Standard for Pension Projections

1. Scope

The Standard for Pension Projections covers national pension, occupational pensions (individual and collective) and private pensions. The Standard is designed for pension projections presented as "pre-calculated" to the recipient, that is, where no individual assumptions are made.

The Standard refers partly to general factors that pension companies themselves cannot determine, and partly to product-specific factors that are determined by each pension company and whose value depends on the individual product.

As regards the product-specific factors, actual values for the individual product should normally be used when available unless there is a compelling reason not to. When actual values are not used, the default formulas provided by the Standard are to be used.

As regards the general factors, where no actual values are available, the Standard provides default formulas.

2. Description of the Standard

The Standard comprises 10 factors which influence the pension projection. Below is a description of how each factor is to be handled according to the Standard. A rationale for and analysis of the various factors, together with some instructions for their use, may be found in ”Foundations of the Standard for Pension Projections”.

2.1. General factors

- Inflation
- Economic growth
- Future income/premiums
- Capital yield during the saving period
- Tax on investment return
- Presentation

Inflation

Projection calculations are to be made in fixed prices. The price level at the time the projection is made is to be used.

Economic growth

The projection calculation should be made on the assumption of zero growth.

In this context, growth is defined as general income development. The assumption of zero growth is not an assumption about an actual future situation, but is a technical assumption to facilitate the calculation which, together with calculation in fixed prices, means that the projection result will be given in today's prices and can be directly compared with the current salary.

Future income/premiums

Future income in the projection calculation is to be based on the last known monthly salary/annual salary/pensionable salary and remain unchanged until retirement. In insurance schemes that have a provision not based on income (e.g. individual occupational pensions and private retirement savings) it is to be assumed that the most recent premium payment will continue to be paid in at the same amount until retirement. In the projection calculation there should be no assumptions of interruption to pension saving. If there is an interruption at the time of the projection, this situation is assumed to apply until retirement.

The Standard's assumption of zero growth with no inflation means that in the projection the income and any premium payment are assumed to remain constant up to retirement.

Return on capital during the saving period

In the projection calculation, the return on capital should be estimated to be 2.1 per cent before fees and tax.

The underlying assumption is a real return on capital of 3.9 percent, before deduction of tax on investment return and fees. The assumption is based on an underlying assumption of a nominal return of 4 per cent for long-term interest rates and 6.5 per cent for global equities with an assumed inflation rate of 2 percent. For the projection value to give a correct relationship to current income, yield is expressed in the projection as an "excess return", that is, the degree to which investment return exceeds general salary growth. This means that with an assumption of future salary growth in fixed prices of 1.8 percent, the projection uses a return of 2.1 percent ("excess return").

Tax on investment return

Tax on investment return in the projection should be estimated at 0.6 percent of pension assets.

Tax on investment return is assumed to be at the same rate as when the projection is made – in the current situation 15 percent of the government lending rate. The government lending rate is assumed to be equal to the Standard's assumption for the long-term interest rate, that is, 4 percent.

Presentation

If there is no fixed retirement age for the current insurance, the retirement age of 65 should be used.

The projection amount shall be presented as a lifetime or temporary withdrawal depending on what preset options a particular benefit has. If there is no information on preset options, a lifetime pension amount is given.

The projection amount shall be expressed as pension before tax per month. The amount should normally be rounded to the nearest 100 crowns.

The presentation should include a certain type of information for the insured person. Alongside the projection the following information should be provided:

- *It should be pointed out that this is only a projection based on certain assumptions and that the actual value of the pension may differ from the projection*
- *Withdrawal period, lifetime or temporary, must be stated for the amounts*
- *It must be clearly indicated whether actual values or standard formulas have been used for the product-specific factors*
- *Those close to retirement should be advised to contact the pension company concerned if the projection is not deemed to be sufficiently reliable*

Under the heading ”How we calculated your pension”, it should be stated whether the calculation follows the Standard, and which factors the calculation is based on.

2.2. Product-specifika factors

For product-specific factors, actual values are used if these are available and there is no compelling reason not to. Otherwise the standard formulas provided by the Standard are to be used.
For the national pension the projection factors determined by the Swedish Pensions Agency are used. These are available at the Swedish Pensions Agency’s home page.

The product-specific factors are:

- Fees
- Survivor benefit protection and/or repayment protection
- Inheritance gains
- Life expectancy assumptions and projection interest rates

Below are the standard formulas to be used when actual product-specific factors are not used.

Fees – standard formulas

For administrative fees charged by selection centres for collective occupational pensions, the actual fee is used. For other administrative fees and asset management fees, the following standard formulas are used when actual fees are unavailable.

<u>National pension</u>

Standard fees determined by the Swedish Pensions Agency for projection calculation.

<u>Collective occupational pension</u>

- *Selection centre fee for each agreement area*
- *The administration and asset management fee equivalent to the fee in the non-choice alternatives for each agreement area.*

<u>Individual occupational pension and private pension</u>

Insurance	*Fixed fee, SEK*	*Percent of capital*
Trad	*100*	*0.7*
Fund	*200*	*1.5*
Unknown	*150*	*1.0*

Survivor benefit protection and/or repayment protection – standard formulas
In the projection calculation, deductions should be made for any survivor benefit protection premiums that are charged to the old-age pension premium, and the calculation should be made without inheritance gains in case of repayment protection. The status of the individual's survivor benefit protection at the time of the projection will be assumed to continue unchanged.

National pension
No survivor benefit protection/repayment protection

Collective occupational pension
The alternative included in the non-choice solution for each collective agreement area is used.

Individual occupational pension and private pension
The projection is calculated on the assumption that repayment protection exists.

Inheritance gains during the saving period – standard formulas

National pension
Inheritance gains determined by the Swedish Pensions Agency for projection calculation.
Inheritance gains during the payment period are included in the annuity divisor under Pension Calculation.

Collective and individual occupational pension, and private pension
Inheritance gains are calculated according to a standard formula, based on the so-called 'Pension Insurance Safeguards' (Tryggandegrunderna). The mortality rates given in the 'Pension Insurance Safeguards' for the generations of the 1940s, 50s, 60s, 70s and 80s are used, with an average for men and women.
Inheritance gains during the payment period are included in the annuity divisor under Pension Calculation.

Life expectancy assumptions and projection interest rates – standard formulas

National pension
Annuity divisor for projection calculation determined by the Swedish Pensions Agency.
The annuity divisor *is based on Statistics Sweden's mortality projection and the legal projection rate of 1.6 percent.*

Collective occupational pension
For mortality assumptions, the 'Pension Insurance Safeguards' mortality rates for the generations of the 1940s, 50s, 60s, 70s and 80s are used separately and with an average for men and women. Any repayment protection is taken into account.
As projection interest rate, the projection interest rates for the non-choice alternatives are used, as published on the Swedish Consumers Insurance Bureau's home page. The

stated gross interest rate is reduced by specific fees for each non-choice alternative and by a tax of 0.6 percent on investment return.

Individual occupational pension and private pension

For life expectancy assumptions, the 'Pension Insurance Safeguards' mortality rates for the generations of the 1940s, 50s, 60s, 70s and 80s are used separately and with an average for men and women. Any repayment protection is taken into account. The projection uses an interest rate of 2 percent. The percentual rate is calculated as an average of the projection interest rates for non-choice alternatives after fees and a tax of 0.6 percent on investment return.