

The Orange Envelope and its Equivalent in Other Countries

	Sweden	Chile	Finland	France	Germany	USA
Retirement age	Flexible from 61 on	60 for women 65 for men	62 to 68	From 60 on	63 to 67 (see table in article)	62 to 67 (see table in article)
Target group for annual statement	All who have earned pension credit Projections for those aged 28 and above	Age 20 and above Projections for those aged 30 and above	All aged 18–67, except pensioners Projections for those aged 50 and above	In 2008*: those born in 1950, 1951, 1958 and 1963 Projections for those born in 1950 and 1951	Age 27 and above, with at least five years of pension credit Projection	Age 25 and above Projection
How often is the statement issued?	Annually	Annually	Annually	Annually	Annually	Annually
Is the pension system described in the annual statement?	Yes	No	Yes	No	Yes	Yes
Does the annual statement include benefits other than the old-age pension?	No	No	No	No	Yes, disability pension	Yes, disability pension and survivor benefits
How are contributions to the pension system reported?	Total paid-in contributions plus latest year's contributions equals cumulative value	Opening balance plus monthly contributions less deduction for costs equals cumulative value	Not shown	Annual income and pension points earned	Total contributions by the insured, by employers and by third parties equal contributions during working life	Pension qualifying income per year
Are projections shown in current prices?	Yes	Yes	Yes	Yes	Yes	Yes
How is the insured's future income progression calculated in the projections?	Same as latest income in 0-growth scenario Same as latest income +2 percent per year in scenario of 2 percent growth	Same as latest income	Average of income in last 5 years	Same as latest income	Average of income in last 5 years General growth in earnings of 1 and 2 percent, respectively	Same as latest income
Does the projection include a "guaranteed pension"?	Yes	No	No	No information	No	No
Assumed rate of return on funded contributions	Real return of 3.5 percent in 0-growth scenario; 5.5 percent in scenario of 2-percent growth	Real return 5 percent per year	Not applicable	Not applicable	Not applicable	Not applicable
Cost per annual statement	0.50 €	No information	3 €	0.71 €	No information	0.24 €

* Phase-in of the annual statement in 2007–2011, thereafter a statement of credit earned every five years beginning at age 35 and a projection every five years beginning at age 55.

The Information Challenge

How do you inform an entire population about something when you cannot tell them what they want to know?

BY INGRID KINDAHL, REPORTER ON ECONOMIC AFFAIRS

In that question you can see a dilemma that has resurfaced every year since the Orange Envelope was first sent out to the Swedish population. But the problem does not just lie here. In a growing number of countries, pension authorities are realizing that citizens are entitled to information about their pension credits and to a projection of how large their pension may be.

The difficulties of providing mass information about pensions are on several levels. It is a matter of telling citizens how the pension system works, an especially difficult task in countries with great disparities in education among different social groups. In Chile and the United States, for example, pension authorities have largely given up any ambition of educating citizens at the social levels with the least schooling, and are concentrating instead on the middle-income groups. In Chile, the only country with a pension system where the entire contribution is invested in funds chosen by the insured, an effort has been made to provide a good alternative for those selecting no fund rather than to keep trying to comply with a seemingly impossible obligation.

Most countries also prepare individual pension projections, an easier task with a defined-benefit pension system. But the task is all the more difficult in countries like Sweden which have switched to a defined-contribution system. Sweden is one of few countries, if not the only one, where very young people also receive a projection showing the expected size of their pension. For a number of reasons, most other countries have declined to provide projections for young people.

The main reason is that information on pensions is associated with a notion of educating the populace, or even of contributing to their upbringing. One main purpose of a mass mailing is to urge citizens to supplement their public or national pensions with private pension insurance, and/or to work more. Many countries are grappling with the same problems as Sweden: the average life span is growing longer, and a diminishing number of young people are charged with supporting a growing number of older citizens. The solution is to try to keep people working as long as possible. The annual pension statement is an appropriate vehicle for conveying this message. But if the statement includes a pension projection that a 20-year-old could misinterpret, the effect may be the opposite of what was intended. That conclusion has been reached in Finland, for instance.

Chile has had a fully funded pension system since 1981, but only recently has the country begun to inform its citizens in greater detail on the five funds in which they may opt to invest their pension money. The reason why this has taken so long is related to the limited number of funds from which to choose. In Sweden, the design of the system, with an enormous selection of PPM funds, adds a dimension to informing citizens, who need help in finding their way through the maze of funds from which to choose. So far, Sweden is one of relatively few countries in this situation.

But perhaps not much longer. Several countries are about to reform their systems. And warnings that the current system is not stable are an important element of

the pension information provided in the United States. Similar notes of caution can be found in the German and French pension statements.

If and when these reforms are carried out, pension authorities in the countries concerned will face new trials and perhaps turn to Sweden again as a source of inspiration and guidance. Sweden has spent nearly ten years grappling with the difficulties of providing mass information on something as complicated as the pension system, and several scholarly articles have already been published on the subject. The most recent of these is “Between Educating the People and Giving Them Investment Advice: New Perspectives on the Pension System (Mellan folkbildning och fonrådgivning: Nya

perspektiv på pensionssystemet)” – Institute for Futures Studies, January 2008, Urban Lundberg, ed.

How well are pension statements received by citizens in various countries? Quite favourably, according to pension authorities themselves. In France and Germany, pension authorities refer to high attention ratings, as is also the case in Chile and the US, where the least-educated groups are disregarded. The question is whether these high figures are credible. Most citizens think that pensions are a difficult and boring subject. At least until retirement day appears on the distant horizon.

Information Tailored to Middle-Income Earners

Back in 1981, Chile was the first country in the world to adopt a fully funded pension system. Ever since, its pension managers have been sending out information no less than four times a year to all citizens with employers who have paid premiums, and once a year to those outside the labour market. But only in 2005 did Chile begin including pension projections in the information provided.

The information sent out is individual and includes accumulated pension amounts, the average earnings of the last six months – the basis for the projection – and the number of times in the last 12-month period that premiums have been paid in.

Then two questions are answered: how large will my pension be if I retire at 60 and no further premiums are paid in? and: how large will my pension be if I retire at 60 and my employer continues to pay premiums at the present rate? The answers are given in monetary amounts per month.

In very fine print one can also read that the annual rate of return is assumed to be 5 percent.

In addition, citizens are informed of their right to a guaranteed pension and of where to turn if they wish to make extra contributions and/or to postpone their retirement age.

Different information letters are sent to women and men. The Director of Research at the Chilean Pension Authority (Superintendencia de Administradoras de Fondos de Pensiones), Gonzalo Reyes Hartley, explains

that women have a longer life expectancy than men, that they retire earlier (the retirement age is 60 for women and 65 for men) and that on average they earn less than men, with smaller pension premiums paid in as a consequence. At the same time, Mr. Reyes Hartley emphasizes, the information is individual.

In other respects, the Chilean pension statement stands out as a marvel of clarity. Anyone with a little previous knowledge of pension systems can easily read the information, even with a limited Spanish vocabulary. And according to Gonzalo Reyes Hartley, considerable effort went into making the statements comprehensible. Focus groups were formed to review a draft design in advance of the latest change, when the projections were added.

“The first focus group consisted of people at the lowest levels of society. The idea was that if they understood, everyone would understand. Unfortunately, as it turned out, they could hardly absorb any information at all, even though we had worked very hard to simplify it as much as possible,” Mr. Reyes Hartley noted.

The action taken was not to change the presentation of the information, but to form a new focus group, consisting this time of middle-income earners. Now the reactions were quite different – the information proved very easy to understand.

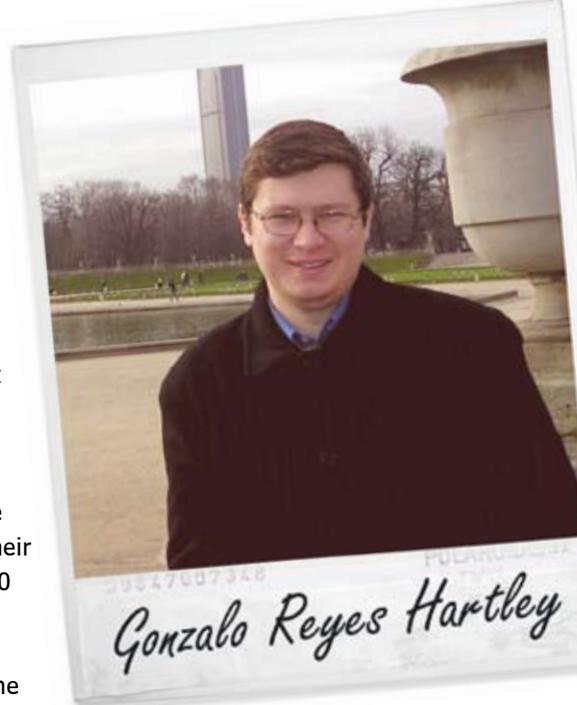
“So what we now send out has been tailored to middle-income earners. We discarded the idea of trying to reach all groups with information about the pension system. It just couldn’t be done,” explained Mr. Reyes Hartley.

The information mailed out is as simple and concise as possible. But for the interested and knowledgeable citizen, there are good ways of finding out more. At the website www.safp.cl, which was launched in November, 2007, those who wish can delve deeper into the details of the pension system; they can also simulate their own pension scenarios with the aid of calculators.

The latest addition to the wealth of information concerns the five funds where pension savers can invest their money. Quite recently the website was upgraded, making it possible to compare these funds with each other and to find out who the managers are, what their planning philosophy is, what administrative costs are deducted and what other funds they manage.

Pension savers are fully free to choose among the five funds, with profiles that differ in regard to the mix of stocks and interest-bearing securities. The pension money of those choosing no fund is invested in the fund or funds that best match the saver's age and income. As these parameters change, changes in the distribution of funds are made automatically.

The Chilean pension system is mandatory for all employees. This means that some 50 percent of the 8 million work-fit citizens of working age contribute to the system in that their employers pay 10 percent of their payrolls as premiums. For the self-employed, who make up between 25 and 30 percent of the labour force, the national pension system is voluntary. The number electing to participate is estimated at only 5 percent.



First Time for the White Envelope in Finland

Finland is now proceeding with its first systematic distribution of information to the public on their future pensions. All who are at least 18 but have not yet reached 68 will receive a white envelope with a history of their pension credit. Every single employment relationship is shown, as are the earnings credited. The reason why it has taken so long to start providing this information is that Finland's pension system was reformed as recently as 2005.

All who have reached age 50 also receive a projection of their future pensions. However, there is no data on the amounts of the premiums paid in by employers. Such information has been considered irrelevant by the Finnish Centre for Pensions (Pensionskyddscentralen), the reason being that paid-in contributions do not affect the amount of a pension, since the pension system is entirely defined-benefit. Officials have assumed that the insured will more likely be interested primarily in what they will receive.

The Finnish Centre for Pensions (Pensionskyddscentralen) has sent representatives to Sweden for a study visit and reviewed the Orange Envelope and the information provided to future Swedish pensioners. On a couple of points, they have chosen to do things

differently from Sweden. First, the colour chosen in Finland is white. The reason is that white is viewed as signifying that the content is important and official in nature, whereas a brightly coloured envelope might be lost in a heap of advertising material. The other main departure from the Swedish information model concerns pension projections.

"We thought it would be smartest to avoid providing projections for young people. There is a substantial risk that any projections would be wrong. Also, for young people the amounts involved are very minor and may give the impression that working does not pay," says Riitta Korpiluoma, Director at the Finnish Centre for Pensions.



One purpose of the pension reform was to give citizens an incentive to postpone their retirement age. Projections of poor pensions could have the opposite effect, in the view of Finland's pension authority.

The pension system in Finland has been highly simplified compared to the old system. For example, it is easy for individuals to calculate roughly how large their pensions will be. Until age 53, it consists of 1.5 percent of each year's earnings. At age 55, the pension is 1.9 percent of annual earnings, and once the individual reaches 63, the percentage is 4.5. Those who have saved their earnings statements over the years can easily check whether all employers are included in the list and whether periods of employment and total earnings are correct. Through simplification and information, the pension authorities hope to raise the general level of knowledge about the pension system. Previous opinion polls have indicated that about 20 percent of the population know how the pension system is designed.

"We want to raise that figure, but we have not set any specific information target. After the first distribution of the White Envelope, there will be further opinion surveys, where we hope to find that the level of awareness has been raised. But from the Swedish experience we realize that we should not expect any major changes," says Riitta Korpiluoma.

In the new system there is the right to appeal a decision by the pension authority and to report employment that is not included on the list. But based on previous experience, no rush to take advantage of these new features is expected. Letters were also sent out under the previous pension system, around 400 000 compared

to almost 3 million this time. In the old model, about 1.7 percent of those reached by the information contacted the authorities with questions or requests for changes. Roughly the same frequency of questions and complaints is expected now.

In the future, Finland's pension information will need improvement, in regard to the pensions of central government employees, for instance. For the next few years, these employees will not receive a White Envelope. The reason is that the central government as an employer has been providing information over the Internet for some time, and has dismissed the idea of a letter as old-fashioned. Of course all the information is available to any citizen on the Internet, and with a calculation function that enables the user to prepare personal pension projections. The Finnish Centre for Pensions has submitted a proposal where citizens in the future could decline to receive a White Envelope and instead obtain all information from the Internet.

Also, there is no information about the guaranteed pension, called the "folkpension" in Finland. As the level of this pension is dependent on income, half of all pensioners receive no guaranteed pension.

The Finnish pension system is partly funded and partly a pay-as-you-go system. But it is entirely defined-benefit, thus facilitating projections. The insured have no say in how their moneys are invested. Surpluses from the funded part of the system are used to smooth out differences in contributions between good and less prosperous years.

France now Beginning to Provide Mass Information

In 2007 information on France's national pension system was sent out on a mass scale for the first time. All citizens born in 1957 and 1949 received letters with information on their pension credit and a projection of future pension disbursements.

Subsequently, everyone turning 35, 40, 45 and 50 will receive information on pension credit. In addition, projections will be provided to all reaching 55. This supplementary information will also be sent out every five years until retirement.

The first mailing was preceded by two years of intensive preparation by the pension authority, Caisse Nationale d'Assurance Vieillesse (CNAV), for there are no fewer

than 36 different pension agreements in France, and previously there was no co-ordination between them. It was thus necessary to collect addresses and a considerable quantity of information from employers, a task that proved to require considerable time and labour.

The information mailed out to citizens is detailed. There is an example of a woman born in 1957 who receives a statement of no less than seven pages. The first page is designed as a personal letter to the insured, in which she is told what will be reported on the remaining six pages and who are responsible for the mailing. Page 2 is probably the easiest to read – here there is a projection in euros per month in two different scenarios: retirement

at 60 and 65, respectively. Explanations follow showing how the figures were arrived at. They are based partly on the assumption that the current income will remain the same for the rest of the individual's working life, partly on a number of hypotheses about the development of the country's economy. But the hypotheses themselves are not presented. This is followed by a report on the number of working periods in which pension credit has been earned. The credit is not shown in monetary terms, but in thirds of a year and in points.

Otherwise the letter contains a list of employers and earnings year by year, followed by explanatory text in which the insured is urged to check the data provided and to contact the authority in case of any errors.

The information distributed is supplemented by a website, www.info-retraite.fr, where anyone can perform calculations and simulate the effect of different retirement ages and levels of income. On the web there is also a lot of information on the pension system itself. France uses a pay-as-you-go system, but discussions are in progress on the question whether the demographic trend may force the country to adopt a fully or partly funded system in the future. The Government considers it important to prepare citizens for such a change. Consequently, the differences between a defined-benefit system and a premium-based one are clearly explained, as are the advantages and disadvantages of each.

It is said that the principal purpose of the enhanced information is to urge citizens to find their projections and to supplement their public pensions, if necessary, with private pension insurance.

According to Chantal Jaffeux, Director at CNAV, surveys have shown that the information sent out has been well received by the public. There are figures showing that 91 percent of those asked had read the information mailed

to them; half had skimmed through it, half had examined it in detail.

But even those who had just given the information a cursory glance and then put it aside had read some of it. And 90 percent found the information easy to understand, according to Mme Jaffeux.

Since those who receive the mailing are urged in the letter to contact the authority if they discover any errors, a call centre was set up and opened a few days before the first mailing reached its addressees. The centre had to receive 35 000 calls, a low figure in light of the 1 700 000 letters sent out. The explanation:

"Prior to the first mailing, we kept a very low profile in our publicity. Since we were afraid, quite simply, that we would be swamped by phone calls, we avoided all kinds of campaigns. We did not have the resources to handle a flood of calls," explains Mme Jaffeux.



Many Errors Corrected

Not unexpectedly, the United States is a giant in information on pensions, at least in terms of quantity. Citizens receive 145 million pension statements each year, or 500 000 per day, from the printer in Miamisburg, Ohio. Everyone who has reached 25 receives a two-page report with data on pension credit and general information on how the pension system works. Persons who have reached age 55 are sent an additional two pages with projections of the expected amount of the

pension. The information also includes a specification of pension-qualifying income earned in each year of work.

The printed information is supplemented by a highly informative website where anyone who is knowledgeable and interested can find all kinds of information about the pension system and other social security systems.

The US has a pay-as-you-go system and thus does not need to consider return on capital when projections are



made. But the current pension system is not regarded as stable, and pension statements contain information on how that can affect the size of a pension. Discussions on the design of a new system are going on almost constantly.

Jim Courtney, Vice President for Communications of the

Social Security Administration, the US pension authority, believes that citizens generally understand the information that is sent out. With focus groups, the statements have been tested from time to time for ease of understanding ever since they were first distributed in 1999. Special attention has been paid to wording, and over the years there have been certain changes and simplifications – though no major ones.

It is important that the information be easily understandable, particularly considering that the authority’s data on individuals not infrequently contain errors. Citizens have the right to appeal and to request changes if they discover that the data on pension-qualifying earnings, for example, are wrong. And such corrections are made fairly often, according to Mr. Courtney.

There is no longer any specific information target. There used to be one, but it proved very difficult to live up to.

”Previously, we tried to measure how well the public received the information, but we have stopped doing that. Now our objective is vaguer – to raise the level of awareness of how the pension system works. We fully realize that if and when we reform the system, information will be one of our greatest challenges,” says Jim Courtney.

That is no obstacle to setting a high level of ambition. The pension authority (Social Security Administration) has three objectives for public relations, although their attainment is not measurable. They are as follows:

Information should give citizens an incentive to check their data from time to time and to correct them when necessary. It should encourage citizens to review their personal finances and their overall saving. It should prompt them to examine their insurance coverage in the

event a family breadwinner should get sick or die prematurely.

In addition to the printed letter and the highly informative website, the personnel of the Social Security Administration play an active part, by writing articles in the local press throughout the country, for example.

”In my opinion, the result of our efforts has been that people know more about the pension system in general and about their own pensions today than they did ten years ago,” concludes Jim Courtney.

Higher Retirement Age

Birth cohort	Age in years + months		
	United States	Germany	Sweden*
1937	65	65	65
1938	65 + 2	65	65 + 2
1939	65 + 4	65	65 + 2
1940	65 + 6	65	65 + 3
1941	65 + 8	65	65 + 3
1942	65 + 10	65	65 + 4
1943	66	65	65 + 5
1944	66	65	65 + 6
1945	66	65	65 + 8
1946	66	65	65 + 9
1947	66	65 + 1	65 + 10
1948	66	65 + 2	66
1949	66	65 + 3	66 + 2
1950	66	65 + 4	66 + 2
1951	66	65 + 5	66 + 4
1952	66	65 + 6	66 + 6
1953	66	65 + 7	66 + 8
1954	66	65 + 8	66 + 9
1955	66 + 2	65 + 9	66 + 10
1956	66 + 4	65 + 10	66 + 11
1957	66 + 6	65 + 11	67
1958	66 + 8	66	67
1959	66 + 10	66 + 2	67 + 1
1960	67	66 + 4	67 + 1
1961	67	66 + 6	67 + 2
1962	67	66 + 8	67 + 2
1963	67	66 + 10	67 + 3
1964	67	67	67 + 3
1970	67	67	67 + 7
1980	67	67	67 + 11
1990	67	67	68 + 2

* Sweden is a special case in that there is no legislated retirement age in the earnings-related pension system. However, the 65-year limit has been retained in certain associated systems. The age indicated here is the retirement age required to maintain a generally unchanged pension level. Unlike the information on “necessary retirement age” in the table on page 35, consideration is given here to the phase-in of the new system by twentieths for birth cohorts 1938–1954.

Germany's Pension System Facing Change

Since the reform of the German pension system was launched in 1992, citizens aged 27 and above have received an annual letter containing information on their pension credit earned up to that time, a projection of their future pensions in two different growth scenarios and their retirement age. The latter differs according to generation, as Germany has decided in recent years to raise the retirement age step by step.

The letter also contains information on the contributions paid in on behalf of the individual. The amounts are specified both in euros and in pension points, the basic parameter in the projection.

In addition, individuals are informed on the potential effect of inflation on their future pensions. The effect is illustrated in a specific calculation showing the change in the value of 100 euros by the time of the individual's retirement, assuming an inflation rate of 1.5 percent.

Germany has a pay-as-you-go system where employers and employees each provide half of the pension contribution. Not even in its present form, after several successive changes since 1992, is the pension system considered robust enough to ensure the social security of citizens following retirement.

"One of the main reasons for sending out information is therefore to show in black and white that the public pension will not be sufficient, and that everyone will need to supplement it with private pension insurance," says Jürgen Ehler at Deutsche Rentenversicherung Bund, the German pension administration.

The reasons for the shortcomings of the German pension system are well known: Fewer and fewer work-fit people of working age are having to support a growing number of the elderly and ailing.

"Contributions to the old pension system were rising at an accelerating rate, and something had to be done to stop that tendency. Now the increases in premiums have come to a halt, but this also means that pension disbursements will be lower in the future," explains Jürgen Ehler.

At present, Germans who retire receive a public pension just over 50 percent of their earned income. This figure is expected to drop to around 44 percent for those retiring in 2030.

The information from the pension authority has been found to be easily understood by the public. Studies have been conducted to measure whether the message has been received, and the figures show that the material is widely and well understood. According to Dr. Ehler, only 2 percent of German citizens report that the information is too complicated for them to understand. Consequently, there are no plans to improve or otherwise change the information provided.

It makes no difference whether the recipient of the information is a man or a woman, young or old. The only distinction is that those born before 1946 receive a projection based on the assumption of zero growth. Those born between 1947 and 1951 receive two projections: one is based on zero growth, the other on the assumption of 1-percent growth. Persons born after 1951 also receive two projections, with respective growth assumptions of 1 and 2 percent.

As in many other countries, the system in Germany allows individuals to correct any mistakes in the information in their pension statements, and provides ample opportunity via a website, www.driv-bund.de, for them to obtain more detailed information on the pension system in general and their own pensions in particular.

In the pension letter, German citizens are urged to put their own affairs in order and to open private pension savings accounts. The government encourages this partly by offering tax deductions for pension saving, and partly through a private individual pension plan, the "Riester-Rente," which entitles the individual to a more generous tax reduction than other saving programmes.

New reforms are on their way in Germany. They are intended to create a more sustainable pension system.

