

IOPS COUNTRY PROFILE: NORWAY



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	62,182
Population (000s)	5,137
Labour force (000s)	2,758
Employment rate ¹	74
Population over 65 (%)	
Dependency ratio ²	24,3

Data from 2014 or latest available year.

1. Employment rate: share of persons of working age in employment, OECD data 2017

2. Demographic dependency ratio (65+/(15-64)), OECD data 2014

NORWAY: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The public pension system consists of a flat-rate, basic pension and an earnings-related scheme
- People with small earnings-related pensions receive an income-tested supplement

Private pensions: occupational (mandatory)

- Pensions funds (*pensjonkassen*): private pension funds
- Pension funds (*pensjonkassen*): municipal pension funds
- Norwegian Public Service Pension Fund

Private pensions: occupational (voluntary)

- Pensions funds (*pensjonkassen*): private pension funds
- Pension funds (*pensjonkassen*): municipal pension funds

Private pensions: personal (voluntary)

- *Individuelle pensjonsavtaler* (IPA), or individual pension schemes
- *Livrente* or annuity

Source: OECD Global Pension Statistic

NORWAY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

Everyone living or working in Norway is usually entitled to retirement pension. A major reform of the Norwegian public pension system took place in 2011. The pension reform resulted in a number of changes in the rules for retirement pensions from 1 January 2011. The most important changes are new earning rules, life expectancy adjustments, flexible withdrawals from 62 years and new pension regulations.

The new earning rules are phased in for persons born in the years 1954-1962, and apply fully to persons born in 1963 and later.

The former public pension system consisted of a flat-rate basic pension, a special supplement and an earnings-related part. The basic pension and the special supplement together form the minimum pension.

In the new public pension system, 18.1 per cent of pensionable earnings is ascribed yearly to a notional individual account. The annual pension earnings are summed to a total pension portfolio. The final pension benefit is then calculated with the valorised contributions divided by the life expectancy.

Pensions in Norway are tied to the Social Security Base Amount, termed *Grunnbeløpet* or "G". G is indexed each year at 1 May based on a combination of price and earnings inflation. G is NOK 96,883 in 2018.

The insured person contributes 8.2% of income; there are no maximum earnings for contribution purposes. The employer pays 14.1% of the payroll (although the percentage is lower for certain regions of the country). Reduced contributions are paid for employees 62 or older. Self-employed persons pay 10.7% of their calculated personal income up until a maximum limit. Contributions from employees, employers and the self-employed also finance sickness, maternity and unemployment benefits.

The normal pension age, basically, is 67. With the pension reform residents can now choose to retire, in whole or in part, between 62 (earliest age) and 75 (latest age).

A special supplement is paid to individuals with a low pension (guarantee).

Maximum income for new pension earnings is 7.1 times G.

People can defer their pension after 62 and continue work. Pension and work can also be combined: pensions are earned based on employment income up to age 75.

OECD estimates put the gross replacement rate for average earners at 59.3% (69.3% net).

There is a public reserve fund, the Government Pension Fund; its assets amount to 73.4% of the GDP.

¹ Estimated based on 2006 average wages from Statistics Norway (www.ssb.no).

OCCUPATIONAL MANDATORY

Coverage

In 2007 the mandatory occupational pension system covered over 90% of the labour force.

Typical Plan Design

Under the terms of the 2006 legislation, employers who set up DC plans must make contributions of at least 2% of employee earnings ranging from 1 G to 12 G (*i.e.* up to 12 times the social security base amount). Those employers that offer DB plans must make contributions which guarantee benefits of at least the same level as those that can be expected under the mandatory contribution system. Employees may also be required to contribute to the plan.

A large employer's pension DB plan would typically yield a replacement rate of 60-70% of final earnings, inclusive of state pension, after 30 years of service and payable as of age 67. Contributions for DC plans are capped at 7% of earnings up to 7,1 G and at 25,1% of earnings ranging from 7,1 G to 12 G.

DC plans have become dominating in Norway (private sector), and the increased cap on contributions makes them also attractive to employees with the traditional DB plans that have historically dominated Norwegian occupational pension plans.

The vast majority of new occupational pension plans established in the wake of the legislation in 2006 introducing mandatory pension plans have been defined contribution in nature. They were generally implemented by small or medium-sized companies with no prior pension plans. During the last years, the majority of all private sector companies in Norway also have transferred from DB to DC plans.

Benefits are payable at the age between 62 and 67 and must be claimed over a period of at least 10 years or until minimum age 77.

Taxation

Employers enjoy generous tax relief in the form of premiums deducted from their taxable income. Plans must, however, be in accordance with the Defined Contribution Occupational Pension Act, the Defined Benefit Occupational Pension Act or the Act on Occupational Pensions. The entire amount of a pension is taxed as income when paid out.

OCCUPATIONAL VOLUNTARY (AFP)

Coverage

In the past, the Contractual Early Retirement Plan (AFP) in private sector was a collectively bargained early retirement plan that allowed early retirement from age 62.

The private sector AFP contractual pensions scheme was completely revised in 2011.

AFP is an ungraded lifelong supplement to the retirement pension from the national public pension system.

There is only one private sector AFP scheme (*Fellesordningen for AFP*) and the parties to this joint scheme are the National Confederation of Trade Unions (LO), the Confederation of Norwegian Enterprise (NHO), the Confederation of Vocational Unions (YS), the Enterprise Federation of Norway (Virke), the Employers'

Association Spekter and the Norwegian Employers Association for the Financial Sector (FA).

Contributions

The AFP plan is financed mainly by employers and partially by the state.

PERSONAL VOLUNTARY

A new scheme for tax-adjusted individual pension savings (*modified IPS*) entered into force on 1 November 2017. This new legislation enables setting up voluntary pension plans through life insurance companies, banks, or securities funds, which could enjoy tax relief if they comply with certain requirements.

Payment of pension starts no earlier than 62 years. The pension must be paid at least until the age of 80 and for at least 10 years.

MARKET INFORMATION

Occupational mandatory and voluntary

The occupational pensions schemes are mainly provided by life insurance companies or by pension funds.

Private pension funds are funded, independent, legal entities established by a private enterprise, or group of enterprises, in order to provide occupational pensions. Municipal workers' funded pension funds are independent, legal entities established by a municipality or a municipal enterprise to provide occupational pensions. Occupational pension arrangements for central government employees are operated on a pay-as-you-go basis, but are not discussed here.

It is estimated that between 550 000 and 600 000 people previously without occupational pension coverage were brought into the new system when it was introduced in January 2006.

Companies bear the costs of administering plans. In addition to old-age pension plans, they must also offer disability benefit plans – compulsory insurance policies that provide exemption from contributions during periods of disability (depending on the degree of disability).

There are currently 86 pension funds, including 37 municipal pension funds and 49 private sector pension funds.

An agreement on occupational pensions for public sector employees was negotiated in March 2018. This agreement describes a new pension solution for public sector employees as well as transitional arrangements. The new solution means that there will still be a uniform pension system in the public sector, with lifelong retirement and equal rules for women and men.

In 2007, the Norwegian authorities revoked tax-favourisation for individual pension plans and for insured collective pension plans offering pension benefits on earnings above 12G.

REFERENCE INFORMATION

KEY LEGISLATION

2016: Act on Financial Undertakings and the Financial Group comes into force, regulating insurance companies and pension funds, also involving a major reform of the Insurance Act.

2014: Act on occupational pensions comes into force.

2006: the Mandatory Occupational Pensions Act comes into force.

2005: the Insurance Act of 10 June (No. 44) is passed. It comes partially into force on 1 July 2006. The act's Chapter 7, on pension undertakings, and Chapter 9, on life insurance activities and appurtenant regulations, becomes law on January 2008.

2005: the Insurance Act, Sections 2-4, forms the basis of Regulation No. 827 of 22 September 1995, governing Insurance Services and the Establishment of Branches of Insurance Companies and Pension Undertakings having their Head Offices in another EEA Area State.

2001: The Defined Benefit Plans Act and the Defined Contribution Plans Act further regulate pension plans.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Finanstilsynet, or the Financial Supervisory Authority: supervises the private pension system; www.finanstilsynet.no/

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Finanstilsynet, or the Financial Supervisory Authority;

www.finanstilsynet.no/

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.