

## Norway

The public pension system in Norway consists of a flat-rate, basic pension and a supplementary, earnings-related pension. The benefits of people with little or no small earnings-related pension are topped up with an income-tested supplement.

### Qualifying conditions

The normal pension age is 67. Forty years' insurance is required to receive the full pension, both basic and earnings-related benefits. Both benefits are proportionally reduced for shorter insurance histories. A minimum of three years of contributions is required to receive an earnings-related pension.

### Benefit calculation

#### **Basic**

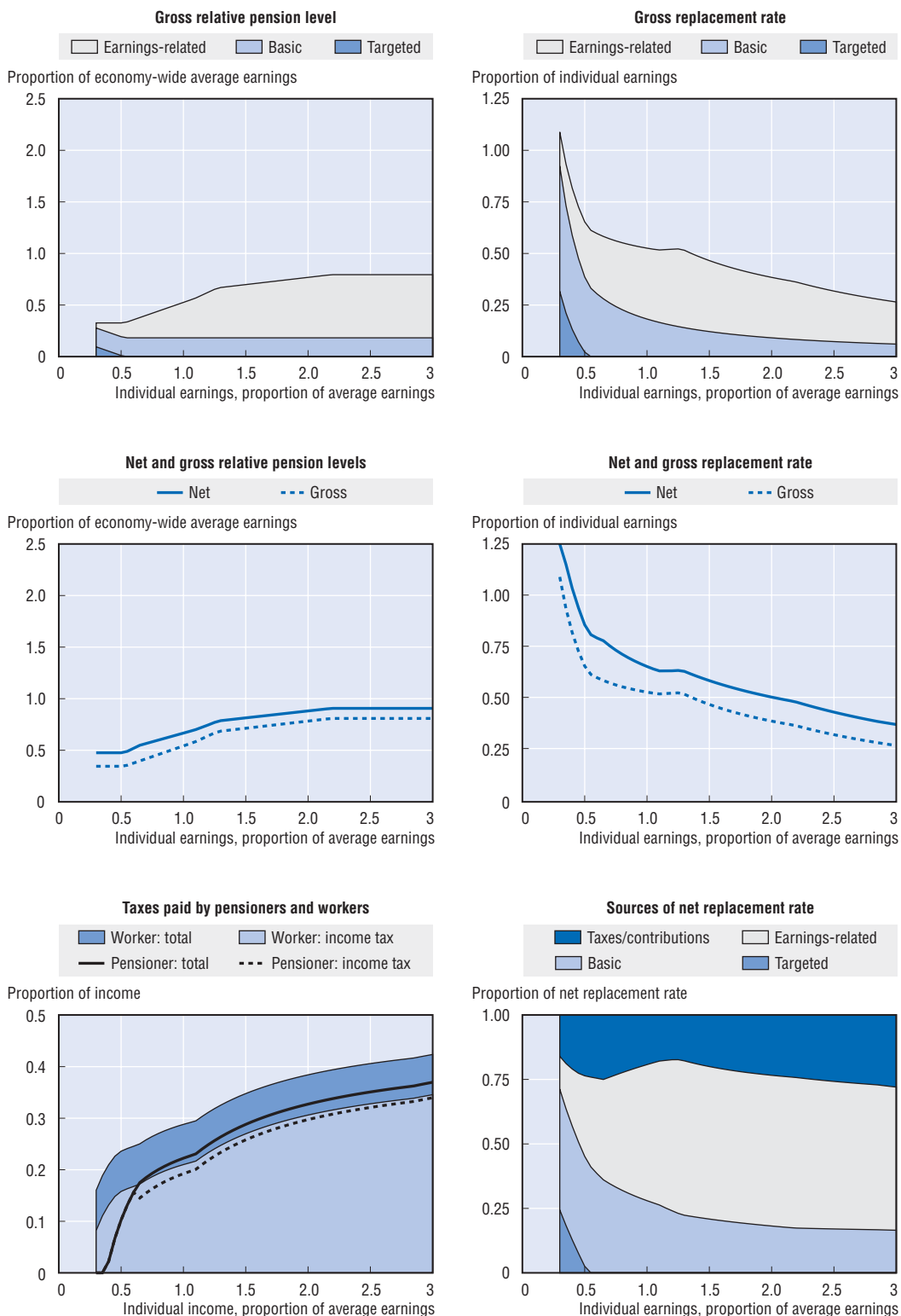
Many benefits under the National Insurance Scheme are determined in relation to a basic amount, G, that was NOK 53 233 (on average) in 2002. The full basic pension for a single pensioner equals the basic amount, which is equivalent to 18% of average earnings. There is no formal indexation procedure for the value of the basic amount/pension. Although past increases were below earnings growth, in recent years the government has agreed to increase the basic pension in line with average earnings. The modelling assumes that this practice continues.

#### **Earnings-related**

Since the basic pension replaces the first slice of earnings, the earnings-related scheme only covers earnings above the value of the basic amount. The earnings-related scheme has a progressive formula, i.e., the replacement rate falls for higher earnings. Annual earnings between 2.89 times the basic amount and six times the basic amount are replaced at a 42% rate. Between 6 and 12 times the basic amount, the replacement rate is one third of that level (that is, 14%). Given that 40 years' contributions are needed for a full pension, these are equivalent to annual accrual rates of 1.05 and 0.35% respectively. The first threshold, where the accrual rate declines, is a little over average earnings (109%). The ceiling on earnings eligible for benefits is therefore a little over double average earnings (219%).

The calculation of the pension uses the best 20 years of earnings. It is specified as a points system. Thus, the valorisation of earlier years' accruals depends on the adjustment procedure for the value of the basic amount. As discussed previously, the modelling assumes that the basic amount will in future be updated in line with average earnings.

### Pension modelling results: Norway



Source: OECD, based on information provided by the countries.

### Targeted supplement

The special supplement is 79.33% of the basic amount, giving a total minimum pension for a single pensioner of 1.7933 times the basic amount, i.e. NOK 95 463, equivalent to around a third of average earnings.

## Personal income tax and social security contributions

### Taxation of pensioners

The age deduction provides an additional allowance of NOK 18 360 in 2002.

### Taxation of pension income

There is also a separate “tax-limitation rule” for pensioners. Around half of people receiving benefits and/or pensions either pay no tax or do so under the limitation rule. The additional allowance cannot be used along with the tax-limitation rule.

### Social security contributions paid by pensioners

Pension income is liable for social security contribution at a lower rate (3%) than employees’ wage earnings (7.8%). The social security contribution is not a part of the tax-limitation rule.

As a result of the tax-limitation rule, pensions below NOK 105 325 in 2002 are not subject to income tax and social security contributions.

### Pension modelling results: Norway

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	32.7	42.1	52.6	69.8	76.8	79.4
Net pension level (% of average net earnings)	45.9	56.6	65.1	80.0	86.8	89.3
Gross replacement rate (% of individual earnings)	65.3	56.1	52.6	46.5	38.4	31.8
Net replacement rate (% of individual net earnings)	85.5	73.1	65.1	58.2	50.1	42.8
Gross pension wealth (multiple of average earnings)	5.3	6.7	8.2	10.7	11.7	12.1
Net pension wealth (multiple of average net earnings)	7.4	9.0	10.1	12.2	13.2	13.6

## Bibliography

- Aldrich, J. (1982), "The Earnings Replacement Rate of Old-age Benefits in Twelve Countries: 1969-1980", *Social Security Bulletin*, Vol. 45, No. 11, pp. 3-11.
- Blanchard, O.J. (1993), "The Vanishing Equity Premium", in R. O'Brien (ed.), *Finance and the International Economy* 7, Oxford University Press.
- Bodie, Z. (1995), "On the Risk of Stocks in the Long Run", *Financial Analysts' Journal*, May-June, pp. 18-22.
- Casey, B., H. Oxley, E.R. Whitehouse, P. Antolín, R. Duval and W. Leibfritz (2003), "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", Economics Department Working Paper No. 369, OECD, Paris.
- Cichon, M. (1999), "Notional Defined-contribution Schemes: Old Wine in new Bottles?", *International Social Security Review*, Vol. 52, No. 4, pp. 87-105.
- Constantinides, G., J. Donaldson and R. Mehra (1998), "Junior Can't Borrow' A New Perspective on the Equity Premium Puzzle", Working Paper No. 6617, National Bureau of Economic Research, Cambridge.
- Dang, T.T., P. Antolín and H. Oxley (2001), "Fiscal Implications of Ageing: Projections of Age-related Spending", Working Paper No. 305, Economics Department, OECD, Paris.
- Diamond, P.A. (1997), "Insulation of Pensions from Political Risk", in S. Valdés-Prieto (ed.), *The Economics of Pensions: Principles, Policies and International Experience*, Cambridge University Press.
- Disney, R.F. (1999), "Notional Accounts as a Pension Reform Strategy: an Evaluation", Pension Reform Primer Series, Social Protection Discussion Paper No. 9928, World Bank, Washington, D.C.
- Disney, R.F. and P.G. Johnson (eds.) (2001), *Pension Systems and Retirement Incomes Across OECD Countries*, Edward Elgar, Aldershot.
- Disney, R.F. and Whitehouse, E.R. (1994), "Choice of Private Pension and Pension Benefits in Britain", Working Paper No. 94/2, Institute for Fiscal Studies, London.
- Disney, R.F. and E.R. Whitehouse (1996), "What are Pension Plan Entitlements Worth in Britain?", *Economica*, Vol. 63, pp. 213-238.
- Disney, R.F. and E.R. Whitehouse (1999), "Pension Plans and Retirement Incentives", Pension Reform Primer Series, Social Protection Discussion Paper No. 9924, World Bank, Washington, D.C.
- Disney, R.F. and E.R. Whitehouse (2001), *Cross-Country Comparisons of Pensioners' Incomes*, Report Series No. 142, Department for Work and Pensions, London.
- Eurostat (1993), *Old Age Replacement Ratios*, Vol. 1, *Relation between Pensions and Income from Employment at the Moment of Retirement*, Statistical Office of the European Communities, Luxembourg.
- Finkelstein, A. and J. Poterba (2002), "Selection Effects in the United Kingdom Individual Annuities Market", *Economic Journal*, Vol. 112, No. 476, pp. 28-50.
- Finkelstein, A. and J. Poterba (2004), "Adverse Selection in Insurance Markets: Policyholder Evidence from the UK Annuity Market", *Journal of Political Economy*, Vol. 112, No. 1, pp. 183-208.
- Förster, M.F. and M. Mira d'Ercole (2005), "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s", Social, Employment and Migration Working Paper, No. 22, OECD, Paris.
- Hernanz, V., F. Malherbert and M. Pellizzari (2004), "Take-up of Welfare Benefits in OECD Countries: a Review of the Evidence", Social, Employment and Migration Working Paper No. 17, OECD, Paris.
- Ippolito, R. (1991), "Encouraging Long Tenure: Wage Tilt or Pensions", *Industrial and Labor Relations Review*, Vol. 44, No. 3.

- Jagannathan, R. and N. Kocherlakota (1996), "Why Should Older People Invest Less in Stocks than Younger People?", *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 20, No. 3, Summer.
- Johnson, P.G. (1998), *Older Getting Wiser*, Institute of Chartered Accountants in Australia.
- Keenay, G. and E.R. Whitehouse (2002a), "Taxing Pensioners", in *Taxing Wages*, OECD, Paris.
- Keenay, G. and E.R. Whitehouse (2002b), "The Role of the Personal Tax System in Old-age Support: a Survey of 15 Countries", Discussion Paper No. 02/07, Centre for Pensions and Superannuation, University of New South Wales, Sydney.
- Keenay, G. and E.R. Whitehouse (2003a), "Financial Resources and Retirement in Nine OECD Countries: the Role of the Tax System", Social, Employment and Migration Working Paper No. 8, OECD, Paris.
- Keenay, G. and E.R. Whitehouse (2003b), "The Role of the Personal Tax System in Old-age Support: a Survey of 15 Countries", *Fiscal Studies*, Vol. 24, No. 1, pp. 1-21.
- Lazear, E. (1981), "Agency, Earnings Profiles, Productivity and Hours Restrictions", *American Economic Review*, Vol. 71, pp. 606-620.
- Lazear, E. (1985), "Incentive Effects of Pensions", in D. Wise (ed.), *Pensions, Labor and Individual Choice*, University of Chicago Press for National Bureau of Economic Research.
- McHale, J. (1999), "The Risk of Social Security Benefit Rule Changes: Some International Evidence", Working Paper No. 7031, National Bureau of Economic Research, Cambridge, Mass.
- Mehra, R. and E.C. Prescott (1985), "The Equity Premium: a puzzle", *Journal of Monetary Economics*, Vol. 15, pp. 145-161.
- Mitchell, O.S. and E.L. Dykes (2000), "New Trends in Pension Benefit and Retirement Provisions", Working Paper No. 2000-1, Pension Research Council, Wharton School, University of Pennsylvania, Philadelphia.
- OECD (1995), *Private Pensions in OECD Countries: Canada*, Social Policy Studies No. 15, Paris.
- OECD (2001), *Ageing and Income. Financial Resources and Retirement in Nine OECD Countries*, Paris.
- OECD (2003), *Taxing Wages*, Paris.
- OECD (2004), *OECD Classification and Glossary of Private Pensions*, Paris.
- OECD (2005), *Taxing Wages*, Paris.
- Palacios, R.J. and E.R. Whitehouse (2000), "Guarantees: Counting the Cost of Guaranteeing Defined Contribution Pensions", Pension Reform Primer briefing note, World Bank, Washington, D.C.
- Palacios, R.J. and E.R. Whitehouse (2005), "Civil-service Pension Schemes Around the World", Pension Reform Primer series, Social Protection Discussion Paper, World Bank, Washington, D.C., forthcoming.
- Pennachi, G.G. (1998), "Government Guarantees on Funded Pension Returns", Pension Reform Primer series, Social Protection Discussion Paper No. 9806, World Bank.
- Turner, J.A. and D.M. Rajnes (2000), "Limiting Worker Financial Risk Through Risk Sharing: Minimum Rate of Return Guarantees for Mandatory Defined Contribution Plans", International Labour Organisation, Geneva.
- United Kingdom, Department of Work and Pensions (2003), "Income Related Benefits Estimates of Take-up – 2000-2001", London.
- United Kingdom, Government Actuary's Department (2003), *Occupational Pension Schemes in 2000: Eleventh Survey by the Government Actuary*.
- United States, Department of Labor (1999), *Private Pension Plan Bulletin: Abstract of 1996 Form 5 500 Annual Reports*, Pension and Welfare Benefits Administration, Washington, D.C.
- Viscusi, W.K. (1985), "The Structure of Uncertainty and the Use of Pensions as a Mobility-reduction Device", in D. Wise (ed.), *Pensions, Labor and Individual Choice*, University of Chicago Press for National Bureau of Economic Research.
- Vordring, H. and Goudswaard, K. (1997), "Indexation of Public Pension Benefits on a Legal Basis: Some Experiences in European Countries", *International Social Security Review*, Vol. 50, No. 3, pp. 31-44.
- Weaver, R.K. (1988), *Automatic Government: The Politics of Indexation*, Brookings Institution, Washington, D.C.
- Whiteford, P. (1995), "The Use of Replacement Rates in International Comparisons of Benefit Systems", *International Social Security Review*, Vol. 48, No. 2.

- Whitehouse, E.R. (1998), "Pension Reform in Britain", Pension Reform primer series, Social Protection Discussion Paper No. 9810, World Bank, Washington, D.C.
- Whitehouse, E.R. (2000), "Administrative Charges for Funded Pensions: Measurement Concepts, International Comparison and Assessment", *Journal of Applied Social Science Studies*, Vol. 120, No. 3, pp. 311-361.
- Whitehouse, E.R. (2001), "Administrative Charges for Funded Pensions: Comparison and Assessment of 13 Countries", in *Private Pension Systems: Administrative Costs and Reforms, Private Pensions Series*, Vol. 3, OECD, Paris.
- Whitehouse, E.R. (2002), "Pension Systems in 15 Countries Compared: the Value of Entitlements", Discussion Paper No. 02/04, Centre for Pensions and Superannuation, University of New South Wales, Sydney.
- Whitehouse, E.R. (2005a), "Pension Policy Around the World: Vol. 1, High-income OECD Countries", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. (2005b), "Pension Policy Around the World: Vol. 2, Eastern Europe and Central Asia", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. (2005c), "Pension Policy Around the World: Vol. 3, Latin American and Caribbean", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. and R.J. Palacios (2005), "Pension Policy Around the World: Vol. 5, South Asian Civil-service Schemes", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. and D. Robalino (2005), "Pension Policy Around the World: Vol. 4, Middle East and North Africa", Social Protection Discussion Paper, World Bank, Washington, D.C.
- World Bank (1994), *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford University Press.

## Table of Contents

<b>Preface: Why Pensions at a Glance?</b> .....	9
<b>Introduction</b> .....	11
<b>Executive Summary</b> .....	15

### Part I

### Monitoring Pension Policies

<b>Chapter 1. Pension-system Typology</b> .....	21
1. First-tier, redistributive pensions .....	22
2. Second-tier, mandatory, insurance pensions .....	24
Notes .....	25
<b>Chapter 2. Comparing Pension-system Parameters</b> .....	27
1. First-tier, redistributive schemes .....	28
2. Second-tier, earnings-related schemes .....	28
3. Earnings measures and valorisation in earnings-related schemes .....	31
4. Defined-contribution schemes .....	33
5. Ceilings on pensionable earnings .....	33
6. Pension eligibility ages .....	34
7. Indexation of pensions in payment .....	34
8. Taxes and social security contributions .....	34
Notes .....	37
<b>Chapter 3. Modelling Pension Entitlements</b> .....	39
1. Future entitlements under today's parameters and rules .....	40
2. Coverage .....	40
3. Economic variables .....	41
4. Average earnings data .....	42
5. Taxes and social security contributions .....	42
6. Indicators and results .....	42
Notes .....	45
<b>Chapter 4. Replacement Rates</b> .....	47
1. Gross replacement rates .....	48
2. Net replacement rates .....	51
Notes .....	53

Chapter 5. <b>Relative Pension Levels</b> .....	55
Chapter 6. <b>Pension Wealth</b> .....	59
Notes .....	63
Chapter 7. <b>Key Indicators</b> .....	65
1. Weighted averages and the earnings distribution .....	66
2. Weighted average pension levels and pension wealth .....	67
3. Structure of the potential resource transfer to pensioners .....	68
Notes .....	70
Annex I.1. Differences between Defined-benefit, Points and Notional-accounts Pension Systems .....	71
Annex I.2. Sensitivity Analyses .....	73
Annex I.3. Progressivity of Pension Benefit Formulae .....	81
Bibliography .....	84

## Part II

**Country Studies**

Introduction .....	89
Australia .....	91
Austria .....	95
Belgium .....	98
Canada .....	102
Czech Republic .....	105
Denmark .....	108
Finland .....	112
France .....	116
Germany .....	120
Greece .....	123
Hungary .....	127
Iceland .....	130
Ireland .....	133
Italy .....	136
Japan .....	140
Korea .....	143
Luxembourg .....	146
Mexico .....	149
Netherlands .....	152
New Zealand .....	155
Norway .....	158
Poland .....	161
Portugal .....	164
Slovak Republic .....	167
Spain .....	170
Sweden .....	173



Switzerland . . . . .	177
Turkey . . . . .	180
United Kingdom . . . . .	183
United States . . . . .	187
<b>VOLUNTARY, OCCUPATIONAL PENSIONS</b> . . . . .	191
Canada . . . . .	193
Denmark . . . . .	196
United Kingdom . . . . .	198
United States . . . . .	200

### List of Box

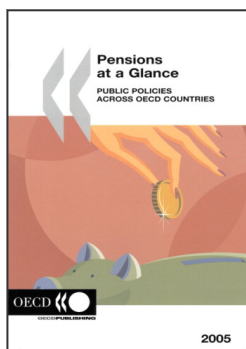
3.1. Modelling pensions . . . . .	44
-----------------------------------	----

### List of Tables

1.1. Structure of pension systems in OECD countries . . . . .	23
2.1. Summary of pension system parameters . . . . .	29
2.2. Earnings measure and valorisation: earnings-related schemes . . . . .	32
2.3. Procedures for adjustment of pensions in payment by country and scheme . . . . .	35
2.4. Categories of concession available to pensioners . . . . .	37
3.1. Earnings of the average production worker, 2002 . . . . .	43
4.1. Gross replacement rates by earnings level, mandatory pension programmes, men . . . . .	49
4.2. Net replacement rates by earnings level, mandatory pension programmes, men . . . . .	52
6.1. Total life expectancy at age 65, 2040 projected mortality rates . . . . .	61
6.2. Gross pension wealth by earnings level, mandatory pension programmes, men . . . . .	63
7.1. Weighted average pension level and pension wealth . . . . .	67
7.2. Contribution of different components of pension systems to total pension promise . . . . .	69
I.3.1. Indicators of the progressivity of pension benefit formulae . . . . .	82

### List of Figures

4.1. Gross replacement rates at different earnings levels . . . . .	50
4.2. Net replacement rates at different earnings levels . . . . .	51
5.1. The link between pre-retirement earnings and pension entitlements . . . . .	57
7.1. Distribution of earnings, average of 16 OECD countries . . . . .	66
I.2.1. Total gross replacement rates for low, average and high earners by rate of return on defined-contribution pensions . . . . .	74
I.2.2. Total gross replacement rates for low, average and high earners by rate of growth of economy-wide average earnings . . . . .	77
I.2.3. Total gross replacement rates for low, average and high earners by rate of growth of individual earnings relative to average earnings . . . . .	78
I.2.4. Total gross replacement rates for low, average and high earners by the number of jobs over the career . . . . .	80



**From:**  
**OECD Pensions at a Glance 2005**  
Public Policies across OECD Countries

**Access the complete publication at:**  
[https://doi.org/10.1787/pension\\_glance-2005-en](https://doi.org/10.1787/pension_glance-2005-en)

**Please cite this chapter as:**

OECD (2006), "Norway", in *OECD Pensions at a Glance 2005: Public Policies across OECD Countries*, OECD Publishing, Paris.

DOI: [https://doi.org/10.1787/pension\\_glance-2005-34-en](https://doi.org/10.1787/pension_glance-2005-34-en)

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).