Norway

Norway: Pension system in 2014

The new public pension system, beginning in 2011, 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	542 386	298 884
	USD	72 602	40 007
Public pension spending	% of GDP	5.4	7.9
Life expectancy	At birth	81.7	80.0
	At age 65	19.8	19.3
Population over age 65	% of population	16.4	16.2

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Qualifying conditions

Persons with a residence period in Norway of at least three years between the ages of 16 and 66 (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 85 245 as an average for 2014. The ceiling in the new income pension is 7.1 basic amounts. The average wage for a full-time employee in Norway in 2014, based on OECD estimates, was about NOK 542 386. The ceiling on pension earnings is thus about 112% 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 will after retirement be indexed to wages, and then subtracted a fixed factor of 0.75% a year.

Basic (guarantee pension)

A basic guarantee pension will replace the minimum pension in the current pension system and will be at the same level. The guarantee pension is income tested by 80% against the income pension.

The minimum pension for a single pensioner was NOK 167 963 as an average for 2014 equivalent to about 31% 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 introduced also 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.

In the public sector the AFP scheme for the age group 62-66 years has been prolonged also after introducing flexible retirement from 62 years in the public old-age pension scheme from 2011. It is not possible to combine work and pension without an earnings test. There are some qualifying conditions. The annual earnings must be at least one 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 must exceed at least twice the basic amount. The AFP pension is 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.

From 2011 the AFP scheme in the private sector amounts to a lifetime supplement to the public old-age pension scheme. In the private sector 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 the age of 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 three of the last five years. Second, by the age of withdrawal be employed by 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

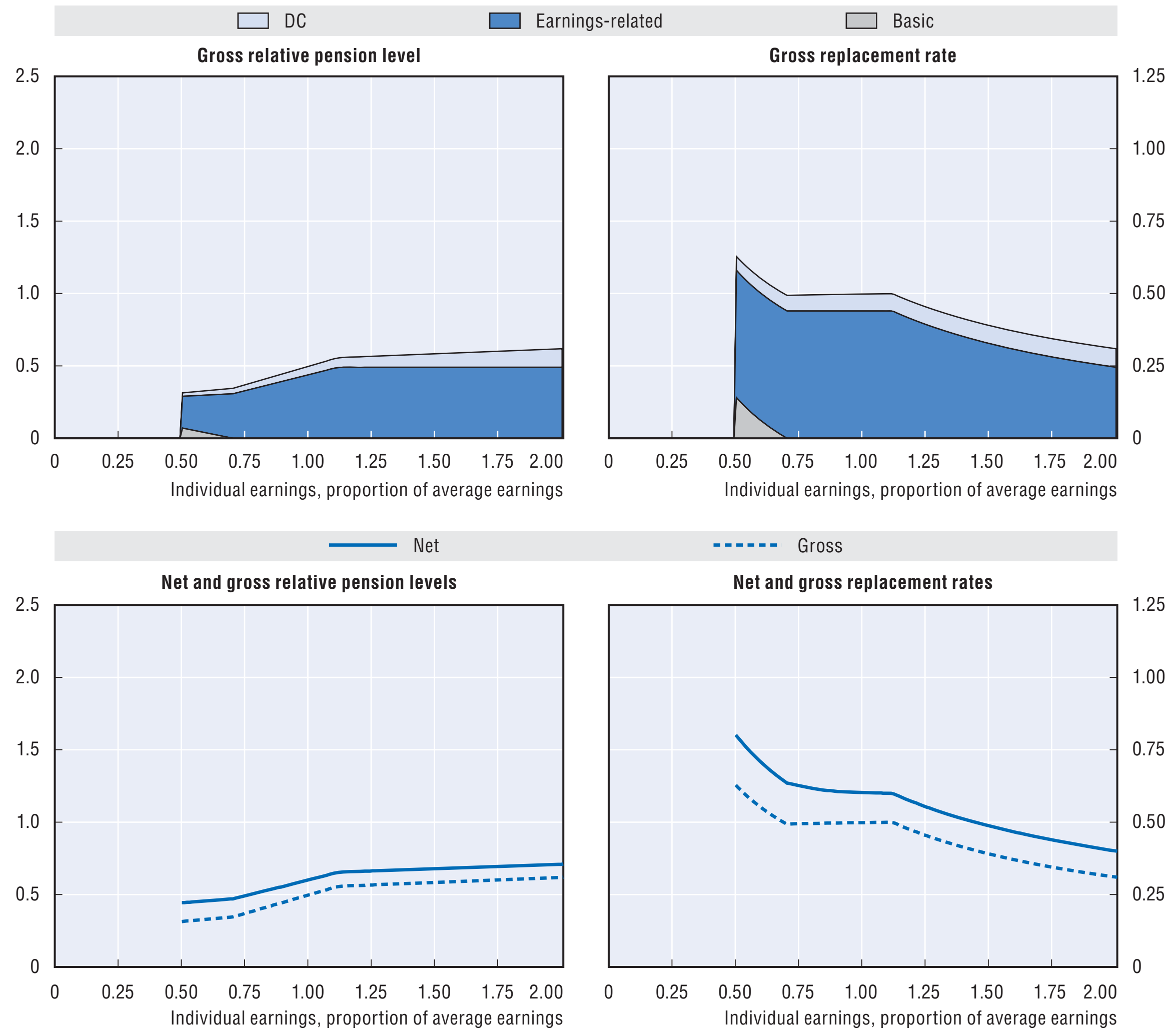
Caregivers are credited with pension earning equivalent to 4.5 basic amounts a year or about NOK 383 603 in the income pension. This corresponds to about 71% of an average full-time wage. Caregivers comprise parents caring for children below 6 years of age and individuals taking unpaid care of disabled, 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.

Pension modelling results: Norway in 2061, retirement at age 67



Baseline scenario: Legislation scenario (wage indexation of minimum pension)						
Men	*Individual earnings, multiple of average*					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	31.4	37.1	49.8	58.4	61.9	62.2
(% average gross earnings)						
Net relative pension level	44.3	49.2	60.2	67.9	71.0	71.3
(% net average earnings)						
Gross replacement rate	62.8	49.5	49.8	38.9	30.9	20.7
(% individual gross earnings)						
Net replacement rate	80.1	62.6	60.2	48.6	40.0	28.1
(% individual net earnings)						
Gross pension wealth	11.9	9.4	9.4	7.3	5.8	3.9
(multiple of individual gross earnings)	*13.8*	*10.8*	*10.8*	*8.4*	*6.7*	*4.5*
Net pension wealth	11.6	8.5	7.8	5.8	4.6	3.0
(multiple of individual gross earnings)	*13.3*	*9.8*	*9.0*	*6.7*	*5.2*	*3.5*

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 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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