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The Individualised Swedish Pension System

A qualitative study on foreign-born women's retirement planning

By

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Abstract

The Swedish pension reform in the 1990s introduced several individualistic features and a debate has emerged on the implications of the structure and if policymakers behind the reform had unrealistic assumptions on economic behaviour. Given the potential negative implications of the current structure and the projections on how foreign-born women is at risk of receiving future low pensions, a qualitative study was done focusing on the individual reflections on how some foreign-born women perceive their future retirement and how they navigate when making pension-related decisions. Primary data was collected from four in-depth interviews with foreign-born women and was later analysed using bounded rationality and heuristics to give meaning to their reflections and put in context with the literature. The findings suggest that the participants had not reflected upon their future retirement to a great extent, that their navigation when making decision is done in informal ways, and that the communication of information from the state is vital in retirement planning.

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TABLE OF CONTENTS

1. INTRODUCTION	1
1.1 RESEARCH PROBLEM	2
1.2 AIM AND SCOPE	3
1.3 THESIS OUTLINE	3
2. BACKGROUND	3
2.1 THE PENSION REFORM.....	3
2.2 THE CURRENT STRUCTURE.....	5
2.3 IMPLICATIONS FOR FOREIGN-BORN WOMEN	7
3. THEORY	7
3.1 LITERATURE REVIEW	7
3.1.1 <i>The Swedish pension system</i>	7
3.1.2 <i>Misjudged assumptions</i>	9
3.1.3 <i>Focus group: foreign-born women</i>	11
3.2 THEORETICAL APPROACH	12
4. METHODS AND DATA	14
4.1 RESEARCH DESIGN.....	14
4.2 METHOD	15
4.3 DATA.....	16
4.4 DATA ANALYSIS	16
5. EMPIRICAL ANALYSIS	17
5.1 RESULTS	17
5.1.1 <i>The role of information</i>	17
5.1.2 <i>Communication of information</i>	18
5.1.3 <i>Comparing with others</i>	19
5.1.4 <i>Uncertainty and worry</i>	20
5.1.5 <i>Being a woman and foreign-born</i>	20
5.2 DISCUSSION.....	21
5.2.1 <i>Reality of decision-making</i>	21
5.2.2 <i>Heuristics</i>	23
5.2.3 <i>In a bigger context</i>	24
6. CONCLUSION	25
REFERENCES	27
APPENDIX	32
QUESTIONNAIRE.....	32

List of Figures

Figure 1. The structure of the Swedish pension system (Euraxess, 2022)	5
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1. Introduction

The Swedish pension reform in 1999 marked a shift in welfare policy where responsibility was transferred from the state to the individual and the new mechanisms were put in place because the system had to be restructured given its financial unsustainability (Palmer & de Gosson de Varennes, 2018). It was argued that the new system would increase the labour supply and encourage retirement planning by introducing several mechanisms to do so, and the current pension system has been praised for solving issues the former was incapable of solving (Kruse & Ståhlberg, 2020). However, the methods used to increase the labour supply and incentivise labour force participation have had different outcomes for different socioeconomic groups in Sweden (Flood & Mitrut, 2010). The current structure has two defining aspects; the first is the life income principle which refers to the fundamental principle that every earned SEK contributes to one's pension and it was introduced to incentivise labour force participation (Kruse & Ståhlberg, 2020). The second is the increased level of responsibility which is shown in how the insured needs to be more active in retirement planning, e.g., by the introduction of the possibility to allocate pension rights in funds, and the expansion of time used for calculating the finalised pension (Harrysson & Werner, 2014). The purpose of the pension reform was justified, but from policymakers' viewpoint the assumptions of how the reform would be perceived and how people make decisions about their retirement has been questioned (Werner, 2012). It has been argued that many of the assumptions made by politicians regarding how the pension reform would be perceived by the people and about how people make financial decisions were not representative for the population (Nyquist, 2008). It has been debated that policymakers' assumptions about ordinary citizens were influenced by a neoclassic economic view, based on the idea of people being entrepreneurial and rational economic agents who appropriately act on information (Nyquist, 2008). This view of people from policymakers in the pension reform has been criticised in Nyquist (2008) as well as in the analysis of how the political intentions behind the reform has been met by the people in (Harrysson & Werner, 2014; Werner, 2012).

Although it can be argued that the reform was necessary, the aspects of the new system can have different effects for different groups. The current academic and political assessment is that foreign-born women is a group at risk of receiving low pensions in the future. There are many

factors that contribute to this possible outcome; lower levels of labour force participation and employment in low-paying industries being two influential ones (Flood & Mitrut, 2010; Statistics Sweden, 2012; Sjögren-Lindquist, 2017). To improve the situation, and to avoid significant differences in pensions between different socioeconomic groups, attention to the topic is vital. Some studies show that the increased importance of extensive labour force participation on future pensions can have disavouring effects for people arriving in Sweden at a later age (Harrysson, Montesino & Werner, 2016). The life income principle, which serves as a tool to incentivise and reward labour force participation, simultaneously adversely impact migrants (Harrysson, Montesino & Werner, 2016). A dilemma for the Swedish welfare state lies between rewarding long working lives through sufficient pensions in line with the life income principle, whilst also ensuring provision for resource weak members in society. To summarise, foreign-born women's pensions need to be improved, and considering that assumptions about how people make pension-related decisions in the individualistic system might be based on an unrepresentative economic model illustrates the importance of the topic.

1.1 Research problem

The individualisation of the pension system led to more responsibility being placed on the insured in the retirement planning process. This was a political intention based on the concept that making people more responsible in their retirement planning would incentivise labour force participation, as well as increase feelings of control and influence. Policymakers had assumptions about certain economic behaviour considering how citizens would react to the individualistic features in the new system and how they would make pension-related decisions. Their view was in line with the neoclassical economic thinking of the time; namely that ordinary people were entrepreneurial, and able to make sound and rational decisions in their retirement planning. The issue is that while these assumptions might not be incorrect, decision-making in something as complex as retirement planning is difficult, and the scholarly debate indicate that people do not necessarily make decisions as the neoclassical viewpoint suggest. The focus should be placed where it is needed, and the current assessment is that foreign-born women are the at-risk group for receiving low pensions in the future. Because people's behaviour in retirement planning is central in this topic, attention should therefore be placed on how individuals from the at-risk group behave in retirement planning.

1.2 Aim and scope

Therefore, the aim of this thesis is to shed light on individual reflections and experiences concerning retirement planning from foreign-born women. This knowledge can contribute to the literature that lacks a specific focus on individual reflections from individuals within this group. Their reflections can also contribute to the existing qualitative research on the potential negative implications of the individualised pension system, and the potential disparity between policymakers' assumptions regarding citizens' economic behaviour and the reality of human decision-making. To gain this knowledge, the following research question will be analysed:

What are foreign-born women's perceptions of their future retirement, and how do they navigate when making financial decisions concerning their pension?

1.3 Thesis outline

This thesis is structured in the following way: The first section provides background information on the pension reform and the structure of the Swedish pension system. The subsequent section presents relevant literature and the theoretical approach used in this thesis. The following section covers the methods and data, further explaining the research design. Finally, the results are presented and analysed using the theoretical approach of bounded rationality and heuristics contextualised with other scholarly work, ending with concluding remarks on what the research has found.

2. Background

2.1 The pension reform

The reformation of the Swedish public pension system came with several changes and implications. It is clearly stated in the governments' proposition to introduce the new pension system that the new structure would be more robust for economic and demographic changes

than its predecessor (Proposition, 1993/94:250). Regarding the financial instability of the former system, the proposition explains that it had issues with the redistribution mechanisms from the working population to the pensioners. This issue stemmed from a combination of economic factors, conditions in the labour market, and demographic factors. The latter factor significantly gave rise to the restructuring of the system. This is because, as in the case of many industrialised countries, Sweden being no exception, the longer life expectancies and increases in the share of the elderly population puts increased pressure on the working population (Proposition, 1993/94:250). It can also be read in the proposition that there were issues with the indexation of pensions because it used income-level indexation, which made the future costs of pensions heavily reliant on the economic development of Sweden (Proposition, 1993/94:250). In other words, the former system was not financially robust for economic changes, it was unsustainable, and was not responsive to changing demographics.

In the government proposition (1993/94:250), it is clearly stated that the new system aims to stimulate the labour supply through the fundamental life income principle, which the public income-based pension system is based on (The Swedish Pension Agency, 2022a). In the former system, one could receive a full public income-based pension after only 30 years of employment, and the final-salary rule meant that the finalised pension was derived from an average of the 15 best paying years (Kruse & Ståhlberg, 2020). Nowadays, to receive an adequate pension, the system encourages and presumes longer employment, and with the abolishment of the final-salary rule, the importance of total wage history has increased. Another essential component in the current system is its individualistic features, where responsibility has been transferred from the state to the individual (Werner, 2012). The political expectations regarding how the restructuring of the pension system would be perceived by the public were the following: that people would experience that they received an adequate pension in relation to previous employment, a better understanding of the protective measures, more influence and control over their pension, and an increased interest in retirement planning (SOU, 1994:20). The life income principle paired with the new possibility to individually allocate a portion of the income-based pension in selected funds were two individualistic features introduced.

2.2 The current structure

The following section will describe how the Swedish pension system is constructed. It consists of three parts: the national income-based pension, the occupational pension, and the private pension (The Swedish Pension Agency, 2022a). The Swedish public pension is referred to as a notional defined-contribution scheme and it is not financed by the tax base. The structure makes it self-sufficient and when people receive contributions to their pension, the pension rights fictively enter each individual account, but are actually being transferred to fund the current retired population. At retirement, an individual receives their accumulated public pension based on the individuals' wage and employment history. The occupational pension is an additional form of pension plan, which employers cover for their employees. Because of strong unionisation in Sweden, nine out of ten employees are covered by what is called the employers agreement and an occupational pension is nearly always included in the employers agreement (The Swedish Pension Agency, 2022b). The private pension is an optional addition if the individual has covered a private form of retirement saving. The figure below illustrates the structure of the pension system in Sweden.

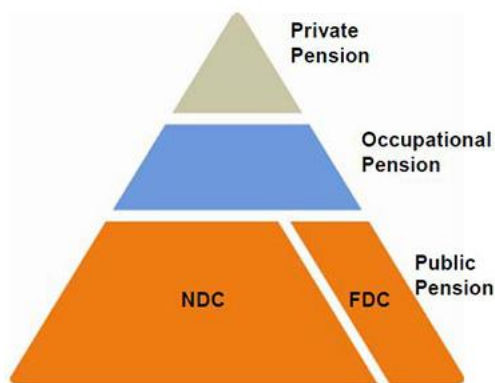


Figure 1: Structure of the pension system (Euraxess, 2022)

The Swedish Pension Agency (2022a) explains how the structure works. The public pension consists of the *Non-financial Defined Contribution* (NDC) and the *Financial Defined Contribution* (FDC) where up until a certain monthly income, 18.5% of ones' salary is fictively put into two accounts, out of which 16% is fictively placed into the NDC and 2.5% in the FDC (The Swedish Pension Agency, 2022a). In the NDC, the accumulated amount is adjusted through the yield interest, that has been 3.1% since 1995 (The Swedish Pension Agency, 2022d). The FDC is where individuals have the option to invest a part of their pension in funds and this section is often referred to as an individualistic feature introduced in the pension

reform. The next part, the occupational pension, significantly contributes to an individuals' finalised pension; as much as 94% of the gainfully employed 25–64-year-olds receive contributions to their occupational pension (ISF, 2018). ISF (2018) also highlight that even though a significant share of the employees in Sweden are covered by an occupational pension plan, the ones who are not covered are often foreign-born and/or people with low income.

If pensions are inadequate, the state offers what is called the basic protection which mainly consists of three separate government transfers (The Swedish Pension Agency, 2022c). These transfers are not part of the financing of the pension system, but they are a part of the state budget funded from the tax base. People can be eligible for different parts of the basic protection, and the term refers to the overarching financial protection for low-income pensioners. Eligibility for the guarantee pension, which is the most common one, is based on the amount received in public pension, marital status, and time of residency in Sweden (The Swedish Pension Agency, 2022c). Non-married individuals are eligible if they receive less than 12794 SEK per month before taxes, and a full guarantee pension can amount to 8779 SEK per month. For married people the income limit is 11389 SEK, and they can receive 7853 SEK per month. It should be mentioned that marital status also includes the categories cohabitation and having children which can affect the transfers' size (The Swedish Pension Agency, 2022c). The agency writes how another requirement is that the time of residency in Sweden must be over a minimum of three years, and to receive a full guarantee pension the time of residency must amount to 40 years between the ages of 16 to 64 years old. The amount is deducted proportionally, with 1/40 per missing year. The second tranche of the basic protection is the housing supplement, which is a tax-free transfer for low-income retirees with the highest possible amount being 6990 SEK for non-married, and 3495 SEK for married or cohabiting people (The Swedish Pension Agency, 2022e). In the application for the housing supplement the agency simultaneously reviews the persons' eligibility for the financial support for the elderly. The financial support for the elderly is granted to non-married and non-cohabiting people that, after paying for housing costs, have less than 6181 SEK per month to live on and for married or cohabiting people, that number is instead 4972 SEK (The Swedish Pension Agency, 2022e). These limits are referred to as the decent living standard level, and this transfer covers the amount needed to reach just that; a decent living standard. Data from The Swedish Pension Agency (2022e) from January 2022 on facts about the basic protection show that

662 800 people received some form of guarantee pension, 292 700 people received the housing support for the elderly and 24 000 received the financial support for the elderly.

2.3 Implications for foreign-born women

On the one hand, the current system has been praised for solving the issues in the former system, where the solutions to the economic and demographic challenges have been the incentives to participate in the labour force (Kruse & Ståhlberg, 2020). On the other hand, even though the reform was necessary, the extended time frame of calculating ones' pension can have asymmetrical effects for foreign-born individuals (Harrysson, Montesino & Werner, 2016). Combining this fact with the assessment that foreign-born women make out the group at risk of receiving low pensions mentioned in Flood and Mitrut (2010), illustrates the importance of finding solutions to the situation. In addition, the group struggles with high unemployment compared to the national average: 22.8% compared to 8.2% in 2021 (Statistics Sweden, 2021), and female foreign-born pensioners are disproportionately reliant on the basic protection (The Swedish Pension Agency, 2022f). These facts alone serve as reasons for research focusing on the potential issues with the current pension system and investigating how retirement planning is done from the group at risk. However, the acuteness becomes even more severe when put in context with findings suggesting that, not only can the political intentions behind the reform be criticised because its misconception of how the reform would be perceived (Harrysson & Werner, 2014) but also given the debate whether assumptions on pension-related economic behaviour are inaccurate (Nyquist, 2008).

3. Theory

3.1 Literature review

3.1.1 The Swedish pension system

Palmer and de Gosson de Varennes (2018) acknowledge that the introduction of the new system in the late 1990s was a response to demographical changes. The new structure was introduced to create a more equal distribution between generations; the earlier structures' redistribution

mechanisms were more favourable for high paying positions at older ages, typically held by white-collar males than blue-collar jobs within, e.g., the health care sector usually held by women (Palmer & de Gosson de Varennes, 2018). Interestingly, the authors and Ståhlberg (1990) argues that the previous system needed to be replaced considering the unequal outcomes of the redistribution effects and the current system have corrected many faults, but as seen in Harrysson, Montesino and Werner (2016) the current system can potentially have adverse redistribution effects on those entering the labour market at a later age. They critically discuss how the life income principle makes it difficult for migrants, because of their later entry on the labour force, to gather sufficient amounts of pension rights to receive an adequate pension. Foreign-born individuals who arrive in Sweden at working age naturally miss out on several years, alongside the fact that little below half of the newly arrived Swedes had a job after five years of arriving in 2011 (Regeringskansliet, 2018). This indicates that the integration process takes time and combining this with the implications of the individualised pension system, the new system can have disfavoured effects for foreign-born individuals because of their later arrival and later labour market integration. This illustrates the complexity of the issue since Palmer and de Gosson de Varennes (2018) and Ståhlberg (1990) highlights the more equal outcomes in the restructured system, whereas Harrysson, Montesino and Werner (2016) captures how the new system can have adverse redistribution effects. The former systems' structure had asymmetric distribution outcomes between the genders, whereas the current may cause the same asymmetry but for foreign-born and native-born, especially so for women. Constructing a pension system that suits everyone is of course unattainable, labour market participation had to be incentivised, but as seen, later arrival in Sweden has implications on future pension.

Kruse and Ståhlberg (2020) captures several aspects of the pension reforms implications. They elaborate on the debate how the transformation from a defined-benefit to the notional defined-contribution system, with the life income principle, premier the healthy, strong, and able individuals. They highlight that one can argue that the individualised system can disfavour resource weak members in society but their counter argument toward this notion is that many of the existing welfare transfers are pensionable, meaning the social transfers received when unable to work contribute to the finalised pension. They continue with arguing that the purpose of the pension reform was to shift responsibility to individuals since it would encourage labour force participation and individual choice – which are mechanisms to respond to demographic

changes. The trade-off conflict between incentivising labour force participation whilst ensuring financial security for resource weak citizens is a never-ending dilemma for the Swedish welfare state. In light of this, a political debate has blossomed concerning pensions and stemming from this trade-off conflict the government proposed to introduce an increase in the basic protection for retirees with low incomes (Regeringskansliet, 2022). Improving the financial situation for struggling pensioners is of course an ambition from both political spectrums and Lundberg (2022) captures the different views of how to do so. He writes that the proposed increase in the basic protection decreases the respectable distance which is a term referring to the difference in pension income that an entire working life brings and a pension income solely from the basic protection. A retiree who has during their working life accumulated a pension income of 18 000 SEK only receives 1 700 SEK more than someone who has not accumulated any pension rights at all after taxes, note that in this calculation, the housing support for the elderly was included but an occupational pension was not (Lundberg, 2022). One can argue that strengthening the basic protection simultaneously weakens the integrity of the life income principle, and that a decrease in the respectable distance undermines the integrity of the notional defined-contribution structure. The Swedish Pension Agency (2022f) reaches a similar conclusion where they discuss how an increase in the basic protection could in fact compromise the life income principle because of the high marginal effects of welfare transfers. Fairness for retirees can be seen from several viewpoints – keep the distance between working and non-working finalised pensions at a respectable distance to reward long working lives, or make sure resource weak members in society have a decent life as a retiree.

3.1.2 Misjudged assumptions

Nyquist (2008) captures the core in the debate in whether the assumptions of economic behaviour behind the reform were mis-aligned with reality. She interviews both bureaucrats and politicians very familiar with the introduction of the current pension system, and “ordinary” citizens to get both perspectives. She states that the current pension system was a product of its time of economic neo-liberalisation and describes that the dramatic policy change within the Swedish welfare model concerning pensions was in contrast to previous ways of thinking. In one interview with a person involved in the construction of the new pension system, Nyquist (2008) is told that the introduction and use of the term financial stability, which was argued to be missing in the former system, was synonymous with distributing all risks to the insured. The

part of the public pension that is manageable, the FDC, is supposed to provide control and influence over ones' pension which is an explicit individualisation of agency and transfer of responsibility (Nyquist, 2008). She explains and refers to the government bill on the pension reform where it was stated that the purpose of yearly communication to individuals on their pension through the infamous orange envelope would provide information that could be acted upon, to e.g., form a private pension saving, and used to make retirement decisions. Furthermore, the yearly communication is seen as a necessity for individuals to be able to make pension-related decisions in a system which is more individualised and where the insured experience more choices and more risks (Nyquist, 2008). She continues by stating that the contents in the orange envelope is from policymakers seen as a governance tool where the education of the citizens on the importance of lifelong employment and how to become profitable actors on the financial market. Finally, she expresses the issue with policymakers potentially inaccurate view of the "ordinary" citizen, which guided and shaped social policy. This ordinary citizen is instead an ideal type of person drawn from the assumptions in traditional economic theory who is an entrepreneurial and responsible citizen making rational economic decisions (Nyquist, 2008). Her work gives insight in what the thought-processes within the political arena was and contrasts it to how some people perceive the reform, which is not how the politicians thought. The interviews show that some people in the study felt betrayed and that they were left to fend for themselves if they could not complement their low pensions with a private one. The policymakers' intentions behind the pension reform and its ways to inform citizens on how to make sound rational decisions on retirement planning becomes an essential factor to account for when analysing the implications of the individualised pension system.

On the same theme, Harryson and Werner (2014) set out to investigate how the political intentions driving the reform process in the 1990s has been met by the people. Their findings suggest that the fundamental assumption in the current system that people are determined and able to make sound financial decisions concerning something as complex and abstract as pensions, does not correspond to reality. The individualised aspects are not seen as promoting control and influence over future pensions which Werner (2012) also concludes when analysing how the pension reform has been perceived. People feel uncertainty, worry and lack of self-confidence and trust because of the individualisation of the system. Many also claim that their financial situation has been worsened by e.g., the abolishment of the final-salary rule (Werner, 2012). She concludes that it is apparent that their choices, or lack of, are a consequence of these

negative emotions which limits their capabilities to make the sound and “rational” choices about their pension - which the system expects. The behavioural economics field show that emotions heavily affect decision-making, and in general the field opposes the view on humans as rational optimising agents (Kahneman and Tversky, 1979; Hayashi, 2001). The literature also shows how emotions and financial literacy strongly affects risk-tolerance (Bayar, Sezgin, and Faruk Özrürk, 2020). The concept of risk is a crucial component in the FDC part of the public pension system because it was argued from policymakers as Nyquist (2008) showed that the option to allocate a part of the income-based pension in funds would bring feelings of control and influence. However, as Werner (2012) showed in her interviews, that for at least some individuals the FDC component in the current pension system is not seen as a source of control and influence on future pensions. Consequently, this leads to the intriguing reflection that if assumptions from policymakers on how people make decisions, e.g., with the use of the orange envelope, is not met by the same enthusiasm from the insured as policymakers hoped for, then the effectiveness of the individualised pension system can be questioned and putting it in context with the current at-risk group is highly relevant.

3.1.3 Focus group: foreign-born women

Both from the academic and political field, the current assessment is that foreign-born women are at risk of receiving low pensions in the future (Flood & Mitrut, 2010); Statistics Sweden, 2012; Sjögren-Lindqvist, 2017; The Swedish Pension Agency, 2022f). Many factors contribute to this reality where according to the above-mentioned authors, weaker engagement on the labour market and employment in low paying industries are two contributing factors. One can predict that this reality will consequently lead to a great need for the basic protection for foreign-born women if their pensions are inadequate, and The Swedish Pension Agency (2022f) examines this possibility. They show that firstly, there is a significant disproportional reliance on the basic protection for retired foreign-born women compared to native-born women, and secondly, that significant origin-of-birth discrepancies exist within the group. The most striking results were for foreign-born women from Africa and Asia, where a total of 38% did not receive any income-based pension and was solely reliant on the basic protection. The same percentage for females born in the Nordic region and EU countries, and other remaining countries amounted to 3% and 20% respectively, compared to only 2% of native-born women who relied solely on the basic protection. In addition, The Swedish Pension Agency (2022f) reports’

analysis illustrates that in Sweden, the share of foreign-born elderly will increase, especially from the group Africa and Asia – the group who is the most reliant on the basic protection. In addition, Scott and Tegunimataka (2020) showed that given the current migration flows, in 30 years little more than 30% of the newly turned 65-year-olds will be foreign-born. So, this group will increase in size which makes the topic even more necessary to study to prevent the negative development.

When considering Harrysson and Werner (2014) and Nyquist's (2008) findings, the component of how foreign-born women perceive retirement-planning and understanding their decision-making is important to improve the situation. That is missing in the literature, and the attention on individual experience may result in preventing low pensions for foreign-born women and reducing their dependency on the basic protection. Some studies on the non-native individual retirement reflections have however been made, like Harrysson, Montesino and Werner (2016) who when analysing male and female migrant perspectives on retirement planning concluded that there is a frustration within this group. Pension and retirement planning is of course heavily influenced by wage history, and the authors found that these individuals' prior work experience are being disregarded, that there are issues with labour market integration programmes, and that the difficulty to enter the labour market all contributes to their frustration. Considering the rather acute situation and that there is little research on foreign-born women's perspective on retirement planning and perceptions about their pension, there is a great need to understand their decision-making and putting it in context with the literature.

3.2 Theoretical approach

To understand the retirement planning process from the individuals, and the literatures expressed concern over what assumptions policymakers had on how the individualisation of the pension system would be perceived, the use of bounded rationality is relevant. Bounded rationality was first introduced by Nobel prize winner Herbert Simon in the mid 1950s, and his work has mainly been on the revision of assumptions in human decision-making. He argued that the neoclassical economic theories portrayal of humans as ideal decision-makers are not realistic (Simon, 1955; 1956; 1990). The portrayal of humans in economic modelling as ideal decision-making agents who are entirely rational, having perfect access to information and being consistent in their strive to self-interested goals is, according to Simon, not an accurate

description of humans. His argument is that humans are flawed in their decision-making whereas opposed to the Homo Economicus view on humans as optimisers, in bounded rationality, people are instead viewed as satisficers (Simon, 1956). The term is a combination of satisfaction and suffice which in decision-making refers to the explanation to why people make sub-optimal decisions given humans' inability to have access to perfect information. They strive for outcomes that will suffice and are satisfactory for the time being.

The limitation in human decision-making is mainly due to their cognitive limitations and their imperfect information together with time constraints (Simon, 1955). He writes how human cognitive limitations refer to people's inability to have a stable system of preferences where they rank different payoffs between different choices which are assigned a probability, which in neoclassical economic theories is presumed. The term cognitive limitations do not refer to lower levels of intelligence but to describe people's inability to process information in an optimal manner where every available factor is accounted for in the decision-making process. Simon (1955) writes how people having access to imperfect information is a more realistic stance to have when understanding decision-making, and he argues that the difficulties in decision-making centres around the degree of uncertainty of what the outcomes will be and especially so because of the gaps in knowledge. People are incapable of assessing all the relevant information to make a decision that optimises their level of utility (Simon, 1990). The final pillar in the concept of bounded rationality refers to the importance of time. People often face time constraints and especially when making complex decisions like retirement planning, where to live, which partner to marry and so on. One can argue that it is an unrealistic view that people can gather the relevant information and assess probabilities of outcomes because of the time-aspect, that they cannot spend too much time on certain decisions. These three assumptions condense into the notion that humans are satisficers instead of optimisers and that decision-making is more complicated than neoclassic economic theory suggests.

The introduction of bounded rationality has laid the foundations for several model extensions in different fields. The development of heuristics, which is an extension of bounded rationality theory, are mental shortcuts that people use when making decisions - they use rules of thumb - and heuristics will be used in the analysis. Tversky and Kahneman (1974) identified a heuristic referred to as the representativeness heuristic which helps people to make decisions by matching an event with something they have experienced. If an experience is similar in an

aspect, the decision-maker thinks that it is representative for other aspects instead of understanding the importance of sample sizes. Another heuristic is the retrievability of instances which suggest that experiencing an event or a phenomenon instead of e.g., hearing it on the news combined with if the experience occurred recently makes the event or phenomenon easier to retrieve and use to make a decision (Tversky and Kahneman, 1974). It is "fresh in mind" and can bias the decision-making because an event is no less accurate because one heard it on the radio instead of experiencing it, and it is also no less accurate if it happened yesterday or two years ago. The retrievability of the event affects decision-making. Therefore the model extension by Tversky and Kahneman (1974) and their work on heuristics will also be used in the analysis because it can explain and give meaning to the study-groups' decision-making and behaviour in retirement planning.

4. Methods and data

After reviewing the literature, it is evident that foreign-born women are at risk of receiving low pensions in the future, which in itself signals the importance of placing attention on their retirement planning. However, the severity compounds when considering the potential negative implications of the individualisation of the pension system. The neoclassical economic influence on how the Swedish welfare state changed in the 1990s as mentioned by Nyquist (2008) and the assumptions on how individuals would change their behaviour under the individualised pension system motivates the inquiry of choice. Given that the responsibility has been transferred to the individual, and it is expected that people are more active in their retirement planning motivates the appropriateness to focus on individual reflections on pensions and retirement planning from the at-risk group.

4.1 Research design

To get the individual perspective from foreign-born women, the choice was made to conduct in-depth interviews with individuals from the group at risk. This motivated the choice to pursue with a qualitative approach where the focus was on their individual experiences. An inductive strategy was chosen where the aim was to make meaning of the participants reflections by

categorising the responses in different themes. The themes can therefore illustrate what their experiences have in common which can be understood through the use of theory and put in relation to previous work which puts their reflections in the bigger context of the individual aspects of the pension system.

4.2 Method

An inductive strategy was applied to allow themes to emerge naturally while still remaining within the parameters that were set in the interviews (Bingham and Witowsky, 2022). Therefore, a semi-structured interview technique has been used where the formation of the questionnaire was drawn from what was relevant in similar studies using a qualitative approach on retirement planning. The semi-structure enabled follow up questions to be asked, and in line with Creswell's (2009) acknowledgment of the researchers' role in qualitative research, potential biases and preconceptions were reflected upon. His example on how biases in interviews can affect the research was that potential follow-up questions can be determined by the interviewer's preconceptions on the level of knowledge of the participants. To the greatest extent possible, any presumptions on knowledge of pension systems for the group foreign-born women were put aside. A total of four interviews were conducted and the researchers' personal network was used to identify suitable participants for the study. The subjects in this study were chosen dependent on their origin of birth and age with the purpose of getting a diverse set of experiences and reflections. Their origin of births ranged from eastern Africa, the middle east and south-eastern Europe and their age ranged from the late 20s to the mid 60s.

Before each interview, the subjects were informed that they would not need to collect documents related to their own pension, they just had to show up. They were not given the questions beforehand since the purpose of the interviews was to capture their initial reactions and responses. To get the most out of each interview and to make them feel comfortable the interviews took place at the location of choice of the participant. They all were conducted in the city of Uppsala where one was in the city library in a secluded area, and the remaining three were conducted in a closed and separate room at the place of work of each participant. The first interview took place at the city library the 5th of May 2022 at 10:11 and took 45 minutes, the second interview took 45 minutes and was conducted at the participant's place of work the 5th of May 2022 at 15:10, the third interview was conducted at the participant's place of work the

6th of May 2022 at 09.59 taking 30 minutes, and the final interview was at the participant's place of work taking place the 6th of May 2022 at 13.08 and it took 1 hour and 10 minutes.

4.3 Data

The choice of data to understand individual reflections from the focus-group foreign-born women in their retirement planning is highly relevant. The primary data that has been collected is therefore valid and relevant considering what the thesis aims to analyse. Notes were taken during the interviews and the conversations were recorded and later replayed which prevents misinterpretations and enables the identification of themes and reoccurring aspects. As always, it is relevant to reflect upon limitations in the data collected. The questions that were asked influences the responses from the participants which steer the identification of themes. However, the use of a semi-structured approach allows for individual reflections and follow up questions to be asked while maintaining within the subjects of the questions. In addition, given that the choice of inquiry has explicitly focused on individual experiences on retirement-planning the representation of the primary data collected does not claim anything more than clearly stated. In other words, the thesis aims to focus on individual reflections on retirement planning and perceptions of pensions for some foreign-born women.

4.4 Data analysis

The way the data will be analysed is a result of the previous literature's indication that assumptions on economic behaviour might not correspond to how decisions are made. The primary data will be presented in identified themes in the result section which in the subsequent discussion section is analysed through the bounded rationality lens with the use of heuristics to understand the focus group decision-making. Such a structure can provide explanations to the participants behaviour and contribute to the literature.

5. Empirical Analysis

This chapter is separated with a result section and a discussion section. The result section will present the identified themes and the discussion section will give meaning to the results by analysing the material from the bounded rationality approach and model extension of heuristics together with the literature. The referencing of the interviews will be done in the following way: Whenever the reflection of a new participant is introduced they will be briefly be presented as well as their context and will from there on be referred to as either Participant 1 (P1), Participant 2 (P2), Participant 3 (P3) and Participant 4 (P4). This is done to ensure the anonymity of the participants.

5.1 Results

The themes are constructed and categorised from what was the most essential aspects from each interview, and the themes give direct answers to the research question. The most important topics that came up in the interviews regarding perceptions of future retirement and navigation in pension-related decisions were the role of information, the communication of information, comparisons with other pensioners, feelings of uncertainty and worry and finally some general reflections on women and foreign-born individuals in this context.

5.1.1 The role of information

The importance of information of the pension system and retirement planning was a reoccurring theme in the interviews. Participant 1, a 28-year-old who arrived in Sweden nine years ago from the eastern parts of Africa explicitly explains that information about retirement planning is the key. She explains about a turning point in her level of perception and reflection of her future retirement where it was the acquiring of information that initiated a thought-process. When asked if she actively had reflected on her future pension, she states that her mindset was that her employer would take care of her pension. She goes on to admit that she knows very little about the Swedish pension system and the turning point was a gradual process beginning with talks in her workplace about the industries low pensions. She says that at the time she did not know if it was true or not. In addition, through her work, she met elderly retirees with different

pensions, and she was beginning to understand through talking with these individuals how a life as a retiree in Sweden can look like. Gradually it became clear to her that in her line of work, the salary would consequently lead to a relatively low future pension, and together with her interactions and obtaining of information through conversations she started to reflect more of her situation. She understood that the elderly with an education were living a different life as a retiree than the ones without or who had previously worked in, e.g., the health care sector. She explicitly states that it was the increased level of information which led to better knowledge of retirement planning and understanding of the pension system that led to her decision to apply for a university programme with better pay and improved future financial circumstances, not only for herself but also for her children. Improved information led to this decision.

On the same theme, but in a different stage in life, Participant 2 is a woman from Bosnia who came to Sweden as a 36-year-old who shared her viewpoint on retirement-planning and pension systems. She came to Sweden in the beginning of the 1990s and has been working in the educational sector for most of her time in Sweden. She is retiring this year, and when asked if she wishes that she would have done anything different in regard to her retirement planning, she admits that she would like to have had a private pension-saving. When asked why that is, she explains that her knowledge about the Swedish pension system and the importance of time in retirement planning is significantly better nowadays than what it was when she first arrived. The role of information is also covered in the interview with Participant 3 who is in her late 50s and came to Sweden in her 20s from Iran. On the same question if she wishes to have done anything differently regarding her retirement planning, she highlights the importance of a private pension-saving. She states that would her knowledge about pensions and retirement planning be at the current level when she was in her 20s, she would have formed a private pension-saving. In both interviews, they currently have more information now than what they had when they were younger, and they would therefore have made other pension-related decisions.

5.1.2 Communication of information

The interviews reveal that although information is necessary in retirement planning, the communication of information is as essential. Participant 2, the woman retiring this year explains how the digitalisation has been crucial for her and her knowledge about the pension

system. When asked whose responsibility it is that people know about the pension system and about retirement planning – if it is the state or the individual – she responds that it is both. The information must be provided, she says, which it is through The Pension Agency's website and the annual statement in the orange envelope, and people must have an interest and search for it. When asking Participant 1, the youngest participant, on whose responsibility it is that people are aware of pension-related topics, she firmly explains how the responsibility lies on the individual. She says one must be interested and search for the information. When asking Participant 4, a woman in her late 40s who came to Sweden in her early teens from Turkey about the communication of information her response gives insights on the implications of the communicative method of the orange envelope. She admits that she does not like to open the annual pension-related statement and sometimes she simply has not done it. She continues with highlighting that especially for immigrants, not necessarily for herself, it can be challenging to understand what the information says and how to make use of it. She has difficulties understanding why others, and to some extent herself, has such an emotional reaction to the information in the orange envelope, she admits that it is not rational. On the communication method of the orange envelope, Participant 1 expresses how for some it would be beneficial to be able to talk with The Swedish Pension Agency to be able to utilise the content in it. The communication of the information is equally as important as the existence of it.

5.1.3 Comparing with others

Another reoccurring theme from the interviews was how much these individuals when reflecting on their future retirement used other people as a reference. When asking Participant 4 how she envisions her future life as a retiree, she claims that she does not want to be prevented in how to live her life by her pension. She has met modestly living retirees and reflected on their living situation and concluded that it is the opposite to what she wants. Similarly, the thought-process from Participant 3 is similar. She explicitly states that she wants to be financially independent, which to her is somewhere in between retirees she has met living a "luxurious" lifestyle and a "poor/modest" one. Her perception of her future retirement is heavily influenced by the perceived level of income from retirees in her surroundings. Participant 1 had the same reflections as the previous ones where her perception of her future retirement was negatively influenced by the modestly living pensioners she had come across, more so than the ones in a better financial situation. All these participants perception of their own future

retirement is affected by the comparison of the perceived level of income of the pensioners in their surroundings have. This is used as a reference to how they perceive their own future retirement.

5.1.4 Uncertainty and worry

In the interviews another common denominator was feelings of worry of the future pension and uncertainty of what the future life as a pensioner would be like. Participant 2, the woman retiring this year explains that she feels financially secure the first 10 years of her retirement but is uncertain and worried of the period after. Similar concerns are raised by Participant 3, the woman in her late 50s who ambivalently expresses worry and uncertainty over her pension even though she together with her husband have determined that she is financially secure. Participant 1, the youngest woman who is far away from her retirement do express some worry of her future pension which is mainly due to the pay in her industry, which will lead to a rather low pension, and the interactions with pensioners. Similarly, Participant 4, the woman in her late 40s, when asked what she knows about the Swedish pension system, expresses feelings of uncertainty and lack of control. She expresses in a concerned manner that she does not know how to think about her pension, and that she has no influence over it which also brings feelings of worry and uncertainty. All the participants express uncertainty over their situation but over different things in different contexts.

5.1.5 Being a woman and foreign-born

Some participants voiced their general reflections of how aspects like retirement saving and integration is different for groups in Sweden. In the interview with Participant 1, she explained that for women especially, the motivation and ability to integrate in Sweden is heavily affected by age. She explains that from her experience, older women are less likely to learn the language and find a job because of discouraging and oppressive social norms. Although she believes that these kinds of norms have changed and women's role in society is not as restricted as before, the importance of age in, e.g., labour market integration still exist. She says that it is not the case for everyone. The already mentioned importance of understanding the contents in the orange envelope is further explained by Participant 4. She believes that Swedish people have more knowledge of pension-related topics than immigrants. Her view is that the communicated

information through the orange envelope can for some people with roots in other countries be challenging to understand which causes the dismissal of it. A language barrier and the content can for some be challenging, but again she expresses the absurdity in the psychological distress the orange envelope causes. Participant 2, the woman retiring this year also brings up the aspect of the work included when arriving in Sweden as a refugee. She expresses how it can be very time consuming to search for information on pensions and how to include the time living outside of Sweden in ones' insurance time which affects, e.g., eligibility amount of the guarantee pension. She states that there are many other priorities when in such a situation which is why the time it takes to gather the information can be down prioritised. Being a woman and being foreign-born can affect retirement planning and the acquiring of information.

5.2 Discussion

The individualisation of the Swedish system was done to transfer responsibility to individuals that would incentivise labour supply to correct for the faults in the former system and encourage interest and engagement in retirement planning (Nyquist, 2008). The political intentions behind the pension reform were that people would better understand what to expect in their future pension and an increased feeling of control and influence (Harrysson & Werner, 2014). This thesis findings suggest that individuals from the at-risk group of receiving low future pensions do not express particular control over their future pension, that their perception of it is heavily influenced by using other pensioners as a reference point, and that they show no significant strategy for their navigation when making financial decisions concerning their pensions. The following section will cover how this thesis results analysed using the bounded rationality theory and heuristics connects to the literature by illustrating how they interplay. Therefore, the discussion separates the results into different subheadings depending on the content

5.2.1 Reality of decision-making

Participant 4's expressed lack of control and influence over how to think about her pension represents a vital aspect of the thesis findings. The neoclassical theoretical assumption on human behaviour conflicts with people's actual decision-making given their cognitive limitations, the imperfect information and time constraints. The policymakers argued that Swedish citizens in the reformed pension system would experience control and influence over

their pension. A way to reach this objective was the use of the communication method the orange envelope (Nyquist, 2008). In theory, the orange envelope provides the necessary information to the citizen which can help their decision-making. If feeling lack of control and influence over one's pension, the information in the orange envelope can be used to give an overview of the situation. The potential mismatch between policymakers view on economic behaviour as mentioned in Nyquist (2008) and what influences decision-making is shown in this example with Participant 4. In practice, as Participant 4 expressed, she understands that the contents are good for her, in an abstract way at least, and she also admits that it is not rational to have such an emotional reaction to the orange envelope. However, she admits that she sometimes has skipped to open the envelope. She expressed a lack of control and influence over her pension, and policymakers believed that the orange envelope can be a solution to those feelings, to increase feelings of control and influence. She understands that the content is good for her, but she does not want to open the orange envelope anyway.

Bounded rationality can provide meaning to this phenomenon. Simon (1955; 1956; 1990) explained how the difficulties in decision-making centers around the degree of uncertainty because of the gaps in knowledge. The idea of the orange envelope as a communication method was supported by assumptions in line with a neoclassical economic view - where pension-related decisions could be made using the content of it – but as bounded rationality suggests, those assumptions on human decision-making are faulty. Bounded rationality explains why she does not want to open it because lack of decisions, in this case the decision not to open the envelope or use the information in it, is often a consequence of gaps in knowledge and Participant 4 expressed that she does not know how to think about her pension and what she can do to influence it. Why bother opening the orange envelope if the information cannot be utilised. However, one can argue that the information in the orange envelope can be used to fill that gap, but as the thesis' results indicate, although access to information is essential in retirement planning, the communication of it is equally as important. Therefore, the results using bounded rationality's explanatory power to decision-making can support the indication that policymaker's assumptions on human behaviour in retirement planning can be viewed as faulty as found in Nyquist (2008) and Harrysson and Werner (2014). People are not rational economic agents who act on provided information. They fail to make decisions because, or make suboptimal ones, because of the gaps in knowledge that are not necessarily filled with an annual statement about one's pension.

5.2.2 Heuristics

What affects these foreign-born women's perception of their future retirement is how they perceive the level of income pensioners in their surroundings have. Participant 1 had a negative perception of her future retirement because of her interactions with retirees from her place of work. Using Tversky and Kahneman's (1974) representativeness heuristic one can understand her perception. As a young person, the chance of interacting with retirees is low, and especially a diverse set of pensioners with different backgrounds and different levels of income. When Participant 1 was asked how she perceives her future pension, instead of using an approach where the importance of sample sizes is incorporated in the thought process, she took a mental shortcut and referenced her view of how a typical retiree's pension can look like to what she will have in the future. She did however acknowledge how from her interactions with retirees the level of education seemed to affect a retiree's pension, which is most likely the case. However, the low-income retirees she had met could have made choices in their life that affected their pension which she was not aware of, which affected her perception of what an ordinary retiree receives in pension. Therefore, the perceived low-income retirees she had met had a more substantial effect on her. Interestingly, Participant 1 made a choice to influence her pension because of these interactions and the pay level at her work. So, her "failure" to apply the importance of sample size when determining how a life as a retiree in Sweden can look like influenced her choice to apply to university with better pay and thus a better future. In Participant 1's case, her future time as a pensioner is far away and can thus be very abstract but the use of a reference influenced her decision-making. Decisions on retirement planning was in this case not done through a neoclassical economic view, but more in line with how people are satisficers who act on imperfect information and use heuristics to make choices.

Combining Participant 4's reflections on the communication of information and Participant 1's decision to improve her future pension illustrates how pension-related decisions are taken. Tversky and Kahneman's (1974) work on representativity heuristic and retrievability of instances when applied to Participant 1's decision-making process shows that individual experiences of a phenomenon, in this scenario interactions and experiences with perceived low-income retirees, seems to have a stronger effect on decision-making than e.g., the abstract information in the orange envelope. When not knowing how to think about pensions or how to influence it as Participant 4 stated, the information is not perceived and acted upon as policymakers believed it would, also found in Nyquist (2008). The idea to encourage

engagement and interest in retirement planning is, as analysed of the interviews through bounded rationality and heuristics show, not necessarily done through state communication of information about pensions. These four interviews align with the notion that individual experiences and personal interactions are more practical to pension-related decision-making than abstract communication of information. When making pension-related decisions, navigation is done through informal ways where the source of information is experiences and interactions, instead of the state communicated information.

5.2.3 In a bigger context

The general reflections from some participants of how being a woman and foreign-born in the context of retirement planning identified the importance of how information is communicated. Considering how The Swedish Pension Agency (2022f) demonstrated how foreign-born women is disproportionately reliant on the basic protection and the assessment that foreign-born women is at risk of receiving low pensions, the findings from this study illustrates the importance of communication of information. It is especially crucial considering how this thesis findings suggest that navigation in pension related decisions is more in line with how economic behaviour is seen from the bounded rationality viewpoint and Tversky and Kahneman's (1974) use of heuristics. This is in contrast to how the political intentions behind the pension reform and how people would react to the increased level of responsibility as seen in Harrysson and Werner (2014) and Nyquist (2008). The mechanisms used to incentives labour force participation in the structure of the current pension system might be based on preconceptions of decision-making that not only is misrepresentative for society but has the least effect on foreign-born individuals because of how the language barrier in communication of information can have an obstructing effect. The life income principle can as argued in Harrysson, Montesino and Werner (2016) disfavour people entering Sweden at a later age, which from the interviews also show that age of arrival – especially for women – can obstruct labour market integration. For foreign-born individuals it can be especially difficult to use the information in the orange envelope which is seen as a mechanism to improve feelings of control over future pensions. The participants in this study were all successful and employed, but as the assessment show that is not the case for everyone. The idea behind the current structure and how certain mechanisms in place to both incentivise labour force participation and improve feelings of influence and control are not harmful in themselves, and they are useful for maintaining the

financial reliability of the system, but the behaviour in retirement planning is not as rationalised as suggested and can be different for different socioeconomic groups.

6. Conclusion

The Swedish pension reform in the 1990s was necessary to respond to the economic and demographic changes of the time. The mechanisms introduced to incentivise labour force participation were done through individualising the system where responsibility was transferred from the state to the individual. Behind the justification for the transfer of responsibility were assumptions on how the pension reform would be perceived by the insured and how people would make pension-related decisions, influenced from a neoclassical view of economic behaviour. Given this background, this study aimed to shed light on the at-risk group of foreign-born women's reflections on their future retirement and how they navigate when making pension-related decisions. Because the literature indicates that policymakers' assumptions on individual decision-making might be unrepresentative and that foreign-born women are falling behind in pensions, a qualitative approach and conducting in-depth interviews was an appropriate approach. Themes from the interviews were created to identify reoccurring aspects, which were later analysed using bounded rationality theory and heuristics to explain their decision-making in retirement planning and putting it in relation to the literature.

The thesis findings suggest that these foreign-born women's perception of their future retirement is influenced by their experiences and interactions with retirees in their surroundings. Experiences with retirees with a perceived low pension-income had a more substantial effect and were used to reference how they view their own future retirement. The use of a reference is also apparent in their navigation when making pension-related decisions. In addition, the results indicate that the participants have not reflected upon their retirement greatly and do not express feelings of control and influence over their pension. The participants who were relatively closer to retirement gave insights into how easy it is to be wise in hindsight in retirement planning. Access to information is essential, but the findings also suggest that the communication of information from the state is equally as important. The participants expressed that the responsibility in retirement planning, and the role of information, lies on both the state

to provide it, but also on the individual to have an interest to find and use it. When analysed through bounded rationality theory and heuristics, these findings explain that the communication of pension-related topics through the orange envelope is not seen by the participants as a decision basis and that it does not bring great feelings of control and influence. The use of theory when analysing their decision-making shows that their retirement planning is not based on a particular strategy and that uncertainty and worry are common perceptions of their pension. Their decision making is better understood through bounded rationality and not through neoclassical assumptions on economic behaviour.

This thesis findings matters because foreign-born women are the at-risk group for receiving low pensions and if the assumptions of economic behaviour in retirement planning are unrepresentative for most citizens, then the methods for improving the situation might be misaligned with reality. This thesis has contributed to the literature on retirement planning and taken a particular angle focusing on foreign-born women. Future research could improve the knowledge base by focusing on foreign-born women but with a more extensive dataset specifically aimed to identify how being a foreign-born woman influences retirement planning and if there is a lesson to be learned. The scope of this research did not allow too extensive data sets to be gathered and therefore, and because of the relevance of the topic, more extensive studies having a bigger scope should be made to improve the situation for the group at risk. This thesis findings have contributed to an area in the academic field that is not heavily investigated, and it could give insights to if other measures need to be implemented regarding retirement planning and pensions to attain an equal pension distribution between groups in the Swedish society.

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Appendix

Questionnaire

Tell me about yourself and your background

- Country of birth, arrival in Sweden, labour market experience in Sweden and potentially in your home country

Can you go through your working life in Sweden?

When are you planning on retiring?

- When did you start to think about retirement?
- Have you actively planned financially for it, savings etc?

How do you perceive your future retirement, does it feel financially secure or insecure?

How have you learned about the Swedish pension system?

- Do you feel like you have gotten enough information from the authorities or have you reached out to family or friends?

How involved have your family been in your retirement preparation and if so in what way?

Now that retirement is getting closer (asked to older participants) is there something you wish that you would have done differently?

- Is it something you wish Swedish authorities would have done differently?

Are you looking forward to your pension?

Is it something else you would like to bring up?