Handbook for ITP and the book reserve method

This handbook describing ITP and the book reserve method was produced to help you learn about book reserved pension plans, and in particular how this works for ITP. It is not intended for you to read the whole book "from cover to cover", but instead to use it as needed.

The handbook consists of the following sections:

- An introduction to occupational pension with a focus on ITP, as well as the stakeholders involved in book reserved ITP plans
- Book reserved pension plan
- ITP 1 and ITP 2
- Credit insurance for ITP 2
- Accounting and taxation for ITP 1 and ITP 2
- International accounting for pension liability according to standards such as IAS 19 and US GAAP
- Summary of PRI's offerings and our web portal

Contents

PRI Pensionsgaranti is a mutual non-life insurance company providing administrative services and credit insurance for pension plans where the book reserve method is used.

Introduction

Occupational pensions

In addition to the state pension, most employees also have occupational pension that is provided by their employer.

For salaried (white collar) employees in the private sector this pension plan is called ITP (Industrins och handelns tilläggspension, Industry and commerce supplementary pension). ITP is based on a collective agreement from 1960 between the Confederation of Swedish Enterprise and PTK, the Council for Negotiation and Cooperation, a joint organisation of trade unions. Many employees covered by the plan are still earning their pension. Others have already left the labour market and are receiving their pension. Anyone who has earned a pension at a company having ITP retains their vested pension, so-called paid-up policy, even if they switch to a sector with a different occupational pension agreement.

There are two versions of ITP. The oldest version is ITP 2 which covers those born in 1978 or earlier. ITP 1 covers those born in 1979 or later.

ITP pension can be financed in two ways:
- For ITP 2, premiums are either paid to Alecta or the company manages its pensions using the book reserve method, and in this case, PRI Pensionsgaranti provides credit insurance and serves as administrator for the pension.
- ITP 1 pensions can also be managed using the book reserve method and in this case the company creates its own ITP 1 plan which its employees can choose.

PRI Pensionsgaranti

PRI Pensionsgaranti is a mutual non-life insurance company focusing on occupational pension. It is owned by the member companies. PRI dates back to an agreement creating the ITP system in 1960. PRI Pensionsgaranti is operated on a non-profit basis and its core focus is book reserved ITP 2 pension plans.

PRI Pensionsgaranti gives companies an option to manage their retirement pension commitments using the book reserve method. We do this by providing credit insurance and administration services. Book reserved pension plans allow the plan assets to stay on the company's books. The company reserves the funds on an ongoing basis as a provision on its balance sheet and/or places them in a pension foundation. The capital is the same as the present value of earned pension benefits. The pension liability grows with interest and indexation, and decreases as the pensions are paid out.

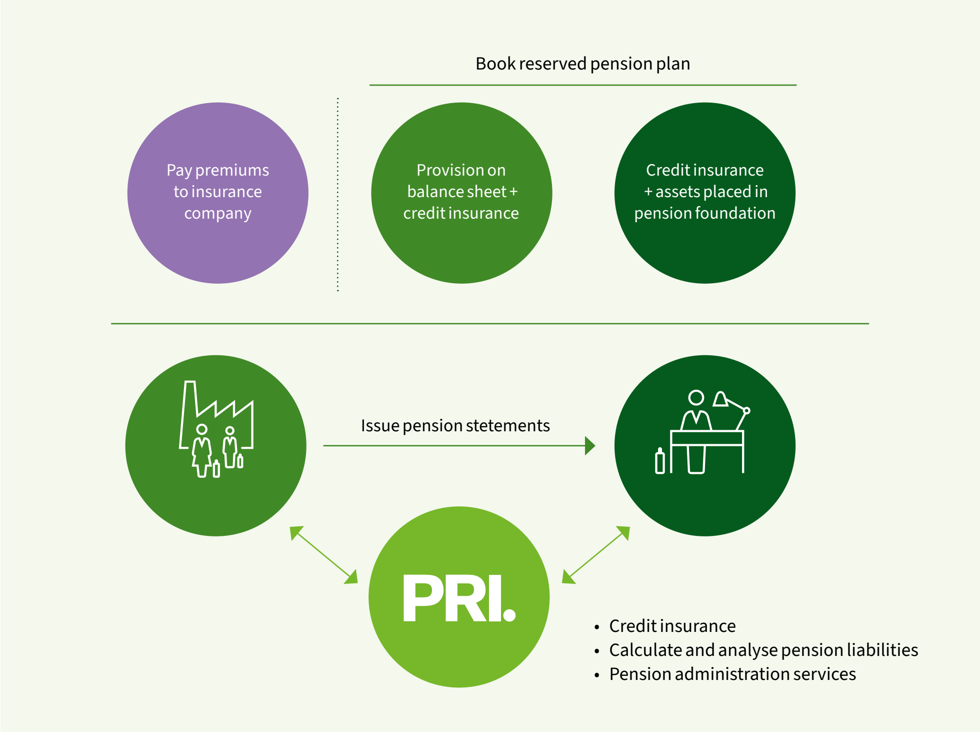
Book reserved pension plan

With book reserved pension plans the plan assets stay on the company's books and serve as long-term capital. The company does not start paying off the pension liability until an employee retires. Companies are required to have credit insurance to safeguard the pensions in case the company should become insolvent.

The systems cornerstones are a long-term approach and stability, at the lowest possible cost.

Effective partnerships

The company reports its ITP data on a continuous basis to Collectum. The data includes employees' salary and time of service. PRI calculates the company's pension liability based on this data. PRI has instructed Avtalat to send pension statements to the employees and Alecta to make the pension payments.



PRI Pensions- och stiftelsetjänst

Our subsidiary PRI Pensions- och stiftelsetjänst offers services to book reserved pension plans:

- Actuarial services
- Consultancy services
- Pension services
- Foundation services

ITP stakeholders

Alecta

Alecta is a mutual occupational pension insurer that manages ITP plans on behalf of the Confederation of Swedish Enterprise and PTK, the Council for Negotiation and Cooperation.

→ Read more at alecta.se

Avtalat

Avtalat offers information and advice to employers and employees on occupational pension plans and insurance policies. Avtalat was set up by LO (Labour Organization, PTK (Council for Negotiation and Cooperation) and the Confederation of Swedish Enterprise.

→ Read more at avtalat.se

Collectum

Collectum administers ITP occupational pension for companies and insurance companies. Collectum advise the insured parties about earned benefits and administers the insured companies ITP and ITPK choices. Collectum is owned by the Confederation of Swedish Enterprise and PTK (Council for Negotiation and Cooperation).

→ Read more at collectum.se

PRI Non-profit Association

The PRI Non-profit Association (PRI ideell förening) is independent of PRI Pensionsgaranti. The association sets the parameters for calculating the pension liability in book reserved ITP 2 plans. It was founded by the Confederation of Swedish Enterprise, Unionen and Ledarna. Svensk Handel is also a member. The association's board has representatives from the companies that offer book reserved ITP 2 pension plans.

→ Read more at foreningenpri.se

Book reserved pension plan

Book reserved pension plan

When the book reserve method is used, the pension plan assets remain on the company's books until it is time to pay out the pension. Hence, the plan assets will be a source of long-term capital. At the same time the employee's pensions are safeguarded through a credit insurance.

The pension commitment is recognised as a liability on the balance sheet. The company starts paying off its pension liability when an employee retires. Through credit insurance, PRI guarantees that the employees will receive their pension even if the company becomes insolvent. The company can also safeguard its pension commitments by placing plan assets in a pension foundation.

Why offer book reserved pension plans?

If the pension plan assets invested by the company provide good returns, direct gains will arise.

There are also other reasons to choose the book reserve method:

- Access to long-term capital.
- Increased transparency around pension provisions, administrative costs and tax on returns, i.e. cost items that are equivalent to paying retirement pension premiums to an insurance company.
- Alternative to other forms of pension provision, such as life insurance.
- Control of capital and direct pension plans managed by companies themselves.

Book reserved pension plans – two alternatives

With the book reserve method, the company recognises a pension liability on its balance sheet. The company can also transfer all or part of the pension assets into a pension foundation.

On the balance sheet

The company retains the pension assets until it is time to pay out pension to the employee. In the meantime the funds can be used as a source of long-term financing within the business, such as for capital expenditure or other investments.

- Ongoing provisions on the balance sheet – equivalent to the present value of earned pension benefits – are recognised as a pension liability.
- When the employee retires the pension liability is reduced as and when the pension is paid out.
- Credit insurance is required to ensure that the employees' pension is safeguarded if the company should become insolvent.
- The company company takes on a financial risk of not generating a return that exceeds the interest assumption set by the insurance company to set premiums .
- The company also takes on a demographic risk that the employee may live longer than the statistical life expectancy. This risk is lower when more individuals are covered by the pension plan due to the larger statistical base.

Through a pension foundation

- All or parts of the pension assets are transferred to the company's pension foundation where the assets are managed.
- The foundation functions as a guarantee for the pension commitment and the assets are separate from those of the company. The net pension provision on the company's balance sheet is reduced.
- Any surplus in the pension foundation can be used to finance the company's pension costs.
- The foundation's investment strategy can be tailored to each company's unique situation to optimise risk and returns.
- Companies that safeguard pension benefits by creating a foundation have a lower credit insurance premium.

Book reserved pension plans, cont.

About pension foundations

- A pension foundation is formed by the company and is a separate legal entity. The goal is to safeguard pension commitments to employees and/or their survivors. This is done by the company transferring pension assets into a foundation. The foundation functions as a guarantee for the employees covered by it. Pension foundations are under the supervision of the local county administrative board. FI (Sweden's financial supervisory authority) is responsible for financial supervision of the foundation.
- The company decides whether the pension foundation will only cover a certain group of employees and/or their survivors. The foundation is considered to cover all employees unless the employer has stated otherwise.
- The foundation cannot pay out pensions directly other than in special situations. Instead the employer can request a reimbursement from the foundation when the employer pays out pensions or has other pension-related costs. The rules regarding reimbursement ensure that the pension foundation's assets are only used for pension-related purposes.
- The Safeguarding of Pension Commitments, etc. Act (1967:531) (Tryggandelagen) has provisions regarding pension commitments and only focuses on defined benefit commitments. In order for defined contribution commitments to be safeguarded in a pension foundation, the employer is required to guarantee a certain return on pension plan assets, or guarantee an amount of capital equivalent to the premium contributions made.
- There are currently many pension foundations in Sweden and the majority of them were set up to safeguard pension obligations within ITP 2 plans. Employers choose to place assets in a pension foundation for the following reasons:

  - To manage pension-related risks by investing in appropriate asset classes that match the existing risk appetite.
  - To reduce the net balance of liabilities.
  - To reduce volatility in the balance sheet and profits (both statutory and IFRS reporting).
  - To reduce the cost of credit insurance premiums (lower premiums due to better secured assets).
  - To reduce pension-related tax and corporate tax expense.
  - To reduce large, unpredictable cash flow requirements in the future.
  - To have access to capital if needed.

Insurance

The alternative to providing book reserved ITP 2 plans is for the company to pay retirement pension premiums to Alecta. It is a traditional life insurance company that has a monopoly on insuring ITP 2 pension plans. Alecta aims for pension benefits to be index-linked, but does not guarantee this indexation.

When ongoing premium contributions are made to Alecta the assets are no longer on the company's books. The payment process is as follows:

- The company pays monthly premiums that are calculated according to Alecta's rates. The premiums are paid until the employee retires or ends their employment (includes retirement, disability or survivor's pension).
- The funds are managed by Alecta which invests them in a diversified portfolio. The assets are managed collectively for all companies in the ITP 2 system.
- Alecta pays out pension when the employee retires. The standard payout period is the rest of the individual's life. Prior to retirement this can be changed to a fixed term.
- Alecta may provide premium discounts during the life of the insurance policy.
- For defined benefit pension plans – such as ITP 2 with Alecta – the financial and demographical risk is managed through the premium.

Perspectives on book reserved ITP 2 pension plans

Administration

The administrative processes for book reserved pension plans are usually more complex compared with the insurance option. This is the case for areas such as accounting, adjusted gross income (AGI), tax and financial control. PRI offers various services to support companies administratively in these areas.

Flexibility

Book reserved pension plans provide flexibility in that the company retains the liquid assets and can then decide to invest the assets, move them to a pension foundation or purchase pension insurance.

Investment opportunity

Instead of paying premiums to Alecta and being locked into an outflow of cash for a long time into the future, companies have an opportunity to invest plan assets as they see fit.

Capacity limitations

If credit exposure associated with the pension liability is too high, there are capacity limitations within book reserved ITP 2 relating to the extent of the credit insurance provided by PRI. This can lead to PRI requiring greater guarantees.

Pension-related risk exposure

When providing book reserved pension plans companies are more exposed to pension-related risks, such as investment, life expectancy and inflation risk.

Risk optimisation

The company can manage risk through a pension foundation and investments made by the foundation can be adapted according to the company's risk appetite. This is more difficult to achieve with the Alecta option.

Transparency

Alecta has a safety margin for premiums. This is not as relevant in the case of book reserved pensions. It is also easier to keep track of what pension costs include when using the book reserve method.

Perspectives on Alecta insurance

Administration

Paying premiums reduces the amount of ongoing administration. For example, there are no pension provisions being made that require statutory reporting or IFRS reporting. The company does not need to purchase credit insurance.

Flexibility

With the insurance option the company pays regular premiums in the short and medium term and this must be covered by the company's cash flow.

Costs

Alecta calculates the insurance rate using other rules and assumptions. This means that, in addition to requiring a constant outflow of cash, the pension insurance option is costlier than the book reserved plans via PRI. The discount rate for book reserved pension plans is set by PRI's non-profit association (PRI ideell förening) based on an assessment of the member company's expected return on equity. While an Alecta insurance rate is determined based on current market interest rates.

Pension risks

Despite the fact that the employer bears the ultimate risk in terms of pension payout liability, the likelihood is high that Alecta will meet its obligations, including indexation. This reduces the company's exposure to risks relating to life expectancy, inflation and investments.

ITP 1

About ITP 1

ITP 1 occupational pension is a defined contribution pension plan that covers salaried employees in the private sector born in 1979 or later. The pension plan includes retirement pension, disability pension and survivor's pension. The company can safeguard ITP 1 plans through the book reserve method by creating a unique pension plan where the plans assets remain on the company's books.

Since 2007 companies signing a collective bargaining agreement may chose to let all of their salaried employees be covered by ITP 1, including those born before 1979.

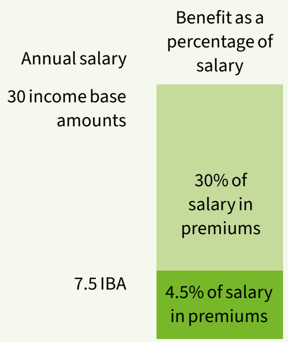
Retirement pension

A defined contribution plan means that the pension depends on the size of the premium contributions and how the assets have been managed. The ITP agreement sets out how employees may divide premiums between unit linked insurance and traditional insurance. At least 50 percent of premiums must be invested in traditional insurance. The fund managers are contracted by Collectum at the request of the Confederation of Swedish Enterprise and PTK.

Employees begin earning pension at the age of 25. An employee has the right to choose the insurance company and can also move earned pension assets between the contracted insurance companies. Following approval from the ITP committee the company may offer book reserved ITP 1 plans.

The minimum premium is 4.5 percent of salaries up to 7.5 income base amounts (IBA) and 30 percent of salary components between 7.5 and 30 IBA. Employees and companies may agree on a higher contribution. Employees decide if a portion of the premium contribution is to be used for survivor's pension.

Retirement pension



- Gross salaries paid out in cash monthly are pensionable
- Earning begins at age 25
- Collectum signs contracts with insurance companies from which employees can choose
- Family cover and/or repayment cover can be added
- Can apply regardless of age if the company signed a collective agreement after 1 July 2007

→ *Numbers and percentages*

About ITP 1, cont.

Survivor's pension

Family cover

Employees may opt for a family cover as an insurance in the event of death before the age of 70. The insurer can choose from one to four price base amounts being paid out over five to twenty years. The family cover premium is deducted from ITP 1, resulting in a lower pension contribution.

Primary beneficiary for the benefit is spouse, cohabiting partner or registered partner while children regardless of age are secondary beneficiaries. Through a special beneficiary clause, employees may themselves decide who receives the benefits. Family cover plans are always provided by Alecta.

Repayment cover

An employee may also opt for repayment cover. This involves the accrued value of the ITP 1 pension being paid out to survivors in the event of the employee's death.

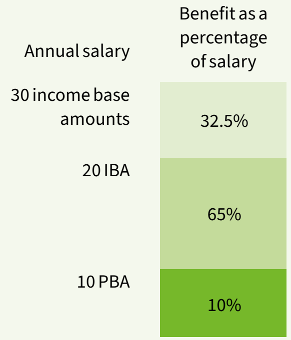
Repayment cover incurs no cost, but the retirement pension will be lower as the employee will not benefit from any inheritance gains. The payout to survivors normally takes place over five years. If the employee dies after pension payments have started, the remaining pension capital is paid out to the survivors. The remaining payout is linked to the length of the payout period chosen by the employee.

Disability pension

Alecta pays out benefits when an employee has been unable to work due to illness or disability for more than 90 consecutive days or for 105 days during a 12-month period. To receive these benefits the employee must, under normal circumstances, also qualify for benefits from Försäkringskassan (the Swedish Social Insurance Agency).

When an employee cannot work due to accident or illness, the company's premium payment liability is waived after 14 days of sickness absence. For employees who are only partially incapacitated, the extent to which the employer's premium payment liability is waived corresponds to the level of sickness absence. The company then pays premiums based on a part-time salary.

Disability pension



- 90-day qualifying period
- The benefit payment is based on the average income over the past 12 months.
- Employers have a premium waiver after 14 days in proportion to the level of sickness absence.
- As of 1 January 2023 disability pension is payable up to the age of 66.

The example shows reimbursement day 91–360.

→ *Numbers and percentages*

For more information on ITP 1

alecta.se
collectum.se
ptk.se
svensktnaringsliv.se
avtalat.se

ITP 1 and the book reserve method

ITP 1 is a defined contribution pension plan. With this plan the employer knows what the pension cost will be. However, the outcome of each employee's occupational pension plan is dependent on how the employee chooses to manage the premiums contributed. ITP 1 requires at least 50 percent of the contributions to always be managed in a so-called "traditional management" solution. This guarantees the employee at least a minimum amount of the occupational pension capital. The employee's decision on how the pension capital is managed ultimately determines the size of their future occupational pension. The variation between individual employees can be significant depending on how well their respective ITP 1 choices perform.

Despite the fact that ITP 1 it is a defined contribution plan, as it is managed according to the book reserve method the employer can choose to retain the assets and invest them its own operations or place them in a pension foundation, in the same way as for ITP 2. The company offers the employees its own pension plan which they are free to choose instead of the insurance options procured by Collectum.

The company should design its pension plan so that it is more attractive than the other options available. This will make their ITP 1 occupational pension a clear and attractive component of their employee remuneration package – for both existing and potential new employees.

The employer has the option to set up a pension foundation to provide another level of assurance in addition to credit insurance. The employers are also to be represented on the pension foundation's board. The board decides on matters such as how plan assets will be managed. A company's policies in areas such as sustainability can be reflected directly in how the assets are managed, without intermediaries, which fosters transparency and accountability.

Joint forecast for ITP 1 and ITP 2

PRI can prepare a joint forecast for ITP 1 and for ITP 2 plans that apply the book reserve method. The forecast is based on the employees' salaries today, as well as assumptions on future employee turnover, inflation and pay increases. We can create long-term or short-term forecasts depending on the company's needs. The forecast is presented in graphs and tables showing, among other things, the impact on the cash flow in both ITP 1 and ITP 2.

What is required?

- Credit insurance to safeguard the pensions in case the company becomes insolvent.
- Creating a good offering. To get the employees to choose the company's own ITP 1 plan, the company's offering should be stronger than the insurance company option. Stronger safeguards, higher contributions, no or low deductions for costs are the components that are usually included in the company's own ITP 1 plan. One or more of these components can be combined so that the company can offer an attractive plan.
- Before the company can launch its plan, it must be approved by the ITP committee.

Who is covered?

Book reserved ITP 1 plans can cover several categories of employees:

- Employees born in 1979 or later.
- Employees earning more than 10 income base amounts who switch from ITP 2 to ITP 1, if the employer offers this option.
- Employees of companies that have selected ITP 1 for the whole company.

Administration

Compared with pension insurance, there is initially no difference in communication between Collectum and companies with book reserved ITP 1 plans. Salaries are reported to Collectum which calculates the premium and sends an invoice to the company. The company pays the invoice and employees make their choice.

The premiums are repaid to the company for employees who choose the company's pension plan. Collectum sends a file to PRI Pensions- och stiftelsetjänst, which registers contributions and performs calculations according to the rules for the company's pension plan. When an employee retires, PRI Pensions- och stiftelsetjänst manages the pension payouts.

It is possible to move the pension capital at any time from a book reserved ITP 1 plan in the same way as for other ITP 1 plans. The difference is that it is never possible to transfer capital from pension insurance into a book reserved plan.

Before selecting a book reserved ITP 1 plan, who does what?

The company

- Applies for and takes out credit insurance with PRI Pensionsgaranti
- Signs an administration agreement with Collectum
- Designs the ITP 1 plan
- Informs the employees
- Has the option to form a pension foundation – PRI Pensions- och stiftelsetjänst can provide assistance

Alecta

- Insures disability and survivor pension and sets up a premium waiver

Avtalat

- Sends out annual statements to the employees. The company's name appears on the statement.

Collectum

- Administers the employees' choice
- Provides data toPRI Pensions- och stiftelsetjänst for calculation of the ITP 1 pension liability
- Invoices the company for other premiums

PRI Pensionsgaranti

- Guarantees the pensions through credit insurance

PRI Pensions- och stiftelsetjänst

- Calculates the company's pension liability
- Invoices the company for pension payouts
- Pays out pension for ITP 1 plans
- Provides data for financial accounting and reporting
- Can also assist with forming pension foundations
- Offers administrative services for pension foundations

Pension liability – ITP 1

Pension liability – two components

The pension liability consists of premiums contributed plus any change in value.

Premiums contributed

Each month PRI Pensions- och stiftelsetjänst receives information through Collectum on the premiums that the employees have invested in the company's pension plan.

Change in value

The company reports changes in the value of the pension plan to PRI Pensions- och stiftelsetjänst. The pension liability consists of the sum of the premiums contributed plus changes in value.

Changes in pension liability

The pension liability increases through:

+ Contributions
+ Changes in value
+ Benefits taken over (capital can be transferred within a group of companies if they are part of the same ITP 1 plan)

The pension liability decreases through:

– Tax on returns
– Transferred capital (the employee chooses to invest their capital with another insurance provider)
– Pension payouts
– Benefits transferred (capital can be transferred within a group of companies if they are part of the same ITP 1 plan)

Accounting – ITP 1

Pension cost

For companies that offer book reserved ITP 1 plans, ongoing changes in the pension liability are reflected in the pension reserve account. The change consists of premium contributions as well as upward adjustment (change in value) for employees who have chosen the company's pension plan. When the company pays out pensions the liability decreases.

Other costs are essentially the same for ITP 1 as for ITP 2. However, with book reserved ITP 1 plans there is no cost equalisation (payment liability/right to reimbursement).

Tax – ITP 1

Two types of tax

For book reserved ITP 1 plans two types of tax apply: on returns and a special payroll tax.

Tax on returns

Tax on returns are assessed on a flat-rate basis by the employer who also pays the tax. The way the tax is handled depends on how the pension commitment is designed. The most common method is to deduct it from the employee's capital.

Tax on returns

Is similar to wealth tax

Assessed using a flat rate

A. Return = Average government borrowing rate year before the tax year (2023 = 1.46%)

B. Tax rate = 15%

C. Tax assessment basis = Pension liability at beginning of tax year

Tax on returns (SEK) = **A** x **B** x **C**

Year 2023: **1.46%** x **15%** x **opening balance pension liability**

Tax on returns are only assessed on pension commitments that are tax deductible = tax assessment basis.

Special payroll tax

Two differences compared with ITP 2. These are items relating to premiums for occupational pension insurance as well as changes in the pension reserve account in the income tax schedule:

Item A. Occupational pension insurance premiums = Collectum's payroll tax data minus premium data from PRI.

Item C. Change in the pension reserve account = Capital at the end of the year minus capital at the beginning of the year (data from PRI).

Special payroll tax

Collectum's payroll tax data
– Premium data from PRI Pensions- och stiftelsetjänst

= Premiums for occupational pension insurance (item A)

Data from PRI Pensions- och stiftelsetjänst

Capital at year-end
– Capital at beginning of year

= Change in the pension reserve account (item C)

Payroll tax schedule

You can find the payroll tax schedule at pri.se and in our web portal for businesses.

ITP 2

About ITP 2

Retirement pension

ITP 2 retirement pension is a defined benefit pension plan where the company promises a pension in proportion to the employee's final salary. Employees start earning their retirement pension at the age of 28. In order to receive full ITP 2 pension, they must have worked for companies providing an ITP plan for 30 years. Coordination with other, similar occupational pension plans is possible.

The plan covers salaried employees born in 1978 or earlier. It does not provide any guarantee of indexation. Pension paid out and vested paid-up policies are usually upwardly adjusted for inflation. Retirement pension is normally paid out from the age of 65 and payments continue for the rest of the individual's life. Employees are entitled to begin taking out their pension early, from age 55. It is also possible to postpone taking out pension for an indefinite period. The ITP agreement also allows pension to be taken out over a shorter period of time.

Example of benefit calculation

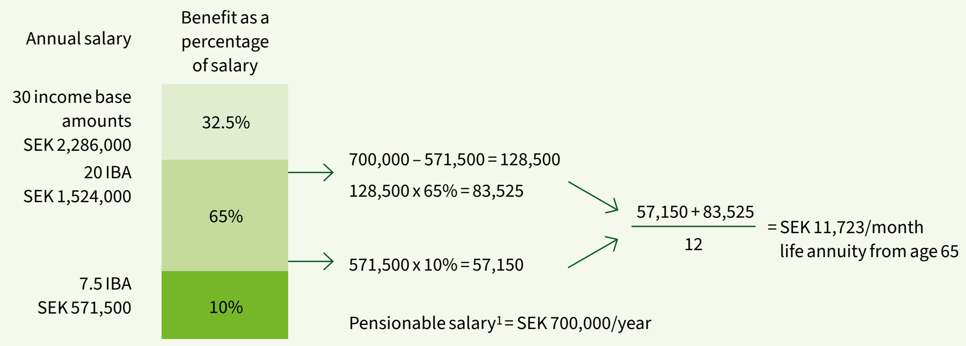
Salary above 7.5 income base amounts generates larger pension benefits since salary below does not give rise to statutory public pension. Within ITP 2 no pension benefit is accrued on the part of a salary above 30 income base amounts per year.

The company's ITP 2 cost per employee will vary depending on the individual employee's age and salary. The pension plan contains rules on applying cost equalisation to limit high expense for individual employees.

After an agreement with the company, employees earning more than 10 income base amounts can chose an alternative pension solution for salary components above 7.5 income base amounts. These alternative pension solutions are designed in line with the respective company's pension policy. Some companies offer their employees the option to fully replace the ITP 2 plan with an ITP 1 plan. Companies that currently enter into collective bargaining agreements may also allow all of their salaried employees to be covered by ITP 1, including those who were born before 1979.

Retirement pension

Example of calculation of retirement pension at 65 (excluding ITPK)



Pensionable salary[1] = SEK 700,000/year

Base amount = value in 2024, changes every year

At least 360 months with ITP 2 between age 28 and 65 = full pension

1 The pensionable salary is assessed as monthly salary x 12.2 plus variable salary components etc. Read more at collectum.se.

→ *Numbers and percentages*

ITPK

ITP 2 includes a supplementary defined contribution pension called ITPK. The premiums for ITPK are 2 percent of salary up a ceiling of 30 income base amounts. Employees can choose to invest their premium in any of the insurance companies procured for this purpose.

Employees can opt out of future premium contributions to ITP 2's family pension and instead increase their contribution to ITPK. It is possible to add family or repayment cover for additional beneficiaries.

The size of the pension is based on the return on the premiums paid in.

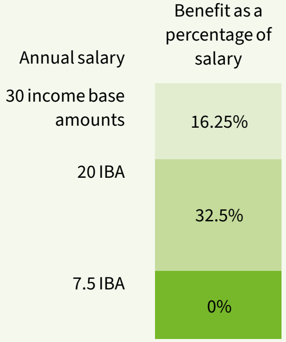
About ITP 2, cont.

Survivor's pension

Family pension within ITP 2 is a defined benefit plan and is earned on salary components above 7.5 income base amounts. Family pension is paid out to spouses or registered partners for the rest of their life. Children up to the age of 20 are also entitled to this benefit. However, cohabiting partners are not entitled to family pension. Payment of family pension ceases if the spouse or registered partner remarries before the age of 60.

Instead of family pension it is possible to choose a solution where future family pension premiums are paid into the ITPK option, which results in a higher retirement pension premium. In the ITPK option the employee has the possibility to choose repayment cover and/or survivor cover where children over the age of 20 or a cohabiting partner can be named as beneficiaries. The earned family pension up until this choice is made remains and is paid out when the individual dies if there is a beneficiary.

Family pension



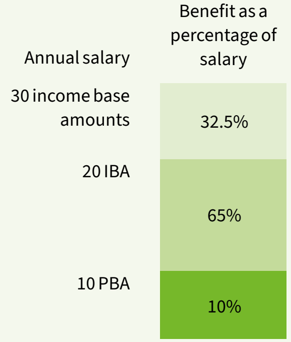
- Earned from age 28 and for full pension 30 years of service are required
- Life-long payouts to spouse or registered partner (not to cohabiting partner)
- Child cover up to age 20
- Possible to opt out of future family pension benefits and instead receive premiums for this paid into ITPK

→ *Numbers and percentages*

Disability pension

Alecta pays out benefits when an employee has been unable to work due to illness or disability for more than 90 consecutive days or for 105 days during a 12-month period. Generally, the employee must qualify for benefits from Försäkringskassan (the Swedish Social Insurance Agency) to receive benefits. Alecta takes on the responsibility from the company for the premium payment (waiver of premium insurance) when an employee is on sick leave and receiving disability pension of at least 25 percent.

Disability pension



- 90 days
- Benefit based on pensionable salary
- The employer is fully released from premium payment liability after 90 days regardless of the level of sickness absence, but with a minimum of 25 percent absence
- Ends at age 65
- If an employee continues to work after the age of 65 a new registration for them with ITP 1 is required. The person can then remain on the plan until the age of 66.

The example shows reimbursement day 91–360.

→ *Numbers and percentages*

Collective final payment

Special conditions apply to employees who retire after the age of 62 and one month. The remaining premiums up to the age of 65 are paid in through collective funds to the insurance company as if the employee were continuing to work with the same wage until retirement age.

Thus, employees who stop working after 62 do not lose out on any premiums. This is called "collective final payment". If the employee has an alternative pension solution – with income more than 10 income base amounts – the final payment is only made on the components that are still within ITP 2.

For more information on ITP 2

alecta.se
collectum.se
ptk.se
svensktnaringsliv.se
avtalat.se

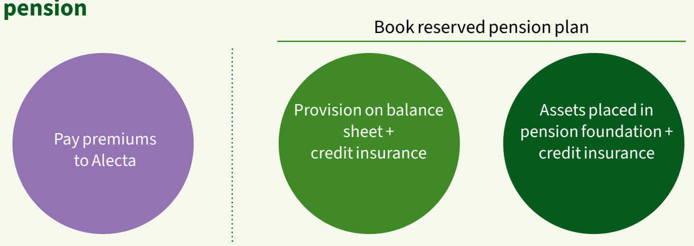
ITP 2 and the book reserve method

Financing occupational pension plans

ITP 2 retirement pension can be financed in two ways:

- Book reserved pension plan with or without a pension foundation.
- Insurance, pension premiums paid to Alecta.

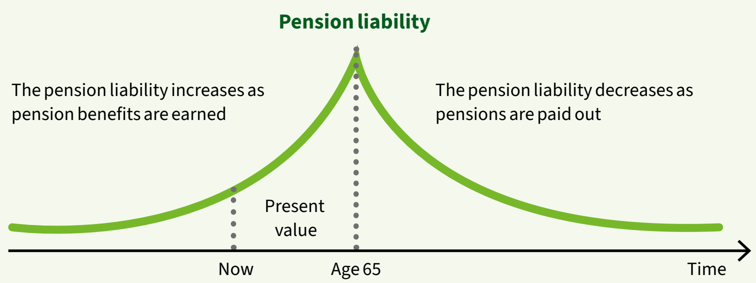
Financing of ITP 2 retirement pension



With ITP 2 the company promises future pension payments. When the book reserve method is applied the company recognises the pension capital as a liability on its balance sheet and/or transfer the assets to a pension foundation. The pension liability represents the company's pension commitment.

Using a discount rate, the value of a pension commitment can be recalculated to a present value. The pension liability will be at its largest just before retirement and will decrease when the pensions are paid. When a person dies, the accrued capital value disappears.

Changes in pension liability over time



Pension liability for ITP 2 has three components

Capital value – the majority of the pension liability

The capital value is calculated for each employee based on age, gender, salary, length of service, retirement age and life expectancy. Based on this data and an assumed discount rate, PRI calculates the present value of the earned pension entitlement.

→ *Numbers and percentages*

Example of capital value calculation

A company has a 45-year-old female employee with an annual salary of SEK 300,000. Under the ITP plan her pension is calculated as 10 percent of her salary, i.e. SEK 30,000 per year or SEK 2,500 per month.

According to assumptions on average life expectancy, a 45-year-old woman will live until the age of 88 and two months. Based on this assumption, if she retires at age 65, the pension will be paid out for 23 years and two months, or 278 months.

The capital that needs to be reserved for this pension is SEK 2,500 x 278 months = SEK 695,000. The pension will accrue over the remaining period until the woman reaches retirement age. The calculation also considers any benefits paid in by a previous company/employer. The amount is calculated at present value with a discount rate that PRI's non-profit association establishes and matches the capital value in the pension liability.

Funding reserves increase the capital value

When calculating pension liabilities, a provision is also made for funding reserves. This is done to ensure future indexation of the pensions. The funding reserves are calculated as a percentage of the capital value.

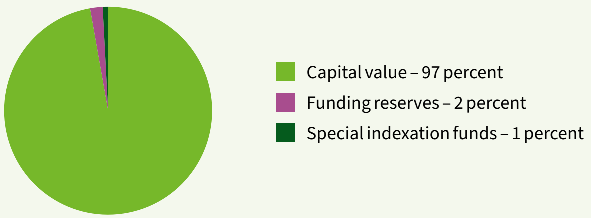
→ *Numbers and percentages*

ITP 2 and the book reserve method, cont.

Special indexation funds

Special indexation funds constitute an extra provision for indexation. These reserved funds may only be used after a central agreement between the Confederation of Swedish Enterprise and PTK. As of 1 January 2007, no new provisions are made for special indexation funds. The interest on previously reserved indexation funds is adjusted annually.

Pension liability breakdown for all companies with book reserved ITP 2



Inflation affects the company’s pension liabilities

ITP 2 plans are normally index-linked annually, even if no undertaking on indexation is guaranteed. Indexation to adjust for inflation is done regardless of whether the pension is safeguarded through the book reserve method or insured through Alecta.

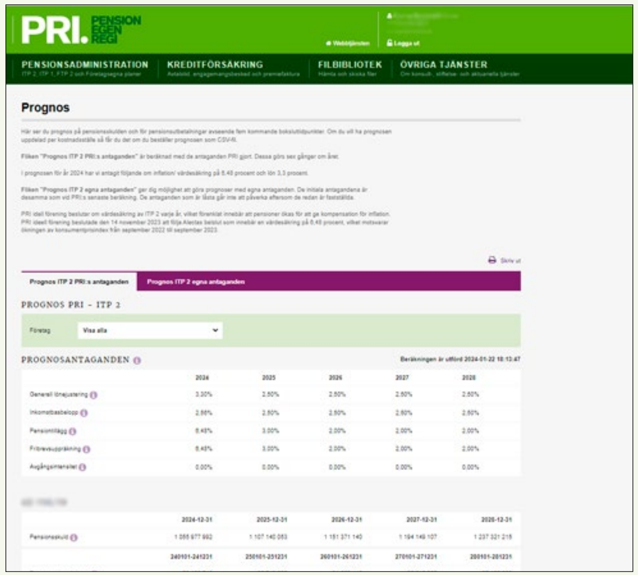
Indexation is linked to the consumer price index (CPI) and based on the CPI development from last year’s September to this year’s September. Alecta’s decision on upward adjustment on the pension for the following year is based on the amount of this increase. For book reserved ITP 2 plans, PRI’s non-profit association normally follows Alecta’s decision.

One effect of indexation is that pensions being paid increase and the vested pension benefits increase. Indexation takes place on the first of January each year.

Forecasts facilitate planning

On several occasions during the year PRI forecasts the development of pension liabilities and pension payouts for the current year and four years into the future. These forecasts are available in the web portal for businesses and facilitate the preparation of budgets and planning of earnings and liquidity. In the web portal companies can make forecasts based on their own assumptions. Companies requiring longer forecasts (more than five years) are welcome to contact PRI.

Example of a forecast



Pension liability – ITP 2

The pension liability increases through:

- **New contributions** – contributions paid in on a regular basis to retirement pension for employees of the company.
- **Upward adjustment of vested pension** – the value of the vested pension benefit (paid-up policy) is upwardly adjusted in line with inflation at the beginning of each year. The size of the upward adjustment is determined by Alecta and based on changes in the CPI from September to September.
- **Upward adjustment of pension supplement** – as above but for retirees.
- **Interest** – discount rate with which the capital value has increased during the period in question.
- **Longer life expectancy** – for every additional month that a person lives, the likelihood that they will live longer than the previous month's calculation increases. The capital value therefore needs to be increased to compensate for the longer life expectancy.
- **Termination agreement pension** – the capital value of any termination agreement pension that the company has financed using the book reserve method.
- **Pension benefit received**– in the event of a merger or transfer of all or some pension commitments from another company; this can happen in connection with acquisitions or restructuring within groups of companies.
- **Temporary pension** – change in liability when an employee chooses to take out their life-long retirement pension over a shorter period of time.
- **Rate change** – increase in capital value due to changed underlying calculation of discount rate and/or life expectancy.

The pension liability decreases through:

- **Pension payouts – pension that has been paid out.**
- **Death** – when a person dies the pension liability decreases along with the capital value accrued for the deceased.
- Pension buyout – buyout of parts of or all pension obligations to an insurance policy with Alecta.
- **Transfer of pension benefits** – in the event of a merger or transfer of all or some pension commitments to another company; this can happen in connection with acquisitions or restructuring within groups of companies.
- **Transfer of original ITPK** – for employees who did not select an ITPK option before July 2007, the company managed the ITPK plan by applying the book reserve method. Individuals who have not yet withdrawn any pension are entitled to transfer their ITPK capital. The pension liability decreases when capital is transferred.

Pension liability ITP 2, cont.

Liability changes – analysis of two companies

The change in pension liabilities is affected by a number of factors, for example the age demographic and the breakdown of active salaried employees and retirees. As a result, conditions vary between different companies. Two company examples are presented here to explain how these factors affect changes in the pension liability.

Company example 1 – active earning of benefits

A larger company that has provided book reserved ITP 2 plans for a long time. It has around 5,600 pension commitments in total for 1,400 active company employees earning their pension benefits, 2,800 who are no longer employed and have paid-up policies and 1,400 retirees who are receiving their monthly ITP 2 pension.

The company's pension liability at the end of the year was SEK 1,761 million. The pension payouts during the year amounted to SEK 42.3 million and new contributions to SEK 55 million.

There are several factors that affect the pension liability, including the upward adjustment of pension payouts and earned pension benefits in line with inflation every year. In this case the adjustment was 6.8 percent, which increased the pension liability by approximately SEK 158 million. A number of individuals died during the period, reducing the pension liability.

Opening balance of pension liability, SEK 1,538 million.
Closing balance of pension liability, SEK 1,761 million.

PRI. PENSION EGEN REGI

Sida 1 (2)

Rapporten avser
Exempel

Organisationsnr	**Kreditförsäkringsnr**	**Företagskundnr**	**Bokslutstidpunkt**
000000-0000	000	0000	12-31

Analys pensionsskuld 2023-01-01 - 2023-12-31

Belopp i SEK
Analys med grunddata 2023-12-14 utförd av PRI 08-679 06 00

Tidpunkt	Kapitalvärde	Konsolideringsreserv	Värdesäkringsmedel	Total pensionsskuld
2022-12-31	1 474 101 457	29 482 029	34 704 822	1 538 288 308
2023-12-31	1 691 479 443	33 829 589	35 708 880	1 761 017 912

Analys av pensionsskulden	
Ingående kapitalvärde	**1 474 101 457**
Utbetald pension	-42 311 127
Nyavsättning	55 002 442
Ränta	46 583 435
Uppräkning av intjänad pensionsrätt	116 090 640
Uppräkning av pensionstillägg	42 094 624
Ökning av förväntad livslängd	7 086 101
Dödsfall	-6 943 725
Inlösen av pensionsrätt	0
Överförd pensionsrätt	614
Mottagen pensionsrätt	-614
Flytt av ursprunglig ITPK	-160 599
Avgångspension	0
Temporär pension	-76 525
Tariffändring	0
Övrigt	12 719
Utgående kapitalvärde	**1 691 479 443**
Konsolideringsreserv	33 829 589
Värdesäkringsmedel	35 708 879
Utgående pensionsskuld 2023-12-31	**1 761 017 911**

Company example 2 – no new contributions

This company has also provided book reserved ITP 2 plans. Unlike example 1, this company is not making any new contributions, and is paying premiums through Collectum to Alecta.

The company has 950 pension commitments, 250 of which are for retirees and 700 individuals have paid-up policies. The pension liability at the beginning of the year was SEK 311.9 million. A number of individuals died during the period, reducing the pension liability.

PRI. PENSION EGEN REGI

Sida 1 (1)

Rapporten avser
Exempel

Organisationsnr	Kreditförsäkringsnr	Företagskundnr	Bokslutstidpunkt
000000-0000	0000	00000	12-31

Analys pensionsskuld 2023-01-01 - 2023-12-31

Belopp i SEK
Analys med grunddata 2023-12-14 utförd av PRI 08-679 06 00

Tidpunkt	Kapitalvärde	Konsolideringsreserv	Värdesäkringsmedel	Total pensionsskuld
2022-12-31	271 786 322	5 435 726	5 095 571	282 317 619
2023-12-31	300 669 977	6 013 400	5 242 993	311 926 370

Analys av pensionsskulden	
Ingående kapitalvärde	**271 786 322**
Utbetald pension	-9 294 651
Nyavsättning	0
Ränta	8 434 999
Uppräkning av intjänad pensionsrätt	19 684 181
Uppräkning av pensionstillägg	9 387 558
Ökning av förväntad livslängd	1 141 356
Dödsfall	-457 934
Inlösen av pensionsrätt	0
Överförd pensionsrätt	0
Mottagen pensionsrätt	0
Flytt av ursprunglig ITPK	-19 598
Avgångspension	0
Temporär pension	7 728
Tariffändring	0
Övrigt	16
Utgående kapitalvärde	**300 669 977**
Konsolideringsreserv	6 013 399
Värdesäkringsmedel	5 242 993
Utgående pensionsskuld 2023-12-31	**311 926 369**

Analyses in the web portal

In the web portal – using the pension administration ITP 2 tab – companies can make their own analysis of their pension liabilities. Select a start and end date for the analysis. The maximum period is 12 months. The analysis can be delivered both as a PDF and an Excel file.

Accounting – ITP 2

According to Swedish accounting standards

Companies may use various methods to account for their pension costs when they use the book reserve method. Accounting these costs is done in one of these three standards – RFR 2, K2 or K3. In some cases, companies are free to choose which standard to apply.

Three standards

A parent applying IFRS in its consolidated accounts is not allowed to use K3; instead RFR 2 should be applied in the legal entity. This does not apply to subsidiaries of these groups which, depending on size, can apply RFR 2, K3 or K2.

RFR 2 and K3 allow companies to report according to IAS 19, alternatively to apply the simplified rules based on the provisions in the Safeguarding of Pension Commitments Act (Tryggandelagen). K2 does not allow reporting according to IAS 19 and is solely based on the Safeguarding of Pension Commitments Act. To qualify for immediate tax deduction in the Income Tax Act, the company must comply with the Safeguarding of Pension Commitments Act.

By applying the simplified rules in RFR 2 and K3 – or by following K2 – the company will be compliant with the Act. These standards will give the same accounting result. Below is a summary of what the simplified rules in RFR 2 and K3 entail.

K3

Chapter 28 of K3 contains a number of simplified rules that can be applied by legal entities. These rules are briefly described below:

- Defined benefit plans may be reported as defined contribution plans if pension premiums are paid.
- If commitments are safeguarded through a pension foundation, a provision is to be recognised if the obligation exceeds the foundation's assets. If the foundation's assets exceed the commitments, no asset is to be recognised by the company.
- If the pension commitments are funded using the book reserve method, the pension liability is to be recognised based on the data provided by an independent company.
- Foreign subsidiaries' pension obligations should correspond to the obligations of each legal entity.

RFR 2

Legal entities reporting according to RFR 2 may also apply the simplified rules. This is briefly described below:

- Defined benefit plans must be recognised as defined contribution plans if pension premiums are paid.
- For unfunded plans, the obligations are to be recognised as a provision. If the plan is subject to the Safeguarding of Pension Commitments Act, its value is based on this, otherwise on actuarial assumptions.
- If commitments are safeguarded through a pension foundation, a provision is to be recognised if the obligation exceeds the foundation's assets. If the foundation's assets exceed the commitments, no asset is to be recognised by the company.
- Pension commitments of foreign subsidiaries must be recognised using the subsidiaries evaluation.

Accounting – book reserved ITP 2

Pension cost

Each month when an employee earns pension benefit the company's pension liability increases. The liability also increases through increased interest on the pension liability, as well as through indexation of outgoing pensions and earned pension benefits. When the company pays out pensions, its pension commitments are decreased by a corresponding amount. The company's total pension cost for ITP 2 can be calculated as follows:

Change in pension liability +/– in pension reserve account:

+ Newly earned pension benefits
+ Increased interest on pension liability
+ Indexation of pension commitments
+/– Life expectancy changes

Other expenses:

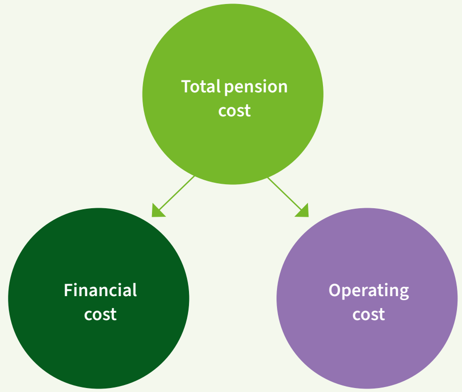
+ Operating costs for pension administration paid to PRI Pensionsgaranti
+/– Credit insurance premiums paid to PRI Pensionsgaranti deducting potential dividends
+/– Payout obligation deduced by the right to reimbursement (cost equalisation)
+ Tax on returns
+ Special payroll tax

Calculation of financial cost

Using fair accounting principles, the total pension cost is to be divided up into operating expenses and financial expense. The reason for this being that the increase in the pension liability contains a discounting factor. The financial cost should be seen as a measure of how much the pension liability increases based on the discount rate. The percentage used to calculate the financial expense is set by PRI Pensionsgaranti and is based on the gross discount rate.

→ *Numbers and percentages*

The **financial cost** is established by multiplying the average pension liability during the year by the percentage to calculate the financial cost. The other component of the total **pension cost** is the **operating cost**. By dividing the cost up this way, it is possible to compare companies that have purchased Alecta insurance with those that choose to safeguard their pension commitments using the book reserve method. The financial expense can also be calculated based on the interest assumptions made in the analysis reports that are available on PRI's website. Note that the interest in analysis reports is the net interest, i.e. interest after deducting operating expenses, which gives a lower interest.



Example of financial expense calculation

Total pension cost	SEK 9,000,000
Average pension liability during the year	SEK 80,000,000
Financial cost (3% of SEK 80,000,000)	SEK 2,400,000
Operating cost (SEK 9,000,000 – SEK 2,400,000)	SEK 6,600,000

Accounting – book reserved ITP 2, cont.

Pension liability accounting, financial statement

In connection with the closing accounts, data on the size of the pension liability is published in PRI's web portal. The amount should be recognised in the balance sheet under the heading Reserve for pensions. The financial statement shows the breakdown of the pension liability's three components: capital value, funding reserve and special indexation funds. The financial statement also shows the company's mutual responsibility as a member of PRI Pensionsgaranti. The amount is reported in the note on contingent liabilities in the annual report.

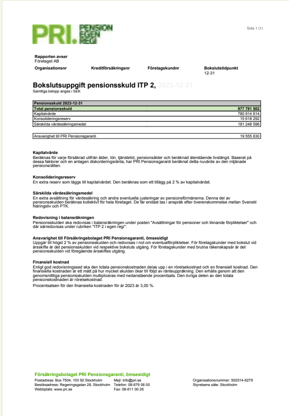
The web portal also publishes a specification of all those to which the company has pension commitments. It shows the capital value (present value) of each employee's earned pension benefit.

Recognition of pension costs, social security contributions etc.

Companies can use various methods to account for and recognise their pension costs. The most common methods are described below:

- Once a year the pension liability and pension cost are recognised based on the pension liability reports and balances that PRI publishes in the web portal in connection with the year-end accounts.
- Throughout the year the pension liability and pension cost are recognised based on reports from the web portal.
- Based on forecasts and accrual accounting for the change in liabilities, which is accounted throughout the year as a change in the liability. At the end of the year the actual pension liability and actual pension costs are recognised in the accounts.
- Throughout the year the pension costs are recognised using a standard, non-wage payroll expense, and at year-end the actual pension liability and actual pension costs are recognised.

Year-end pension liability statement



Reserve for pensions (debt account) BS

Pensions paid out according to balance statement	*Opening balance, pension liability*
	Pension cost Change in pension liability excl. pensions paid out
	Closing balance, pension liability

Pension costs (income account/cost account) IS

Pension cost	*Financial expense*

Interest expense (income account/cost account) IS

Financial expense	

Accounting – book reserved ITP 2, cont.

Recognition of invoices and balances

PRI administers pension payouts for companies that finance their pension commitments using the book reserve method. Twice a year PRI collect funds to cover upcoming payouts. This is done based on a forecast. If the actual pensions paid out differ from this forecast, a balance is generated between PRI and the company. This balance is either recognised as a current receivable or a current liability. Interest accrues on the balance (balance interest) which is recognised as interest income or interest expense.

→ *Numbers and percentages*

Pension administration invoices

Pension funds paid in in advance

- Company-specific outcome from beginning of year and future forecast, total of 18 months

April invoice

- 4 months actual outcome = January – April
- Forecast 14 months = May (the year after)

Half of the amount goes on the April invoice

October invoice

- 10 months actual outcome = January – October
- Forecast 8 months = November – June (following year)

Total during the year, less funds paid in earlier in the year on April invoice

Operating expenses

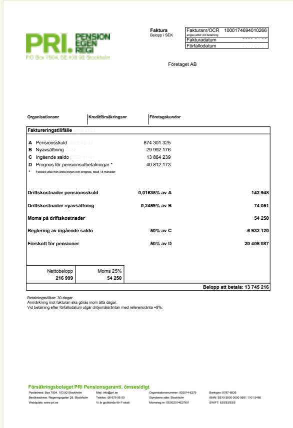
- Fee for PRI Pensionsgaranti's administration of ITP 2
- Fees break down as follows
  – as a percentage of pension liability
  – as a percentage of new contributions
- Subject to VAT

Settlement of opening balance

- Repayment of balance
- Payment of receivable

Half of the amount paid on the April invoice paid, the remaining portion on the October invoice

Invoices April and October



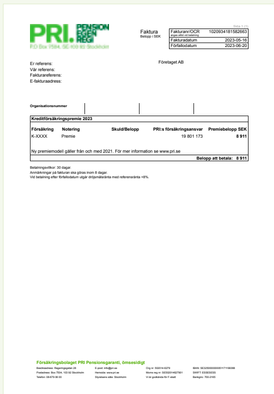
Current receivables (asset account) BS

Opening balance	**Settlement of opening balance, April** **Settlement of opening balance, October**
Pension funds paid in in advance, April **Pension funds paid in in advance, October**	

Pension costs (income account/cost account) IS

Operating expenses April **Operating expenses October**	

Credit insurance invoice



Pension costs (income account/cost account)

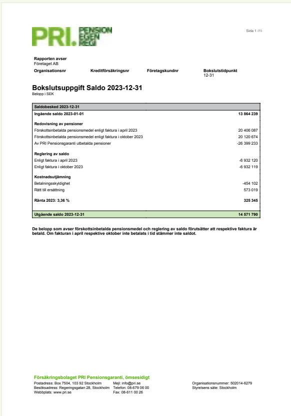
Credit insurance premium invoice	

Accounting – book reserved ITP 2, cont.

Financial balance statement

The financial balance statement shows how large a receivable or liability the company has to PRI. The company normally has a receivable due to pension funds being paid to PRI to cover future pension payouts. The financial balance statement is published annually in PRI's web portal. This publishes the opening balance for the financial year, the pension funds that were paid in advance to PRI and how much PRI used for pension payouts.

The financial balance statement also includes information about cost equalisation. There is an upper limit on the size of a company's pension cost for one employee. If this limit is exceeded the cost is covered by all companies with book reserved ITP 2 plans through a joint cost equalisation. The company's payout obligation is its portion of joint cost equalisation, while the company's reimbursement entitlement relates to its excess costs. Cost equalisation can result in net income or net expense. The balance statement also reveals the interest the company receives – or is charged with – on its receivable from or liability to PRI.



Reserve for pensions (debt account) BS

Pensions paid out according to balance statement	

Current receivables (asset account) BS

Opening balance Pension funds paid in in advance, April Pension funds paid in in advance, October	Settlement of opening balance April Settlement of opening balance October
Right to reimbursement	Pensions paid out according to balance statement
Interest on balance	Payment obligation

Pension costs (income account/cost account) IS

Operating expenses April Operating expenses October Credit insurance premium invoice	Right to reimbursement
Payment obligation	

Interest income (income account/income) IS

	Interest on balance

Year-end balance statement

Taken from the web portal in connection with year-end accounts

Opening balance

+ Pension funds paid in in advance
– Paid out pensions
+/– Settlement of opening balance
+/– Cost equalisation
+/– Interest

Closing balance

Specification of pensions paid out shown in web portal

Accounting – book reserved ITP 2, cont.

Accounting for pension foundations safeguarding pension obligations

If the value of the pension liability exceeds the foundation's assets, the net of the liability and the foundation's assets is accounted for. If there is a surplus in the foundation – i.e. where its assets exceed the pension liability – this surplus is not to be recognised as an asset. For this case the pension liability is recognised as 0.

According to the standard method, financial expense is calculated based on the average recognised pension liability (net) during the year. Interest from this calculation cannot be obtained from PRI's analysis report.

Example of accounting for pension foundation created to safeguard pension obligations

	Openingbalance year X1	Closing balance year X1	Closing balance year X2
Pension liability	10,000,000	11,000,000	12,500,000
Pension foundation	12,000,000	13,000,000	11,500,000
Pension liability (net) to recognise on BS	0	0	1,000,000
Paid out pensions	0	500,000	600,000

Financial expense calculation

Year X1: (0+0) /2x3%=0

Year X2: (0+1,000,000)/2x3%=15,000

YEAR X1

Reserve for pensions BS

Paid out: 500,000	Opening balance: 0 Cost: 500,000 Closing balance: 0

Pension cost

500,000	0

Financial expense

0	

YEAR X2

Reserve for pensions BS

Paid out: 600,000	Opening balance: 0 Cost: 1,600,000 Closing balance: 1,000,000

Pension cost

1,600,000	15,000

Financial expense

15,000	

Budget and follow-up

Companies can receive assistance with budget preparation in PRI's web portal. This includes a forecasting function with the possibility to perform analysis to find the reasons behind the outcome.

The most common causes of an outcome deviating from the forecast is:

- Indexation at year-end
- Salary changes
- Death
- Termination agreement pension

In addition to using these tools, companies are also encouraged to produce their own forecasts based on their own assumptions on salaries and inflation.

Tax – ITP 2

The taxes that apply when pensions are safeguarded using the book reserve methods are income tax, tax on returns on pension assets and the special payroll tax on pension costs. The legislator's intention is for the various safeguards to be tax neutral.

Income tax – right to deduction

When income tax is levied, employers have the right to deduct the costs of safeguarding their pension commitments according to a main rule and a supplementary rule (Chapter 28 of the Income Tax Act).

According to the main rule the pension cost deduction for an employee is 35 percent of the pensionable salary, but not exceeding 10 price base amounts. The supplementary rule can only be applied for one-off contributions in the form of a "catch-up premium" if the employee's pension benefit is not sufficiently assured or, for example, in the case of early retirement pension. A deduction right test is to be carried out for each employee.

The ITP plan benefits are usually within the deduction parameters. An exception could be the cost of a few very highly paid individuals.

The main rule and the supplementary rule can in some cases be applied for the same individual. For instance, a deduction can be claimed for pension after the age of 65 according to the main rule and for pension before 65 according to the supplementary rule. The employer also has the right to a deduction for an increase in the pension liability due to increased interest and indexation.

Assets placed in a pension foundation

An employer may have the right to a deduction when choosing to safeguard its book reserved pension commitment by transferring assets into a pension foundation. There are, however, two limits on the deduction right when commitments are safeguarded in this way. When funds are paid into a pension foundation, a separate assessment is based on the rules set out below, which is not included in the calculation of the main rule and the supplementary rule:

Limit on pension reserve
Tax deductions for transfers to the foundation must not exceed the reserved pension allocated to each pension beneficiary.

Limit on foundation assets
It is not permitted for the deduction to exceed the amount required for the foundation's assets to be equivalent to the pension provision for commitments that are tax deductible. The foundation's assets are to be calculated at an amount equivalent to 80 percent of the capital at the beginning and end of the fiscal year.

Tax on returns

Tax on returns are to be paid by, among others, life insurance companies, pension foundations and employers who recognise the pension liability in their balance sheet. The tax basis is derived by multiplying the capital base by an average government borrowing rate for the calendar year before the fiscal year.

The capital base for employers who recognise the pension liability in their balance sheet consists of the pension liability – according to the pension reserve account – at the beginning of the fiscal year. Please note that there is a minimum for the government borrowing rate when calculating the tax basis. If the average government borrowing rate is less than 0.5 percent, the minimum of 0.5 percent is used instead of the government borrowing rate. The tax on returns is then 15 percent of the assessed tax basis.

The tax on returns – which is income tax deductible – is not levied on provisions that have not been deductible during the year. An adjustment can be made in the case of a financial year that is shorter or longer than 12 months and in the event of a buyout of the whole pension liability where accrued pension is transferred to Alecta pension insurance.

For pension foundations, the capital basis consists of the value of the foundation's assets at the beginning of the fiscal year, after deducting any financial liabilities as of the same date.

Example of assessment of tax on returns

A. Return = Average government borrowing rate the year before the tax year

B. Tax rate = 15 percent

C. Capital base = Pension liability (pension reserve account) at beginning of fiscal year

Tax on returns (SEK) = **A** x **B** x **C**

Average government borrowing rate x 15 percent x pension liability

→ *Numbers and percentages*

Tax – ITP 2, cont.

Safeguarding pensions in a pension foundation – focus on the net amount

If the employer safeguards its book reserved pensions by transferring funds to a pension foundation, the capital basis for the company liable to pay tax consists of the net of the pension liability and the foundation's assets. If the foundation's assets exceed the pension liability, no tax on returns is payable as no pension liability is recognised in the pension reserve account. The pension foundation always pays tax on returns on the foundation's assets.

Special payroll tax on pension costs

A special payroll tax is levied on the employer's pension costs. The tax basis is assessed based on a special payroll tax schedule, where the current percentages are also reported. The payroll tax schedule is based on the provisions in the Act (1991:687) on special payroll tax on pension costs. The tax rate for the special payroll tax is 24.26 percent.

→ *Payroll tax schedule (in Swedish)*

A special payroll tax is payable on pension payouts and pension costs, regardless of whether the right to a tax deduction exists. The cost of the special payroll tax is deductible when income tax is calculated. Credit insurance premiums and operating cost compensation paid to PRI are not included in the calculation of the special payroll tax.

→ *Numbers and percentages*

Payroll tax schedule

You can find the payroll tax schedule at pri.se and in our web portal for businesses.

Plus items in the payroll tax schedule that increase the tax basis:

A. Premiums for occupational pension insurance

B. Assets placed in a pension foundation

C. Increase in the pension reserve account
Note that *when safeguarding pensions by transferring funds to a pension foundation, the pension reserve account balance is equivalent to the net of pension liability and the foundation's assets. If the foundation assets exceed the value of the pension* liability, no pension liability is recognised in the pension reserve account.

D. Pensions paid out by the company

E. Reimbursement provided for other pension commitments transferred

F. Transfer or payment to foreign occupational pension institution

Minus items in the payroll tax schedule that decrease the tax basis:

G. Reimbursement from pension foundation

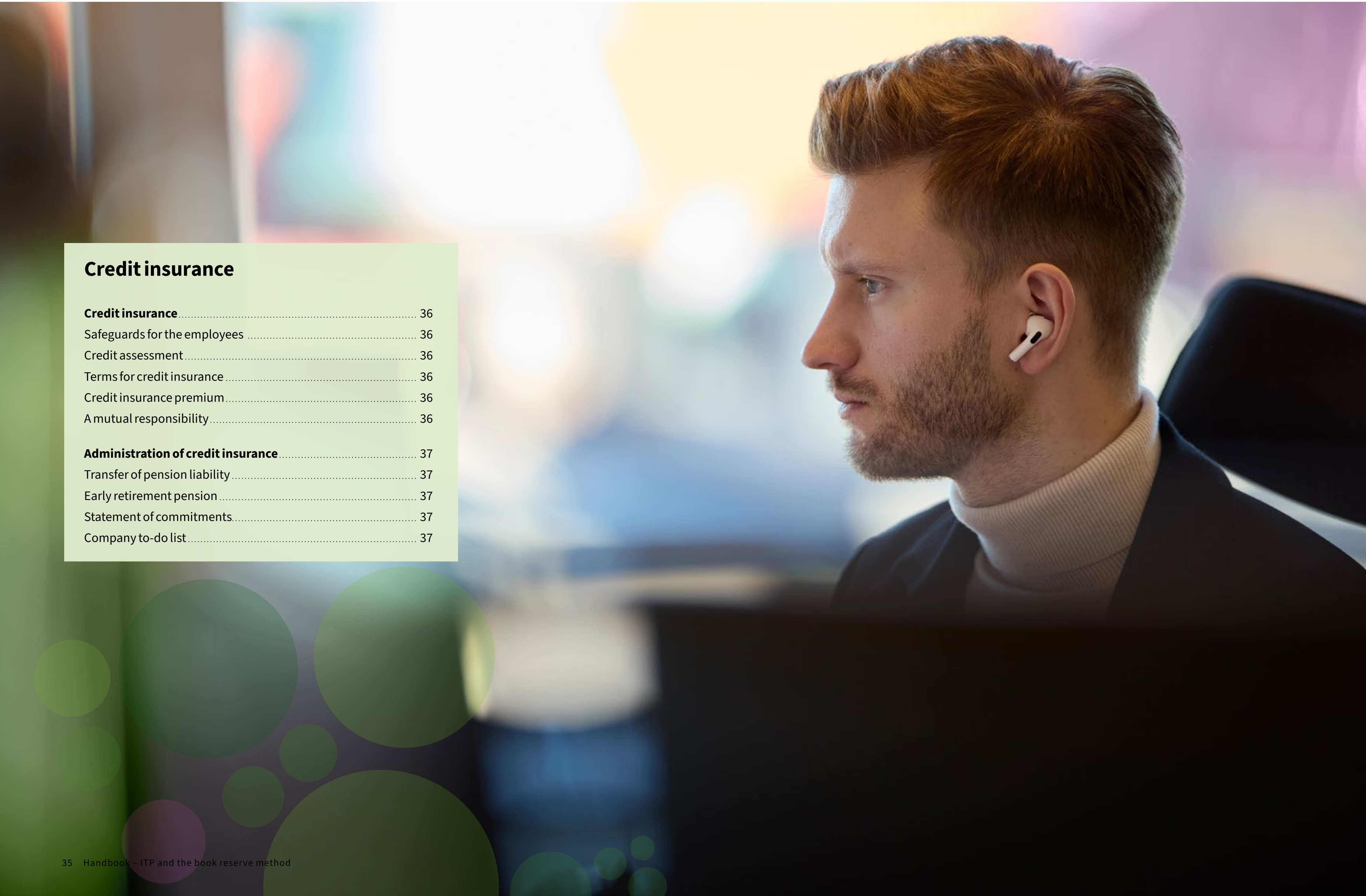
H. Contractual reimbursement of occupational pension from foreign occupational pension institution

I. Decrease in the pension reserve account
Note that when safeguarding pensions by transferring assets to a pension foundation, the pension reserve account is equivalent to the net of the value of the pension liability and the foundation's assets. If the foundation assets exceed the value of the pension liability, no pension liability is recognised in the pension reserve account.

J. The return based on a standard calculation after tax is not to be included in the basis for payroll tax. When calculating the special payroll tax, 85 percent of the average government borrowing rate the year before the fiscal year is multiplied by the pension liability (pension reserve account) at the beginning of the fiscal year.

K. Reimbursement received for pension commitments transferred

L. Negative tax basis from previous year

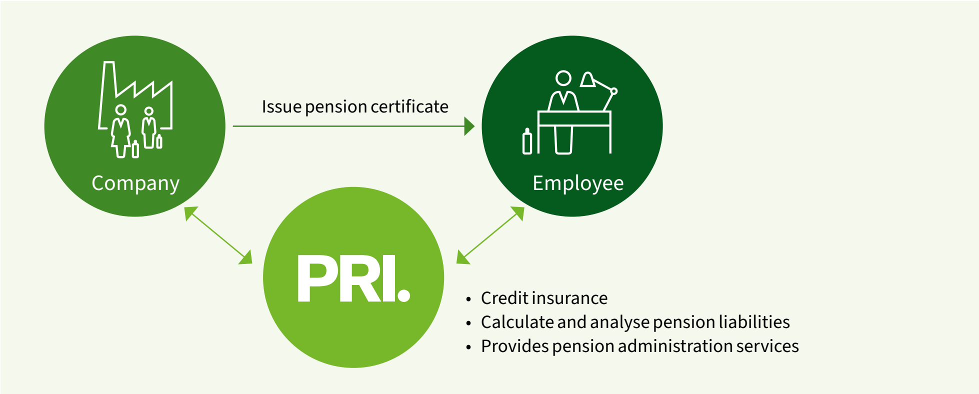


Credit insurance

Credit insurance

Safeguards for the employees

The company is required to take out credit insurance to use the ITP book reserved pension plan. This safeguards the employees' pensions. Regardless of what happens to the company, the employees receive their pension. If the company becomes insolvent, PRI Pensionsgaranti settles the pension liability through pension insurance purchased from Alecta.



Credit assessment

When applying for credit insurance from PRI Pensionsgaranti, the company includes its annual financial statements for the past three years as well as interim reports for the current financial year in the application. If the company is part of a group, the parent company's and the group's annual financial statements are to be included in the application.

The partnership between PRI and the company always starts with a credit assessment. PRI obtains information from the company and from external sources. The assessment results in a credit decision which determines the terms of the insurance.

Credit insurance terms

The contract period is from one to three years depending on the company's individual situation. If the company is part of a group our policy is for the parent company to stand surety, or in some cases a special letter of commitment.

The company's credit rating is assessed annually and during the final year of the contract PRI also carries out a more detailed credit assessment. The final month before the contract expires the company is informed of the new contract period and the terms that will apply.

If PRI Pensionsgaranti determines that the credit risk needs to be lowered, it may request various types of security, mainly in the form of floating charges and pledges. Another alternative is to freeze the pension liability. The company then switches to paying premiums to Alecta. Subsequently the pension liability increases with interest and indexation, and decreases as pension benefits are paid out and deaths.

Companies that cannot reach an agreement with PRI Pensionsgaranti on new contractual terms must gradually settle their pension liability. In certain cases, we may cancel an insurance policy with immediate effect, for example if a company discontinues its entire business. The company can at any time chose to redeem its pension commitments in Alecta.

Credit insurance premium

Every year companies pay a credit insurance premium. The level is set for one year at a time and approved by PRI's board. The premium for ITP is based on PRI's insurance liability, which is the same as the estimated cost of a pension buyout and transfer of accrued pension to Alecta insurance. The premium is discounted for any portion that is secured (e.g. by a bank guarantee, floating charge, pledge etc.). Guarantees and special letters of commitment are not securities that qualify for a premium discount. A minimum premium is charged for low insurance amounts.

In certain cases, a supplementary premium may be added as an alternative or to supplement securities.

→ *Numbers and percentages*

Mutual liability

All credit insured companies are members of PRI Pensionsgaranti, meaning they are subject to mutual liability. This liability may only be invoked in a situation where PRI Pensionsgaranti has used up all of its assets. The members' mutual liability is maximised at two percent of each company's pension liability and is described in the note on contingent liabilities in the company's annual report.

Administration of credit insurance

Transfer of pension liability

Sometimes there may be a desire to transfer pension obligations between companies. Normally the simultaneous transfer of business activities to the recipient company is required. The Safeguarding of Pension Commitments Act (Tryggandelagen) requires that those entitled to pension to approve the transfer. The local county administrative board may, however, permit the transfer of pension commitments without this approval. The matter is handled by the county administrative board in the county where the company taking over the commitments is registered. PRI Pensionsgaranti checks the credit rating of the company that will take over the pension liability.

Termination agreement pension

If the company offers its employees the option to retire before the age of 65, this commitment can be managed using the book reserve method. PRI Pensionsgaranti first needs to approve the credit insurance for an increase in the pension liability. If multiple employees will be taking termination agreement pension, the company may agree on a limit with PRI Pensionsgaranti.

Statement of commitments

At PRI Pensionsgaranti the company can request information on the security provided for the credit insurance. The information is compiled in a statement of commitments which is sent at the company's request. Companies that have put up a guarantee or provided a special letter of commitment automatically receive information on their commitments at the beginning of the year (in Swedish so-called "särskild uppgift"). If credit insurance is extended, an insurance policy is attached detailing the terms of the insurance.

Company to-do list

Every year the company is required to submit an annual report and interim reports to PRI Pensionsgaranti, and also provide information on:

- Change of ownership
- Significant changes in its operations
- Whether operations have moved or been discontinued
- Mergers

IAS 19 and US GAAP

IAS 19

IAS 19 is a set of standards for accounting of benefits for employees and former employees. It is part of a more extensive international set of standards (IFRS). Companies that adhere to the US accounting standards instead apply US GAAP for the same accounting procedures. These standards are produced by the IASB (IAS 19 and FASB (US GAAP), which are independent expert bodies.

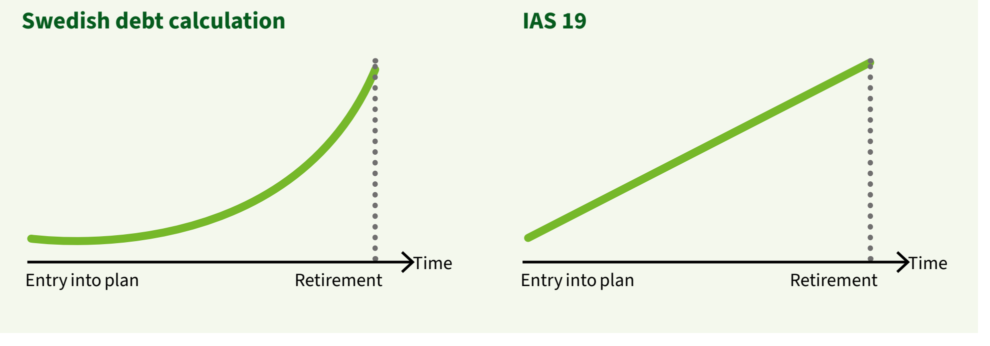
Better comparability

IAS 19 covers companies listed on a stock exchange as well as companies that are of public interest due to their size. Many Swedish companies are subject to the standard indirectly through a foreign owner who applies it.

For larger groups of companies, applying accounting standards such as IAS 19 results in better comparability between different countries. Comparability between groups of companies also increases. Companies' annual financial statements are also impacted by more disclosures and greater transparency required in the financial reporting. IAS 19 also enables a better assessment of a company's financial value. This in turn helps to provide a better basis for economic decisions, for investors or other interested parties.

Future earning of pension benefits included

The present value of a defined benefit pension commitment is calculated according to the projected unit credit (PUC) method. Unlike the Swedish calculation method, PUC considers future earning of pension benefits. The goal of the PUC method is for the pension cost to be divided evenly over time.



Preparing for calculation

Before performing an IAS 19 calculation it is important to make the following preparations, preferably in consultation with PRI Pensions- och stiftelsetjänst:

- Take an inventory and classify all promises of post-employment benefits
- Identify and establish the assumptions needed for the calculation
- Check that the basic data used for calculation is current
- Where applicable, determine the size of foundation assets
- Identify special events that have impacted the pension commitments, such as acquisition or sale of entities within the group
- Consider how to manage pension-related taxes (special payroll tax) in the financial reporting

The calculation is based on the assumptions below to be established by the company. These assumptions are to be neutral and mutually compatible. They should match the company's long-term estimate of the factors that determine the final cost of the obligations:

Discount rate

Basis for calculating the present value of pension commitments. In Sweden the discount rate is determined based on the market interest rate for housing bonds with a duration equivalent to the average remaining time to maturity of the commitment.

Return on managed assets

According to IAS 19 the assumptions on long-term returns on managed assets should have the same percentage as the discount rate.

Annual pay increases

Future pay increases within the company. The annual pay increase for the long term is usually established as inflation plus a margin, which the company believes reflects its long-term goals or expected pay increases.

Development of the income base amount

Future wage trend in Sweden. The long-term increase in the income base amount is usually set as inflation plus a margin, which the company considers to be a reasonable long-term assumption. The assumptions are meant to reflect the average wage increases in Sweden.

IAS 19, cont.

Inflation/pension indexation

Expected long-term inflation trend. For the most part, companies use one of the following two methods to establish the assumption on long-term annual inflation:

- The market's long term expected inflation, estimated as the difference between the interest rate of government and inflation-linked bonds.
- Long-term inflation goal of Sweden's central bank.

For most pension plans in Sweden, assumed pension indexation is equal to assumed inflation.

Life expectancy

The life expectancy assumption is usually based on generally accepted market practices and/or the most recent Swedish mortality table.

Turnover rate

Expected employee turnover before retirement age. This assumption is meant to reflect what percentage of employees in the pension plan will choose to leave company each year. This is intended to be a long-term assumption and does not include retiring employees or turnover due to terminations or other extraordinary reasons. The company is to indicate its long-term estimate as a percentage.

How does a change in the assumption's affect the liability?

Discount rate	A raised assumption on the discount rate lowers the liability
Annual pay increase	A raised assumption on pay increases the liability
Income base amount	A raised assumption on IBA (income base amount) lowers the liability
Inflation	A raised assumption on inflation increases the liability
Turnover rate	A raised assumption on the turnover rate lowers the liability

Comprehensive disclosures

The recommendation requires comprehensive disclosures on pension plans, changes in the pension liability and the assumptions used for calculations. Companies are also to submit a sensitivity analysis for each assumption that they consider significant.

US GAAP

In addition to IFRS and IAS 19 there is another set of international standards. This is called US GAAP and is used by companies that follow US accounting standards.

Calculations are based on the same assumptions and calculations used in IAS 19 and follow the same process. Main differences:

- The method of recognising gains, losses and extraordinary events.
- Preparation of the assumption on expected returns on the assets, for funded plans.

Services provided by PRI Pensions- och stiftelsetjänst also include valuation and reporting of defined benefit pension plans based on US GAAP.

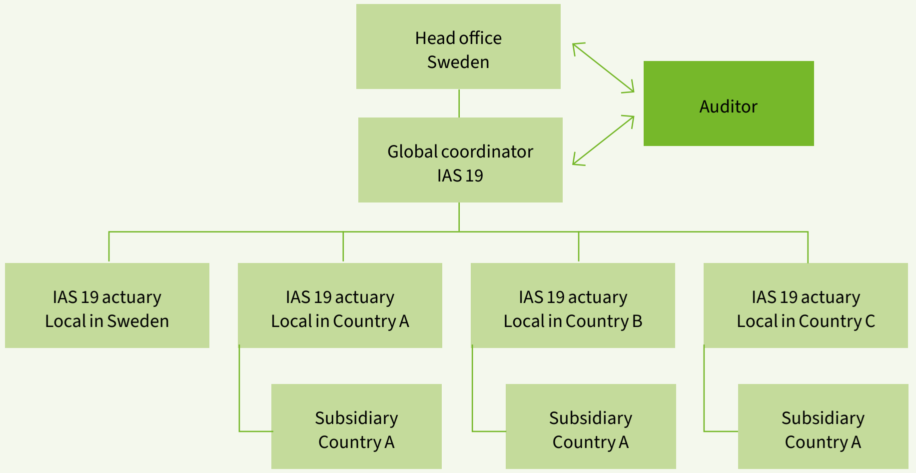
Key differences

	Swedish debt	IAS 19	US GAAP (ASC 715)
Calculation method for pension obligation	Future assumptions on pay increases and indexation are not considered. Calculated based on the situation at the time the calculation is performed.	The PUC (projected unit credit) method. Future assumptions on, for example, pay increases and indexation are considered.	Same as IAS 19
Assumptions	• Not determined by the company, follows regulation. • ITP 2: Fixed interest determined by PRI's non-profit association (PRI ideell förening). Not market related. • Variations in pension plan duration are not considered	• Determined by the company and is to reflect the company's long-term estimates. • Financial assumptions are market related • The duration of the specific pension plan is considered • Return on managed assets is the same as the discount rate	Similar to IAS 19 with the exception of returns on managed assets, which do not need to be the same as the discount rate.
Recognised in OCI	Not recognised in OCI[1].	Remeasurements recognised in OCI	Remeasurements are normally recognised in AOCI[2] and amortised partially in the income statement on an annual basis.
Other	The pension liability includes: • Capital value • Funding reserve • Special indexation funds	• Calculated based on capital value only • More comprehensive disclosures in annual financial statements • Specific accounting for special events • Specific accounting for special payroll tax	The same as in IAS 19 but with more comprehensive disclosures, and more complex accounting procedures for special events. Volontary management of special payroll tax.

1 OCI – Other comprehensive income
2 AOCI – Accumulated other comprehensive income

International coordination – IAS 19 and US GAAP

PRI Pensions- och stiftelsetjänst offers help with international coordination to companies with operations in multiple countries. The coordination guarantees the quality of financing reporting. The international retirement solutions consultancy AON provides PRI Pensions- och stiftelsetjänst with expertise on local accounting and taxes in each country. For groups of companies that work with another global coordinator, PRI Pensions- och stiftelsetjänst can prepare calculations for the Swedish companies and report the results into the global actuary's coordination system.



The coordinator assists with:

- Quality assurance of results
- Knowledge on multiple countries

The coordinator delivers:

- Process planning
- Proposed parameters
- Consistent results
- Consistent reporting template
- Management of group currency
- Dialogue with auditor

Web portal

Web portal for businesses

General information and the most recent news about PRI's services and activities can be found on our pri.se website. Company-specific information such as pension liability, pension payouts and forecasts can be found when companies log into PRI's web portal for businesses. Forms can also be downloaded here.

The web portal for businesses is often used by accounting managers responsible for pension-related matters for one or more companies in a group. The service provides information on all companies within the group.

In the portal companies can access information from PRI whenever they need it. When a company signs a web portal agreement with PRI, an access management service for the web portal is included. An employee of the company is appointed as access manager to manage user access to the web portal. Login is done via BankID.

There are various types of access authorisation set at the company and individual level for each service. Access should be reviewed every year to ensure that the right people have access to the right information.

Comprehensive service

The web portal is a comprehensive service with four sections:

- Pension administration
- Credit insurance
- File library
- Other services

Pension administration

All of the information for book reserved ITP 2 plans as well as other pension plans managed by PRI is provided here. Among other possibilities users can retrieve data for their accounting, perform analysis, prepare forecasts and get information on their PAYE tax returns.

PRI also provides administrative services for FTP at the request of FPK. In the web portal FTP companies can register and deregister plans, provide notification of sickness and recovery, register salary changes and upload files.

Credit insurance

Contains information on contract periods, insurance policies and their terms and conditions, statement of commitments and company's premium invoices.

File library

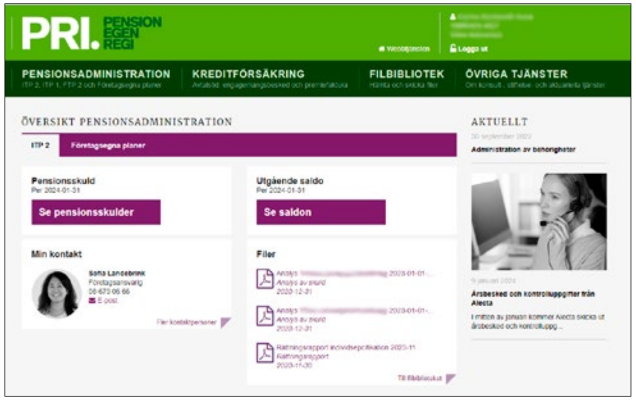
Documents uploaded by PRI that companies can use for managing pension plans. This is a secure communication channel that can also be used to send sensitive information to PRI.

Other services

PRI offers a number of other retirement pension services. These include consulting services, foundation administration and actuarial services. These are also described in the web portal.

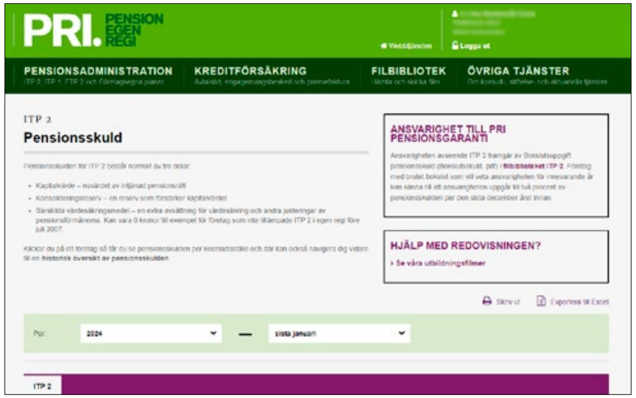
Pension administration ITP 2

This is PRI's main activity. For book reserved ITP 2 plans we offer a broad range of up-to-date information that makes it easier for companies to manage their plans. This includes everything from pension liability information, changes in liability and balances, to payroll tax data, forecasts, invoices and liability analysis. There is also a link to the file library where we publish documents such as year-end statements.



Pension liability

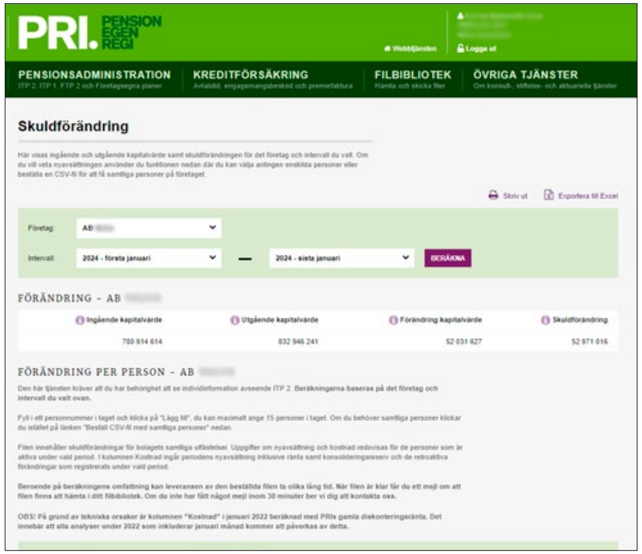
Pension liability accounting data is found here. The extent of the liability is reported as of various dates and consists of three components – capital value, funding reserve and special indexation funds.



Change in liability

This page provides an account of changes in the pension liability, at both company and individual level. Special authorisation is required to access data at individual level. At this level, changes in the liability are reported for all of the company's commitments.

Data on new contributions and costs are reported for the individuals who are active during the period selected. The cost data can also be used to calculate tax deductions based on the main rule.



Balance

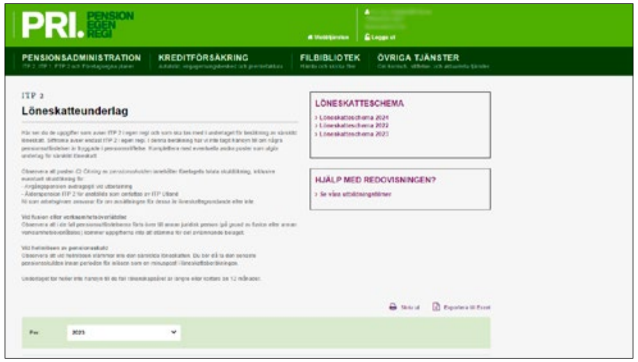
The balance statement can be downloaded from the web portal when it is time to prepare year-end accounts. The balance specifies how large a receivable or liability the company has from/to PRI. Normally companies have a receivable from PRI as the pension funds are paid into PRI to cover future pension payouts.

In addition to the opening balance for the financial year, pension contributions made in advance to PRI and how much PRI has used for pension payouts are also reported here. In addition to the annual year-end statement, monthly balances are also reported.

Payroll tax data

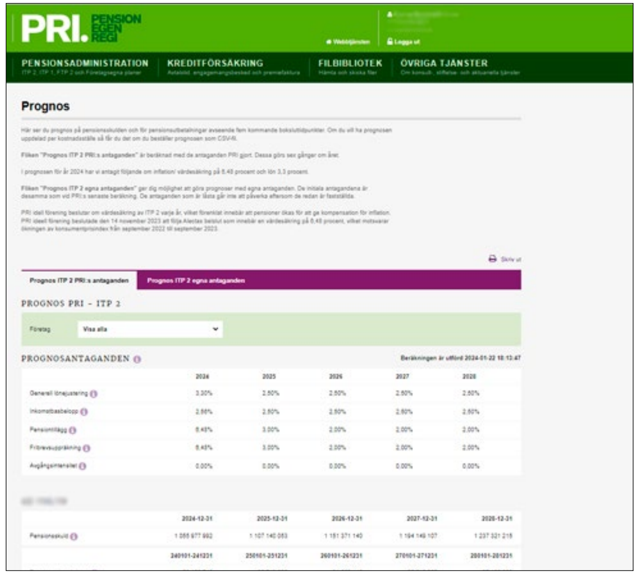
This is where companies can find information on book reserved ITP 2 plans to be used as a basis for calculating the special payroll tax. This data is only for book reserved ITP 2 plans. The calculation considers if any pension obligations are safeguarded in pension foundations or if any transfer/merger/ full buyout of pension liabilities have taken place during the financial year. The company can supplement the information with other items on which to base the special payroll tax.

→ Payroll tax schedule (in Swedish)



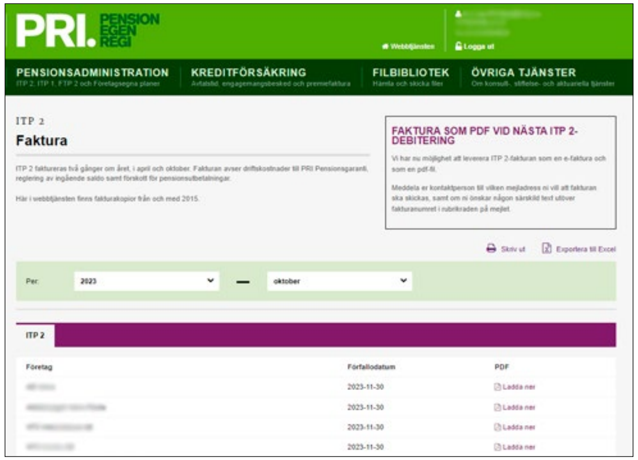
Forecasts

Forecasts are made of pension payouts and pension liabilities on the next five closing dates. Forecasts can be performed in one of two ways: based on PRI's assumptions or based on the company's own assumptions. Those requiring longer forecasts are welcome to contact PRI.



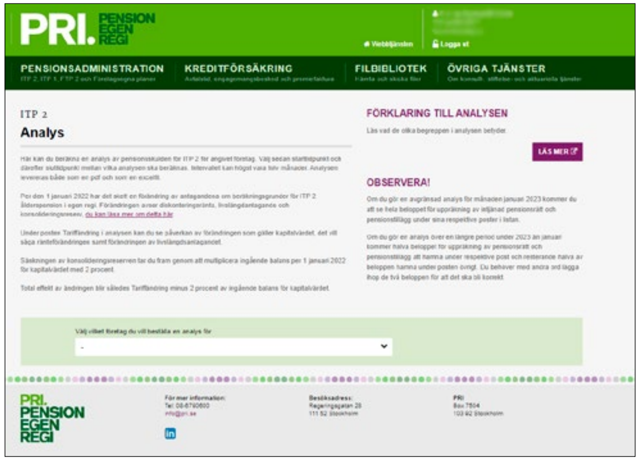
Invoice

Companies are invoiced for upcoming pension payouts twice a year. The invoice contains operating costs for administration of book reserved ITP 2 plans. Invoices can be delivered as an e-invoice or emailed as a pdf.



Debt analysis

Companies can perform their own analysis of pension liability development over a maximum period of 12 months. This analysis shows which factors have affected the liability during the chosen timeframe. Explanations of items identified as having impacted liability development are available in the web portal. PRI can also provide analysis over longer terms. Contact the person managing your company account for more information.



Companies' own plans

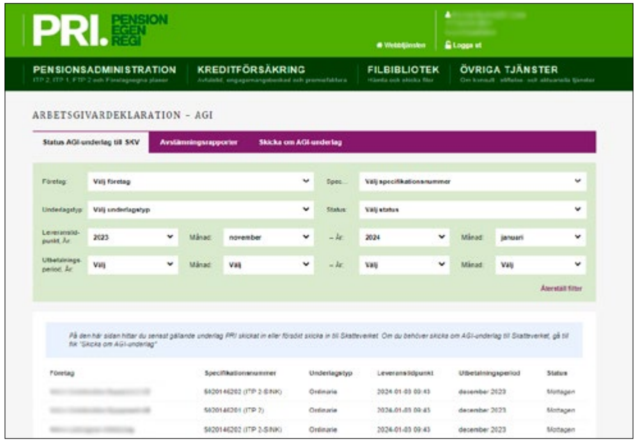
This is where information is provided on companies' own plans. These can be plans that the company has designed itself or based on a collective agreement that is not ITP 2. PRI provides administrative services and in some cases credit insurance for these plans which can cover an individual person or an entire company.

Data on pension liability, invoices and payouts is reported in the web portal.

PAYE tax return

Pension payouts that the company has financed through the book reserve method are reported in the company's monthly PAYE tax return at the time the pension benefit was earned. The web portal has the following PAYE information for ITP 2 and companies' own plans:

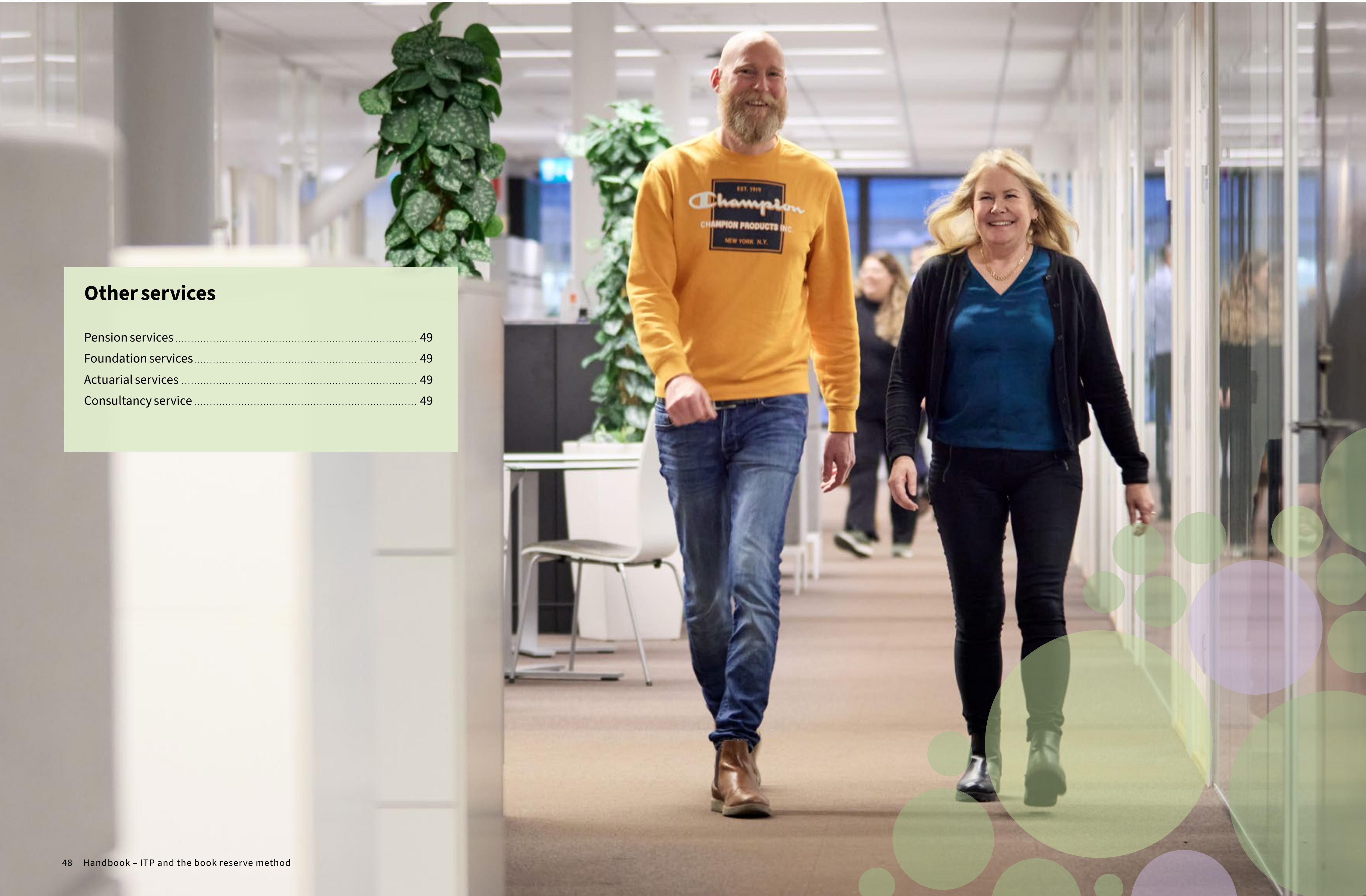
- Status of files sent by PRI to the Swedish Tax Agency
- Reconciliation reports
- Option to resend PAYE files to the Swedish Tax Agency



PAYE – Overall process

Month

25th	1st	5th	12th
Alecta pays out pensions to the retirees. Alecta then sends the files containing personal data to PRI.	PRI uploads the PAYE documents to the Swedish Tax Agency via open API. This takes place on the first business day of the month following payout. The PAYE tax return report is published in PRI's web portal.	PRI deposits the tax payment into the employer's tax account. This takes place no later than the fifth banking day the month after payout.	Signing of the PAYE return in the Swedish Tax Authority's e-service.



Other services

Other services

Over the years we have added to PRI's offering which now includes a number of services relating to occupational pension plans. This has enabled us to provide comprehensive support to businesses in an area that requires expertise, time and attention. We offer these services through our subsidiary PRI Pensions- och stiftelsetjänst.

Pension services

The pension plans we work with in addition to ITP 2 are mainly collectively bargained occupational pensions such as BTP and FTP, and other pension funds, as well as companies' own pension plans and termination agreement pensions where the book reserve method is used. We also provide credit insurance and administration services for ITP 1 for companies that have opted to create their own pension plan within the framework of ITP 1.

Pension services include:

- Customer service for individuals
- Benefit calculation
- Pension liability calculation
- Pension benefit payment
- Paid-up policy register
- Benefit recipient review

Foundation services

We offer full support for administration, accounting and digital tools. We essentially function as the foundation's finance department, offering assistance in the form of task relief, organisation, risk minimisation and regulatory compliance.

We offer our foundation services to:

- Pension foundations
- Profit-sharing foundations
- Performance return sharing foundations

Actuarial services

We assess the value of pension commitments for ITP 2 and other pension plans according to Swedish accounting standards and international standards such as IAS 19 and US GAAP.

In addition to assessing the value of pension commitments, we also offer a broad range of actuarial services:

- IAS 19 coordination
- Parameter analysis
- Cash flow forecast and analysis
- Bridge between IAS 19 and Swedish accounting standards
- Training for our customers

Consultancy service

PRI's pension consultants offer expertise in an area that requires time and careful attention. We resolve complex pension issues – both in preparation for strategic decisions and in more urgent situations. We are independent and only act at the request of our member companies. We have no financial interest in the employers' or employees' choice of products.

Glossary

Glossary

Alecta
Alecta Occupational Pension Mutual is an occupational pension company. Alecta manages the majority of the ITP occupational pension plans for around 33,000 companies on behalf of the Confederation of Swedish Enterprise and PTK.

Avtalat
Avtalat offers information and guidance to private sector companies and their employees on collectively bargained occupational pension and insurance. Avtalat was formed by LO, PTK and the Confederation of Swedish Enterprise.

Balance
The balance arising in ITP 2 is the result of the company's financial transactions with PRI Pensionsgaranti. A year-end balance statement is published in PRI's web portal for businesses for the preparation of the company's year-end accounts.

Book reserved pension plan
With pension plans where the book reserve method is applied the company manages the pension assets itself until pensions are paid out. This is an alternative to purchasing occupational pension insurance from an insurance company. In order to offer book reserved ITP plans the company is required to purchase credit insurance.

BTP
BTP stands for Bankernas Tjänstepension and is occupational pension for employees of the banking and finance industry. PRI provides administrative services for BTP for some of the major Swedish banks.

Buyout of pension obligations and transfer to Alecta insurance
Within ITP 2 a pension buyout involves a company purchasing insurance from Alecta corresponding to all or a portion of its pension commitments. The pension liability ends for the corresponding pension commitments.

Capital value
Capital value is the individually calculated present value of the pension benefit that an employee has earned. For ITP 2 the capital value is a component of the pension liability.

Collectum
Collectum manages the administration of ITP plans. The company was formed at the initiative of labour market parties, the Confederation of Swedish Enterprise and PTK.

Confederation of Swedish Enterprise
The Confederation of Swedish Enterprise (Svenskt Näringsliv) represents small, medium and large companies. The companies are members of various industry and employer associations.

Cost equalisation
The pension cost for an ITP 2 plan may not exceed a certain percentage of the employee's salary. Through cost equalisation, all companies that offer book reserved ITP 2 bear the costs collectively. Cost equalisation is recognised in the year-end balance statement and consists of two components: payment obligation and right to reimbursement.

Defined benefit pension
ITP 2 retirement pension plans are defined benefit plans. This means that the employee is guaranteed a pension that is a certain percentage of their final salary.

Defined contribution pension plan
In a defined contribution pension plan the size of the pension is determined by the size of the contributions paid in, the return on these assets and the amount of the fees charged by the asset manager. ITP 1 and ITPK are defined contribution pension plans.

PRI non-profit association
PRI non-profit association (PRI Ideell förening) is independent from the insurance company PRI Pensionsgaranti. Its function is to establish the assumptions used to calculate the pension liability for book reserved ITP 2 plans.

Disability pension
ITP includes disability pension which goes into effect after 90 days of sickness. To receive benefits the employee must, under normal circumstances, qualify for benefits from the Swedish Social Insurance Agency (Försäkringskassan).

Discount rate
Discount rates are used for present value calculation. When calculating the present value of a company's ITP 2 pension commitments, a discount rate set by PRI's non-profit association is applied. The pension liability is adjusted according to this rate on a monthly basis.

Family pension within ITP 2
ITP 2 includes a pension for a surviving spouse, registered partner and children for employees with a salary exceeding 7.5 income base amounts. The family pension premium is paid into, and the pension paid out by, Alecta.

Financial expense
In accordance with generally accepted accounting principles, the total pension cost for companies that offer book reserved ITP 2 plans is divided into two components: operating costs and financial expense. Financial expense is measured based on how much the pension liability will increase as a consequence of interest rate increases and indexation.

Frozen pension liability
The pension liability is considered frozen when no further contributions for additional pension are made. ITP 2 plan premiums are paid to Alecta for current employees of the company and the pension liability only covers previously earned benefits. However, the liability increases in line with the discount rate and decreases as pensions are paid out.

FTP
FTP is a collectively bargained occupational pension for employees in the insurance industry. PRI Pensions- och stiftelsetjänst provides administrative services for FTP (insurance industry's occupational pension plan) on behalf of FPK (the occupational pension association of insurance industry pension fund).

Glossary, cont.

Funding reserve
An extra reserve that is included in the ITP 2 pension liability. The purpose of the reserve is to ensure future indexation of the pensions.

IAS 19
International Accounting Standard 19 addresses accounting for employee benefits.

IASB
The International Accounting Standards Board is an independent expert body focused on international harmonisation of accounting standards. IASB establishes accounting standards according to IFRS.

IFRS
The International Financial Reporting Standards are used by listed companies and companies that are of public interest due to their size. IAS 19 is one of the IFRS standards.

Income base amount
The income base amount (IBA) tracks the changes in the general income level in society. For ITP 2 plans the income base amount mainly affects the income parameters used to calculate pension benefits.

Inheritance gain
Inheritance gain is where a deceased person's pension assets are shared between those covered by a corresponding benefit.

Interest on balances
A company has, or has to pay, interest on in the balance that arises during the year in transactions with PRI Pensionsgaranti for ITP 2. The interest is preliminary and the final amount is established in December by the board of PRI Pensionsgaranti.

ITP
ITP is collectively bargained occupational pension for salaried employees in the private sector. ITP is based on a collective bargaining agreement between the Confederation of Swedish Enterprise and PTK (council for negotiation and cooperation), a joint organisation of member unions.

ITPK
ITPK is a supplementary defined contribution pension plan the structure of which the employees themselves can influence. ITPK exists within the framework of ITP 2. Pension premiums are invoiced by Collectum, which forwards the contributions to the insurance company chosen by the employee. If an employee has not actively chosen an insurance company, the insurance is provided by Alecta.

Life expectancy assumption
A life expectancy assumption is based on statistics and is an estimate of how long the insured person will live. The longer the person is expected to live the more pension will be paid out. In a defined benefit pension plan the provisions need to be higher if life expectancy increases. In a defined contribution plan the monthly pension instead decreases when life expectancy increases.

Limit
Credit insurance with a limited guarantee, which can be used in the case of early retirement pension.

Mutual liability
Members of PRI Pensionsgaranti have a mutual liability limited to two percent of the company's pension liability. This liability can only be applied if PRI Pensionsgaranti's assets and untaxed reserves have been used up.

Occupational pension
Pension that is paid for by the employer.

Operating expenses ITP 2
Twice a year – in April and October – PRI Pensionsgaranti issues invoices to companies its operating costs for the ITP 2 administration assignment.

Original ITPK
Original ITPK is earned before the individual has made their ITPK choice. Original ITPK does not include any repayment cover or family cover. There is currently no new earning of original ITPK, neither within Alecta nor under book reserved ITP plans.

Paid-up policy
The value of vested pension benefits.

Paid-up policy holder
Individuals who have earned pension benefits within the company but who are no longer employed and have not yet retired.

Payment obligation
ITP 2 limits a company's costs for individual employees. All companies offering book reserved ITP 2 plans bear the costs collectively. The payment obligation is the company's share of these costs and is part of the cost equalisation process.

Pension foundation
A pension foundation is an independent legal entity. The foundation's assets function as a pledge guaranteeing the company's pension commitments within the framework of the foundation's purposes.

Pension liability
The ITP 2 pension liability consists of capital value, funding reserves and special indexation funds. The pension liability is recognised in the company's balance sheet or is safeguarded through a pension foundation.

Premium waiver
ITP includes a premium waiver. This waiver means that during the period when an employee is sick and has been granted compensation from the Swedish Social Insurance Agency, the company does not need to pay pension premiums.

PRI Pensionsgaranti
PRI Pensionsgaranti is a mutual credit insurance company, the main task of which is to provide credit insurance and administrative services for book reserved ITP plans.

PRI Pensions- och stiftelsetjänst
A subsidiary of PRI Pensionsgaranti. PRI Pensions- och stiftelsetjänst offers services such as actuarial and pension services outside of ITP 2, as well as foundation services.

Glossary, cont.

Price base amount
The price base amount (PBA) tracks inflation and changes accordingly. For pension benefits, the price base amount primarily affects the statutory insurance policies, but also affects ITP disability pension.

PTK
The PTK council on negotiation and cooperation is a joint association representing salaried employees in the private sector.

PUC method
The projected unit credit (PUC) method is used to calculate liabilities according to IAS 19. When calculating the present value of a pension commitment, the PUC method considers factors such as future salary increases.

Reimbursement
The company is reimbursed from the pension foundation for its pension costs. Reimbursement is regulated by Chapter 14 and 15 of the Safeguarding of Pension Commitments Act.

Repayment cover
Pension for survivors. When an insured person who has taken out repayment cover dies, their family receives the value of the earned pension. This is, for example, included within the framework of ITPK.

Retirement pension
Pension paid out when a certain age is reached. Payout can be lifelong or temporary.

Right to reimbursement
Under ITP 2 there is to be a limit on a company's costs for individual employees. All companies offering book reserved ITP 2 plans bear the costs collectively. The right to reimbursement is reimbursement for the company's own surplus costs and is part of the cost equalisation process.

Special indexation funds
Special indexation funds are part of the ITP 2 pension liability and constitute an extra provision for index-link pensions or for other pension-related purposes. These funds may only be used after an agreement is reached between the Confederation of Swedish Enterprise and PTK.

Special letter of commitment
A promise to provide a guarantee under special circumstances.

Special payroll tax
Companies are required to pay a special payroll tax on pension costs. A calculation schedule for each year is available at pri.se and in the web portal.

Surety
A company assumes financial responsibility for another company.

Tax on returns
Tax on returns is a government tax on returns from retirement savings. It is levied on the basis of a standard calculation of the return.

Termination agreement pension
Termination agreement pension is an occupational pension that is paid out to an employee ahead of their normal retirement age. Termination agreement pension is based on an arrangement between the employee and their employer on ending employment early in return for a pension.

TGL occupational group life insurance
TGL is a type of group life insurance based on a special collective bargaining agreement between the Confederation of Swedish Enterprise and PTK. It consists of an income tax-exempt, one-off sum that is paid out if the insured person dies before reaching retirement age.

Transfer of ITPK
Employees have a right to transfer their original ITPK to one of the eligible insurance companies.

Upward adjustment of paid-up policy
Upward adjustment of vested pension benefits to compensate for inflation. At the end of each year Alecta's board decides on any upward adjustment of ITP 2.

US GAAP
US GAAP is an international accounting standard used by companies that adhere to US accounting standards.

Web portal for businesses
PRI's customers have access free of charge to company-specific information in the web portal for businesses, which can be found at pri.se.

Year-end balance statement
The year-end balance statement contains information on the company's financial transactions with PRI Pensionsgaranti. It is available in the web portal for companies that offer book reserved ITP 2 plans.

Year-end pension liability statement
Year-end pension liability statement contains information on the size of the pension liability. It is available in the web portal for companies that offer book reserved ITP 2 plans.