DEMOGRAPHICS AND MACROECONOMICS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (ISK bn)</td>
<td>1 279.4</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>64 108.1</td>
</tr>
<tr>
<td>Population (000s)</td>
<td>311.4</td>
</tr>
<tr>
<td>Labour force (000s)</td>
<td>181.5</td>
</tr>
<tr>
<td>Employment rate</td>
<td>97.7</td>
</tr>
<tr>
<td>Population over 65 (%)</td>
<td>11.5</td>
</tr>
<tr>
<td>Dependency ratio¹</td>
<td>19.8</td>
</tr>
</tbody>
</table>

Data from 2007 or latest available year.
1. Ratio of over 65-year-olds the labour force.
Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

- Public pensions
  - The public pension has three components, a basic and two income-tested schemes

- Private pensions: occupational (mandatory)
  - Occupational pension funds

- Private pensions: personal (voluntary)
  - Personal pension funds

Source: OECD Global Pension Statistic.
<table>
<thead>
<tr>
<th>Assets</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investments (National currency millions)</td>
<td>653,666</td>
<td>694,168</td>
<td>843,050</td>
<td>1,018,510</td>
<td>1,267,973</td>
<td>1,570,551</td>
<td>1,769,654</td>
</tr>
<tr>
<td>Total investments, as a % of GDP</td>
<td>84.68</td>
<td>85.01</td>
<td>100.19</td>
<td>109.68</td>
<td>123.55</td>
<td>134.50</td>
<td>138.32</td>
</tr>
<tr>
<td>Of which Assets overseas, as a % of Total investment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Issued by entities located abroad</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>• Issued in foreign currencies</td>
<td>21.24</td>
<td>15.57</td>
<td>18.72</td>
<td>24.18</td>
<td>23.97</td>
<td>27.37</td>
<td>25.77</td>
</tr>
<tr>
<td>By financing vehicle (as a % of Total investments)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Pension funds</td>
<td>100.00</td>
<td>100.00</td>
<td>98.08</td>
<td>97.19</td>
<td>96.78</td>
<td>96.45</td>
<td>96.85</td>
</tr>
<tr>
<td>• Book reserves</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>• Pension insurance contracts</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>• Other financing vehicle</td>
<td>ND</td>
<td>ND</td>
<td>1.92</td>
<td>2.81</td>
<td>3.22</td>
<td>3.55</td>
<td>3.15</td>
</tr>
<tr>
<td>By pension plan type</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Occupational assets</td>
<td>648,140</td>
<td>685,107</td>
<td>759,891</td>
<td>907,670</td>
<td>1,121,338</td>
<td>1,372,676</td>
<td>1,548,851</td>
</tr>
<tr>
<td>• % of DB assets</td>
<td>ND</td>
<td>17.18</td>
<td>18.68</td>
<td>18.33</td>
<td>17.98</td>
<td>17.48</td>
<td>18.96</td>
</tr>
<tr>
<td>• % of DC (protected and unprotected) assets</td>
<td>ND</td>
<td>82.82</td>
<td>81.32</td>
<td>81.67</td>
<td>82.02</td>
<td>82.52</td>
<td>81.14</td>
</tr>
<tr>
<td>• Personal assets</td>
<td>5,526</td>
<td>9,061</td>
<td>83,159</td>
<td>110,838</td>
<td>146,636</td>
<td>197,876</td>
<td>220,803</td>
</tr>
<tr>
<td>Structure of Assets (as a % of Total investments)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Deposits</td>
<td>1.75</td>
<td>2.21</td>
<td>2.57</td>
<td>2.41</td>
<td>1.65</td>
<td>1.27</td>
<td>3.29</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>66.96</td>
<td>70.26</td>
<td>64.26</td>
<td>58.71</td>
<td>58.60</td>
<td>52.54</td>
<td>54.68</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Bills and Bonds issued by the public and private sector</td>
<td>53.12</td>
<td>55.46</td>
<td>51.21</td>
<td>48.28</td>
<td>49.90</td>
<td>44.48</td>
<td>46.24</td>
</tr>
<tr>
<td>• Loans</td>
<td>13.83</td>
<td>14.79</td>
<td>13.05</td>
<td>10.42</td>
<td>8.70</td>
<td>8.06</td>
<td>8.43</td>
</tr>
<tr>
<td>Shares</td>
<td>29.66</td>
<td>25.81</td>
<td>30.96</td>
<td>33.66</td>
<td>34.48</td>
<td>39.19</td>
<td>34.30</td>
</tr>
<tr>
<td>Land and Buildings</td>
<td>0.16</td>
<td>0.18</td>
<td>0.15</td>
<td>0.13</td>
<td>0.10</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Other Investments</td>
<td>1.47</td>
<td>1.55</td>
<td>2.05</td>
<td>5.10</td>
<td>5.17</td>
<td>6.93</td>
<td>7.67</td>
</tr>
<tr>
<td>Contributions and Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Contributions, as a % of GDP</td>
<td>8.12</td>
<td>8.58</td>
<td>9.59</td>
<td>8.63</td>
<td>9.36</td>
<td>9.15</td>
<td>12.25</td>
</tr>
<tr>
<td>• Employer Contributions, as a % of Total contributions</td>
<td>73.03</td>
<td>71.07</td>
<td>74.30</td>
<td>71.64</td>
<td>72.98</td>
<td>69.92</td>
<td>77.58</td>
</tr>
<tr>
<td>• Employee Contributions, as a % of Total contributions</td>
<td>26.97</td>
<td>28.93</td>
<td>25.70</td>
<td>28.36</td>
<td>27.02</td>
<td>30.08</td>
<td>22.42</td>
</tr>
<tr>
<td>Total Benefits, as a % of GDP</td>
<td>2.90</td>
<td>3.17</td>
<td>3.42</td>
<td>3.39</td>
<td>3.44</td>
<td>3.55</td>
<td>3.70</td>
</tr>
<tr>
<td>• % of benefits paid as a Lump sum</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>• % of benefits paid as a Pension</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Membership (in thousands of persons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total membership</td>
<td>273</td>
<td>346</td>
<td>314</td>
<td>346</td>
<td>350</td>
<td>368</td>
<td>391</td>
</tr>
<tr>
<td>• % of Active membership</td>
<td>80.76</td>
<td>83.57</td>
<td>79.45</td>
<td>81.22</td>
<td>80.75</td>
<td>81.08</td>
<td>82.18</td>
</tr>
<tr>
<td>Of which: % of Deferred membership</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>• % of Passive membership</td>
<td>43.00</td>
<td>16.43</td>
<td>20.55</td>
<td>18.78</td>
<td>19.25</td>
<td>18.92</td>
<td>17.82</td>
</tr>
<tr>
<td>Other beneficiaries</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>Number of Pension Funds/Plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of funds</td>
<td>54</td>
<td>51</td>
<td>50</td>
<td>48</td>
<td>46</td>
<td>41</td>
<td>36</td>
</tr>
<tr>
<td>Total number of plans</td>
<td>103</td>
<td>104</td>
<td>100</td>
<td>96</td>
<td>95</td>
<td>92</td>
<td>90</td>
</tr>
</tbody>
</table>

Note: Assets data, total contributions, benefits data and membership data refer to pension funds and bank managed funds, while structure of assets, contribution split between employer and employee and number of funds/plans refer only to pension funds.

1. Membership figures reflect ‘membership’ rather than ‘people’. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available
NA = data not applicable

Source: OECD, Global Pension Statistics
ICELAND: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION
The public PAYG system covers all residents in Iceland, and is financed from tax returns, of which the employer pays 5.79% as a social security contribution. To be eligible for the full pension the insured must have resided in Iceland for 40 years, of which a minimum of 3 years should be between ages 16 and 66, and have an annual income less than a ceiling amount. Earlier retirement (i.e. 60) is possible for certain categories of employment, e.g. seamen. The basic universal pension for a single person is ISK 274,476 a year.

In addition, there are two means-tested supplementary schemes. The first offers ISK 538,056 a year for a single person. This supplement is reduced when annual income exceeds ISK 607,850 and ceases when annual income exceeds ISK 1,803,503. Additionally, ISK 265,308 a year is paid for a single person. This supplement is reduced if the insured person has other income and ceases when annual income exceeds ISK 589,573. The benefit is adjusted annually by taking into account the current state of budget, but should be at minimum indexed to the CPI. A reduced benefit is paid if the residency period is shorter than 40 years.

OCCUPATIONAL MANDATORY
Coverage
All employed and self-employed persons aged 16 to 70 are covered.

Contributions
The total contribution rate should be at least 12% of payroll. Normally, 4% is paid by employee and 8% by employer. Total contributions are paid into two kinds of accounts – defined benefit and defined contribution. Each of Iceland’s 52 authorised pension funds decides individually how to allocate contributions between the two schemes, on the condition that the defined benefit account provides at least the minimum benefit level on retirement.

Benefits
The defined benefit plan must, for 40 years of contribution, yield a minimum pension of 56% of average earnings, paid for life. The benefit is adjusted according to the financial position of the funds, but must, at the least, be linked to the consumer price index.

Defined contribution benefits depend on the amount of assets accumulated.

The normal retirement age is 67 for private-sector employees and 65 for those in the public sector. Both earlier (i.e. age 65) and later (maximum age 70) retirement is possible, with benefits adjusted accordingly.

Taxation
Employee contributions up to 4% are tax-deductible, while there is no tax deduction ceiling on public-sector employer contributions. Pension investment income is not taxed, while pension payments are.
PERSONAL VOLUNTARY

Coverage
All employed and self-employed people aged 16 to 70 may be covered by the system.

Contributions
Both employers and employees pay contributions and, although in principle there is no limit on contributions, there is a tax-deductible ceiling.

Benefits
The benefits are of the defined contribution type.

Taxation
Four percent of employee and 0.4% of employer contributions are tax deductible if they are paid into the pension schemes authorised by the Ministry of Finance. Employers’ contributions to voluntary individual accounts may receive matching reductions in social security contributions.

MARKET INFORMATION

Occupational mandatory
In 2007 there were 38 authorised pension funds organised along occupational lines. The estimated total membership in occupational mandatory funds was 268 000, while total assets amounted to ISK 1 548.8 billion (USD 24.9 billion).

Personal voluntary
In 2007 there were 17 authorised pension funds organised along personal lines. The estimated total membership in personal voluntary funds was 123 000, while total assets were ISK 220.8 billion (USD 3.5 billion).

REFERENCE INFORMATION

KEY LEGISLATION
1997: Act No. 129 on Mandatory Pension Insurance and the Activities of Pension Funds;

2007: Act No. 78 on Occupational Retirement Funds;

IOPS Country Profiles – ICELAND, October/November 2008
http://eng.fjarmalaraduneyti.is/media/laws_regulations/Act_no_78_2007.pdf

**KEY REGULATORY AND SUPERVISORY AUTHORITIES**

Ministry of Health and Social Security: oversees the public pensions;

http://eng.heilbrigdisraduneyti.is/.

State Social Security Institute: administers the social security programmes through local offices;

www.tr.is/english.

Ministry of Finance: oversees the public pensions, while the 52 independent pension funds administer the mandatory occupational pension programmes;

www.ministryoffinance.is/.

**KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS**

Financial Supervisory Authority.

Pension Fund Assets as a % GDP 2007

- Denmark: 140.6
- Iceland: 138.3
- Netherlands: 132.2
- United States: 124.0
- Switzerland: 119.4
- Australia: 109.5
- Canada: 103.5
- Finland: 78.1
- Chile: 64.4
- Sweden: 57.4
- Liechtenstein: 46.6
- Israel: 44.8
- Hong Kong: 33.6
- Jamaica: 31.2
- Brazil: 22.5
- Japan: 21.9
- Costa Rica: 19.1
- Peru: 18.0
- Trinidad and Tobago: 17.9
- Portugal: 15.5
- Mexico: 12.4
- Poland: 12.2
- New Zealand: 11.1
- Hungary: 10.9
- Spain: 9.0
- Korea: 7.9
- Norway: 7.0
- France: 6.9
- India: 5.4
- Thailand: 5.2
- Austria: 4.7
- Czech Republic: 4.7
- Estonia: 4.6
- Slovak Republic: 4.2
- Bulgaria: 4.1
- Germany: 4.1
- Belgium: 4.0
- Nigeria: 3.9
- Italy: 3.6
- Slovenia: 3.4
- Turkey: 1.2
- Luxembourg: 1.0
- Macedonia: 0.9
- China: 0.6
- Serbia: 0.1
- Greece: 0.0
- Pakistan: 0.0
- Albania: 0.0
- Romania: 0.0
Pension Benefits as a % GDP, 2007

- Finland: 9.1%
- Switzerland: 5.4%
- Australia: 3.9%
- Liechtenstein: 3.8%
- Denmark: 3.7%
- Iceland: 3.7%
- Netherlands: 3.6%
- Canada: 2.2%
- Israel: 1.7%
- New Zealand: 1.3%
- Belgium: 1.2%
- Korea: 1.0%
- Portugal: 1.0%
- Chile: 0.9%
- Brazil: 0.8%
- Spain: 0.5%
- Thailand: 0.5%
- Trinidad and Tobago: 0.4%
- Czech Republic: 0.3%
- Mexico: 0.2%
- Italy: 0.2%
- Hungary: 0.2%
- Norway: 0.2%
- Austria: 0.2%
- Peru: 0.1%
- Germany: 0.1%
- Bulgaria: 0.1%
- Luxembourg: 0.1%
- Nigeria: 0.1%
- Turkey: 0.0%
- Slovenia: 0.0%
- Serbia: 0.0%
- Greece: 0.0%
- Macedonia: 0.0%
- Pakistan: 0.0%

IOPS Country Profiles – ICELAND, October/November 2008