

# Iceland

## Iceland: Pension system in 2016

There is a basic state pension (national pension), which is income-tested. There are also mandatory occupational pensions.

## Key indicators: Iceland

		Iceland	OECD
Average worker earnings (AW)	ISK (million)	9.2	4.5
	USD	84 510	41 584
Public pension spending	% of GDP	2.1	8.0
Life expectancy	at birth	82.8	80.7
	at age 65	20.4	19.7
Population over age 65	% of working- age population	26.6	31.2

StatLink  <http://dx.doi.org/10.1787/888934043226>

## Qualifying conditions

The normal pension age is 67. A full basic pension is earned with 40 years' residency. The pension is proportionally reduced for shorter periods of residency, with a minimum of three years required between the ages of 16 and 67. The pension age is also 67 for members of private-sector occupational plans but is 60 for seamen who have been working in this occupation for at least 25 years. The social security system guarantees a minimum pension to everyone, even when very little, or nothing, has been paid into a pension fund.

## Benefit calculation

### Basic

The full basic pension value is ISK 478 344 per year, equivalent to 6% of average worker earnings. The national pension may be reduced when income is gained from other sources, or withdrawn if it exceeds a certain amount. Income in this respect does not include social security benefits, supplementary pension or social assistance. Withdrawal begins once income (from labour income or capital income) exceeds ISK 2.58 million or equivalent to 31% of average earnings, and ceases at ISK 4.49 million, equal to 53% of average earnings. The basic pension can be indexed to either prices or wages. The modelling assumes price indexation.

### Targeted

A second element is the pension supplement. The maximum value of this benefit is ISK 1.51 million per year for a single person, some 18% of average earnings. This benefit is withdrawn against labour income above ISK 1.32 million per year (around 16% of average earnings), supplementary pension above ISK 328 800 and capital income above ISK 98 640. The withdrawal rate for the income-test in the pension supplement is 38.35% of the amount up to ISK 2.58 million and 13.35% above that amount.

According to the Social Assistance Act, various social assistance benefits may be granted in addition to the national pension in special circumstances or when it is shown that the beneficiary cannot support him- or herself without this assistance. These are for instance the household supplement for a single person, the special supplement for support and further supplements.

## ***Mandatory occupational***

All working people are required to be members of a pension fund and pay a specific percentage of their wages. Employers pay a counter-contribution to these funds for each employee. Coverage is mandatory for people aged 16 to 70.

There is a minimum contribution to occupational schemes of 12% of earnings. The employee pays 4% of the total wages, while the employer pays 8%. In the public sector and certain other sectors, the employer's contribution is higher.

The law requires schemes to target a replacement rate of 56% with 40 years' of contributions, giving an accrual rate of 1.4% for each year of service.

The earnings base in this calculation is average lifetime salary for each year of membership. There is no ceiling to pensionable earnings. Past earnings are valorised in line with inflation plus 3.5% interest rate. In the modelling past earnings are valorised with earnings growth.

Pension payment is assumed to begin at age 67. The commencement of pension payments can be brought forward to age 65, and it can be delayed to age 70.

## **Variant careers**

### ***Early retirement***

Under the mandatory occupational scheme, early retirement rules vary between funds, depending on the structure of fund membership. In the private sector, the normal retirement age is 67 and the pension can be claimed from age 65.

In general, pensions are reduced by 7% for each year that the pension is claimed early. It is not possible to claim the basic or targeted pensions before the normal pension age.

### ***Late retirement***

It is possible to defer the basic pension and the pension supplement (i.e. claim them at a later date) up to the age of 72 years. In this case, benefits are increased by 0.5% for each additional month. A maximum increase of 30% is possible.

Under the mandatory occupational scheme, workers can defer receiving their pension up to the age of 70. The amount of benefits increase by around 8% for each year pension payments are deferred.

## ***Childcare***

The government social assistance scheme contains benefits for parents who must take care of children with long-term illnesses or disabilities. There are three kinds of payments; payments to parents on the labour market, to parents who are engaged in studies and base payments, to parents who are neither working nor studying.

## ***Unemployment***

The contribution base, on which the minimum 10% contribution is levied, includes unemployment insurance benefits as well as earnings but excludes all other benefits.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Pensioners are taxed in the same way as people of working age; there are no additional allowances.

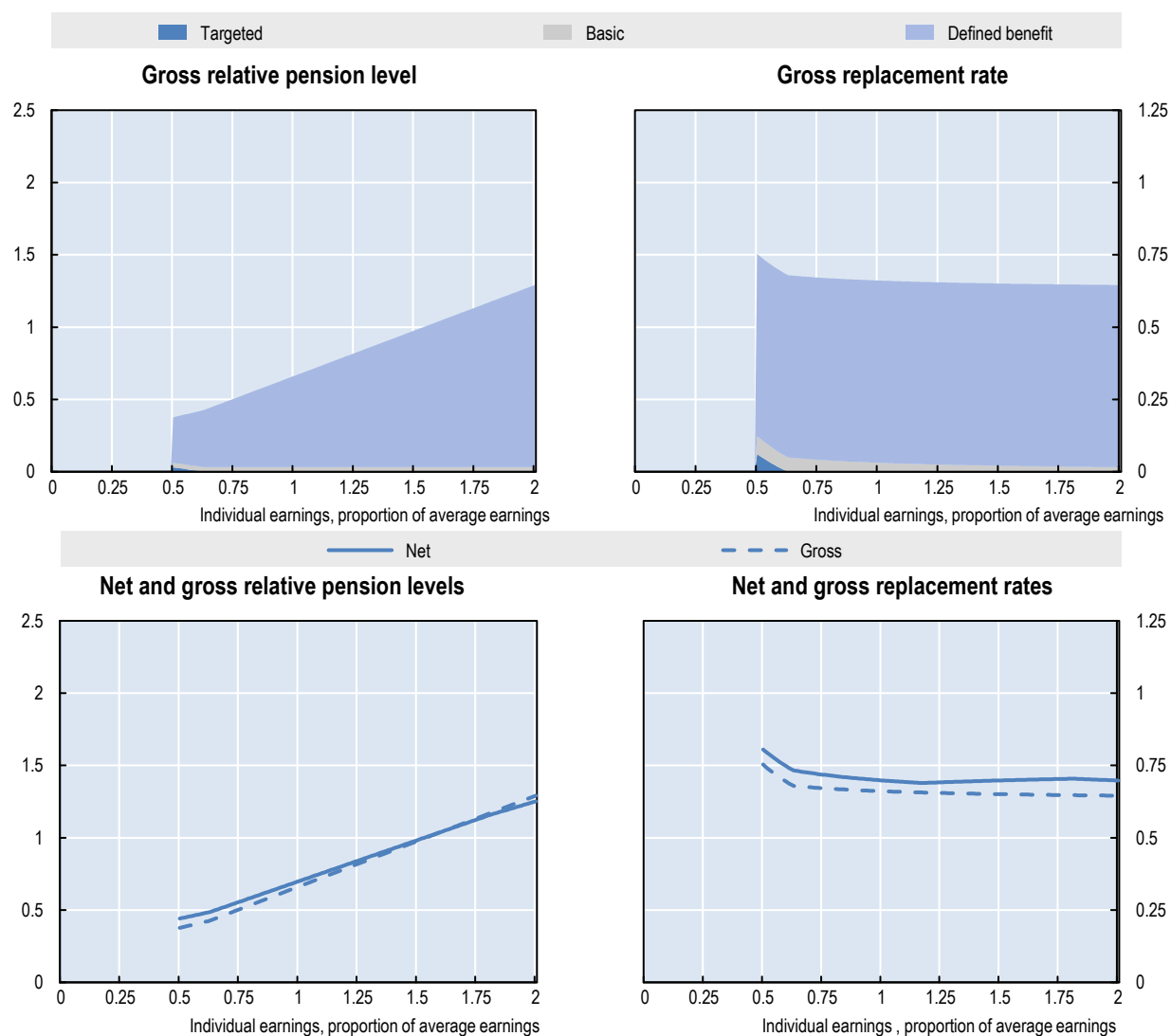
### ***Taxation of pension income***

There is no specific relief for pension income.

### ***Social security paid by pensioners***

Pensioners do not pay social security contributions.

## Pension modelling results: Iceland in 2063 retirement at age 67



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	37.7	50.4	66.1	97.6	129.1	192.1
Net relative pension level (% net average earnings)	44.2	55.6	69.8	98.3	125.2	173.7
Gross replacement rate (% individual gross earnings)	75.3	67.1	66.1	65.1	64.6	64.0
Net replacement rate (% individual net earnings)	80.5	71.8	69.8	69.8	69.8	67.8
Gross pension wealth (multiple of individual gross earnings)	13.7	12.1	11.9	11.6	11.5	11.4
Net pension wealth (multiple of individual net earnings)	14.7	12.9	12.5	12.5	12.5	12.1
	15.8	13.9	13.4	13.4	13.4	13.0

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2018. Tax system latest available: 2018.

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