



Towards a fully individualised pension system in Norway

ESPN Flash Report 2017/06

AXEL WEST PEDERSEN – EUROPEAN SOCIAL POLICY NETWORK

FEBRUARY 2017

Description

A government-appointed expert commission has launched proposals to abolish survivors' benefits under the Norwegian National Insurance system. For surviving spouses below the age of 67, income protection will be limited to a transitional allowance. For surviving old age pensioners, the possibility of taking over part of the pension rights from a deceased spouse will be removed.

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Since the introduction of the National Insurance system (NI) in 1967, Norway has had provisions catering for the income needs of surviving spouses. Surviving spouses who lost their partner at younger ages can claim pension benefit until reaching the normal retirement age of 67. The level of the benefit varies according to the residency and employment history of the deceased spouse and it is also tested against the earnings (income from employment) of the survivor. In more recent years, income testing for survivors below the age of 55 has been based on the assumption that the survivor has a certain minimum level of earnings, so the scheme only offers an effective minimum income guarantee to survivors between age 55 and 67. In order to qualify for benefits, the spouses must have been married for at least five years prior to the death, while certain categories of cohabitating couples are also included in the scheme. Over time the number of recipients has declined steadily, from a level just above 40,000 in the 1970s to about 18,000 in 2013 (NOU 2017:3; p. 59). The recipients are almost exclusively women.

The second and arguably more important provision for surviving spouses is the right to take over part of the old age pension accrual of a deceased spouse, when the survivor has reached the normal retirement age of 67. According to the existing rules that apply to the pre-reform pension system, the surviving spouse is entitled to receive 55% of the joint earnings-related old

age pension rights of the couple if this amount exceeds the earnings-related pension rights that she (he) has earned by herself (himself). Currently more than 110,000 old age pensioners benefit from this provision and the total annual expenditure amounts to NOK 4 billion (app. €452 million) or about 2.2% of total old age pension expenditure by NI.

In connection with the major pension reform that started to take effect in 2011, the issue of whether to maintain survivors' benefits and the right to take over accrued old age pension rights from a deceased spouse has, for a long time, remained undecided. The Pension Commission that drew up the blue-print for the reform back in 2004 was quite ambiguous on this issue. It pointed out that it was difficult to justify widow(er)s receiving higher pensions than individuals who had remained single throughout their lives. On the other hand, the Pension Commission pointed to the fact that removing the right to take over pension rights from a deceased spouse would negatively affect a large segment of female pensioners with low pension accrual. In the ensuing preparation for the major pension reform it was repeatedly signalled by shifting governments that some sort of mechanism allowing surviving spouses to take over pension rights from the deceased spouse would be part of the reformed system, but a concrete proposal was never put forward by the Ministry of Labour and Social Affairs. Finally, in 2015 the Government decided to let the issue be investigated by an

expert commission composed of independent social security specialists.

In its report published in February 2017, the expert commission argues in favour of replacing the existing survivors' pension (for survivors below the age of 67) with a transitional benefit to help survivors who are not already active in the labour market to become employable. The maximum benefit duration proposed is three years with a possibility of prolongation by another two years. Recipients are supposed to fulfil activity requirements in terms of job seeking or participation in education or other qualification activities.

More importantly and somewhat surprisingly, the expert commission proposes to drop completely any possibility of "inheriting" old age pension rights from a deceased spouse under the reformed system. It shows that the existing provisions under the old pension system tend to have rather strange and perverse distributive consequences – such as favouring couples with an unequal record of labour force participation and life-time earnings. It further argues that the need to provide women with incentives to work should take precedence over distributive concerns, and that the granting of deferred pension rights will tend to have negative effects on the former. It advocates a completely individualised pension system that takes no account of the family/household situation of the individual – neither prior to nor after retirement.

The expert commission proposes that this should apply to the new, "Notional Defined Contribution"-like system of pension accrual that is gradually being implemented for cohorts born after 1953. In addition, it proposes a freeze on the nominal value of deferred

pension rights accrued under the old system for the cohorts born in 1944 or later – i.e. for cohorts who have already retired. It argues that this retrospective enactment is a reasonable sacrifice by these older cohorts to help secure the long-term economic sustainability of the NI pension system.

Outlook & Commentary

The new expert commission's proposal concerning deferred old age pension rights, and its plans for a fully individualised old age pension system, are likely to be met with criticism. During the long preparation of the Norwegian pension reform from 2001-2011, the implications for gender equality were always a disputed and highly sensitive issue (see Bay, Pedersen and Teigen 2015).

The Pension Commission and the shifting Governments that handled the reform preparation proposed to keep some arrangement for inheriting pension rights from a spouse in order to dispel the impression that the transition towards a Notional Defined Contribution formula with a closer link between lifetime earnings and pension benefits would imply a significant widening of the gender gap in pensions compared to the old system.

Therefore, the proposal from the expert commission could be seen as upsetting the delicate compromise behind the major pension reform that that was finally enacted in 2009. No doubt the future gender gap in pensions will increase as a result of the expert commission's proposal. A new micro-simulation study shows that the removal of deferred pension rights in line with the expert commission's proposal will increase the gender gap in pensions for the 1963 cohort by 3 percentage points (Halvorsen and Pedersen 2017). The expert

commission's vision of a fully individualised pension system can be criticised for reasons of principle in that it ignores the risk of losing economies of scale when a spouse dies – a risk that weighs more heavily on women than men. Its report fails to discuss the possibility of making joint annuity options available under the NI-scheme, allowing couples the opportunity to insure against the important economic risk of having to spend a significant share of retirement in widow(er)hood.

Further reading

Bay, A.-H., M. Teigen & A. W. Pedersen (2015): «En kvinnevennlig pensjonsreform? Likestillingsperspektiver i den norske pensjonsreformdebatten» [A women-friendly pension reform? Perspective of gender equality in the policy debate on pension reform], Tidsskrift for Velferdsforskning, 18 (3): 164-178

Halvorsen, E. and Pedersen, A.W. (2017): Closing the gender gap in pensions. A microsimulation analysis of the Norwegian NDC pension system. Discussion paper No. 855, Statistics Norway.

NOU (Norges offentlige utredninger) 2017:3. Folketrygdens ytelser til etterlatte [Survivors' benefits in the National Insurance scheme].

Author

[Axel West Pedersen](#), Institute for Social Research