

## *Assessment and recommendations*

### **Norway's strong position**

As is the case with other OECD countries, Norway's population is ageing. In line with the OECD average, the proportion of the population aged 65 and over is projected to increase from around 30% of the population aged 20-64 in 2011 to around 60% by 2050. Nevertheless, the labour force is expected to continue to grow until 2060, since the population projections from Statistics Norway assume net immigration rates and birth rates above the OECD averages.

Norway is better placed to cope with population ageing than most other countries, in several respects. First, the government has substantial petroleum revenues and possesses extensive financial assets. The Government Pension Fund Global is an important element of the macroeconomic framework, helping to separate the earning of petroleum income from the use of that income. Secondly, in 2011 Norway had the fourth-highest employment rate for workers aged 55-64 in the OECD area, at 69.6%. In addition, in 2011 unemployment rates were low at around 3%, but especially so in the age group 55-64, at 1.3%. Moreover, the average effective labour force exit ages for men (64.2) and women (64.3) are above the OECD averages (63.9 and 62.8 years, respectively). Finally, the average level of educational attainment among "seniors" (the usual expression for older workers in Norway) is high compared with the OECD average: 27.3% of the age group 55-64 had tertiary-level education in 2010 compared with 22.9% for the OECD area.

### **Doing more to mobilise inactive older people**

Given the ageing population challenges, there is increasing pressure in OECD countries to further boost the employability of the working-age population over the next 50 years. Norway is no exception. It is sometimes argued that the consequences of ageing could be offset by policies to encourage greater immigration, higher fertility, or faster labour productivity growth. While these developments would all help, they need to go hand in

hand with attempts to better mobilise available labour reserves so as to sustain economic growth.

## **The need to encourage more people to stay longer in work**

While the employment rate for the age group 50-64 remains at a high level, it did not increase much over the past decade. Increases occurred specifically in the subgroups 55-59 and 60-64, and were less than the OECD average for those same subgroups. An important factor here is that Norway's labour market has a large share of older people on disability benefit: 19.6% of those aged 55-59 in the first quarter of 2012, and 30.5% of those aged 60-64. Clearly, reduced inflows to disability benefit would contribute significantly to higher employment rates in the older age groups. A number of studies indeed signal a "grey area" between disability and unemployment.

More could also be done to raise the employment rate of people aged 65 and over: it stood at 25.6% in 2011. That same year, eight OECD countries (Iceland, Korea, Mexico, New Zealand, Japan, Chile, United States and Israel) had higher employment rates than Norway for the age group 65-69 even though Norway has a high number of healthy life-years expected at the age of 50 – 25 years for men and 26 years for women.

Thus, much remains to be done to increase the employment of seniors in Norway. There are signs that – aside from the 2011 pension reform – the increased demand for older workers is largely motivated by current labour shortages; there is little focus on structural changes to prepare for an ageing labour force. The recommendations that follow are put forward as possible elements of an overall strategy for promoting the employment of seniors, with three mutually supportive planks: *i*) better incentives to carry on working; *ii*) tackling employment barriers on the side of employers; and *iii*) improving the employability of older workers.

## **Better incentives to carry on working**

### ***The 2011 pension reform***

In 2010-11, Norway implemented a pension reform establishing flexible retirement between the ages of 62 and 75, in line with the recommendations of the OECD. The pension benefit is actuarially calculated, with life expectancy adjustment an explicit element. Pension and work income can be combined without any financial restrictions, and employment income for retirees generates additional pension rights. Use of the life-expectancy adjustment can be seen as a substitute for an increase in the statutory

pension age. Nearly 57 000 persons aged 62-66 received an old age pension by the end of 2012, and 65% of them combined the old age pension with work.

The success of the pension reform should be evaluated in relation to the 2006 OECD message: does this reform encourage older people to “work longer” in response to “living longer”? Life-expectancy adjustment of the pension benefits can be seen as a substitute for increases in the pension age, and that people will voluntarily work longer as life expectancy increases to make up for the lower yearly pension payments. A major shortcoming of the Norwegian reform is that so far only about 40% of all *new* pensioners are substantially affected by the new rules; old age pensions for people classified as disabled and for public sector employees are to a large extent calculated as they were in the former pension system.

### ***An urgent need to further align pension systems for private and public sector workers***

In the private sector, the Contractual Early Retirement (AFP) scheme for persons aged 62-66 (AFP is part of the so-called second pillar) was reformed in line with changes in the public pension system (the first pillar). As of 2011, the private sector AFP scheme is a lifelong supplement to the first-pillar scheme. Private sector AFP gives typically an additional benefit to the public old age pension of slightly above 20% for the entire remaining lifetime.

Occupational pensions (also part of the second pillar) in the private sector were also adjusted to the new rules for withdrawal of the first-pillar pension. There were three modifications: introduction of flexibility with regard to retirement age, beginning at 62; use of actuarial methods for calculation of benefits; and the possibility to combine income and pensions without any earnings test. A proposal is currently under review to also align the rules regarding age limits for accrual of additional pension rights in the occupational schemes with the first-pillar scheme, and to base rights on all income years. If implemented, such reforms would improve incentives to work longer.

The present situation – where many employees in the private sector are members of two different second-pillar schemes with different rules and regulations – should, however, be re-examined with the aim of achieving greater simplification, better transparency, and appropriate redistribution effects. Studies show that adding benefits from a relatively generous defined-benefit scheme and an AFP to the public old age pension, the pension can result in a replacement rate approaching 100%, which may well not even be an intended effect.

In the public sector, which accounts for about one-third of all employment in Norway, the old system is still in place, and the annual pension is for the most part calculated independently of the retirement age between 62 and 66. AFP pensions for public employees (second-pillar) are proportionally reduced if employment continues and cannot be combined with the public old age pension. In addition, the old occupational scheme in the public sector (second-pillar), where the pension is based on the final wage, is still in place except for the life-expectancy adjustment and introduction of indexation rules identical to those for the new old age pension scheme.

According to simulations from Statistics Norway, lack of alignment of the public sector schemes with the new flexible old age pension will significantly reduce the 2011 pension reform's contribution to the labour force in the long run. Incentives to continue working are weak in the public sector. Moreover, the different schemes and rules in the private and public sectors may reduce job mobility between the two sectors: in particular, workers may lose pension entitlements by moving from one sector to the other.

### ***Better information must be better disseminated to facilitate the right decisions***

Even if the new old age pension is actuarially neutral, interaction with taxation rules means that withdrawal of a full pension of a lower yearly amount over a longer period can be advantageous compared with other take-up patterns, and render partial or deferred pensions less attractive. The total combined effect of indexation rules, life-expectancy adjustment and taxation is, however, complex. Surveys show that many individuals have difficulties acquiring information that will help them reach a decision as to what is economically best for them – there needs to be better information dissemination.

### ***Reform of the disability scheme will encourage the use of further work ability***

A proposal to separate disability benefit from old age pensions passed Norway's Parliament in 2011. The disability benefit will be based on the average income of the three highest-income years of the five years preceding the onset of disability. This will make the calculation more similar to the way temporary health benefits prior to receiving a disability benefit are calculated. It will also draw a clearer distinction between disability benefits and early retirement benefits. One of the elements in the reform is to make it easier to combine work income and disability benefits. One aim is to reduce inflows to the disability benefit through prevention measures:

another is to encourage outflows by increasing the use of partial benefits and allowing these to be combined with part-time work. The new legislation is expected to enter into force in 2015.

Considerable geographical variations in disability rates indicate that practices vary greatly across the country. This is not addressed by the amended reform: entitlement criteria and procedures remain unchanged.

### ***The following measures should be considered***

- *Second-pillar pension schemes for public sector employees should be aligned with the first pillar.* Norway's future labour force growth would be boosted significantly by alignment of the public sector AFP and occupational schemes with the main principles of 1) the new old age pension scheme, and 2) the AFP and occupational schemes in the private sector. That would provide public sector employees with a more transparent system, greater flexibility, and better incentives to continue to work.
- *Consolidation of the AFP and occupational schemes should be considered, to promote greater simplification and transparency.* The steps taken to reform the second pillar in the private sector are positive, and rapid phase-in of these new provisions is recommended to realise the positive effects. In a longer-run perspective, further simplifications and more transparent pension costs could be obtained by consolidating the AFP and occupational schemes.
- *The disability scheme requires stronger gatekeeping.* Among the measures recommended by the OECD in 2013 (see *Mental Health and Work: Norway*), closer interaction among the key actors should be sought to ensure an interdisciplinary assessment of disability applications. Better tools also can contribute to a more uniform process. As an example, guidelines to general practitioners to improve gatekeeping related to sickness benefit were implemented in 2011; were similar concrete guidelines extended to the disability scheme, they would greatly help general practitioners in completing their medical assessment. Moreover, the information could be used to design targeted training programmes and as a basis for sanctioning doctors making clearly aberrant decisions.
- *Reduce the complexity in decision making.* Steps to improve tax neutrality should be taken to remove distortions in decisions regarding pension withdrawal, and make the system more transparent. In addition, a more coherent format should be developed for information about pensions and the consequences of different choices between work and

pension, including the impact of taxation. This could be done by, for instance, extending the services and information accessible through public websites such as *Finansportalen.no*, which is already certified by OECD's principles for financial education programmes.

## **Tackling employment barriers on the side of employers**

### ***Greater age neutrality in employer personnel decisions must be ensured***

Based on managers' answers to the 2012 Senior Policy Barometer survey, qualified applicants above an average age of 57.4 are less likely to be invited to an interview for a job. That average age may be relatively high by international standards, but it must be assessed in the context of Norway's statutory pension age, which until 2011 was 67. About one-third of employers report that qualified applicants should have at least ten working years remaining before retirement to be invited to an interview. According to these survey data, individuals may encounter age barriers in the labour market as soon as their early 50s. Given the ageing of the labour force, increased mobility of older workers is becoming important to ensure sufficient flexibility in the economy.

### ***The important role of social dialogue and the Agreement for an Inclusive Workplace***

Norway's Inclusive Workplace Agreement (IA Agreement) is a central framework for tripartite co-operation between the social partners and the government. It was launched in 2001 and renegotiated in 2010 for the period 2010-13. The three goals of the Agreement are:

- A 20% reduction in sick leave compared with the second quarter of 2001. At the national level, this means that sick leave should not exceed 5.6% of all workers.
- Increased employment of people with reduced functional ability.
- The effective labour force exit age for an employee aged 50 is to be extended by six months compared with 2009.

The extensive tripartite co-operation is a good basis for dialogue to reach consensus and pragmatic solutions, exemplified by the IA Agreement. This consensus-driven policy making can, however, make it difficult to take more complex decisions. The IA Agreement could be reoriented toward making the targets above more binding and changing the senior policies from a "one-size-fits-all" model towards stronger promotion and acceptance

of a more individualised approach, to handle more effectively the large variation among older workers.

### ***Greater consistency in setting age limits***

In the new public pension system, pension rights can be accrued until the age of 75. There is, however, no co-ordination between rules regarding age limits for accrual of additional pension rights, employment protection legislation and other rules and regulations concerning mandatory retirement.

By amendments in 2010, the Work Environment Act states that employment in Norway can be terminated by employers at the age of 70. A lower retirement age can be decided under certain conditions. Occupational pension schemes often have 67 as the pension age. The Supreme Court has confirmed this practice as legal with the proviso that the scheme provides a reasonable benefit and the age limit is well known among, and is applied in the case of, all employees. The general mandatory retirement age in the public sector is 70, and there are lower age limits for certain occupations (policemen, firemen, ballet dancers, etc.).

In some countries, such as New Zealand and, recently, the United Kingdom, abolition of mandatory retirement has been central to policies to encourage and facilitate longer working careers. Low mandatory retirement ages may represent an arbitrary barrier to employment at an older age, since education, health and technological changes may have removed the original reason for such upper age limits.

### ***The following measures should be considered***

- *Ensure greater age neutrality in employer personnel decisions, starting with weak points such as the hiring process.* In Norway, the high share of employers who rarely or never recruit older applicants is an issue of concern. The OECD recommends promotion of a new target related to Sub-goal 3 in the next IA Agreement to progress towards an age-neutral hiring rate. A first step could be to reach the OECD average hiring rate of older workers. Hiring decisions should be monitored more closely. Trials with anonymised résumés where specific age information is left out can be efficient ways to get quantitative information as a basis for further action.
- *Achievements should be evaluated.* To ensure that the 2004 amendments to the Work Environment Act prohibiting age discrimination are respected, enforcement is needed and sanctions must be used when necessary. The Ministry of Labour, as well as the Ministry of Children, Equality and Social Inclusion, has responsibilities at the political level,

with the Labour Inspectorate and the Equality and Anti-Discrimination Ombud as the operative units. Given that nearly ten years have passed since implementation of the provisions, a formal evaluation of their impact would be timely. The evaluation should cover the transparency and effectiveness of where and how responsibility for implementation, monitoring and enforcement is placed.

- *Simplify and co-ordinate age limit rules.* The review of age limits that recently got under way should result in a more transparent and coherent system supporting the targets of the pension reform, and to remove age as the sole criterion for mandatory retirement. Removing barriers to work represented by the lower age limits should be accorded the highest priority. Regulations such as “the 85 years rule” in the public sector, allowing departure three years prior to the retirement age if the sum of age and seniority is at least 85 years, are anomalies in the new system, and should be removed.
- *Protect employment opportunities, not jobs.* The Work Environment Act states that the layoff notice period for older workers with long tenures will be longer than that for younger workers. The longer notice period can give better protection, but can also make it more costly to hire and retain older workers. Older workers could be better off with the standard notice period, combined with ensuring that older jobseekers have the same access to job-search assistance and active labour market measures as younger jobseekers.

## **Improving the employability of older workers**

### ***Reduce the inequalities in training participation by age, gender and skill***

While men aged 50-64 with tertiary education had an employment rate of 90% in 2010, the corresponding employment rate for women with less than upper secondary education was only 50%. Norway has a comprehensive system of lifelong learning, and yet older workers participate less in education and training than younger colleagues. Evidence shows that older employees are very often most motivated to sign up for on-the-job training and education courses closely related to their work situation. One reason that older workers can have optimal training methods and intensity that are different from that of younger and mid-career workers is the shorter payback period. For older workers, greater focus is placed on informal on-the-job-training. The higher exit age from the labour market and increasingly clear need to maintain competence and skills are reasons to



have a particular focus on mid-career training and education; the skills acquired can improve employability at a later age.

### *New training and education methods to benefit older people*

Distance education has increased with the development of ICT-supported learning. But even if the level of ICT competence has increased greatly over time, older people are not accustomed to digital learning in the same way as youngsters. Any further development of digital learning should therefore take the needs of older people into account.

Distance training cannot completely replace “local training” or campus training. Norway has a number of study associations represented across the country, as well as educational institutions offering flexible adult education. “Local training” will normally require a certain number of participants to be cost-efficient. An alternative can be for clusters of firms within a region or industry to serve as the basis for recruitment to education programmes. Education activities within clusters can have the advantage of balancing job-specific training with more general training.

### *Mentoring*

Mentoring arrangements are used to ensure that important knowledge and experience are transferred from older to younger staff members before retirement of the former. There can also be arrangements for youth-to-seniors mentoring, to update older workers on fresh job-related knowledge emerging from the education system. Formal mentoring schemes are very new as a method in most countries, and evidence of their effectiveness is still limited. Development of guidelines based on good practices, and evaluation of projects and trials, will therefore be needed to improve this framework, and make it a useful tool for a broad range of employers.

Older workers will normally have obtained their most valuable knowledge through their work experience. The system of validation and assessment of informal learning and experience is well established in Norway, but could be used more extensively. More should also be done to inform the employers about this system, and about how to assess the certificates in a recruitment process.

## ***Help private and public employment agencies to provide better employment assistance***

### *Individual treatment in a universal framework*

One question that remains highly topical is whether the needs of older unemployed people are best met by specially targeted measures, or by an all-age mainstreaming approach. The Public Employment Service (PES, known as NAV in Norway) offers universal follow-up services to jobseekers and people receiving health-related benefits, regardless of gender, age, occupation or domicile. A key challenge seems to be to differentiate at an early stage between those wishing to return to work who can manage with standard assistance, and those who need more extensive and specially adapted assistance.

Sufficient knowledge about the competences and needs of older workers and jobseekers must be ensured through tight interdisciplinary co-operation between the NAV office, the Working Life Centre and the Centre for Senior Policy. Older workers' low participation in active labour market measures and high inflows to disability benefits are particular concerns, and PES practices towards this age group should be reviewed. Universal programmes could include employment targets for the older age group to ensure they are accorded priority.

### *Finding a solution – at the workplace or through early intervention?*

The probability of achieving a successful solution to a health or work-related problem decreases with the duration of the condition. Employees can become trapped in jobs that are too demanding, with disability or early retirement pension as the final outcome. Managers and supervisors may not always be aware of this situation, and the employees may be reluctant to admit their problems until it is too late. Even if an aim is to solve as many cases as possible at the workplace through co-operation, NAV must – already in the first meeting with employers and employees – be highly aware of the need for external guidance and help to find alternative solutions, even before a sickness absence has started. This may be particularly important in cases where early retirement is an alternative.

### *If necessary, sanctions*

Substantial public resources are devoted to the Working Life Centres and the services to firms with an IA Agreement. In principle NAV can terminate the agreement, but that rarely happens. To ensure efficient use of resources and to encourage firms to achieve their IA goals, the option of

terminating the agreement should be taken if the partners do not fulfil their obligations.

*Partial unemployment: labour market connection or activity trap?*

The long-standing legislative provisions allowing partial unemployment benefits are positive in the sense that they allow beneficiaries to remain connected to their jobs during a temporary crisis in the firm, and help avoid loss of human capital and reduced employability. Requirements relating to mobility and job search are, however, less strict if a person is defined as “jobseeker for the local labour market”. One of the criteria that can give status as “jobseeker for the local market” is being aged 60. As one out of three jobseekers above the age of 50 was registered as partially unemployed in 2011, practice of this provision should be monitored and less strict job-search criteria removed.

*More focus on alternative channels of job-search support*

In view of increasing levels of education, rapid changes in the labour market, and greater flexibility in the retirement process, the job-search and rehabilitation assistance requirements of older employers may need to become more differentiated. This raises the question of whether formalised or semi-formalised networks serving as channels for job search or for establishing oneself as self-employed could be an alternative to traditional support from NAV for some groups of older jobseekers.

***Improve working conditions for older workers***

*Too many of the low educated in poor-quality jobs*

Norwegian studies indicate that the choice between work and retirement is decided not only by economic incentives, but also by health conditions, work-related issues, and priorities regarding family and leisure time.

The majority of employees in Norway enjoy good working conditions; the share of the labour force exposed to harmful working conditions has been reduced over the past two decades. It is therefore worrying that the employment rates of low-educated male and female workers aged 55-64 have remained stable in Norway, not increasing over the past decade. The remaining work environment challenges should not be neglected. The work environment may have a large impact on job quality and the possibilities older workers have to continue working, and may especially be an issue in occupations often held by people with a low education level.

### *The need for targeting and cost efficiency*

Since the first IA Agreement was signed in 2001, the Norwegian government and the social partners have encouraged companies to develop a more senior-friendly policy and implement special measures to retain older workers. Examples of such senior measures are flexible working hours, partial retirement, and reduced working hours with or without wage compensation. Research has, however, found that the initiatives most commonly offered by Norwegian firms often have the feature of providing benefits (so-called “gifts”) for older workers who would have continued working anyway.

In order to be effective, the initiatives and instruments contained in senior policies need to be differentiated across occupations, sectors and industries, and implemented in a preventive approach. The measures and benefits for older workers are mostly granted only after the age of 62. These measures will have little effect on health-related impairments and earlier inflows to disability benefits. In 2011, nearly four out of ten disability pensions going to persons over fifty were granted on the grounds of musculoskeletal diseases and disorders and close to one in five left on the grounds of mental ill health.

### *The competence challenge at the local level*

One reform implemented in the health sector (from January 2012) is called the “Co-operation Reform”. Its most important goals are to put greater weight on prevention than on treatment; make more health services available close to where people live; and improve co-ordination and co-operation among different areas of the health sector.

Greater responsibility for health services at the local level, close to where people live, can facilitate co-ordination and co-operation among employers, NAV and other institutions that may have the role of keeping people in work or getting them back to work. A challenge, however, is the large number of very small municipalities in Norway. Small units may have difficulties developing and retaining sufficient competence to achieve the goals of the reform. Strong co-operation within clusters of municipalities to extend the competence base may be one way of tackling this problem.

### *Part-time work an alternative, full-time work the standard*

In 2011, 21.3% of workers aged 55-64 worked part-time. Part-time work can be viewed as an alternative for people who cannot manage a full-time job. At the same time it can prove stressful – particularly for the so-called

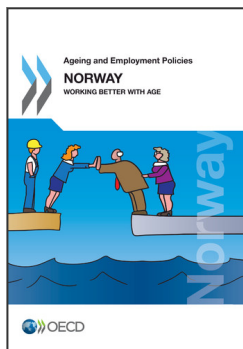
“involuntary part-timers” – and may represent an underutilisation of the labour force if implicitly or explicitly subsidised relative to full-time work.

The 2011 reform of the old-age pension system, as well as the forthcoming disability benefit reform, aims to facilitate the combination of work income and a pension. It is important to ensure that the legislative and organisational framework is neutral regarding the use of part-time and full-time jobs. A main aim must be to ensure good working conditions to enable full-time jobs.

### ***The following measures should be considered***

- *Establish job-related training through the broad involvement of the relevant stakeholders.* New models and tools of learning must be adapted to the needs and potentials of adults. The objective should be to translate them into higher productivity and improved employability. Co-operation should be strengthened between the authorities and institutions responsible for education and training, employer and employee organisations, the Centre for Senior Policy and the Working Life Centres. The aim should be to clarify the scope and targets for lifelong training with a particular focus on mid-career workers; develop and promote efficient programmes; and translating the conceptual framework into concrete aspects, such as certification and assessment.
- *Assess early on the need of further help and assistance in job search or job retention.* An assessment of further needs of assistance should be implemented during the first meeting between the PES (NAV) and older workers or jobseekers, independently of their status as sick, unemployed or in work. Criteria and tools for the NAV officers should be developed to support this approach. Rules relating to the respective responsibility of the firm and the employee/jobseeker must be clarified, as well as the support and measures that can be given to employees who are still in work.
- *Facilitate the use of further work ability in working life.* Here, employers must take more responsibility. They may feel that they are taking a big risk by recruiting new employees with health impairments, making change to less demanding jobs difficult. Establishing networks of employers could pool some of the risks they will be facing, for instance by offering job trials in other firms in the network, without formal change of employer during this period.
- *Promote a “full-time culture” and good working conditions for all.* It is important to ensure that the legislative and organisational framework is neutral regarding the use of part-time and full-time jobs. Since some

forms of part-time work can be more stressful than full-time work, measures to facilitate the working situation for older workers must be available also for those in part-time work. A main aim must be to ensure good working conditions that allow as many as possible to continue in full-time jobs. In the municipality sector, where the share of part-time workers is very high, initiatives to promote a “full-time culture” should be extended and supported.



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