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Finnish Centre for Pensions, Reports

# Summary

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## Pension insurance and pensions for self-employed persons in Sweden

Differences and similarities compared to Finland

In this report we examine the pension insurance of self-employed persons and the basis for earnings-related pension accrual in the Swedish social security system. We look at how the Swedish pension system for the self-employed developed, as well as how pensions for the self-employed are currently organised in Sweden. We also examine and compare the number of self-employed persons and how their pension insurance is organised in Finland and Sweden, as well as what their financial situation is.

The pension systems in Finland and Sweden both consist of a residence-based basic pension and an earnings-related pension. In Sweden, statutory earnings-related pensions for the self-employed are part of the general pension scheme, while in Finland, they are governed by special pension acts (the Self-employed Persons' Pensions Act [YEL] and the Farmers' Pensions Act [MYEL]).

In Sweden, social insurance for the self-employed is closely linked to income taxation for the self-employed and the F-tax system. In Sweden, the F-tax system of preliminary taxation largely determines who is taxed and who is obligated to pay preliminary

tax and social insurance contributions on employment. In Sweden, the Swedish Tax Agency collects social insurance contributions and also determines the amount of income for which pension accrues. In our report we extensively review the F-tax system and how it affects the way in which pension provision is arranged in Sweden.

Swedish entrepreneurs and co-owners of trading companies pay social insurance contributions on the surplus from active business activities. The right to earnings-related pension accrues based on this surplus. The earnings-related pension of a self-employed person in a limited company accrues from the wages drawn from the company. The company withholds the social security contributions (employer's share) from the wage paid to the self-employed person. In Finland, self-employed persons who are subject to YEL/MYEL earn a pension and pay contributions based on their confirmed income which is based on the work input of the self-employed. In Finland, a self-employed person who works in a limited company and owns a maximum of 30 per cent of the share capital or the voting rights based on those shares is governed by the Employees Pensions Act (TyEL).

The data examined in this report reveals that the income which the self-employed person's statutory pension is based on is lower, on average, than the income which the wage-earner's earnings-related pension is based on. In Sweden, the earnings-related pension of self-employed persons who work in limited companies accrues based on wages drawn from the company, so they are included among the wage-earners in our data. In Sweden, the income which the benefits for self-employed persons in limited companies are based on seem to be higher than the income of entrepreneurs. In both countries, a self-employed person's earnings-related pension can also accrue from various combinations and alternations of paid employment and self-employment.

In Sweden, as in Finland, attention has been paid to adequate pensions for the self-employed. Among other things, the focus is on the level of the surplus in the taxation of self-employed persons and the level of the wage drawn by self-employed persons in limited companies when comparing the pension accrual of the self-employed with those of wage-earners. Other topics of discussion include the compensation of the labour market pension that supplements the statutory earnings-related pension and whether other pension saving is sufficient for self-employed persons.

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