

# THE PENSION MARKET IN TRANSITION:

SIX STRUCTURAL SHIFTS RESHAPING  
THE SWEDISH PENSION SYSTEM

**1.3 million**

Swedes are expected to enter retirement over the coming decade

**1,800+ bSEK**

Expected to transition into the payout phase in the pension systems

**22%**

of the Swedish population is expected to be 70 or older by 2070, compared with only 16% in 2024

Arkwright

## EXECUTIVE SUMMARY

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After several decades of strong capital accumulation, supported by favourable market conditions, the Swedish pension system is now moving into a new phase of large-scale payouts. Over the coming decade, approximately 1.3 million Swedes are expected to retire, bringing more than SEK 1,800 billion in pension assets into the payout phase, much of it from the relatively new defined contribution (DC) arrangements.

As the pension systems mature and individuals shift from savings to withdrawals, the demands placed on products, advice, and asset management are fundamentally changing. What worked in an accumulation-focused environment is no longer sufficient.

### Six strategic priorities for the decade ahead:

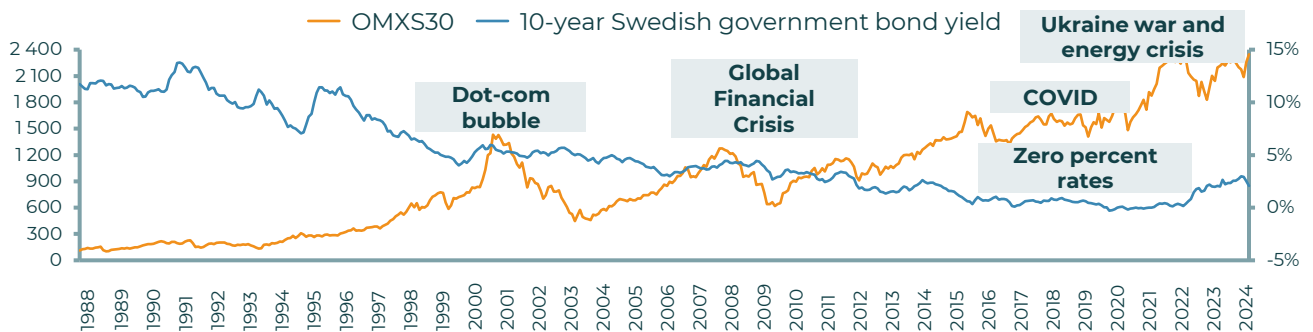
- 1. Design for payouts, not only savings:** Shift from a growth-only mindset to building payout solutions that manage longevity, sequence risk, and income stability throughout retirement.
- 2. Look beyond target-date funds:** Reassess automatic age-based de-risking models that may be overly conservative and erode long-term return potential.
- 3. Turn advice into a competitive advantage:** Modernize advisory models by strengthening withdrawal guidance and leveraging AI to deliver cost-efficient, scalable, and personalized support.
- 4. Asset management quality over fees:** Move beyond fee competition and differentiate through consistent, high-quality investment performance.
- 5. Expand the role of private assets:** As more value creation shifts to private markets, pension portfolios need broader access to unlisted assets, supported by fund structures capable of managing liquidity and payouts.
- 6. Build for transparency:** EU initiatives such as Value for Money and Open Finance are increasing scrutiny of fees, returns, and outcomes. This intensifies competition and creates new opportunities to differentiate.

Taken together, the coming decade will test whether current products, advice, and capital management frameworks are fit for a maturing pension system.

## THREE DECADES OF TAILWIND, BUT NOT A BLUEPRINT FOR THE FUTURE

**T**he Swedish pension market is facing a structural shift. After several decades of capital accumulation, the systems are now entering a new phase in which pension capital will increasingly be converted into payouts. Over the coming decade, approximately 1.3 million Swedes are expected to retire, driven by an ageing population and large cohorts now reaching retirement age. As a result, more than SEK 1,800 billion in pension capital will gradually move into the payout phase, where a large share will be paid out within the relatively new defined contribution systems.

Over the past thirty years, favourable market conditions have also played a major role, with strong equity market performance and falling interest rates. This has created a long period of tailwinds for pension capital, yielding a buildup of surpluses, buffers, and strong results.



As pension systems mature and more individuals move from savings to payouts, the demands placed on pension products, advice, and asset management are increasing. Suboptimal fund choices, insufficient product design and development, and overly constraining investment structures no longer suffice and have a significant impact on pension outcomes. Going forward, retirees will not only demand returns, but will increasingly also expect stable, relevant and predictable pension withdrawals over time. These shifts are reshaping the Swedish pension market and form the focus of this report.

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## FROM ACCUMULATION TO PAYOUT

The maturing pension market is shifting focus from accumulation to payouts, placing new demands on products, advice and asset management

The Swedish pension system has for several decades focused on capital accumulation, with a focus on efficient savings and accumulation. As a result, less attention has been given to the next stage: the payout phase, where the accumulated capital must be converted into a stable, relevant and predictable pension.

*The “simple” task of growing capital is being replaced by the far more complex task of ensuring the capital lasts long enough for each individual.*

### Key factors that market participants must address in the payout phase

- **Sequence risk:** Market downturns early in the payout phase have a disproportionately large impact on capital. This risk is amplified by products that lock in risk levels and limit participation in subsequent market recoveries.
- **Longevity risk:** The risk that individuals outlive their pension capital.
- **Liquidity and income stability:** Ensuring stable and predictable income payments over time.

### Implications for products and services

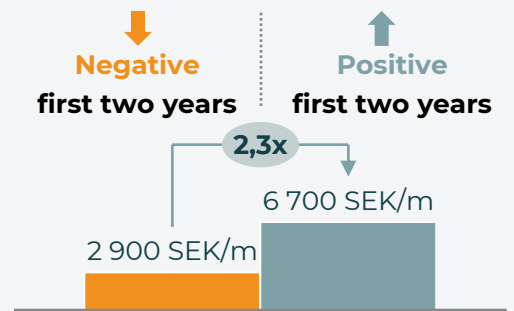
The shift from saving to payouts requires:

- New competencies and advanced analytical tools
- New and redesigned pension products and payout structures
- A clear shift from a product focus (“what”) to an outcome focus (“how much”)

### Sequence risk: illustrative example

**Average monthly payout with the same long-term return**

1M SEK, 2% return, 4% annual withdrawal



“It is not in the fund industry’s DNA to design products that ultimately aim to pay out the capital. That has to change.”

— Larry Fink, Charman and CEO, BlackRock

### Why the “traditional insurance vs. unit-linked” debate is the wrong question

This fails to address the pension savers’ most important questions: *How large will my pension be? How stable will my income be over time? How long will my capital last?* The answer is rarely binary, but rather a combination or an entirely new type of solution.

**Structural changes have gradually made parts of the existing product offering less suited to today’s needs, particularly regarding the payout phase. This creates an opportunity to rethink how pension products, advice, and payout solutions are designed going forward.**

## THE HIDDEN COST OF PENSIONS

**Target-date funds and a lack of total portfolio perspective result in missed returns and lower expected lifetime pensions**

Target-date funds and age-based de-risking have become the standard for pension savings in Sweden, without sufficient analysis of the consequences. Today, almost a third of Sweden's pension capital, around SEK 3 trillion, is invested in target-date funds, primarily within the premium and occupational pension systems. While the intention has been good, to gradually reduce risk, it often comes at the expense of lower pensions without adapting to individual needs or longer working lives.

### De-risking at the "Peak Capital" stage costs returns

In generation funds, the shift from equities to low-risk, low-return bonds typically begins when capital is at its largest - at the "peak capital" stage - creating a significant opportunity cost in foregone returns.

~ 20%

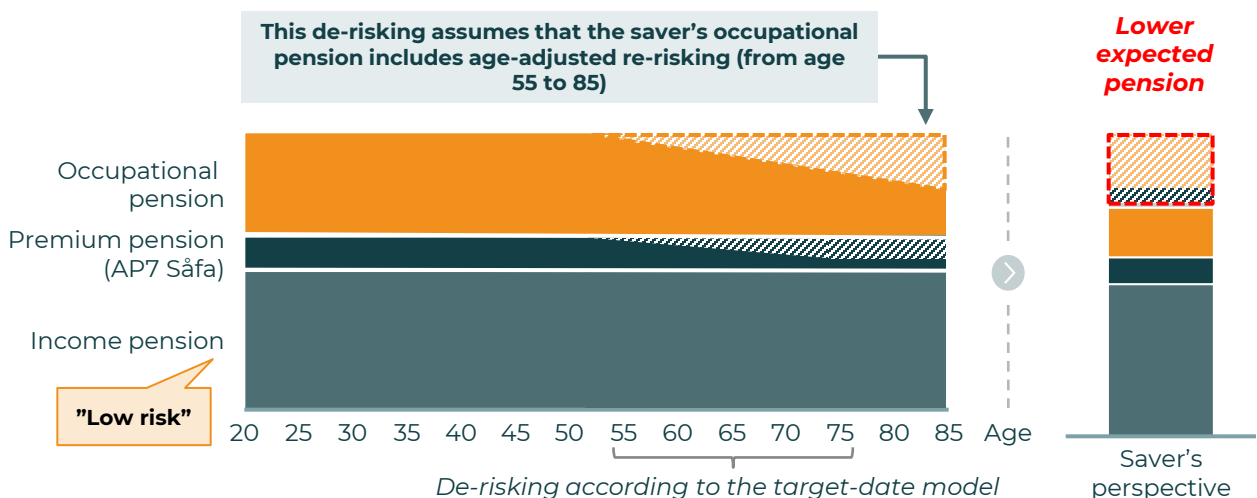
**Less expected final capital with only one percentage point lower return**

### Standardized age-based de-risking overlooks individual circumstances

Age is often used as a simple rule for reducing the risk in target-date funds, but it misses differences in risk tolerance, life expectancy, and pension needs within age cohorts. For example, individuals with strong pensions may benefit from staying invested for growth, while others may prefer greater income stability.

### Capital risk is optimized in isolation rather than holistically

For most Swedes, the low-risk income pension already represents 50-60% of the total pension. Additional automatic de-risking in the premium and occupational pensions (where ITP, for example, allocates roughly half of the capital to traditional insurance by default) leads to an overly conservative total pension portfolio, as illustrated below.



**The shift from defined benefit to defined contribution pensions transfers risk to individuals, who must bear the consequences of default fund choices and mandatory allocation structures. Although target-date funds may provide a sense of security, a more holistic portfolio perspective is increasingly important.**

## RETHINKING PENSION ADVICE

The value creation of pension advice is shifting from saving to payouts and AI-supported decision-making, creating new opportunities for competitive advantages

Pension advice has historically focused on saving and fund selection, often at significant cost. Increasingly, the focus is shifting toward pension planning and the payout phase, where AI tools enable more scalable and cost-efficient advice for a broader audience.

### Shift in focus of pension advice

- **Greatest value near retirement:** Advice close to retirement (ages 55-65, historically) is generally more valuable and situation-specific than early-stage advice, as decisions are more complex, situation-dependent, and highly individualized. In this phase, advice is particularly valuable in capturing upsides and limiting downsides.
- **An underprioritized area with clear opportunities:** Many market participants still focus primarily on the savings phase, while advice related to payouts and withdrawal strategies remains limited. This creates significant opportunities for differentiation and value creation.

# 80%

of pension advice is expected to be AI-driven by 2030

### Shift in how advice is delivered with the help of AI

**AI becoming the primary advisory tool:** By 2030, up to 80% of pension advice is expected to be AI-driven, offering analyses, simulations, and continuous insights as a service. Human advice will increasingly focus on complex and high-value decisions, with the level of involvement varying by customer segment and situation.

The shift is already underway, with traditional wealth managers facing pressure as AI makes analysis and advice more efficient, standardized and widely accessible. This demonstrates that AI is quickly becoming a prerequisite rather than a complement.

### AI-driven advisory models going forward

Model	Typical customer segment	Future role
Fully automated	Young savers, mass market, simple needs	Baseline service among all providers
Hybrid	Affluent individuals, entrepreneurs	Dominant model
Traditional	Established clients with multiple pension sources	Niche premium service

**A shift in how advice is delivered is expected, where AI enables greater accessibility and more cost-efficient advice. The development is positive but depends on customers' trust and acceptance.**

## ASSET MANAGEMENT QUALITY IS THE KEY DIFFERENTIATOR

### The shift from fee to quality-driven competition

In recent years, there has been significant fee pressure in the Swedish pension asset management market. Therefore, the traditional argument against active management, that higher fees erode excess returns, is increasingly losing relevance. When fees are no longer the key differentiator, the focus shifts instead to the much more important capability of generating future returns.

#### Quality in asset management yields better pensions

For many providers, the quality of asset management has long been secondary to fees and product standardization. In these mature pension systems, however, this is no longer sufficient. What creates real value, and ultimately better pensions, is the ability to deliver sustainable and strong returns through high-quality asset management.

This means that the long-term outcome for savers must be the primary objective of asset management, not low fees alone. Relevant comparisons between funds should therefore be made net of fees, where both fee levels and long-term performance are considered.

**+12 000**  
**SEK/month**

**This can be the difference between high-quality and average asset management for an average-income earner with three percentage points higher annual returns**

#### Key quality criteria

In this context, it becomes critical how pension providers, pension choice centers, and fund platforms evaluate asset managers. Three key criteria should be assessed:

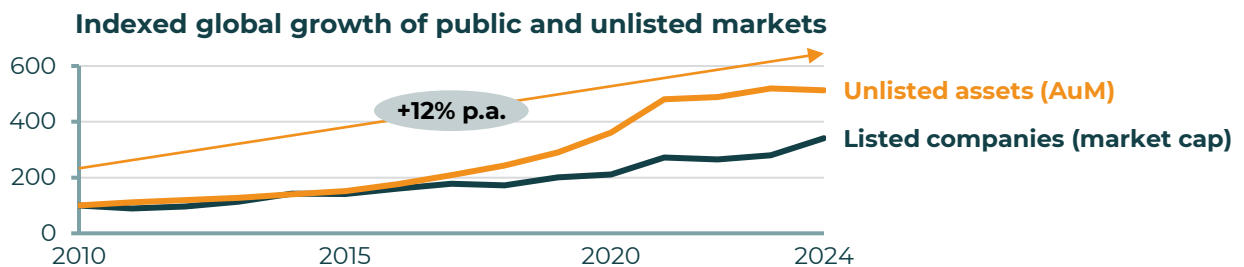
- 1 Investment capability and resources**  
The ability to deliver long-term returns requires the right expertise, sufficient resources, and a stable investment organization.
- 2 Process and methodology**  
High-quality asset management is characterized by a clear, consistent, and repeatable investment process that builds credibility.
- 3 Governance and risk control**  
Strong governance and effective risk management are essential to ensure that the strategy is implemented as intended, including ESG considerations.

**Average asset management is no longer a sustainable option for pension savers. A good pension requires robust and relevant returns, making the quality of asset management key.**

## THE GROWING IMPORTANCE OF UNLISTED ASSETS

**Unlisted assets offer attractive return potential but create new challenges in the payout phase**

Value creation in the global economy is increasingly shifting toward private markets. Fast-growing companies remain private for longer, meaning public equity markets are increasingly dominated by more mature and slower-growing firms. For pension savers seeking exposure to the full growth potential of the economy, allocations to unlisted assets are therefore becoming more important.



### Unlisted assets enable diversified sources of return

Investments in unlisted assets provide access to earlier stages of company growth and a broader set of value drivers. This contributes to greater diversification, lower short-term volatility, and more stable long-term return patterns, all of which are particularly valuable for pension portfolios.

### What is the optimal allocation?

Experience from leading international pension funds suggests that an allocation of around 20% to unlisted assets is often necessary to achieve competitive long-term returns, in a context of lower expected growth and more limited return opportunities in traditional public markets.

# 20%

**Target allocation to unlisted assets among leading international institutions**

### The challenge: illiquid assets versus liquidity needs

While unlisted assets may enhance return potential, they also introduce new challenges in the payout phase, when predictable cash flows are essential. Key questions arise: *What share of unlisted assets is sustainable during the payout phase? How can sufficient liquidity be ensured over time? How can forced reallocations during market downturns be avoided?*

### Implications for pension providers

Investments in unlisted assets require the right structures and capabilities, including:

- Deep specialist expertise in private markets
- A robust investment organization designed for long-term management
- Strong internal capabilities in operations, legal processes and transaction execution

***Investments in unlisted assets are essential for the future returns and pension outcomes, but require new fund structures and capabilities to manage liquidity and payouts***

## REGULATION IS PLACING NEW DEMANDS ON PENSION PROVIDERS

Regulation is driving greater transparency, creating both tighter requirements and new opportunities

Pension systems are fundamentally evolving, as national and international regulations both shape and respond to developments in the pension market. Overall, there is a clear shift from institutions toward individuals, with greater emphasis on empowering individuals and enabling long-term value creation. Four regulatory initiatives illustrate this development:

### Increased flexibility in payout rules

*More flexible lifelong income becomes possible from January 2025*

- **Right to pause withdrawals:** Pensions no longer need to follow a fixed payout schedule
- **Right to extend withdrawals:** Individuals may pause or adjust their withdrawal period
- **Technical exemptions:** Withdrawals may be reduced, for example during periods of market downturns

### Growing adoption of the “Pot for Life” model

*The compounding effect is preserved throughout the entire working life*

- Pension capital automatically follows the individual when changing jobs
- Introduced in Australia and Norway in 2021; currently discussed in the UK
- The right to transfer pension capital from one insurer to another enables better pension solutions and a clearer overview for individuals

### “Open Finance” and FIDA enable consolidated pension overviews

*From fragmented systems to greater transparency*

- Customers gain the ability to collect and share all their financial data in one place
- Increased transparency, making fees, conditions and actual returns easier to understand and compare
- EU agreement reached in 2023; implementation expected

### “Value for Money” framework puts quality and outcome in focus

*Product quality will be judged by long-term outcomes, not low fees*

- In December 2025, a political agreement was reached within the EU on RIS, where Value for Money will become a key requirement
- Asset managers must be able to justify their costs through quality and results
- The Swedish Financial Supervisory Authority (FI) has also made this a supervisory priority for 2026

***New regulations are increasing requirements for flexibility, transparency and accountability. Rather than viewing this as a threat, pension providers should focus on the opportunities that arise to deliver clearer customer value and strengthen trust***

## SIX MUSTS FOR PENSION PROVIDERS

Those who fail to adapt their products, advisory models, and investment structures risk losing relevance quickly

1

### Design for payouts, not only savings

The payout phase is not simply an extension of the savings phase. It requires a different logic, with greater focus on payout design, advisory support, and management of sequence risk and longevity risk.

2

### Look beyond target-date funds

Target-date funds have served as a natural starting point, but standardized age-based de-risking often results in suboptimal risk levels in the overall portfolio, particularly around the “Peak Capital” stage. Pension providers should move toward a total portfolio perspective and more individualized risk management.

3

### Turn advice into a competitive advantage

Pension providers that engage with savers late in the working life and deliver AI-enabled scalable advice will strengthen their competitive position.

4

### Asset management quality over fees

Providers must take responsibility for selecting, monitoring and communicating investment solutions that deliver strong long-term returns and relevant risk exposure, not only low fees. This will make a meaningful difference to outcomes.

5

### Expand the role of private assets

In order to achieve future return targets, pension portfolios need greater exposure to unlisted assets. Providers must therefore develop structures that allow illiquid assets to be integrated effectively, including in occupational pensions.

6

### Build for transparency

Pension providers with complex structures, legacy IT or unclear customer value risk becoming irrelevant as new regulations increase demands for transparency and accountability.

**For the pension industry, the implication is clear:** future leaders will be defined by how well they adapt to these major shifts

## ABOUT ARKWRIGHT

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Arkwright is a management consulting firm with offices in Stockholm, Oslo, Hamburg and London. Since 1987, Arkwright has provided advisory services focused on strategy, growth and transformation. We work closely with our clients, emphasizing practical solutions and deep understanding of the industries in which we operate.

The Stockholm office has extensive expertise in financial services, with a particular focus on pensions, insurance, banking and asset management. We work with a broad range of clients, including pension providers, insurance companies, pension funds, asset and wealth managers, regulators, banks and private equity.

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