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Sweden

Announcements

Taxation of Compensation and Benefits

The 2007 Spring Budget in Sweden includes a proposal to abolish the wealth tax, with the loss in revenue to be offset by lower limits on tax deductions for pension savings.

Currently, up to a maximum of SEK 40,300 per year in pension insurance premiums or contributions to pension savings accounts are tax deductible. Under the proposal, the deduction would be capped at SEK 12,000 per year and the wealth tax, which was lowered from 1.5% to 0.75% for 2007 (excluding real estate which is still taxed at 1.5%), would be eliminated effective January 1, 2008.

April 2007

The “special” salary tax on pension costs (24.26%) would be eliminated under the 2007 Spring Budget to encourage employers in Sweden to employ older workers.

The tax is imposed on employer contributions to insured pension plans. The tax was eliminated for workers born in 1938 or later (who are covered by the reformed pension system) as of January 1, 2007. Under the 2007 Spring Budget, the tax would be abolished for workers born before 1938 as well, to encourage employment of older workers.

April 2007

The European Commission (EC) has referred Sweden to the European Court of Justice (ECJ) for discriminating against foreign pension funds.

The EC maintains that Swedish laws that subject the premiums for pension insurance purchased from insurers outside the country to less favorable tax treatment than insurance purchased from domestic insurers constitute an obstacle to the free movement of persons, services, and capital. Under current tax law, if a Swedish employer contracts with an insurer established in another European Union (EU) Member State or European Economic Area (EEA) country for occupational pension insurance, the premiums are taxable to employees as salary; pension payments are tax exempt. The premiums are tax exempt for domestic insurers, but the payment is taxable. Because tax liability arises earlier for non-domestic arrangements and marginal tax rates on personal income are usually higher during a taxpayer's career, Swedish employers are, therefore, dissuaded from using insurers in other Member States or EEA countries.

January 2007

Issues for Expatriate Employees

Employees moving from Sweden would not be subject to exit tax on the value of vested stock options under draft legislation before parliament.

In response to concerns that the exit tax on options conflicts with European Community treaty provisions on the free movement of labor, the government has proposed that resident employees be

subject to tax on the value of the employee stock options when they are exercised or alienated regardless of where the employment resulting in entitlement to the options occurred. Income derived from employment in more than one country would be subject to apportionment between the countries in line with the Organization for Economic Cooperation and Development's (OECD) Model Convention on Income and Capital.

February 2007

About This Material

This report provides a summary of statutory requirements related to employment. The material focuses on the factual legal requirements, without editorial comment.

Hewitt Associates prepares and maintains these summaries for more than 60 countries. The material is gathered from public and private sources to provide background information relevant to compensation and benefit planning.

Hewitt Associates does not provide legal or tax advice. Before specific decisions or plans are implemented, professional counsel should be obtained.

The currency abbreviations used in this report are the internationally standardized abbreviations published by ISO (the International Organization for Standardization).

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Economy and Government

Government

Sweden is a constitutional monarchy and a parliamentary democracy. King Carl XVI Gustaf Bernadotte has been head of state since 1973; however, the role of the monarch is purely ceremonial. All executive authority is vested in the cabinet that consists of the prime minister and, currently, 21 ministers (the number of ministers and ministries is not fixed). There is a single chamber parliament (Riksdag) with 349 members. Members of parliament are elected every four years. Votes may be cast for a political party or for a specific candidate. In the most recent national elections (September 17, 2006), a coalition of four-center right parties won 178 seats, led by Fredrik Reinfeldt (the Moderate Party) who became Prime Minister of the new government, ending 12 years of rule by the Social Democratic Workers' Party (SAP). The SAP has the largest share of seats in parliament (130). The next election will be in September 2010.

Sweden's current Constitution was adopted on January 1, 1975 and is referred to as the Instrument of Government. It can only be amended through a lengthy process. The Instrument of Government contains basic rights and freedoms, and along with three other laws, is known as an "organic" or "fundamental" law. The other organic laws are the *Act of Succession*, which relates to inheritance of the throne; the *Freedom of the Press Act*, which relates to printed materials; and the *Fundamental Law on Freedom of Expression*, which covers radio, television, films, videos, and recordings.

Parliament must observe different rules to adopt, amend, or repeal an organic law. The basic rights and freedoms listed in the Instrument of Government are divided into two types: absolute rights and freedoms which cannot be restricted unless the Constitution is amended, and other rights and freedoms which may be restricted, to some extent, by laws enacted by Parliament.

With a population of nine million, Sweden is the largest country in the Nordic Region, but population density is low, at around 20 inhabitants per square kilometer. Local governments—municipal and county council—are significant in Sweden. Municipal governments are responsible for administering schools, publicly provided child care, and care for elderly and disabled persons, among other services. County councils are responsible for medical care, publicly provided dental care, and related services. Local governments impose income tax on individuals, but there is a revenue equalization system among municipalities and a grant system from the national government.

The Church of Sweden, which is Evangelical Lutheran, used to be a state church. It separated from the state on January 1, 2000. Residents who are already members continue to be members of the Church; newborn children will no longer be included as members automatically. Member contributions continue to be levied in conjunction with local taxation. Nonmembers pay a small tax to cover funeral expenses. About 85% of the residents of Sweden are members. The church is divided into parishes, each with its own ecclesiastic local government.

Legislative Process

The initiative for new legislation generally starts with the cabinet, a government agency, professional and trade union organizations, or a member of parliament. Individual members of parliament usually introduce a bill for an inquiry into an issue, versus introducing a bill for legislation which has already been drafted, although they can do either. The drafting of bills is usually done by a commission of inquiry, by a standing committee of parliament, or by the legal staff of a ministry. A commission of inquiry normally produces a very detailed report, a justification of the changes proposed, and draft legislation with commentaries, all of which are published in a series known as Swedish Government Reports (SOU-Statens offentliga utredningar). The legal staff of the relevant ministry examines the recommendations of the commission of inquiry, and then, public comment is invited. Numerous organizations may be invited to submit comments, and any citizen is entitled to submit comments.

The relevant ministry and the government then adopt a position on the issue, and the ministry staff prepares a bill. A draft bill is often referred to the Council of Legislation for legal scrutiny to ensure that it does not conflict with other laws and is properly formulated. Then, the government presents the draft law as a bill to the parliament. The bill is referred to a standing committee of the parliament according to its subject matter. The standing committee sends a report and the bill to the full parliament for debate and a vote. Parliament announces its decision on the bill in a letter to the government, which then enacts the law. Laws are published in the Swedish Code of Statutes (Svensk Författningssamling) (SFS). The various reports, which have been prepared in the course of the development of a law, continue to be important in the interpretation of the law.

Legal System

Sweden's system of law incorporates elements of a common law system, which is significantly influenced by case law as in the United States, and civil law, which is based on a detailed written code as in much of Continental Europe. Some laws in Sweden are prepared in collaboration with other Nordic countries.

Laws are well enforced and adhered to in Sweden. Sweden has general courts, administrative courts, and a Labor Court. In the general court system are district courts, courts of appeal, and the Supreme Court. All cases begin in the district court. In addition to civil and criminal cases, district courts handle many administrative duties such as property transfers, probate, and guardianship. Decisions in large cases are generally determined by a legally trained judge in conjunction with several lay assessors. Lay assessors are elected to the position and generally serve about ten days per year in court and are reelected for several years. One or more judges may handle lesser cases. Administrative courts hear cases relating to public administration issues, such as taxation or decisions of local governments. They also have courts of appeal and a Supreme Administrative Court.

A single Labor Court handles disputes relating to collective bargaining agreements and codetermination issues. The government, employers, and unions are all represented on the Labor Court. Either an employer or a union may bring a case before the Labor Court. Individual employment cases are handled by the district court, if the employee is not covered by a collective bargaining agreement or does not wish to pursue it as a collective bargaining issue. A decision of the district court in an individual employment case may be appealed to the Labor Court.

Economy

The Swedish economy is the largest in the Nordic region (which includes Denmark, Finland, Iceland, and Norway); however, measured by per capita GDP, Sweden is about 10% below the Nordic average of USD 42,420 as of 2004 (EIU data). Reasons for the relative difference are varied and include the effects of deep recession in the early 1990s, levels of state spending which once neared 70% of GDP, and improved performance by the neighboring economies. Subsequent deregulation, reductions in government spending, and increased investment in research and development have boosted the economy; from 2000 to 2005, GDP growth averaged 2.7%.

Despite cuts in state spending, Sweden still adheres strongly to the Nordic model of a strong social economy founded on high rates of union membership, high taxes, and well-developed social services. One of the chief challenges to the model is the expense to care for a rapidly aging society. According to projections by the United Nations' Population Division, the percent of population age 60 and older in Sweden will rise from 17.2% in 2005 to 23.1% by 2030 under a medium variant forecast (assuming medium fertility and normal mortality and immigration).

Table 1: Economic Indicators

	Real GDP Growth	Inflation (CPI)	Unemployment
2004	3.6%	0.4%	5.5%
2005	2.9	0.5	5.8
2006	4.5	1.4	5.3
2007 (forecast)	3.5	1.7	4.9
2008 (forecast)	3.0	1.9	4.5

Source: Economist Intelligence Unit (EIU)

Approximately 65% of the working population is employed in private enterprise and 35% in the public sector. Municipal and county governments are often the largest employers in their jurisdictions. Municipal and county government employees comprise about 29% of all employees in Sweden, whereas only 6% of all employees work for the national government. A large number of county government workers are employed in the health care industry. Municipal government employees include a significant number of schoolteachers and child care workers. Local governments often own companies that operate utilities, transportation, or various kinds of public works. The production of iron ore and the production and importation of alcoholic beverages are controlled by state-owned companies.

Budget/Fiscal Year

The Swedish government presents its budget to Parliament in September for the following year. Parliament reaches a final decision by December. The Swedish fiscal year is from January 1 to December 31.

Capital Markets

The Stockholm Stock Exchange was established in 1863. In 1998, the operations of the Swedish Derivatives Exchange were merged with the Stockholm Stock Exchange, and the

Stockholm Stock Exchange and the Copenhagen Stock Exchange signed an agreement establishing a common Nordic securities market, known as Nordic Exchanges (NOREX). The Oslo Stock Exchange and the Iceland Stock Exchange joined NOREX in 2001.

Key Industries

Sweden's export trade is dominated by its manufacturing industry. Sixty percent of exports are manufactured products, and one-half of these are engineering products (machinery, telecommunications, electrical and electronics equipment, and motor vehicles). Forest products, the transportation industry, the chemical industry, pharmaceuticals, and telecommunications are also important export industries.

Swedish multinationals tend to have a large share of their employees located outside Sweden. In recent years, mergers between Swedish and foreign companies have expanded the role of foreign companies in Sweden, and the economy has become increasingly dependent on a limited number of these large international companies.

International Memberships

Sweden has been a member of the European Union (EU) since January 1, 1995. The country chose not to participate in the euro currency starting January 1, 1999, even though it met the economic conditions for participation. Some Swedish multinational companies may use the euro voluntarily. In September 2003, voters overwhelmingly rejected adoption of the euro (56% against versus 42% in favor), and the government indicated that another referendum on the matter would not be likely until at least 2010.

The Nordic countries have a long history of cooperation. A Nordic Council was established in 1952 as an advisory body to the governments of each country. The Helsinki Treaty of 1962 set out the general objectives of Nordic cooperation. In some areas, such as marriage and parentage, the Nordic countries have harmonized their laws. Many important commercial laws also are almost identical among the Nordic countries. As some of the Nordic countries have become members of the EU, they have strived to harmonize their application of EU directives.

Sweden is a member of the Council of Baltic Sea States, which was established in 1992 to foster close economic and political cooperation among countries bordering the Baltic Sea. Members include: Sweden, Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, and the European Commission.

Currency

The monetary unit is the Swedish Krona (SEK). The exchange rate to the U.S. dollar is USD 1.00 = SEK 6.9958 and EUR 1.00 = SEK 9.2580 to the EU euro (February 28, 2007).

Labor Environment

Labor relations and employment conditions in Sweden are mainly determined by collective bargaining agreements for each industry. Nonunion employees in a company with a collective bargaining agreement are usually covered, as well. Small employers who are not members of the employers' associations which negotiate the agreements often commit to observe the terms of the agreement in their industry.

Sweden has numerous labor laws and the Ministry of Labor and the National Labor Market Board issue additional labor regulations. That being said, most improvements in working conditions are implemented through collective bargaining agreements, rather than by amending labor laws or issuing regulations.

Labor Relations

Labor relations have traditionally been cooperative. Sweden is considered a leading nation in shop-floor democracy and job enrichment experiments.

Unions

Approximately 85% of blue-collar workers and 75% of white-collar workers are members of a trade union. Virtually all salaried employees, including management employees, are members of trade unions. Executives usually are not union members, although some might have retained their membership from the time when they were not executives.

The three main trade union confederations in Sweden are:

- The Swedish Trade Union Confederation (Landsorganisationen i Sverige) (LO)—The LO is considered the largest organization of blue-collar employee trade unions, although not all participating members are blue-collar workers;
- The Confederation of Professional Employees (Tjänstemännens Centralorganisation) (TCO)—The TCO includes over 70% of the unions for white-collar and clerical employees, including unions for municipal employees and some teachers; and
- The Swedish Confederation of Professional Associations (Sveriges Akademikers Centralorganisation) (SACO)—The SACO is a smaller confederation of professional employees, including unions for engineers and a teachers' union.

There also are some small unions that are not affiliated with any of the three large confederations.

The TCO and SACO have joined forces for collective bargaining purposes. The Federation of Salaried Employees in Industry and Services (Privattjänstemannakartellen) (PTK) coordinates collective bargaining for the various TCO and SACO unions in private industry. The public-sector unions of the TCO and SACO bargain separately.

Employee Representation

The *Codetermination at Work Act of 1977* granted unions in companies of any size several rights. As a result, key facets of employee representation in Sweden include:

- A company must negotiate with the union before taking any action on important changes in the company's activities or matters affecting individual employees;
- A company must provide the union with regular information about its production, finances, and personnel policies;
- Codetermination can be regulated in several fundamental respects by collective agreement;
- A union's interpretation of an agreement is assumed to be correct until a dispute is settled; and
- Unions have the right to strike if a codetermination agreement is not resolved during wage and salary negotiations.

This law was only the first stage of implementation of codetermination. In April 1982, representatives of Sweden's main private-industry employers' association (SAF) and union organizations (LO and PTK) concluded an agreement to build upon and further develop the law. The agreement details specific areas for development through codetermination of employees and unions at the local level, including areas such as job organization, technical developments, and a company's economic and financial prospects.

The agreement leaves it to the employer and the local unions to work out the most appropriate form of codetermination with respect to the development areas referred to above. Codetermination may be exercised through direct negotiations, union involvement at various levels in a company's normal line organization, or joint cooperation committees.

The *Act on Board Representation for Private-Sector Employees of 1988* covers limited companies, banks, and insurance companies which have a collective bargaining agreement and at least 25 employees. In these companies, the union is entitled to appoint two employee representatives, and two alternate members, to the board of directors of the company. If the company has at least 1,000 employees and operates in more than one industry, the union may appoint three employee representatives and three alternates. The employee representatives do not take part in certain board meetings such as those concerning collective bargaining issues. The employee representatives are required to maintain confidentiality about matters discussed at board meetings.

Employers' Associations

The Confederation of Swedish Enterprise (SN, Svenskt Näringsliv) is the main employers' organization in private industry. SN was formed in March 2001 through the merger of the Swedish Employers' Confederation (SAF) and the Federation of Swedish Industries. SN represents

50 member-employer associations and about 54,000 companies nationwide. The majority of private companies, including multinationals, are members of the SN. Employers who are not members generally follow the pattern that has been set by collective agreements in their industry.

Aside from the SN, there are separate employer organizations representing banks, newspaper publishers, and public-sector employers.

Collective Bargaining

Collective bargaining patterns have changed significantly in Sweden over the last ten years. Previously (beginning in the late 1950s), wage negotiations were highly centralized. The SAF bargained with the trade union confederations (LO and PTK) for national framework agreements that set guidelines on wage increases and other issues. The agreements were then recommended to the unions and employer associations industry by industry and implemented at company level.

However, over time, various industries began to break free of these framework agreements and negotiate their own separate accords. Since 1990 (when the centralized bargaining system experienced its first serious breakdown), the SAF (now the SN), has been pushing hard for a decentralization of wage negotiations with the aim of moving bargaining to the industry level and eventually to the company level. In general, trade unions, particularly the LO, favor a system of nationally coordinated negotiations and consider appropriate pay to be a social right as much as a reward for work. Currently, wage negotiations are generally conducted at industry level.

Collective Agreements

Collective agreements concerning wages and other terms of employment are always concluded for definite periods. Collective agreements concerning procedures and other more permanent arrangements often run for indefinite periods, subject to certain advance notice. If a collective agreement lacks provisions on duration and period of notice, it is valid, subject to reasonable notice.

A company or a union must observe the minimum conditions of employment in the relevant collective bargaining agreement, so the agreement has the effect of establishing minimum wages for an industry. Most collective bargaining agreements are signed at the industry level for three-year periods. Additional workplace agreements may be signed between a company and a union to provide better terms of employment than the industry collective agreement. Collective agreements also cover any employees in a company who are not union members, unless the terms of the agreement provide otherwise.

Most employers are members of the SN and are, therefore, required to participate in pension, sick pay, and other insurance plans that the SN has negotiated with the LO and PTK.

Agreements signed between SAF and LO prior to the establishment of SN remain in force until their expiration date.

Labor and Employment Law

Since Sweden is a member of the EU, it is required to implement the provisions of all EU social and labor directives as national laws. European Court of Justice rulings with regard to compensation, benefits, and labor issues are applicable to Sweden.

Sweden does not have a consolidated labor code, but has numerous individual labor laws. Most improvements in working conditions are made through collective bargaining agreements instead of amendments to the labor laws.

Laws in Sweden have an official designation such as (SFS 1997:480). This indicates the Swedish Code of Statutes (Svensk Författningssamling), year of adoption (not necessarily the effective date), and number of the law. English titles of the laws are not translated consistently in different sources.

The major labor and employment laws, in chronological order, include:

Act on Employer's Right to Make Deductions on Account (SFS 1970) regulates the deductions that an employer can make from an employee's paycheck.

Labor Disputes (Judicial Procedure) Act (SFS 1974:371) sets the procedures and scope for the Labor Court.

Act on Trade Union Representatives (Status at the Workplace) (SFS 1974:358) protects trade union representatives in the workplace and allows them time off for union activities.

Act on Employee's Right to Educational Leave (SFS 1974:981) permits all employees to take unpaid leave for formal schooling.

Codetermination at Work Act (SFS 1976:580) grants unions several rights with respect to company information and activities.

Annual Leave Act (SFS 1977:480) sets the minimum period of annual vacation and vacation pay for employees.

Working Hours Act (SFS 1982:673) sets the normal and overtime working hours.

Employment Protection Act (SFS 1982:80) stipulates the form of contracts for employment, regulates dismissal procedures, and limits temporary employment. Notice periods under this act were revised beginning January 1, 1997.

Act on Board Representation for Private-Sector Employees (SFS 1987:1245) regulates the appointment of employees to the board of directors of a company with 25 employees or more.

Act on Equality of Opportunity at Work (SFS 1991:433) prohibits sexual harassment and discrimination in employment between males and females with regard to recruitment, dismissal, promotion, training, supervision, and pay scales; it generally requires employers to promote greater equality.

Wage Guarantee Act (SFS 1992:497) guarantees severance pay up to a maximum amount that will be paid by the state if a company is bankrupt and cannot pay severance pay.

Act Against Ethnic Discrimination in the Workplace (SFS 1994:134) prohibits discrimination with regard to race, color, religion, or national or ethnic origins.

Parental Leave Act (SFS 1995:584) governs parental benefits from social security and provides for certain unpaid child care leave.

Act on Registers of Personal Information (SFS 1998:204) governs the handling of collections of personal information by computer. It is effective beginning October 24, 1998 and replaces the former *Data Act*. It is intended to implement the EU directive on personal information but is considered to be broader in scope.

Cost of Employment

As of January 2007, contribution rates for social security benefits and other payroll taxes are as follows:

Table 2: 2007 Social Security Contributions and Other Payroll Taxes

Social Security Plans	Employer On Total Payroll	Employee On Earnings Up to 8.07 Times Income Base Amount (Up to SEK 370,400 Per Year)
National retirement pension ¹	10.21%	7.0% ²
Survivors' pension ³	1.70	—
National health insurance ⁴	8.78	—
Parental insurance	2.20	—
Workers' compensation	0.68	—
Labor market (unemployment and training)	4.45	—
General wage contribution ⁵	4.40	—
Total	32.42%⁶	7.0%

¹New system replacing the national basic plan (AFP) and the supplementary plan (ATP).

²Part of this contribution (2.5% of salary up to 7.5 times the income base amount) is allocated to an investment vehicle of the employee's choice under the reformed social security system.

³Formerly ATP.

⁴Includes former ATP disability programs.

⁵The general wage contribution is a payroll tax and is not designated for specific benefits.

⁶To reduce their labor market contribution, employers are entitled to deduct from their total contributions an amount equal to 2.5% of the taxable base for contributions up to SEK 1,545 per month (for workers born in or after 1938).

Family allowances, public child care facilities, and adult education are financed from general revenue.

In addition to the contributions for social security in **Table 2**, most employers are required to contribute to pension plans that have been negotiated under national collective agreements. Salaried employees and wage earners participate in different plans. There are no employee contributions to these plans. The approximate rates for 2007 are shown below, but these contributions can vary for some programs depending on the specific agreement:

Table 3: Contributions for Required Benefits Under Collective Agreements

Plans Under Collective Agreements		Employer	Employee
<i>Salaried Employees</i>			
ITP, ITPK	Supplementary pension	11.40% ^{1,2} (forecast average)	—
TGL	Group life insurance	0.20 (average)	—
TFA	No-fault liability for work injuries	0.01	—
AGE	Job security	0.30 ³	—
	Total	11.91%	
<i>Wage Earners</i>			
SAF-LO	Collective agreement pension	3.50% ^{1,4}	—
	Premium insurance waiver	0.60	—
TFA	No-fault liability for work injuries	0.20	—
AGS	Cash sickness and long-term disability	1.49	—
TGL	Group life insurance	0.30	—
AGB	Severance pay	0.21 ³	—
	Total	6.30%	

¹Employers also are required to pay a special tax of 24.26% on pension costs for workers born before 1938. The ITP contribution and SAF-LO collective agreement pension contribution are subject to this special tax on pension costs.

²Contributions are made only on earnings up to 30 times the income base amount (ceiling of SEK 1,377,000 for 2007). (Refer to ITP and ITPK section below for other financing methods.)

³For companies that are not members of the Confederation of Swedish Enterprises, the contribution rate is 0.70% for salaried employees, and between 0.23% and 0.32% for wage earners.

⁴The entire contribution is allocated to an individual account for each employee.

Covered Earnings

Employers pay social security contributions on total payroll. For 2007, employees have a ceiling on covered earnings for social security of 7.5 times the income base amount (annual ceiling of SEK 344,250). No contributions are required for employees whose taxable income is less than SEK 1,000 per year.

Annual employment income for all contributions includes salary, sick pay, bonus or variable pay, and the value of free board or lodging. Holiday pay is included in the definition of covered employment income for SAF-LO pensions and ITP benefits. The value of free board, lodging, and car is excluded from the definition for cash sickness benefits.

Price Base Amount

The base amount is a figure in krona, that reflects changes in prices or incomes. There are two kinds of base amounts: the “price base amount” which reflects price changes, and the “income base amount” which reflects changes in income. The “price base amount” and an “extended price base amount” are used as annual figures for many calculations for contributions and benefits.

Income Base Amount

Effective January 1, 2001, a new “income base amount” was introduced that is used to calculate benefits under the new pension system (see **Social Security and Other Required Pension Plans**). In 2001, the income base amount was identical to the “extended base amount.” Since 2002, the income base amount is calculated based on the change in the income index of the previous year. The income index reflects the national average income, including salaries, cash sickness, and unemployment benefits during the three years prior to the year of calculation.

For 2007, the relevant amounts are:

Table 4: Base Amounts

	Annual Amount
Price base amount	SEK 40,300
Extended price base amount	41,100
Income base amount	45,900

Financing Methods

Generally, an employer is required to finance the required pension plans and other benefits established by collective agreement by taking out an insurance policy with a designated insurance company. The major companies involved are:

- FORA Försäkringscentral AB coordinates the administration of contributions (collection and allocation to the appropriate insurer);
 - Wage earners’ plan AGS is insured by AFA Sjukförsäkring;
 - The SAF-LO Collective Pension is insured according to employee choice;
 - TGL and AGB are insured by AFA Livförsäkring for blue-collar employees and by the insurer of the employer’s choice for white-collar employees;
 - TFA plan for both salaried employees and wage earners is insured by AFA Trygghetsförsäkring; and
- Alecta (formerly SPP Mutual Insurance Company) insures the ITP plan for salaried employees.

However, in some cases, the employer or employee has an option as to how the required pension plans are financed.

ITP and ITPK

The premiums for ITP and ITPK benefits vary from 5% to 20%. The average premium is forecast to be 11.40% in 2007. The premium consists of:

- Individual premium for the retirement pension, ITPK pension, and survivors' pension;
- Collective risk premium payable starting at age 18;
- Special premium for indexation payable starting at age 18; and
- "Equalization" payable starting at age 28.

Because the individual premium for the retirement pension is age related, it can be very high for older employees. Therefore, an upper limit has been set on premiums for retirement pensions. For each employee, the monthly premium for the retirement pension is limited to 5.30% on salary up to 7.5 times the price base amount, and 48.0% on salary over 7.5 times the price base amount.

Alecta administers the ITP pension plan. Instead of paying the contributions to Alecta, the employer can choose to book reserve the liability or deposit the funds with a pension foundation; the disability and survivors' pensions remain insured with Alecta. The employer must then purchase credit insurance from the Pension Guarantee Mutual Company (FPG) and must register the pension obligation with the Pension Registration Institute (PRI).

For the ITPK pension, all premiums are paid through Collectum, but the employee may choose one of 17 insurance companies to administer the benefits.

Employees who earn in excess of SEK 459,000 (ten times the income base amount for 2007) can choose to opt out of the ITP plan, provided their earnings in excess of 7.5 times the income base amount are insured with another insurance company, instead of through Alecta. However, the full disability benefit and earnings below 7.5 times the income base amount must be insured through Alecta.

Effective January 1, 2007, the ITP plan formula is now based solely on the Defined Contribution (DC) pension model for employees joining the plan on or after that date. The contribution rate is 4.5% of salary up to 7.5 times the income base amount and 30% of salary exceeding that threshold.

SAF-LO Collective Agreement Pension

This pension plan replaced the former STP pension for wage earners. Since January 1, 1997, there has been no ceiling on covered earnings. The AMF pension fund was the official pension fund for the SAF-LO pension; however, starting in late 1998, employees were permitted to choose among authorized insurance companies and investment funds for the investment of the pension contributions.

TGL Life Insurance

For white-collar employees, the employer may take out an insurance policy for the TGL life insurance benefits from any of eight insurance companies (Alecta, Bliwa, Länsförsäkringar Liv,

KAF, Folksam, SEB Trygg Liv, Skandia, or SPP Liv). For blue-collar employees, TGL is insured with AFA.

A-kassa (Employment Insurance)

Most employees are covered for unemployment through an insurance fund selected by their trade union. Historically most of the 36 funds were affiliated with a trade union; however, the funds are now required by law to be completely independent from other organizations. The average monthly contribution is estimated to be approximately SEK 300 in 2007. The government is currently considering a proposal to make participation in employment insurance mandatory by 2009.

Pension Reform in Sweden

Sweden is currently undergoing a complete reform in its pension plan system. The basic pension and supplementary pension are being replaced by a defined contribution system and guarantee pension. However, the new system is being introduced gradually, requiring an extended transition period (see **Social Security and Other Required Pension Plans**). Under the old system, old age survivors' and disability pensions were paid under a single social insurance program. Under the new system, benefits will be paid under three separate programs. Old age pensions will be on a defined contribution basis. A new disability and survivors' pension system became effective January 1, 2003. Disability is now covered under the national health system, but continues to be a defined benefit calculated according to previous rules. Survivors' pensions are integrated into the reformed old age pension system. Benefits are calculated based on accrued benefits under the new pension system projected to age 64.

Covered employees can choose the fund in which they want to invest their contributions (2.5% of salary up to 7.5 times the extended base amount).

Benefits and Contributions

Contributions under social security are currently split between the employer and employee, with different wage bases (refer to **Table 2**). The combined employer/employee contribution to the social security pension program is 18.5%¹. (The 7% employee contribution rate is deducted from income in calculating the pension base, meaning the maximum contribution base is 93% of 8.07 income-base amounts).

This is expected to continue at least during the transition period. The overall benefit payable, however, is targeted at 18.5% of salary up to 7.5 times the extended base amount. Depending on the investment performance of an employee's individual account, the actual total benefit could be higher.

¹ $\frac{0.1721}{0.93} = 0.185$

Employment Terms and Conditions

Employment Contracts

All employees are required to have a written “confirmation of employment,” in accordance with Swedish employment law and European Union (EU) directives. Most employees have an employment contract. A standard form provided by the Confederation of Swedish Enterprise (SN) or other organizations is generally used. An employment contract must meet the minimum requirements of the employment law and comply with the provisions of any applicable collective bargaining agreement.

Under the *Employment Protection Act*, which generally applies to all public and private employees (excluding those in a managerial or comparable position), all employment contracts are considered to be for permanent employment, unless stated otherwise. Several types of temporary and short-term employment are permitted, but are strictly regulated. In general, fixed-term contracts with an employer may not comprise a period of more than 12 months (in aggregate) over three years. Specific circumstances under which fixed-term contracts may be used include:

- Employment for a specified season or task;
- Temporary employment (as a substitute for a permanent employee on leave);
- Apprenticeships;
- Work during peak or busy seasons not to exceed six months over a two-year period; and
- Employment of retirees (at or after normal retirement age or age 67).

Probationary periods must not be longer than six months, and the union must be informed if it is more than one month. The employee automatically becomes a permanent employee at the end of the probationary period unless notice of termination is given at least two weeks before the end of the probationary period.

Effective July 1, 2007, rules on fixed-term employment contracts will be eased to permit greater use of such contracts. Among other things, employers will no longer be required to specify why a fixed term contract is being offered and the maximum period of employment under a fixed-term contract will increase to 14 months over a five-year period.

Working Hours

The basic workweek is 40 hours. Lunch periods are not normally paid or counted as working hours, but short rest breaks are counted as working hours.

Part-time employees generally have the same rights as full-time employees on a pro rata basis, provided they work at least 16 hours per week. Part-time employees have priority for full-time positions if they meet the qualifications.

Overtime

Effective July 1, 2005, the maximum number of hours of work is limited to 48 hours per seven-day period, averaged over four months. The former maximum number of overtime hours was 50 hours of overtime per month and 200 hours per year. For employees covered by a collective agreement on June 30, 2005, the new overtime limit regulations apply from the date of renegotiated collective agreement or January 1, 2007, whichever occurs earlier. Additional overtime may be worked with the agreement of the union. If no agreement with the union can be reached, the safety and health authorities may permit additional overtime.

Compensation

Minimum Wage

There is no national legal minimum wage in Sweden. Minimum wages are typically set by collective bargaining agreements for an industry. As of December 2006, the average hourly earnings for manual workers in the private sector was SEK 126.20. The average monthly salary for salaried employees in the private sector was SEK 29,680 (statistics Sweden).

Annual Wages

Most companies use a factor of 12 times the monthly wage to determine annual wages, although this is not mandatory.

Wage Increases

The average pay increase negotiated in the Spring 2004 collective agreements was 2.2% per year (7.3% over a three-year period including 0.5% for reduced working hours). Most of the agreements were three-year agreements, in effect until 2007.

According to the National Institute of Economic Research (NIER), collective agreements for 80% of the workers covered by such agreements will be renegotiated in 2007. Most are expected to be three-year agreements. Provided the parties to the agreements negotiate the new agreements on the same basis as in recent years, and unemployment remains steady, the NIER expects that labor costs will increase by an average of 4.5% annually from 2007 to 2009.

Bonuses

There are no mandatory annual bonuses, except for the small amount of extra pay paid at vacation time (refer to **Required Time Off, Vacation**).

Overtime, Holiday, and Vacation Pay

Legally, overtime hours may be compensated either by time off or by overtime pay. Collective bargaining agreements usually set overtime pay at 135% to 170% of regular pay and pay for work on weekends and holidays at 200% of regular pay. Salaried employees can take compensatory time instead of overtime pay for up to 75 hours of overtime. If this is done, the overtime hours are not counted towards the maximum.

The statutory minimum vacation pay is 12% of wages earned in the “earning year” (the previous 12 months). Most collective agreements for salaried employees include holiday pay of 0.8% of current monthly pay, plus 0.5% of variable pay.

Mandatory Profit Sharing

Currently, there is no mandatory profit sharing. Between 1984 and 1991, employers were required to contribute to a type of profit-sharing fund, known as wage-earner funds. However, no further contributions are required, and individual employees do not receive benefits from these funds.

Termination of Employment

Permanent employees may be dismissed only for acceptable and objective reasons. Such reasons are not specified in the employment laws, but may include an employee’s repeated negligence, inability to do the job, refusal to accept orders, participation in illegal strikes, or the employer’s lack of work for employees. However, a dismissed employee can appeal to the Labor Court for reinstatement if the union supports the case as a violation of the collective bargaining agreement. In practice, the Labor Court has been very strict in defining acceptable reasons for dismissal.

Notice Period

Both employee and employer are required to give at least one month’s notice of termination. The notice period given by employers must be in writing. The SN provides a standard form for employers that includes the necessary information. For the notice period given by employers, the schedule for the notice period for employees hired prior to January 1, 1997 is based on age, and the scale for employees hired on January 1, 1997 or later is based on length of service.

In cases of serious misconduct, such as violence, fraud, theft, or disclosure of company secrets, an employee can be dismissed with a one-week notice period, referred to as a summary dismissal.

For employees hired prior to January 1, 1997, employers must give notice of termination of employment according to the following schedule:

Table 5: Minimum Notice Period for Employees Hired Prior to January 1, 1997

Employee’s Age	Notice Period
Under 25 years	1 month
25–29 years	2 months
30–34 years	3 months
35–39 years	4 months
40–44 years	5 months
45 years	6 months

For employees hired on or after January 1, 1997, employers must give notice according to the following schedule:

**Table 6: Minimum Notice Period for
Employees Hired On or After January 1, 1997**

Length of Service	Notice Period
Up to 2 years	1 month
2 to 4 years	2 months
4 to 6 years	3 months
6 to 8 years	4 months
8 to 10 years	5 months
10 or more years	6 months

The employee is entitled to full pay and all employment benefits during the notice period and is entitled to time off with pay, within reasonable limits, for the purpose of finding a new job.

The above notice periods are the minimum under the employment law. Collective agreements may provide for more generous notice periods. Top executives usually have lengthy notice periods of perhaps two years or more in their employment contracts.

In addition to observance of minimum notice provisions, Swedish law also requires the employer to give advance warning of dismissals to relevant trade union representatives. Notification must be given at least one month in advance of upcoming layoffs and at least two weeks before most other types of proposed dismissals.

Both wage earners and salaried employees are subject to the same dismissal rules. However, these rules do not apply to the managing director, members of an employer's family, or, in large companies, to several of the top managers. Six months' notice is usually given to a managing director.

Severance Pay

Court-Ordered Severance Pay

If the employee, in conjunction with the union, contests the dismissal, the employee continues employment during the period of negotiation. The union and/or the employer may take the issue to the Labor Court for a ruling.

In cases where an employer refuses to accept continuation of employment or reinstatement of an employee after a court order, the employment relationship is dissolved, and the employee is entitled to the following severance benefits:

Table 7: Court-Ordered Severance Benefits

Years of Service	Months of Severance Pay	
	Under Age 60	Age 60 or Over
Fewer than 5 years	16 months	24 months
5 to 10 years	24 months	36 months
More than 10 years	32 months	48 months

The months of severance pay awarded may not exceed the number of months of service with the employer. However, if the employee has fewer than six months' service, a minimum of six months' severance pay is granted.

Severance Benefits Under Collective Agreements

In addition, employers that have concluded collective agreements are required to contribute to insurance plans providing benefits to certain employees in the event of collective dismissals. In the private sector, wage earners (hourly workers) are covered by the AGB plan. Most salaried employees in the private sector are covered by the AGE plan, although certain sub-groups such as salaried employees in the bank and financial sector may be covered under a different agreement.

AGB (Wage-Earners)

AGB benefits are paid by the Employment Security Fund (Kollektivavtalsstiftelsen Trygghetsfonder) (TSL), which was established in 1983 as part of a collective agreement between the Confederation of Swedish Enterprise (SN) and the Swedish Trade Union Confederation (LO). The fund's primary objectives are to promote job security for wage-earners at risk of losing their jobs as the result of layoffs, closures, or production improvements and provide various forms of outplacement assistance such as career counseling and training programs. Employers finance the benefit through contributions to the AGB insurer, AFA (Livförsäkringsaktiebolag). The contribution rate for companies which are members of the SN is 0.21% of payroll in 2007, which will be increased to 0.27% in 2008 and 0.30% in 2009. Companies which are not affiliated with SN contribute 0.23% to 0.32% in 2007.

Under a new agreement, effective April 1, 2005, the AGB benefit has been simplified: it is a single lump sum payment based on the individual's age, replacing the former dual payment structure comprised of an A (lump sum) benefit and B (installment) benefit dependent on age and length of unemployment. AGB covers wage earners age 40 or over, with at least 50 months of service during the preceding five years, who have lost their employment due to layoff. Periods of employment with multiple employers which contribute to the TSL are added together in calculating the service requirement. Part-time employees are also eligible based on the ratio of their working hours to full time employment. In other words, an employee working 50% of normal working hours is entitled to 50% of the AGB benefit. Employees who are subject to reduced working hours are also entitled to benefits, payable in proportion to the loss of hours. Benefits are not reduced as a result of unemployment benefits or subsequent employment.

The benefit is not payable under the following circumstances:

- The individual voluntarily leaves employment with entitlement to a pension or equivalent compensation from the employer;
- The individual is receiving full cash sickness compensation;
- The individual is offered a new job with the employer or employer group within three months; or
- The individual has turned down employment with a new employer in the process of a transfer of undertaking.

Effective January 1, 2007, compensation from AGB is payable as follows based on age:

Table 8: AGB Severance Benefit

Age	Amount
Age 40–49	SEK 26,000
Age 50–59	27,100–37,000 ¹
Age 60–64	38,100

¹The benefit is increased by SEK 1,100 per year over age 49

AGE (Salaried Employees)

AGE benefits are paid by a trust fund, the Employment Security Council (Trygghetsrådet) (TRR), which was established in 1974 under a collective agreement between the SN and the PTK (Federation of Salaried Employees in Industry and Services) and cover approximately 700,000 employees). Like the TSL, the TRR is funded by payroll contributions levied on employers and provides the same fundamental services, redundancy support, and severance benefits. The contribution rate for companies that are members of the SN is 0.30% of payroll (2007). Companies that are not affiliated with SN contribute 0.40% over and above the rate levied on SN member companies. In most companies, only salaried employees are covered; however, the agreement may be extended to cover all employees excluding managing directors, business owners, and spouses of business owners.

Under new rules, effective April 21, 2005, AGE benefits are payable to employees age 40 or over, with at least five years of service with their employer (working at least five hours per week), who have lost their employment due to layoff. The individuals must also have registered with the employment office and looking for work. The duration of AGE severance benefits is based on age as follows:

- Employees age 40 to age 44 (on the date of termination): six months;
- Employees age 45 to age 59: 12 months; and
- Employees age 60 to age 64: 18 months.

AGE benefits are coordinated with unemployment benefits and, in total, equal 70% of monthly wages for the first six months and 50% thereafter. If monthly pay exceeded 20 times the price base amount (SEK 806,000), the benefit is 70% of pay up to that threshold and 25% of pay in excess for the first six months, decreasing to 50% of pay up to the threshold and 25% of pay above thereafter.

In the event of partial unemployment (minimum 20%), AGE benefits are payable for the portion of time spent looking for work.

Collective Dismissals

The county labor board must be notified in advance of collective dismissals in accordance with the following requirements:

Table 9: Advance Notification Schedule, County Labor Board

Number of Employees to be Dismissed	Minimum Advance Notice
5–25 employees	2 months
26–100 employees	4 months
101 employees and over	6 months

Selection of employees to be laid off must be on a last-in, first-out basis. The employee with the longest service must be taken on first if any rehiring is done.

Unemployment Insurance

Any severance payments are in addition to unemployment insurance, social security benefits, or pensions to which the employee might be entitled.

There are 36 independent employment insurance funds. Union members pay the contribution as part of their union dues. Employers do not contribute, but the government subsidizes all of the unemployment funds. All unemployment insurance funds have the same rules for eligibility and benefits.

Transfers of Undertaking

A change of ownership of the company, and as a result, a change of employer, does not affect employment. Relevant collective agreements continue to be valid and binding on the new employer. Employment is tied more to the workplace than to the employer. However, unions are entitled to cancel the collective agreement within 30 days of notification of the transfer of ownership. The former employer, but not the new one, also is entitled to terminate the agreement within certain time limits.

Bankruptcy of Employer

There is a wage guarantee fund that guarantees employees' wages up to SEK 100,000 per employer, in the event of bankruptcy of the employer.

Required Time Off

Vacation

All employees are entitled to a minimum of 25 working days of vacation each vacation year (April 1 to March 31). The vacation must be a paid vacation if the employee has been continuously employed during the “earning year” (the previous 12 months). Vacation days over 20 days may be credited towards the following year but must be taken within five years.

If an employee changes employment during the year, the former employer must give the employee a statement of the amount of vacation time accrued but not taken. The employee is entitled to take time as unpaid leave while working for his or her new employer, if he or she chooses; the former employer must pay the employee the vacation pay that was earned.

Many collective bargaining agreements supersede the legal minimum requirements for vacation leave and vacation pay.

Employees are entitled to take at least four weeks of their vacation from June to August. Some factories close for a four-week period, usually in July, for this purpose.

Holidays

There are 11 public holidays that are normally specified as paid holidays in collective bargaining agreements, but there is no legal requirement for them to be paid holidays. In 2007, they are as follows:

Table 10: 2007 Public Holidays

Holiday	Date
New Year's Day	January 1
Epiphany	January 6
Good Friday	April 6 ¹
Easter Monday	April 9 ¹
Labor Day	May 1
Ascension Day	May 17 ¹
National Day	June 6 ¹
Midsummer Day	June 23 ²
All Saints' Day	November 3 ³
Christmas Day	December 25
St. Stephen's Day	December 26

¹Varies from year to year.
²First Saturday after June 19.
³First Saturday after October 30.

New Year's Eve (December 31), Christmas Eve (December 24), and Midsummer Eve (June 25) are often granted as holidays, as well as the afternoon preceding other holidays above.

Sick Leave

Employees are entitled to extensive unpaid sick leave. Benefits during sick leave are paid from several sources.

Effective January 1, 2005, employers are required to pay sick pay for the first 14 days of illness (formerly 21 days); there is a one-day waiting period before benefits begin. Eighty percent of earnings is payable.

Cash sickness benefits are available under national health insurance from the 15th day of illness (see **Health Care System**). Under 2005 reforms, employers were required to cofund the cash sickness benefit, at a cost equal to 15% of the benefit unless the employee returned to work on a part-time basis or under a worker rehabilitation program. However, effective January 1, 2007, the cofunding requirement was abolished by the new government.

For wage earners, supplemental cash sickness and disability benefits are available from AGS (collectively bargained plan) after 14 days (see **Social Security and Other Required Benefits**).

For salaried employees, supplemental ITP disability benefits are available after three months of illness (see **Social Security and Other Required Pension Plans**). Additional collective agreements often require the employer to pay additional benefits to salaried employees for sickness periods that last more than 14 days during the three-month period before ITP disability benefits are payable.

If cash sickness benefits from national health insurance and additional employer benefits together exceed 90% of earnings, cash sickness benefits from the national system are reduced accordingly.

Child Care Leave

Sweden has several different entitlements for mothers and fathers for pregnancy and child care. The employer is not required to pay wages for any of these periods of leave, but parental benefits are paid from social security during some periods of leave. Collective agreements may include provisions for employer-provided maternity pay in addition to social security benefits. The number of months of maternity pay varies by agreement, and some agreements provide benefits for the father.

To be eligible for most benefits, women must work for one consecutive year prior to leave and return to work for at least three months after parental leave. Some of the major aspects of leave and benefits for child care include:

- Mothers are entitled to unpaid maternity leave seven weeks before, and seven weeks after childbirth;
- Mothers are entitled to parental benefits paid by social security 60 days before childbirth until the date of childbirth; unpaid leave always accompanies parental benefits;
- The father is entitled to ten days of unpaid paternity leave;

- After childbirth, the father and mother together are entitled to 480 days of parental benefits (see **Health Care System**) and unpaid leave for the care of a child. The parents can choose which parent will take the leave and benefits, and when, up until the child is age eight. The parents also can choose to take partial leave and partial benefits. However, each parent must take at least 30 days of this leave with parental benefits at 80% and cannot transfer this 30 days to the other parent;
- One parent of a child under age eight has the right to work 75% of full time;
- One parent of a child under age 18 months is entitled to an unpaid leave of absence until the child is 18 months old;
- Unpaid leave and temporary parental benefits are available to a parent who is absent from work to care for a sick child under age 12, if the regular child care worker is sick or if the parent must take the child to a doctor. The father and mother together are entitled to 120 days of leave and parental benefits, per child, per year. Such leave and parental benefits may be taken for partial days;
- Unpaid leave and temporary parental benefits can be extended for a child age 12 to age 16 if the child is sick, or has a physical or mental disability which requires special care; and
- An adoptive parent is entitled to unpaid leave for 18 months from the day the child arrives. Such entitlement ceases when the child is age eight.

Parental benefits from social security are usually 80% of the employee's pay up to 7.5 times the price base amount (see **Health Care System**).

A pregnant employee cannot be dismissed due to her pregnancy. An employee cannot be dismissed, served notice of termination, or receive a reduction in the benefits of employment during any of these periods of unpaid leave or leave with parental benefits. A pregnant employee is entitled to be transferred to lighter or nonhazardous work.

Trade Union Leave

Union representatives are entitled to paid leave for union duties that relate to their own workplaces. Leave for other union activities also must be permitted by the employer, but is not necessarily required to be paid leave. There is no fixed amount of leave specified in the law. All leave must be coordinated with the employer and work duties taken into account.

All union members are entitled to paid leave of up to five hours per year to attend union meetings in the workplace. Often, an agreement is made between the union and employer to hold such meetings after working hours, and the employees are paid at overtime rates.

Other Leave

Collective agreements often provide for one day of paid leave for the death of a close relative, for a wedding, or for doctor visits. Employees who are elected to local or national government offices are entitled to unpaid time off to perform their duties. Immigrants are entitled to leave for up to 700 hours to study Swedish. Leave is counted as work time, and immigrant employees are paid a government allowance. All employees are entitled to unpaid leave for mandatory military service.

Starting in 2005, an employee with a minimum of two years of service with the same employer can take a leave of absence of three to 12 months, provided the employer fills the positions with a currently unemployed person. The employee on leave is entitled to 85% of the unemployment benefit if he or she is not employed while on leave (with the exception of starting their own business). This program, which was first piloted in 2002, is intended to provide employees with an opportunity to pursue their personal needs or further professional development while creating a learning experience for the unemployed.

Workplace Privacy

Data Protection

The *Act on Personal Registers of Information* became effective in October 1998. The act is based on the EU directive on data privacy and covers the automatic processing of all personal data, as well as certain manual processing.

Under the act, personal data is defined as “all kinds of information that directly or indirectly may be referable to a natural person who is alive.” Personal data may be processed only with the consent of the individual (data subject) or if the processing is necessary for specified reasons.

Data subjects can request that the data controller provide them with an annual report indicating which data is processed; the source of the data; the purpose of processing; and the recipients of the data. They have the right to erase or block inaccurate data. The act prohibits the transfer of all data which is being processed (electronic and nonelectronic) to countries outside the EU and the European Economic Area. Data may be transferred if the data subject has given his or her permission.

Social Security and Other Required Benefits

Pensions

The Swedish pension system is described in three parts in this section of the report, following a brief description of contributions, benefits other than pensions, and the base amounts. The three parts are:

- **National Social Security Plans**—A national basic plan (Guarantipension) and a national earnings-related supplementary plan (ATP) provide social security old age, long-term disability, and survivors' pensions to individuals born before 1937.
- **Defined Contribution Retirement Program**—A completely reformed national social security system was adopted in 1998, and the major provisions have been implemented. This system replaces the National Social Security Plans for certain age groups; transition arrangements apply. Beginning January 1, 2000, individuals born from 1938 through 1953 receive benefits from the new and old systems. The portion of benefits derived from the old and the new systems depends on the age of the individual; persons born in 1938 receive 20% of their benefit from the new system and 80% from the old system. For each birth year after 1938 (up to 1953), the portion of the benefit from the new system increases. Individuals born after 1953 receive 100% of their pension from the new system. Under the new system, disability and survivor's benefits are administered through separate programs.
- **Required Pension Plans Under Collective Agreements**—These plans have been negotiated under collective agreements that cover about 80% of the working population.

Administration

The national system is regulated by the *National Insurance Act*. Effective January 1, 2005, a new national agency, Försäkringskassan, replaced the former National Social Insurance Board (RFV) and its 21 regional social security offices as the supervising agency for the national system. The new agency was established to serve as a single central authority to administer the system via regional branches and 240 local offices. Formerly, the local social security offices were organized as independent social security societies. The societies did not have a reporting relationship with the RFV, but rather were organized under a separate national organization known as the Federation of Social Insurance Offices.

The Premium Pension Authority (PPM—Premipensionsmyndigheten) is the agency within Försäkringskassan responsible for managing the “premium pension” (defined contribution) portion of the social security contribution. The PPM serves as a “clearinghouse” for all fund transactions and the sole provider of annuity products.

Contributions

Employer and employee contribution rates for pensions, other social security benefits, and payroll taxes are shown in the chapter-entitled **Cost of Employment, Table 2**. Contributions for the required pension plans and other collectively agreed benefits can be found in **Cost of Employment, Table 3**. (See **Cost of Employment**.)

Social Security Benefits Other Than Pensions

Medical, dental, hospitalization, cash sickness, and parental benefits are described in the chapter called **Health Care System**.

Workers' compensation (LAF-Arbetsskadeförsäkring) benefits are payable for work-related injuries under the *Work Injury Insurance Act* and are administered by the social security system under the LAF program. Medical and dental care, cash sickness, disability and survivors' benefits, and funeral grants are provided for work-related injuries. The employer's cost for workers' compensation is shown under **Cost of Employment, Table 2**. The benefits from the social security workers' compensation program are not covered in this report.

The collectively agreed insurance plan (TFA-Trygghetsförsäkringvidarbetskade) provides additional benefits for work injuries (refer to **Cost of Employment, Table 3**).

Unemployment insurance is not part of the social security system, but is instead financed via employee contributions to the employment insurance fund (A-kassa) of his or her choice. Most employees are covered for unemployment through their trade union's unemployment insurance fund (see **Employment Terms and Conditions**).

Family allowances are paid from general revenue to families with children.

Base Amounts

Price Base Amount (Prisbasbeloppet)

The former base amount was renamed the price base amount as of 1999. The price base amount is set for each calendar year and is used to calculate various benefits under the social security system and for other purposes. The price base amount for 2007 is SEK 40,300.

Extended Price Base Amount (Förhöjt basbelopp)

The extended price base amount was used from 1995 to 2000 when calculating covered earnings and employee contributions. The extended price base amount is SEK 41,100 for 2007.

Income Base Amount (Inkomstbasbelopp)

Beginning in 2001, the income base amount replaced the extended price base amount and is calculated based on the income index (see **Cost of Employment**). The income base amount is SEK 45,900 for 2007.

National Social Security Plans

AFP (Allmän Folkpension)

This was the national basic flat-rate plan that provided old age, survivors', and long-term disability pensions to all residents of Sweden. Effective January 1, 2003, the AFP was replaced by a "guarantee pension" related to residence in Sweden.

Guarantee Pension (Garantipension)

The guarantee pension provides an old age pension to individuals age 65 and older who receive low or no earnings-related pension benefits. The pension is financed by general tax revenue.

ATP (Allmän Tilläggspension)

This is the national earnings-related supplemental plan, based on pension points, that provides old age, survivors', and long-term disability pensions. The old age pension is provided only to employees born before 1937. Transition rules apply for those born from 1938 through 1953. Employees born during and after 1954 will receive benefits under the new retirement system.

Partial Pension (DPL–Delpension)

A special partial pension for reduced employment is available for those age 61 to age 65 and for the self-employed. This pension was abolished at the end of 2000. Individuals born during or before 1939 were still eligible for this pension, provided their application was submitted no later than March 31, 2001. Individuals who were granted partial pensions prior to 2001 continue to receive benefits.

Benefits

The ATP earnings-related pension uses the price base amount (SEK 40,300) to calculate benefits. Pensions are paid monthly but are calculated on an annual basis.

Guarantee Pension

Eligibility

All residents age 65 with 40 years of residence between age 25 and age 64 are eligible for a full pension. The recipient must be resident in Sweden or a European Economic Area (EEA) country that has concluded an agreement with Sweden on the payment of pensions abroad. The pension is reduced if the recipient is eligible for a widow's pension, or pension from another country. Income from capital, occupational pensions, private pension insurance, and attendance allowances do not affect guarantee pension benefits. Means-tested social security supplements and housing allowances may be payable to recipients who receive low amounts of, or no, ATP benefits.

Individuals born prior to 1938 who had already begun to draw an AFP pension are eligible for a transitional guarantee pension under slightly different rules.

Amount

The full, annual old age pension in 2007 is equal to 213% of the price base amount for a single person (pension of SEK 85,839) and 190% for a married person (pension of SEK 76,570 for each spouse). For individuals born before 1938, the full annual pension is equal to 218.14% and 194.34% times the price base amount, for single people and married persons, respectively.

Pensioners receiving an earnings-related ATP pension equal to or greater than 307% (single person) or 272% (per person, married couples) of the price base amount are not eligible for a guarantee pension.

Early Retirement

There are no provisions for early retirement.

Survivors' Guarantee Pension

Eligibility (All Residents)

A surviving spouse (male or female) with a child under age 12, or a surviving spouse who had been married or had cohabited for at least five years with no children, is eligible for a surviving spouse's pension. Each surviving child under age 18 (age 20 if a student) is eligible for a child's pension.

Amount

The annual surviving spouse's pension is equal to 213% of the price base amount (pension of SEK 85,839). The pension is payable for 12 months in all cases and can be extended until the youngest child is age 12, provided the parent does not remarry and is under age 65. A spouse without an eligible child, but with limited earning potential, also may be eligible for a pension.

The child's pension is 30% of the price base amount if one parent is deceased and 60% of the price base amount if both parents are deceased, plus 20% for each additional child, divided equally between the children. The benefit cannot exceed 100% of the deceased's pension entitlement.

Transition rules apply for women born before 1945. Certain widow's pensions, formerly paid only to women under more liberal eligibility requirements, may be retained subject to an income test.

ATP Old Age Pension

Eligibility

Employees born during or before 1937 who have earned pension points for at least three years prior to age 64 are entitled to a proportionate pension at age 65. Effective September 1, 2001, the statutory normal retirement age increased from age 65 to age 67. Employees have the choice to work up to age 67 with full employment protection. No future collective agreement can mandate retirement at a younger age. There is no penalty for employees who decide to retire at an earlier age. A proportionate pension is paid for at least three years of residence in Sweden or three years of ATP points. Residents are defined as:

- Swedish citizens resident in Sweden;
- Swedish citizens resident abroad and entitled to ATP (those already drawing AFP on July 1, 1979, and who were born in 1929 or earlier may use instead the old requirement of residency in Sweden between age 57 and age 62); and
- Resident noncitizens who are from EEA or European Union (EU) countries or countries with which Sweden has a social security agreement and who are entitled to ATP (see **Issues for Expatriate Employees**). The full pension is paid for 30 years of ATP pension points. Retirement is not necessary to receive ATP benefits.

For employees born during or after 1954, benefits accrued under ATP have been transferred to the new system. For employees covered by the transition rules, the ATP entitlement is "registered" as part of their total final pension.

Amount

Pensionable income is calculated on:

Gross pay up to 7.5 x EPBA* – 7% social security pension contribution + EPBA
EPBA

*Extended price base amount

Maximum pensionable pay in 2007 is 7.5 times the income base amount (SEK 344,250 in 2007). To attain that level, gross pay must be at least SEK 370,400 (8.07 times the income base amount). A maximum of 7.38 pension points can be accrued in 2007 (minimum 0.01). The full ATP pension is roughly equal to 60% of the price base amount times the average number of pension points in the best 15 years (maximum varies), provided the recipient has at least 30 years of coverage. Pensions in payment are recalculated each year with the current year's price base amount, which results in a pension that is partially indexed for inflation.

Early Retirement

An individual may take early retirement at age 61 with a reduction of 0.5% for each month prior to age 65. The age limit was raised from age 60 to age 61 as part of the social security pension reform.

Deferred Retirement

Retirement may be deferred to age 70 with an increase of 0.6% for each month of deferral.

Partial Pension

Eligibility

For employees born during or before 1939, a partial pension is available between age 61 and age 65 if employment has been reduced by a minimum of five hours and a maximum of ten hours per week and the person is still working at least 17 hours per week (subject to a maximum of 35 hours per week).

ATP pension points must have been earned for ten years after age 45. The claimant must be resident in Sweden and have been employed for at least 80 days during five of the 12 months preceding partial retirement.

Amount

The partial pension is equal to 55% of the income that is "lost" when hours are reduced, up to 7.5 times the price base amount for the year. Income lost is based on the highest three years of earnings during the last five years of service.

Payment of a partial pension does not reduce the AFP or ATP pension at age 65. The partial pension is considered income for the calculation of the ATP pension.

Defined Contribution Retirement Program

Effective January 1, 2001, benefits from the new system are payable. The benefit is based on accumulated contributions. Upon retirement, the government determines the benefit payable in relation to the accrued capital (contributions paid), investment returns, the number of persons in an age cohort, and economic factors such as rate of growth in GDP. A portion of the overall benefit is based on accumulated assets plus interest of the investment fund that each employee has selected. (Refer to **Defined Contribution Retirement Program** below.)

ATP Survivors' Pensions

Eligibility (All Employees)

A widow or widower with a child, or a widow or widower who was married or cohabited for at least five years before the spouse's death is eligible.

The deceased spouse must have been receiving or must have accrued sufficient pension points towards an ATP old age or long-term disability pension before his or her death.

A surviving child is eligible for a pension up to age 18 (age 20 if a student).

Amount

Pensions are calculated as a percentage of the spouse's ATP old age or long-term disability pension in payment, or of the ATP pension benefit projected to age 65. Transitional provisions apply.

Table 11: Survivors' Pension

	Annual Benefit
Surviving spouse with no children	55%
Child under age 12	35%
Each additional child	25%
Child over age 12	30%
Each additional child	20%

The survivors' pension (adjustment pension) is payable for 12 months. The adjustment pension is 55% of the pension capital under the new system (with an assumed income until age 64). For individuals born between 1938 to 1953, the calculation is entirely based on the new retirement system, and it is assumed that the entire contribution of 18.5% goes to the income pension.

An extended adjustment pension is payable for 12 months at a time provided that there is a child under age 18 in the care of the survivor. The extended adjustment pension also is 55% of the accrued pension capital under the new system. A child pension is payable to a child under age 18 or age 20, if a student.

The total survivors' pension may not exceed 100% of the deceased person's pension. If there is an adult survivor, the survivors' pension cannot exceed 80% of the old age pension.

AFP/ATP Long-Term Disability Pension

Eligibility (All Residents)

Effective January 1, 2003, AFP and ATP long-term disability pensions are no longer part of the public pension system. Renamed "activity compensation," long-term disability benefits are now payable under the Health Insurance system. Benefits were converted to the new system for individuals age 30 and over who were already receiving disability benefits prior to 2003. Benefits for claimants under age 30 were converted to sickness compensation (see **Health System**).

Defined Contribution Retirement Program

In June 1994, the parliament passed a series of reforms to the National Social Security Pension Plans (AFP and ATP). The pension reform changes the social security pension calculation from a defined benefit to a defined contribution formula. However, only a part of the contribution is directed to a funded individual account. The remainder of the contribution is used to calculate a benefit based on a notional defined contribution formula. The new pension system is intended to provide a pension of approximately 60% of covered earnings after 40 years of service.

This pension reform does not affect the collectively agreed pension plans.

Contributions

From 1995 to 1998, part of the employee's social security contribution (1% per employee) was already being credited to the "premium pension" system (refer to **Benefits** below). However, since the individual account system was not yet physically established, this money was managed by the National Debt Office (Riksgäldskontoret). These assets, plus interest, were transferred to the financial institutions chosen by employees for the investment of their individual accounts in December 2000.

Benefits

The three types of benefits under the new system for old age pensions are:

- **Basic Pension** (inkomstpension)—This pension is calculated as a notional defined contribution benefit. This means that the pension is calculated on the basis of contributions and an imputed interest rate, but it is administered as a pay-as-you go system (current contributions are used to pay current pension liabilities). Of the 18.5% contribution, 16% is allocated to this benefit, and to finance accrued benefits under the old pension system.
- **Premium Pension** (premiepension)—This is a funded defined contribution plan with individual accounts. The remaining 2.5% of the 18.5% contribution is allocated to the premium pension. Each employee chooses the investment vehicle for his or her contributions. There is a government-managed fund and over 700 authorized private investment funds from which to choose. Individuals may choose up to five funds. Contributions of individuals who do not choose a fund are invested in a government-managed default fund (Premiesparfonden). Premiesparfonden is a global share fund, with an equity allocation of about 90%. There is no limit on when or how often participants can switch funds, but account holders cannot switch investments to Premiesparfonden if they have chosen to invest in other funds. Approximately one-third of participants are in the default fund.

Eligibility

Participants age 61 are eligible to withdraw full or partial (25%, 50%, or 75%) benefits from the Basic Pension or Premium Pension accounts (or a combination of both). There is no maximum age limit and retirement is not required.

Benefit Payments

Participants have three choices for the payout of their pension under the new system:

- Fixed rate annuity for life;

- Variable rate annuity for life; or
- Survivors' annuity with or without an annuity for the retiree.

Benefits are indexed based on the consumer price index (CPI).

Indexing

Pensions, and other social security and statutory insurance benefit calculations are based on base amounts and an “income index” and an “adaptability index” linked to prices and wages. Benefits are indexed as of the second year after grant and then every January based on annual real changes in income over a three-year period and price increases over a one-year period. The income index is 121.65 in 2006 and 125.57 for 2007. Indexing is based on the ratio between the old and new income index divided by 1.016. For 2007, pensions were increased by 1.6%.

Transitional Provisions

The transition from the old to the new pension system depends on the participant's year of birth:

- Persons born in 1937 or earlier continue to be covered under the rules of the old pension system;
- Persons born between 1938 and 1953 are covered under rules which take into account participation in the old and new systems; and
- Persons born in 1954 and later are covered only under the new rules.

Administration

Under the new pension system, the various administrative functions are handled as follows:

- **Collection of Contributions**—The National Tax Authority (RSV-Riksskatteverket) collects the contributions in conjunction with income tax withholding, the same as under the present social security system.
- **Interim Investment**—The National Debt Office (RGK-Riksgäldskontoret) is responsible for the investment of contributions between the date of collection and the date on which individual rights are established (after tax returns are filed and reconciled). This is normally towards the end of the year following the year in which income was earned. During this period, the interest rate is approximately the same as on government bonds.
- **Individual Recordkeeping**—The Försäkringskassan is responsible for maintaining the records for individuals, calculating individual pension rights, and communicating with participants; local social security offices will continue to provide assistance to participants.
- **Funded Accounts**—The investments for the individual funded accounts is administered by the new Premium Pension Authority (PPM–Premiepensionsmyndigheten); this agency administers employee requests for investment of assets in various authorized investment funds and is the sole provider for annuities.

- **Authorization of Investment Companies**—The Financial Inspection Authority (Finansinspektionen) is responsible for approving and supervising investment companies that participate in the pension system.

Required Pension Plans Under Collective Agreements

In addition to the national social security plans, benefits are provided for wage earners and salaried employees under required pension plans. These plans are established under collective agreements negotiated by the Confederation of Swedish Enterprise (SN) and the Federation of Salaried Employees in Industry and Services (PTK)—Privattjänstemannakartellen, which coordinates collective bargaining for the various unions for salaried employees in private industry, and the Swedish Trade Union Confederation (LO—Landsorganisationen i Sverige), which represents wage earners.

All employers who are members of an SN-affiliated employers' organization must participate in the relevant pension plans. Employers who are not affiliated with an SN-affiliated employers' organization, but who have concluded a subsidiary agreement with a trade union, also are required to participate. All other employers can participate voluntarily.

ITP (Industrins och Handels Tilläggspension för Tjänstemän)

This is the supplementary plan for salaried employees in private industry and commerce, based on agreements negotiated between the SN and the PTK. It provides old age, survivors', and long-term disability pensions in addition to those from ATP and the reformed pension system.

Employees who play a significant role in company management may be contracted out of ITP if equivalent or more generous benefits are provided.

ITPK (ITP-Kompletterande Ålderspension)

Introduced in 1977, this plan for salaried employees establishes capital accumulation accounts to supplement the ITP old age pension, provides early retirement benefits, and purchases a preretirement death benefit of the employee's choice.

ITPG (ITP-Garantitilläggspension till Ålderspension)

Introduced in 1974, this is a guaranteed minimum pension for older salaried employees who have acquired few or no credits under the ITP plan.

AGS (Avtalsgruppsjukförsäkring)

This is the supplementary plan for wage earners. The plan is based on agreements negotiated between the SN and the LO. It provides long-term disability and cash sickness benefits in addition to cash sickness allowance, sickness compensation, or activity compensation under the reformed national system.

STP (Särskild Tilläggspension)

This was a collectively agreed retirement pension for wage earners. Effective January 1, 1996, the STP plan was discontinued and replaced by the SAF-LO Collective Agreement Pension.

SAF-LO Collective Agreement Pension (Avtalspension SAF-LO)

This is a defined contribution pension plan that provides retirement benefits for wage earners in private industry and commerce.

TGL (Tjänstegrupplivförsäkring)

This is a collectively agreed group life insurance program. The employer may purchase an insurance policy for the TGL life insurance benefits from one of four insurance companies for salaried employees or through the insurance company AFA for wage earners.

TFA (Trygghetsförsäkring vid arbetsskada)

TFA is a no-fault liability plan for salaried employees and wage earners. It compensates for loss of income and other expenses in case of occupational injuries. TFA also pays claims for damages, reasonable compensation, survivors' pensions, and funeral grants. Benefits under the TFA program are not covered in this report.

Contributions

The contribution rates for collectively agreed plans are shown in **Table 3** (see **Cost of Employment**).

Benefits

Benefits payable under the required plans are described below. These benefits are paid in addition to those paid by the National Pension Plans.

ITP Old Age Pension

Eligibility (Salaried Employees)

Pension credits may accrue beginning at age 28. Vesting is immediate. Employees must work for a three-month period with an average of at least 16 hours per week. An employee who is within three years of retirement age, and who has not previously participated in ITP or an equivalent pension system, is not covered by the plan. The employer may apply to Alecta (the insurance company that manages the plan) for additional coverage.

For a normal retirement pension, employees must be at least age 65 with 360 months of participation for a full pension. There is a reduction of 1/360 for each month of participation under 360 months. It is possible for another retirement age to be set by collective agreement.

Benefits are paid in addition to ATP and basic old age pensions. Prior service with other employers under the ITP, or other occupational pension plans, or with state or local governments, is fully credited as equivalent service. Salaried employees who are employed by a Swedish company, but assigned abroad also are covered under the ITP Plan.

Amount

The annual pension is calculated as a percentage of final average salary according to three salary "slices." There are restrictions as to how salary increases within the five years before retirement age are counted for pensionable salary under ITP.

Table 12: ITP Old Age Pension

Salary Slice	Salary Slice	Full Annual Pension (Percent of Final Average Salary)
Up to 7.5 × income base amount	Up to SEK 344,250	10.0% plus
Between 7.5 × income base amount and 20 × income base amount	Between SEK 344,251 and SEK 918,000	65.0% plus
Between 20 and 30 × income base amount	Between SEK 918,001 and SEK 1,337,000	32.5%

Early Retirement

An actuarially reduced pension is available at age 55. A smaller reduction is made for retirement between age 62 and age 65. ITP employer contributions continue to be credited until age 65, provided the employee intends to withdraw from gainful employment and voluntarily leaves service after age 62. The cost of the paid-up value to age 65 is financed through unallocated assets of the plan.

Deferred Retirement

Retirement may be deferred, with an actuarial increase in benefits for each month of deferral.

Opting Out of ITP

Employees earning over ten times the income base amount (over SEK 459,000) may choose to insure the old age pension related to earnings above 7.5 times the income base amount (above SEK 344,250 for 2007) with a private insurer. Their disability benefit remains insured with Alecta. Once out of ITP, an employee cannot reenter the plan unless he or she changes employers.

ITP Partial Pension (Salaried Employees)

Salaried employees between age 61 and age 65 who reduced their hours of employment by at least five hours, but no more than ten hours per week and who were still working at least 17 hours but no more than 35 hours per week, were eligible for a partial pension under certain circumstances until January 1, 2003.

No new partial pensions are being granted, although those partial pensions already in effect prior to 2003 are still payable.

Amount

The benefit equals 55% of lost income between 7.5 times the price base amount and 20 times the price base amount, plus 27.5% of lost income between 20 times the price base amount and 30 times the price base amount. The calculation of lost income is based on the average of the final five years of service.

An employee continues to earn ITP benefits corresponding to salary before the transfer to reduced hours, and employer contributions to ITP on that salary continue. As a result, the old age pension payable from ITP at age 65 is not reduced for an employee receiving a partial pension.

ITPK Old Age Pension

Eligibility (Salaried Employees)

All persons insured under ITP are eligible. Benefits began to accrue as of January 1, 1977.

Amount

The assets accumulated in each employee's account may be used to:

- Supplement the ITP pension at age 65;
- Provide an early retirement benefit at age 62; or
- Purchase insurance for survivors with part of the premium in the event of death before retirement and supplement the ITP pension with the remainder.

ITP—2007 Reforms

DC Plan Introduction

In April 2006, the SN and PTK agreed to transform the ITP pension plan into a defined contribution (DC) plan. It is the last major pension plan to convert to a DC plan. Prior to the agreement, ITP had been a hybrid pension plan comprised of a defined benefit (DB) plan with some DC elements in the form of the ITPK plan. Under the agreement, effective January 1, 2007, salaried employees born in or after 1978 accrue pension benefits under the DC portion of the plan only beginning at age 25. However under certain circumstances, employees born prior to 1979 may be transferred to the DC only plan in the event of going to work for a new employer. All salaried employees in companies which become affiliated with the ITP plan for the first time after April 25, 2006 would be covered under the new plan regardless of age, subject to agreement from the relevant professional association.

The contribution rate is 4.5% of salary up to 7.5 times the income base amount and 30% on salary exceeding 7.5 times the income base amount. An ITP disability pension premium and waiver of premium is also payable. As with the existing plan, employers and employees may agree on higher contribution rates. High-income earners may also opt out of the DC plan.

Employees have some investment choice, but at least one-half of the contribution must be invested in traditional pension insurance funds with a guaranteed return. If an employee fails to choose an insurance provider, employer contributions are directed to a default fund with a guaranteed rate of return. Employees have the option to use part of their employer's contribution for survivors' benefits equal to from one to four times the price base amount per year over five, ten, 15, or 20 years. Survivors' benefits will be provided by Alecta. Eligibility requirements for disability benefits are the same as those under the DB/DC plan.

Employers will still be able to book reserve the liability, as long as insolvency insurance has been obtained. The ITP committee must agree to the book reserve.

Pensions may be paid out in full or in part, from age 55, over a minimum of five years (maximum lifetime payments).

SAF-LO Collective Agreement Pension

In January 2000, the SAF and the LO amended the SAF-LO pension agreement of 1996 and reformed the employer-sponsored supplementary pension plan. This nationwide collective agreement covers about 800,000 wage earners in private industry and commerce. The agreement was made effective January 1, 2000 and replaces the previous STP plan.

Eligibility

All employees age 21 and over who are covered under the collective agreement are insured under the new plan. Normal retirement age is age 65. The earliest retirement may be taken is age 55.

Benefits

The SAF-LO plan is a defined contribution plan under which the amount of benefits payable depends on the accumulated balance in each employee's account (contributions plus accrued interest). Employees choose an investment manager or insurance company to manage their individual accounts. If no choice is made, the AMF pension insurance company manages the account. Vesting is immediate. At retirement, the employee has a choice between a life annuity and an annuity certain.

In 2007, the contribution rate is 3.5% of pay. Contributions are paid in full by the employer. Employees have the option of deducting an annual insurance premium from employer contributions for individual and/or family survivor benefits.

Transition

All pensioners who were receiving an STP pension as of December 31, 1995 are not affected by the 2000 SAF-LO collective agreement pension. The STP entitlement was recalculated for individuals who reached age 65 in 1996.

For employees born between 1932 and 1967, a "pension capital" amount (representing the employees' years of coverage under the STP) was allocated to fund pension accounts under the new system. The benefit payable will depend mostly on the amount of the allocated pension capital but also partially on the amount of contributions made under the new system. The benefit payable at age 65 is estimated at 10% of pay.

Employees born after 1967 will be covered entirely under the new defined contribution plan.

ITP Survivors' Pensions

Eligibility (Salaried Employees)

The surviving spouse or "registered" partner of an insured with pension credits earned since age 28 is eligible. Credits are immediately vested. For a full pension, 360 months of pension credits must be credited. There is a reduction of 1/360 for each month of service fewer than 360 months. The couple must have been married for at least five years, or have had a child, or been married before the insured reached age 60.

A child's pension is paid for each surviving child under age 20.

Amount

The spouse's pension is calculated as a percentage of the deceased's final annual salary according to two salary "slices":

Table 13: ITP Surviving Spouse's Pension

Salary Slice	Salary Slice	Annual Pension (Percentage of Final Salary)
Between $7.5 \times$ income base amount and $20 \times$ income base amount	Between SEK 344,250 and SEK 918,000	32.50% plus
Between 20 and $30 \times$ income base amount	Between SEK 918,001 and SEK 1,377,000	16.25%

The ITP spouse's pensions are payable for life, but end if the claimant remarries before age 60.

In addition, children's pensions are paid based on the number of children under age 20 (or any age if disabled). The children's pensions are calculated as a percentage of the surviving spouse's pension as follows:

Table 14: ITP Children's Pensions

	Annual Pension (Percentage of Spouse's Pension)
<i>One Parent Eligible for ITP Survivors' Pension:</i>	
First child	55%
Second child	20
Each additional child	10
<i>Survivors' Pension Payable Only to Children:</i>	
First orphan	75
Second orphan	35
Third orphan	25
Fourth orphan	15
Each additional orphan	10

ITP Long-Term Disability Pension***Eligibility (Salaried Employees)***

A claimant must be age 18 and at least 25% disabled with no minimum number of pension credits required. There is a 90-day waiting period before benefits begin.

Amount

The ITP disability pension for 100% disability is calculated as a percentage of salary.

Table 15: ITP Long-Term Disability Pension

Salary Slice	Salary Slice	Annual Pension ¹ (Percentage of Salary)
Up to 7.5 × price base amount	SEK 0–302,250	15.0% ² plus
Between 7.5 × price base amount and 20 × income base amount	302,251–918,000	65.0% plus
Between 20 and 30 × income base amount	918,001–1,377,000	32.5%

¹When receiving an activity or long-term disability pension from social security.

²No benefit is paid on salary up to 7.5 times the **price base amount** while an insured is receiving a social security daily cash sickness benefit after the 91st day (usually for the first year of illness) up to the 90th day—10%.

If disability is partial, the pension is proportional to the degree of disability.

At age 65, the disability pension is replaced by an ITP old age pension.

AGS Supplemental Long-Term Disability Pension

Eligibility (Wage Earners)

A claimant must be between age 16 and age 65 and must have been employed for at least 90 days by an employer affiliated with the AGS system. Coverage continues for two calendar quarters after employment ends and for up to eight quarters during unemployment.

The disability rate must be at least 25%. The claimant also must be receiving activity compensation (long-term disability pension) or cash sickness benefits from national health insurance or workers' compensation.

Amount

The AGS long-term disability benefit begins after the AGS cash sickness benefit expires, at which time, the disability is determined to be permanent.

AGS disability benefits vary depending on the degree of disability and covered income (up to 7.5 times the price base amount) during the year immediately preceding the date of disability.

AGS Supplemental Cash Sickness Benefits

Eligibility (Wage Earners)

The same eligibility conditions apply as for the AGS long-term disability benefits. There is a 14-day waiting period before benefits commence.

Amount

For 100% incapacity for work, the full allowance of 10% of earnings qualifying for social security cash sickness benefits is payable. The maximum AGS cash sickness benefit is SEK 3,459 per month paid at a daily rate roughly corresponding to 12.5% of cash sickness benefits.

This benefit is paid from the 15th through the 360th day of illness, after which, it is replaced by the long-term disability pension.

TGL Life Insurance

Eligibility (All Employees)

Surviving spouses, cohabitants, or children are eligible after the death of an insured person between age 18 and age 65 and covered by a TGL contract. Coverage may be extended to age 70 for persons working beyond age 65. The claimant must have worked at least eight hours per week to qualify for a full benefit; there is no minimum period of employment. These benefits are in addition to ITP or the SAF-LO collectively agreed pension for hourly workers.

Amount

The full lump-sum death benefit is six times the price base amount in effect at the beginning of the year in which death occurred (full benefit is SEK 241,800). The full benefit is payable upon the insured's death before age 55 or after age 55 if there are children under age 17. It decreases proportionately for insureds over age 55, so that one times the price base amount is payable for death between age 64 and age 70. One-half of the full benefit is paid if the deceased worked for fewer than 16 hours per week or, if the only survivors are children over age 21. Coverage ends at retirement.

TGL life insurance supplements are payable to children under age 21 for blue-collar employees and under age 20 for white-collar employees as follows:

Table 16: TGL Life Insurance Supplements

Age of Surviving Child	Multiple of Price Base Amount (SEK 40,300)
Under age 17	2.0
Age 17 or age 18	1.5
Age 19 or age 20	1.0

If an insured's spouse dies, and the spouse was not covered by any other insurance, a grant of one-half times the price base amount is paid to the insured and one times the price base amount to each child under age 17.

A lump-sum funeral grant of SEK 20,150 (one-half times the price base amount) is paid to the estate of the deceased regardless of whether there are survivors.

Other Employer-Sponsored Pension Plans

Employer-Sponsored Plans

Most plans are established through national collective bargaining. However, some employers not affiliated with the SN choose to replace the ITP plan with an equivalent private plan. In this case, if the employer does not follow the ITP plan design, the contribution rate is limited to 35% of pay up to maximum ten price base amounts. Employers also may opt out of the ITP to provide an alternative plan for top executives. Some companies top up pensions for executives through salary sacrifice arrangements.

Health Care System

Health Care Delivery

The Board of Health and Welfare has overall responsibility for health care services in Sweden. The county councils are directly responsible for most of the health care delivery. County councils own most of the hospitals, although a few private hospitals exist. The county councils provide outpatient medical care through clinics at hospitals and district health centers and manage specialized maternity and child health centers, public dental services, X-ray centers, psychiatric services, and vaccination programs. Municipalities are responsible for services to persons with mental and certain severe physical disabilities.

Most doctors are affiliated with the national health service, but private doctors and specialists exist. Patients can choose their own primary doctor or hospital. A referral from a primary doctor is not always necessary to see a specialist; however, the patient's copayment can vary depending on whether a referral was obtained.

The state-owned National Corporation of Swedish Pharmacies manages all pharmacies in Sweden and has the exclusive right to sell prescription drugs to individuals and hospitals. Lobbying efforts to have the government to end its monopoly of the sector have been unsuccessful. The National Corporation's name was changed to Apoteket AB, apparently to appear more market oriented.

The health care system is financed by local income tax, national health insurance contributions, and copayments from patients. In addition, county councils receive some payments from the national government.

National Health Insurance

The national health insurance program (sjukförsäkring) is administered through the local social security offices. All Swedish citizens and residents are covered by the national health insurance program while in Sweden, even on a temporary basis, as long as they are registered with the local social security office. Children under age 16 need not be registered in order to be covered. Eligible residents are entitled to medical, dental, hospitalization, and cash sickness benefits. (See **Issues for Expatriate Employees.**)

Copayments

Patients are required to make copayments for medical services and prescriptions. Each person obtains a "high-cost card" (högkostnadskort) for prescriptions and one for medical services from the pharmacy or doctor the first time that a payment is necessary. These cards are marked for costs paid by the patient in a 12-month period from the date of the first payment. After paying SEK 900 for medical services marked on the "high-cost card," the patient receives a "free card" (frikort) to use for the balance of the 12-month period during which no further copayment is required. The

“high-cost card” for prescriptions is marked up until the patient has paid a total of SEK 1,800 in a 12-month period. Then, the patient receives a “free card” for prescriptions to use for the balance of the 12-month period.

Health Care Services

All medical care for persons under age 20 is free. Adults pay a copayment for medical services using a “high-cost card.” After a patient has paid SEK 900 for medical services in any one year, no copayment is necessary for the remainder of the 12-month period. The 12-month period is calculated from the first doctor’s visit.

Hospitalization and nursing home care are reimbursed in full, subject to a patient copayment of approximately SEK 80 per day. The actual amount varies by region.

The cost of outpatient visits varies among the counties, but doctors who participate in the national health insurance system usually charge SEK 140 for an office visit and SEK 80 for follow-up visits; specialists charge between SEK 130 and SEK 250. The cost of home visits varies (base SEK 60 in addition to the regular fee), while emergency care generally costs SEK 300 (if going to an emergency room). Lower fees are applicable to children under age 18. Patients must pay the full cost of private doctors, and no reimbursement is possible.

Prenatal care and childbirth are provided free of charge through special maternity centers. For prescription drugs, patients obtain a “high-cost card” from the pharmacy which is marked up for copayments. The patient pays a share of the cost for each prescription as shown below:

Table 17: Copayments for Prescriptions

Cost of Prescription		Discount	Copayment	
SEK	0–900	0%	SEK	0–900
	901–1,700	50		901–1,300
	1,701–3,300	25		1,301–1,700
	3,301–4,300	10		1,701–1,800
	4,301 or more	100 ¹		1,800

¹For cost of prescription above SEK 1,800.

After the patient has paid SEK 1,800 for prescriptions in one 12-month period, no further copayments are necessary for prescriptions for the balance of the 12-month period. Prescriptions for a limited number of conditions (diabetes, tuberculosis, and venereal diseases) are free. The cost of prescriptions for children under age 19 in the same family can be put on the same card.

Ambulance service is free. Transportation costs for medical care are reimbursed and vary by region. The cost of prescribed treatments varies according to treatment. The cost of eyeglasses is not covered by national health insurance.

Dental Care Benefits

Children age 19 and younger receive free dental care.

Dentists are entitled to set their own fees for adults. The cost is shared between the national health service and the patient. However, copayments by patients have some limitations. For example, the patient pays:

- One hundred percent of the cost for basic dental care such as fillings; and
- For bridges, crowns, and similar work, the cost minus a government “deduction” and the health insurance reimbursement (currently SEK 3,500) that varies according to the type of treatment.

Cash Sickness Benefits

Eligibility

All employees age 16 and over, who are unable to work due to illness, earn at least 24% of the current price base amount (SEK 9,700) per year, and are at least 25% disabled, are entitled to cash sickness benefits under the national health program starting on their date of hire. Nonearning spouses and students may take out voluntary insurance that entitles them to a benefit.

Amount

From the 15th day of illness, an eligible employee is entitled to a cash sickness benefit on salary up to SEK 302,200 (estimated cash-pay per month or “SGI”; maximum payment equals 7.5 times the price base amount). The value of taxable benefits and holiday pay are not included in calculating SGI. The benefit amount per day is calculated as:

$$80\% \times \frac{\text{SGI} \times 0.989}{365}$$

The maximum cash sickness benefit is SEK 655 per day.

This cash sickness benefit is paid directly by local social security. Any top-ups by the employer are paid by the employer directly. The employer then adjusts social security contributions to compensate for the amount paid. However, the benefit can be paid directly by the local social security office in some circumstances.

The employer may pay an additional 10% of salary up to 7.5 times the price base amount plus 87.6% of salary above 7.5 times the price base amount from day 15 depending on the relevant collective agreement.

The cash sickness benefit is payable seven days per week. If an insured’s income increases during sick leave, the increase is reflected in the benefit calculation after 30 days.

Employers are required to continue salary for the first 14 days of illness, after a one-day waiting period, at 80% of salary (see **Employment Terms and Conditions**).

There is no time limit for benefits. If disability is considered permanent, activity compensation (long-term disability benefit) is payable instead.

A sickness benefit also is paid for care of a relative with a severe illness and care at home for up to 60 days during a relative's lifetime.

Wage earners are entitled to additional cash sickness benefits under the AGS plan (see **Social Security and Other Required Pension Plans**).

Parental Benefits

Eligibility

The full parental allowance is payable if a parent has been employed and eligible for cash sickness benefits for 240 days before the birth of a child. Either the mother or father (at the parents' discretion) is eligible for the parental allowance during absence from work due to the birth or care of a child. Parents may choose to draw on the full benefit to care for a child, or may take one-eighth, one-quarter, half, or three quarters of the benefit.

Amount

The parental allowance is a maximum of SEK 883 per day, calculated as 80% of previous income up to 10 times the price base amount. It is paid seven days per week for a maximum of 390 days, then SEK 180 per day is paid for an additional 90 days. Of the initial 390 days, either the father or mother may take 30 days at 80% pay (up to 7.5 times the price base amount) (see **Employment Terms and Conditions**).

The maximum is increased by an additional 180 days per child for a multiple birth (for example, twins). Parental leave may begin as early as 60 days before the expected date of delivery.

The allowed days must be used before a child reaches age eight or completes the first school year.

In addition, a temporary parental allowance at 80% of earnings (up to 7.5 times the price base amount) also is provided when family circumstances meet one of the following conditions:

- An employed parent staying home to care for a sick child under age 12 (up to 120 working days per year per child). In certain cases, the benefit may be paid for children age 12 to age 16. A medical certificate justifying the absence is required after the eighth day; or
- An employed father staying home to care for children when his wife is delivering, or after the birth of a child (ten days).

Activity Compensation (Aktivitetserättning)

Eligibility

Resident individuals age 19 to age 29 who have been insured for at least one year, and whose work capacity has been impaired by at least 25% due to a condition expected to last one year or more, are eligible for activity compensation. Coverage expires one year after terminating employment or ceasing work for any reason other than holiday, vacation leave, or the equivalent. The benefit is payable for a maximum of three years, after which, a new medical examination is required to continue receiving benefits.

Amount

Activity compensation is payable according to the degree of disability. The benefit is based on an average of the individual's three highest years of net annual covered income before becoming disabled (assumed earnings basis). Alternatively, if it is more favorable to the claimant, income-related benefits may be calculated using an average of the individual's two highest years of gross annual income.

The benefit is 64% of the assumed earnings basis. There is a guaranteed benefit for individuals who have been resident in Sweden for at least three years, with no or low accrued social security pensions. The benefit is proportionally reduced for periods of coverage fewer than 40 years. The minimum guaranteed amount is 2.10 times the price base amount for individuals under age 21, increasing by 0.05 every other year from age 21, to 2.35 at age 29.

Sickness Compensation (Sjukersättning)

Eligibility

Resident individuals age 30 to age 64 who have been insured for at least one year and whose work capacity has been permanently impaired by at least 25% are eligible for sickness compensation. Benefits are granted for either an indefinite or limited period. At age 65, benefit claims are transferred to the ATP old age pension plan or new system depending on year of birth (see **Social Security and Other Required Pension Plans**).

Individuals whose work capacity has been temporarily (less than one year) impaired by at least 25% are entitled to cash sickness benefits (refer to **Cash Sickness**).

Amount

Sickness compensation is payable according to the degree of disability. The benefit is based on an average of the individual's three highest years of net annual insured income during the last five to eight years before becoming disabled, depending on the age of the insured (assumed earnings basis). The benefit is 64% of the assumed earnings basis. There is a guaranteed benefit for individuals who have been resident in Sweden for at least three years, proportionally reduced for periods of coverage under 40 years. The minimum guaranteed amount is 2.40 times the price base amount.

An attendance allowance for individuals with severe disabilities, a car allowance for individuals who cannot use public transportation, and a housing supplement for pensioners also may be payable. Under certain conditions, supplements for spouses and children also may be payable under transitional rules.

Individuals who had been receiving long-term disability under the prior ATP plan have been transferred to the new plans with no loss in benefits.

Sickness Benefits Under Collective Agreements

AGS Sickness Benefits

Wage earners are entitled to additional cash sickness benefits under the AGS plan (see **Social Security and Other Required Pension Plans**).

Most salaried employees covered by collective agreements are entitled to an additional 10% of salary for earnings below 7.5 price base amounts, and 90% of salary above 7.5 price base amounts from the 15th day of illness through the 90th day of illness.

Taxation of Compensation and Benefits

Sweden levies both a national income tax and a flat-rate local income tax on employment income. The national tax is a nominal amount at lower-income levels. The local tax is a flat rate and varies by municipality. There also is a national capital gains tax and a national net wealth tax, both of which are flat-rate taxes. Inheritances and gifts are taxed separately.

The national income tax authority is the National Tax Board (Skatteverket), but most tax administration is handled by the tax authority in each county. The county tax authorities also are responsible for issuing personal identity numbers to each resident and for administering elections and the electoral rolls.

Anyone resident in Sweden for over six months is taxed on worldwide income. An individual is a resident if he or she is physically present in Sweden for more than 183 days during any one year, or maintains “vital connections” to Sweden such as a house or business operation during the year of absence. Unlike most countries, this treatment is not automatic and can be flexibly interpreted. Under certain conditions, expatriates are taxed only on 75% of their income (see **Issues for Expatriate Employees**).

Married couples and children are taxed individually on income from employment and capital. However, married couples are taxed jointly on net wealth.

The tax year is the calendar year. Tax years are identified by the income year and the assessment year. The income year 2006 is the same as the assessment year 2007 and refers to income earned during 2006 for which the tax return is due in 2007.

Employers must withhold social security contributions and income tax, known as “preliminary A-tax,” from the wages of all employees who earn SEK 1,000 or more per year. All persons resident in Sweden who are age 18 or over, including foreign nationals, must file a tax return every year, regardless of whether they have taxable income. There are two versions of the resident tax form:

- **Simple or simplified version**—For those eligible to file the simple form, the tax authority sends a form by April 15 which is already filled out with information received from employers and financial institutions. The taxpayer reviews and adjusts it if necessary, and files it by May 2 of the assessment year. The tax authorities issue final tax assessments in August/September of the year following the income year and refunds are made at that time. Any residual payment owed by the taxpayer must be made no later than November/December.
- **Detailed or special version**—For those filing the detailed tax form, the tax return is due by March 31 of the assessment year. Any additional tax payments should be made by May 2. The taxpayer receives a bill or refund by December. If any further tax is assessed, it is due by March of the year after the assessment year and is usually withheld by the employer.

Personal Income Tax

Taxable Income

All compensation from employment, whether in cash or in kind, during employment or after retirement is treated as taxable income, including:

- Salaries, wages, allowances, directors' fees, bonuses, or commissions;
- Value of almost all employee benefits and perquisites provided by an employer (refer to **Taxation of Employee Benefits, Perquisites, and Payments in Kind**); and
- Social security pensions, pensions from the required pension plans, and other social security cash benefits that replace wages (refer to **Taxation of Employee Benefits, Social Security and Other Required Benefits**).

Taxable income is the same for the national income tax and for local income tax. Self-employment or other business income and income from capital are taxed separately from employment income.

Nontaxable Income

There are few types of nontaxable income except for the employer's contributions to social security and required pension plans, scholarships, family allowances, reimbursements from the national health system, certain lump-sum death benefits, a pension from a foreign insurance policy (see **Issues for Expatriate Employees**), and some minor benefits in kind.

Exemptions

There are no exemptions for family members. For 2007, taxpayers are entitled to a basic exemption which ranges from SEK 11,900 to SEK 31,100, in inverse proportion to taxable income based on the table below:

Table 18: Exemption for Income Year 2007

Taxable Income		Exemption for Taxpayer	
SEK	0–17,000	SEK	taxable income
	17,100–40,100		17,100
	40,200–109,100		17,200–30,900
	109,200–125,600		31,000
	125,700–316,600		31,100–12,000
	316,700 and over		11,900

Deductions and Credits

In addition to the basic exemption, the following itemized deductions may be taken from taxable income:

- Twenty-five percent of the employee's social security contribution of 7.0% of employment income, up to 8.07 times the price base amount is deductible from taxable income. The remaining 75% is granted as a tax credit from the tax amount due; this is taken into account automatically by the tax authority and is not deducted on the tax return;

- Commuting costs between home and work that exceed SEK 8,000; automobile expenses can be included only if the distance between home and work is five kilometers or more, and the use of a car reduces the travel time by two hours per day compared to public transportation;
- Cost of using a personal automobile for business travel within limits (refer to **Taxation of Employee Benefits, Business Travel**);
- Cost of necessary materials and tools for performing one's job in excess of SEK 5,000; and
- Premiums paid for pension insurance or pension savings accounts (IPS) in a bank, up to a maximum of one-half the price base amount (SEK 20,150) on earned income from employment that is no more than a maximum of ten times the price base amounts. Another 5% (up to a maximum of one price base amount—SEK 40,300) is tax deductible on earnings between ten and 20 times the price base amount. (Refer to **Taxation of Individual Insurance** for calculation and for higher limits for persons with no pensions from employment).

Medical expenses or charitable contributions are not tax deductible.

National Income Tax Rates

For the income year 2007, the national income tax rates are in three brackets, as shown below:

Table 19: 2007 National Income Tax Rates

Taxable Income		Percent on Excess
SEK	0–328,600	0%
	328,601–488,600	20
	488,601 and over	25

Local Income Tax Rates

Local income taxes are levied by each of the 290 municipalities. According to Statistics Sweden, the mean local tax rate (combined municipal and county tax rates) for 2007 will be 31.55% of earned income. Combined rates range from 28.89% to 34.24%.

The church tax was repealed in 2000. Members of the Swedish Church must pay a church contribution, while nonmembers are assessed a general funeral contribution. The rules applicable to taxable income, exemptions, and deductions for national income tax calculations are generally used for local tax calculations.

Wealth Tax

Effective January 1, 2007, the wealth tax was reduced from 1.5% to 0.75%, excluding net real estate which is still subject to the 1.5% rate. Under current plans, the wealth tax will be abolished entirely by 2008. All residents are subject to the wealth tax on net wealth exceeding SEK 1,500,000. For married couples that are taxed jointly, the limit is SEK 3,000,000.

Net wealth includes real estate, securities, cars, and bank accounts, but not business assets. Since the wealth tax covers the value of assets located abroad, many of Sweden's income tax treaties grant exemptions for such assets. However, Sweden may, as in the U.S. treaty, reserve the right to take exempt property into account for purposes of applying the progressive rate of tax to property not exempt from the tax.

(Refer to **Issues for Expatriate Employees** for exemptions from wealth tax for foreign nationals who are temporarily in Sweden.)

Capital Gains Tax

Income from capital includes interest income, dividends and distributions from investments in stocks, capital gains on stocks, rental income from private property, and gains in excess of SEK 50,000 on the sale of personal property. The tax is withheld by the payer in the case of bank interest or stock dividends.

Costs of generating capital income are deductible. Interest paid is deductible from capital income.

Mortgage interest is deductible within limits from capital income. Two-thirds of the gain on the sale of a personal residence is taxable, and two-thirds of the loss is deductible. The tax may be deferred if the taxpayer purchases another personal residence within certain time limits.

There are detailed rules for deducting losses from capital gains. Capital losses can be deducted from employment income under certain conditions. If the net amount of interest paid, including mortgage interest, is a deficit, then a tax credit can be applied against employment income or real estate taxes. The tax credit is calculated as 30% of the deficit up to SEK 100,000 and 21% of the deficit in excess of SEK 100,000.

The net income from capital is subject to a national tax rate of 30%. There is no local tax on income from capital.

Maximum Tax Burden

The total of an individual's national income tax, wealth tax, and local tax may not exceed 60% of taxable earnings, plus income from capital (capital gains). Should the above tax exceed 60%, the wealth tax, national income tax on employment income, and the tax on capital income may be reduced, in that order. The local tax is never reduced. However, the wealth tax may not be less than the tax on half of taxable wealth.

Inheritance/Gift Tax

The *Inheritance and Gift Tax Law* was abolished in 2005.

Social Security and Required Pension Plans

Contributions

Contributions to social security and required pension plans are tax deductible for both the employer and employee. The employer's contribution is not taxable income to the employee.

A special salary tax on pension costs was imposed retroactively to March 16, 1991 on all employer contributions to insured pension plans, including the required plans ITP and the SAF-LO collective

agreement pension. This tax includes other pension costs such as direct payments. For the income year 2007, the rate is 24.26% of the contributions for workers born before 1938.

Revised rules were introduced in 1998 that permit companies to deduct pension costs of up to 35% of pay for each employee or ten times the price base amount (SEK 403,000), whichever is less. Limits on the deduction apply to defined benefits in certain circumstances (for example, early retirement).

Benefits

Social security cash benefits such as parental benefits, sick pay, and retirement, survivors', and disability pensions are taxable income to beneficiaries. All pensions from Swedish required pension plans, Swedish employer-sponsored pension plans, and foreign social security systems are taxable income, unless exempt under a tax treaty.

The only social security-type benefits that are not subject to income tax are:

- Family allowances for children (versus parental benefits) as family allowances are paid from general revenue;
- Lump-sum death benefits from group life contracts such as TGL, but these are subject to the inheritance tax and wealth tax on the portion in excess of six times the price base amount; and
- Medical, dental, and hospitalization reimbursements from the national health insurance plan.

Taxation of Employee Benefits

Insurance Policies

Premiums for capital insurance (TGL) are tax deductible to the employer if benefits do not exceed those provided by the group life plan under collective agreement. Also, the premiums are not deemed taxable income to the employee.

Investment Returns

The investment returns of pension insurance policies (including a pension fund financed by book reserves) are taxed at a rate of 15%. The investment yield on a life insurance policy (endowment insurance) is taxed at a rate of 27%. The tax is paid by the financial institutions that manage the funds, and the insurance companies, respectively.

(See **Issues for Expatriate Employees** for taxation of foreign pension plans and foreign insurance policies.)

Benefits

All pensions related to employment including social security and private sources are taxed as income on receipt.

Private annuities are taxable if they represent compensation for work performed.

Medical Care

As of January 1, 1996, employer-financed health and medical care is considered taxable income to the employee. Employer-financed physicals and rehabilitation are not considered taxable to the employee.

Severance Benefits

Payments made at termination of employment are fully taxable.

Perquisites and Payments in Kind

The general rule is that the value of all perquisites and payments in kind is considered taxable income and is taxed at market value when the benefit is made available to the employee. The value of all taxable perquisites and payments in kind also is subject to social security contributions by the employer and employee. The method for calculating the taxable value of certain perquisites and benefits in kind is specified by the National Tax Board.

Meals and Lunch Vouchers

Subsidized meals in a company dining room or lunch vouchers are taxable income on the difference between the amount paid by the employee and the average price of meals. The average price of meals is established by the National Tax Board each year, for the following year.

If one meal per day is provided free, the taxable value is 40% of the average price of lunches (SEK 64). If three meals per day are provided free, the taxable value is 250% of the average price of lunches (SEK 160).

Company Cars

The taxable benefit for a company car is calculated as follows:

- Thirty percent of the price base amount for the income year; plus
- Seventy-five percent of the interest rate on government loans on the last day of November prior to the current income year times the book value of the car; plus
- If the current value of the car is within 7.5 times the price base amount, an additional 9% of the value of the car; and
- If the current value exceeds 7.5 times the price base amount, 9% of 7.5 times the price base amount plus 20% of the portion exceeding 7.5 times the price base amount.

If the employer pays for gas, 1.2 times the cost of the fuel is added to the taxable benefit.

If the employee uses his/her own car for business travel, the tax-free reimbursement is SEK 1.8 per kilometer.

If the employee uses a company car and pays for fuel for business use, SEK 9 (SEK 6 for cars with diesel engines) per ten kilometers driven for company use can be reimbursed tax free.

For 2006, the price base amount is SEK 39,700, and the interest rate on government loans was 3.54%. The National Tax Board determines the price of various makes and models of new cars each year. For cars which are six years old or more, the new car price used in the calculation cannot be less than four times the price base amount.

Business Travel

Any reimbursement from an employer for expenses related to business travel, which does not involve an overnight stay, is taxable income to the employee and is not deductible by the employee.

The National Tax Board has detailed rules on per diem allowances for business travel. For travel that includes an overnight stay, the reimbursement is taxable income to the employee, but the expenses are deductible to the employee up to a fixed amount of SEK 200 per day. Any excess reimbursement is taxable income to the employee.

If an employee uses his or her own car for business travel, any reimbursement from the employer is taxable income, but the employee may deduct SEK 1.8 per kilometer of travel. If the employee uses a company car, but pays for the gas personally, the deductible amount varies by the type of gas.

Housing

The value of employer-provided housing is taxable income to the employee at the market rental rate. However, since there are rent-control limits, the actual taxable value may be lower than a free-market rental rate.

Low-Interest Loans

The benefit that an employee receives from a low- or no-interest loan from the employer is a taxable benefit to the employee. The taxable amount is the difference between the interest rate on government loans (3.54% for 2006) plus 1%, less the interest rate on the employer loan.

Stock Options

Beginning July 1, 1998, stock options are taxed only when the options are exercised and not at grant. The taxable benefit is the difference between the price paid for the stock and the fair market value at the date of exercise. Social security contributions are payable by the Swedish employer and employee on the taxable value, even if the stock options are granted by a foreign parent company.

If an employee's purchase of stock issued by the employer (company or group) is less than SEK 30,000, the offer to purchase is open to persons other than employees and shareholders of the issuing company and group, and the number of shares purchased by employees is no more than 20% of all shares available for purchase, the benefit is not taxable.

Home Computer

The value of a home computer purchased by an employer for an employee is a taxable benefit (it is not subject to tax if the employer offers computers to all of the employees and retains ownership over them). The employer is not entitled to a VAT credit on the purchase.

Nontaxable Welfare Benefits

The main benefits provided by the employer which are not taxable income to employees are:

- Minor benefits provided to all employees such as free coffee, pastries, and basic recreation facilities;
- Private health care (the cost of which is not however, a deductible expense for the employer);
- Premiums paid by the employer for life insurance, up to a limit; and
- Small gifts to employees at Christmas and anniversaries.

Taxation of Individual Insurance

Individual Pensions

Premiums for individual contracts for private pension insurance with a Swedish life insurance company or a pension savings account at a bank are deductible by the taxpayer from employment income. The maximum deduction varies depending on whether the taxpayer has other pension coverage from employment:

- **Employee With Other Pension Coverage From Employment**—The premium is deductible up to a maximum of one price base amount. The deduction is calculated as 5% of earned income between ten and 20 times the price base amount for the income year, plus one-half the price base amount.
- **Taxpayer With No Pension Coverage Other Than AFP and ATP**—The premium is deductible up to ten times the price base amount. This is calculated as 35% of income from employment up to a maximum of ten times the price base amount, plus one-half the price base amount.
- **Taxpayer With Business Income**—The premium is deductible up to ten times the price base amount, calculated as 35% of income from business, plus one-half the price base amount.

Persons with income from employment and a business divide the deductible amounts between categories.

Issues for Expatriate Employees

Documentation Required

Short Term—Business Visitors

U.S. and Canadian citizens who travel to Sweden for 90 days or less for business purposes do not need a visa to enter Sweden as a business visitor. Nationals of countries other than the United States and Canada should check with the Swedish consulate or embassy with jurisdiction over their residence to determine whether a business visa is required. Required documents include a visa application form, a valid passport, valid visa for the country of next destination after Sweden, a written invitation from the relevant contact in Sweden, and proof of sufficient funds to cover the stay in Sweden. Foreign nationals seeking a Swedish work permit are not allowed to be physically present in Sweden on business while their application is pending.

Nordic nationals (Denmark, Finland, Iceland, and Norway) do not need a work permit or residence permit to live and work in Sweden.

Schengen

Effective March 25, 2001, the Schengen Agreement on common visa policy and border controls was extended to all EU Member States (excluding Ireland and the United Kingdom), as well as Iceland and Norway. Eleven of the 12 newest EU Member States are set to join the agreement by December 2007 or March 2008, depending on the country. Cyprus will not take part. The Agreement permits nationals from the Schengen group of countries to travel indefinitely within the Schengen states on a passport or EU identity card. A Schengen visa is available to foreign nationals who are not exempt from the requirement of obtaining a visa for business travel to Schengen member countries. Business visitors can visit Schengen countries for a maximum of 90 days for all member countries within a six-month period.

Required documents for a Schengen visa for business purposes for Sweden include a valid passport (valid at least three months after the date of expiration of the visa), a confirmed round-trip ticket, a travel itinerary, proof of lodging in Sweden, proof of health care coverage in the home country, a company letter of support, and an invitation from a Swedish company.

Long Term—Employment Authorization

Foreign nationals who wish to work legally in Sweden must obtain a work permit and residence permit. Work permit applications must be submitted to the Consulate General of Sweden with jurisdiction over the applicant's place of residence. Required documents for the work permit and residence permit include a completed visa application form, a supplementary information form, an offer of employment form from the Swedish company, and a company "letter of support." Upon receipt of the work permit application, the consulate will forward it to the Immigration Board in Sweden for adjudication. Applicants are not allowed to travel to Sweden while a work permit application is under consideration. A Swedish work permit is required whether the individual is paid from a Swedish source or foreign source. If the individual's work permit is valid for at least

six months, the individual's spouse may obtain a work permit for the same period without any assessment of the needs of the labor market. Applications for work permit renewals can be filed at the local police station in Sweden.

Note: The material above contains general information regarding visas, work permits, and residence permits required to stay and work legally in Sweden. Readers should seek professional advice regarding the particular facts and circumstances involved in their case.

Social Security

Foreign Nationals in Sweden

Generally, contributions must be made to social security for foreign nationals from the first day of employment in Sweden, in the same manner as for Swedish employees. The main exceptions are:

- An exemption from some or all of the Swedish social security contributions may be granted under the provisions of a social security totalization agreement (refer to **Social Security Totalization Agreements** below); the employee must present a certificate of coverage from the home country's social security administration to the local social security office in Sweden in order to qualify for the exemption;
- For employees who are not covered by a social security totalization agreement and whose assignment in Sweden will be under 12 months, the employer pays only the old age pension contribution; otherwise, full contributions are payable from the first day of employment; and
- Effective January 1, 2001, qualified foreign experts and foreign key employees on temporary assignment in Sweden must only pay social security contributions and income taxes on 75% of income. To qualify for this special treatment, the following criteria must be fulfilled:
 - Foreign national;
 - Not resident in Sweden for five years prior to the start of the assignment;
 - Length of the assignment cannot exceed five years; and
 - Employer must be resident in Sweden or a Swedish permanent establishment of a foreign enterprise.

Income includes salary and certain reimbursements; however, reimbursements for relocation expenses, home leave travel (limited to two trips per year per person), and private school fees are tax exempt. The relief is granted for up to three years.

All foreign nationals who intend to remain in Sweden for one year or more and who have a residence permit should register with the social security office immediately upon arrival. Registration at the social security office then entitles residents to health care, cash sickness, and other social security benefits, provided the relevant contributions are made.

A foreign employer who does not have a permanent establishment in Sweden, but has employees working in Sweden, can register with the Stockholm Tax Authority for tax withholding and social

security purposes only. A request can be made to pay the amounts due annually, instead of monthly. Alternatively, if a foreign employer has only one employee in Sweden, that employee can register and handle the estimated tax and social security contributions personally.

All employers who withhold income tax and contributions on employees' wages are required to submit their company income statements to the tax authority.

Swedish Expatriates

Employees sent abroad by Swedish employers are exempt from social security pension contributions if they are not Swedish citizens and not resident in Sweden while the work is performed abroad.

Social Security Totalization Agreements

None of the social security totalization agreements apply to the Swedish required pension plans or other benefits under collective agreements, so exemption from contributions to these programs is generally not possible. Certain expatriates on short-term assignments may be exempt from ITP plan contributions if they can prove adequate pension coverage in their home country. The employer must apply on behalf of its employee for an exemption to the ITPG nämnder (ITPG management board).

United States–Sweden

A social security totalization agreement between the United States and Sweden has been in effect since January 1, 1987. The agreement eliminates dual social security contributions by specifying which country covers an employee for social security, depending on the circumstances and length of transfer. Persons who have worked in each of the two countries, even before 1987, are entitled to combine credits for work in both countries into a single employment record for eligibility purposes. When a pension is claimed, each country pays a proportionate benefit according to its own rules. The U.S.–Sweden social security totalization agreement only covers retirement, disability, and survivors' pensions. Therefore, it does not provide an exemption from any other contributions for social security benefits or benefits under collective agreements.

A certificate of coverage should be obtained from the U.S. Social Security Administration for a U.S. expatriate who intends to remain covered under the U.S. social security system while employed in Sweden. U.S. citizens in Sweden should register at the social security office in order to be covered for health care and social security benefits other than pensions.

European Union/European Economic Area (EEA)

Sweden has been a member of the EU since January 1, 1995. The EU social security totalization agreement, effective since 1971, applies to all 27 EU member countries, as well as the member countries of the EEA and Switzerland. The 31 countries covered by this agreement are:

Austria	France	Liechtenstein (EEA)	Romania
Belgium	Germany	Lithuania	Slovak Republic
Bulgaria	Greece	Luxembourg	Slovenia
Cyprus	Hungary	Malta	Spain
Czech Republic	Iceland (EEA)	Netherlands	Sweden
Denmark	Ireland	Norway (EEA)	Switzerland
Estonia	Italy	Poland	United Kingdom
Finland	Latvia	Portugal	

The EU agreement eliminates dual social security contributions by specifying which country covers an employee for social security, depending on the circumstances and length of transfer. Persons who have worked in one or more EU/EEA countries are entitled to combine credits for work in all countries to establish eligibility for benefits. When a pension is claimed, each country pays a proportionate benefit according to its own rules. Contribution periods prior to the date on which Sweden joined the EU are covered under the EU social security totalization agreement for eligibility purposes.

An employee who remains covered by the social security system of an EU/EEA country while working in Sweden must obtain a Form E 101 from the social security institution of the home country and submit it to the Swedish social security office.

The EU agreement covers pensions, health care, family allowances, and other types of social security benefits, and determines which country covers an employee for which benefits, depending on the circumstances. Generally, for short-term transfers, an employee remains covered by his or her home country for pensions, but is covered by the host country for health care, cash sickness, workers' compensation, etc.

For further details on the provisions of the EU social security totalization agreement and its application, please refer to the *Hewitt Country Profile* for the EU.

Bilateral Agreements

Sweden also has bilateral social security agreements (entered into before Sweden joined the EU) with a number of the EU member countries. These agreements may still be applicable in rare cases where the EU agreement does not apply.

In addition to the EU/EEA agreement, Sweden also has concluded social security agreements with the following countries:

Algeria ¹	Estonia ¹	Slovenia
Australia ¹	Hungary ¹	Switzerland
Bosnia-Herzegovina ³	Israel	Turkey
Canada ² and Quebec ²	Latvia ¹	United States ²
Cape Verde	Lithuania ¹	Serbia and Montenegro ³
Chile	Morocco	
Croatia	Poland ¹	

¹Only covers medical care during temporary visits.

²Only covers pensions.

³Under the treaty with the former Yugoslavia.

The terms of each of these agreements vary.

Nordic Agreement

The Nordic Social Security Agreement covers Denmark, Finland, Norway, Iceland, and Sweden. All Nordic citizens are entitled to the social security benefits of the country in which they reside, without regard to nationality. Nordic citizens visiting another Nordic country temporarily are covered for

medical care by the country they are visiting. This agreement has generally been superseded by the EU/EEA social security agreement with no reduction in benefits.

Required Pension Plans Under Collective Agreements

Foreign Nationals in Sweden

The required pension plans under collective agreements are **not** covered by any of the social security totalization agreements. Therefore, foreign employees working in Sweden must generally be covered under all the collectively agreed pension plans in the same manner as other employees if their position is covered by a collective agreement. Certain short-term expatriates may apply for an exemption from contributions to ITP.

Swedish Expatriates

The general rule is that employees sent to work abroad who receive their pay from Swedish headquarters in Sweden are covered by the relevant collective agreements including the following:

- ITP plan for salaried employees;
- SAF-LO collective agreement pension and AGS plans for wage earners;
- No-fault liability insurance for work injuries (TFA);
- Occupational group life insurance (TGL); and
- Health care insurance (LFU or equivalent).

Exceptions to coverage under the collective agreements may be granted for employees who were not domiciled in Sweden before being transferred abroad or if the assignment abroad is expected to last six years or more.

Health Insurance

Foreign Nationals in Sweden

U.S. citizens with a residence permit for Sweden should register with the local social security office upon arrival, even if they expect to be exempt from social security pension contributions. They are then covered for health insurance benefits in the same manner as other Swedish residents.

Persons covered under the EU/EEA social security totalization agreement can remain covered under their home country health insurance system if they expect to be in Sweden for less than one year. They should obtain a certificate of coverage from their home country health insurance system and submit it to the Swedish social security office.

All other persons in Sweden, who have a residence permit, but do not have a certificate of health insurance coverage from their home country, should register with the local social security office upon arrival.

Swedish Expatriates

Swedish employers covered by collective agreement that maintain employees transferred abroad on the Swedish payroll must provide a specific package of benefits to employees that are transferred abroad. The benefits may be provided by either:

- Purchasing a health insurance policy under a special program (LFU) from one of the seven insurance companies which offer these policies; or
- Self-insuring health care and taking out a guarantee insurance policy.

The employer must cover family members for health care if it has been agreed that the family members will accompany the employee.

Swedish employers are required to provide business travel insurance for employees even for short business trips.

A Swedish employer is required to pay, or top up, cash sickness benefits for salaried employees if the sickness benefit paid by the foreign social security system is less than the Swedish benefit.

Foreign Private Pension Plans and Annuities

Foreign Nationals in Sweden

Under Swedish law, a foreign private pension plan for foreign nationals in Sweden could be either a tax-qualified arrangement or a nontax-qualified arrangement. In Sweden, as in many other countries, the tax treatment of both employers and employees is, in general, more favorable under tax-qualified arrangements than under nontax-qualified arrangements.

As a general rule, a foreign, insured pension plan will be treated as nontax qualified since Swedish law requires that private pension policies be issued by Swedish resident insurers. There are, however, exceptions to this rule. Exceptions include the following:

- An insurance policy issued by a nonresident insurer on or after January 1, 1997 may automatically (i.e., without the need for an official ruling) qualify as corresponding to provisions in tax-qualified Swedish plans and, therefore, receive the same favorable Swedish tax treatment. To qualify for automatic approval, the plan must satisfy various specific requirements under Swedish law.
- The Swedish tax authorities may, upon application, issue a ruling that a pension insurance policy issued by a non-Swedish insurer qualifies for Swedish tax purposes. To obtain such a ruling, the policy's provisions must be generally equivalent to those required for qualification of a Swedish plan.
- Sweden's agreements on double taxation with certain countries provide additional exceptions. For example, under the income tax treaty with the United States, contributions to a U.S. qualified plan for a U.S. national living and working in Sweden may be treated in the same way as contributions to a tax-qualified Swedish plan if (a) contributions for that person were made to the U.S. plan before the employee became a resident of Sweden and (b) the Swedish tax authorities agree that the U.S. plan "generally corresponds" to a tax-qualified Swedish retirement plan.

Taxation

Taxation of Earnings Abroad

If an employee is assigned duties outside of Sweden for more than one year and is considered nonresident in Sweden, income earned outside Sweden is not subject to Swedish taxes. When a resident of Sweden derives income that is taxed in another country, national and local taxes paid in the other country are allowed as a credit against Swedish national and local taxes on that income, up to the amount of Swedish tax attributable proportional to the qualifying foreign income.

Nonresident Taxation

Nonresidents are subject to a special income tax on nonresidents (SINK) on their Swedish-source income. This is a national tax. There is no local income tax on nonresidents.

Persons in business in Sweden are not liable for Swedish tax if their stay is under six months and they receive their income from a foreign company with no establishment in Sweden. Income, pensions, and director's fees paid by Swedish companies are subject to withholding tax. Nonresidents are not eligible for the personal income deductions available to residents. The tax rate is 25%. This income tax is always withheld by the payer, but a special income tax return must still be filed by the nonresident taxpayer by March 31 of the assessment year. However, an application can be made to the National Tax Board for a SINK decision on whether certain income qualifies under the rules for nonresidents.

Under treaties with some countries (for example, the United States), persons are taxed only if their stay exceeds three months and they earn more than USD 3,000 (approximately SEK 23,200).

Nonresidents are liable for the net wealth tax of 0.75% of the value of assets in excess of SEK 1,500,000 (1.5% on real estate). Only assets located in Sweden are counted for nonresidents. Assets include real estate, securities, cars, and bank accounts.

Resident Taxation of Foreign Nationals

Effective January 1, 2001, certain qualified expatriates are taxed on 75% of their income for up to three years (refer to Social Security, Foreign Nationals in Sweden). Foreign nationals who are resident in Sweden for six months or more are normally taxed on their worldwide income in the same way as Swedish nationals (see **Taxation of Compensation and Benefits**). However, tax relief may be available under a double taxation treaty.

If a foreign national has been resident in Sweden for less than a full tax year, he or she may be required to file the special income tax form for nonresidents for the first partial year.

Foreign nationals who are temporarily in Sweden for fewer than three years are not considered residents for the net wealth tax. Therefore, they are not taxed on their worldwide assets.

Benefits such as employer-provided housing and tax equalization payments are taxable income in Sweden. Reimbursements for home leave, relocation, and children's education are tax exempt. Sometimes, deductions can be obtained for increased cost of living in Sweden compared to the home country, but these should be negotiated with the tax authority.

Double Taxation Relief

Sweden has comprehensive treaties for the avoidance of double taxation with the following countries:

Albania	Estonia	Luxembourg	South Africa
Argentina	Faroe Islands	Macedonia	Spain
Australia	Finland	Malaysia	Sri Lanka
Austria	France ²	Malta	Switzerland
Bangladesh	Gambia	Mauritius	Taiwan
Barbados	Germany	Mexico	Tanzania
Belarus	Greece	Morocco	Thailand
Belgium	Hungary	Namibia	Trinidad & Tobago
Bolivia	Iceland	Netherlands	Tunisia
Bosnia-Herzegovina ²	India	New Zealand	Turkey
Botswana	Indonesia	Norway	Ukraine
Brazil	Ireland	Pakistan	United Kingdom
Bulgaria	Israel	Peru	United States
Canada	Italy	Philippines	Venezuela
Chile	Jamaica	Poland	Vietnam
China	Japan	Portugal	Yugoslavia
Croatia ¹	Kazakstan	Romania	Zambia
Cyprus	Kenya	Russia	Zimbabwe
Czech Republic	Korea	Singapore	
Denmark	Latvia	Slovak Republic	
Egypt	Lithuania	Slovenia	

¹The treaty concluded by Sweden and Yugoslavia applies to Croatia, Slovenia, and Bosnia-Herzegovina.

²The French Overseas Departments (Guadeloupe, Guyana, Martinique, and Reunion) are included by an extension of this treaty.

Treaties entered into prior to 1965 with certain countries (for example, Germany), allow “exemption with progression” tax treatment. Under this approach, income that is taxable in another country is excluded from tax in Sweden. However, the effective rate of tax on total income is applied to Swedish-source income. A fee to a director (for example, a French company) is normally not taxable income in Sweden, provided the work is done in France.