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1 Executive Summary

Norway is currently implementing a major pension reform. The detailed legislation for the new national old-age pension was passed with support from a broad majority in Parliament in June 2009, and formally the new law has gone into force from 1 January 2010. The accumulation of pension rights in the new system will be proportional to life-time earnings subject to a social insurance ceiling defined in terms of yearly earnings. Minimum protection will in the new system be provided through a Guarantee Pension that is fixed at the same level as the minimum old-age benefit in the present system. The level of the Guarantee Pension will in the future be indexed in line with the development in average wages. There will from the January 2011 be a flexible retirement from age 62 on actuarially neutral terms. Retirement benefits will from the same time be subject to longevity adjustments, implying that any future increase on longevity will automatically be translated into a proportional reduction in benefit levels. The new system will be fully integrated in the general state budget without a clearly defined and earmarked contribution system. Except for the longevity adjustment, the reform, does not establish mechanisms to secure a hard budget line for the relative financial burden of the old-age pension system.

The reform process suffered an important setback in May 2009 when the public sector unions managed to maintain a scheme with subsidies for early retirement and to shield older cohorts of public employees from the effects of longevity adjustments installed in the National Insurance scheme. A main idea behind the pension reform has been to strengthen the link between lifetime earnings and retirement benefits. However, this aspect has been weakened the last years by ad hoc decisions to strengthen the level of minimum protection offered to all old age pensioners and a (still pending) decision to increase the progressivity of pensioner taxation. An important and highly controversial aspect of the reform – the adaptation of the system of disability pensions – has not yet been decided.

The Norwegian system for providing health care and long term elder care has been fairly stable over the last six years both in its basic governance structure and in the system of financing. In both areas public provision is dominant and services are provided based on the principle of universal access. Two major reforms of the health care system were carried out in the beginning of this decade; firstly the introduction of a system whereby all inhabitants have to register with a general practitioner who serves as the gate keeper to specialised services and hospital care, and secondly the transfer of the responsibility for hospital care from the counties to regionally organised health enterprises under direct ownership and control by the Ministry of Health. As for elderly care this is the responsibility of the municipalities, but the state has in recent years been very actively engaged in helping the municipalities financially and otherwise to improve both the volume and quality of elderly care. The Government has in the summer of 2009 launched an agenda for reform of both the health services proper and their interface with long term elder care. The main idea is to improve coordination between these services in the interest of patients and economic efficiency. The content and fate of this reform has not been finally decided.

Norway has been relatively mildly hit by the global economic downturn. A significant part of Norwegian industry is operating in markets that have so far been less severely hit by the recession, and the Norwegian government has been very active in stimulating the economy – both with monetary and fiscal measures. This means also that the crisis has had relatively little effect on the social protection system.

2 Current Status

2.1 Pensions

Norway is currently in the process of implementing a comprehensive pension reform. The detailed legislation for the new national old-age pension was passed by Parliament in June 2009, and formally the new law has gone into force from 1 January 2010. However, the reform process also suffered some serious setbacks in the last year and important aspects are still pending. Before discussing the content of the reform and its potential implications, I shall describe the main features of the old, pre-reform system and review developments in relevant outcome variables over the last decade.

2.1.1 The pre-reform pension system

The Norwegian pension system is historically rooted in the Scandinavian/Anglo-Saxon tradition for redistributive minimum protection in old-age. The first national pension system was introduced in 1936. It provided flat-rate benefits to residents from the age of 70. Although benefits were means-tested, only a minority of the eligible population were in practice excluded from receiving benefits (Pettersen 1982). In 1957 the Norwegian Parliament decided to abolish means-testing of old-age benefits, and a truly universal, flat-rate income transfer (a “people’s pension”) to all residents above the age of 70 was introduced from 1959 (Pettersen 1987, and Pedersen 1990).

The main features of the present old-age pension system date back to a major reform that was prepared in the mid 1960’s and taking effect from 1967. This National Insurance reform covered several aspects but the main substantive change was to add an earnings-related second tier on top of the universal flat-rate benefit and to integrate these two benefit components in a two-tier system. The earnings-related second tier originally promised to replace 45% of earnings between a lower threshold fixed at the level equivalent to the minimum pension and an upper ceiling at well above the average full time wage. To qualify for full earnings-related benefits you needed a 40 year contribution record and benefits were calculated on the basis of the twenty best years of an individual’s earnings career. Already in in 1969 a third benefit component was introduced – the Special Supplement. The supplement is tested against benefits from the earnings-related part of the system with a 100% taper, and it functions as a sort of guaranteed minimum increment to the universal basic pension for individuals with low earnings-related pension rights. During the 1970s and 1980s the benefit level was gradually raised, and the supplement has come to constitute a significant part of the rather generous minimum protection provided by the national pension system (Pedersen 1999). Today the Special Supplement is equal in size to the universal Basic Pension for a single pensioner.

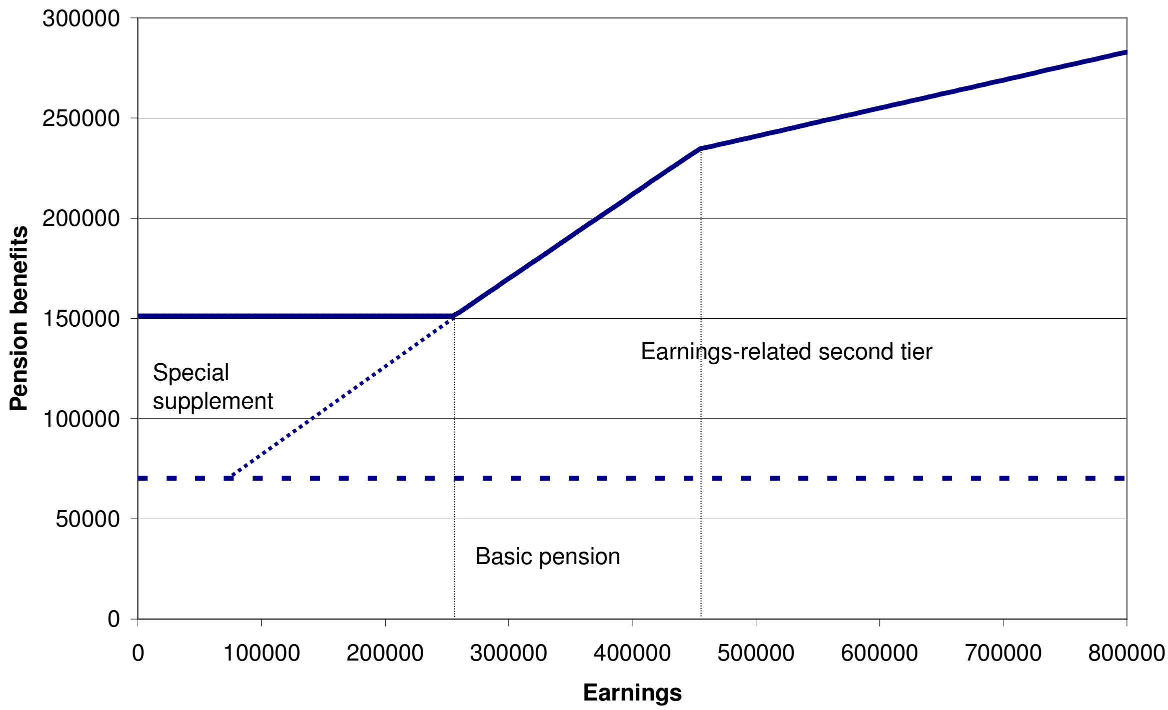
Figure 1 illustrates the benefit structure and the compound profile of the existing old-age pension system for a stylised worker with stable earnings over a 40 year contribution period. The figure assumes that the parameters as of 2010 have been in operation for the entire contribution period.

When interpreting the figure one should bear in mind that it is based on gross benefits and gross earnings and that the replacement rates offered are higher in terms of after tax figures. In Norway old age pensions are taxable income but a number of factors contribute to the fact that retirees tend to pay lower taxes than wage earners: the general progressivity of the tax system, a special flat tax allowance for all old age and disability pensioners, and finally a special rule securing that those old age pensioners whose incomes do not exceed the minimum pension level will not pay any income tax at all.

One of the most important features of the system is the generosity of minimum protection offered to old age pensioners, and this characteristic has in fact been reinforced over the last years through a series of improvements in the Basic Pension and the Special Supplement. The minimum pension is currently fixed at just above NOK 150,000. Since receivers of this minimum benefit will generally not pay taxes, the effective minimum benefit is quite high and equivalent to about 45% of the net (after tax) value of an average full time wage (Christensen et al., 2009).

While the accrual of earnings-related benefits formally starts at a yearly income of NOK 75,600 (the so-called Base Amount, which is equal to the Basic Pension for a single pensioner), the 100% taper of the Special Supplement implies that wage earners need a much higher level of yearly earnings in order to escape the taper interval. The first of the two dotted vertical lines marks this threshold. It shows that you need an average earnings level of about NOK 260,000 combined with a 40 year contribution record to break out of the taper interval and receive an old-age benefit that exceeds the universally guaranteed minimum. The second vertical line marks a threshold at NOK 454,000 (= 6 Base Amounts) after which pension accrual is reduced from 42% to (42/3=) 12%. Accidentally in 2010 this threshold is virtually identical to the official estimate of an average full-time wage in the Norwegian labour market. Pension accrual stops entirely at an earnings level of NOK 908,000 (=12 Base Amounts), which is equivalent to about twice the average full time wage.

Figure 1: The benefit profile of the existing old-age pension system by 2008. Single pensioner with a stable 40 year contribution record. NOK 2010



At average (full-time) wage levels, gross replacement rates for a single pensioner is just above 50%. For wage earners with lower pre-retirement earnings (due to lower wage levels or part-time work) replacement rates will be significantly higher, and replacement rates very rapidly decrease for yearly earnings exceeding the threshold at six times the Base Amount. In terms of after tax values, replacement rates are somewhat higher and close to 66% at average earnings levels.

Occupational pension schemes

All employees in the public sector (state and municipalities) have since the early 1960s been covered by generous occupational pension schemes offering a gross replacement rate of 67% of the final salary after a minimum of 30 years of active service[1]. Yearly earnings up to 12 times the Base Amount are taken into account with no reduction in the pension accrual rate at 8 or 6 times the Base Amount like in the National Insurance system. Particularly for wage earners with earnings above the average full time wage (6 times the Base Amount), participation in these schemes significantly improves the income position after retirement.

In the private sector, coverage with occupational pensions has been less widely diffused and the quality of the schemes varies strongly. The establishment and running of private occupational schemes has remained the prerogative individual employers – and not a subject for negotiations with trade-unions, and tax rules for occupational pension schemes have traditionally followed the so-called "EET" formula, implying that both contributions and returns are exempt from taxation while benefits are subject to income taxation. Also the private sector schemes have traditionally been of the defined benefit type, with only the most generous of the private occupational schemes being on par with the public sector schemes. The highest coverage and the most generous schemes are found in the financial sector (banks, insurance companies, etc.), while some manufacturing industries have had a fairly high coverage with rather low quality schemes. During the 1980s coverage with occupational pensions in the private sector increased (Pedersen 2001), but by the late 1990s coverage was estimated to have stabilised at about 50% of the private sector workforce.

At this time (the late 1990s), the significant gaps in coverage with occupational pension schemes among private sector employees, started to be viewed as a policy problem by the political parties and major private sector trade unions. The result was the launching in 2001 of a new comprehensive legislation on private sector occupational pensions, allowing for the first time favourable tax treatment to be extended to defined contribution schemes (either of an insurance type or the pure savings type). The explicit purpose of the new legislation was to stimulate a further diffusion of private occupational pensions, based on the assumption that defined contribution schemes are cheaper and less risky for employers and (therefore) more attractive to employers. In the following years coverage with occupational pensions only expanded fairly slowly but many employers have reacted to the new legislation by replacing and existing defined benefit schemes with new defined contribution schemes.

Retirement age and early retirement schemes

The normal age of retirement in the National Insurance scheme has since 1973 been fixed at the age of 67. In 1988 in the middle of a serious economic downturn, a round of tripartite wage negotiation between the LO, its employer counterpart (NHO) and the state resulted in the establishment of a voluntary early retirement for employees covered by the LO-NHO wage agreement. The so-called AFP scheme initially allowed the covered employees to withdraw at age 65 with benefits calculated as an ordinary old-age benefit in the National Insurance scheme. During the 1990s the AFP-scheme was expanded in several ways. The original AFP-scheme mainly covered skilled and unskilled workers in manufacturing

1 Compound replacement rates are somewhat higher for single pensioners and they are significantly higher when calculated in terms of net (after tax) replacement rates.

industries and construction. However, already in 1988 a similar (but somewhat more generous) scheme was established for all categories of employees in the public sector and joined with the public sector occupational pension schemes. Later other categories of organised labour in the private sector were covered with equivalent schemes. Also the earliest age of retirement was lowered in several steps to reach the age of 62 in 1998.

Although the different variations of the AFP-schemes are established through negotiations between the social partners rather than through legislation, the state participates in the financing with some 40% of the total costs, while the rest is financed through premiums levied collectively on the participating employers and some co-financing from individual employers when their employees take up the benefit. Part of the state sponsorship consists of granting favourable tax rules and allowing individuals who take up AFP-benefits to accrue pension rights in the National Insurance system as if they had continued working. In other words, there are no actuarial penalties for taking up AFP-benefits between 62 and 67.

It is estimated that about 60% of the workforce is covered by one of the AFP-schemes. This figure includes younger workers, many of whom are likely to become covered at a later point in their employment career. Among the older cohorts who are about to enter the relevant age span, it has been estimated that coverage is close to 80% (Midtsundstad 2004, see also Christensen et al. 2009).

2.1.2 The current reform: process and motivation

The long-term affordability of the National Insurance pension systems has been a serious concern among political elites since the early 1980s, when the prospects of a rapidly ageing population in the first half of the 21. Century was first put on the political agenda. In fact Norway reacted relatively early by implementing a minor retrenchment reform that took effect from 1992. In the following years it was argued in various official policy documents that the system was now sustainable in the long run and booming oil revenues in these years helped to relieve anxieties about public finances more generally. However, a growing concern even in this period was the strong and continuous increase in the take-up of disability pensions and a growing take-up of the (expanding) AFP-scheme leading to a downward trend in effective retirement ages.

The current pension reform process started when a Labour minority government in 2001 appointed the so-called Pension Commission with a mandate to investigate the need for a major reform of the entire system of income protection in retirement. The Commission included prominent representatives for each of the parliamentary parties as well as a number of independent experts. The mandate pointed to three basic objectives for a possible reform: 1) to curtail long term expenditure growth and safeguard the financial stability of the system , 2) to increase labour supply among older workers and reverse tendencies in the direction of earlier effective retirement ages, and 3) to simplify the system and achieve a more logical and pedagogical architecture. The Commission published its report in early 2004 (NOU 2004:1 *Modernisert folketrygd*). It contained proposals for a comprehensive reform of the National Insurance pension system. In the following years the reform has been carried through the political system by shifting governments with the main features intact but also with some non-trivial modifications. The reform was eventually backed by a broad coalition of parties – only excluding the populist right party (the Progress Party). The Government's proposal for the detailed legislation - "Ot-prp. nr. 37 (2008-2009)" – was presented in the autumn of 2008 and finally passed by Parliament in June 2009.[2] Still – less than one year before important aspects of the reform will start taking effect, decisions on important auxiliary legislation and necessary adaptations of occupational pension schemes are still pending (more on this below).

Motivation

The aim of securing financial sustainability in the face of population ageing is undoubtedly a main motivation behind contemporary reform processes. This is so even if the current level of public pension expenditure does not appear to be prohibitively high in an international perspective. By the year 2000 public expenditure on old-age pensions amounted to 4.5% of GDP in Norway (NOU 2004:1) compared to an OECD-average of 7.4%. Current public expenditures on old-age pensions in Norway is surprisingly low when measured against the total size of the economy, and about on par with notorious low-spenders like UK and the US. Four factors contribute to the comparatively low expenditure levels: the high GDP that currently is further inflated by oil revenues, the comparatively high formal retirement age, the incomplete maturation of the National Insurance scheme, and the relative modesty of replacement rates offered by the existing scheme to average and high income earners (while the level of minimum protection and replacement rates for low income earners are high).

However, in the absence of a substantive pension reform, Norway is expected to move from being a low spender to one of the top spenders in the OECD-area. In addition to the purely demographic factors, expenditures are expected to grow as a result of continued maturation of the earnings-related second tier. The maturation period has been prolonged as a result of growing female labour force participation since the 1970s. The influx of women into the labour market has so far provided more shoulders to carry the costs of current pension expenditures, but when these economically active female cohorts eventually retire, they can claim much higher benefits than previous generations of female pensioners. According to a projection made by the Pension Commission, public expenditure on old-age pensions is expected to more than triple its share of GDP over the coming five decades to reach 14.8% of GDP in the year 2050. This projection is not very sensitive to alternative assumption about economic growth, since it is assumed that benefits that existing regulations requiering benefits to be indexed in line with the growth in average wages will be honoured in the years to come (NOU 2004:1). The projection is, however, extremely sensitive to assumptions about the rise in longevity. While the Pension Commission was working, new official projections came out with a much stronger increase in longevity towards the middle of the century than previously expected, hence adding to expected expenditure growth.

The increase in the financial burden will not necessarily be as dramatic as indicated by the expenditure figures, however. Thanks to booming oil revenues, Norway has since the mid 1990s run huge surpluses on the state budget that have been transferred to the so-called “State Petroleum Fund” and invested in international capital markets. The accumulated assets in this fund has recently surpassed the value of GDP – even despite heavy losses incurred since the start of the financial crisis in the latter half of 2008 (see discussion in section 3 below). The continued build-up of this fund over the next decades is expected to help smooth out the financial burden associated with population ageing. Although no formal link exists between the State Petroleum Fund and the National Insurance system, it can be seen to provide a partial pre-funding of future pension liabilities. This is why the financing of the existing

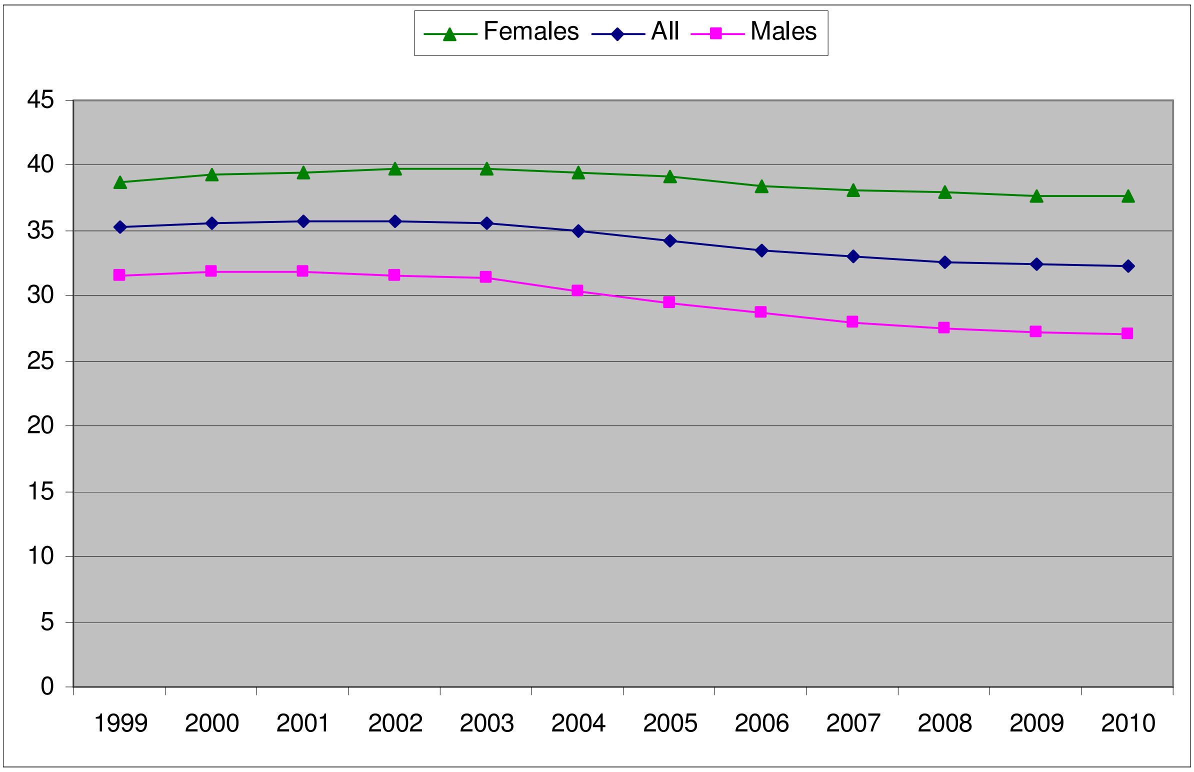
[2] Other important documents from the preparation period include two Government White Papers - “St.meld. nr. 12 (2004-2005)” and “St. meld. nr. 5 (2006-2007)” – and two negotiated agreements on the main features of the pension reform signed by broad coalitions of parties in 2005 and 2007, respectively.

pension system by the year 2050 has been estimated to "only" require an increase in the overall tax load of about 5 percentage points.

It should be noted that these projections of the future public finances also make assumptions about increasing expenditure on public services (notably on health care and long term elderly care). Basically it is assumed that public provided services to the elderly will increase in line with the number of elderly people (i.e. the consumption ratio at fixed ages levels will remain constant) while the quality of services provided (input of manpower) will remain constant. This latter assumption appears to be very optimistic given the recent historical record of a strong increase in the quality and hence the unit costs of these services.

Fears among policy makers about a downward trend in effective retirement ages related to the combined effect of the comparatively high disability rates in Norway and an increasing take-up of the voluntary early retirement scheme, AFP, is another very important source of motivation for the reform. Norway ranks among the countries with the highest disability rates in Europe. Currently 10% of the population between 18 and 67 are disability pensioners. This has been pointed out as a major concern in policy documents as well as in reports from the OECD. [3] Figure 2 shows the development in disability rates for the age group 60-64 over the last ten years. More than one third of the population in this age group is outside the labour force, taking up disability benefits. It has recently been estimated that just above 40% of a cohort entering the old-age pension system at age 67 are coming from the disability system (Lien 2009). While disability rates were increasing steadily during the 1980's and (somewhat less consistently) 1990s, they appear to have been more stable in the last decade and even showing tendencies for some decline in recent years.

Figure 2: Share of population aged 60-64 in receipt of disability pensions in %[4]



[3] See for instance OECD 2006: "Sickness, disability and work: Breaking the barriers. Norway. Poland and Switzerland".

[4] The figures are taken from the National Insurance administration homepage: http://www.nav.no/190528.cms and http://www.nav.no/238322.cms.

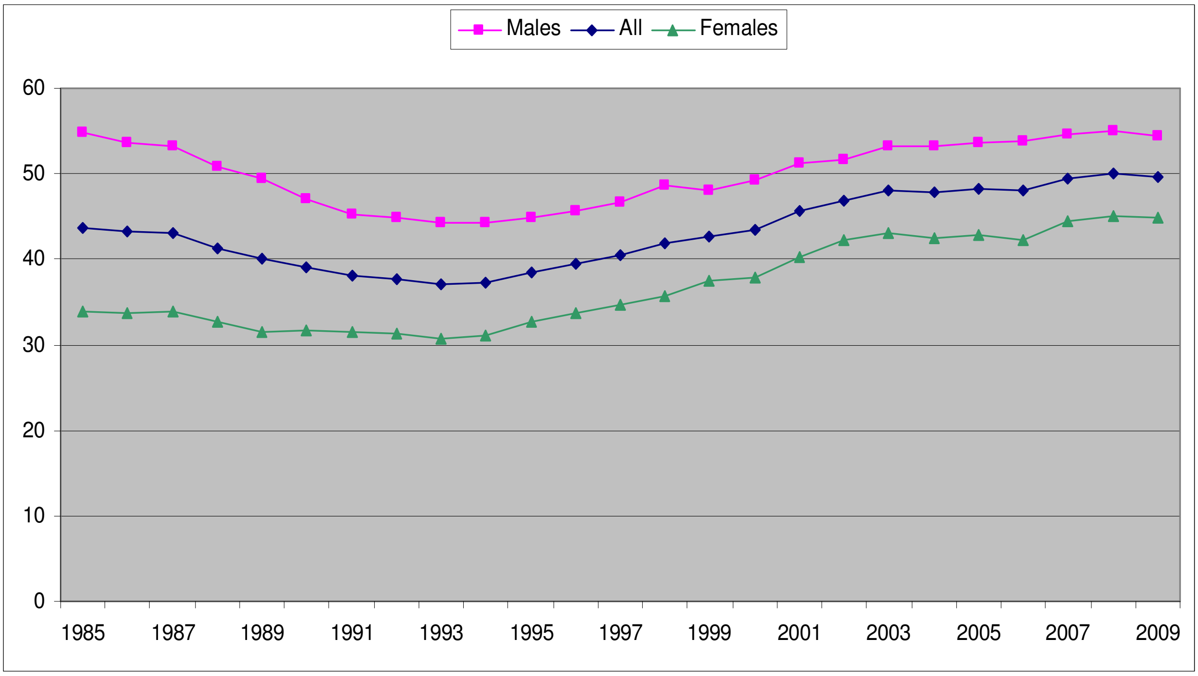
The other major exit route for early retirees is the AFP-scheme. When first introduced in 1988, take up was slow to increase but as the scheme was expanded in the 1990s, take-up has increased quite significantly. It is currently estimated that about half of the possible AFP-years offered to wage earners covered by the scheme, are in fact taken out. In recent years just below 20% of the entire population in the relevant age groups receive AFP benefits, however this figure should be viewed in light of the fact that more than a third of the population in this age span receive disability pensions and that both the self-employed and a significant minority of wage earners are not covered by the AFP schemes

Of those 62 year olds who are covered by the scheme and have not already taken up disability benefits, about 25% take out AFP benefits immediately upon reaching 62, another 30% take out AFP benefits later so that only about 45% of those eligible for the scheme choose not to take out benefits at all and retire directly on old-age pensions at 67 or later. Take up rates in the AFP-scheme have been fairly stable over the last decade – even with a slight tendency to decrease in the very last years where the Norwegian labour market has been particularly tight.

A hotly debated topic both among policy makers and academic analysts has been extent to which the AFP scheme contributes to lower effective retirement ages and labour force participation among the elderly. One of the most pertinent questions in this respect is whether and to what extent there is substitution between the AFP-scheme and the disability system – i.e. whether a significant share of those who are now observed to take out AFP-benefits would at some point have left the labour force anyhow to take up disability benefits – if the AFP had not existed. Several studies have used micro-data in an effort to estimate the share of current AFP-recipients who would have taken up disability benefits in the absence of the AFP-scheme. Both Røed and Haugen (2003) and Aakvik, Dahl and Vaage (2005) conclude that the degree of substitution is very small if at all existing. Bratberg, Holmås and Thøgersen (2004) find a tendency for substitution, estimating that between 8 and 22% of AFP recipients would have been on disability benefits in the counterfactual situation without AFP.

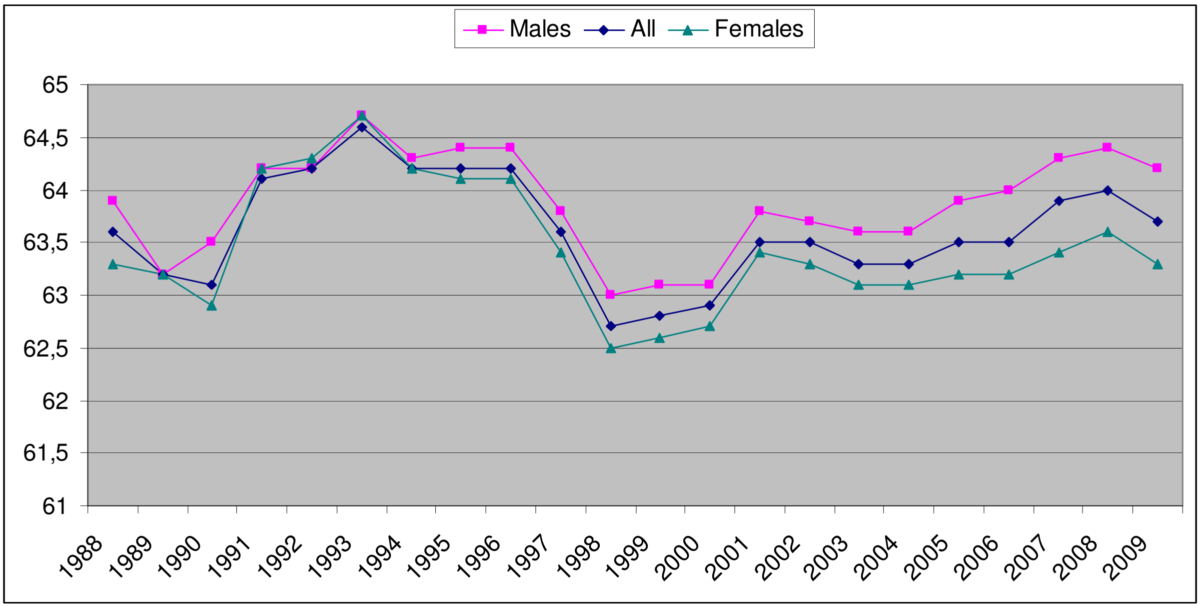
On the other hand, as can be seen from Figure 3, labour force participation among elderly cohorts in Norway has not shown a consistent decline since the AFP-scheme was first introduced in 1988. Over the last 15 years there has even been a quite substantial increase in overall participation rates among the population 55+. High growth rates and low unemployment rates for most of the period since 1994 are likely to be the major explanation for this. One should note that the labour force rates portrayed in Figure 3 include also very short part-time work, and the development in full-time equivalents is likely to have been somewhat weaker. Note that the participation rates for these age groups for the first time in many years showed a small drop in 2009. I shall return to this in section 3 on the impact of the financial crisis.

Figure 3: Labour force participation among the population aged 55-74.[5]



The picture of no clear trend in overall retirement behaviour since the late 1980s is confirmed by figures on the expected age of retirement for 50 year old employees (or non-retired, to be more precise). According to calculations made by analysts in the National Insurance administration shown in Figure 4, the expected age of retirement for a 50 year old worker was 63.6 in 1988.[6] Ten years later, in 1998, this figure had decreased to 62.7 while it had risen to 64.0 in 2008 before it again showed a small drop to 63.7 in 2009 (Haga 2010).

Figure 4: Expected age of retirement for a 50 year old (non-retired) person.



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5 Source: Statistics Norway. Databank.

6 The expected age of retirement is calculated for each year on the basis of age-specific transition rates into one of the alternative retirement schemes: disability, AFP and ordinary old age pension.

Similar types of calculation were published a few years ago by the Nordic Social-Statistical Committee (NOSOSCO 2008a). In this report calculations are made both for the timing of first pension benefit take-up and the timing of leaving the labour force, and for both indicators a rather crude method was used to calculate synthetic estimates of expected transition ages, based on a series of cross-section data on cohort-specific benefit take-up rates and labour force participation rates. According to these calculations the expected age of exit from the labour market was 62.8 years, while the expected age of retirement benefit take-up was just below 64 years in 2006. The difference between the two estimates is most likely due to the considerable time lag experienced by eventual disability benefit claimants who after leaving the labour market will on average spend a couple of years on temporary sickness and rehabilitation benefits before they start taking up disability pensions.

The final set of motives for reforming the old-age pension system mentioned in the mandate for the Pension Commission was to achieve a more simple and logical system of pension accrual. In the Commissions report a strong critique is directed against the 20 best year rule which tends to favour people whose earnings vary over time to the expense of people with long careers and a stable earnings profile. While this rule has traditionally been defended as being beneficial to women who often choose to work part-time in the periods when they have responsibility for small children, it has other - less reasonable – distributive consequences like rewarding white collar workers with a rising earnings profile while punishing blue collar workers. Also the interplay between the earnings-related second tier and the Special Supplement has become heavily criticised. As shown in Figure 1 above, you need a fairly high earnings level over an extended working career in order to escape the 100% taper of the Special Supplement. This means that many women in low wage occupations and/or with broken careers end up as receivers of minimum benefits and hence experience that their contributions to the earnings-related second tier have been made in vain.

2.1.3 Content of the reform

The pending Norwegian pension reform is strongly inspired by the innovative Swedish (and Italian) pension reforms from the previous decade. It can be described as consisting of 5 main elements:

- A new (NDC-inspired) system for the accrual of pension rights
- The introduction of an actuarially "neutral" flexible retirement between age 62 and 75
- The introduction of an automatic longevity adjustment factor
- Less than full wage indexation of pension benefits
- The introduction of obligatory occupational pensions in the private sector

New system for the accrual of pension rights

The new National Insurance system old-age pensions will consist of two types of benefits. An Income Pension that is designed to be strictly proportional to life-time earnings and a Guarantee Pension taking care of minimum protection.

For each year in gainful employment an amount equivalent to 18.1% of the yearly earnings will be credited a "notional" pension account. The pension wealth on the notional account is supposed to accumulate over the economically active life, and it will be converted to a life annuity when the individual decides to start drawing benefits. Yearly earnings (and self-employment income) up to a ceiling of 7.1 times the Base Amount (NOK 537,000 in 2010) count, and pension accrual can start from the age of 13 and continue to the age of 75. Accrued pension rights will be automatically indexed with the development in average wages. This approach guarantees direct proportionality between life-time earnings (below the yearly earnings ceiling) and accumulated pension rights.

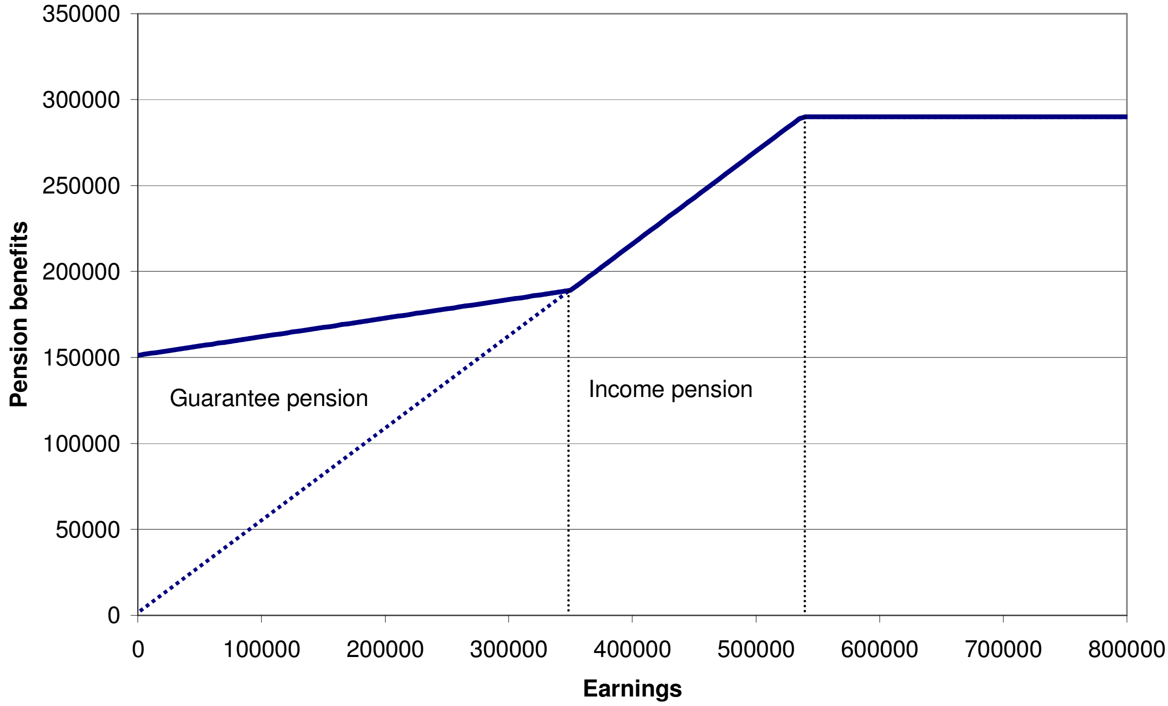
A number of exemptions have been made to secure the accrual of pension rights in situations where the individual does not participate in gainful employment for particular (politically sanctioned) reasons. Parents with small children (under the age of six) are guaranteed a minimum pension accrual equivalent to an earnings level of 4.5 Base Amounts (NOK 340,000 in 2010). Young people doing military service will receive pension rights equivalent to an earnings level of 2.5 Base Amounts. For social security recipients, social security benefits are as the main rule counted as earnings, while recipients of unemployment benefits will have their pension accrual calculated on the basis of previous earnings up to an income equivalent to 6 Base Amounts.

Minimum protection will be provided by a Guarantee Pension that replaces both the Basic Pension and Special Supplement) in the existing system. The level of the Guarantee Pension is supposed to be fixed at the same level as the existing minimum pension, and it will (as the main rule) be indexed with the same wage index as accrued pension rights in the Income Pension system. The Guarantee Pension will be tapered against Income Pensions by 80%. This ensures that people with rights to Income Pensions are always allowed to keep at least part of their advantage vis-a-vis individuals with no earned pension rights what-so-ever.

The compound profile of the new system is shown in Figure 5 in the stylised case of a (single) worker with 40 years of stable earnings/contributions to the system. It shows that the formal proportionality of the Income Pension system is strongly modified in the long tapering interval of the Guarantee Pension that in this case stretches to a yearly earnings level of NOK 350,000 – which is only about 20% below the average full time wage.

In other words, the strong link between earnings and benefits that characterises the income pension system by itself, only applies in practice to a relative narrow part of the earnings distribution. Due to the tapering of the Guarantee pension the marginal effect of increased earnings/contributions to the system are very modest for wage earners who can expect to end up with less than average lifetime earnings.

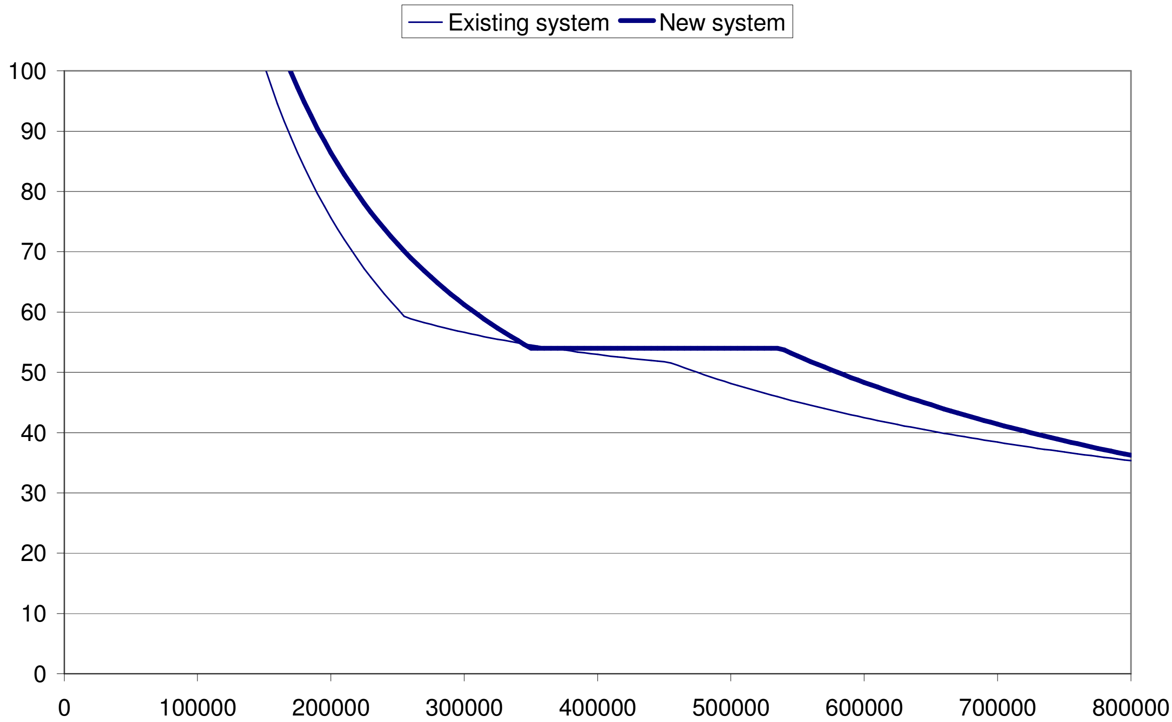
Figure 5: The benefit profile of the reformed old-age pension system. Single pensioner with a stable 40-year contribution record. NOK 2010



The compensation profile of the new system is compared with the old system in Figure 6 for the same stylised cases as in Figure 1 and Figure 5. The two profiles do not deviate dramatically from each other. Both are rather strongly progressive, offering very high replacement rates in the bottom parts of the earnings scale and declining replacement rates in the intervals well above average wages. The high level of minimum protection is a dominant common characteristic of both the existing and the reformed system.

One can see that the new system appears to be more generous than the old system - particularly in the lower and upper end of the earnings distribution. This is partly an illusion due to the fact that the stylised cases used here with stable earnings careers fail to take account of the favourable effect of the 20 best-year rule in the existing system for people with varying income levels over the life course. The new system of pension accrual is nevertheless on average significantly more generous than the old system was, but this only applies before taking account of the two retrenchment measures that will be described below.

Figure 6: Gross compensation profiles of the existing and new pension system compared. Single pensioner with a stable 40 year contribution record.



Flexible retirement between 62 and 75 on actuarially neutral terms

In the reformed National Insurance system the old retirement age will be flexible between age 62 and 75, based on the principle of actuarial neutrality. This feature follows naturally from the adoption of a wealth-like accumulation of pension rights. Individuals who choose to retire early at age 62 will have more years to cover when their accumulated pension deposits are transformed into a life annuity – and vice-versa for those who retire late. In addition to this effect, early retirees will forgo extra contribution years, while late retirees will accumulate more. The combined effect is that a pensioner retiring at age 62 will face a reduction in yearly benefits of about 30% compared to the situation when retiring at age 67. By postponing retirement to 70 (in stead of 67) the gain is approximately 25%.

The principle of neutrality implies that each individual carries the full costs associated with the timing of retirement. The introduction of neutrality allows all earnings and work tests to be abandoned for those who have started to draw a pension. It will in principle in the new system be possible to draw a full pension while continuing to work full time, and a wide range of options to draw a partial pension will be available.

One should note however that the right to start drawing old-age pensions at age 62 is made conditional on having enough accumulated pension rights so as to secure that the actuarially calculated benefit will be at least as high as the guaranteed minimum benefit. The requirement has been installed in order to avoid that people are tempted to spend the pension wealth too early and hence having to cope on a benefit that is insufficient to maintain a decent living standard throughout retirement.

The AFP schemes that in their existing form offer a heavily subsidised early retirement option, will for employees in the private sector be completely transformed into a kind of (additional) occupational pension scheme paying life long benefits as a supplement to

National Insurance benefits. This was decided in an agreement between the Government and the social partners in connection with a round of centralised wage bargaining in the Spring of 2008. Benefits from the new private sector AFP-scheme can be drawn from age 62 on flexible and neutral terms just like the National Insurance benefits. Also AFP benefits can be drawn alongside full-time or part-time work. The generosity of the new AFP-schemes has been calibrated so as to keep the costs for the state and employers per covered wage earner on par with the costs of the old AFP-schemes. For those private sector workers who are covered by the new AFP-scheme it will represent a substantial addition to pension wealth accumulated in the Nation Insurance scheme.[7]

In the wage negotiations of conducted in the spring of 2009 the Government pushed hard to achieve a similar solution for public sector employees but was met with tough resistance from public sector unions. In order to avoid a major public sector strike just a few months before the general election in September 2009, the Government gave in, and a compromise was reached in early May whereby public sector employees will keep their AFP-scheme more or less intact, i.e. as an early retirement scheme with strong subsidies to those who choose to withdraw early. The Government has later - in March 2010 - followed up the agreement with a proposal for the detailed legislation securing the adaptation of the occupational pension schemes for public sector employees to the reformed national system.

Longevity adjustment and indexation of benefits

The reform contains two retrenchment measures of which the first – longevity adjustment – is by far the most important. The idea is basically that old-age benefits in the future will be reduced in proportion to an increase in longevity compared to measured longevity in the 2010. In practice this is achieved as the accumulated pension wealth is turned into an annuity upon retirement. The annuity benefit will be calculated on the basis of a stylised projection of the remaining life expectancy for the particular cohort at different age levels. For each cohort a table of remaining life-expectancy figures will be produced as the cohort turns 61 and the figures will be calculated on the basis of historical mortality rates for the preceding cohorts. In other words the actuarial adjustment to the timing of retirement and changes in longevity are done in the same operation and both are incorporated in the annuity divisor. Also the level of the Guarantee Pension will be subject to longevity adjustments, while being otherwise indexed with wages.

According to the favoured projection by Statistics Norway, longevity after age 62 is expected to increase with about 1 year in every ten years. If this turns out to be the case, the living adjustment factor will result in a 20% reduction of pension benefits for the cohorts retiring around 2050. The saving for the National Insurance scheme will be of an equivalent magnitude. The introduction of this measure removes a very important growth factor in public expenditure on pensions and a source of uncertainty about the future financial burden. The burden is instead transferred to each pensioner cohort. With a flexible retirement age, pensioners can in principle compensate for the reduction in yearly benefits by working longer, and about eight months of continued work will as the main rule be enough to compensate for a one year increase in longevity.

As part of the private sector AFP-settlement in the Spring of 2008, the Government promised to temporarily modify the longevity adjustment by guaranteeing that the change in annuity divisor cannot exceed 0.5 percentage points from one birth cohort to the next (this figure corresponds to the longevity projections presented in the report of the Pension Commission in

7 A proposal for the associated detailed legislation was presented by the Government in September 2009 in "Ot.prp. nr. 111 (2008-2009).

2004). This limit will only be temporary and applied to the cohorts who reach retirement in the coming 10-15 years. If it comes into force - because longevity turns out to grow faster and it results in an accumulated lag in the longevity adjustment - , this is supposed to be regained later for the cohorts entering retirement from 2025 and onwards - i.e. these younger cohorts will face an even faster reduction in yearly benefits from one cohort to the next than prescribed by observed longevity changes.

The other retrenchment measure is to let pension benefits – once they have started running – be subject to indexation rules that do not offer full wage adjustments. In practice it has been decided to let running pension benefits be indexed with wages minus a fixed factor of 0.75 percentage points. It is estimated that this measure will in the long run achieve a reduction in pension expenditures of about 7% compared to full wage indexation.

Financial structure

The new system of accumulating pension rights resembles closely the reformed Swedish pension system that in the international literature has been referred to a Notional Defined Contribution (NDC) system. Also the new Norwegian system will be based mainly on pay-as-you go financing and the accounts used for the accumulation of pension rights will indeed be "notional". However, one big difference to the Swedish system is that the 18.1 accrual rate does not correspond to an earmarked contribution to the pension system of a similar magnitude. The new Norwegian system will (as before) be fully integrated in the general state budget, and the existing system of financing through a mixture of general social security contributions, pay-roll taxes and general taxation will be continued. As a part of the pension reform process, the State Petroleum Fund has been renamed 'The State Pension Fund", but it is operated independently of the pension system. Payments into the fund are determined by a rule linked to the balance of the general state budget. It basically says that all state revenues from the petroleum sector will be set aside in the fund, while only an amount corresponding to a four percent real return on the financial assets will be withheld and consumed annually. You can say that the fund is a vehicle for public saving that helps to smooth income streams from the petroleum resources over time (in principle indefinitely), but for the general state budget rather than for the pension system in particular.

Mandatory occupational pensions in the private sector

A final and more self-containing part of the current reform has been to make the provision of supplementary occupational pensions mandatory in the private sector. As mentioned above only about 50% of the private sector workforce was estimated to be covered by an occupational pension scheme – even after the introduction of favourable tax treatment also for defined contribution schemes. From 2006 a new law has made it obligatory for all private sector employers to run an occupational pension scheme of minimum quality for their employees – either of the defined benefits or the defined contribution type. The law furthermore specifies a minimum requirement for the level of contributions at 2% of the wage. It has been shown that almost all new schemes that have been established by employers in order to fulfil their obligation under the law, are of the defined contribution type and with contributions set at the minimum level required (Veland 2008).

Implementation

The new National Insurance legislation formally went into force from January 1. 2010. However, the new system for accumulating pension rights will be implemented gradually.

Cohorts born before 1953 will remain entirely within the old system, while cohorts born after 1963 will have the pension rights calculated according to the new rules. The pension rights of the intermediate cohorts will be calculated as a weighted average of benefits due under the old and the new system with the weight given to the new system increasing on a sliding scale from the oldest to the youngest cohorts.

Other aspects of the pension reform will take effect from January 1. 2011. This applies to the new flexible retirement, longevity adjustments and the new system of indexing, as well as the transformation of the AFP scheme in the private sector.

Parallel institutional changes, auxiliary legislation and adaptations

When describing and evaluating the Norwegian pension reform, it is not always clear what to include. In the last years some important institutional changes have been made outside the framework of the pension reform process proper. You could count the introduction of mandatory occupational pensions in the private sector as an example of this. However, this issue was discussed in the Pension Commissions report and in subsequent Government White Papers on the reform of the National Insurance old age pension system.

A clearer example of parallel institutional change is, however, the decision by the present Government to improve the level of minimum benefits in the existing system by raising Special Supplement in steps, so that it has from May 2010 reached 100% of the Base Amount. This change has been introduced outside the pension reform process and decided (with unanimous parliamentary support) in connection with the passing of the annual state budget. As it is simply taken for granted that any improvement of the level of minimum protection of the existing system will be carried over into the new system (as a raise in the level of the Pension Guarantee), this change will have important distributive effects also in the long run. The result is that the intended strengthening of the link between lifetime earnings and pension benefits and the associated increase in the dispersion of retirement benefits will be significantly curtailed. In the Figures 1, 4 and 5 shown above this new and higher level of minimum protection is included in the description of both the old and the new system.

These effects of the improvement in the level of minimum protection will be further reinforced by a recent Government proposal to harmonise the tax regime for old age pensioners with the reformed pension system. The main political premise of the proposal is to secure that pensioners who receive the minimum benefit only, will continue to be complete exempt from income taxation. The former general tax allowance to all old age pensioners will be removed, however, and the proposal will all taken together result in a more progressive system of taxation for old age pensioners. While the general tax rules will be normalised (by removing the general tax-allowance to all old age pensioners), poorer pensioners will be given a tax credit that is tapered off against gross incomes in excess of the minimum pension level.[8] The proposed taper is relatively mild (17%) which means that the credit will benefit a significant share of the pensioner population. The proposal is preliminary. It remains to be seen whether it will be formally presented to Parliament and accepted in exactly its present form. So far there has been little public debate on this proposal, and at present it seems likely that it will be passed by Parliament later this year without major changes.

In order for the reform of the National Insurance pension system to become effective it is necessary to adapt the supplementary occupational pension schemes and the AFP-schemes -

[8] The proposal is presented in „Høringsnotat – endringer i reglene for skattlegging av pensjonsinntekt” published on March 3. 2010.

in the private as well as the public sector. Here the reform efforts of the Government have had serious setbacks – particularly in the public sector.

As already mentioned, the Government failed to get its way and remove all subsidies to early retirement in last year's (2009) negotiations with the public sector unions. In addition to upholding the existing AFP-scheme the public sector unions managed to shield older cohorts of public employees from the effects of another crucial aspect of the National Insurance reform, the longevity adjustment. The agreement reached with the public sector unions on these issues has now been translated into a concrete legislation proposal that was presented to Parliament in March this year (Prop. 107 L (2009-2010). As about 1/3 of the Norwegian labour force is working in the public sector, the failure to ensure that these core principles of the pension reform are reflected also in the supplementary pension schemes for public employees, represents a major setback in the reform process. It most certainly adds to the complexity of the entire reformed system, and it can even be argued that it threatens the legitimacy of the reform.

In the private sector the AFP-scheme has been adapted entirely in line with the Government's (and Parliament's) preference for an actuarially neutral system for the drawing of pension rights. The more technical issues related to the adaptation of the private sector occupational pension schemes have not yet been solved, however. An expert committee dealing with this issue published a report in May 2010 (NOU 2010:16). Here they suggest a number of technical changes to the legislation on defined contribution schemes that will ensure compatibility with the reformed National Insurance system, but the committee found it necessary to postpone the much more complicated issues related to the adaptation of defined benefit schemes. The result is that a new regime for private sector defined benefit schemes will not be in place when important aspects of the National Insurance reform take effect from January 1. 2011.

Still no solution to the adaptation of disability pensions

As of May 2010 there are still important aspects of the pension reform that have not yet been decided. The most important is the new disability pension system including the system for the accrual old-age pension rights for disability pensioners.

The old age pension reform makes it necessary to modify the disability benefit system. Today disability benefits are modelled on the existing old age pension system, but this will no longer be possible when the accrual of old age pensions is changed towards the NDC-formula. In addition to decide on a new formula for disability benefits, important decisions have to be made on the conditions under which disability benefit recipients shall accrue old age pension rights. Since, as already mentioned, about 40% of a cohort of new old age pensioners come from the disability system, this is an extremely important and potentially very controversial aspect of the entire old age pension reform.

Already in 2006 the Government appointed a commission to sort out the issues associated with the adaptation of the disability benefit system to the new old age pension system. The commissions published its report in 2007 (NOU 2007:4), but the Government has several times postponed its initiative to follow up on the commission's proposal. A proposal is expected to be presented to Parliament sometime in the Autumns of 2010, but this will be too late for the new legislation to be in place for January 2011.

According to the commission's proposal the new disability benefit will be proportional to the recipient's average earnings the last few years before the disability event. The gross replacement rate is stipulated to 66% of previous earnings, while it is suggested to remove all tax privileges to disability recipients. For claimants with no or very low earnings a minimum benefit will be upheld at the same level as in the existing system. All in all it is expected that the proposal will result in average net benefits about on par with the existing system.

On the second issue about the old-age pension rights of disability pensioners, the commission suggested a tougher line towards disability pension receivers compared with the present system. Today disability pensioners are transferred to the old-age pension system at the normal retirement age of 67, and they earn pension rights based on their pre-disability earnings level up until that age. This rule becomes more problematic from 2011 when the non-disabled can start taking up old-age pensions at 62 with a heavy actuarial penalty. On this background the commission suggests that the old-age pension accrual among disability pensioners should be made less generous compared to the present system – either by forcing disability pensioners to start taking out old-age benefits from the age of 62, or alternatively by letting them continue on disability benefits until reaching 67, while curtailing the accrual of earnings-related pension after the age of 62. In a more long term perspective when the longevity adjustment is expected to take its toll, the fate of disability pensioners is a matter of concern because they do not have the possibility to respond to the automatic reduction in yearly benefits by working longer.

2.1.4 Effects of the pension reform

Of course, it is too early to actually observe effects of a reform that has not taken effect. This does not mean, however, that there has not been a lively debate among the general public, policy makers, and the in the relevant research communities about the likely effects of the reform. The policy documents that have been produced as part of the reform process contain many attempts to estimate and forecast the effects that the reform is likely to have on important policy objectives – like long-term financial stability, benefit levels and benefit distribution, and labour supply and retirement behaviour.

Financial consequences

The main motivation behind the reform has been to improve the financial sustainability of the pension system. However, the emphasis on curbing expenditure was somewhat relaxed along the way in favour of an intensified focus on upholding and increasing labour supply. As already mentioned the new system for accruing pension rights is on average more generous than the old system, and it is only when counting in the two expenditure reducing elements – longevity adjustment and under-indexation of running benefits – that there is a net effect of reducing long term expenditure levels as compared with a continuation of the old system. While old-age pension expenditure was estimated by the Pension Commission to rise to 15% of GDP in the year 2050 with a continuation of the old system, the Government estimated in 2006 (St.meld nr. 5 (2006-2007)) that the reform would contribute reducing expenditure by 3 percentage points to 12% of GDP in 2050.

In a more recent set of demographic forecasts published by Statistics Norway in 2008 expectations about the rate of growth in longevity have been downtuned somewhat and estimates of immigration flows quite substantially upgraded compared to previous forecasts (Brunborg, Texmoen and Pettersen 2008). The combined effect has been to lower the estimated of pension expenditures as a percentage of GDP both under the old and the reformed systems, to 14 and 11% respectively (Ot.prp. nr. 37 (2008-2009)). About half of the reduction in expenditure achieved by the reform is estimated to come from a reduction in benefit levels while the other half is linked to a reduction in the number of benefit years. Since also the reformed system will be fully integrated in the general state budget, there is no hard budget line controlling the level of expenditure – similar to the "Automatic Balancing" mechanisms installed in the reformed Swedish pension system. Therefore the financial burden associated with the pension system will be sensitive to changes in demographic factors like immigration and fertility and to economic factors like developments in petroleum prices and returns on the State Pension Fund. It has been argued, however, that the most critical factor is the effects the new system will have on labour supply and on retirement behaviour in particular (see the discussion below). This might at first glance seem counter-intuitive since the level of pension expenditure in a neutral system should be unaffected by the individuals' choice of the time to start drawing benefits. However, if the new system is successful in inducing people to postpone their withdrawal from the labour market, this will have a strong positive effect on the general state budget primarily because of the higher base for general taxation (Fredriksen, Heide, Holmøy and Solli 2005, see also Christensen, Frederiksen, Lien and Stølen 2009).

Distributive consequences

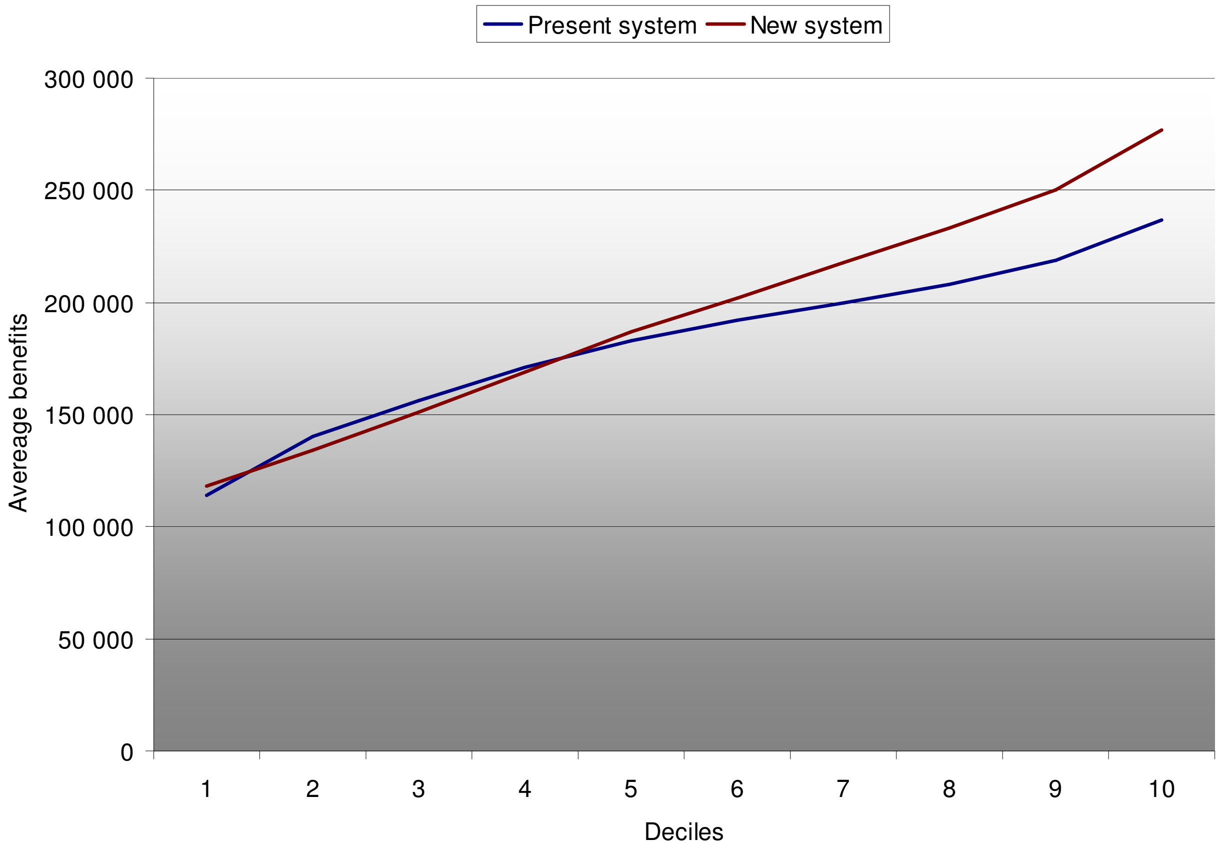
In the report from the Pension Commission and in later policy documents on the pension reform, the consequences of the reform for the distribution of retirement benefits have been thoroughly analysed. Most of the analyses were based on a dynamic micro-simulation model developed by Statistics Norway. This model can be used to predict the level and distribution of National Insurance benefits far into the future, and under alternative policy scenarios. Table 1 and Figure 7 show the result of such a simulation, where the distributive outcome of the reformed system is compared with a continuation of the existing system.

Table 1: Projections for the distribution of National Insurance benefits in the year 2050, existing and the reformed systems compared. Gini coefficients and gender gap.

	Gini coefficient	Gender gap (female/male)
Existing system	0.111	0.90
Reformed system	0.146	0.86

Source: Stensnes, Stølen and Texmoen (2007).

Figure 7: Projections for the distribution of National Insurance benefits in the year 2050, existing and the reformed systems compared. Average benefit level for each decile (ranked according to the benefit distribution in 2050).



Source: Statistics Norway 2007.

As one can see, the reformed system is expected to produce a distribution of retirement benefits in the year 2050 that is somewhat more unequal than the distribution that would have obtained if the present system had been continued. This is expected to happen even if the level of minimum protection under the new system will be upheld also in relative terms. When it comes to the gap between average benefits received by men and women – an issue that has attracted considerable political attention – there is also a small effect in the direction of increasing inequality.[9]

The calculations presented above do not take into account the increase in the level of minimum protection that has been carried out over the last three years. If we continue to assume that this policy change is exogenous to the pension reform proper and apply the increased minimum benefit to both the 'existing system' and 'reformed system' scenarios, both will produce a somewhat more egalitarian outcome. However, the egalitarian impulse from increased minimum benefits is likely to be stronger under the reformed system due to the milder taper of the minimum benefit (80% compared to 100%), and therefore the difference between the existing and reformed systems is likely to become smaller than shown in Table 1 (see Christensen, Fredriksen, Lien and Stølen 2009, and Dahl 2010). They do not take account

[9] See Table 1 - The interpretation is that under the old system the average benefit received by female pensioners will be 90% of the average benefit received by male pensioners, while under the reformed system women will on average receive 86% of the benefits received by men.

of the effect of taxation either. As already mentioned, the system of income taxation among old-age pensioners will – if the Governments proposal is eventually accepted later this year -, become even more progressive than it is today and the distribution of net (after tax) benefits will be more egalitarian than shown in Table 1 and Figure 7.

The calculations presented here are all based on the assumption that the patterns of labour force participation of younger cohorts (given a range of individual characteristics like age, gender, education, and child-rearing) that are observed today will be continued over the projection period. The figures do not take account of the effect of the two retrenchment measures – longevity adjustment and under indexation of running benefits -, and this is why the new system appears to be somewhat more generous than the existing system in Figure 7. These retrenchment measures will be almost proportional in their effect and, hence, not in the first instance affect the distribution as such. However, behavioural adjustments to the strong incentives of the new system to postpone retirement, particularly in light of benefit reductions resulting from the longevity adjustments are likely to be strongly skewed in favour of highly educated and high income groups and produce a significant increase in the degree of income inequality prevailing among old-age pensioners (see Fredriksen and Stølen 2004).

Consequences for labour supply and retirement behaviour

It has already been pointed out that the potential effects of the reform on labour supply and retirement behaviour, is a critical issue. Policy makers have expressed hope that the stronger and more transparent link between life-time earnings and pension wealth will lead to increased labour supply over the entire lifespan. In some projections made by Statistics Norway one has built in an assumption that overall labour supply will increase by 2.5% simply as a result of the new system for earning pension rights (Steensnes 2007). The empirical foundation for making very specific assumptions of this kind is rather weak, however. One problem is that the incentive structure produced by the new system is very heterogeneous due to the tapering of the Guarantee Pension and the system for granting pension rights for child-rearing. The increase in the level of the Guarantee Pension is not taken into account either. As we have seen the improved level of minimum protection that was implemented over the last three years imply a further weakening of the effective relationship between pre-retirement earnings and old age benefits. One can say that the balance between efficiency/incentives on the one hand and minimum protection/equality on the other has in the last years tilted towards the latter. While pension reform as suggested by the Pension Commission in 2004 clearly prioritised improvements in economic efficiency over distributive concerns this aspect has been seriously weakened in the very last years before the reform will actually take effect.

More important and less controversial are the assumptions that the actuarially neutral system for taking out accrued pension wealth will in the long run stimulate a significant increase in the effective retirement age – particularly in combination with the longevity adjustment. Both Statistics Norway and analysts in the National Insurance administration have made projections of a very significant increase in labour force participation by older workers (Fredriksen, Gunnes and Stølen 2008; Lien 2009). Basically it is assumed that all those older workers who are still active when entering the relevant age span (i.e. have not already left the labour market to take up disability benefits), will compensate for the longevity adjustment by working later. For instance in year 2050 longevity is expected to have increased by about four years as compared to the present figures. In order to avoid the associated lowering of benefits older workers are expected to postpone retirement by almost three years.

There is more uncertainty about the immediate effects of introducing the flexible and actuarially neutral system from the year 2011. It will on the one hand open new possibilities to withdraw early (from age 62) for groups that have not had this opportunity before. On the other hand the reform radically removes the incentives to retire early that existed for those covered by the old AFP-scheme. New econometric estimations suggest that the effect of removing subsidies for early retirement will be quite strong for those wage earners who are affected and have the opportunity to postpone retirement (Hernæs and Iskhakov 2009; Hernæs and Zhiyang 2009). However, this does not apply to public sector employees (about one third of the labour force), who as we have seen will be allowed to keep the AFP scheme with incentives to retire early, and it does not apply to the 40% of each cohort who have left the labour force to take up disability benefits.

The labour supply effects of the reform are also likely to be conditional on the general situation in the labour market. As we have seen labour force participation among elderly Norwegians has been increasing over the last decade mainly as a result of a very tight labour market. This trend has turned in the very last year most probably as a result of the financial crisis that despite the absence of a strong increase in unemployment, appears to have changed the preferences of and attitudes to older employees (more on that in Section 3 below).

2.2 Health Care

In line with the Scandinavian tradition, the provision of health services is in Norway predominantly a public responsibility, and public health care is provided on the basis of the principle of universal access for all legal residents in the country. A number of laws regulate the rights of citizens to receive adequate health care and the terms under which these services are delivered.

The administrative responsibility for delivering health care services is divided between the municipalities and the state. Primary health care is the responsibility of the municipalities. Under the “Municipal health services act” (Lov om helsetjenesten i kommunene), the municipalities also have the obligation to deliver a range of preventive activities and services. The responsibility for providing specialised health services (and here most importantly hospital services) has since the year 2002 been transferred to the state, while being previously the responsibility of the counties.

Dental care is an important exception from the main rule of publicly provided health services. For the general population dental care has largely remained a private responsibility. The services are provided by private dental practitioners and financed entirely by the patients. However, for special subgroups of the population like children and adolescents, and institutionalised psychiatric patients and elderly, the counties deliver and finance dental care.

Pharmacies are mainly privately owned, but subject to strict public control and supervision. Private health insurance is a relatively marginal phenomenon in Norway and commercially run private hospitals are almost non-existing. Commercially provided health services are mostly found in the area of specialised out-patient treatment and simple surgical procedures.

User charges and financing of pharmaceutical products

Despite the emphasis of public financing user charges do play a role in some parts of the public health service. Both in primary health care and in specialised care and out-patient treatment patients are charged modest user fees. Patients also have to pay for pharmaceutical products but when prescribed by a doctor to treat a chronic illness they are strongly subsidised by the state. Individual expenditures on user charges and pharmaceutical products are further limited by a scheme that secures reimbursement of expenditures in excess of a specified ceiling. When it comes to treatment in-patient treatment in hospital, there is no user charges in the Norwegian system.

Administration

In the beginning of this decade two important reforms of the Norwegian health services were implemented. The first introduced a new principle on the provision of primary health care, while second changed the organisation of specialised care.

In 2001, the municipal primary health care system was rearranged in line with the basic principles of British National Health Service and in line with the organisation in other neighbouring Scandinavian countries. The population is offered the opportunity to register with a general practitioner (*fastlege*) who provides access to all publicly financed primary and secondary health care. This general practitioner is self-employed but operates under a contract with the municipality. Before this system was installed, patients in Norway could shop around between general practitioners, with or without a contract with the municipality, and gain directly access to specialists whose services were subsidised by the state through a system of reimbursements for the services provided. Under the 'new' system patients are obliged to stick to one practitioner at a time, and they are only allowed to change two times per year. In addition patients are offered the right to have a second opinion by another doctor, in the case that a conflict arises with their current practitioner. The introduction of this system was originally rather controversial and met with scepticism from part of the medical profession. One of the objectives of the reform was to achieve a more effective regulation of the access to expensive specialised services, and another was to secure more continuity in the patient-doctor relationship, which was believed to be particularly useful for people suffering from chronic diseases. The reform was subject to a thorough research based evaluation over the period 2001-2005, and the main conclusions of the evaluation were positive.

A second major health reform took effect from the beginning of 2002. It implied that the responsibility for owning and running the secondary health service including the hospitals were transferred from the counties, to the state. In one sense the reform entailed a strong centralisation of the responsibility for hospital care. On the other hand, hospitals were restructured under the ownership of four regional health enterprises that were given wide autonomy to run their business under supervision from the Norwegian Directorate of Health and the Ministry of Health. These new regional health enterprises are non-profit organisations.

One of the main motives of the reform was to achieve a higher degree of specialisation and hence efficiency in the production of hospital services. First of all the counties were deemed two small to allow for a sufficiently efficient specialisation and secondly the reform is a reflection of ideas inspired by New Public Management, with its emphasis on the establishment of quasi markets and more autonomy to corporate management. There has since the reform was enacted, been a continuous discussion about whether it has succeeded in improving efficiency. A research based evaluation of the reform published in 2007 produced a rather mixed picture.

One of the aspects that have been most widely debated is the system of financing. The regional health enterprises are presently financed by a combination of fixed basic grants that are distributed according to an *a priory* assessment of needs (about 50% of their revenue) and a detailed system of activity dependent reimbursements related to the treated diagnoses. However, a number of examples have appeared in the new media of goal replacement where hospitals and enterprises have consciously manipulated its use of diagnoses in order to maximise reimbursement payments from the state, and it has recently been suggested to modify the system for assessing variation in needs that determines the distribution of the fixed basic grants.

A recent comparative study of productivity in hospitals carried out by the OECD showed that Norway ranked in the middle with significantly higher per unit costs than countries like Denmark, UK and Finland, but still with significantly lower costs and higher productivity than the US (OECD 2008).

In June 2009 the Government launched a White Paper on a joint health care and elder care reform that points to a number of weaknesses in the present administrative and financial systems of health services and care services. Since this agenda for reform cuts across the two types of services it will be dealt with in a separate section (section 2.4 below).

Expenditure and input of resources

Norway ranks among the OECD-countries with the highest total (public and private) expenditure on health per capita when measured in absolute terms, and almost all the Norwegian health expenditure is almost entirely publicly financed. When measured relative to GDP, however, Norway does not stand out as a particular high spender. Total health expenditure amounted to about 9% of GDP in 2005 which puts Norway in the middle of the OECD league. This is partly due to the high and growing revenues from oil and gas over the last decades most of which is not directly consumed in Norway. When using an intermediate solution where health expenditures are measured relative total public and private consumption, Norway is again ranked among the high spenders. Turning to the input of manpower resources Norway ranks 1 among the OECD-countries in terms of the number of nurses per capita and 8 in terms of the number of doctors (St.meld. Nr. 9 (2008-2009) p. 79).

The high growth in health expenditures over the last decades is only partly explained by demographic changes (ageing). However, like in most other OECD countries the age adjusted demand for and expenditure health services is constantly rising – partly related to technological innovations and partly as a result of generally rising prosperity.

Projection about future demand and expenditures

The financial burden related to an expected increase in public health care expenditure has been a cause for concern in a number of official policy documents. Most recently these issues are thoroughly discussed in a Government White Paper on the long term prospects for the Norwegian economy (St. meld, nr. 9 (2008-2009)).

One of the most hotly debated issues both in academic research and in official policy documents concerns the relationship between longevity and morbidity. Will increasing longevity be associated with an increase in morbidity and frailty and hence in the number of years an individual needs intensive health care and long-term care, or will increasing longevity simply result in a postponement of the phase with high morbidity and frailty? If the latter should turn out to be the case, the future growth in the need for health services and elderly care will be less dramatic than one would be led to think based on the more conventional assumption that the demand for these services in each age span is constant (Holmøy and Nielsen 2008 and St. meld. nr. 9 (2008-2009)).

Health outcomes

On a range of public health indicators Norway scores comparatively high (infant mortality, life expectancy, self reported general health, obesity and smoking) – see Norwegian

Directorate of Health (2008). It is unclear however whether and to what extent this can be attributed to the quality of the preventive and curative efforts of the health service. There is general agreement among epidemiologist and health sociologists that more general societal factors are likely to be as important for health outcomes. One hypothesis that has received considerable attention is the claim that the modest degree of economic inequality found in Norway and the other Nordic countries might be conducive to aggregate public health (see Kravdal 2008 and Mæland et al. 2009).

One somewhat disturbing fact is, however, that social (relative) inequalities in health outcomes appear to be higher in Norway and the other Scandinavian countries than they are in Central and Southern European countries – see for instance Mackenbach (2006). There is, in other words, a comparatively strong social gradient in health outcomes in Norway. Part of the explanation might be a very strong social gradient in smoking and other health-related behaviours, and it has been suggested that the information campaigns that have helped to reduce smoking and other harmful behaviours among the middle classes have not yet succeeded in changing the behaviour of lower status segments of the population.

2.3 Long-term care

Compared to the other Scandinavian countries Norway was in the 1960s and 1970s somewhat of laggard in the development of services for the elderly. This is no longer the case. To illustrate the magnitude of the growth in this sector, the number of man years devoted to long term care services increased from 11,000 in 1960 to 117,000 in 2006. Today Norway has a strongly developed system for providing both home-help, nursing and institutionalised elder care. In 2006 Norway spent 1.7% of GDP on services to the elderly - compared to 4.9% on cash benefits (old-age pensions), see NOSOSCO (2008, Appendix 5). Like ordinary health care, long term care is provided as a universal right to all residents that is inscribed in the law. Long term care is the responsibility of municipalities, and the right to receive care is stated in the Municipal health services act.

Traditionally, voluntary organisations have played a significant role in owning and running nursing homes for the elderly. However, while there still are quite a few privately owned nursing homes in Norway, most have been fully integrated in the public system and completely dependent upon public financing. While the municipalities provide most the financing of elderly care given within and outside institutions, income related user charges are levied on the recipients of the services – particularly on the inhabitants in long-term care institutions. In 2007 user charges covered 7.5% of the total costs devoted by the municipalities to long term care (St. meld. nr. 9 (2008-2009), p. 89). The growth in the provision of long term care for the elderly has been associated with reforms in the mode of provision. Two important reform tendencies can be identified since the 1980s

Decentralisation

While the counties used to have responsibility for nursing homes, the responsibility was transferred to the municipalities in 1988. The municipalities finance these services out of their tax revenue and general grants from the state. Previously a major part of the state's financial support for a range of municipal services was given in the form of earmarked reimbursements, but over the last decades a clear priority has been to increase municipal autonomy by giving general grants instead. To compensate for the loss of a direct influence through earmarked financing the state has instead put emphasis on steering through legal obligations and contractual agreements with the confederation of municipalities.

Integration and de-institutionalisation

As already mentioned the building of nursing homes of a high quality happened somewhat later in Norway than in Denmark and Sweden. Only in the latter part of the 1990s was the securing of single rooms as the standard solution in nursing homes achieved in Norway. Like in the other Nordic countries, emphasis the last years has been stronger on providing nursing and home-help outside the institutions – either in the recipient's ordinary home or in so-called service housing, where the physical environment is adapted to the needs of elderly and frail people and where nursing and home-helps services are more easily provided.

Table 2: People aged 67+ who live in institutions or service housing and people aged 67+ who receive home help (practical assistance). 2006. Absolute numbers and %.

	Number of individuals in thousands	% of population 67+
Living in institutions or service housing	71	11.7
Receiving home help	83	13.6

Source: NOSOSCO 2008b

A hotly debated topic - both in Norway and internationally - in connection with the development of a public responsibility for elder care is if this will erode family bonds and "crowd out" spontaneous informal care within the family. Research on this topic has produced a rather optimistic picture, concluding that family ties do not appear to have weakened and that emotional support from grown-up children to their elderly parents is as important in Norway as it in countries where the family still plays a larger role in providing care for the elderly population (Slagsvold et al 2009).

Expenditure growth and challenges for the future

Public expenditure and the consumption of man years on long term care have grown very rapidly over the last decades. From 1988 to 2005 the input of manpower grew by almost 60%. Attempts to decompose the sources of this increase in the input of manpower have shown that only a smaller part – about 20% - is attributable to an increase in the size of the relevant age groups. The rest – almost 40% – growth comes from increasing take-up and increasing quality of the services provided.

In view the very strong demographic changes that will take place over the coming decades, the financing of elder care is a matter of concern together with health care and old-age pensions. Arguably, however the biggest challenge in connection with the future of care services in Norway is related to problems to recruit sufficient manpower. Salaries in the relevant occupations have traditionally been relatively low, and it is an open question whether it will be possible to recruit sufficient manpower to meet the growing demand in a rapidly ageing society. Immigrants from non-western countries provide a growing share of the manpower that produces these services, and it has been speculated whether increased immigration can be the only way to solve the projected shortages of manpower in this sector.

2.4 Reforming health services and the interface with elderly care

In June 2009, the Government launched a White Paper on a comprehensive reform agenda for both health services and elder care services in Norway. The White Paper was titled: 'The coordination reform' and the main thrust of the document was to improve integration and coordination between primary and secondary health care (hospital care and out-patient specialist treatment) and and between health care and elderly care (St.meld. nr. 47 (2008-2009). An important aspect of this agenda is to achieve a better coordination between health services run and financed by the state and services run and financed by the municipalities (primary health care and elder care).

The White Paper identifies three main weaknesses of the present system:

- The needs of patients who require both health and care services are not effectively met. One symptom of this is the practice of hospitals to release patients who need long-term care, without making sure that the needed care service is actually available in the municipality – or vice-versa examples of hospitals that keep patients longer than required because no adequate care service is available.
- There is too little emphasis on prevention in the overall system.
- Mechanisms securing cost containment and efficiency in the delivery of services are too weak.

The White Paper discusses these challenges and sets an agenda for reforms to deal with them. The reform agenda is far from radical as it mainly contains proposals to fine tune the division of labour between municipalities and the state and between primary health services and specialised services.

The main thrust of the proposals is to strengthen the role of the municipalities in the overall system. Arguably this approach faces the obstacle that many Norwegian municipalities are extremely small and therefore it is questionable whether they are capable of filling a more important role as providers and gatekeepers in overall health care system.

Among the more principled and new ideas is to let the municipalities take part in the co-financing of hospital and specialist treatment. This in essence involves the introduction of economic incentives as a means to control the gate keeping behaviour of the municipalities and the general practitioners. On the other hand it is suggested to play down the role of activity based financing of the hospitals in order to avoid some of the perverse behavioural adjustments that have been observed under the present system.

Another suggestion contained in the White Paper is to integrate the general practitioners more in the Municipalities' health plan and put a lower limit on the number of patients they are allowed to treat. A recent study has however cast doubt on the idea that a strengthened primary service with more general practitioners having responsibility for fewer patients each, will in fact save money on the use of specialised services. In this study of the propensity of general practitioners to refer patients to radiological investigations, it turned out that the general practitioners with the lowest number of patients, were more eager to refer patients to expensive investigations (Dahl, Ellingsen and Iversen 2010).

At present the White Paper is being debated in Parliament and it remains to be seen if the “coordination reform” will in fact be substantive in content or not.

3 Impact of the Financial and Economic Crisis on Social Protection

The Norwegian economy is still in the spring of 2010 only very mildly affected by the international economic downturn that has followed in the wake of the financial meltdown starting in the autumn of 2008. The Norwegian economy is considered to be in a mild recession that is expected to last through 2012. Most of the important economic indicators have been moving slowly in the right direction since the second quarter of 2009. The only exception here is unemployment that is expected to rise very slowly in the coming years but from an extremely low level.

However, although Norway is in a far better situation than most of Europe, it is still relevant to talk of potential effects the financial crisis and the associated real economic downturn might have on social protection. Before I turn to that I shall briefly review how the crisis hit the Norwegian economy and the measures that were taken to dampen the effect both of the immediate financial crisis and real economic downturn that followed.

Immediate effects of the financial crisis and policy responses

Although Norwegian banks and financial institutions were not particularly exposed to high risk investments in the US sub-prime market and to a small extent affected directly by the collapse of several UK and US financial institutions, the general credit crunch that swept the financial sectors worldwide from September became a major threat to the solidity and solvency of the Norwegian banks. In late October 2008 the Norwegian Government launched a major package of measures to support Norwegian banking sector – the main emphasis was on providing both short and long term liquidity as well as lower interest rates. Since the autumn of 2008 the Norwegian Central Bank has lowered its interest rate on several occasions, bringing the key policy rate down from over 6% to 1.5 pa from May 2009.

In January 2009, the Government launched a macro-economic stimulation package mainly centred on stimulating building and construction through increased public investments both at the national and the municipal level. A new package this time with an emphasis on securing the liquidity of export oriented industries was launched in February. Finally the expansiveness of fiscal policies was even further strengthened in connection with the revision of the 2009 budget presented in April. According to the Ministry of Finance, Norway is among the countries in the OECD area that responded to the crisis with the strongest fiscal policy stimulus.[10]

A review of key economic indicators

A summary of important economic indicators are presented in Table 3. They show that the negative effects of the current economic crisis are estimated to be relatively modest. Only in the first quarter of 2009, Norway entered a technical recession with negative growth in two quarters in a row. However, for 2009 as a whole Norway had a negative growth of only 1.5% – whether you exclude revenues from oil and gas or not (see the two first rows of Table 3). Exports fell only by a relatively modest 4.3% in 2009. Norwegian export industries are less

[10] http://www.regjeringen.no/en/dep/fin/press-center/Press-releases/2009/revised-national-budget-2009-continued-e.html?id=561745.

heavily affected by the global decline in demand since they are to a large extent based upon raw materials (oil, aluminium, fish), and here prices and demand has been less seriously affected compared to most markets for manufactured products like cars and other consumer durables. Also a large part of the Norwegian engineering industry is geared towards offshore technology and the fall in oil prices over the last year has not been strong enough to put a brake on investments in search activities and the development of new oil and gas fields.

The expansive fiscal policies followed particularly in 2009 are partly reflected in the growth in public consumption in 2009 of 5.2%. Housing prices have continued to grow in 2009 and 2010 after a small yearly decline in 2008. Low interest rates of course contribute to this and primarily in an effort to dampen the growth in private consumption and housing prices the Norwegian Central Bank has started to slowly raise interest rates towards more normal levels.

Unemployment has risen as a result of the crisis from a level around 2.5% in 2007 and 2008 to an average of 3.2% in 2009. However, the development in the latter half of 2009 has been much better than projected just one year ago. Despite projections about increasing exports and domestic consumption over the coming years, unemployment is expected rise further to 3.5% in 2010 and 3.9 in 2011 and 2012, before it is expected to start declining in 2013.

Lower prices on oil and gas will together with automatic stabilisers and active fiscal stimulation packages just mentioned lead to a decrease in the running surplus on the state budget – from a (record high) 18.6% in 2008 to about 15% from 2009 and onwards. This demonstrates the extraordinary privileged position of Norway in terms of its ability to combat and ameliorate any negative effects of international economic downturns.

Table 3: Key economic indicators 2007-2013 in %

	2007	2008	2009	2010*	2011*	2012*	2013*
GDP growth	2.7	1.8	-1.5	1.5	1.9	2.1	2.3
GDP growth - excluding oil and gas	5.6	2.2	-1.5	2.0	2.7	2.7	3.0
Private consumption growth	5.4	1.3	0.0	5.5	4.7	3.8	3.2
Public consumption growth	3.0	4.1	5.2	2.7	1.9	1.9	1.9
Exports growth	2.3	0.9	-4.3	2.4	1.1	1.2	1.0
Housing prices growth	12.6	-1.1	1.9	7.2	5.1	6.4	6.6
Unemployment - level	2.5	2.6	3.2	3.5	3.9	3.9	3.7
Surplus on state budget – level relative to GDP	14.1	18.6	15.0	15.5	15.9	15.3	15.4

* *Forecasts. Source: Statistics Norway, February 2010. http://www.ssb.no/emner/08/05/kt/*

The expansive fiscal policies followed in the last two years have implied a temporary violation of the self imposed fiscal policy rule mentioned in section on pensions, that is meant to limit the use of oil and gas revenues to cover running expenses on the state budget to the equivalent of a four percent real return on the assets held in the State Pension Fund (the former Petroleum Fund). The Government has expressed a firm intention to improve the balance of the state budget in the coming years with the goal of returning to the main rule before 2013. Fiscal austerity and difficult discussions about priorities will characterise Norwegian public budgeting in the coming years, even if this is not dictated by a soaring debt burden.

Turning now to the possible impact of the crisis on social protection I shall point to a number of areas where effects have already been observed or where effects are likely to materialise in the coming years.

- Delayed implementation of a major administrative reform
- Unemployment benefits to temporary lay-offs
- Effects on sickness absence
- Effects on the State Pension Fund
- Effects on occupational pension schemes
- Effects on retirement behaviour and employment opportunities for older workers
- Social protection for migrant workers

Delayed implementation of an un-going administrative reform

When the crisis hit in 2008 Norway was in the midst of implementing a very comprehensive administrative reform of its social- and employment services. By this year a giant merger of the state employment service with the National Insurance administration as well as municipal social services should be completed. The main purpose of the reform is to achieve a better coordination between employment services and the social security administration with a view to strengthen labour market integration of social security claimants. The reform involves the reorganisation of tasks and responsibilities of the employees within these agencies giving a stronger emphasis on individually tailored measures to promote employability and labour market insertion. However, the very modest rise in (traditional) unemployment that took place from the last quarter of 2008 to the first quarter of 2009 put the administrative capacity of these new merging agencies under serious pressure. As a result of this the Government decided to delay parts of the reform in order to let the new agency concentrate more on handling the routinely tasks of administering unemployment benefits. The delay was only temporary and the reform process is largely back on track – presumably helped by the fact that unemployment has shown a much more favourable development than expected just a year ago.

Unemployment benefits to temporary lay-offs

As an example of a very concrete adaptive measure, the Norwegian government in late 2008 decided to expand the possibilities for workers who have become temporarily laid off to receive unemployment benefits. This is a measure that is generally supported by both unions and employers' association. If the economic downturn should become more severe and last for several years, there is likely to be a discussion whether to expand the duration of unemployment benefits. The current rules allow only a maximum period of two years on unemployment benefits, and after that the claimants will be referred to social assistance.

Effects on sickness absence

Sickness absence rates increased in 2009 and in particular in male dominated sectors and industries most affected by the economic downturn – like for instance the building industry (Nossen 2010). Normally one would expect a decrease in sickness absence during a recession due to a disciplining effect of unemployment, but this effect appears to have been overshadowed by a tendency to increase the use of sickness absence among workers threatened by dismissals and lay-offs (Bjørnstad 2010). The increase in sickness absence observed in 2009 spurred a lively debate on possible remedies including cuts in the benefit scheme as such, tightening of certification procedures, and the introduction of stronger incentives for employers to bring down sickness absence among their employees.

Effects on the State Pension Fund

One area where the financial crisis had immediate negative effects was on the State Pension Fund (the former State Petroleum Fund). Due to the collapse in international stock markets and losses on other financial investments, the State Pension Fund lost well over NOK 600 billion in 2008, which is equivalent to more than a quarter of its value. However, positive development in international stock and bond markets from the first quarter of 2009 to the first quarter of 2010 has implied that almost all of the losses incurred since the beginning of the crisis have been regained. The value of the total assets held by the State Pension Fund was by the end of the first quarter of 2010 equal to NOK 2,700 billion.[11] By comparison the Norwegian GDP was in 2009 estimated to NOK 2,400 billion.

Effects on occupational pension schemes

Obviously, the collapse of international stock markets has had a negative effect on private occupational pension schemes whether they are of the defined benefit or the defined contribution type. Most defined contribution schemes that have been established in recent years - particularly since the introduction of law that makes occupational pension schemes obligatory in the private sector – have a high risk profile with about 50% of the assets invested in shares. This means that the employees covered by these schemes have suffered losses – at least temporarily. This phenomenon has received fairly little public attention, and part of the explanation might be that most of these schemes are in a fairly early phase of asset accumulation so that the losses are rather modest in absolute terms. Also it can be argued - as with the State Pension Fund - that most of the losses incurred in the first phase of the crisis have been regained by the end of 2009. Nevertheless the financial crisis has demonstrated the volatility of international capital markets and made the issue of risk management and risk distribution more pertinent. In the case of defined benefit schemes it is the employers who suffer by having to increase contributions. Most likely the crisis will further stimulate employers to replace the traditional defined benefit schemes with defined contribution schemes.

Effects on retirement behaviour and employment opportunities for older workers

As described in section 2 on pension reform, Norway will from 2011 introduce a flexible retirement age from 62 on actuarially neutral terms. The main philosophy behind this reform is that the choice of retirement age is basically a voluntary individual decision, and therefore each individual should ideally carry the full costs of his or her choice of retirement age. This part of the reform was framed in a period with a very (perhaps exceptionally) tight labour market. As we have seen even in the absence of strong incentives to postpone retirement, labour force participation of elderly workers was in fact increasing in this period. We have

[11] See http://www.nbim.no/no/media-og-publikasjoner/nyheter/2010/et-godt-forste-kvartal-for-fondet/.

also seen that this tendency was reversed in 2009 – possibly as a result of the changing economic climate.

A new study based on longitudinal survey-interviews with employers and older employees throws some interesting light on this issue. While both employer attitudes (both cognitive and emotional) and employer behaviour towards older workers had shown a positive development during the last seven years, 2009 appears to have been a turning point. In the latest survey employers – particularly in the private sector - had turned significantly less positive in their evaluations of older workers (Solem 2010). The study also found a break in the attitudes and expectations of older workers in terms of being less willing to postpone retirement.

The introduction of the new flexible retirement age from 2011 might have unintended negative effects if the situation on the labour market should deteriorate further. The fact that older workers do have an option to be supported outside the labour market from the age of 62, could very well lead to strong pressures on older workers to retire in companies that need to downsize. In a more slack labour market, the possibilities to find new part-time jobs to supplement a part-time pension is also likely to be much more bleak compared to the conditions we have enjoyed in the last years. Increasing pressures on the disability scheme is also a likely consequence of more unfavourable labour market conditions for older workers.

Social protection for migrant workers

In the last five years Norway has benefited from a large influx of migrant workers particularly from the new EU member countries – like Poland and the Baltic countries. In a very tight labour market situation they have played a key role to avoid wage inflation in industries like building and construction. When these industries were hit by the financial crisis by the end of 2008 unemployment among migrant workers showed a very strong increase.[12] This in turn spurred some debate with a welfare chauvinistic flavour about tightening the conditions under which migrant workers are protected against unemployment, and the Norwegian employment service introduced a scheme offering migrant workers support to help establish themselves in their home country. As the fears of a further strong rise in unemployment have so far been proven wrong, these debates have subsided, but they could re-emerge if the situation should deteriorate.

[12] See http://www.ssb.no/innvarbl/main.html.

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4 Abstracts of Relevant Publications on Social Protection

[R] Pensions
- [R1] General trends: demographic and financial forecasts
- [R2] General organisation: pillars, financing, calculation methods or pension formula
- [R3] Retirement age: legal age, early retirement, etc.
- [R4] Older workers activity: active measures on labour market, unemployment benefit policies, etc.
- [R5] Income and income conditions for senior workers and retired people: level of pensions, accumulation of pensions with earnings from work, etc.

[H] Health
- [H1] Health expenditures: financing, macroeconomic impact, forecasting, etc.
- [H2] Public health policies, anti-addiction measures, prevention, etc.
- [H3] Health inequalities and access to health care: public insurance coverage, spatial inequalities, etc.
- [H4] Governance of the health system: institutional reforms, transfer to local authorities, etc.
- [H5] Management of the health system: HMO, payments system (capitation, reimbursement, etc.)
- [H6] Regulation of the pharmaceutical market
- [H7] Handicap

[L] Long-term care

[R1, R2] CHRISTENSEN, A.M., FREDRIKSEN, D., LIEN, O.C., and STØLEN, N.M., Pension reform in Norway, paper presented at NDC-conference in Stockholm, 2-4 December 2009.

The authors give an overview of the Norwegian pension reform process, its content and possible effects on financial sustainability and benefit adequacy. In addition to the institutional analysis the authors provide an up-to-date version of micro-simulation results using the so-called MOSART model developed and maintained by Statistics Norway.

[R3] HERNÆS, E., and ZHIYANG, J. (2009), Labour supply response of a retirement earnings test reform, Mimeo 25/2009, Oslo: Frisch Centre.

Using the Norwegian administrative data the authors estimate the effect of a natural experiment provided by a political decision to raise the threshold for the earnings test applied to old age pension benefits received between the age 67 and 70. They find no impact on labour market participation, but a fairly strong positive effect on hours worked and hence on earnings. The effect increases with exposure to the reform and is stronger for individuals with earnings around the threshold and with high education. As one could expect, individuals who remain active until retirement age are found to respond more to the reform than those who left labour force earlier. The results are interpreted to indicate the existence of substantial labour supply responsiveness among a significant segment of elderly workers in Norway.

[R4] HAGA, O. (2010), Forventa pensjoneringsalder 1986-2009. Arbeid og velferd, Rapport nr. 2, Oslo: NAV. P. 30-35.
"Expected retirement age 1986-2009"

The author provides new calculations of the so-called expected retirement age calculated on the basis annual age specific transition rates to the pension schemes that are available to older workers – including disability benefits, the AFP-scheme for voluntary retirement between age 62-66 and ordinary old age pension available from age 67. The calculations are done for individuals at different age levels. The most *interesting in terms of retirement behaviour are the figures presented for a 50 year old non-retired person. This indicator (the expected age of retirement) has shown a tendency to increase over the last decade, but the tendency turned slightly in the opposite direction in 2009 – possibly under the influence of the very mild economic downturn experienced by Norway in the wake of the financial crisis.*

[R4] SOLEM. P.E (2010), Eldres posisjon i arbeidslivet ved konjunkturomslag, NOVA rapport nr.5/10, Oslo: NOVA.
"Changes in the business cycle and the labour market prospect of older workers"

The report presents results from a series of longitudinal surveys – one on employer attitudes to older workers and one on the attitudes and expectations of older workers themselves. The similar surveys have been carried out over a seven year period and up until recently the showed a rather consistent trend in the direction of a more positive attitude towards the recruitment and retention of older workers among employers and an increasing willingness on the part of the older workers themselves to postpone retirement. However in the last round conducted in 2009 the tide appears to have turned and on a number indicators the perceptions of and attitudes towards older workers appear to have become more negative. The author interprets these findings in the light of the economic downturn that hit also Norway and particularly in the beginning of 2009 was expected to become much more severe than it has in fact turned out – at least so far.

[R5] DAHL, E.H. (2010), Fordelingseffekter av pensjonsreformen. *Arbeid og velferd, Rapport nr. 2//2010, Oslo: NAV.*
"Distributional effects of the pension reform"

The author – an analyst employed at the Norwegian social security administration (NAV) – analyses the distributive impact of the pension reform using a micro-simulation model developed at NAV. Some of the results obtained are difficult to reconcile with results obtained by researchers at Statistics Norway using another micro-simulation model called MOSART. Both in terms of the gender gap in pensions and in terms of Gini-inquality the author finds no consistent long term differences between the present and the reformed pension systems. The discrepancy to earlier findings are not clearly explained.

[H] Health

[H1] TJERBO, T., and HAGEN, T.P (2009), Deficits, soft budget constraints and bailouts: Budgeting after the Norwegian hospital reform, *Scandinavian Political Studies* 32(3):337-358.

The authors argue that one of the main aims of the 2002 reform of the Norwegian hospital has not been met. When the responsibility for the hospital sector was transferred from the counties to the public health enterprises owned directly by the state, one of the main goals was to harden the budget constraints and increase the budgetary discipline. In stead it is shown that the production of health has been far above what was planned, and the deficits higher than ever. The authors point to three mechanisms that can explain the prevailing problems of managing the hospital sector: uncertainty of the hospitals' financial situation during the transition phase; minority governments; and specific features related to the organisation of the budgetary process in parliament.

[H3] FOSSE, E., and STRAND, M. (2010), Politikk for å redusere sosiale forskjeller i helse i Norge: Fornyet politisering av folkehelsespørsmål. Tidsskrift for velferdsforskning 13(1) 14-25.
"Policies to reduce social inequalities in the health sector in Norway: renewed political attention to public health issues."

> *The article analyses the emergence of social health inequalities as a political issue in Norwegian politics. It is shown that in particular under the present red-green government the issue has raised to a high level of political priority. It is questioned, however, if the political attention to the social gradient in health will result in effective policy responses. The general assumption that social inequalities are a bad thing does not necessarily translate into a broad consensus about concrete strategies and measures to tackle the problem.*

[H3] BREKKE, K. A., and KVERNDOKK, S. (2009), Health inequality in nordic welfare states - more inequality or the wrong measures?, HERO skrifter nr. 4. Oslo: HERO.

> *The point of departure for this paper is the well-known claim that (relative) health inequalities in the Nordic countries are relatively large and seemingly larger than in Continental European welfare states. The authors argue that this is largely an artefact. The claim is supported by the development of a theoretical model in which it is assumed that the universally observed correlation between income and health is driven by a causal effect of health on income. In this scenario, differences in health status across the population will be a source of income inequality. In egalitarian countries where the influence of other (socio-economic) sources of income inequality are weak, it will tend to be a relatively important source and the correlation between income and health will be stronger compared to less egalitarian countries where other social variables play a stronger inequality enhancing role.*

[H4] CARLSEN, B., and NYBORG, K., The Gate is Open: Primary Care Physicians as Social Security Gatekeepers, Mimeo 7/2009, Oslo: Frisch Centre.

> *This report uses a (rather unique) combination of theoretical mathematical modelling and qualitative case studies to investigate the behaviour of self-employed primary care physicians in their dual role of care givers and social security gate keepers. It is argued that market forces compel the physicians to side with their patients and to downgrade their role as social security gate keepers. The finding of the study have indirect implications also for the role of the physicians in their gate keeping to expensive secondary health services.*

[H4] KJØNSTAD, A. (2009), Juridiske synspunkter på samhandlingsreformen. Tidsskrift for velferdsforskning 12(4), pp. 276-289.
"Legal analyses of an important Norwegian health reforms"

> *The author offers a critical review the Government White paper on the socalled "Coordination reform" that was launched in June 2009. It is argued that key reform proposals – particularly the introduction of economic incentives vis-a-vis the municipal primary health care to ration the use of more expensive hospital and specialised care will threaten patients' statutory rights and the professional autonomy of health care personnel.*

[H5] DAHL, E.H., ELLINGSEN, J., and IVERSEN, T. (2010), Markedsforholdenes betydning for fastlegenes henvisninger til radiologiske undersøkelser. Samfunnsøkonomen 64(1), pp. 20-27.
"The influence of market competition on the propensity of primary care physicians to refer patients to radiological investigations"

> *This is a study of variation in the propensity of physicians to refer their patients to radiological investigations. The authors are concerned to find out whether physicians who have few patients on their lists behave differently from physicians with full patient lists. They do indeed find a significant difference in the sense that physicians who face a difficult market situation (having too few patients) more often refer their patients to radiological investigations. This finding holds up for a number of controls for confounding factors.*

[L] Long-term care

[L] KJERSEM, E, and AARSETH, T. (2009), "Nei, det har jeg ikke tenkt over ennå": Om kunskapsgrunnlag og beslutningsutfordringer i eldreomsorgen. Tidsskrift for velferdsforskning 12(1) 41-54.
"No, I haven't thought about that yet. Knowledge base and decision making challenges in provision for old age"

> *This article reports results from a survey among elderly residents in a particular municipality about which type of residence they would prefer in the future when their care needs are likely to increase. It turns out that a majority express a preference for moving to a care institution rather than staying at home and receiving home based services. This is inconsistent with official policy documents where it is generally assumed that the elderly will prefer to stay at home as long as possible. This discrepancy is used as the point of departure for a discussion of the information problems that face both the individual and policy makers when planning for care and housing needs in old age.*

5 List of Important Institutions

Arbeids- og inkluderingsdepartementet - Ministry of Labour and Social Inclusion

Postal address: Postboks 8019 Dep., 0030 Oslo
Visiting address: Einar Gerhardsens plass 3, Oslo
Phone: 0047 22 24 90 90

The Ministry is responsible for Labour market policy, Working Environment and Safety, Poverty and Welfare, Integration and Diversity, Sami and Minority Affaires and Migration.

Helseøkonomisk forskningsprogram (HERO) ved Universitetet i Oslo - Health Economics Research Programme at the University of Oslo - HERO

Contact person. Tor Iversen
Webpage: http://www.hero.uio.no/

HERO is a research programme concentrating on research in health economics at the University of Oslo. HERO has its foundation in economics, but emphasises the need for cross-disciplinary cooperation to ensure the relevance of research to the needs of the health care sector. The programme's staff members include researchers in social sciences, mainly economics, and researchers from the medical profession. The programme has three research units:, The Institute of Health Management and Health Economics, The Frisch Centre, and The Department of Economics at the University of Oslo. HERO's research activity is financed by the Research Council of Norway, but the programme does also cooperate with others whose projects are not financed by the Council.

Helse- og Omsorgsdepartementet - Ministry of Health and Care Services

Postal address: PO Box 8011 Dep., 0030 Oslo
Visiting address: Einar Gerhardsens plass 3 (S-blokken), Oslo
Phone: 0047 22 24 90 90

The Ministry of Health and Care Services bears the main responsibility for the provision of adequate and appropriate health and care services for everyone in Norway, irrespective of geographical location and financial circumstances, and the promotion of public health. The Ministry has the overall responsibility for government policy on health and care services in Norway.

NOVA - Norsk institutt for forskning om oppvekst, velferd og aldring – Norwegian Social Research

Contact person. Britt Slagsvold
Webpage: http://www.nova.so

NOVA is a research institute under the auspices of the Norwegian Ministry of Education and Research. The aim of the institute is to develop knowledge and understanding of social conditions and processes of change. Research focus on issues of life-course events, level of living conditions and aspects of life-quality as well as on programmes and services provided by the welfare system. Nova is carrying out research on social problems, public services and transfer schemes; carrying out and developing research on the family, children and young people and the conditions under which they grow up; carrying out and developing research, pilot and development programmes with particular emphasis on vulnerable groups and child welfare services and carrying out and developing gerontological research and related research, including gerontology as an interdisciplinary science.

Fafo - Institute for Labour and Social Research

Contact person. [Geir Veland]

Webpage: http://www.fafo.no/indexenglish.htm

Fafo was founded by the Norwegian Confederation of Trade Unions (LO) in 1982. Fafo develops and disseminates knowledge about changes in living and working conditions, societal participation, democracy and development in a range of social and economic settings. Our ambition is to contribute to processes of social and economic development based on rigorous ethical and scientific standards. Fafo is organised in two institutes: the Fafo Institute for Labour and Social Research and the Fafo Institute for Applied International Studies. Anchored in a tradition of empirical research, Fafo have developed special expertise in the collection and analysis of quantitative data which we combine with qualitative research approaches.

This publication is financed by the European Community Programme for Employment and Social Solidarity (2007-2013). This programme was established to support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields. The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA and EU candidate and pre-candidate countries. The Programme has six general objectives. These are:

(1) to improve the knowledge and understanding of the situation prevailing in the Member States (and in other participating countries) through analysis, evaluation and close monitoring of policies;
(2) to support the development of statistical tools and methods and common indicators, where appropriate broken down by gender and age group, in the areas covered by the programme;
(3) to support and monitor the implementation of Community law, where applicable, and policy objectives in the Member States, and assess their effectiveness and impact;
(4) to promote networking, mutual learning, identification and dissemination of good practice and innovative approaches at EU level;
(5) to enhance the awareness of the stakeholders and the general public about the EU policies and objectives pursued under each of the policy sections;
(6) to boost the capacity of key EU networks to promote, support and further develop EU policies and objectives, where applicable.

For more information see:
http://ec.europa.eu/social/main.jsp?catId=327&langId=en