



ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs

Iceland

2016

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European Social Policy Network (ESPN)

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Summary/Highlights

Iceland is in the position of having one of the highest effective retirement ages amongst the OECD member countries (age 69.5 for males and 68 for females), while the statutory retirement age is generally at age 67. Employment rates for individuals aged 55-64 and 65-69 in Iceland are by far the highest amongst the same group of countries and also amongst the EU countries.

On the whole, there are very few provisions specifically for workers in arduous or hazardous jobs to leave the labour market early in Iceland.

There is only one occupational group that has the specific designation of a right to unusually early exit, and that is seamen (fishermen and other workers at sea). That right is enshrined in the public social security system (Pillar I of the pension system). Those who have had a full 25 year career at sea (180 days per year on average) can retire with a full pension from the social security system at age 60.

Otherwise there are two available routes to retirement with pension before the statutory retirement age: **Disability pension** (Pillar I and Pillar II combined) or early retirement on **Occupational pension** (Pillar II).

The use of the disability pension is dependent on loss of health or workability, since applicants for disability pension (both in Pillar I and II) have to pass the disability test (for loss of health). In that sense it comes too late for workers most at risk of having accidents and loss of health during their career. They have to stay until the damage is done, so to speak.

In the occupational pension system (Pillar II) they however have a general standing right to retire between the ages of 60 and 70. The penalty there comes in the form of a reduced pension if they retire before age 67. If they delay until 70 they get higher pensions (both from Pillar I and II). The general formula in the occupational pension is that the accumulated right is spread out over the expected length of time as a pensioner.

Those who want to retire early on occupational pension (Pillar II) can leave from age 60, but if they do they suffer reduced pension rights, which may differ between pension funds. Public employees suffer a reduction by 6% per year (fixed 0.5% per month), but typical manual workers lose from 0.38 to 0.72% per month, the higher rate applicable for the years closest to 67. If they take their pension at age 60 the reduction is 0.38 per month. Policemen are an exemption here since they can retire with full rights at age 65.

Those who retire early on a disability pension generally suffer a significant reduction of income. The public disability pension maximum for a single individual is close to 60% of the median wages for a full time worker (manual or service worker). Disability pensioners also get some pension from their occupational pension fund, which improves their situation. Still they will be worse off than if they were working full time. Those who received average wages will lose significantly more, relatively speaking.

Recent proposals for a reform of the pension system involve ideas about shifting from the use of a disability test in the disability pension to a workability test, along with a more stringent entitlement to pension for individuals with 50-75% workability. This is already controversial, and if implemented it may make the path from work to pension for workers in arduous or hazardous jobs even more difficult to take than at present. The Occupational Pension Funds (OPFs) have long pressed for a more restrictive access to the disability pension, due to their concerns about heavy disability burdens for the funds. The present government is however also in favour of that position.

1 Overall description of the policy mix targeted at workers in arduous or hazardous jobs

Iceland is in the position of having one of the highest effective retirement ages amongst the OECD-countries (age 69.5 for males and 68 for females), while the statutory retirement age is generally at age 67. Employment rates for individuals aged 55-64 and 65-69 in Iceland are by far the highest amongst the same group of countries (D'Addio, Boulhol, Lundberg and Reilly 2015).

The main explanations for this late effective retirement age and high employment activity into high ages are the following:

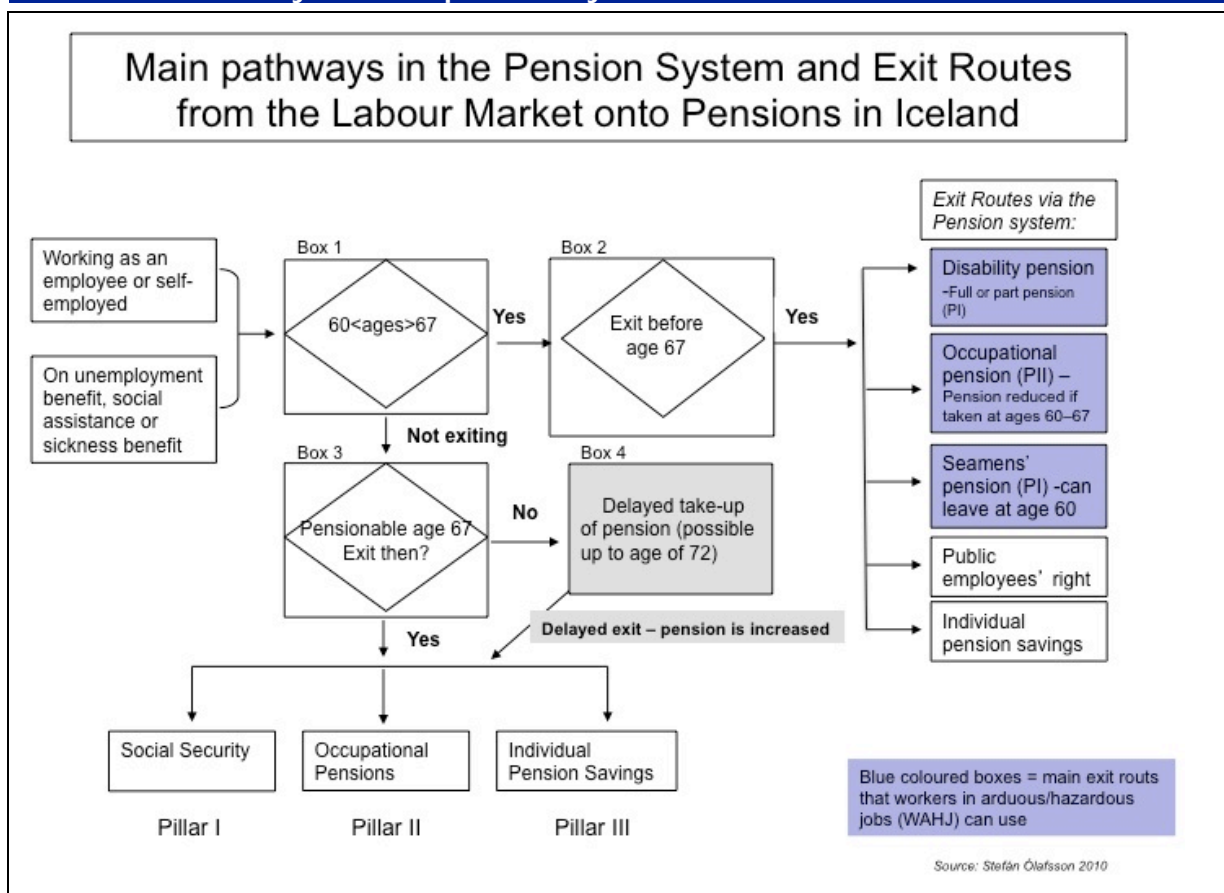
- Absence of special early retirement schemes
- Long-term ample job opportunities in the economy
- Positive attitudes to work and also to elderly workers
- Dissatisfaction with pension adequacy (this was more important in earlier decades)

On the whole there are very few general provisions specifically for workers in arduous or hazardous jobs to leave the labour market early in Iceland.

There is only one occupational group that has the specific designation of a right to unusually early exit and that is seamen (fishermen and other workers at sea). That right is enshrined in the public social security system (Pillar I of the pension system). Those who have had a full 25 year career at sea can retire with a full pension from the social security system at age 60.

Otherwise there are two available routes to retirement with pension before the statutory retirement age: **Disability pension** (Pillar I and Pillar II combined) or early retirement on **Occupational pension** (Pillar II) – see the explanatory diagram.

Figure 1: How workers in arduous or hazardous jobs (WAHJs) can exit the labour market early into the pension system



As explained in figure 1 those who want to leave before the statutory pension age (67) go through box 2 and the three blue boxes on the right are the main options that workers in arduous or hazardous jobs can use. Unless they are seamen these options come however with a penalty.

The use of the disability pension is dependent on loss of health or having certified disabilities, since applicants for disability pension (both in Pillar I and II) have to pass the test for loss of health. In that sense it comes too late for workers most at risk of having accidents and loss of health during their career. They have to stay until the damage is done, so to speak.

In the occupational pension system (Pillar II) they however have a general standing right to retire between the ages of 60 and 70. The penalty there comes in the form of reduced pension if they retire before age 67. If they delay until 70 they receive higher pensions (both from Pillar I and II). The general formula in the occupational pension is that the accumulated right is spread out over the expected length of time as a pensioner.

On the whole the pension system in Iceland therefore has a strong work enforcement characteristic for all, including for workers in arduous or hazardous jobs. This has been like the case for a long time. One consequence is a high employment rate for older workers and also for people with disabilities (Hannesdóttir et al. 2010), but many of the latter do part-time jobs.

Earlier this year a Commission of the Ministry of Welfare (with representatives from the Ministry, the Labour Market Partners, the Federation of Old-Age Pensioners, the Federation of Disability Pensioners and representatives from the political parties) delivered [proposals for a change to the pension system](#) in Iceland. The main proposals for change are four:

- A simplification of the public pension system (merging of basic pension, income supplement, housing supplement and the minimum pension guarantee into one pension).
- Increasing the statutory retirement age from 67 to 70, i.e. by 2 years gradually during the next 12 years and by 1 year during the following 12 years (cf. Þórey S. Þórðardóttir 2016).
- Using a workability test instead of the current disability test, with a more stringent entitlement for full disability pension if there is workability in the range of 50%-75%.
- Some increase in the real sum of old age pension for low earning pensioners (i.e. the joint sum from Pillar I and II).

No special consideration is taken in these new proposals for the different capabilities or desires of workers in arduous or hazardous jobs, nor for those that have been in the labour market longest. These two groups are hardly mentioned in these new proposals. The issue was however raised at a recent conference on challenges that rising life expectancy present for the pension system, organised in April 2016 by the Federation of Occupational Pension Funds (OPFs) and the Labour Market Partners (see Stefán Ólafsson 2016).

On the whole, two thirds of the public in Iceland are against raising the statutory retirement age by 2030, but there is wide support for increasing voluntary options for more flexible retirement ages for those that can and want to (Eurobarometer 2012). These issues are likely to be increasingly debated in the coming months, particularly after a new proposal for these changes comes into parliament, which may be later this year.

The Federation of Disability Pensioners refrained from supporting the final proposals and they have taken a decisive stand against the proposed changes as they relate to disability pensioners. So did representatives of the political opposition (left and centre parties). So these proposals have some way to go, before turning into a new law.

The goal of simplifying the public pension system has been on the agenda for more than a decade now, without much success. The goal of lifting the statutory retirement age to 70 comes primarily from the Occupational Pension Funds (which are run by the labour market partners). For the OPFs that have refrained from raising the contribution rates sufficiently to honour pension promises in the face of rising life expectancy, the temptation to lift the retirement age appears more acceptable than increasing the contribution rates or reducing the adequacy of the pension promises.

The OPFs (i.e. the labour market partners) are also the main promoters of the goal of using a workability test instead of the disability test and tightening the rights to disability pensions for individuals with some workability. This is a reaction to what the governors of the Occupational Funds see as a too heavy disability burden for the funds. The present government however also supports these goals.

2 Pension rules for workers in arduous or hazardous jobs

The Icelandic pension system is composed of three pillars:

- Pillar I (Social Security) is funded by taxes and provides universal rights, with considerable use of income-testing for benefits.
- Pillar II (Occupational Pension Funds) are mandatory defined contribution pension funds, based on accumulated notional rights. If these are used for early exit, the pension receiver pays for it himself in reduced pension level.
- Pillar III (Individual pension accounts). These are vocational extra pension savings accounts, which enjoy tax benefits and an employer contribution. These can be claimed from age 60 and are more commonly used by middle and higher income groups. Hence they are unlikely to specifically benefit workers in manual and arduous/hazardous jobs.

These pillars define the general context for treatment of workers in arduous or hazardous jobs.

Seamen, the only group with special pension rights referring to arduous or hazardous work conditions, have the right to take full pension in the Social Security System (Pillar I) at age 60. The conditions are that they have been fully employed as seamen for 25 years, delivering on average of 180 registered days at sea per year.¹

Those seeking disability pension are required to pass the disability test administered by the Social Security Administration (TR). No special conditions apply for any special occupational group in the disability test.

Those who want to retire early and use the pension they have accumulated in the Occupational Pension Funds (Pillar II) can leave from age 60, but if they take their pension before age 67 they suffer reduced pension rights, which may differ between pension funds. Public employees suffer a reduction by 6% per year (0.5% per month).

Table 1 compares the penalties for early exit amongst public employees and typical manual workers when taking up pension between the ages of 60 and 66 (<67).

The pattern of reduction is different between these two groups. It is higher for manual workers than for public employees. For public employees the reduction is a fixed percentage per month and years, but for manual workers it is variable, increasing towards the end (65-67), but somewhat less if they take up their pension before age 65. In that sense there is a little more consideration for manual workers that exit at ages 60-64 than for public employees, but both groups and everyone else that uses this provision suffer a reduction in their pension.

Table 1: Reduction of pension amounts due to early take-up (before age 67) from Occupational Pension Funds (Pillar II): Manual workers and public employees compared

Start of pension At age:	Reduction per month in %	
	Manual workers	Public employees
66-67	0.72	0.5
65-66	0.64	0.5
64-65	0.57	0.5
63-64	0.52	0.5
62-63	0.47	0.5
61-62	0.42	0.5
60-61	0.38	0.5

Source: *Gildi 2016 (Gildi Pension Fund) and Lifeyrissjóður starfsmanna ríkisins 2016 (LSR)*

So on the whole, the Icelandic pension regime does not favour workers in arduous and hazardous jobs in any significant way. They have the exit routes that we have outlined, but they share them with other working people. There are no extra benefits for the WAHJs.

3 Retirement patterns and retirement income of workers in arduous or hazardous jobs

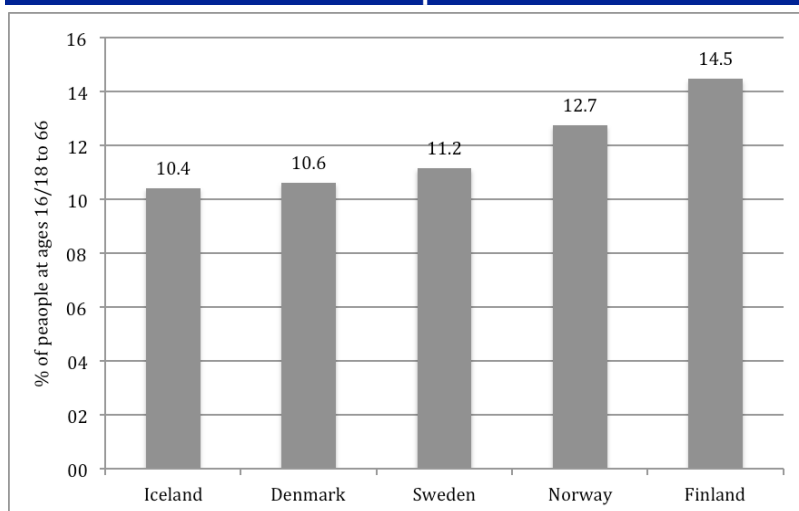
Relatively few seamen actually make use of the right to take up public old-age pension (Pillar I) at age 60, since that involves a great reduction in earnings for them (fishermen are generally well paid in Iceland). It is more common amongst them to take jobs ashore when aging.

¹ [Lög um almannatryggingar 2007](#): legislation on social security, no 100, article 17.

The general absence of special provisions for workers in arduous or hazardous jobs in Iceland may sound like a rather harsh or work enforcing pension system, but it is generally not subject to great criticism from society. It may however play its role in lifting the effective retirement age and maintaining employment participation to higher ages than generally found in other European countries. Most of the time ample job opportunities facilitate mobility amongst elderly workers, both to other jobs and sometimes from full-time to part-time jobs.

It might be expected that this state of affairs (absence of early retirement schemes and special provisions for WAHJs) might lead to excessive use of the disability pension scheme in Iceland. Indeed, the number of disability pensioners is high by international standards, but not higher than in the other Nordic nations, as can be seen in figure 2.

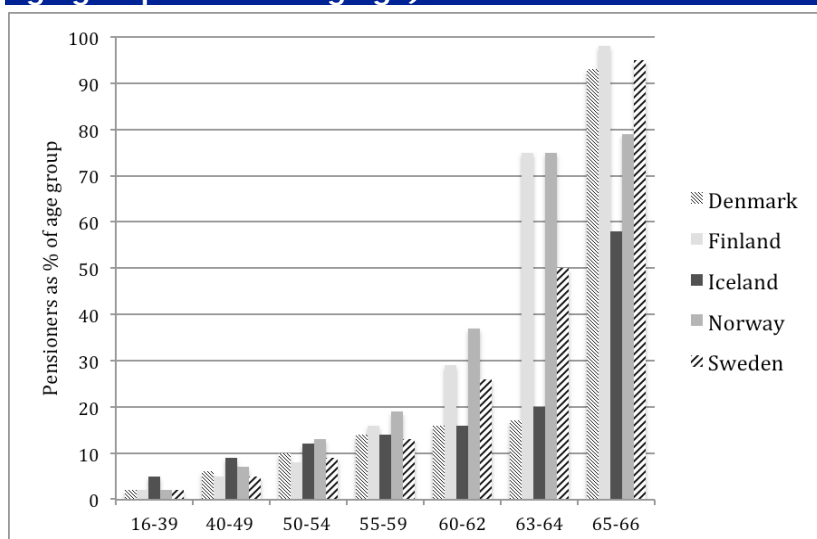
Figure 2: Number of disability pensioners as a % of people of working age in 2013. Nordic countries compared.



Source: NOSOSKO 2015

Iceland indeed has the lowest rate of disability pensioners amongst people of working age in the Nordic community, but only by a narrow margin over Denmark. Finland has by far the highest.

Since there is hardly any special treatment of workers in arduous/hazardous jobs we do not have data on the retirement pattern of individuals in this group. We instead present average pension receivers by age groups in Iceland and the other Nordic nations in figure 3.

Figure 3: Pension receivers by age groups in the Nordic countries, in 2013 (% of age groups of working age).

Source: NOSOSKO 2015

Iceland has a relatively high rate of pension reception in the youngest age groups, up to age 50. After that, Iceland lags increasingly behind the other countries. So early retirement is significantly less common amongst Icelandic workers aged 60 to 66 and it is also relatively low amongst the 55-59 age group. This is in harmony with the high employment participation rate for individuals up to age 69 in Iceland and the very high effective retirement age.

With regards to the income effect of leaving early through the Occupational Pension Funds (OPFs), we have an overview comparing the income effect of early leaving amongst manual workers in the private sector and public employees in table 2.

Table 2: Income reduction of manual workers and public employees by age of pension take-up before statutory pension age is achieved. Reduction in % of average pension.

Age	Pension reduction accumulated (% by age)	
	Manual workers	Public employees
66	8.64	6
65	16.32	12
64	23.16	18
63	29.40	24
62	35.04	30
61	40.08	36
60	44.64	42

Source: Gildi 2016 (Gildi Pension Fund) and Lifeyrissjóður starfsmanna ríkisins 2016 (LSR)

Manual workers can retire at the earliest at age 60 on an occupational pension (they will not get anything from Social Security (Pillar I) until age 67 is reached. As the table shows, they will receive almost 45% less pension than those that retire at age 67. If they exit at age 63 they will get 29% less than the full pension and 8.6% if they exit at age 66. Public employees suffer somewhat less of a reduction, with a maximum of 42% if they exit at 60 and 6% if they go at age 66.

This more favourable outcome for public employees reflects the general position of public employees' pension rights. That group has for decades enjoyed more generous pension rights than employees in the private sector, as compensation for having lower earnings than employees in comparable occupations in the private sector, a pay difference of

some 15-20%. The higher reductions should therefore not be seen as a particular punishment for manual workers' early exit from the labour market.

Those who retire early on a disability pension generally suffer a significant reduction of income. The public disability pension maximum for a single individual is close to 60% of median wages for a full time worker (manual or service worker). Disability pensioners also receive some pension from their occupational pension fund that improves their situation. Still, they will be worse off than working full time. Those who come from average wages will lose significantly more, relatively speaking.

The proposal for using a workability test with a more stringent entitlement to disability pension for those with 50-75% workability, which we outlined in section 1, will no doubt lead to a significantly worse economic situation for some of the current disability pensioners, if implemented in that way.

It may also be particularly unfair on workers in arduous or hazardous jobs who more often suffer loss of health and workability due to their working conditions. In that sense, such a policy change would go in the opposite direction of what is planned, for example, in the Finnish pension reform for 2017-2027 (D'Addio et al. 2015 and Schultz-Weidner and Trinks 2016), which aims to take increased consideration of length of service in the labour market.

It is one thing for disability pensioner applicants to have 50% assessed workability and another thing for them to get a suitable job for that partial workability. Hence there is a great risk of increased economic hardship for disabled workers if pension rights are reduced for those with 50-75% workability, i.e. if individuals in that condition do not get jobs to match their workability. Partial workability may indeed be hard to sell in the labour market. These new proposals are thus likely to be controversial and in fact are so already amongst representatives of disability pensioner organisations.

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