

# Why Sweden's pension reform was able to be successfully implemented

**Jan Selén**

Trade Union Institute for Economic Research, Stockholm

**Ann-Charlotte Ståhlberg**

Swedish Institute for Social Research, Stockholm University\* <sup>1</sup>

March 2006

Revised August 2006

Second revision November 2006

Accepted for publication January 2007

## **Abstract**

Governments that do not reform pay-as-you-go (PAYG) pension systems will eventually face a pension crisis. In a democracy, reforms require majority support. The problem is that pension reform requires today's generation to bear the burden to avoid burdening tomorrow's generation. Sweden recently passed pension legislation that specifies a gradual transition from a public defined-benefit plan to a defined contribution plan. Why was Sweden successful in reforming its pension system? We find that a political economy perspective helps to answer this question: there are more winners who would vote in favour of the reform than non-winners who would vote against it. When comparing the net effect (present value of expected benefits minus present value of remaining contributions) of the new and old systems, contributions of the working generation (age <53) are reduced by more than their expected benefits.

*JEL classification:* D78; H55; J18

*Keywords:* Demographic crisis, Pension reform, Political economics, Public policy

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\* Financial support from the Swedish Research Council is gratefully acknowledged.

<sup>1</sup> Ann-Charlotte Ståhlberg (corresponding author), Swedish Institute for Social Research, Stockholm University, SE-106 91 Stockholm, Sweden. Tel.: +46 8 16 34 49. Fax: +46 8 15 46 70. E-mail address: [ann-charlotte.stahlberg@sofi.su.se](mailto:ann-charlotte.stahlberg@sofi.su.se)