



# **The Norwegian pension reform: Facilitating participation and promoting savings for women**



# The cross-national variation in the size of a gender gap in pensions can be attributed to three main sources

1. Variation in the historical labour market behaviour of women and the male/female wage gap
2. Variation in marriage and divorce patterns and the scope of gender differences in longevity
3. Variation in pension design that allows differences in lifetime earnings between men and women and demographic differences to be reflected in the distribution of pension benefits



# The Norwegian pension reform

- The reformed Norwegian system is based on the NDC-formula with fixed contribution rates over the active life-phase and with accumulated pension wealth being transformed into an annuity upon retirement
- A key rationale for abandoning traditional defined benefit systems is to achieve a closer and more transparent link between lifetime earnings and lifetime contributions on the one hand and (expected) pension benefits on the other
- A tight link between lifetime earnings and (expected) pension benefits is likely to produce a significant gender gap in pensions



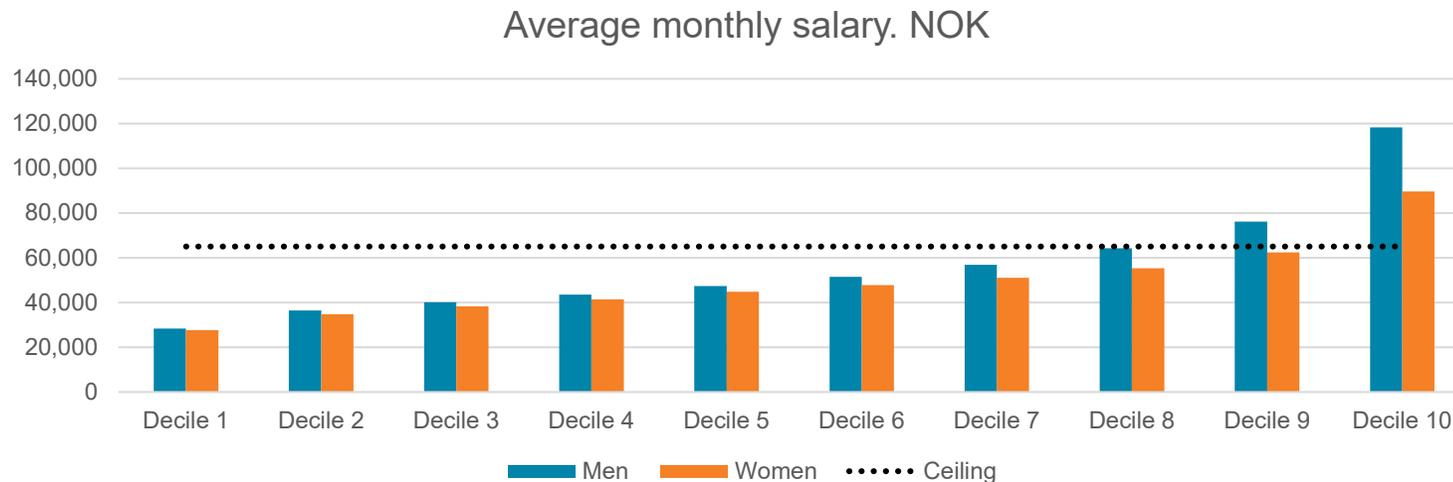
Several redistributive components are built into the system that makes it deviate from complete actuarial fairness

- a ceiling on annual earnings
- a targeted guarantee pension with higher benefit rates to single pensioners compared to married/cohabitating pensioners
- generous child credits
- a unisex annuity divisor
- a possibility for widows/widowers to inherit pension rights from a deceased spouse (not in the new earnings model)
- the tax system that is particularly progressive in its treatment of pensioners and pension income



# A ceiling on annual earnings

The accrual of pension rights in the new system takes place continuously over the life-course with a fixed rate of 18.1 percent of annual earnings up to a ceiling at approximately 1.3 times the average fulltime wage

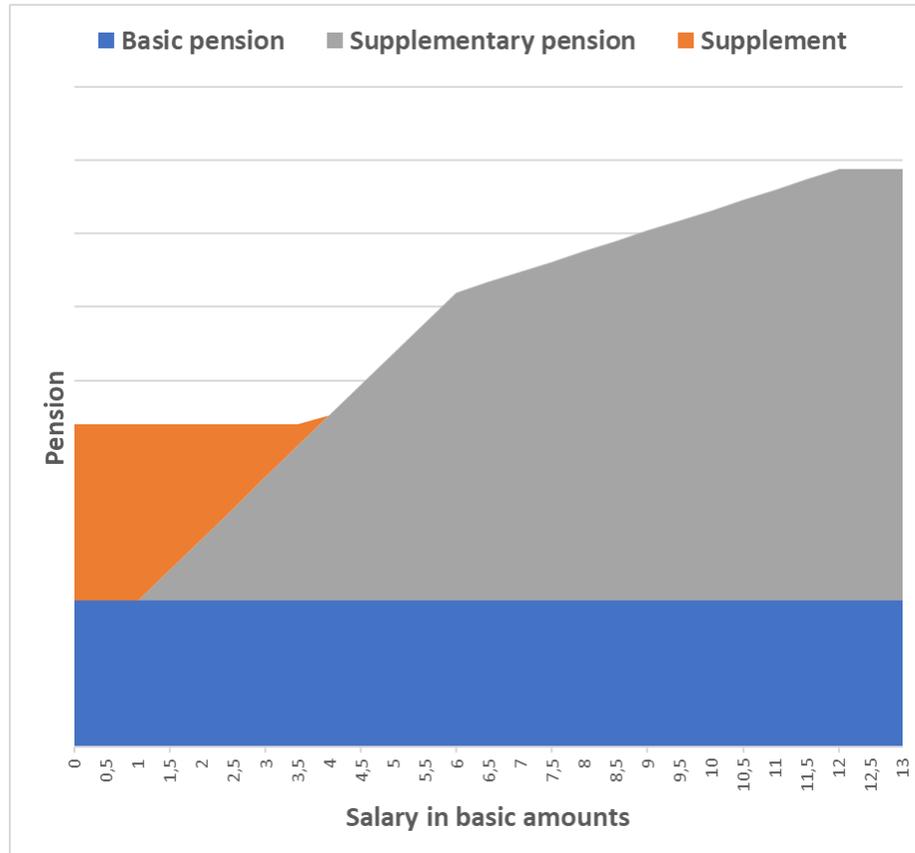


# A targeted guarantee pensions with higher benefit rates to single pensioners

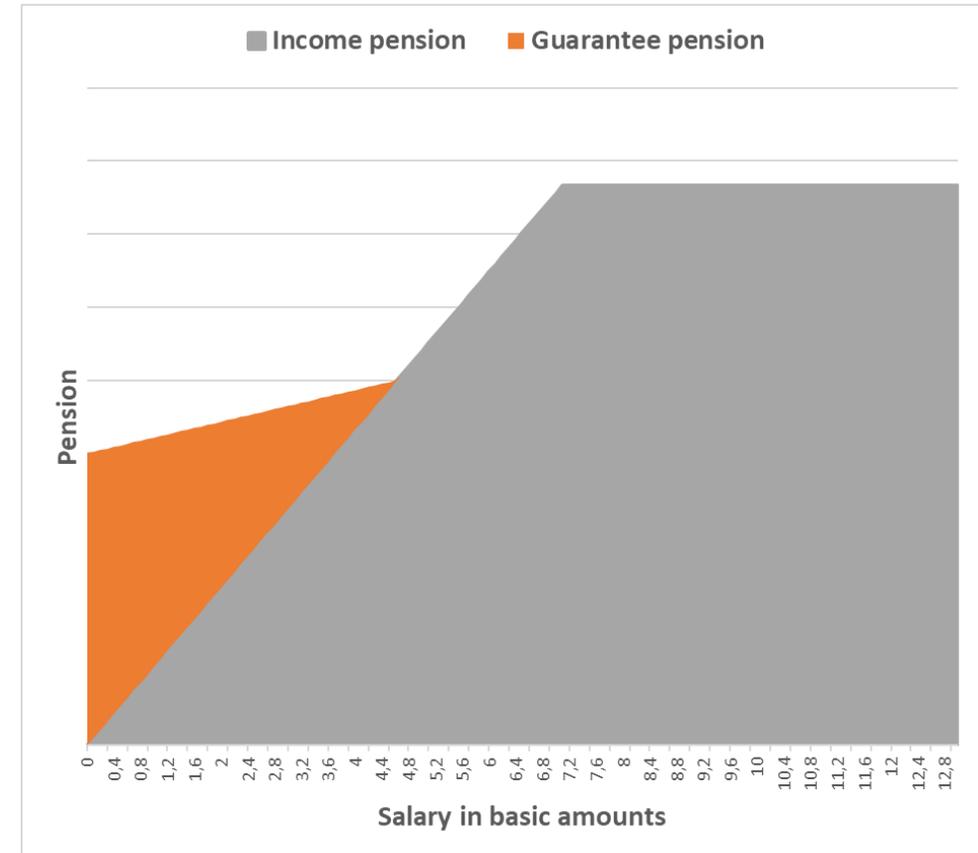
- The guarantee pension is comparatively high – with a gross level for a single pensioner at about 36 percent of an average fulltime wage – and the benefit is tested against accrued pension rights with an 80 percent reduction
- The minimum benefit is somewhat higher for single pensioners in order to compensate for higher living expenses per person compared to pensioner couples



# The minimum levels work differently in the new and old earnings model

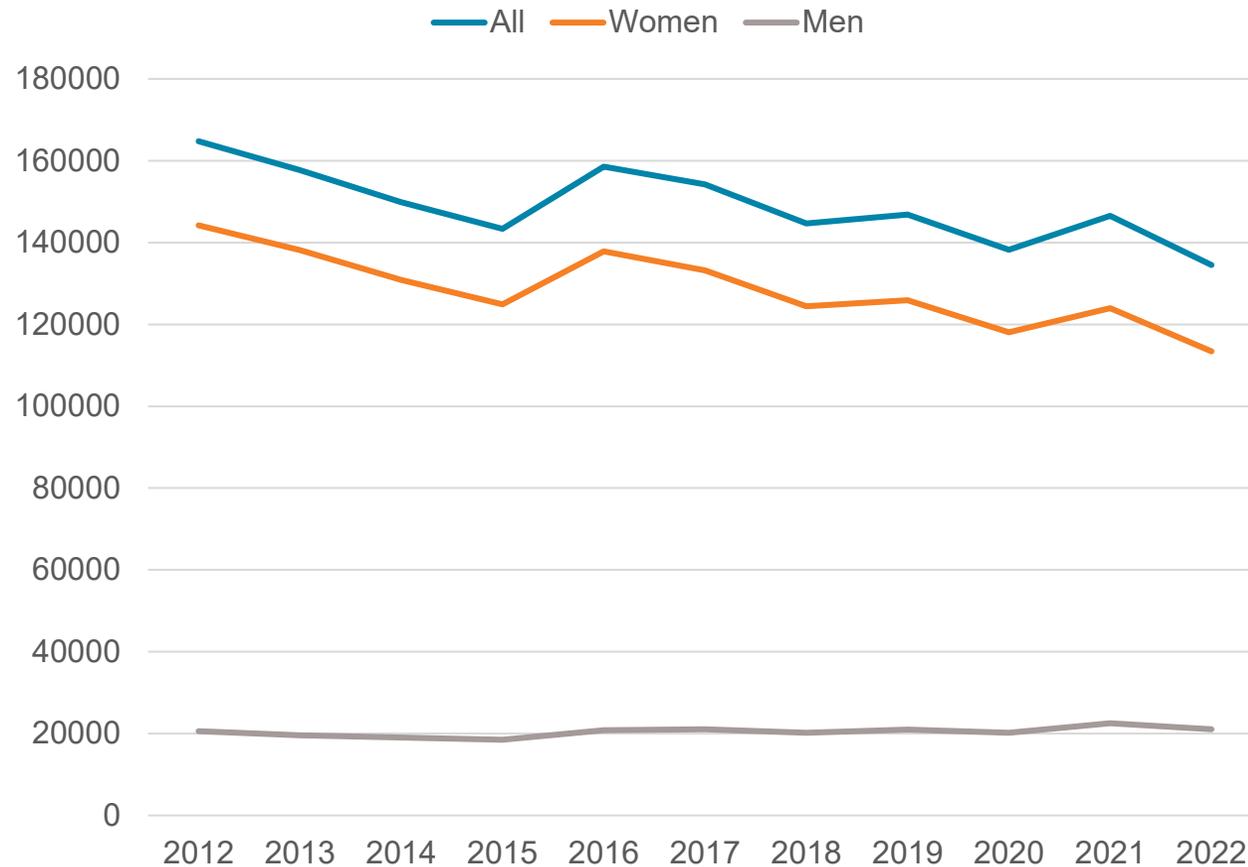


Old earnings model



New earnings model

# Number of minimum pensioners



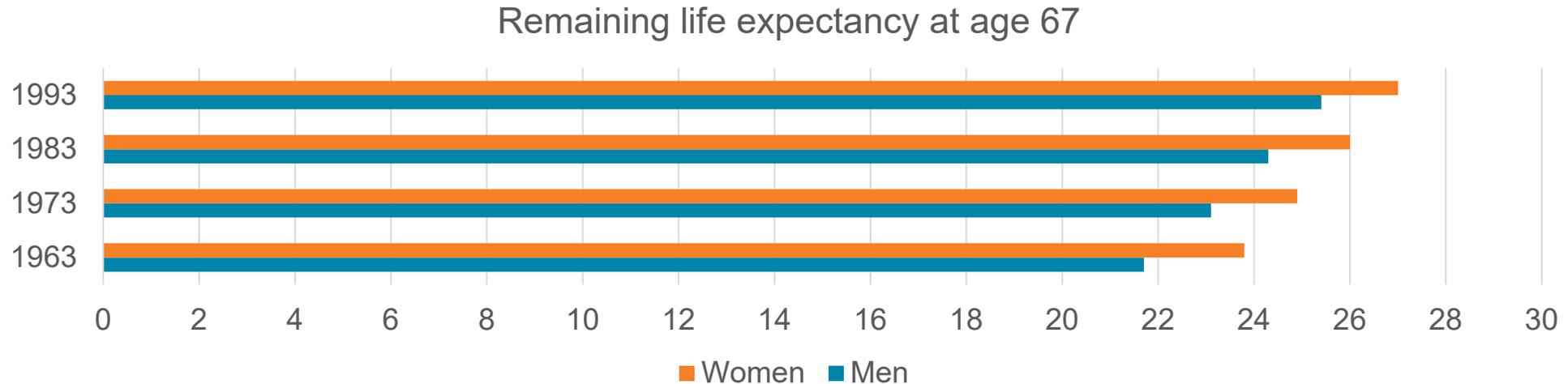
# Generous child credits

- Child credits to parents of children under the age of 6
- The credits take the form of a guaranteed minimum yearly pension accrual for one of the parents (almost always the mother) corresponding to the accrual based on earnings at 80 percent of an average fulltime wage.



# A unisex annuity divisor

In the new system each cohort will have to pay for its own (estimated) life-expectancy, but the annuity divisor is gender neutral despite the significant difference in life-expectancy between men and women.



## A possibility for widows/widowers to inherit pension rights from a deceased spouse (not in new earnings model)

- In the old system spouses could inherit part of the pension rights of a deceased spouse
- A similar rule does not apply in the new accrual model and inherit pension rights will also be phased out in the old accrual model



Closing the gender gap in pensions. A microsimulation analysis of the Norwegian NDC pension system.  
Discussion Papers No. 855 (2017) Statistics Norway

By *Elin Halvorsen and Axel West Pedersen*

Individual pension benefits. Average over the retirement phase

	Gender gap
0. Baseline	43 %
1. Gender neutral annuity divisor	31 %
2. Social security ceiling	23 %
3. Child credits	16 %
4. Inherited benefits	14 %
5. Guarantee pension undifferentiated	11 %
6. Guarantee w/higher benefits for singles	10 %
7. Income taxes	7 %

