NORWAY

The public pension system in Norway consists of a flat-rate basic pension and an earnings-related (supplementary) pension. Pensioners who have no, or only a small, supplementary pension, are entitled to a special supplement. The special supplement is income-tested against the earnings-related pension. Recently, a mandatory occupational pension was introduced.

### Key indicators

<table>
<thead>
<tr>
<th></th>
<th>Norway</th>
<th>OECD</th>
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<tbody>
<tr>
<td>Average earnings NOK</td>
<td>397 800</td>
<td>229500</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>62 000</td>
</tr>
<tr>
<td>Public pension spending % of GDP</td>
<td>4.8</td>
<td>7.2</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>80.6</td>
<td>78.9</td>
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<tr>
<td>at age 65</td>
<td>84.3</td>
<td>83.4</td>
</tr>
<tr>
<td>Population over age 65 % of working-age population</td>
<td>24.7</td>
<td>23.8</td>
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### Qualifying conditions

The current public system was introduced in 1967. As the required earnings period for a full pension is 40 years, the first cohort of old age pensioners that fulfilled the insurance period was the one that retired in 2007.

The normal pension age is 67. Persons with a residence period in Norway of at least three years between the ages of 17 and 67 (inclusive) are entitled to the minimum pension, consisting of basic pension and special supplement. Full benefits are granted after a 40 year long residence period. The requirement for a supplementary pension is minimum three years of annual pension point earnings and a full pension is granted after 40 years. Both benefits are proportionally reduced for shorter earnings histories.

### Benefit calculation

#### Basic pension

Many benefits under the National Insurance Scheme are determined in relation to the basic amount, G, that was NOK 62 161 in 2006. The full basic pension for a single person equals the basic amount. This is equivalent to 15.6% of average earnings. Historically, indexation of the basic amount has been lower than average wage growth. However, the government has since 2003 linked the value of the basic amount to average earnings. The modelling assumes that this practice continues.

#### Minimum pension

The basic pension above and a special supplement form the minimum pension. The minimum pension has been upgraded intermittently, as the special supplement has been increased in real terms. It has over time tended to increase more than earnings growth. Since 2003 the minimum pension has been indexed to average earnings.

In 2008 however a new increase in the special supplement from 79.33% of the basic amount in 2007 to 94% in 2008 was decided. It is agreed to increase the special supplement further to 100% of the basic amount by 2010. This supplement is income-tested against the earnings-related supplementary pension and the minimum pension is worth about 31% of average earnings.
Earnings-related pension

Since the basic pension replaces the first slice of earnings, the earnings-related scheme only covers earnings above the value of the basic amount. The special supplement then replaces a further slice of earnings, up to 3.38 times the basic amount. The earnings-related scheme has a regressive formula, i.e., the replacement rate falls for higher earnings. Annual earnings between 3.38 times the basic amount and six times the basic amount are replaced at a 42% rate (the rate was lowered from 45% in 1992 and is for each pensioner the average of these two weighted by the number of years with annual points prior to 1992). Between six and 12 times the basic amount, the replacement rate is one third of that level. Given that 40 years’ contributions are needed for a full pension, these are equivalent to annual accrual rates (for those with all entitlements earned after 1992) of 1.05% and 0.35% respectively. The first threshold, where the accrual rate declines, is a little under average earnings (94%). The ceiling on earnings eligible for benefits is therefore a little under double average earnings (188%).

The calculation of the pension uses the best 20 years of point earnings. The valorisation of earlier years’ accruals depends on the adjustment procedure for the value of the basic amount (G). As discussed previously, the modelling assumes that the basic amount will in future be uprated in line with average wage earnings.

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. 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 pensions

Around 60% of employees are covered by voluntary occupational pension schemes. Including the 2% mandatory employer contribution, a typical large scheme would have a total contribution rate of 5% of earnings between 1G and 6G and 8% 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 between sectors. In the private sector, AFP pensions are calculated in the same manner as the permanent disability pension (granting pension points for the remaining years until 67). In addition, these pensioners receive a so-called AFP-supplement of NOK 11 400 per year. This supplement is not taxed.
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 one 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.

**Late retirement**

People can defer their pension after 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.

Originally, the pension age was set at 70 but reduced to 67 in 1973. The opportunity to earn pension points based on labour income up to age 70 was kept, but for age groups 69-70 the pension is income-tested against labour income. This pension is reduced by 40% of income exceeding two basic amounts (G).

**Childcare**

Caregivers are credited with three pension points per year in the supplementary earnings-related pension scheme. This corresponds to pension point earnings from labour income of NOK 248 644. These caregivers comprise parents caring for children below seven years of age and individuals taking unpaid care of disabled, sick or elderly persons in the home.

Mothers with annual point earnings lower than 3 have these earnings topped up. Mothers with annual point earnings exceeding 3 do not get any top up. The family may apply for having the points granted to the father instead. For the other group, points are granted on the basis of individual applications.

**Unemployment**

Unemployment benefits, which are set at 62.4% of former earnings up to 6 times the basic amount, earn pension points in the same way as wage income.

**Personal income tax and social security contributions**

**Taxation of pensioners**

Pension income is taxed somewhat 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.

**Taxation of pension income**

Old age (67 years and older) and disability pensioners are entitled to an additional allowance of NOK 19 368 in 2006.

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 2006 this regime was effective for around 50 per cent of all pension recipients. The tax limitation rule is more favourable than the ordinary tax rules to single pensioners if the pension is
below NOK 211 644 (in 2006) 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 125 395 in 2006 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

0 0.5 1 1.5 2 2.5
Individual earnings, proportion of average earnings

Gross replacement rate

0 0.5 1 1.5 2 2.5
Individual earnings, proportion of average earnings

Net and gross relative pension levels

0 0.5 1 1.5 2 2.5
Individual earnings, proportion of average earnings

Net and gross replacement rates

0 0.5 1 1.5 2 2.5
Individual earnings, proportion of average earnings

Sources of net replacement rate

0 0.25 0.5 0.75 1 1.25 1.5 1.75 2
Individual earnings, proportion of average earnings

Taxes paid by pensioners and workers

0 0.25 0.5 0.75 1 1.25 1.5 1.75 2
Individual income, proportion of average income
<table>
<thead>
<tr>
<th></th>
<th>Median earner</th>
<th>Individual earnings, multiple of average</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Men</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Women (where different)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross relative pension level (% average gross earnings)</td>
<td>51.9</td>
<td>33.1</td>
</tr>
<tr>
<td>Net relative pension level (% net average earnings)</td>
<td>62.0</td>
<td>42.1</td>
</tr>
<tr>
<td>Gross replacement rate (% individual gross earnings)</td>
<td>59.6</td>
<td>66.2</td>
</tr>
<tr>
<td>Net replacement rate (% individual net earnings)</td>
<td>70.2</td>
<td>76.7</td>
</tr>
<tr>
<td>Gross pension wealth (multiple of average gross earnings)</td>
<td>10.3</td>
<td>11.4</td>
</tr>
<tr>
<td>Net pension wealth (multiple of average net earnings)</td>
<td>12.0</td>
<td>13.4</td>
</tr>
<tr>
<td>(multiple of average gross earnings)</td>
<td>8.7</td>
<td>10.3</td>
</tr>
<tr>
<td>(multiple of average net earnings)</td>
<td>10.2</td>
<td>12.1</td>
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