ENDOWMENT INSURANCE

Endowment Insurance Policies

– Why and for whom?

Preface

Endowment insurance has two key characteristics: flexibility in asset allocation and simplified taxation. There is a possibility to decide freely upon the asset allocation or to rely on a pre-packed investment product offered by insurance companies. Thereby, endowment insurance enables the savers to tailor their investment strategies to their personal preferences and risk tolerance.

As for taxation, the tax declaration process is simple and straightforward with an annual yield tax based on the total assets base regardless of capital gains or losses during the fiscal year. On January 1st 2025 a tax benefit was introduced through a tax free basic level of SEK 150,000 for endowment insurance, investment savings Accounts (ISK) and PEPP[1]. From 2026 this tax free basic level is announced to be raised to 300,000. The purpose of the tax reduction is to encourage long-term savings. The tax free basic level is only for individuals, not for companies.

Endowment insurance policies can be suitable for individuals as well as for companies. It is a life insurance that also works as an investment vehicle for regularly savings in stocks, funds and other securities. Thanks to the possibility of periodic payouts of the savings, an endowment policy is also an alternative to pension savings.

In this report the different savings options within endowment insurance are outlined, as well as the insurance features available. Also, common reasons of why private individuals and companies choose to take out endowment insurance, are explained. This is followed by an overview of the differences between ISK and endowment insurance, as well as statistics on endowment insurance. An appendix provides details of the taxation.

Stockholm, March 5th 2025

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[1] Up to 2024 no financial institution has applied for registration of a PEPP-product in Sweden.

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Different Ways to Save within Endowment Insurance

In an endowment insurance policy, the insurance company owns the assets and is liable for the yield tax. The individual, who indirectly owns the assets, can choose from three different savings formats:

- **Traditional Insurance:** The insurance company decides how the capital is invested and bears the investment risk. The customer is guaranteed a minimum payout of 80 per cent of the sum of paid premiums and a guaranteed interest. The payout may exceed, but will never fall below, the promised amount.[2]
- **Unit-linked:** The policyholder chooses which domestic and foreign fund units the premiums should be invested in. The policyholder bears the investment risk.
- **Private Placement Life Insurance (PPLI)[3]:** The policyholder choose which domestic and foreign securities and fund units that the premiums should be invested in. The policyholder bears the investment risk.

Individuals primarily opt for traditional insurance, whereas companies are more likely to choose PPLI.

[2] The insurance company may invest in listed as well as unlisted assets.
[3] Also Portfolio Bond. In Swedish: depåförsäkring.

Common Reasons for Saving in Endowment Insurance

Distribution of Policies and Insurance Capital between Individuals and Companies

There are around 6 million endowment insurance policies. The majority of endowment insurance policies, around 80 per cent, are signed by individuals. The remaining policies are taken out by companies, often for savings or future investments.

For most insurance companies, the total insurance capital is relatively evenly distributed between individuals and companies. However, in some cases, companies account for more than 50 per cent of the insurance capital.

Incentives for Individuals to Saving in Endowment Insurance

One of the most common reasons to why individuals choose to save in an endowment insurance is the ability to choose periodic payouts for their savings. This makes endowment insurance an alternative to pension savings, especially since the tax deduction for private pension savings was abolished in 2016. The payout timing can also be conditioned. For instance, a policyholder may want the beneficiary, e.g. their child, to access the funds at a certain age.

Another common reason is the ability to designate beneficiaries. This is particularly useful in situations involving children from previous relationships or when saving for grandchildren. The beneficiary does not have to be a legal heir; it can be an external individual or an organization.

A third reason is that endowment insurance simplifies and facilitates the trading of foreign stocks compared to direct ownership of foreign securities. This is the case as the owner of the shares, the insurance company, handles the administration of reclaiming or offsetting withholding tax deducted on dividends in other countries, provided there is a tax treaty between Sweden and the respective country.

Incentives for Companies to Save in Endowment Insurance

The most common reason for companies to save in an endowment insurance is to manage surplus liquidity. In some cases, companies choose endowment insurance because they cannot use ISK.

Another reason is that companies use endowment insurance for occupational pensions. This is especially common among small and medium-sized companies as a way to secure occupational pension for employees. An agreement between the employer and the employee for a direct pension typically involves the employer owing a liability to the employee. This liability is often secured by granting the employee a pledge on the employer-owned endowment insurance.

Simplifying and facilitating the trading of foreign stocks is a reason also for companies to save in an endowment insurance.

Possible Insurance Features within Endowment Insurance

An endowment insurance policy always includes some form of insurance feature, i.e. components that provide compensation for specific types of risk components. Terms and fees vary between insurance companies and the extent of the insurance coverage.

Repayment Protection

Most endowment insurance policies include a risk component known as repayment protection (cover). For example, this ensures that 101 per cent of the insurance capital is paid out to the designated beneficiary or the estate in the event of the policyholder's death. To finance this risk feature, the insurance company charges a fee.

Premium Waiver Insurance

Some endowment insurance policies offer premium waiver insurance. This means the insurance company takes over premium payments if the policyholder's ability to work is impaired due to illness or accident.

Survivor’s Protection with Pre-Defined Death Benefit

Insurance companies can also offer survivor’s protection with a pre-defined death benefit. This ensures that the beneficiary receives a specified amount upon the policyholder's death. For these types of risk insurance, a fee is paid which increases with the age of the insured.

Similarities and Differences between Endowment Insurance and ISK

Both endowment insurance and ISK serve as a "wrapper" for saving in securities such as stocks, bonds, and funds. Management fees for the underlying assets apply for both. There are, however, some notable differences between the two savings formats (see also Table 1 below).

Key Differences

- **Provider:** ISK is offered by credit institutions (such as banks and other credit market companies) and securities firms, whereas endowment insurance is only provided by life insurance companies. This follows from the fact that the endowment insurance must include an insurance component. Insurance companies cannot offer ISK, as they are restricted to conducting insurance-related business.
- **Ownership and Administration:** In an endowment insurance, the individual owns the assets indirectly. The assets are owned by the insurance company, which also administers tasks like reclaiming withholding tax on foreign securities. In ISK, the account holder owns the assets directly and need to handle foreign tax reclaims themselves.
- **Tax Subject:** For endowment insurance, the insurance company is the taxable entity (assuming it is a Swedish insurer). In ISK, the account holder is the taxable entity.
- **Payouts and Beneficiaries:** Endowment insurance offers flexibility in designating specific beneficiaries and timing payouts e.g. periodic payments. In contrast, funds in ISK are transferred to the estate to be distributed to the heirs.
- **A guaranteed return:** Within traditional insurance the insurance company decides how the capital is invested and bears the investment risk. In ISK it is always the account holder who bears the investment risk.

Table 1: Comparison between Endowment Insurance and ISK, 2024

Endowment Insurance	ISK
Provided by life insurance companies.	Provided by credit institutions, securities firms, and asset management companies.
Yield tax according to Lag (1990:661) om avkastningsskatt på pensionsmedel	Taxed under the Income Tax Act, 42 kap. 35-42 §§ Inkomstskattelag (1999:1229)
The insurance company is the taxable entity (if the insurance company is Swedish).	The account holder is the taxable entity.
Simplifies ownership of foreign securities (e.g., tax reclaim handled by insurer).	The account holders need to reclaim taxes themselves.
Voting rights held by the insurance company.	Voting rights held by the account holder.
Allows for periodic payment (e.g., lifelong monthly payments).	-
Designated beneficiaries possible (e.g., grandchildren or organizations).	Transferred to estate to be distributed to the heirs. upon death of the account holder.
Within traditional insurance the insurer bears the investment risk.	The account holder bears the investment risk.
6 million policies (including occupational pension plans).	3.5 million individuals saving in ISK.

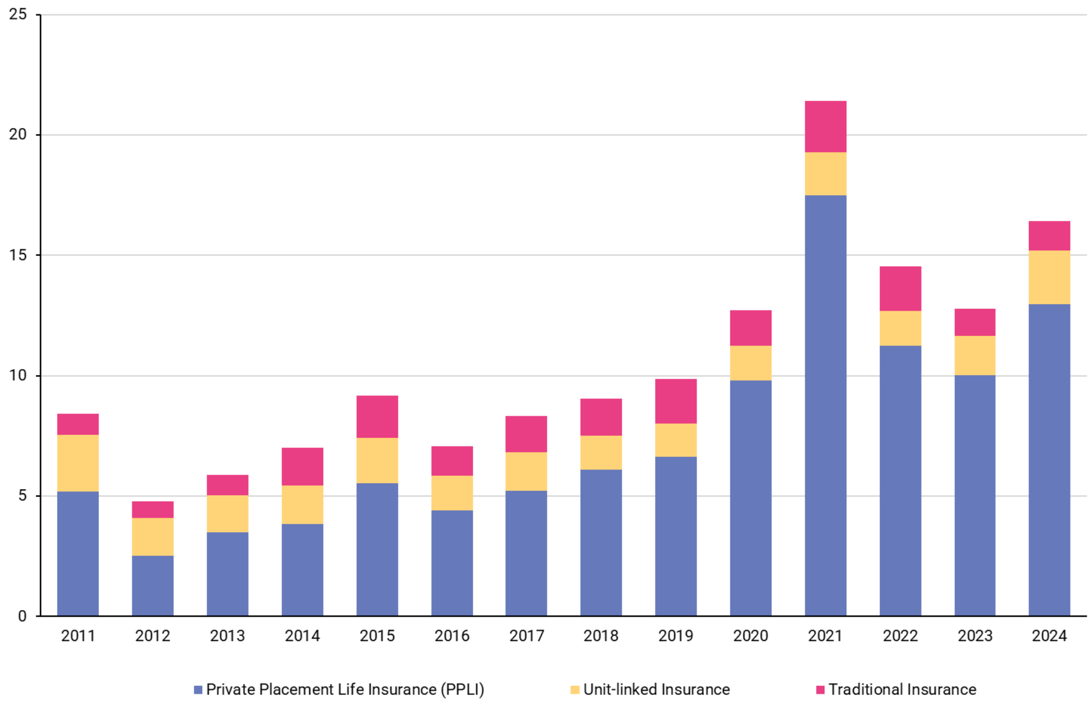
Premium Payments to Endowment Insurance

The positive developments in the stock market during the latter part of 2020 and throughout 2021 contributed to an increased public interest in savings. The COVID-19 pandemic of 2020–2021 also led to higher savings as households and companies reduced their consumption, for example, on travel. Part of this increased savings was in endowment insurance, particularly in PPLI, which significantly boosted premium payments to endowment insurance.

Due to weaker stock market performance, higher inflation, and rising interest rates, savings in endowment insurance decreased during 2022 and 2023. Premium payments dropped from nearly EUR 21 billion in 2021 to just below EUR 13 billion in 2023 (see Diagram 1). During 2024 the premium payments increased with EUR 4 billion and amounted to EUR 16 billion at the end of 2024.

Diagram 1: Premium Payments to Endowment Insurance

Billion EUR



Note: The diagram includes both private endowment insurance and endowment insurance for occupational pensions (e.g., direct pensions). Private endowment insurance can be taken out by both individuals and companies. Endowment insurance for occupational pensions is used for employers on behalf of their employees and includes an occupational pension commitment.
Source: Insurance Sweden.

Savings in endowment insurance are also influenced by changes in tax regulations and alternative savings products. For instance, premium payments to endowment insurance halved when the investment savings account (ISK) was introduced in 2012.

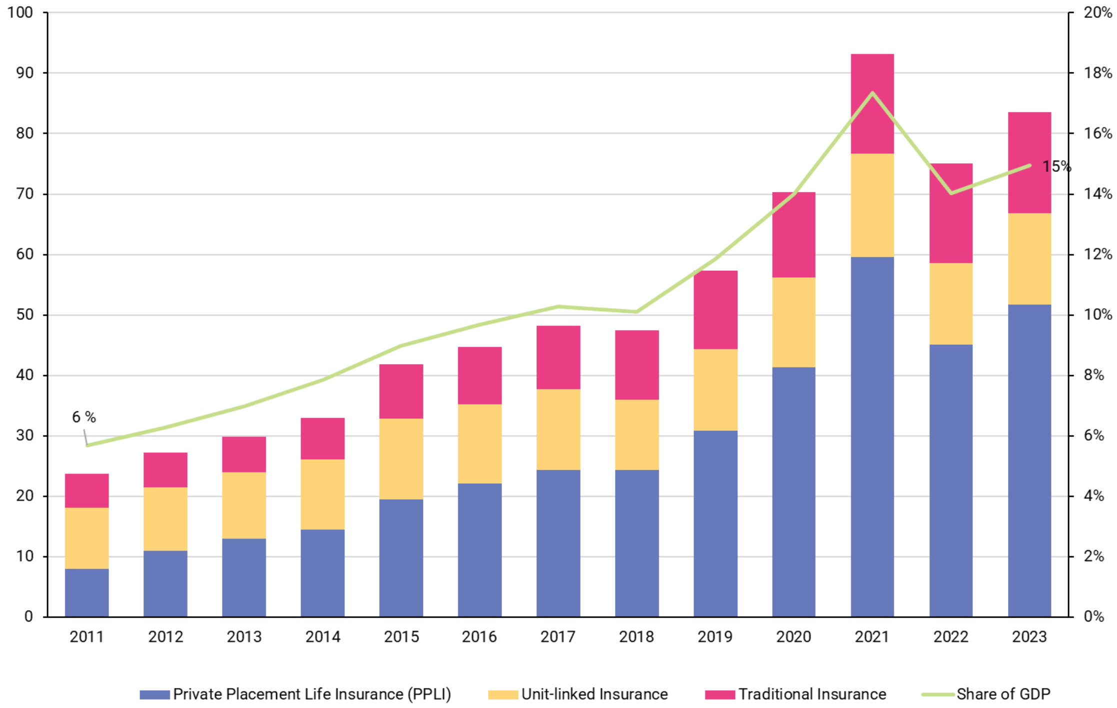
Total Assets

Of the total assets managed by a life insurance company, the largest portion is allocated to policyholders or insurance agreements, known as allocated assets.[4] The value of allocated assets in life insurance companies has increased over time (see Diagram 2), driven by both the size of annual savings contributions and the value development of underlying assets.

Between 2021 and 2022, there was a 12 per cent decrease in the value (nearly EUR 18 billion). During 2023 the assets increased with EUR 8 billion and amounted to EUR 84 billion at the end of 2023. The proportion of allocated asset values in relation to GDP(green line) has increased from 2011 to 2023, from 6 to 15 percent of GDP.

Measured by asset value, PPLI accounts for approximately 62 per cent. The remaining portion is almost equally divided between unit-linked (18 per cent) and traditional insurance (20 per cent).

Diagram 2: Value of Allocated Assets in Endowment Insurance
Billion EUR



Note: The diagram includes both private endowment insurance and endowment insurance for occupational pensions (e.g., direct pensions). Private endowment insurance can be taken out by both individuals and companies. Asset values for traditional insurance not allocated to policyholders or agreements are excluded. Source: Insurance Sweden.

[4] Allocated assets refer to traditional insurance and the funds assigned to insurance policies, i.e. the technical provisions. Additionally, there are unallocated assets, representing the assets that have not yet been assigned to insurance policies, i.e. the technical provisions. The capital, which is not a part of technical provisions is the buffer or risk capital.

Appendix: Taxation of Endowment Insurance

Capital Base and Tax Base

The regulations for yield tax on endowment insurance were amended as of the income year of 2012. This was aimed at keeping tax on endowment insurance neutral in relation to the taxation of the by that time introduced investment savings accounts (ISK).

There are administrative advantages to using endowment insurance compared to direct ownership of securities. This stems from the fact that capital gains are tax-exempt, and instead, a continuous yield tax is applied. This simplifies the declaration of capital income tax for individuals and companies. For endowment insurance, the insurance company is the taxable entity and thus pays the tax. In the case of ISK, it is the individual that is the taxable entity.

The capital base for endowment insurance is the value of the insurance at the beginning of the financial year, plus a portion of the value of insurance premiums paid during the financial year. As for the second half of the financial year, only 50 per cent of the value of premiums paid are included.

The tax base for endowment insurance is calculated by multiplying the insurance's capital base by the government loan interest rate as of November 30 of the year preceding the income year, increased by 1 percentage point. However, the capital base must be multiplied by at least 1.25 per cent. This standard-calculated yield determines the tax base, which is taxed at 30 per cent.

To the value of the insurance at the start of the income year, premiums paid during the year must be added according to the following example:

Example

Assume Johan has an endowment insurance with a value of SEK 300,000 at the beginning of the income year. During the income year, Johan pays premiums amounting to SEK 15,000 in the first quarter and SEK 10,000 in the third quarter. The capital base is calculated as follows:

Event	Amount
Endowment insurance value at start of the year	SEK 300,000
Premium payments in the first half of the year	+ SEK 15,000
Premium payments in the second half × 50%	+ SEK 5,000
Capital Base	SEK 320,000

The tax base is calculated by multiplying the capital base of SEK 320,000 by the government loan interest rate[5] (plus 1 percentage point) to get the standard calculated yield. The tax base is then taxed at 30 per cent.

From January 1st a tax-free basic level of SEK 150,000 is introduced for endowment insurance, investment savings Accounts (ISK) and PEPP. Following from that, the first SEK 150,000 in the above example is tax-free, i.e. the capital base is SEK 170,000.

From 2026 the tax free basic level is announced to be raised to 300,000, resulting in a capital base of SEK 20,000 in the above example.

[5] The government loan interest rate as per November 2024 was 2.96 %.

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