NORWAY

Norway: pension system in 2008

The new public pension system, beginning in 2011, will consist of an income pension, and a guarantee pension for people with no or only a small income pension. The guarantee pension is income-tested against the income pension. In 2006, a mandatory occupational pension was introduced in the private sector.

Key indicators

		Norway	OECD
Average earnings	NOK	440 000	229 300
	USD	77 900	40 600
Public pension spending	% of GDP	4.7	7.0
Life expectancy	at birth	80.6	78.9
	at age 65	83.8	83.1
Population over age 65	% of working-age population	24.6	23.6

Qualifying conditions

Persons with a residence period in Norway of at least three years between the ages of 17 and 67 (inclusive) are entitled to the guarantee pension in the new system. A full guarantee pension is granted after a forty year long residence period, and it is reduced proportionally for shorter residence periods.

Benefit calculation

Income pension

In the new system pension entitlements are accumulated through income from work or through other types of pension earning, between the age of 13 and 75 years. The individual will each year increase their pension entitlements corresponding to 18.1% of their pensionable income, up to a ceiling. The pension entitlements are each year increased in line with wage growth.

Many benefits under the National Insurance Scheme are determined in relation to the basic amount (G) that was NOK 69 108 as an average for 2008. The ceiling in the new income pension is 7.1 basic amounts. The average wage for a full time employee in Norway in 2008, based on OECD estimates, was about NOK 440 000 or 6.4 basic amounts. The ceiling on pension earnings is thus about 112% of the average wage.

Currently the retirement age is fixed at 67 years in the public pension scheme. From 2011 it is decided to introduce flexible retirement for the age group 62-75 years based on actuarial neutrality. It will then be possible to combine work and pension fully or partly from the age of 62 without an earnings test. From 2011 it is also decided to introduce a life expectancy adjustment of the pension for new old age pensioners. The life expectancy adjustment will be determined for each cohort, based mainly on remaining life expectancy. The factors will be determined when the cohorts are 61 years, and will not be adjusted later. Each cohort will receive a separate life expectancy factor from the age of 62 until the age of 75. At the time of retirement the annual pension is calculated by dividing the accumulated pension entitlements by a life expectancy divisor.

The income pension will after retirement be indexed to wages, but then subtracted a fixed factor of 0.75 per cent a year.

Guarantee pension

The guarantee pension will replace the minimum pension in our current pension system and will be at the same level.

The minimum pension for single pensioners in 2010 will be equivalent to 2 basic amounts, or about 31% of average earnings. The guarantee pension is income tested by 80% against the income pension.

The guarantee pension will be indexed in line with wages, but adjusted for the effect of the life expectancy factor at 67 years. In the long term projections of Statistics Norway life expectancy at 67 is assumed to increase by about 0.5 per cent a year. According to the projections the guarantee pension will be adjusted to wages, but then subtracted a factor of about 0.5% a year due to the life expectancy adjustment.

Defined contribution scheme

From 2006, employers must make a minimum contribution of 2% of the earnings of their employees to a defined-contribution pension plan. (If employers offer a defined-benefit scheme instead, then the benefits must be at least the same level as the expected benefits under the mandatory 2% contribution.) Contributions are only required on earnings between the basic amount (G) and 12 times the basic amount.

Benefits can currently only be taken at age 67, but it is discussed as part of the pension reform to introduce flexible retirement from the age of 62 from 2011. They must be withdrawn over a minimum period of ten years. For comparison with the results for other countries, it is assumed that the benefit is taken as a price-indexed annuity calculated using unisex mortality tables.

Voluntary private pension

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 3% between 1G and 6G and 6% of earnings between 6G and 12G.

Variant careers (public scheme)

Early retirement

About two-thirds of employees work in businesses participating in early retirement programmes under the Contractual Early Retirement Scheme (AFP). This scheme, which was introduced in 1989, allows retirement from age 62. The pension level under this scheme is about the same as the ordinary old-age pension from 67 years of age, *i.e.* if the person had continued until that age in the job he/she was holding at the time he/she actually retired.

The calculation of AFP pensions differs somewhat between sectors, but the basic principle is that AFP pensions are calculated in the same manner as the permanent disability pension (granting pension points for the remaining years until 67). In addition AFP-pensioners receive a so-called AFP-supplement.

There are some qualifying conditions (the listing is not complete). First, the pensioner must be employed in the same firm for the last three years (alternatively covered in an AFP scheme for the last five years). Second, the annual earnings must be at least the basic amount (G) at the time of retirement. The annual wage must also exceed 1 basic amount (G) during at least ten years after age 50. Earnings in the ten best years in the period from 1967 until the year prior to retirement have exceeded at least twice the basic amount.

From 2011 the AFP-scheme in the private sector will be made a supplement to the public old age pension scheme. The supplement will be equivalent to about 4.2 per cent of pensionable income, and can be accumulated up to the age of 62. Also this supplement will be based on actuarial neutrality and can be withdrawn between the age of 62 and 70. In the private sector it will be possible to combine the public old age pension, the AFP-supplement and work without an earnings test.

In the public sector it is determined to continue with the present system of a special AFP-scheme for the age group 62-66 years also after introducing flexible retirement from 62 years in the public pension scheme. In the public sector it will then not be possible to combine work and pension without an earnings test.

Late retirement

People can defer their pension after age 67 and continue to work and people can combine working with receiving a pension. There is no additional increment earned by deferring pension after 67.

Childcare

Caregivers are credited with pension earning equivalent to 4.5 basic amounts a year or about NOK 311 000 in the income pension. This corresponds to about 71 per cent of an average full-time wage. Caregivers comprise parents caring for children below 6 years of age and individuals taking unpaid care of disabled, sick or elderly persons in the home.

Parents with lower annual earnings than 4.5 basic amounts have these earnings topped up. Parents with annual earnings exceeding 4.5 basic amounts do not get any top up. The family may apply for having the points granted to the father instead of the mother, but only one of the parents may receive this kind of pension earnings in any given year. For the other group, pension earnings are granted on the basis of individual applications.

Unemployment

The unemployed will be credited pension earnings based on the income they had before becoming unemployed up to a ceiling of 7.1 basic amounts.

Personal income tax and social security contributions

Taxation of pensioners

Pension income is taxed less than labour income. Under the regular income tax, pensioners are allowed an additional deduction. They also face lower social security contributions. Pensioners with low pensions may alternatively be taxed under a special rule, meant to exempt recipients of minimum pensions and pensions just in excess of the minimum pension from paying taxes. Changes in the taxation of pensioners are discussed from 2011 when flexible retirement from the age of 62 will be introduced in the public pension scheme.

Taxation of pension income

Old age (67 years and older) and disability pensioners are entitled to an additional allowance of NOK 19 368 in 2008.

The alternative taxation regime, the so-called 'tax limitation rule' for pensioners, is applicable if this is more favourable than normal tax rules. The rule applies to all pensioners, including old-age and disability pensioners and pensioners entitled to early retirement (from the age of 62) through the AFP-scheme. In 2008 this regime was effective for around 50 per cent of disability pensioners, and around 45 per cent of old-age and AFP pensioners. The tax limitation rule is more favourable than the ordinary tax rules to single pensioners if the pension is below NOK 234 900 (in 2008) conditional on the pensioner receiving pension income only and has net wealth not exceeding NOK 200 000. Under the rule, pensioners do not receive standard and old-age/disability allowances.

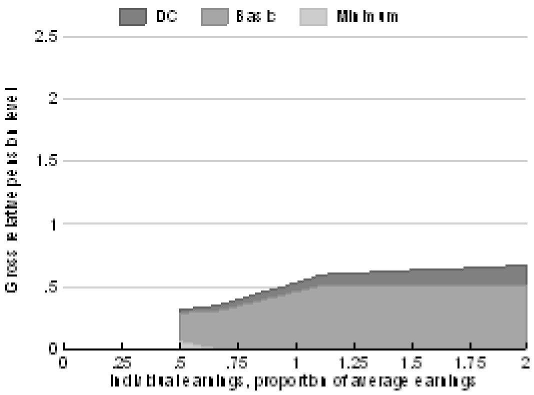
Pension income below NOK 141 351 in 2008 is not subject to income tax at all.

Social security contributions paid by pensioners

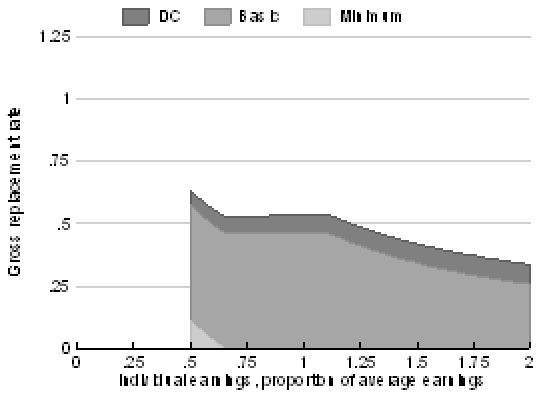
Social security contributions are levied on pension income, albeit at a lower rate (3%) than wage earnings (7.8%). Pensioners taxed under the tax limitation rule do not pay social security contributions.

Pension modelling results: Norway

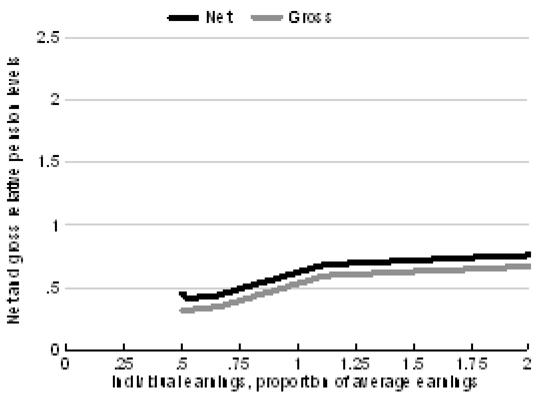
Gross relative pension level



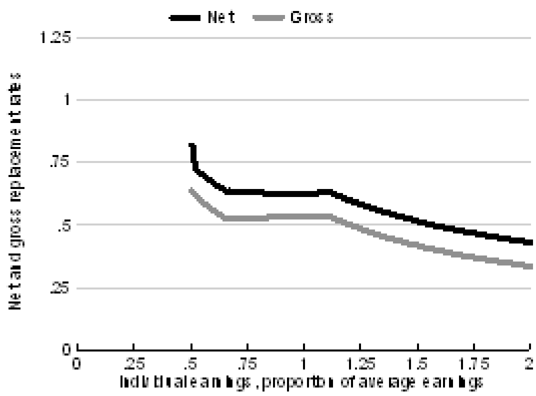
Gross replacement rate



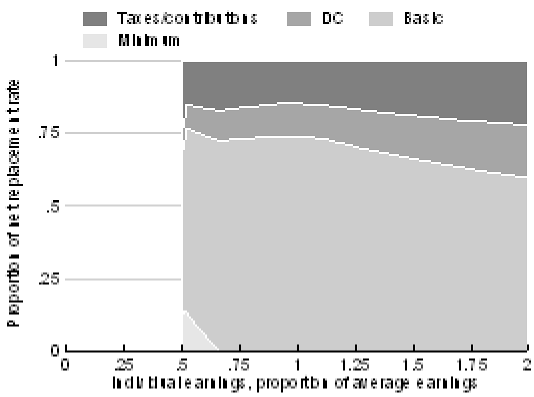
Net and gross relative pension levels



Net and gross replacement rates



Sources of net replacement rate



Taxes paid by pensioners and workers

Men *Women* (where different)	*Median earner*	*Individual earnings, multiple of average*				
		0.5	*0.75*	*1*	*1.5*	*2*
Gross relative pension level (% average gross earnings)	47.1	31.7	39.5	53.1	62.5	66.7
Net relative pension level (% net average earnings)	56.4	45.0	48.9	62.2	71.5	75.6
Gross replacement rate (% individual gross earnings)	52.9	63.4	52.6	53.1	41.7	33.4
Net replacement rate (% individual net earnings)	62.3	81.7	62.9	62.2	51.4	42.9
Gross pension wealth	9.7	11.7	9.7	9.7	7.6	6.0
(multiple of average gross earnings)	11.4	13.8	11.4	11.4	8.9	7.0
Net pension wealth	8.2	11.7	8.4	8.0	6.1	4.8
(multiple of average net earnings)	9.6	13.8	9.9	9.5	7.2	5.6