Analytical Support on the Socio-Economic Impact of Social Protection Reforms

Annual National Report 2009

Pensions, Health and Long-term Care

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Table of Contents

1 Executive Summary

Norway is about to carry out a major pension reform – the biggest and most comprehensive reform since the 1960s. The main purposes are a) to limit future expenditure on old-age pensions, b) to increase labour supply and in particular to stimulate an increase in effective retirement ages, c) to introduce a more transparent and logical system of pension accrual. The Norwegian reform is strongly inspired by the path-breaking Swedish and Italian pension reforms from the 1990s. 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 earning). The accrual of pension rights will take the form of yearly credits to a notional savings account corresponding to 18.1% of earnings, and the accumulated pension wealth will eventually be transformed to an annuity upon retirement. 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. The new system of accruing pension rights will be gradually introduced so that it will not affect cohorts born before 1953 and determine fully the pension rights of cohorts born after 1963.

There will in the new system (already from 2011) be a flexible retirement from age 62 on actuarially neutral terms. All subsidies to early retirement that existed in the old system will be removed. Retirement benefits will in the future (also from 2011) be subject to longevity adjustments, implying that any future increase on longevity will automatically be translated into a proportional reduction in benefit levels. The measure implies that the costs associated with increasing longevity (and the associated risk/uncertainty) will be transferred from the pension system and its sponsors to the successive cohorts of old-age pensioners. 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. Discussions about the potential effects of the reform – both among policy makers and academics - tend to concentrate on three broad issues: the long term financial implications, distributive outcomes, and effects on labour supply and retirement behaviour.

The Norwegian health care system and the system for providing long term elder care has been fairly stable over the last five 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 specialized 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. Norway counts among the highest spenders of public health care and elderly care in Europe.

Norway has so far only been relatively mildly hit by the financial crisis. This is primarily due to the fact that a significant part of Norwegian industry is operating in markets that have so been less severely hit by the recession. Adding to this 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. If, however, the international recession should deepen and last longer than is currently projected, the

Norwegian economy will indeed be affected more seriously, and it is likely to have more significant and lasting effects on social protection.

2 Current Status, Reforms as well as the Political and Scientific Discourse

2.1 Pensions

Norway is about to implement a comprehensive pension reform. The detailed legislation on the new old-age pension system will be passed by Parliament before the summer 2009, and formally take effect from January 1. 2010. Before embarking on a description of the reform and it potential implications, I shall describe developments in the old, pre-reform, system that have led up to at motivated the current reform process.

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 rather late 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 1967 reform

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 was designed to replace 45% of yearly earnings between a lower threshold equal to the basic pension for a single pensioner (the so-called Base Amount) and an upper threshold set at 8 times the Base Amount – which at the time was equivalent to almost two times the average wage for a male production worker. The right to full earnings-related benefits required 40 years of contributions, and benefits were to be calculated on the basis of the 20 “best years” of pre-retirement earnings. The 40 year contribution requirement meant that the earnings-related second tier was programmed to start paying full benefits from the year 2007, but favourable transition rules were put in place to accelerate the accrual of pension rights somewhat for older cohorts (Hatland 1984).

The idea behind the introduction of an earnings-related second tier was to offer a general, public alternative to the more decentralised system of occupational pension schemes that had been proliferating among white collar workers and other more privileged or well-organized segments of the workforce (Hippe and Pedersen 1996). When fully mature the system was stipulated to offer replacement rates well above two thirds of previous earnings for an average manufacturing worker with a home-making wife and somewhat less than two thirds for an equivalent single pensioner. Despite the introduction of an insurance-like second tier, the combined benefit profile of the system was kept rather progressive thanks to the continuation of the universal flat rate benefit. The flat-rate component secured that replacement rates would be higher for the lower paid (as well as for part-timers) and lower for high income workers.

As part of the 1967 reform disability pensions were adapted to the old-age pension systems. Disability benefits were calculated in the same way as the prospective old-age benefit – on the basis of the pre-disability contribution/earnings-record of the recipient and a stipulated continuation until old-age retirement in line with wage levels received in the years preceding disability. The financing of the national pension system was from 1967 based on a combination of pay-roll taxes and employee contributions. However, after a few years the financing of pensions (old-age and disability) was joined with the financing of sickness insurance and public health care, and initial ambitions to build up a buffer-fund were abandoned in favour of full-fledged pay-as-you-go financing. Since the early 1970s the pension system has been fully integrated in the general state budget.

Changes in the benefit formula: improved minimum protection

Over the last forty years the National Insurance pension system has been subject to a number of discrete amendments. Together with some subtle gradual changes they have lead to a substantial improvement of minimum protection and a partial weakening of the earnings-related part of the system.

Already in 1969 a third benefit component – the so-called “Special Supplement” - was introduced in an effort to improve the situation of those cohorts who were too old to benefit from the new earnings-related pension system because they had already retired when the new system was introduced or were close to retirement. 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 no or low earnings-related pension rights.

When first introduced, the Special Supplement was very modest in size relative to the universal basic pension (7,5% of the Base Amount), but during the 1970s and 1980s the benefit level has been gradually raised, and the supplement has come to constitute a significant part of the minimum protection provided by the national pension system (Pedersen 1999).

The expansion of the Special Supplement must be seen in relation to the issue of indexation. Accrued pension rights and key benefit parameters of the system are measured and indexed in terms of the Base Amount. According to guidelines adopted in 1967, indexation of the Base Amount should compensate for changes in prices, but also reflect improvements in real wages. However, instead of an automatic indexing procedure, it was left to Parliament to make year-by-year discrete (and hence politically informed) decisions on the size of yearly increments to the Base Amount – after a formalized round of quasi-negotiations with relevant interest groups. On average over the past forty years the indexing of the Base Amount has struck a compromise between price compensation and full wage compensation. The cumulated deficit in the indexation of the Base Amount relative to average wages had by the mid 1990s grown to about 30 percentage points. Since then, however, indexation of the Base Amount has been more or less in line with average wages

The gradual expansion of the Special Supplement has over the years been used as a relatively cheap way to uphold and even significantly improve the relative generosity of minimum protection in old-age, in view of the simultaneous “under”- indexation of the Base Amount. By the mid 1990s the Special Supplement amounted to 63% of the Base Amount. In the last ten years the Special Supplement has been raised even further as a result of discretionary policy initiatives. In 1998 the Special Supplement was raised to 80% of the Base Amount and it was raised again in 2008 to reach 94% of the Base Amount for single pensioners. In nominal terms this implies that the minimum pension for a single pensioner as of 2008 is fixed at NOK 136,300. A new raise is planned for 2010 when the Special Supplement will reach 100% of the Base Amount. From then on the minimum pension for a single pensioner will be twice the Base Amount. While the minimum pension for a single pensioner in 1967 amounted about 22% of an average fulltime wage (gross) its relative value had increased to 35% in 2008. In terms of after tax values the minimum pension for a single pensioner amounts to approximately 50% of an average full time wage.

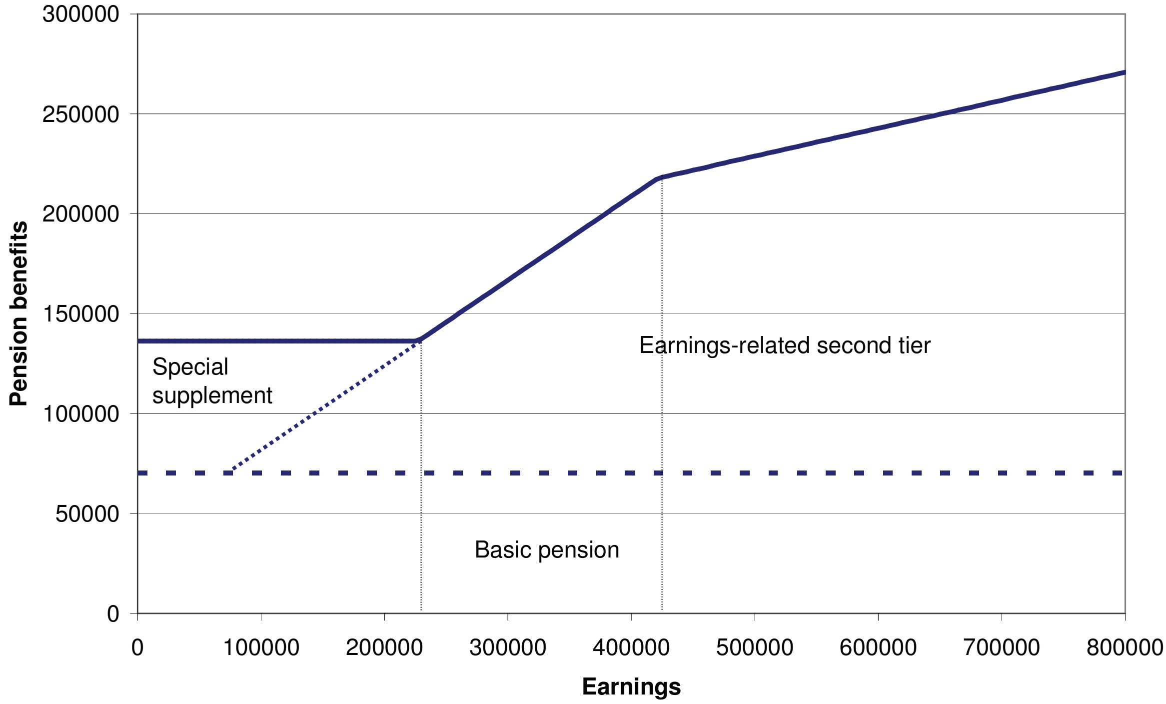
Weakening of the earnings-related second tier

While the generosity of minimum protection has improved over time, the quality of income security provided by the earnings-related second tier has been reduced in comparison to the benefit formula originally envisioned on 1967.

The direction of change has not been without exceptions, however. In 1973 the earnings-related second tier was expanded as the social insurance ceiling was raised from 8 to 12 times the Base Amount. The expansion was qualified by the rule that earnings between 8 and 12 times of the Base Amount only were to count by one third (15 instead of 45% accrual rate). In the decades to follow the deficient indexation of the Base Amount gradually took its toll, primarily by reducing the values of accrued pension rights and by reducing the relative value of the universal basic pension and the thresholds for accrual of pension rights at 8 and 12 times the Base Amount. A smaller retrenchment reform prepared in the late 1980s and taking effect in 1992 contributed further to weaken the second tier. The reform that was supported by a broad coalition in Parliament reduced the pension accrual rate from 45 to 42% of pensionable earnings and lowered the threshold for full pension accrual from 8 to 6 times the Base Amount.

Figure 1 illustrates the benefit structure and the compound profile of the existing old-age pension system for a stylized worker with stable earnings over a 40 year contribution period. The figure assumes that the parameters as of 2008 have been in operation for the entire contribution period. While the accrual of earnings-related benefits formally starts at a yearly income of NOK 70,000 (=1 Base Amount), 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 implying that you need an average earnings level of about NOK 230,000 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 421,000 (= 6 Base Amounts) after which pension accrual is reduced from 42% to (42/3=) 12%. Accidentally in 2008 this threshold is virtually identical to the official estimate of an average full-time wage in the Norwegian labour market. As already mentioned, pension accrual stops entirely at an earnings level of NOK 842,000 (=12 Base Amounts), which is in turn identical to 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 2008



At average (full-time) wage levels, gross replacement rates as 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

Although the introduction of a second tier of earnings-related benefits in 1967 was intended to replace and crowd out occupational pension schemes for specific segments of the workforce, most of the schemes were continued and integrated with the new National Insurance system. The role of these occupational pension schemes started to increase again, particularly from the mid 1980s – partly as the result of the weakening of the earnings-related second tier of the National Insurance system.

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.

[1] Compound replacement rates are somewhat higher for single pensioners.

In the private sector, coverage with occupational pensions is 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 less risky and therefore more attractive to employers. In the following years coverage with occupational pensions did not expand to any significant extent but quite a few employers reacted to the new legislation by replacing and existing defined benefit schemes with new defined contribution schemes.

Retirement age and early retirement schemes

The retirement age in the National Insurance system was from the start 70 years, as it had been since the first national old-age pension system was introduced in 1936. In 1973 a flexible retirement age between 67 and 70 was introduced. In order to receive full benefits at age 67, it was required that the claimant had withdrawn from the labour market, and in case of part-time withdrawal the claimant would only receive a proportional part of the full old-age benefit. When reaching 70 this employment or earnings-test no longer applied. This flexible retirement option initially also contained incentives for continued labour force participation. People who chose to postpone retirement after reaching 67 were awarded a lifelong supplement to the pension benefits when reaching 70. The supplement was significant but short of giving a full actuarially fair compensation for the benefits forgone. Very rapidly however 67 became established as the normal retirement age, and only a small minority continued to work until 70 or beyond. In view of this development the reward for postponing retirement was removed in the mid 1980s.

In the mid 1980s the Norwegian Confederation of Trade Unions (LO) was keen to have a further reduction in the flexible retirement age of the National Insurance system. In stead in the beginning of a serious economic downturn, it was decided in a round of tripartite wage negotiation between the LO, its employer counterpart (NHO) and the state to establish 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 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).

2.1.2 The current pension 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 taking 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. 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 is now backed by a broad coalition of parties – only excluding the populist right party (the Progress Party). Although the detailed legislation is about to be confirmed by Parliament[2] some important aspects of the reform still remain to be fleshed out and formally decided (more on this below).

[2] The proposal for the detailed legislation is contained in "Ot-prp. nr. 37 (2008-2009)" that was put forward in February this year. Other important documents from the preparation period include St.meld. nr. 12

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.

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 increase its share of GDP by more than 300% over the coming five decades to reach 14.8% of GDP in the year 2050. This projection was claimed not to be very sensitive to alternative assumption about economic growth, since it is assumed that the Base Amount from now on will be fully indexed in line with the growth in average wages (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 pension system by the year 2050 has been estimated to “only” require an increase in the overall tax load of about 5 percentage points.

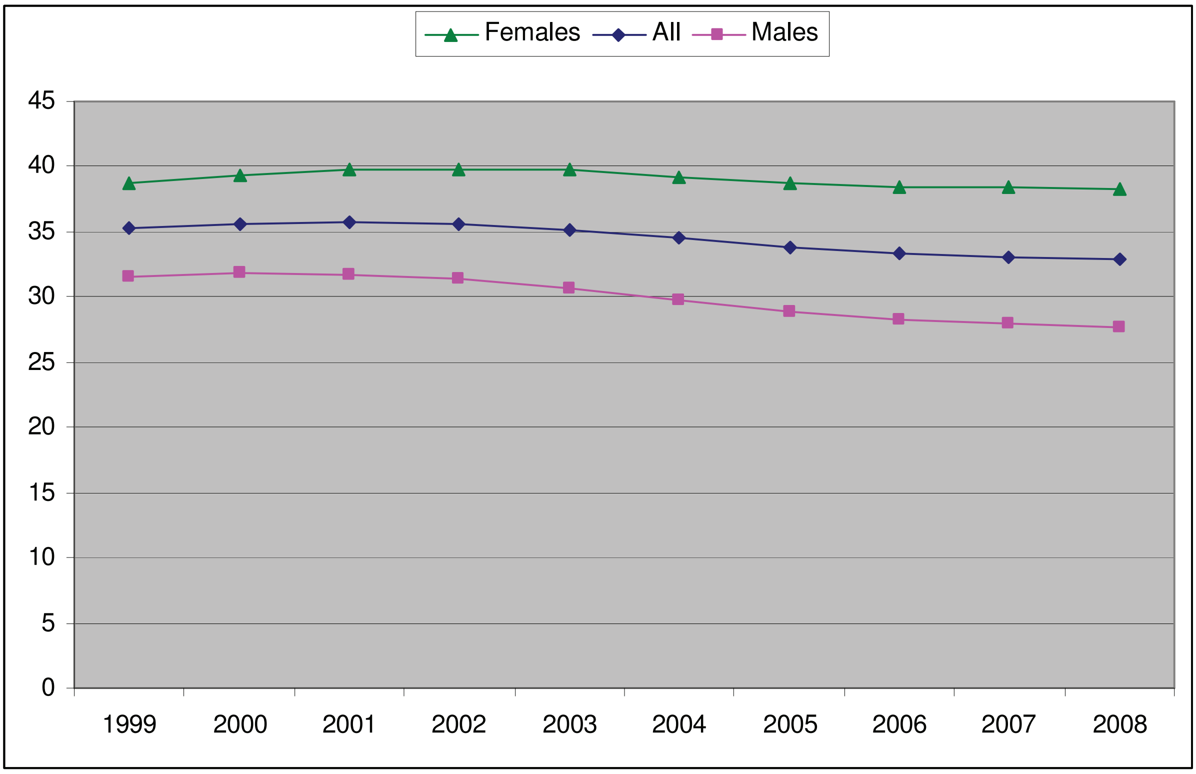
It should be noted that these projections of the future public finances also make assumptions about increasing expenditure on public services (notably on health care and long term elderly care). Basically it is assumed that public provided services to the elderly will increase in line with the number 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.

(2004-2005) and St. meld. nr. 5 (2006-2007) in addition to two agreements on the main features of the pension reform signed by broad coalitions of parties in 2005 and 2007.

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.

Assumptions 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 11% 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 and 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]



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-

[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.

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

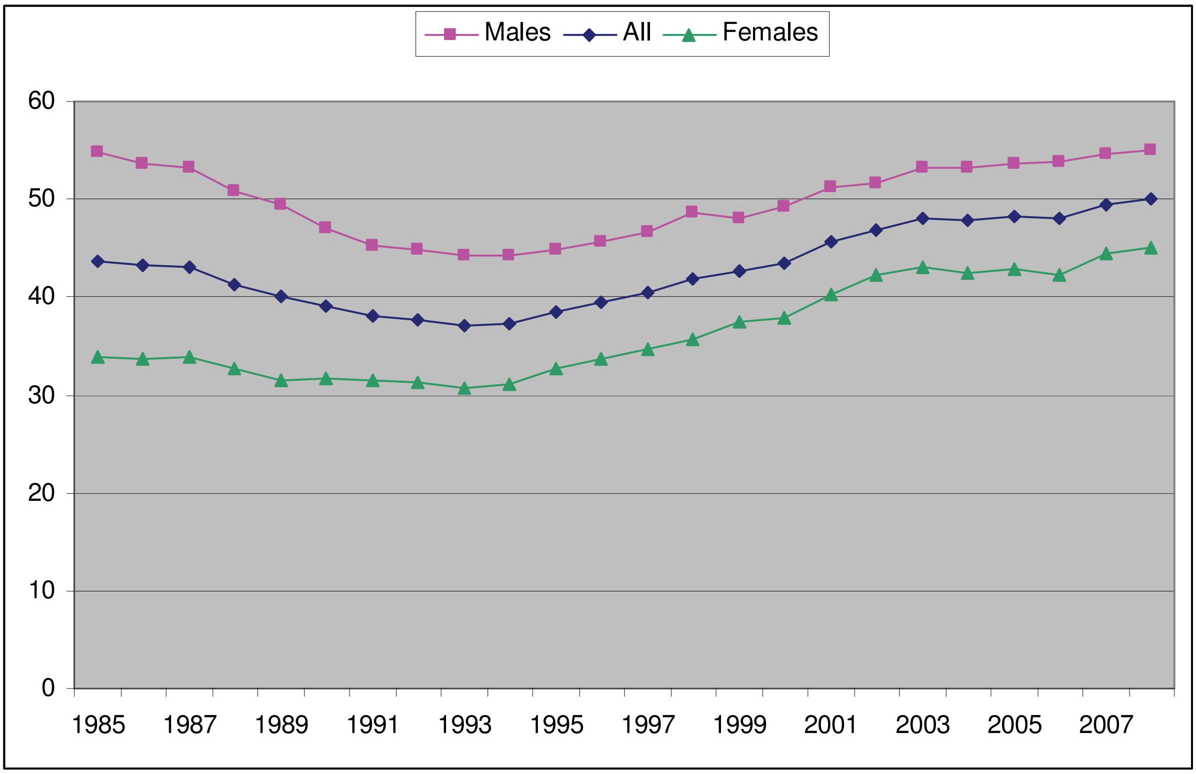
Of those 62 year olds who are covered by the scheme and have not already taken up disability benefits, about 25% take out AFP benefits immediately upon reaching 62, another 30% take out AFP benefits later so that only about 45% of those eligible for the scheme choose not to take out benefits at all and 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 remained fairly stable 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.

However the picture of stability in the overall retirement behaviour since the late 1980s is confirmed by calculations made of the expected age of retirement for 50 year old employees. According to calculations made by analysts in the National Insurance administration, the expected age of retirement for a 50 year old worker was 63.6 in 1988. Ten years later in 1998 this figure had decreased to 62.7 while it had risen to 64.0 in 2008 (Haga 2009). Similar figures have recently been published by the Nordic Social-Statistical Committee (NOSOSCO). 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 has been 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 is 62.8 years, while the expected age of retirement benefit take-up is just below 64 years in 2006.

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



Of course these observations are perfectly compatible with an assumption that labour force participation would have been even higher in the absence of the AFP scheme. They are also compatible with the existence of a downward trend in labour force participation that has temporarily been masked by the exceptionally tight labour market of the last ten years.

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 a range of other - less reasonable – distribute 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 criticized. 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 with a substantial working career would end up as receivers of minimum benefits and hence experience that their contributions to the earnings-related second tier have been made in vain.

5 Source: Statistics Norway. Databank.

2.1.3 Content of the pension 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 system for the accrual of pension rights
- The introduction a flexible retirement between age 62 and 75
- The introduction of a 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.

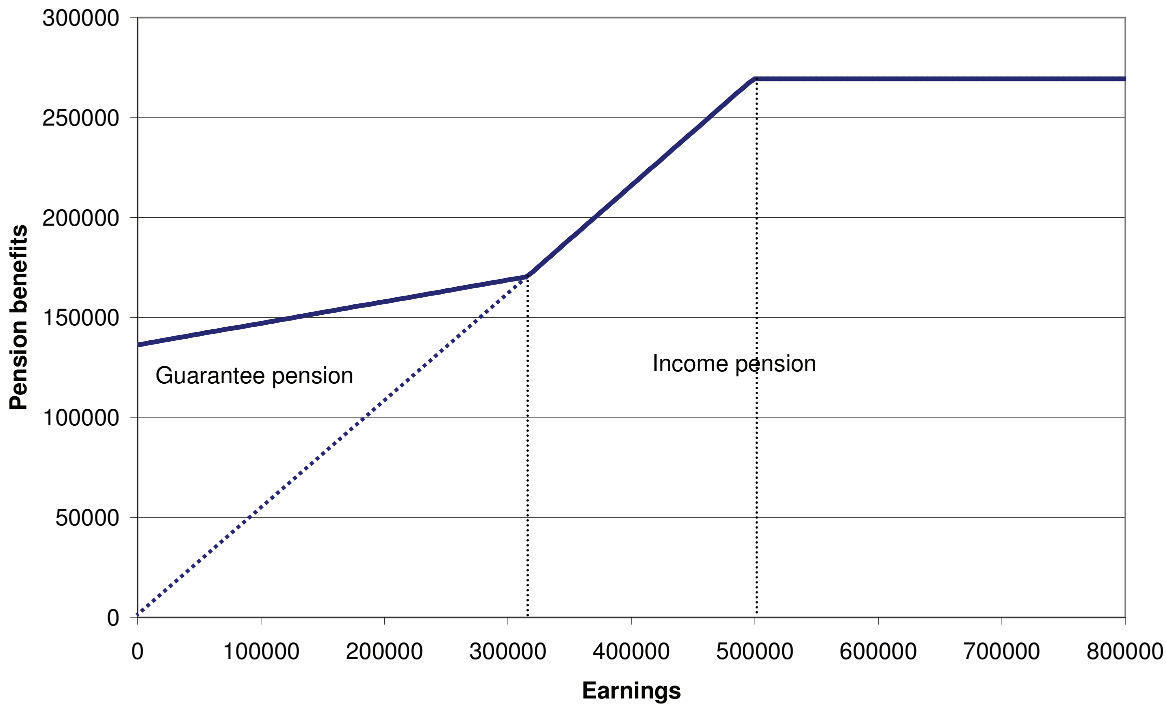
For each year in gainful employment an amount equivalent to 18.1% of the yearly earnings will credited a "notional" pension account. The pension wealth on the notional account is supposed to accumulate over the economically active life, and it will be converted to a life annuity when the individual decides to start drawing benefits. Yearly earnings (and self-employment income) up to a ceiling of 7.1 times the Base Amount (NOK 500,000 in 2008) 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 316,000 in 2008). 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 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 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 4 in the stylized 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 315,000.[6]

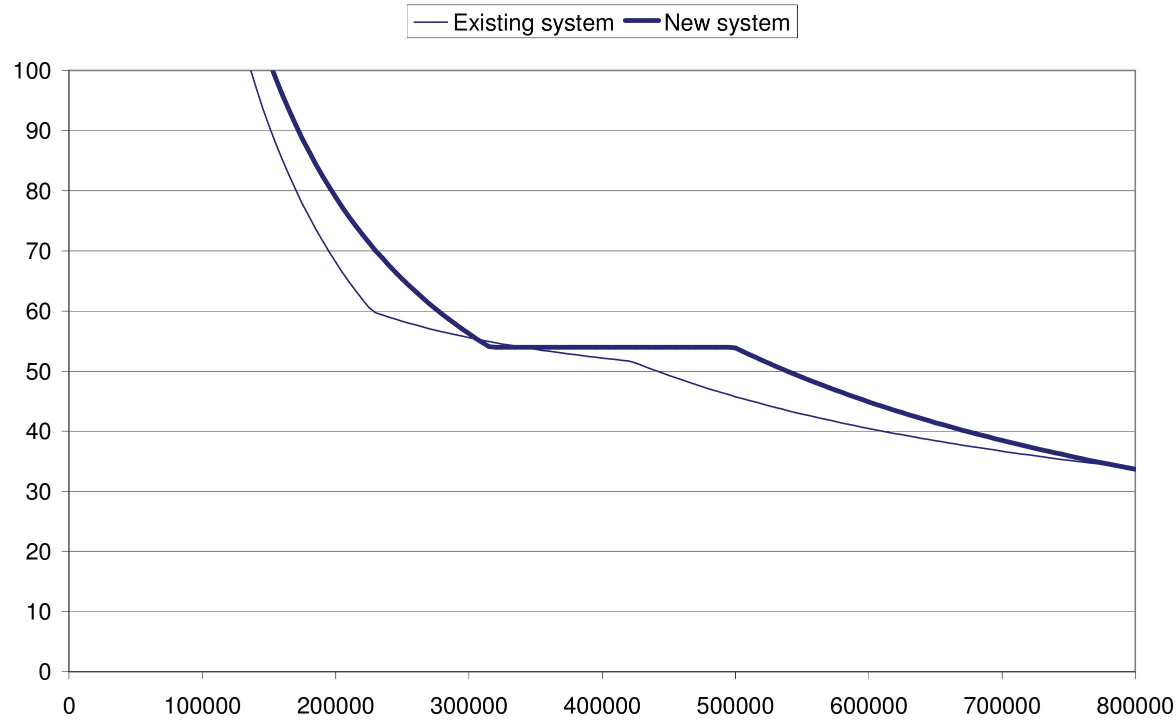
Figure 4: The benefit profile of the reformed old-age pension system. Single pensioner with a stable 40 year contribution record. NOK 2008



The compensation profile of new system is compared with the old system in figure 5 for the same stylized cases as in Figure 1 and Figure 4. One can see that the new system appears to be more generous than the old particularly in the lower and upper end of the earnings distribution. This is partly an illusion due to the fact that the cases used here with stable earnings careers fails to take account of 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 more generous than the old system was, but this only applies before taking account of the two retrenchment measures that will be described below.

[6] When the minimum pension (and hence the Guarantee Pension) is increased to 2 Base Amounts from 2010 the taper interval become even longer.

Figure 5: 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 is 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 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 avoid 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 be completely transformed into a kind of (additional) occupational pension scheme paying life long benefits as a supplement to National Insurance benefits. Benefits from the new AFP-schemes 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 adjusted so as to keep the costs for the state and employers constant per covered wage earner on par with the costs of the old AFP-schemes. For workers covered by one of the new AFP-scheme it will give a substantial addition to pension wealth accumulated in the Nation Insurance scheme.

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 stylized 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 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.

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 new Swedish pension system that in the international literature has been referred to a Notional Defined Contribution 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. The new 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. 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 4% 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 will formally take effect 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 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.

Important parts of the reform still pending

As of May 2009 there are still important aspects of the pension reform that have not yet been decided. The most important are the adaption of the occupational pension schemes for public sector employees to the new National Insurance system, and the new disability pension system including the system for accruing old-age pension rights for disability pensioners.

The first issue is the subject of tough negotiations between the state and public sector unions that should be concluded before the end of May. The occupational pension schemes in the public sector are of the benefit defined type and they promise a replacement rate of 66% of the final salary when taking account also of the benefits received from the National Insurance system. This construction means that the public sector employees will be insulated from the effects of the general pension reform, and a continuation of key features of these schemes will make integration with the new National Insurance scheme extremely complicated. However, while the Government wants to adapt the public sector occupational schemes to the basic principles of the reform National Insurance system (life-long accrual of pension rights and longevity adjustment), the unions are keen to keep their schemes intact. As about 1/3 of the Norwegian labour force is working in the public sector, a settlement on the public sector occupational schemes is of utmost importance for the entire reform.

On the second issue about the old-age pension rights of disability pensioners, the Government is expected to put forward a proposal before the summer. 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. According to a proposal launched by a Commission on disability reform in 2007 (NOU 2007:4), 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 even been decided in all its details. This does not mean, however, that there is not a lively debate among the general public, policy makers, and the in the relevant research communities about the likely effects of the pending 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 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 new set of demographic forecasts published by Statistics Norway in 2008 expectations about the rate of growth in longevity had been down tuned 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 i 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 new 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.[7] 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).

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 thoroughly analysed. Most of the analyses have been 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 6 show the result of such a simulation, where the distributive outcome of the reformed system is compared with a continuation of the existing system.

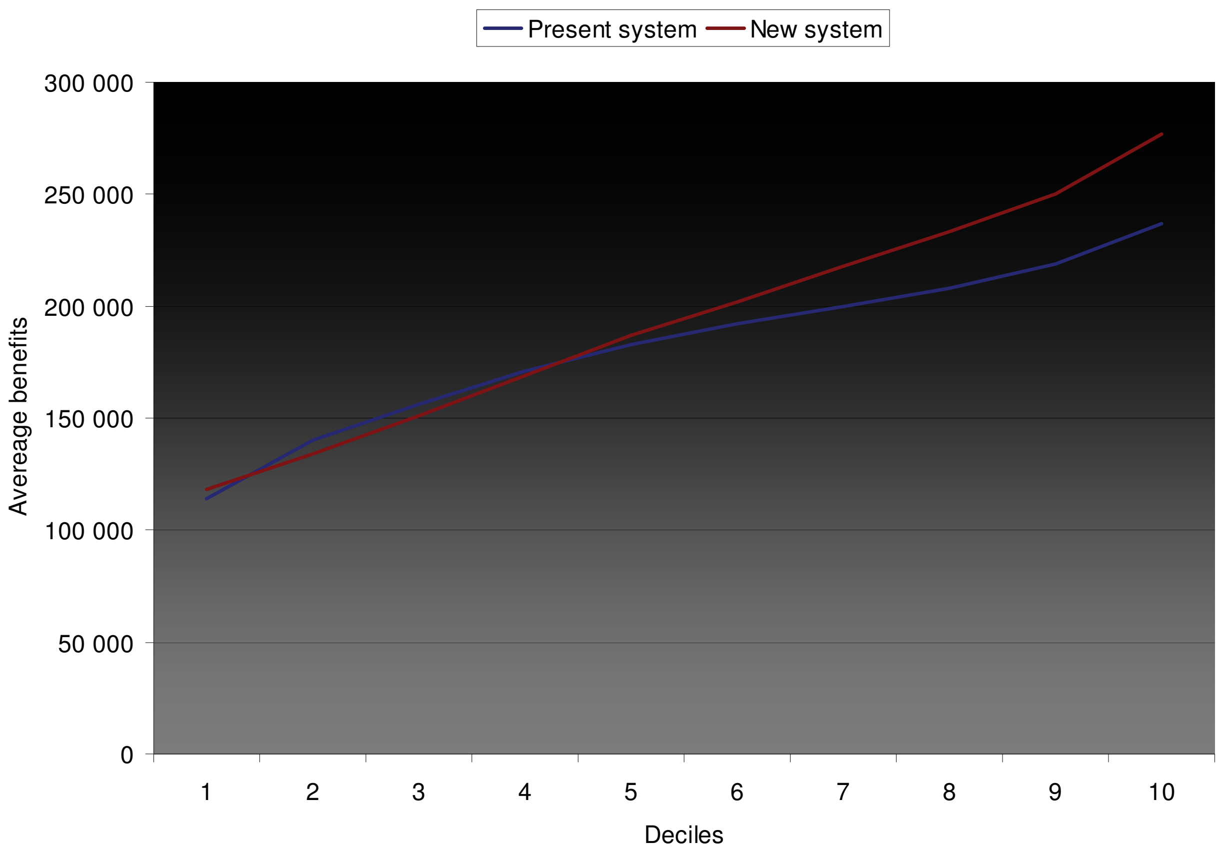
[7] This is not necessarily true since the neutral actuarial calculation is based on the assumption that all members of a cohort have the same life expectancy. This is not true of course, and one might theoretically imagine that people with different remaining life-expectancies will be able to predict this and adjust their behaviour accordingly – people with a long life expectancy should postpone taking out pensions as long as possible and people who cannot expect to live long should start drawing benefits immediately.

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 6: 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.

The calculations presented here are 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 6. 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 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. 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.

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. The economic downturn and souring unemployment rates to be expected in wake of the financial crises is likely to condition the effects of the reform on the effective retirement age when it takes effect from January 1, 2011 (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 specialized 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 institutionalized 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 specialized 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 specialized 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 specialized 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 maximize 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).

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 where individuals need 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 inequalities in health outcomes per se appear to be higher in Norway and the other Scandinavian countries than they are in Central and Southern European countries. 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 institutionalized 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.

3 Impact of the Financial and Economic Crisis on Social Protection

Norway has so far been lucky to avoid strong negative effects of the financial crisis that exploded in the early autumn of 2008. Before discussing how the financial crisis and the ensuing real economic downturn might impact on the Norwegian economy in general and social protection in particular, I need to describe the immediate effects of the crisis and the responses made by the Norwegian Government to dampen these effects.

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 the Norwegian Central Bank has lowered its interest rate on several occasions, eventually bringing the key policy rate down from over 6 in the summer of 2008 to 1.5 pa from May 2009.

In January this year 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.

There is – so far – no sign of a mortgage crisis either. The Norwegian housing market has indeed been booming over the last decade, and house prices did show a small fall in the last two quarters of 2008. In the beginning of 2009 house prices have stabilised and even shown tendencies towards increase – probably stimulated by the rapidly falling interest rates. However, many observers do expect a serious fall in house prices later this year when the effects of the real economic recession with a further growth in unemployment rates will start to be felt more severely.

According to the Ministry of Finance, Norway is among the countries in the OECD area that have responded to the crisis with the strongest fiscal policy stimulus.[8] This is so even if Norwegian export industries are less heavily affected by the global decline in demand. Norwegian exports 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 off shore 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.

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

Forecasts for the Norwegian economy

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 after 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 it is projected that Norway will have a negative growth of a modest 1.2% – 1.4% if the production of oil and gas is excluded. Unemployment is expected to rise from a level around 2.5% in the previous years to an average of 3.8% in 2009 and 4.6% in 2010 and 2011.

Lower prices on oil and gas will together with automatic stabilizers and active fiscal stimulation packages lead to a decrease in the running surplus on the state budget – from a (record high) 18.3% in 2008 to about 11-12% in 2009 and the following years. The fact that one expects a surplus of more than 10% under the conditions of serious international recession real economic crisis, more than anything 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 2007-2012 in %

	2007	2008	2009*	2010*	2011*	2012*
GDP growth	3,1	2,1	-1,2	0,7	1,9	2,1
GDP growth - excluding oil and gas	6,1	2,6	-1,4	1,0	2,6	3,0
Unemployment - level	2,5	2,6	3,8	4,6	4,6	4,1
Surplus on state budget - level	14,5	18,3	11,8	10,8	12,1	12,8

* *Forecasts. Source: Statistics Norway, Mai 2009.*

Turning now to the possible impact of the crisis on social protection I shall point to the following six areas where effects have already been observed or where effects are likely to materialize in the coming years. The two last points are more speculative than the first four.

- Delayed implementation of a major administrative reform
- Unemployment benefits to temporary lay-offs
- Effects on the State Pension Fund
- Effects on occupational pension schemes
- Flexible retirement on actuarially neutral conditions
- Social protection for migrant workers

Interfering with an un-going administrative reform

Norway is in midst of implementing a very comprehensive administrative reform of its social- and employment services. By the year 2010 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 rise in (traditional) unemployment that has taken place (although from a very low level, over the last six months has put the administrative capacity of these new merging agencies under serious pressure. As a result of this the Government has been forced to delay parts of the reform in order to let the new agency concentrate more on handling the routinely tasks of administering unemployment benefits. In a more long term and speculative vain one might also raise the issue whether the re-emergence of classical mass unemployment could perhaps undermine or at least dampen the emphasis on individual employability and activation that has dominated social policy discourse over the last decade.

Unemployment benefits to temporary lay-offs

As an example of a very concrete adaptive measure, the Norwegian Government has expanded 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 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 the State Pension Fund

One area where the crisis has already had negative effects is 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. Even so the total assets held in the fund by the end of 2008 was about the same as by the beginning of the year – at least measured in NOK – because of the large sums transferred to the fund in 2008 and a quite significant depreciation of NOK that followed in the wake of the crisis. The current value of the State Pension Fund is about equivalent to one GDP.[9] It should further be noted that the losses incurred by the State Pension Fund in 2008 and the beginning of 2009 have little immediate impact on the Norwegian economy. It is in principle only the long term returns from the fund that matter, but they will indeed have very strong consequences for the long term financial sustainability of the Norwegian public sector in general.

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

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

accumulation so that the losses are rather modest in absolute terms. Also it can be argued - as with the losses incurred by the State Pension Fund - that it is only the long term returns that really matter, and despite the current stock market crash it might still be the case that long term returns will be as good as the historical records seem to indicate. 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.

Flexible retirement on actuarially neutral conditions

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. If, however, the labour market is slack with high unemployment rates when the reform takes effect in 2011, this might undermine the notion that the timing of retirement is entirely voluntary, and hence the legitimacy of the this part of the pension reform. 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. Now these industries are seriously hit by the financial crisis, and unemployment among migrant workers from the accession countries has shown a very strong increase.[10] Up until this spring Norway has taken advantage of the possibility to uphold certain restrictions to the access to social security benefits enjoyed by migrant workers from the accession countries. These restrictions are now being lifted precisely in a period where the labour market situation in the most relevant sectors has turned to the worse with rapidly rising unemployment. The situation has spurred some debates with a welfare chauvinistic flavour about tightening the conditions under which migrant workers are protected against unemployment, and the Norwegian employment service has introduced a scheme offering migrant workers support to help establish themselves in their home country.

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

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VELAND, G. (2008). Tjenestepensjonsordningene i Norge En undersøkelse av status og utviklingstrekk i privat sektor. Fafo-rapport 2008:23. Oslo: Fafo.

4 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.

[R1] BRUNBORG, H., TEXMON, I. & PETTERSEN, S.V., «*Nye befolkningsfremskrivninger. Økonomiske analyser 3/2008.*», Oslo Statistics Norway, 2008.
"New population forecasts"

> *This article presents main results from the latest revision of the official demographic forecasts for the Norwegian population to the 2060 made by Statistics Norway. The forecasts operate with a range of alternatives for each of the key parameters: fertility, longevity, and immigration. The baseline alternative has been revised somewhat compared to the previous projections: The most important change is that net immigration is assumed to be higher than previously expected and this is the main factor behind a significant increase in the projections for the total size of the Norwegian population in 2060. Also growth in longevity is expected to be higher in the baseline alternative compared to earlier projections. As for the old age dependency ratio to the new projection is slightly more optimistic as the effect of increased migration is expected to slightly outweigh the effect of increased longevity.*

[R1] LIEN, O. C., «*Pensjonsreformen 2011 - Effekter de første til årene. Arbeid og Velferd. Rapport nr. 1/2009*», Oslo: Arbeids- og velferdsdirektoratet, 2009.
"The pension reform of 2011 – Effects the first ten years"

> *The article presents results from a dynamic micro-simulation model developed and run by the National Insurance administration. It attempts to estimate the consequences for benefit take-up and total expenditures of the pension reform and here in particular the introduction of a flexible retirement age on actuarially neutral terms and the longevity adjustment measure. The calculations are done for different scenarios based on stylized assumptions about the behavioural responses to the new system of flexible retirement. A baseline scenario of unchanged behaviour is compared to a scenario where all workers chose to postpone retirement to offset the effect of the longevity adjustment. Also calculation are made for two more extreme scenarios: one in which everybody starts to draw benefits at the earliest possible date (when turning 62) and one where everybody postpones retirement to the age of 70.*

[R1] FREDRIKSEN, D., GUNNES, T. & STØLEN, N.M., «*Oppdaterte framskrivinger av arbeidsstyrke, pensjonsutgifter og finansieringsbyrde. Økonomiske analyser 4/2008*», Oslo Statistics Norway, 2008.
"New forecasts of the labour force, pension expenditure and financial burden"

> *The article builds on the revised (2008) population forecasts to make new projections about the size of the labour force, old age pension expenditure under both the old and the reformed system, and the financial burden associated with expenditures on old age pensions. The projections are done by application of a dynamic micro-simulation model of the Norwegian population (called MOSART). Compared to previous calculation of the same sort, these new estimates show somewhat lower levels for the financial burden of old age pensions (expenditure in percentage of GDP or the wage sum) in the middle of this Century – both in the case of a continuation of the present system and under the*

new reformed system. The reform is projected to lead to a decrease in the financial burden from 14-11 percent of GDP.

[R2] VELAND, G., «*Tjenestepensjonsordningene i Norge En undersøkelse av status og utviklingstrekk i privat sektor. Fafo-rapport 2008:23*», Oslo: Fafo, 2008.
"Occupational pension schemes in Norway"

This report gives a broad overview over developments in the market for private occupational pension schemes over the last years. It documents that a significant shift is taking place in the private sector from the traditional Defined Benefit schemes to Defined Contribution Schemes. When the provision of occupational pension schemes was made compulsory from the 2006, almost all the employers who did not previously provide pensions, chose to establish Defined Contributions schemes with the minimum required contribution rate (2 percent of the pay-roll). This means that the total coverage with Defined Contribution scheme in the private sector suddenly has come to exceed the coverage with Defined Benefit schemes, but if one in stead looks at the volume of contributions and accumulated pension funds, Defined Benefit schemes continue to dominate.

[R3] HAGA, O., «*Forventa pensjoneringsalder 1986-2008. Delmål 3 i IA-avtalen er oppfylt. Arbeid og Velferd. Rapport nr. 2/2009*», Oslo: Abeids- og velferdsdirektoratet, 2009.
"Expected retirement age 1986-2008"

The article shows updated figures for the historical development in the "expected retirement age" between 1986 and 2008. The calculation are made on the basis of administrative register data covering the entire population and it uses yearly age specific in-flow rates to different parts of the pension system to estimate survival curves for synthetic cohorts and from this in turn derive figures for the expected retirement age. The results show that a decline in effective retirement ages in the late 1980s and the early 1990s has been replaced by stability and growth so that the expected retirement age for a 50 year old is back to age 64 in the year 2008.

[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

[H1] IVERSEN, T., «*Effektivitets- og fordelingsvirkninger av egenbetaling for helsetjenester.* Helseøkonomisk forskningsprogram skrift nr. 2008:11.», Oslo: University of Oslo, 2008.
"Efficiency- and destributive effects of user charges in health sevices"

This report offers a discussion of the Norwegian system of user charges seen from the perspective of relevant economics literature. It is emphasised that studies of the effects of user charges should consider the interplay between the demand- and supply-side of health care. User charges are compared to alternative forms of rationing of public health care like an explicit prioritising of different types of care. The report also gives empirical information on the use of user charges in Norway compared to the other Nordic countries and it shows the development over time in the share of the population who exceed the ceiling and are eligible for full compensation for further charges and expenditures.

[H2] NORWEGIAN DIRECTORATE OF HEALTH, «*Skapes helse, skapes velferd – helsesystemets rolle i det norske samfunnet.*», Oslo: Norwegian Directorate of Health, 2008.

This report from the Norwegian Directorate of Health offers a comprehensive description and discussion of the role of the Norwegian Health care system in its interplay with other societal forces in the promotion and creation of health. Special attention is given to the role of prevention and to social factors that condition public health, and in particular to the battle against theoretically preventable chronic illnesses. The report is a good source on the aspirations and self perceived performance of the Norwegian public health services.

[H3] KRAVDAL, Ø., Does income inequality really influence individual mortality? Evidence from a 'fixed-effects analysis' where constant unobserved municipality characteristics are controlled., Demographic Research vol 18, 2008, pp. 205-232.

The article explores a possible relationship between income inequality and aggregate individual mortality based on variation between Norwegian municipalities. It takes at its point of departure the vast and growing literature (coming from both medical sociology, and public health) on the relationship between economic inequality and longevity/mortality at various levels of aggregations. Much of this literature has focused on the nation state (or American states), but this article adds to a growing branch of the literature where the existence of a relationship also at a lower level (municipal or local) is explored. It starts out by showing that there is indeed a relationship between the degree of income inequality and mortality across Norwegian municipalities, but it turns out that the effect disappears when applying a more sophisticated methodology where constant unobserved characteristics of each municipality are controlled for. In other words: the effect does not appear when one looks at the relationship between changes in inequality and changes in mortality across municipalities. One explanation for this negative result, however, could be that the changes over time in inequality tend to be too small to have a significant leverage on mortality developments.

[H4] OECD, Economic studies No. 4., Paris: OECD, 2008.

In this study OECD analysts have attempted to compare the productivity and efficiency of hospitals in a selection of OECD-countries including Norway. The study shows 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 that appears to be the worst performer in this study.

[H4] NOU 2008:2, «*Fordelingen av inntekter mellom regionale helseforetak.*», 2008.
”The distribution of revenues between regional health enterprises”

This is an official report commissioned by the Norwegian Ministry of Health. It discusses possible adjustments to the existing system for distributing grants and revenues to the regional health enterprises. Today the public secondary health service including hospitals is run by independent non-profit regional health enterprises owned by the Ministry of Health. These enterprises receive about half of their total revenues in the form of "block" grants from the stat, while the other half of their financing takes the form of reimbursements for activities (treatment of specific diagnoses). The report discusses a new system for calculating the size of the block grants in a way that is sensitive to regional variations in need.

[L] Long-term care

[L] HOLMØY, E. & NIELSEN, V.O., «*Utviklingen i offentlig ressursbruk knyttet til helse og omsorgstjenester.*», Rapporter 2008/42, Oslo: Statistics Norway, 2008.
"The development in public expenditure on health and care services"

This report analyses the long term trend in public expenditure on health and care services. The main motivational background is the demographics of ageing that is likely to be an important factor behind a continuous growth in public expenditure on health care and care services – in particular for the elderly. When decomposing the historical growth in service expenditure it is shown that there has been a steady increase in quality of services at least when measured as per unit input of manpower. A major issue when trying to make projections about future expenditure levels in light of an ageing population is what assumptions should be made about quality levels. A standard assumption in many official projections has been that quality levels will remain constant in the future, but this is arguably too optimistic in light of the historical evidence. Another key issues concerns the relationship between increasing longevity and the lifetime need for health care and elderly care. A standard assumption is that the demand for care at different age intervals will remain constant, but this is arguably too pessimistic. A possible counterhypothesis is that that the lifetime need for care will remain largely constant despite increases in longevity. The report explores the sensitivity of long term expenditure projections in Norway to these key assumptions.

[L] SLAGSVOLD, B., DAATLAND, S.O., BRUNBORG, H. & LIMA, I.A.Å., «*Holdninger til ansvar for gamle foreldre i syv europeiske land: Er vi villige til å ta oss av gamle mor og far? Samfunnsspeilet* 1/09», 2009.
"Attitudes to responsibility for old parents in seven European countries: Are we willing to cater for Mum and Dad?"

This report summarized the findings from a comparative study of attitudes to children's responsibility for catering for their frail parents. In this study Norway represents countries with a strongly developed public system of elderly care while a selection of Continental and Eastern European countries represent cases where frail elderly have traditionally been the responsibility of the family. Answers to survey questions by grown up children confirm that Norwegians feel much less responsible for catering for frail parents. Only a small minority of Norwegian respondents adhere to the view that children have an obligation to if necessary reduce their working time to cater for their parents and that children should have their parents move in with them when the parents are unable to live by themselves.

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 fi nancial 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/employment_social/progress/index_en.html