State funds, the loss ratios do not take into account the premium income returned to employers in the form of dividends. Available data indicate that dividends, when they are related to total premium payments (for both dividend-paying and non-dividend-paying companies), generally average about 4–6 percent.

# Social Security Abroad

## Lower Pensionable Age in Norway*

In lowering the age at which a pension is payable from 70 to 67 as of January 1, 1973, Norway introduced a flexible retirement test that is unique in social security legislation. The new test permits persons aged 67–69 who wish to continue working on a less-than-full-time basis to claim a partial pension if the sum of pension and earnings does not exceed 80 percent of former earnings. A similar but more liberal rule is in effect for low wage earners.

Those who wish to do so may claim a full pension at age 67. For every month the pension is unclaimed until age 70, the value increases by 0.75 percent of the initial pension amount. Upon reaching age 70, the pensioner becomes entitled to a full pension regardless of other earnings. The new regulations also relax the rules governing retirement before age 67.[1] The direct cost of the reforms will mean an estimated 10-percent increase in toal expenditures under the program in 1973.

### BASIC FEATURES

Norway's two-tier old-age pension consists of a basic pension and an earnings-related supplement. The former is based on residence and varies with the length of coverage: 40 years for a full pension, with proportionate reductions for shorter periods. The full yearly basic pension is equal to a "base amount" (determined by legislation to be 5,400 kroner [2] when the program was introduced in 1967). The "base amount," in turn, is tied to both the general price and income levels and in the intervening years has risen substantially.[3]

The supplementary pension is determined primarily by the level of earnings before retirement (yearly earnings above the "base amount"), although here, too, a full pension is contingent on 40 years' coverage, with proportionate reductions for shorter periods. Until the system matures, however, special transitional provisions make a full supplementary pension possible with less coverage.[4] Only the 20 years of highest earnings are used to compute the supplementary pension. A person with 20 years or less of coverage must have all his years of earnings, regardless of the level, included when the pension is computed.

The new law retains the need for 40 years' coverage to receive a full pension. The difference is that it makes it payable at age 67.

The basic differences in age requirements for old-age pensions and early retirement under the old and new laws are covered in table 1. Several regulations affect an individual who decides to work beyond age 67. He must, for example, continue to contribute to the social insurance system, whether or not he is already covered for a full basic pension. If he has full coverage, the additional contributions will not result in higher benefits.[5] In the computation of the supplementary pension, however, earnings in every year until the individual reaches age 70 are included. Those whose coverage had been insufficient for a maxi-

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* Prepared by Leif Haanes-Olsen, International Staff, Office of Research and Statistics.

[1] The reform was outlined in detail in a series of articles in the Oslo newspaper *Arbeiderbladet* (November 25–December 11, 1972), made available by the U.S. Embassy, Oslo.

[2] One U. S. dollar equaled 5.68 kroner as of June 30, 1973.

[3] The "base amount" is adjusted every January. In January 1973 it was 8,500 kroner, or approximately one-fifth of the typical worker's income in the combined manufacturing, construction, and transportation industries.

[4] A full supplementary pension will be paid to persons with 20 years' coverage who retire in 1987, to those with 21 years who retire in 1988, etc., until coverage reaches 40 years in the year 2007.

[5] The insured pays a contribution of 5.4 percent of his pension-producing income (which supports old-age, invalidity, and survivor pensions and the unemployment allowances) and pays 3.8 percent of his income for national tax purposes toward health insurance. Both contributions are limited to twelve times the current "base amount."

TABLE 1.—Old-age pensions before and after January 1, 1973

| Retirement age | Old law | New law | Conditions |
|---|---|---|---|
| Before 64 | No pension | No pension. | |
| 64–66 | No pension | Pension payable for disability and "premature aging" | Pensioner with "premature aging" not required to join rehabilitation program (as necessary under regular disability program). Labor-force participation required. |
| 67–69 | Pension payable for disability and "premature aging." | Full pension payable for old age [1] or a partial flexible pension payable while earning (one-fourth, one-half, or three-fourths of the full pension). Increment of 0 75% creditable for each month of deferral | Combined pension and earnings not to exceed 80% of "former" earnings If part of pension claimed, increment reduced accordingly. |
| 70 or over | Full old-age pension [1] | Full old-age pension [1] with increment for pension deferral when applicable | No retirement test in old or new law. |

[1] Full pension (basic plus supplementary) is the maximum amount payable to an individual, based on his earnings and length of coverage

mum pension and those whose income after age 67 is large enough to improve the average for the highest 20 years may thus be benefited.

In addition, the individual is entitled to a "delayed pension supplement" for every month after reaching age 67 that he postpones his retirement. This monthly increment amounts to 0.75 percent of his total basic and wage-related supplementary pension computed at age 67. The supplement therefore increases the pension by 9 percent of the initial amount each year—or 27 percent if he chooses not to claim a pension until age 70. If part of the pension is claimed between ages 67 and 70, the supplement is reduced accordingly.

Norway, unlike some countries, had no early-retirement pension provision that permitted a person to retire with a reduced pension before the regular retirement age. It was possible, however, to retire at age 67 (rather than at 70) on disability due to "premature aging," if the ability to work had been reduced at least 50 percent. In such cases, the pension was reduced by 0.5 percent for each month before age 70 that the pension was claimed.

The new legislation reflects a less rigid attitude toward "early retirement." The reduction has been eliminated. Participation in a rehabilitation program no longer is required because "premature aging" is to be considered an illness rather than a disability. In addition, the individual's reduced work ability will be considered more realistically in terms of the availability of work he can still perform.

Under the new provisions, retirement is possible at ages 64–66 but labor-force participation is necessary. Housewives, for example, are not entitled to an early pension. They may, however, claim a pension in their own right at age 67.

Some Western countries do recognize premature aging as a condition for early retirement. In others, however, a liberal unemployment policy applied to older workers may have made such legislation less pressing. Premature aging often is manifested in unemployment (the inability to hold a job after a certain age), and early retirement resulting from extended unemployment (beginning at age 60, for example, as in Finland, Sweden, and the Federal Republic of Germany) helps to alleviate the problem.

## PARTIAL-PENSION OPTIONS

The novelty of the pension reform in Norway is that it permits the individual, while he continues to work, to draw a partial pension that varies inversely with the level of employment income. At age 67, he may claim one-fourth, one-half, or three-fourths of the pension he is entitled to, as long as the combination of earnings and pension does not exceed 80 percent of his former earnings.[6] As before, the retiree receives a full pension at age 70 regardless of earnings. The pension-earnings relationship is treated differently in other countries: No restriction on earnings (France and Sweden), 50-percent reduction above certain limits on earnings (New Zealand), and virtually full restriction on earnings (Belgium).

[6] "Former" earnings are the pensioner's average earnings from his 61st through his 65th year, or from the 63rd through the 65th year if these years provide a higher average. Within these limits, years without earnings are included.

The new plan appears to answer criticism from several quarters. On the one hand, some critics thought it possible that a lower pensionable age would result in a new definition of old age, based on social standards rather than biological facts. This shift could, in turn, force many individuals, both able and willing to work, to retire prematurely. On the other hand, there was some concern expressed that Norway was one of only two countries among the Western nations with a retirement age as high as 70, with many believing that a lower retirement age was overdue.[7]

Finally, there was a desire to give a worker approaching old age the opportunity to wind down gradually in anticipation of complete retirement. This option would cushion the shock of abrupt withdrawal from the work force for those who were not psychologically prepared.

The reform thus distinguishes between "pensionable age" and "retirement age." The former is the age at which the old-age pension becomes available; the latter is the age at which the employee may be required to withdraw from the work force. Before the reform, both events occurred at age 70 in Norway. Because the pensionable age has now been moved forward 3 years and the retirement age remains at 70, a safeguard has been built into the law to prohibit dismissal of a worker purely on the grounds that he has become a pensioner. A new law on employee protection obliges the employer, in cooperation with worker representatives at the place of employment, to seek work within the enterprise that is suitable to the employee's age and that enables the employee to curtail his schedule while he receives a partial pension.

The application of the 80-percent rule for average earners is shown in table 2. The assumption is that a single earner becomes eligible for a pension in 1973 at age 67. The "allowable earnings" shown in the table are current earnings, and the figure for average earnings (30,000 kroner) is based on earnings in his 61st–65th years (1967–71). With current earnings higher than the average in those years, he is able to claim a smaller part of his pension. If it is assumed that his earnings amounted to 30,000

[7] The Federal Republic of Germany is the only other Western country to have reduced the pensionable age recently (to age 63). In Sweden, a reduction (from age 67 to 65) is expected in the near future.

TABLE 2.—Illustration of old-age pension and currently allowable earnings for person with average former earnings,[1] 1973

[In kroner]

| Size of pension claimed | Annual pension amount | | | Currently allowable earnings [3] |
|---|---|---|---|---|
| | Basic plus supplementary | Compensatory supplement [2] | Total | |
| Full | 11,713 | 500 | 12,213 | 13,707 |
| Three-fourths | 8,785 | 500 | 9,285 | 16,635 |
| One-half | 5,857 | 500 | 6,357 | 19,563 |
| One-fourth | 2,928 | 250 | 3,178 | 22,742 |

[1] Assumes average earnings of 30,000 kroner during his 61st through 65th years

[2] Supplement of 500 kroner a year to compensate for price increases related to the introduction of the value-added tax in 1970, reduced by 50 percent when a one-fourth pension is claimed

[3] The limit on pensions and earnings combined to 80 percent of former earnings (24,000 kroner in this case) was increased by 8 percent to 25,920 kroner to include the rise in price and income levels from 1972 to 1973

kroner in 1969 (the median year in the range above) with an 8-percent average increase in income a year, his earnings for 1972 would be 37,791 kroner. If he decides to cut his workload (and earnings) by one-half at the end of 1972, he can now claim a one-half pension (his income is now 18,896 kroner instead of the allowable limit of 19,563 kroner). On the basis of a yearly income of 30,000 kroner (15,000 kroner, working half-time), he could have claimed a three-fourths pension.

Special rules apply to those whose income is low while they draw a part-pension—less than twice the size of the "base amount" (17,000 kroner in 1973). Their pensions and earnings are coordinated as follows:

| *Earnings as percent of base amount* | *Size of pension* |
|---|---|
| Less than 50 | Full |
| 50–99 | Three-fourths |
| 100–149 | One-half |
| 150–200 | One-fourth |

Table 3 shows the advantage of this rule to the earner with a low lifetime average income and low retirement earnings. Had the 80-percent rule been applied, his allowable earnings would have been substantially lower than is now the case.

The relatively small difference in the pension of the low and average earners (10,182 kroner and 12,213 kroner in tables 3 and 2, respectively) is accounted for by the fact that the basic pension is equal for all pensioners with 40 years' coverage and makes up the greater part of the total

TABLE 3.—Illustration of old-age pension and currently allowable earnings for person with low former earnings,[1] 1973

[In kroner]

| Size of pension claimed | Annual pension amount | | | Currently allowable earnings | |
|---|---|---|---|---|---|
| | Basic plus supplementary | Compensatory supplement [2] | Total | Under 80-percent rule [3] | Under provision for low earners |
| Full pension | 9,682 | 500 | 10,182 | 3,642 | 4,249 |
| Three-fourths | 7,262 | 500 | 7,762 | 6,062 | 8,499 |
| One-half | 4,841 | 500 | 5,341 | 8,483 | 12,749 |
| One-fourth | 2,421 | 250 | 2,671 | 11,153 | 16,999 |

[1] Assumes earnings of 16,000 kroner during his 61st through 65th years
[2] See footnote 2, table 2
[3] The limit on combined pension and earnings to 80 percent of former earnings (12,800 kroner in this case) was increased by 8 percent to 13,824 kroner to include the rise in price and income levels from 1972 to 1973

pension. The supplementary pension, currently in an early stage of maturity, will eventually rise to more than three times the present level and become the dominant part of the total pension for the average earner.

At age 70, the 80-percent rule and the rule pertaining to low earners are no longer valid and there is no restriction on the amount a pensioner may earn while he draws a full pension. This provision is a carry-over from past policies.

## COSTS

Estimates of the immediate and direct costs of lowering the pensionable age from 70 to 67 range from 700 million kroner to 740 million kroner for 1973. These figures would mean an increase of about 10 percent in the approximately 7.3 billion kroner budget of the national pension system.[8] These extra costs could reach an estimated 1.4 billion kroner by 1980, with a continuation of the rising trend in wages and employment and a potentially greater proportion of pensioners in relation to the labor force.

## IMPLICATIONS

It is possible, on the basis of 1972 data, to estimate the number of persons affected by the lower pension age. Old-age pensioners in Norway at the end of 1972 numbered about 346,000.[9] Approximately 104,000 persons in the group aged 67–69 might have swelled the ranks of old-age pensioners by almost 30 percent. About 41,000 of them, however, were already receiving other pensions under the national pension system. Thus, there were 63,000 potential applicants. (About 15,000 persons in this age group, mostly women, received supplements under their spouses' pensions and would now be eligible for old-age pensions in their own right. They would, however, have to reapply under the new law.)

During 1972, 48,000 applications were received from persons attaining ages 67, 68, and 69. These applicants represented 76 percent of those eligible. Among men, the rate of response increased with age. At age 67, for example, 72 percent of the men and 91 percent of the women applied; at age 68, the proportions were 76 percent and 91 percent, respectively. These figures indicate that about 1 in 4 persons aged 67–69 will choose to work. Anticipated late applications, however, may lower the ratio to 1 in 5. This estimate closely parallels the results of a study conducted in Oslo in 1965 that showed that about 20 percent of the men over age 70 (then the pensionable age) were working.[10] It may be concluded, therefore, that 1 pensioner in 5 will continue to work, regardless of pensionable age.

It is interesting to note, in addition to this general pattern, the effect of unemployment on the new pension. In 1972, the unemployment rate for those aged 65–70 was 21 percent. Undoubtedly, the lack of work has tended to increase the number of pension applications under the new eligibility rules. It would appear, therefore, that the proportion of full-time pensioners, given favorable employment opportunities, could be reduced from about 80 percent to 60 percent of those eligible, with a concurrent decrease in pension costs.

*(Continued on page 39)*

[8] In addition to old-age, survivors, disability, and health insurance, the national pension system includes workmen's compensation and unemployment insurance coverage.

[9] Else Marie Akesson, *Sosial Trygd*, No. 3, 1973, pages 131–135 (in Norwegian).

[10] *Arbeiderbladet* (Oslo newspaper), November 28, 1972. The much higher percentage of women pensioners mentioned above is explained by the relatively large number of elderly homemakers who would not otherwise have been eligible for a pension until age 70 and by the custom of married women in this age group to remain at home rather than seek paid employment.

TABLE M-2.—Public income-maintenance programs: Hospital and medical care payments, 1940–73

[In millions]

| Period | Total | OASDHI (health insurance)[1] | | | Other programs | | | |
|---|---|---|---|---|---|---|---|---|
| | | Total | Hospital insurance [2] | Medical insurance | Veterans | Temporary disability [3] | Workmen's compensation[4] | Public assistance [5] |
| 1940 | $165 | | | | $70 | | $95 | |
| 1945 | 222 | | | | 97 | | 125 | |
| 1950 | 832 | | | | 573 | $7 | 200 | $52 |
| 1955 | 1,265 | | | | 688 | 20 | 325 | 232 |
| 1960 | 1,846 | | | | 848 | 41 | 435 | 522 |
| 1961 | 2,093 | | | | 899 | 46 | 460 | 688 |
| 1962 | 2,406 | | | | 940 | 46 | 495 | 925 |
| 1963 | 2,611 | | | | 971 | 50 | 525 | 1,065 |
| 1964 | 2,890 | | | | 1,019 | 51 | 565 | 1,255 |
| 1965 | 3,204 | | | | 1,072 | 52 | 600 | 1,480 |
| 1966 | 4,898 | $1,019 | $891 | $128 | 1,137 | 54 | 680 | 2,008 |
| 1967 | 9,554 | 4,549 | 3,353 | 1,197 | 1,328 | 53 | 750 | 2,873 |
| 1968 | 12,107 | 5,697 | 4,179 | 1,518 | 1,429 | 55 | 830 | 4,096 |
| 1969 | 13,837 | 6,603 | 4,739 | 1,865 | 1,573 | 59 | 920 | 4,681 |
| 1970 | 15,574 | 7,099 | 5,124 | 1,975 | 1,793 | 66 | 1,040 | 5,576 |
| 1971 | 18,064 | 7,868 | 5,751 | 2,117 | 2,087 | 71 | 1,150 | 6,888 |
| 1972 | 20,779 | 8,643 | 6,319 | 2,325 | 2,409 | 75 | 1,280 | 8,372 |
| 1972 | | | | | | | | |
| September | | 889 | 646 | 243 | 200 | | | 711 |
| October | | 817 | 597 | 220 | 211 | | | 733 |
| November | | 742 | 538 | 204 | 211 | | | 719 |
| December | | 708 | 509 | 199 | 204 | | | 707 |
| 1973 | | | | | | | | |
| January | | 781 | 579 | 203 | 229 | | | 706 |
| February | | 717 | 526 | 191 | 201 | | | 710 |
| March | | 852 | 639 | 213 | 219 | | | 773 |
| April | | 780 | 573 | 207 | 208 | | | 761 |
| May | | 827 | 613 | 214 | 229 | | | 860 |
| June | | 825 | 618 | 208 | 224 | | | 787 |
| July | | 744 | 553 | 191 | 231 | | | 737 |
| August | | 820 | 585 | 234 | 216 | | | 812 |
| September | | 710 | 520 | 190 | 212 | | | 807 |

[1] Benefit expenditures from the Federal hospital insurance and supplementary medical insurance trust funds as reported by the U S Treasury

[2] Excludes payments by Railroad Retirement Board for beneficiaries in Canadian hospitals

[3] Benefits in California and New York (from 1950), including payments under private plans Monthly data not available

[4] Benefits under Federal workmen's compensation laws and under State laws paid by private insurance carriers, State funds, and self-insurers. Beginning 1959, includes data for Alaska and Hawaii Monthly data not available

[5] Federal matching for medical vendor payments under public assistance began October 1950

[6] Data not available

Source U S Treasury and unpublished data from administrative agencies.

## SOCIAL SECURITY ABROAD

*(Continued from page 37)*

### CONCLUSIONS

The reform appears to provide a satisfactory solution to all points of criticism by letting the individual choose (a) retirement with full pension at age 67, (b) a combination of pension and salary at that age, or (c) continued full-time work while accumulating the right to a pension bonus.

The success of the new pension program can be assured, however, only if adequate and suitable part-time work for those concerned is available. This is not currently the case. Some concern has been expressed in professional circles that many individuals already are electing to claim the full pension at age 67 and that the economy has not yet had time to make the necessary adjustments to present older workers with realistic and attractive alternative employment opportunities. That situation may soon change because of the new regulations that provide for a determination, at the employee's request, by representatives of management and labor together whether a change of employment more suitable to the individual's age is feasible within the company.