



# **ESPN Thematic Report: Assessment of Pension Adequacy in Iceland**

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**European Social Policy Network (ESPN)**

**ESPN Thematic Report:  
Assessment of Pension Adequacy  
Iceland**

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## Summary/Highlights

Iceland has a three-pillar pension system:

- A universal public social security system.
- Mandatory occupational pension funds for all working people.
- Voluntary personal pension schemes (Individual Pension Accounts – IPA).

The first pillar is a tax-funded, pay-as-you-go system, providing defined but income-tested benefits. It is highly redistributive, since it provides a relatively generous basic pension guarantee but reduces in amount as other components of pensioners' incomes increase.

The occupational pension funds (OPFs) are operated by the labour market partners. They provide pensions that are based on notional, defined-contribution schemes, and fully funded. Their pension rights are without a cap, based on contributions and financial earnings. Hence they aim to reproduce the income distribution of the labour market without any significant redistribution effect. The personal pension accounts are voluntary and have a regressive effect on the income distribution amongst pensioners, since lower-income individuals are less likely to be members in such pension saving schemes.

The first and second pillars pay out similar overall sums in benefits to pensioners at present, when everything is counted. But the OPFs pay a larger share of old-age pensions, while the social security system pays a larger share of disability pensions.

Pension promises are relatively high; but since the OPFs have not yet reached full maturity, the replacement rates at present are lower than those that the system promises future pensioners. So while pension earnings still leave something to be desired, Icelanders make up for it by retiring late and also (in some cases) working while receiving a pension at the same time. Hence the total disposable earnings of the population aged 65+ are amongst the highest in Europe, due to a relatively large share of employment earnings.

Poverty rates and material deprivation are relatively low amongst Icelandic pensioners. Poverty rates came down significantly during the recent financial crisis, primarily because the minimum pension guarantee was greatly raised early in the crisis (in January 2009), with the aim of keeping pensioners above the poverty level. From 2008 to 2012 relative poverty rates were greatly reduced, but have risen again in the last 3 years.

A significant reform was implemented in October 2016 aimed at simplifying the public social security system, by merging benefit types and by simplifying income-testing rules. That change hit those in receipt of employment earnings amongst pensioners particularly hard. This significantly reduced work incentives for old-age pensioners, which was against one of the stated goals of the reform. Hence in 2017 this part of the changes came under increasing criticism, and prior to elections in October 2017 all political parties promised to reinstate the previous free bracket for employment earnings (i.e. the amount allowed without cutting the public benefit).

Due to the prevalent high effective age of retirement, Icelanders have one of the very shortest durations spent in retirement, despite relatively high life expectancy. That, along with the fully funded OPFs, which by now are the third largest within the OECD (as a proportion of GDP), makes the overall pension system quite sustainable. Nonetheless there are plans in political circles and amongst the labour market partners to lift the official pensionable age towards 70, during the next 24 years. There is also a plan already in operation to equalise occupational pension rights as between public employees and private sector employees (the former have had accrual rates of 1.9 per year while the latter have had 1.4. Increased flexibility in the take-up of pensions is also in the pipeline.

In order to improve pension adequacy, the most direct measures should be aimed at contemporary pensioners and those entering the system in the next 15 years or so, since

these groups will not benefit from the full maturity of the OPFs. This could best be achieved by raising the basic pension of pillar I and by reducing the degree of reductions under the present income-testing mechanism.

## 1 General description of the national pension system

Iceland has a pension system with three pillars, in line with the recommendations of the World Bank (1994). Its system also has similarities to the Scandinavian pension systems, while retaining some of its own characteristics (Ólafsson 1999). The different pillars have different characteristics (tax-based and fully funded; DB and DC based; with redistributive, neutral and regressive effects on the distribution of incomes).

These are the main characteristics of the three-pillar system:

I. A statutory tax-funded pay-as-you-go pension scheme (Social Security) with a defined, albeit income-tested, benefit (DB, income-tested). The legal pensionable age is 67, but can be delayed until 72 (with a 6% increase of pension rights per delayed year). The legal basis dates from 1946, originally modelled on Beveridge's plan, but also incorporating significant use of income-testing, in line with New Zealand's legislation from 1938. It has a universal coverage unlike the other two pillars. The Social Security pension has for a long time had three components: basic pension (*grunnlífeyrir*); pension supplement (*tekjutrygging*) and housing supplement (*heimilisuppbót*). The components were simplified in a reform in 2016 (effective from 1 January 2017 – see section on reforms). The benefits used to be rather low in earlier decades. Hence the growing need for pension adequacy eventually led to the second pillar.

II. A funded Occupational Pension System (OPS) with defined contributions (DC) was then introduced in 1969 through collective bargaining between unions and employers' federations. From the beginning employees contributed 4%, and employers another 6%. Nowadays the overall contribution is 12-15.5% of total earnings (4% from employees and 8-11.5% from employers). The occupational pension became mandatory for employees in 1974 and for all employed persons from 1980. Even though the system is in nature a DC system, it promises 56% of average career earnings (stipulated in framework legislation from 1997) as a minimum. Contributions are exempt from taxation when paid in, but fully taxed when taken out as a pension. The OPS funds are managed by representatives of unions and employers' organisations. The OPS funds now pay a larger share of overall old-age pension payments in Iceland than Social Security, a share that will gradually grow in the future. The share of disability pensions is larger in pillar I.

III. A personal pension scheme (Individual Pension Accounts – IPA). The framework legislation dates back to 1997. These are voluntary accounts with a defined contribution. Individuals can pay contributions up to 4% tax-free (when paid in) and have the right to a 2% additional contribution from employers with the first 2%. So altogether contributions of 6% have been exempt from direct taxation when paid in; this was reduced to 4% from the beginning of 2012, before the former framework of 6% was reinstated in 2014. These accounts are managed by occupational funds, banks or private investment funds and subject to public scrutiny by the Financial Supervisory Authority, as are the OPS funds. The coverage rate is 45%.

The different pillars have different roles in society and differing effects on the distribution of living standards. The use of income-testing is common in the pillar I pensions (Social Security), being applied against employment earnings, occupational pensions, and financial earnings. The rules until 1 January 2017 concerning employment earnings were such that pensioners (both old-age and disability pensioners) could earn up to 109,600 I.Kr. per month (about €894) without affecting the amount of their pillar I pension, through income-testing. Earnings beyond that led to a cut in the pillar I pension. Hence there was an incentive for some work participation while receiving a pension. This changed with the new old-age pension legislation of October 2016, as shown below.

Iceland has a very low rate of early retirement, which is reflected in Iceland having one of the highest average effective retirement ages amongst OECD countries (cf. OECD 2015). There is in fact no early retirement scheme in the Icelandic pension system; so those who really need early retirement mainly have to use the disability pension scheme and qualify through the disability test. So there is a barrier to early retirement. Fishermen are however an example of individuals in particularly arduous jobs who can retire early with full rights, i.e. at age 60 (NOSOSKO 2016). That is, though, an exception in the Icelandic pension system.

## 2 Reform trends

Iceland's governments have been trying more or less since 2005 to simplify the public pension system with a view to improving the interaction between public pensions and occupational pensions, i.e. the first and second pillars. These interactions have been characterised by controversial income-testing rules in the public pension system. On 13 October 2016 new legislation on old-age pensions in the public social security system (pillar I) was passed in parliament and became effective in January 2017 (Velferðarráðuneytið 2016). Comparable reforms of the disability pension are supposed to follow soon.

The main aims of the new legislation are the following:

- To simplify the public pension system by unifying three pension components into one old-age pension (basic pension + income supplement + minimum pension guarantee = New Basic Pension). On top of that a housing supplement (*heimilissuppbót* – a benefit for those living alone) will still be paid to single pensioners (as in the present system).
- To simplify and reduce the special free brackets (*frítekjumörk*), i.e. exemptions from income-testing (for income from employment, income from pension funds, and financial income). This is expected to achieve further simplification of the system (but it reduces pensioners' incentives to work).
- To increase the public statutory pensionable age gradually from the present age of 67 to 70, for both men and women, over a period of 24 years (this is planned to be implemented later).
- To increase flexibility in the effective retirement age. It will be possible to take up public pensions at age 65, with a reduced pension entitlement (instead of 67 now). The scope for delaying take-up will also be increased at the upper end, from 72 to 80, with a comparable yearly increase in entitlement (6% per year).

The policy aims underpinning these changes, in addition to simplification, are said to be a stronger subsistence base for old-age pensioners, as well as increased incentives to work longer. They are also a response to rising life expectancy and to a rising disability burden for the OPFs.

An important part of the change is an increase in the level of the public old-age pension for those pensioners with current overall income in the range of 250,000 to 400,000 I. Kr. per month (i.e. €1,975 to €3,160). Increases depend on the extent of other incomes besides the public pension, and range from just above 0% to 9.2%. This change of system is expected to increase the overall pension income of about 86% of pensioners, while about 14% will see a reduction in their public pension (mainly those with higher income from other sources, such as from OPFs).

This rise is expected to increase public expenditure on pensions by about 15% when it reaches its maximum level (by 2019-2020), but with the higher pension entitlement age the extra costs will gradually decline again thereafter (Talnakönnun October 2014. p. 16, with an update).

The major change in the new legislation is the simplification of the structure of old-age



pension benefits, which has been generally well received. The goal of a higher statutory pensionable age (67-70) along with increased flexibility for the take-up of pensions has also been generally well received (see parliamentary documents – cf. [Alþingi 2016](#)).

Negative reactions from pensioners' organisations involve criticism of the abolition of the free income brackets for employment earnings and other income, including for income from the OPFs. These are seen as reducing the incentives to work while claiming a pension, as well as reducing incentives for the personal accumulation of savings. These effects actually run counter to the stated goal of increasing work incentives.

In addition to abolishing the free bracket allowances, income-testing of public pensions with reference to other income is increased across the board, i.e. the reduction due to other income is increased from 11% to 38.3% for different benefit types, up to a universal reduction rate of 45%. This runs counter to a long-term stated aim amongst pensioners of reducing the degree of income-testing in the public system (Ólafsson 2012).

These negative reactions have been quite prominent after the new proposal came forth in 2016. This led the government to partly give in to the criticism at the final stage. On 7 October, the government announced a change in its proposals, reintroducing a universal free bracket on all income other than the public pension.

The sum of the new exemption from income-testing is of the order of 25,000 I. Kr. per month (€204). This is instead of a free bracket exemption on employment earnings, previously about 109,000 I. Kr. (€894), and of about 27,400 I.Kr. (€224) on occupational pension income - still a significant reduction in the allowance for employment earnings. This change will however involve a greater overall increase in pension income level than the original proposal, thus making the change more appealing than before.

The last government also proposed at the final stage in the parliamentary process a closer link between the increase in the minimum old-age pension and the collectively bargained rise in the minimum wage on the labour market, up to 2018 (not formal indexation though). That also made the overall package even more enticing.

The reduced work incentives that these changes to public old-age pensions involve attracted increasing criticism in 2017; and in the lead-up to an unexpected early election in October 2017, all parties promised to raise the free bracket for employment incomes back up to the earlier level of 109,000 (€894). This will facilitate intended reforms of the disability pension, since work incentives are particularly important for that group.

Another on-going reform is aimed at equalisation of pension rights between members of private sector occupational pension funds and public sector employees. The latter have had a higher accrual rate than private sector employees (1.9% as against 1.4%) and the public sector has enjoyed a government guarantee of their rights as well.

In September 2016 an agreement between the labour market partners and government (central and local) was finalised, with a programme for equalising the rights in the private and public occupational funds, by gradually raising the contribution rate to the private sector funds to 15.5% of pay, between 2016 and 2018 (Fjármálaráðuneytið 2016). Thereby accrual rights will be similar and the DC form more comparable. The central government has agreed to set up a security fund to cover the full rights of present members of the public OPFs in return for abolition of the long-term government guarantee of future rights. Pay levels in the public and private sector will also be equalised during the next ten years (previously pay in the public sector was about 15-18% lower due to the value of better pension rights in the public sector). This equalisation of pension rights and pay between these sectors is seen as facilitating labour flow between the sectors as well as promoting more stability in the labour market in the future.

### 3 Assessment of adequacy

#### 3.1 Current adequacy

##### 3.1.1 General assessment of current adequacy

Iceland has relatively generous pension promises (i.e. pension benefits when full accrual is obtained in the future; cf. OECD 2015, chapter 6) and the present pensioner earnings level is also relatively high, reflecting the generally high level of affluence in society. For the 65+ age group, Iceland was in 6<sup>th</sup> place as regards disposable earnings of males and 7<sup>th</sup> place for females in 2015 - below Norway, similar to Sweden, but above Denmark and Finland, in a Nordic comparative perspective. The 75+ age group has a somewhat lower earnings level, as is common.

The OPFs have been compulsory for all working individuals since 1980, but it was not until 1990 that contributions covered total earnings. Before then it was only basic earnings that determined the insurance contribution, and in addition the very high inflation of the 1970s resulted in considerable losses on pension fund assets. Hence it will take another 15 years or so for new pensioners to have generally acquired full accumulation of rights in the OPFs. Thus present-day pensioners have lower aggregate replacement levels and relative median income ratios than will be the case when the system is fully mature.

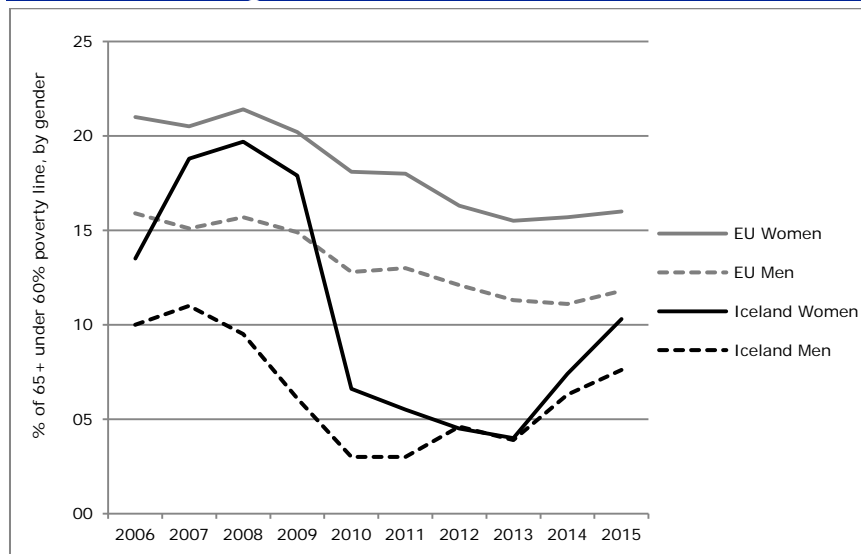
The elderly in Iceland make up for that by retiring significantly later than is the case in Scandinavian countries, and also by working for the first years after starting to receive a pension, significantly increasing their earnings level above pension earnings. This is reflected in the relatively high disposable earnings of the elderly, and in low poverty rates.

Iceland is just below the median outcome in Europe as regards the gender gap amongst pensioners, with Norway and Sweden having larger gaps and Finland and Denmark smaller gaps. As emerges from Bettio, Tinios and Betti (2013 and 2014), the gender gap outcomes for pensioners are shaped by many factors, sometimes working in different directions. Different pension systems and employment participation rates in the long run also affect these outcomes, which tend to show great variation. Hence the extent of the pension gap is not strongly influenced by either the level of affluence or even pension system characteristics.

In the case of Iceland, women work fewer years overall than men and have shorter working hours and often lower wages. Hence their OPF accumulated rights tend to be lower than those of males. But the minimum guarantee from the public pension system (pillar 1) compensates for that to some extent. Women in Iceland also work to a much greater extent in the public sector, where occupational pension rights are more generous than in the private market (with higher accrual rates than in the private sector). So there are countervailing forces shaping the pensions of women as against men – but they still lag behind those of men.

The at-risk-of-poverty (AROP) rate for the 65+ age group was 9% in 2015 (M: 7.6%; F: 10.3%) and for the 75+ age group it was 11.2% (M: 7.9%; F: 13.8%). As a consequence of the raising of the minimum pension guarantee in 2009 the relative poverty rate for pensioners came down significantly. For people aged 65+ it came down by some 11 percentage points (p.p.) between 2008 and 2013 (M: -5.6; F: -15.7). For those aged 75+ it came down by about 19 p.p. (M: -10.5; F: -25.8). So the effect of the higher minimum pension guarantee was indeed decisive for reducing pensioner poverty during the crisis, especially amongst older women (Ólafsson 2016). The poverty rate came up again in 2014-2015. This can be seen further in figure 1, with a comparison with the EU27 average.

**Figure 1: Proportions of 65+ under the 60% poverty line, by gender. Iceland and EU27 average, 2006 to 2015.**



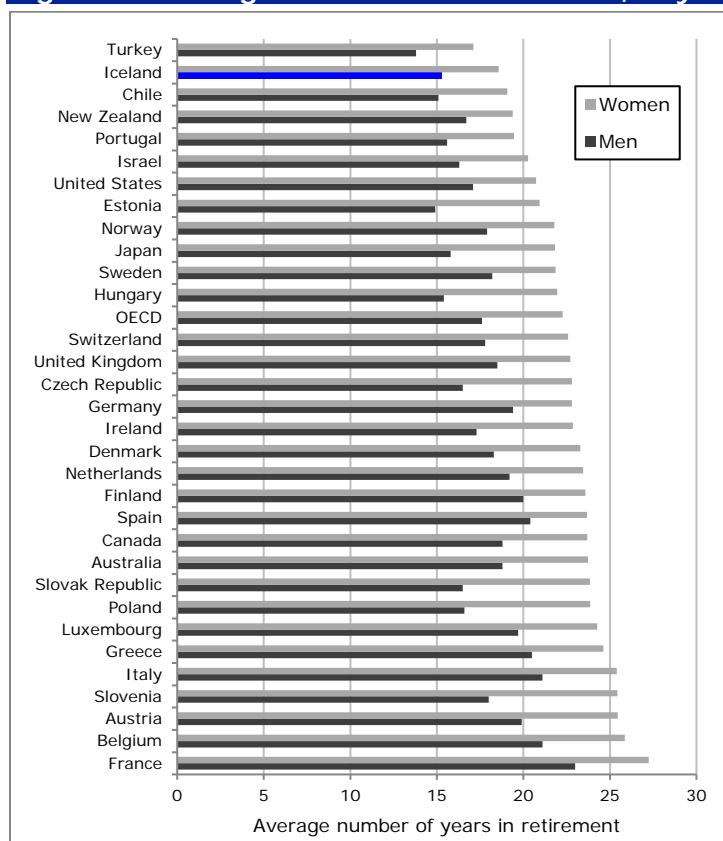
Source: Eurostat

Another interesting message of figure 1 is that the poverty rates for males and females aged 65+ roughly equalised in 2012 and 2013, but diverged again after that (probably due to increased employment participation amongst elderly males). So raising the minimum pension guarantee not only averted increased poverty in a deep crisis but also actually reduced the relative poverty rate and did away with gender differences in the old-age poverty risk for a while: the latter had previously been quite different, to the disadvantage of women. By the end of the period Iceland had obtained one of the lower relative poverty rates amongst elderly pensioners in Europe.

The level of material deprivation amongst old-age pensioners is also very low in Iceland, about 0.3% for the 65+ age group in 2015 and practically zero for the 75+ group.

Since we do not have access to theoretical replacement rates for Iceland, we can instead refer to a new report on pension adequacy undertaken for the EC and OECD (Halldórsson et.al. 2015). This study covers the current population aged 35 to 64 and assesses the replacement rates for the three pillars (this is the first time that pillar III is included in such an analysis), based on actual accumulation of pension rights in the private market and the regulations for the public pillar, with projections to full accumulation for all. The result is that Iceland's effective pension promise is at a similar level to that in the Netherlands, which is one of the higher ones amongst European countries. Iceland is aided in this by its unusually high effective retirement age (meaning that Icelanders have more years than other nations to accrue pension rights). Hence generous pension promises are obtained thanks to the greater efforts of the Icelandic population.

Iceland has one of the shortest retirement periods in Europe. This is due to the fact that Icelanders retire significantly later than people in most European nations. The average effective age of retirement is about 69.4 for males and 68 for females (OECD 2015). Amongst OECD countries it is only countries that still have significant agricultural sectors that people retire as late as in Iceland. Even though longevity is relatively high in Iceland the exceptionally late retirement age still produces a short average retirement duration, shown in figure 2.

**Figure 2: Average duration of retirement, in years.**

Source: OECD 2015

On the whole Iceland presently has relatively adequate pension provision for old-age pensioners. The rights are quite comparable for disability pensioners, except that they typically do not accumulate rights in the occupational pension funds (OPFs) to the same extent as the fully working population and hence have a higher risk of poverty. The minimum guarantee of the public social security system (pillar I) is however quite generous compared with that prevailing in other European countries (Ólafsson 2015). When pillar II (OPFs) has gained full maturity, after another 13-15 years, adequacy will be better than at present.

### 3.1.2 Redistributive elements of public pension schemes

The public social security system (pillar I) is highly redistributive. It provides a universal minimum guarantee that is well above the poverty line and is presently in line with minimum wages in the labour market (Ólafsson 2016; OECD 2015; Eydal and Ólafsson 2012). In addition benefits from the system are highly income-tested, tapering out as other incomes increase (the reduction rate above a modest free bracket is 45%).

The occupational pension funds (OPFs), on the other hand, aim to reproduce the income distribution of the labour market (providing rights in proportion to the pay during the working career, without an upper limit). Hence they are not redistributive, but they increase the adequacy level of pensions for the working population (Ísleifsson 2007).

The individual pension savings accounts are regressive to some extent, since they are voluntary and lower-income individuals are less likely to accumulate rights in them to the same extent as people in higher-income groups.

Access to universal services, such as healthcare, education and social services (albeit with modest user fees in some cases) of course has redistributive effects. The level of equalisation that public services provide in Iceland is above the OECD average (equalisation is 22.1% in Iceland as against the OECD average of 19.8%), according to Verbist, Förster og Vaalavuo (2012).

Indexation of benefit amounts in the public social security system is, by regulation, supposed to be by reference to the better of either the minimum wage or prices. This has however been temporarily removed at times, such as in 2010 (at the bottom of the financial crisis). The previous indexation system was partially reinstated in 2011, and in 2017 and 2018 the minimum benefit level will be equal to the value of the minimum wage (€2,475 in 2018).

### **3.2 Retirement conditions for the self-employed and for people in non-standard employment**

Non-standard employment conditions have increased greatly in recent years in Iceland, due to increased numbers of immigrants and general globalisation influences. Self-employment (around 12% in 2015) is close to the EU average. Hence this group is of significant importance in Iceland (Standing 2014; Kalleberg 2011).

Yet Iceland is in many ways well positioned to cope with this situation. The main reason for that is the fact that Iceland has a universal public social security system that protects all individuals with full residence in the country (40+ years), independently of whether they are self-employed or employees, on regular or non-standard employment contracts. Those who do not fulfil the residence requirement have access to Social Assistance. The second pillar of the social protection system, the mandatory OPFs, is also universal for all working people, independent of the form of work.

Thus there is no significant difference in the coverage and adequacy of social protection measures available to general employees as against the self-employed and non-standard workers.

The main difference between these groups is in contribution requirements, which means that the self-employed need to pay both the employee and the employer part of the contribution to the unemployment benefit fund in order to acquire full rights - 12-15.5% of their pay (varying by fund), instead of the 4% that employees pay for the same rights. The self-employed even have full rights to sickness benefit for up to 9 months at 80% of previous pay in union-operated sickness funds, if they pay their dues.

Adequacy of coverage is at a relatively high level. The public social security system provides a relatively high minimum pension guarantee that offers a supplement to those who have lower earnings from occupational pension funds (such as in cases of disability); and the Social Assistance benefit level is one of the highest in Europe. Unemployment benefit rates have been above the poverty line in recent years.

Fluctuating demand for the services of self-employed individuals, and increased precariousness in employment relations, may however be a source of some in-work poverty in Iceland, particularly for members of the groups in question. A part of the added precariousness in the working lives of self-employed and non-standard workers may be related to growth in the number of immigrants in the country in recent decades (approaching 10% of population now), but some of these effects may also be related to work in the black economy (which amounts to about 7-8% of GDP). Hence the social protection system is not significantly wanting in providing coverage for these groups, but they are subject to fluctuating labour market conditions that may produce poverty for the most precariously placed individuals within them.

### 3.3 Future adequacy and challenges

Theoretical replacement rates are not available for Iceland.

## 4 Main opportunities for addressing pension-related challenges

On the whole the structure of the Icelandic pension system is conducive to the provision of fairly adequate pension levels, which should rise in line with increasing levels of affluence in society. Due to the fact that the occupational pension funds still need about 15 years for members to benefit from full maturity in accumulating pension rights, there is still a great need for sizeable parts of the pensioner population to receive significant sums from pillar I pensions, the public social security system. The OPFs have up to now only promised 56% of lifetime earnings as their members' right and this needs to be bridged up to 70-80%. Even though pension rights amongst members of public and private occupational pension funds will be formally equalised in the next two years, it will take another 40 years before full maturity at a higher level comes through.

Hence there is a continued role for pension provision from pillar I. At present that side of the pension equation is somewhat lacking, mainly due to overextensive income-testing rules, which mean that too many pensioners belong to what may be called the "interim pensioner population" - i.e. those who are pensioners at present, and those who will come into that status with less than full maturity of occupational pensions.

The most direct way of improving pension adequacy for these groups is to raise the basic pension of the public social security system (pillar I) and reduce the degree of income-testing. This should be done in the case of all major types of earnings: employment earnings, pension fund earnings, and financial earnings. By reducing the amount by which the public pension is reduced by reference these other income resources, pension adequacy for the interim pensioner population can be improved – and then scaled down in the future again when fuller maturity levels of the OPFs will be reached.

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## Annexes

### Background statistics – Iceland (filled in by SÓ)

#### 1. Relative incomes of older people

Indicator	2015			Change 2008-2015		
	Total	Men	Women	Total	Men	Women
Relative median income ratio, 65+	0.88	0.93	0.84	0.07	0.08	0.06
Income quintile share ratio (S80/S20), 65+	4.0	--	--	0.2	--	--

#### 2. Poverty and material deprivation

Indicator	2015			Change 2008-2015		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE), 65+ (%)	9.4	7.9	10.7	-5.8	-1.6	-9.3
At-risk-of-poverty rate (AROP), 65+ (%)	9.0	7.6	10.3	-6.0	-1.9	-9.4
Severe material deprivation (SMD), 65+ (%)	0.3	0.3	0.4	0.1	0.3	0.1
At-risk-of-poverty or social exclusion (AROPE), 75+ (%)	11.2	7.9	13.8	-11.9	-5.0	-17.1
At-risk-of-poverty rate (AROP), 75+ (%)	11.2	7.9	13.8	-11.9	-5.0	-17.1
Severe material deprivation (SMD), 75+ (%)	0.0	0.0	0.0	0.0	0.0	0.0
Relative poverty gap, 65+ (%)	10.7	--	--	-1.3	--	--
At-risk-of-poverty rate (AROP), 65+: 50% threshold (%)	4.2	3.3	5.1	-0.3	-0.7	0.1
At-risk-of-poverty rate (AROP), 65+: 70% threshold (%)	19.9	16.7	23.0	-8.0	-5.9	-9.4
Material and Social Deprivation rate, age 65+ (%)	--	--	--	--	--	--

#### 3. Gender differences

Indicator	2015			Change 2008-2015		
	Total	Men	Women	Total	Men	Women
Gender Gap in Pension Income (65+) (%)	15.0			15.0		
Gender Gap in non-coverage rate (W-M in p.p.) (65-79)	--			--		



#### 4. Housing and Health situation of older people

Indicator	2015			Change 2008-2015		
	Total	Men	Women	Total	Men	Women
Population living in overcrowded households, 65+ (%)	1.8	1.7	1.9	-0.2	0.2	-0.6
Tenure status among people 65+: share of owners (%)	88.6	86.1	90.8	-0.8	-4.3	2.2
Housing cost overburden rate, 65+ (%)	7.2	5.9	8.4	0.1	-0.5	0.8
Self-reported unmet needs for medical care, 65+ (%)	1.0	1.8	0.6	0.2	1.4	-1.2
Healthy Life Years at age 65 (years)	-	18.1	19.4	-	1.3	1.1

#### 5. Pension duration

Indicator	2016			Projections for 2056		
	Tot	Men	Women	Total	Men	Women
Pension payment duration (2012) (years)	21.1	20.1	21.5			
Retirement duration (AWG) (years)	21.0	--	--	--	--	--

#### 6. Theoretical Replacement Rates (TRRs)

TRR case		Net (%)				Gross (%)			
		2016		2056		2016		2056	
		Men	Women	Men	Women	Men	Women	Men	Women
Average Earnings	Variant: Old base case: 40 years up to 65	If possible		If possible		If possible		If possible	
	New Base case: 40 years up to the SPA	YES		YES		YES		YES	
	Increased SPA: from age 25 to SPA	YES		YES		YES		YES	
	AWG career length case	YES	YES	YES	YES	YES	YES	YES	YES
	Longer career: 42 years to SPA			YES				YES	
	Shorter career: 38 years to SPA			YES				YES	
	Deferred exit: 42 years to SPA +2			YES				YES	
	Earlier exit: 38 years to SPA -2			YES				YES	
	Career break – unemployment: 3 years			YES				YES	
	Career break due to child care: 3 years			YES				YES	
	Career break care to family dependent: 3 years			YES				YES	
	Short career (20-year career)			YES				YES	
	Work 35 y, disabled 5 years prior to SPA			YES				YES	
	Early entry in the LM: from age			YES				YES	

	20 to SPA						
	Index: 10 years after retirement @ SPA			YES			YES
Low (66%)	Variant: Old Base case: 40 years up to 65	If possible		If possible		If possible	
	New Base case: 40 years up to the SPA	YES		YES		YES	
	AWG career length case	YES	YES	YES	YES	YES	YES
	Career break – unemployment: 3 years			YES			YES
	Career break due to child care: 3 years			YES			YES
	Extended part-time period for childcare			YES			YES
	Short career (20-year career)			YES			YES
	Pension rights of surviving spouses				YES		YES
	High	New Base case: 40 years up to the SPA	YES		YES		YES
	Average replacement rate across retirees	If possible		If possible			

## 7. Sustainability and context

	2016			Projections for 2056		
	Total	Men	Women	Total	Men	Women
Life expectancy at 65 (years)	20.5	19.5	21.3	--	--	--
Old-age dependency ratio (20-64) (%)	23.3	--	--	37.5	--	--
Economic old-age dependency ratio (15-64) (%)						
Employment rate, age group 55-64 (%)	84.6	89.7	79.4			
Pension expenditure as % of GDP (ESSPROS)	5.6					
<b>AWG projections</b>	<u>2016</u>			<u>2055</u>		
<i>(potential) indicator on in-kind LTC benefits</i>	?			?		
Gross public pensions as % of GDP (AWG projections)	2.1			YES		
Benefit ratio (%)	YES			YES		
Aggregate Replacement Ratio (ARR) (%)	--			--		
Coverage ratio (% of pop aged 65+)	--			--		

