Norway

Norway: Pension system in 2018

The pension system consists 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 as a supplement to the public pension.

Key indicators: Norway

		Norway	OECD
Average worker earnings (AW)	NOK	596 477	338 185
	USD	73 345	41 584
Public pension spending	% of GDP	6.6	8.0
Life expectancy	at birth	82.2	80.7
	at age 65	20.2	19.7
Population over age 65	% of working- age population	29.6	31.2

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Qualifying conditions

Individuals who have resided in Norway for at least three years between age 16 and 66 (inclusive) are entitled to the guarantee pension in the new system. A full guarantee pension is granted after forty years of residence, and it is reduced proportionally for shorter periods.

Benefit calculation

Income pension

Pension entitlements are accumulated through income from work or through other types of pension earning, between age 13 and 75. Each year the individual will increase their pension entitlements corresponding to 18.1% of their pensionable income, up to a ceiling. Each year the pension entitlements are 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 95 800 on average in 2018. The ceiling in the new income pension is 7.1 basic amounts. The average wage for a full-time employee in Norway in 2018, based on OECD estimates, was NOK 596 477. The ceiling on pension earnings is thus about 114% of the average wage.

From 2011 flexible retirement for the age group 62-75 years based on actuarial neutrality was introduced in the public pension scheme. It is possible to combine work and pension fully or partly from the age of 62 without an earnings test. From 2011 a life expectancy adjustment of the pension for new old-age pensioners was also introduced. The life expectancy divisors are determined for each cohort, based mainly on remaining life expectancy. They are determined when the cohorts are 61 years, and will not be adjusted later. Each cohort will receive a set of separate life expectancy divisors 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 the life expectancy divisor.

The income pension after retirement is indexed to wages, and then a fixed factor of 0.75% a year is subtracted.

Guarantee pension

A guarantee pension will replace the minimum pension in the current pension. The guarantee pension is income tested by 80% against the income pension.

The guarantee pension for a single pensioner was NOK 192 383 on average in 2018, equivalent to about 32% of average earnings.

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% a year. According to the projections the guarantee pension will be adjusted to wages, and 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 and 12 times the basic amount.

As part of the pension reform flexible retirement from the age of 62 was also introduced in the defined contribution scheme from 2011. The benefits must be withdrawn as a lifetime annuity or at least until the age of 77. 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

People may save for a voluntary pension to top up the public pension and the work-related pension schemes.

Variant careers (public scheme)

Early retirement

About two-thirds of all employees have an employer participating in Contractual Early Retirement Schemes (AFP). These schemes, which were introduced in 1989, allow retirement from age 62.

From 2011 the AFP scheme in the private sector amounts to a lifetime supplement to the public old-age pension scheme. It is possible to combine the public old-age pension, the AFP supplement and work without an earnings test. The supplement is equivalent to pension entitlements of about 4.2% of pensionable income, and can be accumulated up to age 62. The supplement is based on actuarial neutrality and life expectancy adjustment and can be withdrawn between the age of 62 and 70.

There are some qualifying conditions for the private sector AFP pension. First, the employee must at the age of 62 be covered by a private AFP scheme for seven of the last nine years. Second, by the age of withdrawal be employed by a participating employer for the last three years. Third, the annual earnings must be at least 1 basic amount (G) at the time of retirement.

Late retirement

People can defer their pension after age 67 and continue to work and people can combine working with receiving a pension.

Childcare

Caregivers are credited with pension earnings equivalent to 4.5 basic amounts a year or NOK 431 100 in 2018 in the income pension. This corresponds to about 72% 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 pension earnings 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. Special tax rules ensure that recipients of minimum pensions and pensions just in excess of the minimum pension are exempted from paying income tax.

The tax rules for pension income have been amended from 2011 in order to adjust the tax system to the pension reform. The main objective has been to reduce the marginal tax rate on labour income, hence making it more profitable to work when drawing a pension.

Old age and early retirement pensioners

Old-age and early-retirement pensioners are entitled to a special tax credit depending on pension income. In 2018 the maximum tax credit was NOK 29 950. The tax credit is scaled down against pension income, and is completely phased out for pension income of NOK 541 369 in 2018.

Pension income (old-age and early-retirement pension) below NOK 197 706 in 2018 is not subject to income tax at all.

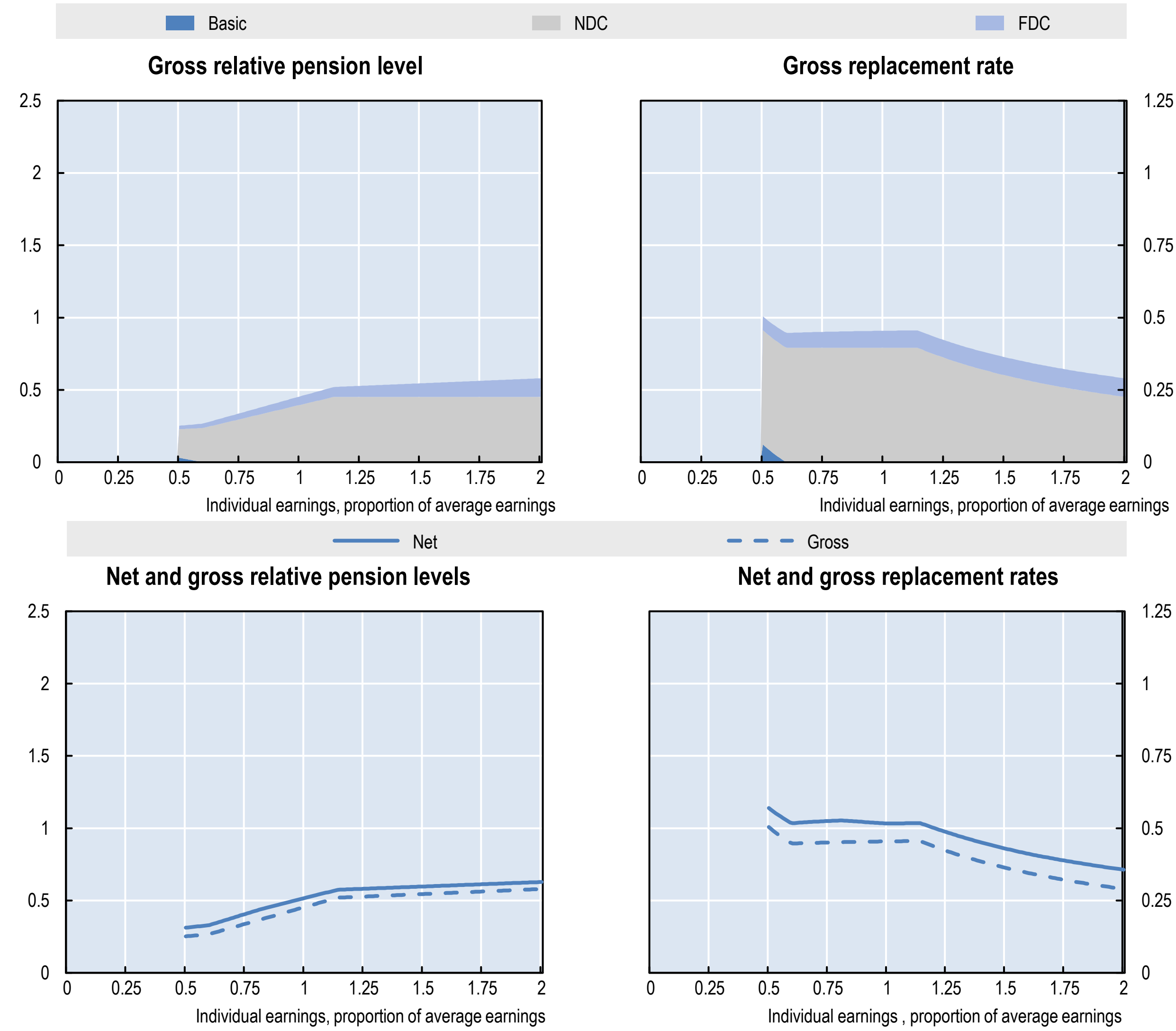
Disability pensioners

Disability benefits are taxed as wage income.

Social security contributions paid by pensioners

Social security contributions are levied on pension income, albeit at a lower rate (5.1%) than wage earnings (8.2%).

Pension modelling results: Norway in 2063 retirement at age 67



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	25.2	33.8	45.4	54.5	58.0	58.6
(% average gross earnings)						
Net relative pension level	31.2	40.6	51.6	59.7	62.8	63.4
(% net average earnings)						
Gross replacement rate	50.4	45.1	45.4	36.3	29.0	19.5
(% individual gross earnings)						
Net replacement rate	57.0	52.5	51.6	43.0	35.7	25.4
(% individual net earnings)						
Gross pension wealth	9.6	8.6	8.6	6.9	5.4	3.7
(multiple of individual gross earnings)	*10.5*	*9.4*	*9.5*	*7.5*	*6.0*	*4.0*
Net pension wealth	10.9	10.0	9.8	8.1	6.7	4.8
(multiple of individual net earnings)	*11.9*	*10.9*	*10.7*	*8.9*	*7.3*	*5.2*

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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