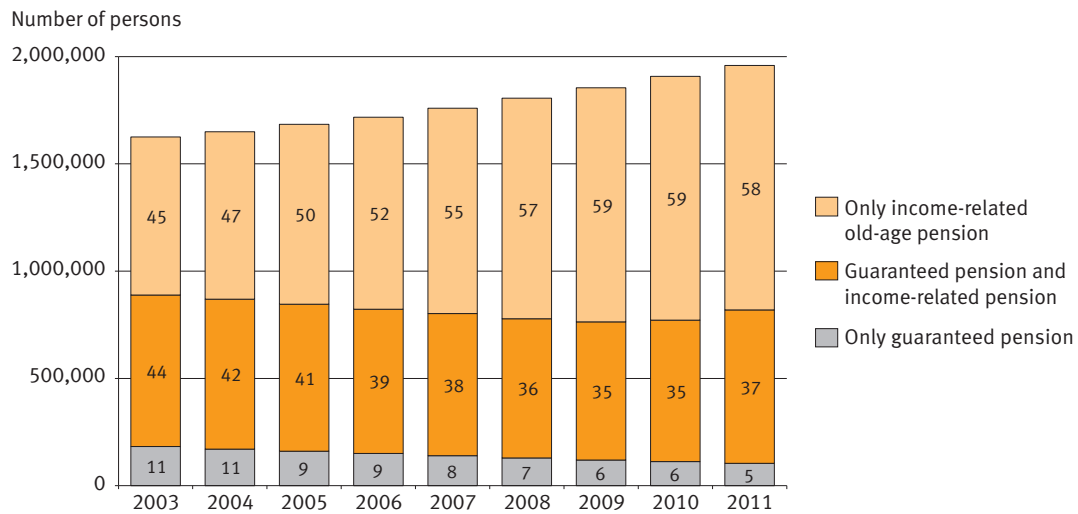
Source: Pensionsmyndigheten.

In 2011, the old-age pension expenditure of the earnings-related pension scheme amounted to SEK 225,234 million, i.e. circa 6.4 per cent of GDP. The defined benefit (former scheme) ATP pension expenditure was SEK 174,677 million. The defined contribution (new scheme) income pension expenditure was SEK 48,268 million and the premium pension expenditure SEK 2,288 million. Total old-age pension scheme expenditure, including the guarantee pension, amounted to SEK 243,261 million, i.e. circa 6.9 per cent of GDP (the Swedish Pensions Agency 2012).

In 2011, income-related old-age pension was paid to 1,854,111 persons. A total of 1,960,452 persons received old-age pension. Of these, 5 per cent (i.e. 104,330 persons) received only guarantee pension (see Figure 2.1).

Figure 2.1.

Number of persons receiving old-age pension and the relative proportion of guarantee pension and earnings-related pension recipients in 2003–2011.



Source: The Swedish Pensions Agency, Ministry of Health and Social Affairs 2012.

In 2011, ATP pensions were received by 1,834,713 persons. Income pension was paid to 994,874 persons and premium pensions to 870,172 persons. As the defined contribution pension scheme is gradually coming into force, one and the same person can receive all of the above-mentioned pensions.

In the following sections, the administrative expenses listed in Table 2.1 will be presented more closely.

2.1.1 Tax Administration

The Swedish Tax Agency collects the pension contributions in connection with taxation. Table 2.2 presents the expenses generated in connection with the collection of old-age pension contributions in 2007–2011. The figures also include reimbursements of costs and expenses to other authorities, e.g. the execution authority.

Table 2.2.

Expense items paid to the tax administration in 2007–2011, MSEK.

	2007	2008	2009	2010	2011
Income pension	287	353	378	402	377
Premium pension	45	55	59	63	59
Total	332	408	437	465	436

Source: Orange Rapport 2011.

2.1.2 The Swedish Pensions Agency

Total administrative expenses

Since the beginning of 2010, the Swedish Pensions Agency has been in charge of the administration of statutory old-age pensions. Prior to the administrative reform in 2010, the Swedish Social Insurance Agency was in charge of the administration of and granted the guarantee pensions and income pension. Premium pensions were administered by a separate premium pension authority (Premiepensionsmyndigheten, PPM). The following benefits are administered by the Swedish Pensions Agency:

- Old-age pension (earnings-related and guaranteed pensions)
- Survivors' pension
- Housing supplement for pensioners
- Maintenance support for the elderly
- Voluntary pension insurance
- Seafarers' pension.

The total administrative costs of the Swedish Pensions Agency amounted to approximately SEK 1,342 million in 2011 (MSEK 1,279 in 2010) (see Tables 2.3 and 2.4). In 2011, the Swedish Pensions Agency employed 1,050 persons (1,037 in 2010).

Table 2.3.

Total administrative expenses of the Swedish Pensions Agency in 2011.

	MSEK
Personnel expenses	509,950
Real estate expenses	49,198
Other net operating expenses*	719,495
Financing costs	7,300
Depreciations and value adjustments	55,850
Total	1,341,793

* see Table 2.4.

Table 2.4.

Specification of other net operating expenses of the Swedish Pension Agency in 2011.

	MSEK
Services purchased from the Swedish Social Insurance Agency (e.g. IT services and joint service offices)	446,190
Consultants (costs relating to the foundation of an authority)	99,948
Mailing (e.g. Orange Envelope [pension record], PIN codes)	45,833
Other	127,524
Total	719,495

Administrative expenses per field of activity

Services relating to the implementation and granting process of benefits constitute 67.7 per cent of the agency's administrative services (see Table 2.5). The Swedish Pensions Agency also handles tasks relating to the development of the entire scheme and pension communications. Communications (incl. the distribution of the Orange Envelope) accounts for more than a fifth of the agency's net operating expenses.

Table 2.5.

Administrative expenses of the Swedish Pensions Agency in 2010 and 2011, specified by field of operation.

	Expenses 2011, MSEK	Portion of total expenses, %	Expenses 2010, MSEK	Portion of total expenses, %
Granting services	907.7	67.7	845.2	66.1
Payment of benefits	67.3	5.0	80.0	6.3
Fund management	64.2	4.8	64.0	5.0
Communications	284.1	21.2	271.2	21.2
Statistics and analysis	18.5	1.4	18.1	1.4
Total	1,341.8	100.0	1,278.6	100.0

Source: The Swedish Pensions Agency 2011.

Table 2.6 presents a specification of the administrative expenses of the granting services (as far as the granting of pension benefits is concerned), the largest of the above mentioned expense items. In 2011, pensions amounted to 76.3 per cent of the total management expenses of the services, i.e. MSEK 691.6, when the housing supplement for pensioners is excluded from the review. The housing supplement component has been deducted from the expenses relating to claims for recovery and benefit appeals and amounts to 75 per cent of the claims for recovery and 45 per cent of the benefit appeals process.

Table 2.6.

Pensions and administrative expenses paid by granting services per pension types in 2010–2011.

	Pensions paid				Administrative Expenses			
	2011		2010		2011		2010	
	MSEK	%	MSEK	%	MSEK	%	MSEK	%
Old-age pension, national*	234,855.5	89.0	235,138.2	89.2	175.6	19.3	177.4	21.0
Old-age pension, international	-	-	-	-	198.7	21.9	194.6	23.0
Old-age pension, foreign countries	3,302.2	1.3	3,319.3	1.3	80.5	8.9	80.5	9.5
Premium pension	2,022.1	0.8	1,411.8	0.5	152.1	16.8	112.8	13.3
Survivors' pension	15,417.6	5.8	16,115.4	6.1	74.9	8.2	74.3	8.8
Voluntary pension insurance	38.9	0.0	41.6	0.0	1.5	0.2	2.0	0.2
Seafarers' pension	0.6	0.0	0.7	0.0	0.7	0.1	0.7	0.1
Collection	-	-	-	-	3.4	0.4	2.0	0.2
Appeals	-	-	-	-	4.2	0.5	8.2	1.0
Total	255,636.8	96.9**	256,027.0	97.1**	691.6	76.3**	652.5	77.2**

* Incl. international old-age pension.

** Percentage of total expenses and administrative expenses; the table does not include the housing supplement or its share in collection and appeal procedures.

Source: The Swedish Pensions Agency 2011.

The volume of granting services and the cost per unit of decisions for each benefit are presented in more detail in Appendix 2. For example, the management expenses of the national old-age pension amounted to SEK 175.6 million, i.e. SEK 957 per decision, while the management expenses of the granting of an international old-age pension, i.e. a pension that includes periods abroad, amounted to SEK 198.7 million and SEK 2,503 per decision. The management expenses of the granting of pensions for persons residing abroad were SEK 80.5 million and SEK 1,854 per decision.

Financing of the administrative expenses of the Swedish Pensions Agency

Table 2.7 specifies the financing of the various activities of the Swedish Pensions Agency. This basis of division has been used in section 2.3 to clarify the administrative expenses of survivors' pensions, the guarantee pension and certain special pensions as no itemisation of administrative expenses per benefit is available for their part.

Table 2.7.

Financial sources of benefits administered by the Swedish Pensions Agency.

	State budget	National Pension Funds	Premium pension scheme	Others
Old-age pension:				
- Income pension	-	X	-	-
- Premium pension	-	-	X	-
- Guarantee pension	X	-	-	-
Survivors' pension (widow's pension, adjustment pension, special widow's pension, child pension and survivor support for child)	X	-	-	-
Housing supplement for pensioners	X	-	-	-
Special pension supplement	X	-	-	-
Income support for the elderly	X	-	-	-
Voluntary pension insurance	-	-	-	X
Seafarers' pension	-	-	-	X

Source: Söderberg 2010.

The administrative expenses of the income-related old-age pension are covered from the National Pension Funds and the premium pension scheme. The premium income channelled to the Swedish Pensions Agency in this way (MSEK 795) accounts for 59 per cent of the agency's total expenses (see Table 2.8). Other pensions are financed from the state budget or through other means of financing.

Table 2.8.

Administrative expenses and financing source of the Swedish Pensions Agency in 2011 per activity, MSEK.

	Expenses	State budget	National Pension Funds	Premium pension scheme	Others
Granting services and benefit payments	975	406	407	155	6.3
Fund management	64	0	0	63	1.7
Communications	284	123	94	65	1.5
Statistics and analysis	19	7	5	7	0
Total	1,342	537	506	289	9

Source: The Swedish Pensions Agency 2011, 58.

2.1.3 Buffer funds of the income pension

Income pension's buffer fund consists of five administratively separate funds (AP1–AP6). By year-end 2011, the market value of all five National Pension Funds was approximately SEK 873 billion (bnSEK 895 in 2010), approximately 25 per cent compared to GDP. The

National Pension Funds employed a total of 191 persons at year-end 2011, divided between the funds as follows: AP1: 46 employees; AP2: 58 employees; AP3: 57 employees; AP4: 52 employees; and AP6: 30 employees.

Table 2.9.

*Administrative expenses of the National Pension Funds in 2011 (2010) and in relation to the size of the funds.**

	Administrative expenses, MSEK	Fund size, bnSEK	
AP1 + performance fee + courtage	269 (268) 32 (31) 46 (78)	213.3	0.12% of the fund's average capital
AP2 + performance fee + courtage	369 (359) 99 (189) 67 (47)	216.6	0.17% of the fund's average capital
AP3 + performance fee + courtage	244 (300) 110 (139) 36 (26)	214.1	0.11% of the fund's average capital
AP4 + performance fee + courtage	203 (206) 0 (8) 30 (34)	210	0.10% of the fund's average capital
AP6 + performance fee + courtage	143 (167) 0 (0.9) 0.1 (0.7)	18.5	0.74% of the fund's average capital
Total + performance fee + courtage	1,228 (1,300) 241 (368) 179.1 (185) 1,648 (1,853)	872.5 (894.8)	0.14% 0.19%

* courtage/transaction fees

Source: First–Sixth Pension Funds, annual reports.

2.1.4 Administrative expenses of the premium pension

In 2011, circa 5.4 million persons were insured in the premium pension scheme (premium pension savers), and nearly 900,000 pensioners received a premium pension. The average annual pension was SEK 2,630 (EUR 291).

Table 2.10.

Pension expenditure, pension recipients and pensions in payment of the premium pension scheme in 2009–2011.

	2011	2010	2009
Pension expenditure, MSEK	2,022	1,412	858
Number of pension recipients	898,204	777,438	664,212
Average annual pension, SEK	2,630	2,430	1,430

Source: The Swedish Pensions Agency.

AP7 of the Premium Pension Scheme

The market value of the state-managed AP7 fund that administers premium pensions was approximately SEK 105.5 billion, ca. 3 per cent compared to the GDP at year-end 2011. In total, the funds of the premium pension scheme accounted for approximately SEK 393 billion, ca. 11 per cent compared to GDP at year-end 2011 (2010: bnSEK 408) (see Table 2.13).

The central task of AP7 is to offer a default fund for the insured who have not made a so-called active investment choice regarding the management of their premium pension capital. For their part, the premium pension contributions are steered into the AP7 Såfa investment fund.

Prior to May 2010, the fund in question was called the Premium Savings Fund. In addition to changing its name, the operating principles of the fund were amended. The current fund functions as a generation fund in which the risk level is reduced between the ages of 55 and 75. The basis of the fund consists of the AP7 Equity Fund and AP7 Fixed Income Fund. Based on these basic funds (so-called cornerstone funds), AP7 offers three additional state-managed portfolios for more active investors: AP7 Försiktig (cautious), AP7 Balanserad (balanced) and AP7 Offensiv (offensive). In each of these, the equity and fixed-income funds are differently weighted.

AP7 covers nearly 2.8 million insured. It accounts for 26.7 per cent of the total capital of the premium pension scheme (Equity Fund 25%, Fixed Income Fund 1.7%). The administrative expenses of the AP7 fund was SEK 116.8 million in 2011 (see Table 2.11). In 2011, AP7 employed 17 persons.

Table 2.11.

Administrative expenses of AP7 in 2011 (2010).

	Administrative expenses, MSEK	Fund, bnSEK	
AP 7	116.8 (135.9)	105.5	0.11% of the fund's capital

Lähde: AP7-fonden 2011.

AP7 Equity Fund and AP7 Fixed Income Fund were charged administrative expenses to the amount of circa SEK 150 million, which are entered as operating revenue for the company administering them, i.e. for AP7.

Table 2.12.

Administrative fees charged from AP7 Equity Fund and AP7 Fixed Income Fund in 2011.

	Administrative fees, MSEK	Fund, bnSEK	
AP7			
- Equity Fund	144.9	98.8	0.14% of the fund's capital
- Fixed Income Fund	5.4	6.7	0.08% of the fund's capital
	150.3	105.5	

Source: AP7 2011.

Fund Management Companies

In 2011, 99 fund management companies administered premium pensions. There were 797 different funds to administer. The funds accounted for a total of SEK 393 billion at year-end 2011 (2010: bnSEK 408). The majority of the assets were in equity funds.

Table 2.13.

Number and size of funds administering the premium pension scheme 2009–2011.

	Number of fund	2011	2010	2009
		bnSEK	bnSEK	bnSEK
Equity funds	572	159	214	179
Mixed funds	71	41	17	12
Generation funds	36	60	43	38
Fixed income funds	118	28	24	21
AP7 Sâfa (former Premium Savings Fund)	(1+1)*	105	110	90
	797	393	408	340

* AP7 Fixed Income fund and AP7 Equity Fund, incl. in the aforementioned figures..

Source: The Swedish Pensions Agency.

The Swedish Pensions Agency charges an administrative fee to cover the management expenses generated by the administration of the premium pension scheme. In addition, the fund management companies collect own administration fees from the funds they administer. The size of the fee varies by fund.

The administrative fee decided by the Swedish Pensions Agency in 2011 was 0.14 per cent (0.24% in 2010) of the capital accumulated on pension accounts and SEK 110 at most (2010: SEK 125) per pension account in 2011. Total premium income accrued to the amount of SEK 445 million (MSEK 553 in 2010), which corresponds to 0.11 per cent per average contribution (0.16%) or circa SEK 71 (SEK 90) per pension account². This administrative fee covers the administrative expenses of the Swedish Pensions Agency, as well as expenses and interest costs relating to the collection of premium pension contributions by the Swedish Tax Agency and the Enforcement Authority. The administrative expenses of the Swedish Pension Agency amounted to SEK 281 million in 2011 (MSEK 283 in 2010), i.e. 0.07 per cent of the capital. (Annual report of the Swedish Pensions Agency 2011, 56, 79; Orange Report 2011, 11).

The own administrative fees collected by fund management companies amounted to 0.85 per cent of the capital, totalling circa SEK 3.3 billion in 2011 (bnSEK 3.1 in 2010). However, the fund management companies have committed to reductions of charges, which totalled approximately SEK 2.1 billion in 2011 (bnSEK 1.9 in 2010), i.e. 0.55 per cent of the capital (0.55% in 2010). This amount is disbursed to the pension accounts. Thus, the investment management expenses amounted to approximately SEK 1.16 billion (bnSEK 1.14), i.e. to 0.3 per cent of the capital (0.32% in 2010).

² Number of pension accounts: 6,259,067; average capital in 2011: MSEK 384,750.

The total fees of the fund management companies and the Swedish Pensions Agency was 0.41 per cent of the capital (0.48% in 2010). According to the projections of the Swedish Pensions Agency, pension contributions will be reduced to 0.25 per cent during the next 30 years.

The administrative expenses are further increased by courtage/transaction fees. The fees reported to the Swedish Pension Agency amounted to SEK 645 million in 2011 (MSEK 663 in 2010), i.e. 0.17 per cent of the capital. This figure does not include all courtage/transaction fees. The administrative expenses of the premium pension scheme totalled SEK 2.14 billion in 2011. (see Table 2.14.)

Table 2.14.

Summary of administrative expenses of premium pensions in 2011.

	MSEK
The Swedish Tax Agency	59
The Swedish Pensions Agency	281
Total administrative expenses for insurance business*	340
Fund management companies' administrative fees (net**)	1,155
Transaction costs	645
Total administrative expenses for investments	1,800
Total expenses	2,140

* (see expenditure structure, the Swedish Pensions Agency 2011, p. 92) ** After reductions.

2.2 Sickness pension

The activity compensation granted as a sickness pension can be paid out to a disabled person aged 19-29 years and sickness compensation to a disabled person aged 30-64 years.

In December 2011, approximately 373,000 insured persons were drawing sickness compensation (2010: 416,000), while 27,500 (26,600) were receiving an activation compensation. In 2011, sickness compensation expenditure amounted to SEK 50.6 billion (bnSEK 58 in 2010), while activation compensation expenditure amounted to SEK 2.7 billion (bnSEK 2.6). Appendix 3 presents key figures for sickness benefits in 2009-2011.

The total administrative expenses of the Swedish Social Insurance Agency that administers sickness pensions amounted to SEK 8.16 billion in 2011. When taking into account the agreed cooperative services handled by the Swedish Pensions Agency, the total administrative expenses amounted to SEK 7.7 billion.

The administrative expenses of sickness benefits amounted to SEK 4.0 billion, equalling 54 per cent of the total administrative expenses. The administrative expenses of the activity compensation and sickness compensation amounted to SEK 999 million.

Table 2.15.

The administrative expenses of the Swedish Social Insurance Agency in terms of sickness benefits in 2011.

Sickness benefits	MSEK
Activity compensation	243
Sickness compensation	756
Occupational accident compensation	202
Housing supplement (for pensioners on sickness pension)	144
Rehabilitation allowance	71
Sickness allowance	2,623
Total	4,039

Source: Annual report 2011 of the Swedish Social Insurance Agency.

2.3 Administrative Expenses of Survivor's Pensions, the Guarantee Pension and Certain Special Pensions

In addition to the above presented income-related old-age pensions, the guarantee pension, the survivors' pensions, the seafarer's pension and the voluntary pension insurance are administered by the Swedish Pensions Agency (see 2.1.2). The number of pension recipients and the amount of pension expenditure is presented in the following table 2.16.

Table 2.16.

Pension recipients and pension expenditure in 2011.

	Pension recipients	Pension expenditure, MSEK
Guarantee pension	818,915	18,227
Survivors' pension	358,815	14,952
- widow's pension	330,877	
- child's pension	27,938	
Voluntary insurance	4,355	38,9
Seafarers' pension	775	0,6
Total	1,182,860	33,219

Source: The Swedish Pensions Agency 2012.

No comprehensive data on the administrative expenses regarding these benefits exist. For example, no benefit-specific itemization of administrative expenses for the guarantee pension is available as it forms an integrated part of income related old-age pension.

The Swedish Pensions Agency does state in its annual report that the administrative expenses for the survivors' pension granting services amounted to SEK 74.9 million and for the special pensions (the seafarer's pension and the voluntary pension insurance) SEK 2.2

million (see Table 2.6). For the other activities, no benefit-specific itemisation of incidencies of administrative expenses is available for any of the aforementioned pensions.

The aforementioned pensions and the costs of administering these pensions are financed by state budget or other funding (see Tables 2.7 and 2.8). In this review, to evaluate the total administrative expenses of these pensions, we have first deducted the cost-share of the housing supplement from that part of the Swedish Pension Agency's administration expenses that is financed by state budgetary funds.

According to the annual report of the Swedish Pensions Agency, the share of the housing supplement and the related claim for recovery and appeal of the granting service amounts to 23.7 per cent of the total administrative expenses, i.e. SEK 216.1 million. In the benefit payment operations, the share of the housing supplement is not reported but according to benefit expenditures the equivalent share of the expenses is approximately SEK 2 million. The share of housing supplement of all benefits in payment was 3.1 per cent and administrative expenses in benefit payment operations in total SEK 67.3 million.

When the aforementioned management fees of the housing supplement are deducted from the component of the Swedish Pension Agency's expenses relating to the granting and payment operations financed by taxes (i.e. in total SEK 406 million; see Table 2.8), the estimated administrative expenses of pension benefits amounts to SEK 187.9 million.

In addition, the state budget covers the administrative expenses for communication (MSEK 123) and statistics- and analysis operations (MSEK 7) to the total amount of SEK 130 million (Table 2.8). The key areas of communication include the annual posting of the Orange Envelope (see Appendix 4 for more details on communication services). According to the the Swedish Pension Agency's annual report the share of pension expenditure is 81.9 per cent of the total state budget financed benefit expenditure. Based on this estimate the equivalent share of the administrative expenses of the service operations in question for the pensions part is SEK 106.5 million in 2011.

Based on these assessments, the total administrative expenses of the Swedish Pensions Agency for other benefits than the old-age pensions of the earnings-related pension scheme was SEK 294.4 million in 2011. When we add the share of the other financing (MSEK 9) with which the administrative expenses of voluntary pension insurance and seafarer's pension insurance is covered, the total amount is SEK 303.4 in 2011.

According to this assessment, the administrative expenses of the Swedish Pensions Agency for the entire national pension scheme (incl. income pension: MSEK 506 and premium pension: MSEK 281) was SEK 1,090.4 million when the total administrative expenses of the Swedish Pensions Agency amounted to SEK 1,341.8 million in 2011. The result of this assessment corresponds with result of social insurance administrative expenses reported by the Swedish Social Insurance Inspectorate for years 2003-2010 (Inspektionen för socialförsäkringen, ISF 2011).

3 Administrative expenses of occupational pension provision

3.1 Fora, the Central Body of the Private-Sector SAF-LO collective scheme

Since 1998, employees in the private-sector SAF-LO pension scheme have had the opportunity to select themselves in which insurance company or pension fund their pension capital is managed. The employee pays pension contributions to a company called Fora, which transfers the contributions to the fund management company selected by each employee. Fora signs the contracts with each company managing the pension assets and annually sends out information to the insured of the accrued pension capital. In 2011, Fora employed 159 persons and its net operating expenses amounted to SEK 378,468,000 (Fora 2011).

3.2 Collectum, the Central Body of the Private-Sector ITP Collective Scheme

The general administration of the scheme, registration and customer information services as well as contribution collection of private-sector ITP pension insurances is handled by Collectum. Among other things, Collectum sends out a pension record to the insured in the so-called Red Envelope. Collectum also administers the ITPK by transmitting the contributions to a company selected by the insured. In 2011, Collectum employed 146 people. The net operating expense was SEK 222,169,000 (SEK 267,981,000 in 2010). (Collectum 2011.)

3.3 Life Insurance Companies and Management Fund Companies, Industry-wide Pension Funds and KPA Pension

Most occupational pensions are handled by life insurance companies. In this survey, we have used the statistics on insurance companies collected by Statistics Sweden and the Swedish financial supervisory authority Finansinspektionen (FI). The statistics used contain not only private-sector actors but also the largest occupational pension actor in the municipal sector, KPA Pension.

According to the statistics on insurance companies, the net operating expenses of insurance and fund management companies handling collective agreement pensions amounted to SEK 6,401 million for occupational pensions in 2011. Investment operation expenses were SEK 1,009 million. (Larsson 2012.)

Table 3.1.

Life insurance companies' administrative expenses relating to occupational pensions in 2009–2011, MSEK.

	2011	2010	2009
Net operating expenses	6,401	5,993	6,040
Investment expenses	1,009	980	1,857
Total administrative expenses	7,410	6,973	7,897
Premium income	65,812	66,741	59,590

Source: Statistics Sweden; Larsson 2012.

According to the Statistics Sweden there are approximately 80 industry-wide pension funds but no comprehensive data is available on the operations of these funds. This review includes the data from Insurance Sweden (Svensk Försäkring 2011) which, however, cover only 11 industry-wide pension funds. According to this data industry-wide pension funds' administrative expenses were SEK 214.5 million. The premium income amounted to SEK 7,100 million in 2011.

3.4 PRI Pensionsgaranti

The employer can also arrange the pension based on book reserves or with a company pension fund. In this case, the scheme must have credit insurance.

PRI Pensionsgaranti (mutual credit insurance company), handles the calculation and registration of employers' pension liabilities based on provisions as well as the payment of pensions. The employer compensates the pensions paid to PRI. In 2011, the insured pension liabilities amounted to approximately SEK 170 billion. The share of the ITP collective scheme is approximately 80 per cent. The consolidated capital was SEK 18.5 billion. Since 2011, PRI Stiftelsetjänst (former SEB Trygg Liv Pensionstjänst) has been part of the PRI Pensionsgaranti group and it administers the pension funds. In 2011, PRI Pensionsgaranti had 85 employees.

Table 3.2.*Administrative expenses of PRI Pensionsgaranti Group (incl. PRI Stiftelsetjänst) in 2011.*

	MSEK
Investment expenses	26.6
- Financing costs	1.5
- transaction fees, courtage	3.3
- investments	21.8
Net operating expenses of insurance business	59.1
Administrative expenses, others	126.0
- ITP2 administrative expenses	105.6
- Consulting services	11.9
- Administrative expenses of company pension funds	6.4
- Others	2.1
Total	211.7

Source: PRI Pensionsgaranti 2011.

3.5 State's occupational pension, the National Government Employee Pensions Board and Kåpan Pensioner

Although the insured can select the pension insurance company themselves, the National Government Employee Pensions Board (SPV) holds a central role in the administration of government occupational pensions. In 2011, SPV employed approximately 300 people and its administrative expenses amounted to circa SEK 275 million (see Table 3.3). Contrary to the procedure in private pension companies, the pensions are not funded. Instead, the pension liabilities form part of the state budget. The distribution of SPV's administrative expenses per activity is presented in Table 3.4.

Table 3.3.*Total administrative expenses of SPV 2009–2011.*

SEK 1,000	2011	2010	2009
Personnel expenses	149,860	153,917	154,991
Real estate expenses	15,870	15,446	15,748
Other net operating expenses	63,732	55,866	70,269
Financing costs	7,213	6,873	6,935
Depreciations and value adjustments	38,322	33,285	32,881
Total	274,997	265,387	280,824

Source: SPV annual report 2011.

Table 3.4.*Division of administrative expenses by activity in 2010 and 2011.*

SEK 1,000	2011	2010
Registration of personal data (register)	49,861	45,588
Pension financing	85,511	84,637
Granting services	95,961	94,086
Payment of benefits	32,949	32,229
Others	10,715	8,847
Total	274,997	265,387

Source: SPV annual report 2011.

The state's occupational pension scheme is partly a defined benefit and partly a defined contribution scheme. The defined benefit pension accrues only for the part exceeding the statutory earnings ceiling. In 2011, the operational expenses of defined benefit pensions in SPV's insurance operations amounted to SEK 186.2 million. Other social benefits connected to occupational pension agreements (group life insurance [TGL], workers' compensation insurance [PSA] and unemployment insurance [TA]) raised the operational expenses of the insurance operations to SEK 197.2 million (2011).

Defined contribution old-age pension accrues at a rate of 4.5 per cent of the wages. The insured invests 2.5 percentage points of the contribution in a fund management company of his or her own choice. The company selected by the insured is the one paying the pension. SPV functions as a transmitter of the contributions. If the insured does not select the fund management company, the default fund is Kåpan Pensioner. The remaining part of the contribution (2%) is transmitted by SPV to Kåpan Pensioner and no individual choice exists. Kåpan Pensioner has made an agreement with SPV according to which SPV handles the insurance traffic and other related administration and pays out the pensions. SPV has an agreement with Nordea Bank about the payment of pensions.

In 2011, Kåpan Pensioner employed 9 persons and its operational expenses were SEK 43 million (2010: MSEK 42). Investment expenses amounted to SEK 26 million in 2011 (2010: MSEK 23). The value of the capital managed by Kåpan Pensioner was SEK 46.6 billion in 2011. (Kåpan Pensioner 2011.)

Table 3.5.*Premium income of the state's occupational pension scheme in 2009–2011, MSEK.*

	2011	2010	2009
Defined benefit pension	8,875* (10,875)**	6,858* (8,424)**	7,285* (8,957)**
Defined contribution pension, tot.	4,096	3,979	3,815
- Based on individual's choice	2,270	2,222	2,131
- Supplementary component	1,826	1,757	1,684

* Premium income of insurance operations.

** Incl. special income tax.

Source: SPV's annual reports 2010–2011.

Table 3.6.*Number of insured in state's occupational pension scheme* in 2009–2011.*

	2011	2010	2009
Defined benefit	520,518	519,449	524,035
- active/vested rights	267,350	264,806	260,724
- annuity	47,611	50,499	55,567
- beneficiary	205,557	204,144	203,491
Defined contribution			
- based on individual's choice	296,059	292,863	286,230
- supplementary component	687,617	688,000	644,489

* One person may be covered by several pension schemes.

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Appendices

Appendix 1. Administrative expenses of income and premium pensions in 2007–2011

Mnkr.		2007	2008	2009	2010	2011
Avgiftsuppbord, m.m. (Skatteverket)	IP	287	353	378	402	377
	PP	45	55	59	63	59
Pensionsadministration	IP	524	493	519	568	506
	PP	273	382	284	283	281
Summa försäkringsadministration	IP	811	846	897	970	883
	PP	318	437	343	346	340
AP-fondernas rörelsekostnader (bruttoredovisade)	IP	752	778	808	820	791
	PP	-	-	-	-	-
Fasta förvaltningsarvoden (nettoredovisade)	IP	546	498	489	477	437
	PP	924	758	829	1,141	1,155
Summa redovisade kapital- förvaltningskostnader	IP	1,298	1,276	1,297	1,297	1,228
	PP	924	758	829	1,141	1,155
Prestationsbaserade arvoden	IP	257	294	170	368	241
	PP	-	-	-	-	-
Transaktionskostnader	IP	435	407	208	186	179
	PP	713	592	565	663	645
Summa kapitalförvaltningskostnader och avgifter	IP	1,990	1,977	1,675	1,851	1,648
	PP	1,637	1,350	1,394	1,804	1,800
Summa kostnader totalt	IP	2,801	2,823	2,572	2,821	2,531
	PP	1,955	1,787	1,737	2,150	2,140

Source: Pensionsmyndigheten 2012 (Orange Rapport).

Appendix 2. Unit costs of the Swedish Pensions Agency's granting services, per pension type

Table 1.

Key figures of national old-age pension in 2011–2010.

	2011	2010
Förvaltningskostnad, mnkr	175.6	177.4
Antal beslut	183,468	200,742
Styckkostnad, kr	957	884
Handläggningstid, genomsnitt, dagar	52	50
Pågående ärenden, antal vid årets slut	16,210	19,724
Utbetalningsprecision, %	99.0	-
Andel materiellt riktiga beslut, %	98.7	-
Andel formellt riktiga beslut, %	98.5	-

Source: Pensionsmyndigheten 2011.

Table 2.

Old-age pension, if the applicant has resided or worked abroad at some point. Key figures in 2011–2010.

	2011	2010
Förvaltningskostnad, mnkr	198.7	194.6
Antal beslut	79,388	75,714
Styckkostnad, kr	2,503	2,570
Handläggningstid prov. beslut, genomsnitt, dagar	52	59
Pågående ärenden, antal vid årets slut	8458	9,334
Utbetalningsprecision, %	91	-
Andel materiellt riktiga beslut, %	98.5	-
Andel formellt riktiga beslut, %	64.7	-

Table 3.

Old-age pension recipients residing abroad. Key figures in 2011–2010.

	2011	2010
Förvaltningskostnad, mnkr	80.5	80.5
Antal beslut	43,418	44,294
Styckkostnad, kr	1,854	1,822
Handläggningstid, genomsnitt, dagar	138	265
Pågående ärenden, antal vid årets slut	5,414	8,068
Andel materiellt riktiga beslut, %	97.5	-
Andel formellt riktiga beslut, %	80.8	-

Source: Pensionsmyndigheten 2011.

Table 4.

Premium pension, key figures in 2011–2010.

	2011	2010
Förvaltningskostnad, mnkr	152.1	112.8
Antal beslut	167,990	159,309
Styckkostnad, kr	906	703
Handläggningstid, genomsnitt, dagar	15	31
Pågående ärenden, antal vid årets slut	17,928	21,201
Utbetalningsprecision, %	97.5	90.7
Andel materiellt riktiga beslut, %	96.5	-
Andel formellt riktiga beslut, %	0	-

Source: Pensionsmyndigheten 2011.

Table 5.

Survivors' pension (child pension, adjustment pension, widow's pension, survivor's annuity, funeral grant), key figures in 2011–2010.

	2011		2010	
Förvaltningskostnad, mnkr		74.9		74.3
Antal beslut		38,866		39,724
Styckkostnad, kr		1,926		1,871
Handläggningstid, genomsnitt, dagar	Nationella	18	Nationella	51
	Internationella	138	Internationella	114
	Utland	98	Utland	97
Pågående ärenden, antal vid årets slut	Nationella	1,643	Nationella	2,075
	Internationella	2,178	Internationella	2,510
	Utland	717	Utland	1,019
	Efterlevandelivränta	266	Efterlevandelivränta	269
Andel materiellt riktiga beslut, %	Nationell och internat.	99.2		-
	Utland	98.8		-
Andel formellt riktiga beslut, %	Nationell och internat.	96.7		-
	Utland	90.3		-

Source: Pensionsmyndigheten 2011.

Table 6.

Voluntary pension insurance and Seafarers' pension, key figures in 2011–2010.

	2011	2010
Förvaltningskostnad, mnkr		
- Frivillig pension	1.5	2
- Sjömanspension	0.7	0.7
Antal beslut		
- Frivillig pension	4,355	4,516
- Sjömanspension	776	689
Styckkostnad, kr		
- Frivillig pension	353	395
- Sjömanspension	902	1,005
Pågående ärenden, antal vid årets slut		
- Frivillig pension	-	-
- Sjömanspension	76	88

Source: Pensionsmyndigheten 2011.

Table 7.

Fund administration, key figures in 2011–2010.

	2011	2010
Total kostnad för fondadministration, mnkr	64.2	64.1
Antal administrerade fondkonton per 31/12	6,259,067	6,140,171
Kostnad per administrerat konto, kr	10.26	10.43

Source: Pensionsmyndigheten 2011.

Appendix 3. Key figures for disability and sickness benefits in 2009–2011

Table 1.

Key figures for activity compensation in 2009–2011.

Aktivitetsersättning	2009	2010	2011
Försäkringsutgifter, mnkr	2,530	2,585	2,692
Förvaltningskostnader, mnkr	172	210	243
Volym, antal beslut	21,627	21,780	22,535
Styckkostnader, kr/beslut	7,967	9,634	10,778
Handläggningstid, andel inom 120 dagar	81%	85%	81%
Tillräckligt beslutsunderlag	90%	87%	70%
Varav andel korrekta beslut	100%	99%	100%

Source: Försäkringskassan 2011.

Table 2.

Key figures for sickness compensation in 2009–2011.

Sjukersättning	2009	2010	2011
Försäkringsutgifter, mnkr	65,302	58,022	50,634
Förvaltningskostnader, mnkr	1,198	1,014	756
Volym, antal beslut	121,347	87,180	64,515
Styckkostnader, kr/beslut	9,874	11,626	11,723
Handläggningstid, andel inom 120 dagar	76%	79%	66%
Tillräckligt beslutsunderlag	89%	89%	69%
Varav andel korrekta beslut	100%	99%	99%

Source: Försäkringskassan 2011.

Table 3.

Key figures for sickness allowance in 2009–2011.

Sjukpenning	2009	2010	2011
Försäkringsutgifter, mnkr	19,606	17,660	20,335
Förvaltningskostnader, mnkr	2,550	2,469	2,623
Volym, antal utbetalningar	1,936,531	1,630,086	1,852,762
Volym, avslutade sjukfall (nov–okt)	483,078	443,581	426,570
Styckkostnader, kr/utbetalning	1,317	1,514	1,416
Styckkostnader, kr/avslutat sjukfall	5,278	5,565	6,150
Handläggningstid, andel inom 30 dagar	88%	76%	86%
Tillräckligt beslutsunderlag	82%	84%	92%
Varav andel korrekta beslut	96%	99%	99%

Source: Försäkringskassan 2011.

Table 4.*Unit costs of the sickness benefits in 2009–2011.*

	2009	2010	2011
Aktivitetsersättning, kr/beslut	7,967	9,634	10,778
Arbetskadeliivränta, kr/beslut	17,328	19,842	28,747
Bostadstillägg, kr/beslut	657	888	899
Rehabiliteringspenning, kr/utbetalning	1,028	1,143	798
Sjukersättning, kr/beslut	9,874	11,626	11,723
Sjukpenning, kr/avslutat sjukfall	5,278	5,565	6,150
Sjukpenning, kr/utbetalning	1,317	1,514	1,416

Source: Försäkringskassan 2011.

Appendix 4. Key figures for Swedish Pensions Agency's communications services in 2011

	2011	2010
Webben, antal besök	8,077,000	10,565,000
Orange kuvert, antal utskick	6,300,000	6,294,000
Telefon, besvarade samtal	845,000	777,000
E-post, brev, besvarade	124,000	110,000
Facebook, inkomna frågor	81	-
Prognoser minpension.se	4,523,000	4,500,000
Servicekontor, antal besök	220,000	120,000
Kundvägledare, antal möten	5,000	6,000
Informationsmöten deltagare	26,000	18,000
Totalt, antal	20,120,081	22,390,000
Kostnad, mnkr	284	271.3
Kostnad per kontakt, kr	14.1	12.1

ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN SWITZERLAND

Hannu Ramberg

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Summary

The Swiss pension scheme consists of a general national insurance (*Volkversicherung*) mandatory for all, a mandatory occupational pension (*Berufliche Vorsorge, BV*) and various voluntary pensions, collective as well as individual.

Compared to the Finnish scheme, the organization structure is complex and multi-level. Despite the structure of the system, we have aimed at taking the expenses into consideration only once, excluding compensations paid to other actors for their administration. It is more likely that we have failed to take into account some areas that burden the system.

Table 1 includes the administrative expenses of both the statutory and the occupational pension schemes, along with other key figures for 2010 or 2011 according to the latest available statistical year.

Table 1.*Administrative expenses and other key figures of the Swiss pension scheme.*

Variable	General statutory pension scheme (2011)			Occupational pension scheme (2010)	Total
	AHV (Old-age and Survivors' pension)	IV ^a (Disability pension)	AHV + IV (National Insurance)		
Total administrative expenses	MEUR 189	MEUR 410	MEUR 599	MEUR 1,395	MEUR 2,089
Operating expenses (incl. administrative and implementation expenses)	MEUR 167	MEUR 408	MEUR 575	MEUR 705	MEUR 1,375
Investment expenses	MEUR 22	MEUR 2.4	MEUR 24	MEUR 690 ^b	MEUR 714
Overall income (Incl. State share)	MEUR 31,664	MEUR 6,136	MEUR 37,800	MEUR 50,026	MEUR 87,826
(Insurance) contribution income	MEUR 22,958	MEUR 3,849	MEUR 26,807	MEUR 37,234	MEUR 67,041
Pension expenditure	MEUR 30,513	MEUR 5,365	MEUR 35,878	MEUR 25,071 ^c	MEUR 60,949
Investment assets	bnEUR 17.3	bnEUR 2.9	bnEUR 20.2	bnEUR 516	MEUR 536.2 ^d
Insured ^e	4,714,000	4,714,000 ^f	4,714,000	3,700,000	
Pension recipients	2,256,700 ^g	276,000 ^g	2,532,700	980,000 ^h	
Pensions	2,256,700	276,000	2,532,700	980,000	3,474,700

a) Expenses of pensions and income calculated as the share of the pensions and vocational rehabilitation (80%) in the whole IV.

b) The investment expenses in the table take into account only the management expenses of investment operations that have been reported in the financial statements of the pension funds. According to the cost review ordered by BSV for the investment operations of occupational pensions¹, non comprised asset management costs primarily include the fees and transaction costs incurred within collective investment vehicles. These are not directly billed to a pension fund, but are directly allocated with the performance of the vehicle within the collective assets. As a result, the costs do not appear in the operating accounts of pension funds. According to the research, the total asset management expenses amount to 0.56 per cent of the invested assets.

c) Lump-sum compensations also in the pension expenditure at ca. EUR 7.4 billion.

d) Assets 110% of BNP. EUR 476 billion/2011.

e) Average value of AHV-insured in 2011.

f) Same circle as AHV in practice.

g) The portfolio at the end of 2011.

h) Pensions continuing at the end of 2010. Single lump sum recipients are often the pension recipient.

1 Bundesamt für Sozialversicherungen – BSV: Vermögensverwaltungskosten in der 2. Säule - Forschungsbericht Nr. 3/11, Bern, Mai 2011.

Table 2 presents calculated indicator values. Some values are theoretical. For example, a person cannot draw old-age and disability pension simultaneously. In that case, paradigm 1 has been used for an individual receiving pension from two schemes simultaneously.

Table 2.

Administrative expenses of the Swiss pension scheme, by key figures.

Variable	General statutory pension scheme (2011)			Occupational pension scheme (2010)	Total
	AHV (Old-age and Survivors' pensions)	IV (Disability pension)	AHV + IV (National Insurance)		
Operating expenses / Overall income	0.53%	6.65%	1.52%	1.4%	1.57%
Operating expenses / Contribution income	0.73%	10.6%	2.14%	1.9%	2.05%
Operating expenses / Pension expenditure	0.55%	7.6%	1.6%	2.8%	2.26%
Operating Expenses /insured ^a	EUR 35	EUR 87	EUR 122	EUR 190	EUR 312 ^b
Operating expenses / pension recipient ^a	EUR 74	EUR 1,478	EUR 227	EUR 719	
Operating expenses / pensions	EUR 74	EUR 1,478	EUR 227	EUR 719	EUR 396
Operating expenses / member ^c	EUR 24	EUR 82	EUR 79	EUR 151	EUR 230
Total administrative and implementation expenses / Overall income	0.6%	6.68%	1.58%	2.8%	2.39%
Total administrative and implementation expenses / Contribution income	0.82%	10.65%	2.23%	3.7%	3.12%
Total administrative and implementation expenses / pension expenditure	0.62%	7.64%	1.67%	5.6%	3.43%
Total administrative and implementation expenses / insured ^a	EUR 40	EUR 87	EUR 119	EUR 377	EUR 496
Total administrative and implementation expenses / pension recipient ^a	EUR 83	EUR 1,485	EUR 221	EUR 1,423	.
Total administrative and implementation expenses / pensions	EUR 83	EUR 1,485	EUR 221	EUR 1,423	EUR 601
Total administrative and implementation expenses / member ^c	EUR 27	EUR 82	EUR 83	EUR 298	EUR 381

a) Epenses not separated into insured and pension recipients.

b) A person insured in the national insurance scheme and the occupational pension scheme.

c) Member = insured + pension recipients.

The business and implementation expenses per insured person depict the average burden per wage earner, caused by the administrative expenses. The average cost determined for the insured or pension recipient is not dependent on the size of the wage or pension. In reality, the administrative expense components included in the insurance contribution per insured person vary depending on the size of the wage.

The cost per pension recipient or per pension in the total business and implementation expenses can be considered a general indicator of the productive efficiency of the pension scheme, which has achieved balance in its development, since the pension is the end product aimed for. The insurance and other expenses involved in its production are included as necessary advance payments to that end.

1 Statutory pension scheme

The general national pension (*Volksversicherung*) covers old-age and survivors' pension (*Alters- und Hinterlassenenversicherung, AHV*) as well as disability pension, rehabilitation and disability care (*Invalidenversicherung, IV*) for employees, the self-employed and those outside of gainful employment. If the pension is small, a separate supplementary pension (*Ergänzungsleistung*) is paid out.

It is also possible to voluntarily join the AHV and IV arrangements.

A reform of the AHV and IV systems is under planning. The reform of the first part of the IV system has already been approved and the reform of the second part is under discussion in the Swiss Parliament.

Switzerland is characterized by internationality, which is also reflected on pensions. 34 per cent of all AHV pension recipients resided abroad. Pensions paid abroad and other specific numbers relating to other countries or foreigner aspects are included in the total numbers presented in the table. In general, the administrative expenses of pensions paid abroad are higher than those of pensions paid only nationally.

The administrative expenses of funds implementing national insurance are covered using a special payment component (*Verwaltungskostenbeitrag*) and support payments by the AHV cash office. Separate accounting is required for their use. The federal council has the authority to take measures if the payment component intended to cover the administrative expenses of a single fund significantly differs from other funds. The administrative expense component can be at most five per cent of the amount of the employer and employee contribution². The insurance and administrative expenses of reimbursement operations are mainly financed through the operating cost share of insurance contributions.

The implementation of the old-age and survivors' pension of the national insurance is managed by the 26 AHV compensation funds (*AHV-Ausgleichskassen*) of the cantons. The implementation of the disability pension is handled by the 27 IV-offices (*IV-Stellen*) of the cantons, as well as by 52 combined AHV/IV funds based on business branch, and 2 federal state funds (*Eidgenössische Ausgleichskasse – EAK* and *Schweizerische Ausgleichskasse – SAK*). SAK manages the insurances of Swiss citizens living abroad who voluntarily join the scheme. In addition to a main place of business, the funds often have many branch offices which may work in co-operation with family benefit funds and health insurance functions.

The AHV and IV funds of the national insurance scheme share a central organisation (*Zentrale Ausgleichsstelle – ZAS*). Its assignments are statutory and include, for instance, monitoring the money flow and liquidity of the funds, monitoring and analysing the bookkeeping of funds, maintaining a central register, issuing insurance numbers and compiling statistics.

The money flow, liquidity and buffer funds of national insurance funds are managed by the joint finance office of the funds (*Ausgleichfonds*).

² AHVG: Art. 69 and Verordnung 831.143.41: Art. 1.

2 Occupational pension schemes

In addition to national insurance, there is a mandatory funded occupational pension (*Berufliche Vorsorge*), the benefits of which include old-age, disability and survivors' pension security. Approximately 90 per cent of all occupational pension arrangements are defined contribution schemes.

It is also possible to voluntarily join the occupational pension schemes. The reform of the occupational pension scheme is also under planning.

There are approximately 1,900 registered pension funds (*Pensionskasse*) managing the mandatory occupational pensions (BV). The funds are joint funds and employer-specific. The funds have joint service websites, associations and federations that provide, among other things, advice for the insured. The decision-making bodies of the funds have an equal number of representatives from the employer and the employee side. The joint body is called *Stiftung Sicherheitsfonds BVG*. Its role is that of a guarantee fund in case of the benefit societies becoming insolvent, and it operates in support of the insured in cases where the insurance history needs to be traced (*Zentralstelle 2. Säule*). It also operates as a liaison body with EU and EEA countries in issues concerning occupational pensions. The AHV funds monitor the implementation of the mandatory occupational pension.

Occupational pensions of the public sector are managed by benefit societies of the public sector and their joint co-operation body, PUBLICA which, as a pension provider, manages the pensions of federal and closely related actors.

According to the regulation³ governing occupational pensions, the pension provider is to present the administrative expenses in the income statement, divided into general management, management of assets, marketing and advertising, dealer and broker services, employer inspection and expert services, as well as expenses of the supervisory authority. However, due to the filing procedures, the cost distribution between general management and asset management is somewhat unclear. Pension providers that manage occupational pensions annually publish function-specific prices in their service catalogue (*Service Level Agreement Allgemeine Dienstleistungen – SLA D*) or in their cost regulations (*Kostenreglement*). For instance, PUBLICA reports the cost per insured and pension recipient to be EUR 203, and the hourly fee for special services in business administration as EUR 211, for expertise work EUR 151 and for the work of an official, EUR 89. The cost guidelines come with pricing for e.g. sending a demand for payment and processing a delayed annual declaration.

Business and implementation expenses of occupational pensions contained marketing and advertising expenses of EUR 57 million in 2010 – approximately EUR 15 per insured person.

According to the business cost clarification⁴ ordered by BSV, the majority of pension institution expenses – based on working hours – arise from the administration of registers

³ Verordnung über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge: Art. 48a

⁴ Bundesamt für Sozialversicherungen – BSV: Verwaltungskosten der 2. Säule in Vorsorgeeinrichtungen und Unternehmen -Forschungsbericht Nr. 4/11, s. 23, 39, Bern, September 2011.

and individual accounts, and the second largest expenses from informing the public. Taken together, the hourly amounts account for approximately half of all working hours at pension institutions. The third largest generator of work is bookkeeping.

Pension scheme management expenses have not taken into account expenses arising for the employer. According to the business cost survey of BSV, administrative expenses arising for employers from the occupational pension scheme amounted to approximately EUR 223 million in 2009. Viewed from this perspective, the operating expenses (LKT) of occupational pensions were up to 32 per cent larger than those presented in the table above.

In 2010, the combined investment management expenses for occupational pension amounted to MEUR 690 and the combined investment assets to EUR 516 billion. The asset management expenses calculated from these were 0.13 per cent. The largest share of investments, EUR 184 billion, lay in obligations of which EUR 84 billion were in domestic obligations, EUR 43 billion in foreign obligations determined in Swiss francs and EUR 57 billion in foreign currencies. EUR 86 billion were in foreign shares and EUR 12.5 billion in hedge funds. Domestic real estate investments amounted to EUR 80 billion. According to financial statements, the net income was EUR 16 billion (ca. 3 per cent.) The result decreased from EUR 45 billion in 2009 to EUR 16 billion in 2010.⁵

5 Bundesamt für Statistik: Pensionskassenstatistik 2010 – Die berufliche Vorsorge in der Schweiz, pp. 15, 25.

3 Actors and their main assignments

The below tables 3a and 3b summarize the different actors in the system and their main assignments. The list of assignments is not complete and the content of single assignments may differ from a similar assignment at a Finnish pension provider. The expressions of the institutions themselves are not necessarily fully descriptive, or may, due to the work distribution, overlap with the assignments of another actor. For instance, the management of insurance contributions may, broadly speaking, constitute an assignment that may be handled by both the pension provider and the co-operation body.

Table 3a.

Actors of the Swiss national pension scheme.

Actor	Pension Scheme	Assignment	Number
National insurance reimbursement funds <i>Kantonale Ausgleichsskassen</i>	<ul style="list-style-type: none"> Old-age and survivors' pensions of the general national insurance complete with supplements and pension supplements for family members (<i>Zusatzrente</i>). Also manage loss of earnings compensations during periods of army duty and maternity leave (<i>Erwerbsausfallentschädigung</i>). 	<ul style="list-style-type: none"> Processing annual notifications. Annual calculation of pension contributions. Charging and receiving contributions. Managing pension rights accounts. Payment of AHV and IV pensions. Monitoring insurance obligation, also regarding occupational pensions and accident insurance. 	26
National pension disability funds <i>IV-Stellen</i>	<ul style="list-style-type: none"> Disability pensions etc. of general national insurance 	<ul style="list-style-type: none"> Determining disability pensions. Pensions for invalids. Rehabilitation. Adapting to working life. Tools. 	27
National insurance funds by branches <i>Verbandsausgleichsskassen</i>	<ul style="list-style-type: none"> Old-age, survivors' and disability pensions of the general national pension as well as other types of reimbursement affecting work ability as mentioned above. 	As before.	52
Federal fund for national insurance <i>Eidgenössische Ausgleichskasse – EAK</i>	<ul style="list-style-type: none"> Old-age, survivors' and disability pensions for federal personnel based on general national insurance 	As before.	1
<i>Schweizerische Ausgleichskasse – SAK</i>	<ul style="list-style-type: none"> Voluntary national insurance for residents of EU, EEA and social security agreement countries 	<ul style="list-style-type: none"> Management of AHV arrangements to an applicable degree. 	1
„Cash office“ <i>Ausgleichsfonds</i>	<ul style="list-style-type: none"> National insurance 	<ul style="list-style-type: none"> Managing the money flow and liquidity of AHV and IV funds Management of buffer funds 	1
Central institution of national insurance <i>Zentrale Ausgleichsstelle – ZAS</i>	<ul style="list-style-type: none"> Old-age, survivors' and disability pensions of the general national insurance 	<ul style="list-style-type: none"> Centralized registers (The insured, insurance numbers, pensions) Central bookkeeping. Monitoring of money flow together with the funds Monitoring and analysis of the bookkeeping of funds Collecting statistics of national insurance. 	1

Table 3b.
Actors of the Swiss occupational pension schemes.

Actor	Pension Scheme	Assignment	Number
Pension funds <i>Pensionskasse</i>	<ul style="list-style-type: none"> Mandatory occupational pension, voluntary occupational pension 	<ul style="list-style-type: none"> Processing annual notifications Annual premium rating Pension rights accounting Advisory services Pension estimates Pension decisions and payment 	1,900
Guarantee funds - <i>Stiftung Sicherheitsfonds BVG</i> - <i>Zentralstelle 2. Säule</i> - <i>Verbindungsstelle</i>	<ul style="list-style-type: none"> Mandatory occupational pension, voluntary occupational pension 	<ul style="list-style-type: none"> Directing pension rights in need of clarification to the correct fund Reporting neglected pension rights Guarantee institution operations Liaison body for contacts abroad 	1
Cantonian public-sector benefit societies <i>Kantonale öffentlich-rechtliche Vorsorgeeinrichtungen</i>	<ul style="list-style-type: none"> Mandatory public-sector occupational pension, voluntary occupational pension 	<ul style="list-style-type: none"> Advisory services Fund administration 	13
Central body of the public sector <i>PUBLICA</i>	<ul style="list-style-type: none"> Mandatory public-sector occupational pension, voluntary occupational pension 	<ul style="list-style-type: none"> Management of pension insurance contributions Investment operations Payment of pensions Employment reporting traffic Communications (paper and Internet) 	1
Life insurance companies	<ul style="list-style-type: none"> Mandatory occupational pensions 	<ul style="list-style-type: none"> Overall service 	8

The social insurance bureau (*Bundesamt für Sozialversicherungen – BSV*) is governed by the Ministry of the Interior and works with developing and monitoring the pension schemes.

The supervisory responsibility for occupational pensions lies with canton-specific, regional supervisors and the new supervisory authority of the federal state, *Oberaufsichtskommission berufliche Vorsorge OAK BV*. The occupational pension arrangements of life insurance companies are monitored by *Die Eidgenössische Finanzmarktaufsicht – FINMA*.

Voluntary, individual so-called 3rd pillar pension arrangements are placed with insurance providers or as pension savings in banks.

4 Method

In preparing this review, Swiss social security, the implementing organization, the actors and their joint co-operation bodies have been studied in light of accounts, reports and statistical data. The reporting of the central administration and various joint actors is multi-faceted and well-developed. However, in light of the needs of this review, there are many issues involving interpretation, methods and concepts. In order to understand and correctly interpret said issues, many different sources have been reviewed in a painstaking and time-consuming manner. Certain issues to be clarified have had to be passed over, and in certain issues we have consulted with the Swiss actors directly. We extend our warmest thanks to these commentators.

The aim has been to use more recent data, primarily that of 2011, in the observations. Some of the data is from 2010. Data from different years has still been used in parallel; since the overall result may be seen to represent the current situation sufficiently well when doing so. In order to balance the shifts in the currency exchange rate, the average rate of exchange of the Swiss franc for 2011 has been used against the euro regardless of the year the money amounts have been focused to.⁶

Expenses per insured or pension recipient contain a certain inexactness relating to how the size of the portfolios has been presented. The portfolios have been reported either as cut-off data from the year end, or, in some cases, as the cumulative amounts over the year. The cumulative amount could be considered to be more correct, since annual expenses are also cumulative and have arisen from cases dealt with throughout the year, also those already ended. The varying sizes of different types of benefit portfolios prevent the determination of certain average expenses or, for example when calculated as weighted, the result would become only an abstraction that would be difficult to interpret. In this case, we resort to case examples.

The structure, content and use of data of this review have been steered by the needs of the Finnish own national evaluation. The content of and interpretations and conclusions made in the review are the responsibility of the reviewer.

Symbols

- .. = data unavailable
- . = data illogical and cannot be presented
- * = estimated

⁶ BOF: 1€ = 1,2326CHF, used in all conversions CHF → €.

Abbreviations used

- AHV: Old-age and survivors' pension insurance (*Die Alters- und Hinterlassenenversicherung*).
- AHVG: Swiss Act on Old-Age and Survivors' Pension (*Bundesgesetz über die Alters- und Hinterlassenenversicherung*).
- BSV: Social security authority of the federal state (*Bundesamt für Sozialversicherungen*).
- BV: Occupational pension (*Berufliche Vorsorge*).
- BVG: Act on Occupational Pensions (*Bundesgesetz über die berufliche Alters-, Hinterlassenen und Invalidenvorsorge*).
- IV: Insurance for the disabled (*Die Invalidenversicherung*), incapacity to work, rehabilitation and care for the disabled.

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ADMINISTRATIVE EXPENSES OF STATUTORY AND OCCUPATIONAL PENSIONS IN FINLAND

Eeva Puuperä

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Table 1.*Administrative expenses and other key figures of the Finnish pension scheme in 2011.*

	Earnings-related pension ^c	National pension ^d	Voluntary pension ^e	Total (all schemes of the country)
Total administrative expenses	MEUR 611.7	MEUR 89.6	MEUR 38.2	MEUR 739.5
Net operating expenses	MEUR 508.0	MEUR 89.6	MEUR 31.9	MEUR 629.5
Investment expenses ^a	MEUR 103.7	MEUR 0.0	MEUR 6.3	MEUR 110.0
Gross income (incl. State's share and TVR-contribution)	MEUR 20,551.3	MEUR 2,550.0	MEUR 942.1	MEUR 24,043.4
Pension expenditure	MEUR 20,501.3	MEUR 2,550.0	MEUR 557.4	MEUR 23,608.7
Investment assets ^b	MEUR 135,526.8	MEUR 0.0	MEUR 10,782.0	MEUR 146,308.8
Insured	2,625,308	3,470,683	199,415	
Pensioners	1,377,100	686,500	126,288	
Pensions	1,922,993	713,900	126,288	2,763,181

a) Sustenance of work ability included.

b) Funds (Pension liability fund + Valuation differences), investment assets of the public pension providers, Pension liability fund of Mela.

c) Including also Officials of Kela, Bank of Finland, Orthodox Church, Åland.

d) Pension benefits paid by Kela.

e) Numbers in 2010.

Table 2.*Administrative expenses of the Finnish pension scheme, by key figures.*

	Earnings-related pension	National pension	Voluntary pension	Total (all schemes of the country)
Net operating expenses / Gross income	2.47%	3.51%	3.40%	2.60%
Net operating expenses / Pension expenditure	2.48%	3.51%	5.70%	2.70%
Net operating expenses / insured	EUR 194	EUR 26	EUR 160	EUR 380 ^a
Net operating expenses / pension recipient	EUR 369	EUR 131	EUR 252	-
Net operating expenses / pensions	EUR 264	EUR 126	EUR 252	EUR 228
Net operating expenses / member ^b	EUR 127	EUR 22	EUR 98	EUR 247
Total administrative expenses / Gross income	2.98%	3.51%	4.10%	3.10%
Total administrative expenses / Pension expenditure	2.98%	3.51%	6.80%	3.10%
Total administrative expenses / insured	EUR 233	EUR 26	EUR 191	EUR 450
Total administrative expenses / pension recipient	EUR 444	EUR 131	EUR 302	-
Total administrative expenses / pensions	EUR 318	EUR 126	EUR 302	EUR 268
Total administrative expenses / member ^b	EUR 153	EUR 22	EUR 117	EUR 292

a) Depicts a person insured in the statutory and earnings-related pension schemes.

b) Insured + pension recipients.

The Finnish Centre for Pensions (ETK) is a statutory cooperation body for the development and implementation of earnings related pension provision and an expert on pension insurance. For the evaluation, development and monitoring of pension provision, the Centre produces background surveys on pension provision and its funding.

Eläketurvakeskus (ETK) on työeläketurvan kehittämisen ja toimeenpanon lakisääteinen yhteistyöelin ja työeläkkeisiin erikoistunut tietotalo. Eläketurvan arviointia, kehittämistä ja seurantaa varten se tuottaa taustaselvityksiä eläketurvasta ja sen rahoituksesta.

Pensionsskyddscentralen (PSC) är ett lagstadgat samorgan och sakkunnig inom verkställigheten och utvecklingen av arbetspensionsskyddet samt informationen om det. Pensionsskyddscentralen producerar bakgrundsinformation om pensionsskyddet och pensionsfinansieringen för bedömningen, utvecklingen och uppföljningen av arbetspensionsskyddet.



Finnish Centre for Pensions
ELÄKETURVAKESKUS