

Report no. 5 to the Storting (2006-2007)

Earning and drawing old age pension from the National Insurance Scheme

1 A sustainable pension system with a good social profile

1.1 Introduction

The National Insurance Scheme is one of the main pillars of the Norwegian welfare state. The Government places decisive emphasis on safeguarding the pensions of the future so that the individuals are secured a good pension. The old age pension of the National Insurance Scheme shall afford a reasonable income level when compared to previous income and accustomed standard of living. At the same time, persons with little or no previous labour market affiliation shall have a good basic security in their old age. Everybody who has had income or other pension earning shall get something in return on top of the basic security.

The best guarantee for the pensions of the future is that the overall pension system is economically and socially sustainable. In addition, the Government is of the opinion that the pension system shall have a good income redistribution profile, a good gender profile, and be easy to understand.

The current pension system is facing big and growing economical challenges through a weaker growth in the occupationally active population, higher average pension amounts and increasing longevity. In addition, the current pension system gives too weak incentives for work, and has some unfair aspects, e.g. a weak and unclear correlation between income and pension and the fact that identical incomes over the course of a lifetime can result in quite different pensions.

With the current pension system, the National Insurance Scheme's expenditure on old age, disability and survivors' pension may double as a share of the value creation in the mainland economy towards 2050. Four fifths of this increase is due to the growth in the old age pensions. The ageing of the population will also affect other public income and expenditure, first and foremost the health and care expenditure. The strong increase in the pension expenditure caused by maintaining the current pension system would result in an unreasonable burden on the occupationally active population, something which would probably not be sustainable in the long run. Therefore, there is a need for a pension reform.

Even though considerable reserves are being accumulated in the State Pension Fund (Statens pensjonsfond), the labour force is the most important resource for securing value creation and a good welfare society. A new pension system, giving incentives for work, is part of the Government's policy aimed at getting more people into the labour force.

On 30 March 2001, PM Stoltenberg's first Government appointed a Pension Commission with members from the parties in the Storting (parliament) and independent experts. The Commission was mandated with the task of considering main objectives and principles for a reform of the overall pension system.

The Pension Commission forwarded its final report on 13 January 2004 in a green paper (NOU 2004:1 Modernised Social Insurance – Sustainable pensions for the future). On the basis of the report from the Pension Commission, the second Government of PM Bondevik forwarded a white paper to the Storting on 10 December 2004 (St.meld. No. 12 (2004 – 2005), Pension reform – security for the pensions). On 26 May 2005, the Storting made decision No. 354 on the main principles for a pension reform, cf. the document Innst. S. No. 195 (2004 – 2005).

The Storting asked the Government to return with evaluations and proposals for amendments in the pension system in a number of fields. The Government will implement the pension settlement as intended and decided. The pension reform will be implemented in three steps:

- Through the pension settlement in the Storting the main principles of a new pension system were decided upon, cf. Chapter 1.2. Furthermore, the Storting has decided to introduce a mandatory occupational pension system with effect from 2006.
- In this white paper, the Government proposes a new model for earning and drawing of old age pensions in the National Insurance Scheme as a foundation for the overall pension system, cf. Chapter 1.4.
- After this white paper has been debated in the Storting, the Government will follow up with concrete legislative proposals for a new old age pension in the National Insurance Scheme. Amendments to the rules regarding occupational pension systems will be made after the amendments in the new National Insurance Act have been passed. Adaptations in the pension schemes for civil servants will be considered in co-operation with the social partners, cf. Chapter 1.6.

A new pension system shall remain in effect well into the future. The design of the new pension system must therefore be based on the labour and income patterns of the future. The number of occupationally active years is expected to increase with the longevity of the population. Furthermore, the Government expects and works toward a greater degree of equality between the labour and income patterns of men and women. Over time, this will lead to women earning pension rights on the same level as men.

In addition to the National Insurance Scheme, many people have supplementary pension arrangements, both early retirement schemes and occupational pension schemes. After the introduction of the mandatory occupational pension system from 2006, all employees are guaranteed an occupational pension in addition to the old age pension from the National Insurance Scheme. Thus a great injustice in the pension system has been abolished; the difference between those who have an occupational pension and those who don't.

It is a prerequisite for reaching the goals for the pension reform that one does not look at the old age pension of the National Insurance Scheme in isolation, but at the overall pension system. When a new model for earning and drawing of old age pension in the National Insurance Scheme is decided on, it will be necessary to make adaptations in the supplementary arrangements, so that they contribute to a good overall pension reform.

In this white paper the Government proposes:

- A new model for earning and drawing of old age pension from the National Insurance Scheme
- Amendments to the provisions on pension earning in cases of unpaid care
- Pension earning for conscripts
- Adjustment of the rules on pension earning for the unemployed
- Time of entry into force of the life expectancy based pension adjustment
- Time of entry into force of the new rules on adjustment of paid-out pensions

1.2 The pension settlement of the Storting

In connection with the handling of the white paper St.meld. No. 12 (2004-2005), Pension reform – security for the pensions, the Storting made the following decision on 26 May 2006 (decision No. 354), cf. Innst. S. No 195 (2004-2005):

“The Storting makes reference to the Agreement on pension reform between Arbeiderpartiet (the Labour Party), Høyre (the Conservative Party), Kristelig Folkeparti (the Christian Democratic Party), Senterpartiet (the Centre Party) and Venstre (the Liberal Party) (hereinafter referred to as “the contracting Parties”) and asks the Government to commence the next phase of the work on a pension reform along the lines of the aforementioned Agreement as described in the following:

The current pension system is facing big and growing economical challenges through a weaker growth in the occupationally active population, higher average pension amounts and increasing longevity. In addition, the current pension system gives too weak incentives for work, and has some unfair aspects, e.g. a gradual weakening of the correlation between income and pension and the fact that identical incomes over the course of a lifetime can result in quite different pensions. Therefore, there is a need for a pension reform.

1. Model for old age pension in the National Insurance Scheme

The old age pension of the National Insurance Scheme shall continue to consist of a basic security (guaranteed pension) and an income-based supplementary pension.

The old age pension of the National Insurance Scheme shall be based on the principle that work shall be rewarded. Therefore, there must be a correlation between the work effort throughout life and the pension benefit, and all occupationally active years must count when calculating the pension. The National Insurance Scheme’s old age pension must have a good social profile and contribute to even out differences in income levels.

The contracting Parties agree that the design of a new old age pension in the National Insurance Scheme shall be founded on the following:

- Persons with little or no income shall still be safeguarded with a pension at the same level as the current minimum pension.

- Persons with low incomes shall get more in return for their pension earning than in the current system, so that there will be fewer minimum pensioners. This implies that those who have had a stable income between 2 and 4 times the Basic amount (B.a.) for 40 years will get a higher pension than with the current National Insurance Scheme.
- Those who after 40 occupationally active years have had income slightly lower than the average for full time employees, must not get a lower old age pension than with the current system. This means that persons who have had a steady income between 4 and 5 B.a. for 40 years will not get a lower pension than they would have in the current National Insurance Scheme. After 43 occupationally active years these income groups will get a higher pension than with the current scheme.
- Unpaid care shall result in pension earning. Unpaid care earning shall be designed in such a way that everyone meeting the requirements for care earning will get a minimum pension earning of 4.5 B.a. Pension earning above the minimum level shall be designed so as to reward work effort. Unpaid care earning shall not give overt incentives for an uneven distribution of unpaid care between women and men. The answer to question 15 from Arbeiderpartiet shows an example of an alternative model for unpaid care earning.
- The Government continues to work on concrete proposals about retroactive effect for pension earning for unpaid care in the current National Insurance Scheme as well.
- Conscripts are given pension earning.
- The Government will be considering pension earning for students in light of choice of model and will return with proposals.
- The National Insurance Scheme's benefits during illness and unemployment, including involuntary part-time workers who receive unemployment benefits, shall result in pension earning in line with work income.

A model for pension earning in the National Insurance Scheme that both has a good income redistribution profile and that gives pension earning for all occupationally active years can be designed in different ways, e.g. as a model with a "bending point" and a model with a basic pension and steady earning of pension rights on top of the basic pension. In a model with a "bending point", the lowest part of the income will give higher pension earning as a share of the income than the highest part of the income. Examples of such a model are found in the answer to question 8 from the Committee members of Arbeiderpartiet where the Ministry of Finance has made calculations on two varieties of this type of model, models A and B. In both models, all occupationally active years will result in pension earning. Model A gives an income-based pension equal to 1.7 per cent of the income up to 3 B.a., and 0.8 per cent of the income between 3 and 8 B.a. In this model, deductions will be made in the guaranteed pension when the pensioner is entitled to an income-based pension, in the same way as in the Pension Commission's proposal for a modernised National Insurance Scheme. Model B gives an income-based pension equal to 2.3 per cent of the income up to 2 B.a., and 0.7 per cent of the income between 2 and 8 B.a. The guaranteed pension will be reduced with the full amount of the income-based pension.

Table 1: Income and pension with the current National Insurance Scheme, the modernised National Insurance Scheme, models A, B and D, after 43 years. NOK rounded off in thousands.

Income in B.a.	Income	Current National Insurance Scheme (single)	Current National Insurance Scheme (married)	Modernised National Insurance Scheme (all)	Model A (all)	Model B (all)	Model D (single)	Model D (married)
3,0	176.000	108.000	99.000	120.000	133.000	134.000	131.000	125.000
4,5	265.000	145.000	136.000	142.000	159.000	160.000	163.000	157.000
6,0	353.000	182.000	173.000	190.000	190.000	187.000	196.000	189.000
8,0	470.000	199.000	190.000	253.000	230.000	222.000	239.000	232.000
12,0	705.000	232.000	223.000	253.000	230.000	222.000	239.000	232.000

In a model with a basic pension and a steady earning, all income in excess of the basic pension will give the same pension earning. An example of this type of model is the proposal for model D in the answer to question 23 from the Committee members of Arbeiderpartiet. In model D everybody will receive a basic pension equivalent to the current minimum pension of 1.79 B.a. for singles and 1.62 B.a. for couples, and an income-based pension of 0.85 per cent of the income in excess of the basic pension.

Pension earning for incomes in excess of 8 B.a. will not be given in any of the models.

Table 1 shows the correlation between pension and income in the current National Insurance Scheme, the modernised National Insurance Scheme models A, B and D after 43 years of stable income. The table and the other calculations from the Ministry of Finance show that models A, B and D all give a better income redistribution profile than the Pension Committee's proposal for a modernised National Insurance Scheme.

The Government must design a pension model with an income redistribution profile that lies close to the profile in models A, B and D.

Figure 1 shows the income redistribution profile of the current National Insurance Scheme, of the modernised National Insurance Scheme, and of models A, B and D for singles who have had a stable income throughout 43 years.

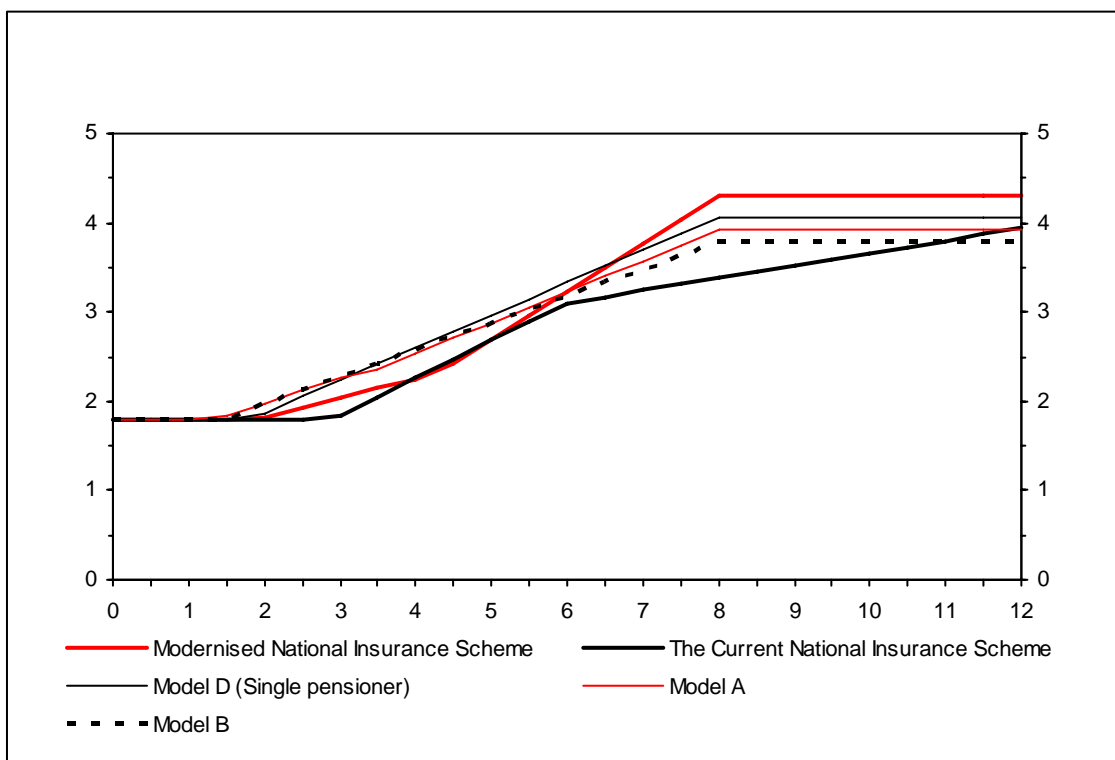


Figure 1: The relationship between income and pension in the current National Insurance Scheme, the modernised National Insurance Scheme, models A, B and D after 43 years of earning. Numbers in B.a. (1 B.a. is equal to NOK 62 892 as per 1 may 2006.)

According to the models, everyone will, after 43 years with a stable income between 2 and 8 B.a., receive a higher pension than with the current National Insurance Scheme.

2. Occupational pension systems

2.1 Mandatory occupational pension schemes

Mandatory occupational pension schemes will be introduced. The act will enter into force on 1 January 2006.

The arrangements are designed within the framework of the Act on Defined Benefit Pension Scheme and the Act on Defined Contribution Pension Scheme.

Mandatory occupational pension schemes shall cover all employees that fulfil the requirements for membership according to the Act on Defined Benefit Pension Scheme and the Act on Defined Contribution Pension Scheme. The requirement to have an occupational pension scheme for employees that also are part-owners needs to be examined more closely.

The Government considers how to establish well-functioning control schemes securing that all enterprises offer their employees occupational pension schemes.

The mandatory arrangements must be modelled in a way that makes them simple to extend, so as not to become obstacles for the continuation of already existing occupational pension schemes, and that makes it easy for small and mid-sized enterprises to establish and administer the schemes.

In the mandatory arrangement, the employer is required to make a contribution of minimum 2 per cent of the individual employee's wage in excess of 1 B.a. If the enterprise does not choose a defined contribution scheme, the expenses for premiums to other arrangements must correspond to minimum 2 per cent of the employee's wage in excess of 1 B.a. It can be agreed between employer and employee that the employee in addition shall make a contribution or pay a premium to the pension scheme.

For enterprises that up until now have not had occupational pension schemes, the introduction of a mandatory occupational pension scheme may involve a financial strain. The Government is requested to consider the financial and administrative consequences in these cases more closely.

2.2 Coordination of occupational pension systems for various enterprises

It must be possible for several enterprises to establish a joint purchasing system for occupational pension schemes. A purchasing system can be established through an agreement between the enterprises or through agreements between the social partners.

The purchasing system may, on behalf of the enterprises, enter into contracts on purchasing various pension products from insurance companies, banks or other providers. Such a joint purchasing system must be able to include both minimum arrangements required by law, additional benefits for all the enterprises in the system and additional services according to the enterprises' requests.

The Storting requests the Government to return with possible legislative amendments necessary to establish joint purchasing systems. The Government is in particular asked to consider the following:

- An agreed standard pension scheme for all the enterprises joining the purchasing arrangement
- Joint administration of capital, interest rate guarantee etc
- Joint administration of the occupational pension schemes
- Agreements on adding together periods of service when an employee switches jobs from one enterprise to another
- Agreements on equalising the insurance premiums between the enterprises within the arrangement according to age and gender of the insured

During the discussions on white paper No. 68 (2004-2005), the contracting Parties have agreed that as soon as possible even more enterprises shall be allowed to establish joint pension funds modelled on the inter-municipal pension funds.

2.3 Adapting the legislation for occupational pension schemes

When a new model for old age pension in the National Insurance Scheme is decided upon, the legislation on occupational pension schemes must be adapted to the new National Insurance Scheme model. It will e.g. be necessary to have a closer look at what consequences the introduction of a lifelong pension earning, a life expectancy based adjustment ratio and a new indexation in the National Insurance Scheme should have on the design of the occupational pension schemes. Furthermore, it will also be necessary to have a closer look at the provisions regarding the temporarily employed and part-time employees.

A register of free policies is established as soon as possible and the Government considers how pension entitlements from the different schemes may be assembled.

Gender and age neutral insurance premiums may be used in occupational pension schemes in the private sector.

2.4 Civil service pensions schemes

Civil service pensions equivalent to two thirds of the wage at the time of retirement in the public sector (“gross arrangements”) are continued.

When a new model for old age pension in the National Insurance Scheme is decided upon, the civil service pension schemes must be adjusted to the new National Insurance Scheme model, without decreasing the level of the civil service pensions, but so that they are also covered by the provisions on life expectancy based adjustment ratio and the new indexation.

The final adjustments will be made through negotiations between the social partners of the public sector.

The pension schemes for cabinet ministers, members of the Storting etc. will have to be adapted to the new National Insurance Scheme model.

The Storting will at this juncture not make a decision on whether the obligations of the Norwegian Public Service Pension Fund should be funded. Before the Storting makes a decision on funding of the Norwegian Public Service Pension Fund, a thorough evaluation must be made, e.g. of how the Norwegian Public Service Pension Fund is developing as an enterprise, the competition regarding the occupational pension schemes for former public enterprises, the mobility in the labour market and of the possibilities of cost-control in the public sector.

2.5 Self-employed persons

Sole proprietorships shall also be able to establish a joint purchasing system for occupational pension schemes.

Work will continue on amendments to the Act on Defined Contribution Pension Scheme (possibly to the Act on Defined Benefit Pension Scheme) to make the arrangements open for enterprises with less than two employees. Membership in such an arrangement should be voluntary for self-employed persons and other with proprietary interests in enterprises. Furthermore, those who have a voluntary affiliation with a collective occupational scheme must be treated on an equal footing as regards taxation with those who benefit from an occupational pension scheme for employees, e.g. as regards tax deductions for their premiums in taxable income from their enterprises.

3. The AFP scheme and early retirement

There must be an early retirement scheme for all employees from the age of 62, including individuals with modest incomes. Such a scheme has to be based on the AFP scheme (collectively bargained early retirement scheme).

The pensionable age in the AFP scheme will not be changed. The total financial contribution by the State in the AFP scheme will be maintained. Any amendments to the AFP scheme can at the earliest be made after negotiations with the social partners during the collective agreement negotiations in 2006. This will be a follow-up of the letter from the Government to the social partners participating in the collective agreement negotiations in 1997, where they were notified that some of the elements in the AFP scheme would be reassessed in 2007.

In addition to maintaining the AFP scheme, the work on a common flexible early retirement scheme under the National Insurance Scheme continues. The Storting will not at this juncture consider the design of such a future early retirement scheme, but requests the Government to come back to the question of how it can be designed after the study of the disability pension has been completed and the collective agreement negotiations in 2006 are finished. The basis of the evaluation should e.g. be that:

- Working after attaining the age of 62 must be rewarded
- The possibility of combining pension with work must be improved
- The upper age limit of 70 years for pension earning under the National Insurance Scheme must be abolished. The special retirement ages in the private and public sectors must be reconsidered.

The general pensionable age must not be reduced, and employees over the age of 62 must be motivated to continued work effort. The IA Agreement (Agreement on a More Inclusive Workplace) must be continued in order to make it possible for older employees to continue their working lives. The Government, in co-operation with the social partners, must design measures for a senior policy that motivate the senior employees to remain in the labour force, and motivate the employers to hire these employees and keep them on.

4. A sustainable pension system

As part of ensuring sustainability in the pension system, an arrangement with adjustment of pensions based on expected duration of life (life expectancy based adjustment ratio) will be introduced. This means that the pensionable age in the National Insurance Scheme will be

adjusted in line with changes in remaining life expectancy. The individual can counteract the effect of a life expectancy based adjustment ratio by working longer.

After the pension reform has entered into force, paid-out pensions from the National Insurance Scheme will be adjusted with an average of the growth in prices and wages.

Accrued pension entitlements are adjusted in line with the growth in wages. The guaranteed pension is indexed against wages, and adjusted for the development in remaining life expectancy.

5. Funding of the National Insurance Scheme

The Petroleum Fund and the National Insurance Fund will be remodelled into a pension fund.

The Storting requests the Government to continue evaluating whether the pension system should get a more independent role in relation to the other central governmental finances, and, if so, how this can be done. The Government must also consider how to strengthen the new pension fund's role as a buffer fund against the generational imbalances of the National Insurance Scheme. Furthermore, the Government shall consider a separate pension premium in the tax system, which makes it visible that this is saving for one's own old age.

6. Disability pensions and survivors' pensions

A new disability pension scheme is further examined by a separate Committee, and has to be seen in connection with the early retirement arrangements.

The disability pension shall also in the new system be adjusted in accordance with the wage growth.

The legitimacy of a survivors' pension in the National Insurance Scheme will depend on whether the old age pension in the future will be coordinated between spouses/cohabitants/partners or not. This question must therefore be examined further once the Storting has made a decision on the new pension earning model for the old age pension in the National Insurance Scheme."

The Government is placing a great emphasis on this white paper being subjected to real negotiations between the political parties in the Storting. It is the Government's aim that this will be the foundation for a broad political settlement on the pension reform.

1.3 Challenges for the pension system

From the end of this decade, a considerable ageing of the population will pose increasing challenges for the pension system. In the first period after 2010, the large baby boomer generation is nearing the pensionable age. In the longer term, the ageing of the population is caused by the fact that the individual pensioner may expect to live longer than previous generations. In 1967 there were 3.9 occupationally active per pensioner, in 2003 the ratio had decreased to 2.6 and in 2050 it is expected, with a degree of uncertainty concerning some variables and an unaltered policy, to be 1.7 occupationally active per pensioner. The share of the population 65 years and older may almost double towards 2050 as a share of the working age population, from slightly more than 22 per cent today, to approximately 40 per cent in

2050. At the same time, the average old age pensions may increase by more than 20 per cent in relation to the average income level. The main reason for this is that the current National Insurance Scheme has not yet been fully phased in, and it is to be expected that female old age pensioners of the future will have had a higher degree of occupational activity, and thus a higher pension earning than the pensioners of today.

The combination of an increasing share of older people and higher average pensions will lead to a dramatic increase in the pension expenditure of the National Insurance Scheme. The National Insurance Scheme's expenditure on old age, disability and survivors' pensions may double, from 10 per cent of the mainland value creation today to 20 per cent in 2050, if the current system is maintained. The expenditure on old age pensions alone is estimated to rise from 6 per cent to approximately 15 per cent of the value creation.

Ageing of the population contributes not only to increased pension expenditure, but will also result in increased public spending in other areas. In particular, the growth in the share of the population 80 years and older will induce a considerable increase in the expenditure on health and care services, even though a gradual improvement of the health in this age group is likely to moderate the increase. The expected increase in public spending applies under a relatively wide range of variables as regards oil prices, demographic development and economic growth.

In addition to the public finance issues there are a number of other systemic challenges in the pension system that have become more and more obvious during the close to 40 years that have passed since the current National Insurance Scheme was established:

- Today there is a poor correlation between the income over the course of the career and the pension, and to some extent the pension system affects the individuals' pensions arbitrarily. The Storting's decision on an all-years-rule is an important step towards rectifying this, but it is important that the connection between income and pension is also reflected in the other aspects of the design of the old age pension.
- Many people find it unreasonable that persons with a considerable number of occupationally active years may end up with the same pension as persons without prior income from work.
- The possibility of retiring with a pension before the ordinary pensionable age in the National Insurance Scheme is unevenly distributed. A large share of the occupationally active population is covered by the AFP-arrangement. Some groups of employees have special retirement ages. However, there is also a large group that does not have any real possibility for early retirement. The decision by the Storting means that there shall be an early retirement pension for all, and the Government will forward a proposal to that effect in this white paper.
- Most of the special retirement ages were established a long time ago, and they do not reflect the extensive changes that have taken place in working life.
- The AFP-arrangement offers the opportunity for a dignified retirement from working life for worn out employees, but is designed in such a way that one will get the same pension at the age of 62 as if one had been working until the age of 67. Overall, the

arrangement gives weak incentives to remain in the labour force after attaining the age of 62, and there is a risk that the age of 62 will be established as a norm for retirement.

- Today, the overall pension system appears complicated. It is a problem that the income system for the elderly is not sufficiently comprehensible and simple.

Through the Storting's decision concerning life expectancy based adjustment of pensions, changes in the adjustment mechanism for paid-out pension, the introduction of an all-years-rule, the introduction of mandatory occupational pensions and the continuation of the AFP-arrangements with possible amendments, important steps have been taken towards making the pension system more sustainable and fair.

1.4 Main points in the Government's proposal

1.4.1 Aims for a new pension system

The old age pension of the National Insurance Scheme is the core of the overall pension system, and also works as a basis for other pension arrangements. The old age pension of the National Insurance Scheme has two main purposes; standard security and basic security. The standard security helps prevent too steep a decrease in the individual's income upon retirement. The standard security may be seen as saving towards one's own old age. The basic security shall give an acceptable level of income for persons with little or no labour market affiliation.

The Government's proposal for a new model of earning and drawing of old age pension in the National Insurance Scheme is based on the pension system:

- Being economically and socially sustainable.
- Having a good income redistribution profile and gender profile.
- Being simple and comprehensible.

An economically and socially sustainable pension system means a pension system which over time does not impose too great a financial burden on the occupationally active. It is important that the occupationally active are both willing and able to finance the pension system. Furthermore, the individuals must feel that they get something in return for their payments to the system, irrespective of whether these are made through taxation or pension premiums. This will contribute towards ensuring general acceptance of the scheme. An economically and socially sustainable pension system is the best guarantee for secure pensions for the pensioners of the future.

A prerequisite for an economically and socially sustainable pension system is that it gives good incentives for work. This is especially important in the present situation with an increasing share of elderly as compared to the occupationally active, and a stable negative development in actual retirement age despite an ageing population. The design of the pension system affects the labour supply both in the individual years as occupationally active and in relation to the decision on when to retire. The effect is greatest in the later years of one's career. In the individual years as occupationally active it is in particular the connection

between the income from work and the pension earning that may have an effect on the labour supply.

The pension settlement in the Storting means that there will be an early retirement arrangement for all employees after attaining the age of 62. The possibility of retirement for all at age 62 is a huge welfare reform. It is important that this increased freedom of choice is not introduced at the expense of the sustainability of the pension system. Designing the pension system so that the annual pension level also reflects the expected number of years as a pensioner contributes to the individual being faced with the real socio-economic costs of his choice on when to retire.

The pension system shall have a good income redistribution profile. Persons with low and medium income shall be guaranteed a good pension in their old age. The pension as a share of previous income shall remain higher for persons with low and medium income, than for those who have the highest income. As long as women have lower incomes than men, this will give a pension advantage for women. In time, as women's work and income patterns become more like the patterns for men, this will be of less importance. In this connection, reference is made to the work of the Equal Pay Commission.

Furthermore, it is important that all those who have had pension earning get something in return, on top of the minimum pension. Today, many occupationally active women receive a minimum pension in the same way as people without previous income from work.

Pension earning must reflect the work effort throughout life. However, it is important that the pension system compensates for loss of income from labour for persons who are performing important tasks in society through unpaid care. So far, this arrangement has in particular benefited women.

The pension system shall be transparent and the terms as clear and simple as possible. Simplicity and comprehensibility in the pension system are prerequisites for being able to make well-founded decisions on when to retire and on the need for saving for one's old age. Furthermore, simplicity will contribute to making the individuals able to calculate the size of their pension under different circumstances.

1.4.2 New model for pension earning

In the pension settlement in the Storting no decision was made on the earning model for the old age pension of the National Insurance Scheme, nor on the parameters attached to the choice of model. The decision stipulates three different models; A, B and D. Models A and B are so-called "bending point"-models. This means that the earning is higher for low incomes than for high incomes. Pension earning starts from the first krone. Model D consists of a basic pension at the level of the current minimum pension, granted to all, with an income-based supplementary pension on top. The pension earning starts when the annual income exceeds the basic pension.

The Government has been asked to design a pension model that lies close to the profile in these models.

One of the Storting's demands to the income redistribution profile is that persons with stable income between 2 and 4 B.a. (NOK 124 000 to 249 000) for 40 years shall get a higher

pension than with the current National Insurance Scheme. Persons who have had a stable income between 4 and 5 B.a. (NOK 249 000 to NOK 311 000) for 40 years shall not get a lower pension than they would have with the current system and after 43 occupationally active years they should have a higher pension than with the current scheme. In addition, different models should be examined to see how they contribute to a reasonable standard security, whether they give incentives for work and whether they are easily understood. Last but not least, the choice of earning model in the National Insurance Scheme should be considered as part of an overall pension reform.

In the pension settlement in the Storting it is said that the current pension system gives too weak incentives for work, and has some unfair aspects, e.g. that identical incomes over the course of a lifetime can result in quite different pensions. Both the “bending point” models and model D have qualities that make it difficult to achieve a good correlation between income over the course of a lifetime and pension. In addition they are complex, and especially model D is estimated to give somewhat weaker incentives for work and less value creation than models with a closer correlation between income over the course of a lifetime and pension.

The Government has come to the conclusion that the future old age pension of the National Insurance Scheme should be based on a proportional earning from the first krone up to a certain limit. Persons with little or no pension earning will get a basic security in their old age through a guaranteed pension. This pension should be reduced when the pensioner has earned an income-based pension.

The Government proposes a new earning model for the old age pension with the following qualities:

- An income-based pension which entails annual pension earning equal to 1.35 per cent of the income for a person that starts drawing pension at the age of 67, given the life expectancy in 2010.
- All income between 0 B.a. and 7 B.a. (NOK 435 000) shall result in a pension.
- A guaranteed pension at the level of the current minimum pension.
- The guaranteed pension to be reduced by 80 per cent of the earned income-based pension.

The Government’s proposal is in line with the profile requirements of the pension settlement in the Storting, but is still designed differently from the three models stipulated in the settlement, as well as from the proposal of the Pension Commission.

Pension earning from the first krone and a pension percentage of 1.35 means that a clear majority of the population will have a higher marginal pension earning, when compared to the other models that have been examined. According to calculations performed by Statistics Norway, the Government’s proposal will overall give better incentives for work both while occupationally active and while deciding when to retire, when compared with the other models that have been examined. A better motivation for work results in increased value creation and it thus improves the basis for the financing of the welfare state when compared with the other models.

The Government's proposal ensures equal pension for equal lifetime income, irrespective of how this is divided over the working career, as long as the annual income is below 7 B.a.

In line with the Storting's decision, the Government has emphasised that a new model for earning of old age pension should have a good income redistribution profile. The proposed model has a substantially better income redistribution profile than the Pension Commission's proposal for a modernised National Insurance Scheme. The model is also meeting the Storting's requirement that persons with stable income between 2 B.a. and 5 B.a. for 40 and 43 years, respectively, shall receive a pension on at least the current level when looking at this group of pensioners as a whole. This means that given the Storting's requirements, an average of single and married pensioners will be better off than with the current National Insurance Scheme. Single pensioners with 40 years of stable pension earning will, within a narrow income interval, receive a somewhat lower pension than with the current National Insurance Scheme. Such "static" estimates of pension levels with stable income and a given number of years disregard the fact that many people may choose to remain in the labour force for a longer period of time with the Government's proposal than with the current National Insurance Scheme, since the Government's proposal gives better incentives for work. By remaining in the labour force for a longer period of time, the individual's pension will increase. At the same time, the overall effect on the pension level will also depend on e.g. the life expectancy based pension adjustment and how the individuals adapt to it.

The model gives a higher replacement rate than the current system for persons with low incomes and few years of pension earning, because everybody who has had pension earning will get something in return on top of the basic security. Thus, the proposal helps to avoid the so-called "minimum pension trap", meaning that also those who have had a rather limited pension earning will receive a higher pension than those who have had no earning. A high pension percentage from the first krone also gives a good compensation for persons with medium incomes.

Compared to the current National Insurance Scheme and the alternative earning models that have been considered, the Government's proposal has a lower limit for pension earning. Thus more people will have an annual income in excess of this limit. Because of the high pension percentage, persons with the highest incomes will still receive a higher pension than with the current National Insurance Scheme.

For the majority of the population, the model will consist of only one element – the income-based pension. Most people will get a pension directly related to the income from work throughout their working career, as long as this income is below 7 B.a. If it turns out at the time of retirement that the pension earning has not been sufficient, the earned pension will be supplemented with a guaranteed pension. The clear correlation between work throughout life and the pension makes the model easy to understand and it should be able to prove robust over time, as the core of the overall pension system.

The pension of the individual will in most cases consist of the pension from the National Insurance Scheme, combined with a pension from some supplementary scheme. The Government's proposal for a new earning model for old age pensions in the National Insurance Scheme will, through incentives for work, good income redistribution effects and its simplicity, be a good foundation for supplementary pension schemes, thus creating a good basis for a reform of the overall pension system.

1.4.3 New model for drawing pensions

In the Storting's pension settlement, the Government is asked to return with a proposal for a general, flexible old age pension in the National Insurance Scheme from the age of 62. According to the settlement, the AFP shall be maintained, but the door is kept open for making adjustments to the scheme after negotiations with the social partners.

The ordinary pensionable age in the current National Insurance Scheme is 67. However, a large majority of the occupationally active retire from work before attaining the age of 67, through other pension or social insurance schemes. Early retirement for non-health related causes is today only available for those who have access to pension schemes outside the National Insurance Scheme, such as the AFP or occupational pension schemes with special retirement ages.

There are huge individual differences concerning when the individual wants or needs to downscale the work effort or retire completely. The decision on when to retire is influenced by a number of factors, e.g. how long the individual has been working, the stress of the job in question, the conditions at the work place and the individual's health. The economic incentives in the overall tax, pension and transfer system are just some of several elements influencing older employees' possibilities for and motivation for remaining occupationally active. However, both Norwegian and international studies show that the design of the pension system, and in particular the provisions on early retirement, has a considerable effect on the older population's participation in the labour market. At the same time, it is important that conditions are adapted, so that older employees who want to, can continue to work.

According to the decision of the Storting, a new model for drawing old age pensions in the National Insurance Scheme shall give increased options for the individual compared to the current National Insurance Scheme, both as regards age of retirement and degree of retirement. Thus the pension system will be better adapted to different individual wants and needs concerning leisure. Everybody – not just those who have AFP or similar arrangements – may then choose the age of retirement and degree of pensioning for themselves.

An important goal for the pension reform is to create a pension system which has as a consequence that older employees remain occupationally active for a longer period of time, something which contributes to preventing the burden of financing on the occupationally active population becoming too severe. The Storting's decision establishes that the basis for a general flexible pension arrangement shall be that work will be rewarded for those who have attained the age of 62. The Government underscores that the possibility for a pension from the age of 62 shall not be perceived as a general lowering of the pensionable age.

The Government stresses that the overall pension system is designed in such a way as to give good incentives for work. At the same time, everybody should be secured real possibilities to downscale their work effort and begin drawing a full or partial pension. The Government's proposal for rules on the drawing of old age pension from the National Insurance Scheme is designed with the aim to ensure a good balance between incentives for work and freedom of choice.

The Government's proposal for a flexible old age pension from the National Insurance Scheme means that:

- It will be possible to draw a pension from the age of 62.
- The flexible old age pension is designed in such a way that the annual pension reflects the expected number of years as a pensioner.
- It will be possible to draw a full or partial old age pension as long as the pension from age 67 exceeds the level of the minimum pension.
- It will be possible to combine the drawing of an old age pension with work, without the pension being reduced.

The introduction of a flexible pensionable age in the National Insurance Scheme from the age of 62 means that the payments from the National Insurance Scheme may be stretched out over more years than what is the case with the current pensionable age of 67. In order to avoid the age of 62 being established as a general norm for retirement, and in order to ensure that older employees are motivated for work – and, by so doing, securing the future pensions for everybody – a person who defers retirement should be compensated in the form of higher annual benefits. When faced with great challenges as a result of an ageing population and a strong need for an increased retirement age, it is important that the pension scheme gives a signal that continued work effort is valuable for society.

The Government's proposal for a model for drawing old age pension in the National Insurance Scheme is designed with the aim that earned pension entitlements shall give approximately the same overall old age pension over the period as a pensioner, irrespective of when the individuals decide to start drawing their pensions. The drawing model shall thus be neutral as regards time of retirement. In addition, persons who remain in the labour force for a longer period will increase their pension earning. With such a direction, it also becomes possible to create possibilities to combine pension and work without the pension being reduced.

A neutral design of the drawing model means that the annual pension is increased by approximately 5 per cent for each year the retirement is deferred, because there will be one less year to divide the earned pension entitlement by. In addition, one additional year in the labour force will give extra pension earning, which increases the annual pension by approximately 2.5 per cent. The proposed drawing model increases the total amount of the annual pension by approximately 7.5 per cent for each additional year in the labour force without drawing a pension. For instance, a person with an average income of 5 B.a. (NOK 311 000) for 40 years will when retiring at the age of 62 get an annual pension amount from the National Insurance Scheme of NOK 131 000. If he or she defers retirement by one year, the pension will increase to NOK 141 000 annually. By deferring retirement to the age of 67, the pension increases to NOK 189 000. The pre-tax replacement rate will in this case increase from 42 per cent at the age of 62 to 45 per cent at the age of 63, and 61 per cent at the age of 67. Any possible pensions from supplementary pension schemes, e.g. an adapted AFP, will come in addition to this.

If new cohorts of pensioners are expected to live longer, the life expectancy based pension adjustment will mean that one will have to work a little longer in order to have the same replacement rate as previous cohorts. The model for flexible drawing of old age pensions provides the individuals a possibility to choose whether they want to compensate for the life

expectancy based pension adjustment by remaining in the work force for a longer period of time, or retire with a lower annual pension. The Government's proposal for a model for drawing old age pension thus supports the Storting's decision concerning life expectancy based pension adjustment.

The Government's proposal for a new model for drawing old age pension contributes to the reduction of the sharp division between working life and life as a pensioner. Many older employees want to reduce their occupational activity without completely cutting off their connection to working life. The introduction of the possibility to combine work and pension without the pension being reduced, facilitates a gradual transition from occupational activity to life as a pensioner. The Government will also aim to strengthen the right to be occupationally active after attaining the age of 62 through amendments to the Work Environment Act, in co-operation with the social partners.

The Government's proposal concerning increased possibilities for both early retirement and for combining pension and work, is a considerable welfare reform for the individuals. At the same time, designing the rules for the drawing of pensions in such a way that work is rewarded, the arrangement will contribute to an improved sustainability of the pension system.

The Government proposes that the flexible drawing of the old age pension of the National Insurance Scheme will be implemented as from 2010. The Government's proposal for a new model for earning an old age pension in the National Insurance Scheme will be phased in gradually, and early drawing of old age pensions in the first years after 2010 will thus be based on pensions earned under the rules of the current scheme.

In its work on redesigning the old age pension of the National Insurance Scheme, the Government is emphasising that persons with impaired health and unemployed persons shall continue to have access to other good social insurance schemes. The flexible old age pension of the National Insurance Scheme is designed to allow those able to work a choice between work and pension after attaining the age of 62.

The income redistribution profile in the proposal for a new earning model is also reflected in the pension levels in the flexible drawing arrangement. For persons with equal earning periods at the time of retirement, the replacement rate will be higher for persons with low or medium incomes than for persons with higher incomes.

In a flexible pension system the individual is free to choose when to retire. Early drawing results in a lower annual pension, but corresponds to a longer period as a pensioner. Late drawing results in a higher annual pension, which corresponds to a shorter period as a pensioner. In a flexible pension system, the differences in the annual pensions may thus increase, as a consequence of the individuals' own choice concerning time of retirement.

However, everybody will not have the same opportunities to remain in work after having attained the age of 62. The Government's policy will aim to equalise social inequalities as regards health so that more people can choose to remain in the work force, also after attaining the age of 62. In the spring of 2007, the Government will forward a white paper with a strategy to counteract social inequalities as regards health. The strategy will also discuss health effects of the physical and psychosocial working environment, health effects of not

being included in the labour market and measures to equalise social inequalities in the working environment.

An important goal for the pension reform is to get those who are willing and able to remain in the work force for a longer period of time, so as to secure the financial basis of the welfare state. The reform means that late retirement will be better rewarded from the pension system than today. Persons who remain in the work force for a long time are being rewarded with a better pension and at the same time they contribute to society through their tax payments.

The effects of the new rules on drawing an old age pension from the National Insurance Scheme depend on the modifications made in the supplementary pension arrangements, cf. Chapter 1.6.

The question of early drawing of a pension from the National Insurance Scheme for persons with special needs for an early retirement and for persons with low income will need to be considered more closely in light of the co-operation with the social partners regarding the design and extent of an adapted AFP-arrangement and the adaptations of the occupational pension schemes. Nevertheless, facilitating the drawing of pensions from the National Insurance Scheme in such a way that one permanently receives an overall pension at a level lower than the minimum pension, is not an option.

1.4.4 Pension earning for unpaid care

As part of the pension settlement, the Storting decided to improve the minimum security of pension earning for unpaid care in the National Insurance Scheme. Today, pension earning is granted in the case of unpaid care for children under the age of 7 and in the case of care for elderly, sick and disabled. The arrangement was introduced in 1992. The purpose is to compensate for the absence of pension earning while performing unpaid care. Three pension points are granted per year. This is equal to what one would have gotten with an annual income of 4 B.a. (NOK 249 000).

The Government proposes, in line with the Storting's decision, that everybody shall get a minimum pension earning in case of unpaid care equal to an annual income of 4.5 B.a. (NOK 280 000), i.e. ½ B.a. higher than today.

In the Government's opinion, the arrangement of pension credits for unpaid care should also be considered in light of the aim that day-care should be available for all, something which will contribute towards more parents being able to combine work with the responsibility for small children. Based on this, the Government proposes granting pension points for care for children up to the age of 4.

Furthermore, reference is made to what is said about retroactive pension earning for unpaid care in the current National Insurance Scheme in Chapter 1.6.1.

1.4.5 Pension earning for unemployed, students and conscripts

The Government proposes to improve the provisions for pension earning for unemployed persons, including persons who are involuntarily working part-time, while receiving unemployment benefits, so that unemployed will be credited with pension earning based on previous income from work. In the current scheme, pension earning is based on the

unemployment benefits. The proposal concerning flexible pension from attaining the age of 62 – with increasing annual pension if one defers retirement – underscores the need to amend the legislation, so that one is not punished with a lower pension for being unemployed. A more concrete proposal will be drawn up later in the reform process.

According to the pension settlement in the Storting, the Government has been asked to consider crediting students with pension earning, in light of the choice of a new model for old age pension in the National Insurance Scheme. Persons with a higher education will often have a higher overall lifetime income than persons without higher education, something which will be reflected in higher pensions. Pension earning for students will thus, when seen in isolation, contribute to weaken the income redistribution profile of the pension reform. In light of this, the Government has reached the conclusion not to credit students with pension earning.

In line with the Storting's pension settlement, the Government proposes to establish an arrangement with pension earning for conscripts. Military service is a mandatory service rendered to society. Serving as a conscript means that one has to refrain from an ordinary income from work, and thus from pension earning. At the same time, a relatively large number of people are excused from service. In the Government's opinion, there are thus good reasons for the introduction of a pension crediting arrangement for persons serving as conscripts. 2.5 B.a. (NOK 155 000) is suggested as the basis for pension earning for completed military service. It is suggested that such credit should be given in addition to any pension earning based on income from work. The aim is to introduce this arrangement with effect for new conscripts from 2010.

1.4.6 The introduction of the life expectancy based pension adjustment and indexation of paid-out pensions

The Storting has decided to introduce a life expectancy based pension adjustment in the old age pension of the National Insurance Scheme. This means that the earned pension entitlement will have to be distributed over a larger number of remaining years in the decades ahead, along with the expected increase in the general life expectancy. The life expectancy based pension adjustment is the most important measure in order to make the National Insurance Scheme sustainable in the long run, if the longevity continues to rise. When the annual pension amounts for the new old age pensioners are adjusted through the introduction of a so-called life expectancy based pension adjustment ratio, the National Insurance Scheme's expenditure on old age pension will remain more or less unaffected by the increased longevity. The individuals will be able to counteract the effect on their annual pension amount by deferring the reduction of their work effort and the drawing of their pensions.

In the pension settlement, no explicit decision was made on when to implement the life expectancy based pension adjustment. The Government proposes that the system of life expectancy based pension adjustment is implemented from 2010, with effect for new old age pensioners. The concrete implementation of this principle will be considered during the work on the legislative changes following the presentation of this white paper. In addition, it will be necessary to evaluate this practise over time.

It follows from the pension settlement that earned pension entitlements shall continue to be adjusted in line with the increase in wages up to the time of retirement, while paid-out

pensions shall be adjusted in line with the average of the growth in prices and wages. No decisions were made in the pension settlement as regards when the amended rules for indexation of paid-out pensions shall be implemented. The Government proposes that the amended rules are implemented for all new old age pensioners with effect from 2010.

1.5 The effects of the Government's proposal

With the pension settlement in the Storting, the Government's proposals in this paper and its ensuing handling by the Storting, the second phase of the pension reform will be completed. Thus, a good foundation has been laid for the adaptations in the supplementary pension arrangements in the third phase of the reform. The desired effects of the pension reform are dependent on these adaptations supporting the intentions of the reform. Reference is also made to the more thorough consideration of e.g. the income redistribution effects of the proposal for a new earning and drawing model in Chapter 1.4 above.

The proposal for a new old age pension in the National Insurance Scheme builds upon the main principles of the current National Insurance Scheme, but will result in a considerable adjustment in order to adapt to the new framework and the prospects for the future. The main aims for the old age pension of the National Insurance Scheme remain unaltered, i.e. security for accustomed standard of living and basic security for persons with little or no affiliation with the labour market. The old age pension of the National Insurance Scheme shall continue to have a good income redistribution profile, giving persons with low or medium incomes a higher replacement rate than persons with higher income. However, the introduction of a possibility of drawing a pension from the age of 62 implies a considerable welfare reform.

Even though the Government, in accordance with the decision of the Storting, is to consider certain aspects of the financing of the National Insurance Scheme, the occupationally active will remain the main contributors to the financing of the old age pensions for the oldest share of the population. This means that the pension scheme – as it is today – will be based on an intergenerational solidarity contract.

The Government emphasises that the state shall continue to have a considerable responsibility for the overall pension system in Norway. This means that we shall have a good old age pension in the National Insurance Scheme. In addition, good conditions shall be given for supplementary pension systems and the continuation of an adapted AFP-arrangement.

The Storting has decided on the introduction of the life expectancy based pension adjustment and on the changed indexation of paid-out pensions. As a main rule, the changed indexation of paid-out pensions will have the same effect, in per cent, for all old age pensioners, and will thus not have any income redistribution effect. Nor will the life expectancy based pension adjustment have any such income redistribution effect, because everybody born the same year are facing the same life expectancy based pension adjustment ratio.

It is estimated that the life expectancy based pension adjustment will mean that an individual will have to work an additional 8 months in order to maintain the same replacement rate when the life expectancy of the population is increased by one year. This will result in a career 2 ½ to 3 years longer in 2050, with the expected increase in the life expectancy.

A changed indexation of paid-out pensions is, when seen in isolation, estimated to reduce the average replacement rate by 7-8 per cent after 10 years as a pensioner, compared to the

situation if the pensions were indexed in line with the growth in wages. Even so, pensioners will take part in the welfare development through a corresponding relative growth in the real value of their pensions, since the indexation normally will mean that pensions are increased more than the price growth.

The average annual real growth in the pensions for pensioners with a supplementary pension has been approximately 60 per cent of the growth in real wages in the period from 1967 to today. This means that the adopted indexation principle of using the average of the growth in prices and wages is rather similar to the actual indexation during this period.

The Government's proposal for an earning model will on average give higher pensions than the current National Insurance Scheme, in particular when taking into consideration that the reform motivates the individual to work more and for a longer period of time, something which will result in higher pensions. This picture is somewhat modified when also taking into account the decisions regarding the life expectancy based pension adjustment and the changed indexation. When seen in isolation, persons with an average income and an expected average earning profile will get a compensation rate of 58 per cent, compared to 54 per cent today. The proposal also has a good income redistribution profile. In the future, persons with the expected number of earning years and with low and medium incomes will be better off with the Government's proposal than with the current National Insurance Scheme. Persons with low and medium incomes will still have a higher replacement rate than those with higher incomes.

The proposal for flexible drawing of the old age pension from the National Insurance Scheme and the possibility to combine work and pension constitutes a considerable welfare reform. It gives the individual a great degree of freedom of choice and the opportunity of a gradual transition to life as a pensioner. The income redistribution profile of the pension earning model is not affected by the time of retirement, which means that the good income redistribution profile is also maintained during the drawing of an old age pension. This means that for persons with identical earning periods at the time of retirement, the replacement rate will be higher for persons with low and medium incomes than for persons with higher incomes.

Statistics Norway has estimated that the Government's proposal for a new earning model may increase the number of employed in the year 2050 with approximately 4 per cent. The provisions regarding drawing of old age pensions combined with the life expectancy based pension adjustment is estimated to increase the labour supply in the year 2050 by an additional 4 per cent, so that the proposals in toto are estimated to increase the labour supply with 8 per cent in the year 2050.

The Government's proposal means that the expenditure on old age pensions is reduced from the NOK 224 billion it would cost to retain the current scheme, to NOK 196 billion (as measured in 2006-values). The proposal means that the expenditure on old age pensions as a percentage of mainland GDP is reduced from 15 to 12 per cent in 2050, or by approximately 20 per cent when compared to retaining the current National Insurance Scheme. Only a small part of this is due to lower pension amounts. The rest of the reduction is more or less evenly distributed on fewer old age pensioners, since the Government's proposal stimulates older employees to remain occupationally active for a longer period of time, and gives incentives for increased value creation. The economic effects of the Government's proposal equal what the Pension Commission used as a basis for its proposal.

As a result of the pension reform, there is a need to establish new ICT-systems and routines for handling the pension field in the Norwegian Labour and Welfare Organisation. The solutions that are to be established in relation to competency, working processes, organisation and ICT-systems shall be reliable, and the service level shall be maintained at a high level. All members of the National Insurance Scheme shall both be and feel safe as regards the registration of pension entitlements and the correct payment of pensions, i.e. that the right amount is paid at the right time. This is crucial for the population's confidence in the National Insurance Scheme.

In order to provide security and reduce the risk in the implementation of the ICT project, a principal implementation strategy in 3 phases has been chosen:

- Phase 1 is a pre-project phase.
- Phase 2 is the implementation of the current pension provisions in the new system.
- Phase 3 is the implementation of the new pension provisions in the new system.

Phase 1 (the pre-project) was started in 2005 and shall according to plan end in the autumn of 2006. Phase 2 regards the implementation of the current pension provisions in the new ICT solutions. Planned initiation of phase 2 is the beginning of 2007, with the aim to be finished by 2009. The preparations for phase 3 were initiated in the autumn of 2006, and will continue up until the time of entry into force of the pension reform.

1.6 Further work on the pension reform

1.6.1 Further concretising of the Government's proposal

The phasing in and detailed design of the new model for earning old age pensions

The Government has not made any decision on the transitional provisions for a new earning model for old age pension in the National Insurance Scheme. A decision on this matter is important in order to determine who will be affected by the new earning model.

The transitional provisions are to ensure that the individuals' pension amounts become predictable, and that one is given a reasonable period of time to adapt to the new rules. Furthermore, the transitional provisions shall take into consideration the society's interests in making the implementation as simple as possible and not too prolonged.

There are two alternatives for the detailed design of the earning model for the old age pension of the National Insurance Scheme within the framework suggested in Chapter 1.4.2. One possibility is to calculate the pension by using a pension percentage so that each year with income from work up to the limit of 7 B.a. is defining a share of the future annual old age pension. By this way of defining the pension, there will be a direct correlation between the annual income and the future annual pension amount.

Alternatively, the old age pension may be designed as a "savings-like" system, where each year builds future pension entitlements corresponding to a certain share of the pensionable

income up to the limit of 7 B.a. The annual old age pension is then found by dividing the earned pension capital by the number of years as a pensioner.

The Government will come back to the questions of the phasing in and the more detailed design of the earning model in a white paper on the new old age pension of the National Insurance Scheme. This white paper is planned to be forwarded in 2007.

Information regarding accrued pension entitlements

In the pension settlement in the Storting, it is said that a register of free policies is to be established as soon as possible, and the Government shall consider how pension entitlements from the different schemes may be assembled.

In order to reach the goals for the pension reform it is important to strengthen the information available to the individuals regarding their overall pension entitlement. Different private actors have established information portals aiming to give an overview of overall pension entitlement. Work is also in progress in the Norwegian Labour and Welfare Organisation in order to establish technical solutions with the same purpose. The Government wants to contribute to a common information portal, but will at this juncture not make a decision on whether this should be run by a public agency, build on one of the already established solutions or be organised in another way.

The follow-up of the Storting's decision on a free policy register is discussed in Chapter 1.6.5.

Retroactive pension earning for unpaid care in the current National Insurance Scheme

In the Storting's pension settlement, the Government is asked to continue to work on concrete proposals concerning retroactive effect of the pension earning for unpaid care in the current National Insurance Scheme as well.

The question of giving the arrangement for pension earning for unpaid care retroactive effect for years prior to 1992 must be seen in connection with the Storting's decision to introduce an all-years-rule in the new old age pension of the National Insurance Scheme.

The further back in time one goes when giving pension credit for unpaid care, the more women will benefit from an increased pension. This must be weighed against the fact that it will be more expensive and more difficult for the administration, the further back in time one goes.

The Government will come back to the question of retroactive pension earning for unpaid care in connection with the white paper on the new old age pension of the National Insurance Scheme, which according to the plan will be forwarded in 2007.

1.6.2 Disability pensions and survivors' pensions

5 August 2005 PM Bondevik's second Government appointed a public commission headed by Mr. Oluf Arntsen, which was mandated with committing a study on a new disability pension scheme. The Commission's deadline is set to 15 March 2007.

The Commission shall i.a. consider the rules for granting disability pensions, propose rules for pension calculation, and consider how disability pensioners shall earn old age pension, including the question of when disability pensioners shall be transferred to the old age pension scheme. Once the suggestions from the Commission have been presented, the Government will come back to the Storting with an evaluation and proposals on how the disability pension scheme should be adapted to the pension reform.

According to the pension settlement, the survivors' pensions of the National Insurance Scheme shall be considered in conjunction with the question of whether or not the old age pension of the future will be coordinated between spouses/cohabitants/partners. The Government is asked to examine this question further once the Storting has made a decision on the new pension earning model for the old age pension of the National Insurance Scheme. The Government will come back to the Storting with an evaluation and proposals as regards the survivors' pension scheme.

1.6.3 The autonomy of the National Insurance Scheme

In line with the pension settlement, the Petroleum Fund and the National Insurance Fund were merged, and became the State Pension Fund as of 1 January 2006. The Storting requests the Government to continue evaluating whether the pension system should get a more independent role in relation to the other central governmental finances, and, if so, how this can be done. The Government shall also consider how to strengthen the new pension fund's role as a buffer fund against the generational imbalances of the National Insurance Scheme. Furthermore, the Government shall consider a separate pension premium in the tax system, that makes it visible that this is saving for own old age.

The role of the State Pension Fund as a buffer fund against the generational imbalances of the National Insurance Scheme was followed up in the white paper Ot.prp. No. 2 (2005–2006). The Government will come back to the Storting with an evaluation and proposals concerning the other questions.

1.6.4 Adaption of the AFP

In connection with the collective agreement negotiations in 2006, PM Jens Stoltenberg informed the Norwegian Confederation of Trade Unions (LO) in a letter of 31 March 2006 i.a. about the following:

“The provisions regarding the current AFP arrangement are adapted to the current pension system, where the pensionable age of the National Insurance Scheme is 67. When a flexible model with an opportunity to draw pensions from the National Insurance Scheme from the age of 62 is introduced, the AFP arrangement must be adjusted accordingly. The Government emphasises that this adaptation must be done in co-operation and understanding with the social partners, and with respect for the established rights inherent in the arrangement. At the same time, an adapted AFP model must support the goals for a new pension scheme, i.a. so that the total annual pension from the National Insurance Scheme and other arrangements is increased when one continues to work after having attained the age of 62.

(...) Amendments to the special tax advantage arrangements must be seen in connection with other changes to the early retirement system. I trust that the social partners will contribute towards a broad process for adapting the AFP in line with the principles that form the basis

for the pension settlement, as set out above. The Government will then on its part be prepared to forward a white paper to the Storting on the continuation of the special tax advantage arrangements until 1 January 2010, and to retain the current provisions on pension point earning for the same period.

The Government considers it as a necessary condition that the process of deciding on an adaptation of the AFP arrangement will be finalised so early that the employees will have a reasonable period in which to prepare for an adapted arrangement, and so that there is time to implement the legislative and systemic adaptations before the new old age pension of the National Insurance is introduced in 2010.”

The proposal to retain the special tax advantage arrangements until 1 January 2010 has been forwarded in connection with the State Budget for 2007 (in the white paper Ot.prp. No. 1 (2006 – 2007)).

An adapted AFP arrangement shall, in a similar way as the Government’s proposal for a new old age pension in the National Insurance Scheme, have a long-term perspective, be plausible and predictable. The Central Government’s contribution to the AFP arrangement is to be legislatively anchored. In addition, the accumulation of the State Pension Fund and a broad political settlement on pensions will safeguard the National Insurance Scheme and the AFP arrangement. In the future work on adapting the AFP arrangement, an organisational coordination of the different arrangements should be considered.

In its future work, the Government will strive for an improved right to remain in work after attaining the age of 62, in the Working Environment Act, in co-operation with the social partners.

On this background, the Government will invite the social partners to participate in a broad process on the design of an adapted AFP arrangement. In this work, the Government will emphasise:

- The AFP arrangement shall also in the future contribute to a good early retirement system from the age of 62. An adapted arrangement shall support the goals of the new pension system, as set out in the decision of the Storting in the spring of 2005.
- The State will continue its total financial contribution to the AFP arrangement. This also includes the value of the tax advantages and pension point earning in the National Insurance Scheme. The financial contribution will be calculated on the basis of the percentage of employees availing themselves of the arrangement today, but adjusted for the number of employees that will be covered by the scheme. The State will contribute with the same share of the total financing as today.
- The AFP shall still guarantee that those who wish to do so can retire with dignity at the age of 62. This is secured by maintaining the AFP in the form of an annual addition to the old age pension of the National Insurance Scheme. Old age pension from the National Insurance Scheme and AFP may be combined with income from work, without the pension being reduced. Pension earning in the National Insurance Scheme will be credited for any income from work, but not for pensions.

- The transition to an adapted AFP arrangement will be considered in light of the Government's proposal for the phasing in of the new old age pension of the National Insurance Scheme. A proposal for a new AFP shall be presented well in advance of the collective agreement negotiations in 2008.

1.6.5 Occupational pension schemes

Private occupational pension schemes

In the private sector, special tax incentives are given to enterprises which establish occupational pension schemes meeting the requirements in the Act on Defined Benefit Pension Scheme or the Act on Defined Contribution Pension Scheme. As a part of the pension reform, an obligation was introduced for enterprises to establish an occupational pension scheme securing their employees an old age pension in accordance with the requirements of the Act on mandatory occupational pensions. The enterprises have until 31 December 2006 to establish such a mandatory occupational pension scheme, but irrespective of when it was established, it must be in effect for the employees from 1 July 2006.

According to the decision of the Storting of 26 May 2005, the legislation concerning private occupational pension schemes shall be adapted to the new old age pension of the National Insurance Scheme once this has been decided upon. In conjunction with the new model for old age pension from the National Insurance Scheme, the question arises to what degree this should lead to consequential amendments in the Act on Defined Benefit Pension Scheme and the Act on Defined Contribution Pension Scheme. The consequences of lifelong earning, life expectancy based pension adjustment and the new rules on indexation of paid-out pensions are among the issues that will be considered in this context.

The Government aims to carry out an overall assessment of the need for amendments to the acts on private occupational pension schemes, including the question of how an eventual flexible pensionable age shall be designed in these schemes after the act amending the National Insurance Act has been passed.

In the declaration given by the three coalition parties prior to taking office (the so-called "Soria Moria-declaration") it is i.a. stated:

"The legislation must facilitate the establishment of private occupational pension schemes with the lowest possible administration costs. The Government will facilitate the establishment of non-commercial private occupational pension schemes, providing the best possible product to employees and enterprises."

The Government shall facilitate the establishment of a broader system for private occupational pension schemes by rapidly following up the Banking Law Commission's proposal for a pension agency which can administer the pension schemes for several independent enterprises. This may contribute to increased competition and reduced administrative costs. The Government will also consider broader schemes to be administered in co-operation with the social partners.

In the Storting's decision it is said that the opportunity will be given for gender and age neutral premiums in the private occupational pension schemes. This is carried out by an act of 30 June 2006 No. 40, cf. the legislative decision based on the white paper Ot.prp. No. 52

(2005-2006) on the Act on amendments to the Insurance Activity Act (equalisation of joint arrangements for premium calculation) and the paper Innst. O. No. 72 (2005-2006).

Civil service pension schemes

The Storting's pension settlement of 26 May 2005 means that the civil service pension schemes, giving a pension equal to two thirds of the salary at the time of retirement ("gross arrangements"), are continued. After the decision is made on the new model for the old age pension of the National Insurance Scheme, the civil service pension schemes shall, according to the settlement, be adapted to the new National Insurance Scheme model, without decreasing the level of the civil service pensions, but so that they are also covered by the provisions on life expectancy based adjustment and the new indexation of paid-out pensions. It is furthermore stated that the final adjustment will be made through negotiations with the social partners of the public sector. The pension schemes for cabinet ministers, members of the Storting etc. will have to be adapted to the new National Insurance Scheme model.

The Storting did not make a decision on whether the obligations of the Norwegian Public Service Pension Fund should be funded. Before the Storting makes a decision on funding of the Norwegian Public Service Pension Fund, a thorough evaluation must, according to the settlement, be made, e.g. of how the Norwegian Public Service Pension Fund is developing as an enterprise, the competition regarding the occupational pension schemes for former public enterprises, the mobility in the labour market and of the possibilities of cost-control in the public sector.

One of the aims will be that the design of the civil service pensions shall support the principal goals for the pension reform.

The Government will follow up on the decision by the Storting on civil service pensions once the Storting has debated the proposal for a new model for earning and drawing old age pension in the National Insurance Scheme.

Special retirement ages

According to the Storting's decision on pension reform, the special retirement ages in the public and private sectors shall be reconsidered. The system of special retirement ages is based on the assumption that certain groups of employees are collectively unable to continue to work after attaining a certain age. The current system does not take into consideration individual variations regarding physical and mental health. Nor does it take into consideration that the job demands may have changed over time, without the special retirement ages being adjusted. Some of the persons who resign from their positions after having reached the special retirement age, continue to be occupationally active to approximately the same extent as before in other positions. This indicates that the employees who are covered by the special retirement ages, still have a working ability that can be used for other work.

A project has been initiated to map the reasons for the introduction of the special retirement ages for different groups of employees in both the private and the public sector. The project will e.g. endeavour to consider what changes have taken place since the introduction of the current special retirement ages as regards demands on the employees, health development and average life expectancy for different groups of employees.

The result of this project will form the basis for the further work on the special retirement ages. The extent of the special retirement ages is greatest in the public sector. In connection with the work that is carried out on the special retirement ages, one will also look into how the occupational pension calculation can be separated from the retirement age and how the provisions regarding the calculation of occupational pensions before attaining the age of 67 can be adjusted. These questions will be considered in connection with the adaptation of the civil service pension schemes.

The Government will come back to the Storting with an evaluation and proposals concerning the special retirement ages.