Work, Pension and Reform:
A Comparative Analysis of Norway and Denmark
in light of OECD Recommendations

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Summary

The thesis addresses the subject of ageing societies resulting from demographic trends of *population, individual and active* ageing. Societies are aging across the world, but the focus of this study is the OECD area in general and Norway and Denmark in particular, selected because they represent the Scandinavian welfare state. The thesis opens with a description of current and projected demographic patterns, and the social, fiscal and political challenges they pose, which are relevant to most OECD countries although to various degrees. In responding to the challenges of ageing populations OECD outlines seven principles for reform, of which I primarily address the ones related to the pension system, pension income and the employability of older workers.

The primary focus of attention is responses to the challenges of ageing in light of OECD recommendations as reflected in current reforms. In order to better comprehend and hypothesise the plausibility that Norwegian and Danish reforms comply with the OECD view, I have chosen a normative perspective. I presume that to the extent the normative foundations embedded in the OECD recommendations are reflected in the pension systems in Norway and Denmark, they may be more inclined to follow the OECD direction, than would otherwise be the case. The normative values of the pension systems are considered according to the normative foundations of the Scandinavian welfare state, notably *public responsibility, universality, generosity* and *full employment*. I find that the normative principles of OECD and the Scandinavian welfare state diverge, except regarding the aspect of employment. By including the actual pension systems, the hypothesis is less clear-cut as both entail elements of the OECD view.

I find that implemented and/or proposed pension reforms primarily comply with OECD recommendations, although some recommendations are ignored and/or not adopted altogether. I do not as of yet, find indications that either country is moving away from the Scandinavian welfare state. In my opinion Denmark, which I consider a forerunner as compared to Norway in implementing reforms, appears to have successfully combined the “best of two worlds”, by incorporating OECD recommendations within its overall *Scandinavian* welfare state. Whether Norway will follow suit, remains to be seen.

Preface

This study is part of a project on “The Normative Foundation of the Scandinavian Welfare State” directed and carried out by project manager Nanna Kildal (Stein Rokkan Center) and Professor Stein Kuhnle (Department of Comparative Politics). This should explain my focus on the normative perspective of reforms and recommendations for reform in meeting the challenges of ageing populations, and in part my selection of countries for analysis.

I would like to express my gratitude to Stein Kuhnle and Nanna Kildal for their support, encouragement and constructive remarks. I am grateful for being included in their project, which has provided me with opportunities and resources I would otherwise have been without. My initial interest in research in general and research projects in particular has only been enhanced throughout the process.

Many thanks to Aksel West Pedersen from NOVA, Norwegian Social Research, who has been most helpful in providing information I encountered difficulties in obtaining. I only regret not knowing of your expertise on the subject from the outset.

A special thanks to Preben for indulging my every whim during this process. You make all the difference.

S.M.

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I Introduction

Over the last decade or so political and public awareness of the ongoing demographic development towards ageing societies has increased, along with requests for profound analysis and research on the subject. Early on the Organisation for Economic Co-operation and Development[1] (OECD) acknowledged the potential challenges of ageing populations ahead, its work on implications of ageing populations dating back to the 1980s. In general, OECD designs and promotes policies for attaining the highest sustainable economic growth and employment and a rising standard of living in member countries while maintaining financial stability, cf. Article 1 of the OECD Convention[2]. It interprets topical and emerging issues, like ageing, addresses their implications and presents recommendations for strategies and reforms for adoption

Upon request from its Ministers in 1996 and the Heads of state and government at the 1997 Denver summit[3], OECD furthers analyses on the fiscal, financial and labour market implications of ageing. OECD recognises the need for reform and identifies several principle guidelines for avoiding major fiscal and social problems, emphasising timing by warning that if postponed, reforms will be more severe and difficult[4]. I would, however, like to point out that there may be other solutions[5] to the challenges of ageing populations besides the ones recommended by OECD, which may be reflected in individual countries' actual policy and reform response. There are probably numerous ways of perceiving and responding to the challenges posed by ageing populations. The fact that I base my thesis on the recommendations of OECD does not imply that I consider its approach more adequate or that I necessarily concur with their views. Measures found to be in accordance with the OECD view, does not necessarily imply that they are proposed/implemented on OECD recommendation. Any concurrence may be coincidental and unintended.

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[1] OECD was established in 1961, replacing its forerunner the Organisation for European Economic Co-operation, OEEC. OECD has currently 30 member countries, of which 20 are original Norway and Denmark included (OECD, 1998:2)

[2] (OECD, 2003b).

[3] I.e. Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and Russia (OECD, 1998:3).

[4] (OECD, 1998:2),(OECD, 2003a).

[5] In a report from 1994 the World Bank recommends a universal strategy to avert the "old age crisis" entailing replacing traditional public pension schemes with a system of mandated individual accounts (World Bank 1994 in Pedersen, 2002c:1).

1.0 The Problem(s)

OECD (1997a:3) concludes that it is the combined effect of the following demographic trends that is of greatest relevance to public policy: *population ageing* which means increased ratio of older people relative to the population at large, *individual a*geing which refers to the fact that people are living longer and *active ageing*, also referred to as *changing life-course patterns*, which relates to the changes in patterns of activity within different age groups. I base my account of future demographic trends and their consequences on these aspects.

One of the major consequences of the above demographic trends is decreasing ratios of people of traditional working-age[6] to people outside the labour market. This is in part due to the fact that people are staying in school longer and tend to retire earlier and partly because the labour force alongside the population at large is ageing. Unless some political action is taken these trends may render it difficult to maintain growth in production and thus shoulder the burden[7] of an ageing society, of which the strain from commitments embedded in existing pension arrangements is assumed to constitute a heavy burden.

If everyone over the age of 64 (cf. note 6) is treated as belonging to a separate "elderly" category, valuable experience, labour and a potential to reduce some of the challenges associated with ageing may be lost. It is also a question of equal dispersion of burden. On average the wealth position of today's older people surpasses that of other groups, whereas it primarily is the younger generations that will have to shoulder the weight of ageing populations, both economically and socially. This raises a question about fairness between generations.

Faced with ageing societies, OECD generally regards it inevitably necessary to contain public spending on pensions, health and long-term care (OECD, 1998:13). Without reform, projected pension benefit levels are expected to exceed projected pension contributions, resulting in increased deficits in pension accounts as well as in public finances in general. Public

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[6] OECD defines the working-age population as 15 to 64 years (OECD, 1997a:10). As I will be using OECD projections and calculations I will necessarily have to adopt their definition. This is not to say that people neither should nor actually do enter the labour force at 15 or generally exit at 64. The definition reflects a potential labour force basis rather than actual labour force participation patterns.

[7] This term may have a derogatory connotation for some. This is not my intention and I do not find that *ageing* per se is a disadvantageous demographic development with mainly undesirable effects, on the contrary. I do, however, want to stress the seriousness of the matter, particularly if measures and reforms are not implemented.

provision of health and long-term care for the elderly will only add to the burden. Even with the reforms under way, OECD stresses that government budget balances will come under strain from about 2010 when the baby-boom cohort starts retiring (ibid:52). As the largest pressure is likely to come from public pensions, it is my opinion that commitments embedded in existing pension arrangements should be reconsidered and revised. This would imply evaluating their financing, benefit levels and eligibility as well as their incentive structures in order to attain a sustainable pension system in the longer term[8]. According to OECD, attaining a sustainable pension system will require reducing pension generosity, higher contribution rates than currently envisaged and/or reducing the number of recipients relative to the number of contributors[9] (ibid). Undoubtedly a difficult task is at hand, particularly as it may involve reaching some unpopular decisions. Thus, it will be essential to gather and distribute information about demographic trends and subsequent challenges in order to raise understanding and consolidate public support for reform.

Esping-Andersen finds that the response of a welfare regime[10] to emerging risks and, I might add, demographic challenges is more likely than not to be normatively path dependent (Esping-Andersen, 1999:173). In meeting the challenges of ageing populations one response is to reconsider the normative foundation[11] of pension arrangements and the transition from work to retirement. This will be a part of my object of attention. According to Esping-Andersen typologies, like welfare regimes, may facilitate the identification of some underlying connecting logic of the cases studied and are generally useful tools for generating and testing hypotheses (ibid). His assumptions form the basis of my study. Pension schemes in Norway and Denmark respectively will initially be addressed in light of normative values I find typical of the Scandinavian welfare state[12]. In this respect the following questions are of particular relevance: What normative aspects substantiate the OECD principles for reform and to what extent do they correspond/ differ from the normative features of the Scandinavian

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[8] Many European countries are involved in pension reform processes. In Denmark reforms are being implemented and in Norway a "Pension Commission" is currently at work.

[9] The OECD report does not specify by how much pension generosity should be reduced or contributions increased. This is for the respective countries' governments to decide, but in general their objective should be a sustainable pension system and government budget balance.

[10] The term welfare *regimes* "refers to the ways in which welfare production is allocated between state, market, and households", on which Esping-Andersen distinguishes tree distinctive welfare regime types (Esping-Andersen 1999:73) cf. appendix A.

[11] By normative foundation I refer to standard principles or pattern of principles which welfare measures may be considered founded on, are actual implementations of and/or reflect.

[12] My focus on the Scandinavian welfare state/ the Scandinavian model restricts the selection of cases/countries for this study. The selection of Norway and Denmark in particular is addressed in ch. IV section 1.0.

welfare state? Are Norway and Denmark moving in the direction recommended by OECD and if this be the case, does it imply a move away from the normative principles of the Scandinavian welfare state? Or put another way: Is it possible to maintain generous universal pension benefits while ensuring the sustainability of the overall pension system? How is the burden of an ageing population to be fairly distributed between generations?

2.0 Structure and Content

The thesis opens with a description of demographic patterns, including important tendencies and present and future population composition estimates by OECD. The account addresses the situation in the OECD area in general, but where country specific variations apply to Norway and Denmark, these will be described. This account is followed by a discussion of the financial, social and political consequences of the demographic trends and the challenges they may thrust on society. The challenges apply to more or less all OECD countries, but they will be exemplified by and/or be given an additional perspective from the point of view of the two countries of my choice.

Chapter II addresses the OECD proposals for meeting the challenges of ageing populations. OECD's focus ranges over a wide field and promotes guidelines for inter alia fiscal, health, employment and strategic reforms, whereas my focus will be on the transition from work to retirement and corresponding pension arrangements. Regarding the OECD principles for reform, my main attention will be directed towards principles directly addressing the transition to retirement, employability of older workers[13] and pension arrangements respectively. The normative principles reflected in the OECD recommendations will be addressed and in the subsequent chapter compared with the stated, implied or alleged normative principles of the Scandinavian welfare state. Whether all welfare measures are in accordance with the underlying normative values or the means for achieving them are effective or not, is beside the point in this context. My interest is the extent to which the normative principles of OECD and the Scandinavian welfare state agree and/or differ. Esping-Andersen stresses that norms are upheld by power, collective action and by the median voter's

[13] To the extent employment rates and patterns may affect the challenge of increased pension expenses, I consider employment policies addressing particularly older workers important to pensions and pension policies. After all, my focus is on *ageing* and labour force participation rates among older workers are generally significantly lower than the remaining population of working-age.

choice, and the greater their hegemony the less power needed to be activated on their behalf (Esping-Andersen, 1999:173). On this basis I hypothesise that if the normative foundations of OECD and the Scandinavian welfare state concur it would be plausible to assume that the Scandinavian countries would follow the OECD guidelines with relatively little political conflict and opposition. If they diverge, I assume that OECD recommendations may be met only partially and reluctantly, as the OECD direction for reform may be contested and protested.

The methodological aspects of my research will be dealt with in the chapter on analytical approach. I address my choice and use of methodological design and strategy and any weaknesses that may arise. The term welfare state will be defined as formulated by Briggs (1985), and types of welfare regimes as distinguished by Esping-Andersen (1990, 1999). The fact that I employ typologies or ideal types, notably the Scandinavian welfare state, helpful analytical tools as they may be, are not unproblematic and a discussion of strength and weaknesses of using ideal types will precede my analysis. The normative principles of the Scandinavian welfare state are outlined and compared with the normative principles of the OECD recommendations. The normative principles are further operationalized with regard to the extent they are actually reflected in pension systems in Norway and Denmark, which may indicate whether or not reforms in Norway and Denmark will comply with the OECD principles and/or consolidate the normative principles of the Scandinavian welfare state.

Chapter V presents the pension systems in Norway and Denmark in light of the normative principles of the Scandinavian welfare state as defined in the preceding chapter. The intention is inter alia to better comprehend actual reforms and reform policies, to be analysed in the following chapter. OECD recognizes that there are no “one-size-fits-all” when it comes to pension reforms due to historical country specific differences. In order to fully understand the path of reform chosen, I will consider the starting-points of my respective countries to attain, if possible, indications of whether or not direction for reform is likely to comply with OECD recommendations. A more detailed overview and description of public and private pension schemes is provided in an appendix. Chapter V also includes an elaboration of various pre-retirement[14] schemes in Norway and Denmark. To the extent these schemes influence labour force participation and retirement patterns, they may through reforms, e.g. by removing work

[14] Ceasing previous employment activity before the standard age of retirement.

disincentives and/or implementing incentives to work, become policy measures for increasing the average retirement age and the general rate of employment.

Chapter VI addresses reforms proposed and/or implemented in Norway and Denmark in light of the issues discussed in previous chapters. My findings will be presented and compared. This is in accordance with recent OECD proposals which acknowledge that as reforms are either taking place or are under way, it is time to look further ahead, monitor changes and share experience. This is what I set out to do, only on a small and limited scale, i.e. two Scandinavian countries. In discussing the guidelines as recommended by OECD, the following questions will be of particular interest: Do the reforms and proposals for reforms in Norway and Denmark reflect the OECD principles? With regards to pension and employment policy, are Norway and Denmark diverging from or converging towards the Scandinavian model?

The thesis closes with concluding remarks on the subject studied and the particular findings. I present some thoughts on current events and challenges and suggestions on the scope of further analyses. A little though-provoking remainder before commencing: the most significant impacts and challenges of population ageing remain as of yet.

II Demographic Trends

In light of recent demographic trends three types of *ageing* are of particular importance. *Population ageing* entails that there are relatively more people in older age groups compared to other groups, mainly as a consequence of the baby boom and the baby bust. *Individual ageing* means that people are living longer, while *active ageing* refers to changes in patters of activity within each age group and a more flexible allocation of time over the life cycle (OECD, 1997a:3). The combined effects of these trends will be of relevance to public policy.

The demographic trends are closely interrelated. In other words, the challenges they pose both combined and separately will require a coherent response. Without such a strategy implemented reforms may not have their intended effects as they may end up pulling in different directions. Hence, it will be important to attain a better understanding of the trends and their interaction. Within each trend I will first examine the general tendency in the OECD-area, and where divergence occurs, the tendencies in the two countries of my choice, Norway and Denmark.

1.0 Population Ageing

The impact of population ageing will be significant in the coming decades when the number of people aged 65 and over will increase in both absolute and proportional terms. “Elderly” refers to the population aged 65 and over, whereas the “very old” are those aged 75 years and over. Both categories will in the near future increase relative to the working-age population, i.e. people aged 15-64. According to OECD estimations using a medium fertility variant[15] the number of elderly in OECD countries is expected to double from the 1980-level by 2040, with a particular increase for the age group 80 and over which is estimated to triple (OECD, 1992:9). Table 3 gives a more detailed account of the share of population sub-groups.

OECD calculations indicate that the number of persons at pensionable age will rise by a further 70 millions during the next 25 years, compared to a rise by only 5 millions in the

[15] The medium fertility variant entails a pace of fertility changes between the high and low fertility variants and can be considered the “most likely” projection as previous Revisions show that medium-variant projections has described future world populations growth well, at least for 20-25 years horizons (United Nations, 1998:89). Fertility rates are assumed to remain at existing levels until 1995 upon which they are projected to gradually reach replacement level, i.e. a fertility rate of 2.1. Mortality rates are assumed to be maintained, or slightly decrease. Life expectancy is on average estimated to increase by two years from 1983 to 2030, whereas migration rates are projected on the assumption that the present trends will remain at a low level in the future (OECD, 1992:39).

working-age population (OECD, 1998:10). Seen in perspective, in 1960 the ratio of the elderly to the working-age population, the *elderly dependency ratio*[16], amounted to 15 per cent whereas it is estimated to approximate 38 per cent by 2030, with a particular strong growth after 2010 (table 4). Thus we can definitely say that the population is ageing.

Though the phenomenon of ageing is present in all OECD countries, the development within each country will vary according to the country's specific demographic features, such as the combined effects of fertility and mortality rates, life expectancy and migration rates.

1.1 Low Fertility

In the aftermath of the Second World War, the number of childbirths increased significantly and during the following couple of decades the generation known as the baby-boom generation arrived. The baby-boom took place in all of Western Europe, though its timeframe and magnitude varies, e.g. in Norway the baby-boom was stronger and took place later, between 1955 to 1968, than most other countries (SSB, 1999).

Current total fertility rates[17] are generally low in OECD countries, either at or below replacement level[18] with the exceptions of Mexico and Turkey[19]. For all countries projections using a medium fertility variant assume that fertility in the long run will reach, either by increasing or declining depending on current rates, and pause at the replacement level of 2.1 children per woman by 2030 (United Nations, 1998:92, OECD, 1997a:103). In Norway the fertility rate decreases and remains below 2.0 from the mid 1970s, but is expected to reach replacement level by 2015-2020 (table 1). The fertility rate in Denmark is somewhat lower than in Norway and reaches an all time low at 1.4 in the first half of the 80s. Henceforth it increases steadily to 1.8 in 1990-1995 and is expected to reach replacement level by 2015-2020. Meanwhile fertility rates below replacement level contribute to the ageing of society.

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[16] Population aged 65 and over to the working-age population (OECD, 1997a:99).

[17] The total fertility rate is one of the most common summary indicators of fertility, defined by United Nations as "the average number of children that would be born to a woman in her lifetime, if she were to pass through her childbearing years (i.e. 15-49) experiencing the age specific fertility rates for a given period". It is directly calculated as the sum of age-specific fertility rates, or five times the sum if data are given in five-year age groups, calculated as the ratio of annual births to women at a given age to the population of women of the same age. The total fertility rate is usually expressed as per woman or per thousand women (United nations, 2003).

[18] The replacement level refers to the fertility rate needed to maintain population figures, which is assumed to amount to 2.1 children per woman (United Nations, 1998:92). Women should on average have one daughter to maintain population figures. Boys are however, delivered a bit more frequent than girls, hence the replacement level is assumed to be just above 2 children per woman (Store Norske Leksikon, 2003).

[19] Where the fertility rates were 2.4 and 2.5 respectively in 2000 (OECD, 2002e, table GE4).

Table 1: Total fertility rates (per woman)

	1970-1975	1980-1985	1990-1995	2000-2005	2015-2020
Denmark	2.0	1.4	1.8	1.9	2.1
Norway	2.3	1.7	1.9	2.0	2.1

Source: United Nations, 1998:275.

•For the period 1970-1995 historical data is provided, whereas figures for the period 2000-2020 are projections based on the medium fertility variant, cf. note 15.

1.1.1 Falling Population Growth

An OECD study in 1997 reports that the population growth in member countries has fallen from 1.1 per cent per year in the 1960s to 0.8 per year in the 1980s. The study projects that the figures for the 1990s would show a growth rate at 0.7 per cent per year and a further deceleration is estimated to a rate of 0.2 per cent per year in the 2020s. This development should be seen in relation to low fertility rates in the last decades. There are, however, country differences worth mentioning as some countries are projected to maintain population growth even after 2020[20], Norway being one of them. But even in these countries the population growth is projected to slow significantly after 2020 (OECD, 1997a:99).

2.0 Individual Ageing

The trend of increased longevity is referred to as individual ageing, in contrast to population ageing. Life expectancy at birth has increased over the years for both men and women and is expected to increase even further in the years to come. In Norway life expectancy at birth in 1970-1975 was 71.4 years for men and 77.6 for women (United Nations, 1998:325). By 1990-1995 the figures had risen to respectively 74.2 for men and 80.3 years for women. Life expectancy at birth for men in Denmark was 70.9 in 1970-1975 and 76.4 for women. By 1990-1995 the corresponding figures were 72.5 years for men and 77.8 for women. Life expectancy in both countries is projected to continue rising in the future (table 2). Life expectancy at all stages of life, not just at birth, has risen due to changes in the pattern of mortality. Thus, a person born at a time when life expectancy at birth was 77 years might expect to live a couple of years longer when he or she reaches old age as the likelihood of

[20]Notably Austria, Canada, Iceland, Ireland, Mexico, New Zealand, United States, Norway and Turkey (OECD, 1997a:99). The study does not specify why these countries are projected to experience population growth. Most likely it is a result of relatively stable or high fertility rates, low mortality rates, increased life expectancy and migration or some combinations of the above.

growing old increases with age (Foss, 2001:43). In other words individual ageing is closely related to population ageing.

Table 2: Life expectancy at birth (in years)

		1990-1995	2000-2005	2010-2015	2020-2025
Denmark	Both sexes	75.1	76.1	77.1	78.1
	Males	72.5	73.5	74.5	75.5
	Females	77.8	78.8	79.8	80.8
Norway	Both sexes	77.2	78.1	78.6	79.2
	Male	74.2	75.3	75.8	76.4
	Female	80.3	80.9	81.5	82.0

Source: United Nations (1998:325,346).

• A future course of life expectancy is projected on the assumption that life expectancy will rise continuously unless information indicates stagnation or decline during the early 1990s (United Nations, 1998:90).

Life expectancy does not only vary between countries but also within each country. This means that not only whole countries but also country regions may be facing different challenges due to ageing. It is important to be aware of possible regional differences as this means that action and reform at the national level may not be enough, some regions may need additional support. In Norway life expectancy is for instance higher in the regions of Vestlandet, Sogn og Fjordane, Hordaland and Møre og Romsdal than in the rest of the country's provinces. Other things being equal these provinces may be more affected by population ageing than the country at large (Foss, 2001:46).

3.0 Active Ageing

Alongside ageing populations, the fact that labour force participation patterns and lifetime allocation are changing will affect individuals as well as society at large. Over the last decades a change in the allocation of time spent in and out of employment due to school, unemployment, retirement etc. has taken place. This is partly due to the fact that current generations spend more time studying, retire earlier and in larger numbers and generally live longer than previous generations. These patterns will to some extent vary across OECD countries, but the overall tendency is clear; the amount of time spent out of employment is increasing. As a matter of fact, in most OECD countries the expected amount of time out of employment currently either equals or exceeds time spent in employment (OECD, 1997b:6).

When longevity increases, time spent in employment has to increase accordingly if not to alter previous established life-course patterns. Without a corresponding change in the latter, time spent outside of employment will increase relative to time spent in employment. This may to some extent account for the fact that the amount of time in employment for men has declined over the last couple of decades. Another explanatory factor is the extended use of early retirement combined with later entry in the labour market due to longer education[21]. Women's employment patterns have also changed over the same period. Though an increasing number of women now achieves higher education[22], women's years in employment have actually grown steadily in most OECD countries. However, as life expectancy for women has increased, their number of years outside employment has remained more or less the same. Consequently, the gap between women and men with regard to years in- and outside employment is narrowing, though an approximate equality has yet only been reached in Sweden (ibid:6).

Despite the fact that the number of women in employment has increased significantly over the past 40 years and working women in many OECD countries have moved from the minority to the majority of the female population, they are still outnumbered by men. In 2001 the OECD average female share of the total workforce approximates 43 per cent (OECD, 2002c). However, the rates of women in employment vary considerably across countries from a low 40 per cent in countries like Greece, Italy and Mexico to a high 70-80 per cent in the United States and the Scandinavian countries (OECD, 1998:16*)*. The number of women having jobs outside the home is increasing in most OECD countries. The gender gap in labour force participation may be narrowing, but there are other significant employment differences between the sexes. Regardless of the actual female employment rate, women are generally more likely to work part-time[23] than men. Women's share in part-time employment in 2001 amounted to an OECD average of approximately 69 per cent, with respectively 76 and roughly 67 in Norway and Denmark, cf. section 4.3 this chapter. Measured as a proportion of employment 9 per cent of men in Norway and Denmark hold part-time employment as

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[21] The actual retirement age is below the standard age of retirement in both Norway and Denmark, cf. ch. V section 3. In addition a high percentage of the population aged 25-64 has attained at least upper secondary education. In 2002 the OECD-average is 64 per cent, compared to 80 in Denmark and 85 in Norway, the latter figuring 2000 (OECD, 2002a).

[22] In 2000 more women than men completed higher education, i.e. at university or university college level in 14 out of 30 OECD-countries, the Nordic countries included (SSB, 2002a). In Norway 29 per cent of women aged 25-54 had minimum three years higher education. This is equivalent to Danish figures for 2001 (SSB, 2002b).

[23] Defined as working less than 30 hours per week in their main job, data including only person declaring usual hours (OECD, 2002f:319).

compared to approximately 32 per cent women in Norway and 21 per cent women in Denmark[24] (OECD, 2002f:319).

4.0 Consequences of Demographic Trends

The scenario pictured above, with a smaller share of the total population in employment and increased dependence ratios, indicates what to expect ahead if no political action is taken. It goes without saying that the demographic development may have far-reaching consequences socially and economically and probably politically.

4.1 Increasing Dependency Ratios

The progressively increasing proportional share of elderly within the population will inevitably result in a greater number of people in older age groups being dependent on a fewer number of people in younger age groups who are economically active (OECD, 1992:22).

Today many OECD members[25] enjoy so-called "favourable" demographics with the baby boomers of working-age supporting relatively fewer retirees (OECD, 1997a:10). Whereas the ratio between people in retirement and the number of people of working-age has been even better, the situation is expected to worsen in the years to come. According to OECD calculations there are currently 3 employees to provide support for every older person, compared to 4 in 1960. The number is expected to diminish even further as the share of elderly increases, leaving only two employees for each older person by 2030 (OECD, 1998:11).

OECD estimates that by the 2020s working-age populations in the OECD area are falling everywhere with the exceptions of Ireland, Mexico and Turkey (OECD, 1997a:99). The general tendency is clear, though each country may experience different falling rates. In Norway the annual rate of change in the working-population was 0.5 from 1990 to 2000, just below the OECD average 0.7, whereas the annual rate of change in Denmark was even lower at 0.2. From 2010 to 2020 and 2020 to 2030 the annual rates of change is projected to –0.2

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[24] It should be noted that part-time employment as a proportion of total employment is a bit higher in Norway, 20 per cent, than in Denmark (14.5) and the OECD average (15).
[25] In particular Western European countries. But not all countries had a marked "baby boom" after the second work war, which makes the use OECD averages as measures of general challenges problematic. Thus I include demographic figures for Norway and Denmark as well.

and –0.4 in Norway and –0.5 and –0.7 in Denmark respectively, whereas the corresponding figures for the OECD average is estimated to 0.0 and –0.3 (ibid:100).

As a consequence of the working-age population shrinking faster than the overall population, the elderly dependency ratio is increasing (tables 3 and 4). The growth is expected to continue with a projected sharp increase after 2010. Between 1990 and 2030 the elderly dependency ratio in the OECD as a whole is projected to almost double, from 19 to 38 per cent. In Denmark the elderly dependency ratio is estimated to increase from 23 per cent in 1990 to 38 per cent in 2030, with the corresponding figures for Norway being 25 and 39 per cent respectively (ibid:102).

Over the same timeframe the proportion of the very old, i.e. aged 75 and over, is projected to almost double from 6 to 10 per cent in the OECD area (table 3). This development is assumed to take place in all OECD countries but at various rates. The share of the very old of the total population in Norway is estimated to increase from 7 per cent in 1990 to 11 per cent in 2030. In Denmark the corresponding figures are 7 per cent in 1990 and 10 per cent in 2030 (ibid).

Table 3. Population sub-groups in per cent of total population.

	Population aged 65 and over			Population aged 0-14 and 65 and over			Population aged 75 and over		
	1990	2010	2030	1990	2010	2030	1990	2010	2030
Denmark	15.4	16.4	22.6	32.4	33.9	40.1	6.7	6.6	10.4
Norway	16.3	15.8	23.0	35.2	34.1	40.6	7.0	7.7	11.2
Total OECD	12.9	15.6	22.5	33.7	33.6	39.8	5.5	7.0	10.4

Source: Bos et al. (1994) in OECD, 1997a:101.
• OECD does not specify whether the total figures are weighted or unweighted, although there may be grounds for assuming the former as recent OECD studies on demography generally are weighted.

In addition to the increased elderly dependency ratio, and partly because of it, the total dependency[26] ratio will increase likewise. As the latter refers to total dependants, i.e. children and elderly, to the working-age population, it acknowledges that an increase in elderly dependants may be accompanied by a decline in young dependants. Accordingly, the total dependency ratio presents a more accurate picture of the actual demographic burden to be shouldered by the working-age population compared to the elderly dependency ratio. In the OECD area the total dependency ratio on average declined between 1960 and 1990

[26] Population aged 0-14 and 65 and over as a percentage of the working-age population.

whereupon it remained flat at roughly 51 per cent. It is projected that the OECD average will rise again after 2010 and exceed 66 per cent in 2030. The pattern in Norway is similar, though with slightly higher figures. The total dependency ratio is estimated to increase to 68 per cent in 2030, compared to a 54 per cent ratio in 1990 (ibid:102). In Denmark the ratio steadily increases from 1990, but with a ratio at “only” 48 per cent in 1990 its starting point is somewhat better than its neighbouring Scandinavian country. Nevertheless, Denmark is projected to experience a sharp increase after 2010 and reach a total dependency ratio at 67 per cent in 2030.

Table 4. Dependency and support ratios.

	Elderly dependency ratio			Total dependency ratio			Needs-weighted support ratio		
	1990	2010	2030	1990	2010	2030	1990	2010	2030
Denmark	22.7	24.9	37.7	47.9	51.3	67.0	68.0	66.4	59.2
Norway	25.2	24.0	38.7	54.4	51.7	68.3	65.3	66.5	58.7
Total OECD	19.3	23.5	37.7	51.2	50.6	66.4	67.8	67.0	59.5

Source: Bos et al. (1994) in OECD, 1997a:102.

• The need-weighted support ratio is the ratio of the working-age population to the total (needs-weighted) population. In calculating this ratio OECD applies the same weights as Cutler et al. (1990 in OECD, 1997a:106), who consider age-specific use of private non-medical consumption, medical care and public education and attach an overall weight of 0.72 to people under 20, of 1 to people aged 20-64 and 1.27 to those aged 65 and over.

The total dependency ratio is by some criticised for not regarding the fact that resources respectively spent on a child and on an old person may differ, which the so-called needs-weighted support ratio takes into consideration. Notwithstanding which ever of the above indicators is preferred, the general conclusion remains the same: “the burden on the working population will increase significantly in the future” (ibid:103).

4.2 Reduced Growth in Material Living Standards

If the current trend of ever decreasing numbers of the population being employed progresses it may in the end affect the standard of living, which is primarily determined by the goods and services produced by the economy. This production depends on the size of the working force and its productivity. When the number of the population in employment drops, the remaining workers will have to increase their productivity significantly in order to maintain the original level of production. The effect of longer working hours and improved technology in order to raise the rate of productivity is, however, limited. OECD calculates that if productivity continues at its post-1973 average growth rate of 1.5 per cent annually, the decline in the labour force participation would mean that the future growth in material living standards will be reduced[27] from 2010 (OECD, 1998:10).

Once the baby-boom generation reaches the age of retirement, the goods and services produced by a relatively smaller working force, will be consumed by themselves and a relatively larger number of people not economically active. Consequently, OECD estimates that in order to maintain the balance of living standards between people in employment and retirement respectively, more income will have to be put aside during working years either through individual savings or taxes and contributions (ibid:11).

4.3 The Gender Aspect

The ageing of society entails a gender aspect as the impacts of ageing trends to a certain extent affect women and men differently. Political response and reforms regarding the challenges of ageing may thus affect already existent gender differences, notably regarding income. If pension reforms take account of gender differences it may be possible to narrow gender-based inequalities. On the other hand, if the gender aspect is disregarded, current gender bias may not only be maintained but even strengthened.

As previously mentioned, men and women have different patterns of labour force participation. The differences may be narrowing as female participation rates are increasing. Notwithstanding country specific differences one pattern generally prevails; women still earn lower wages (OECD, 1997a:13). As the female share of the labour force has risen, so have their wages. Nevertheless, OECD finds that regardless of how the gender gap is measured women's hourly earnings are below male wages, averaging 84 per cent of the latter[28]. As women are generally more likely to work part-time or shorter full-time hours, many women would earn less than their male counterparts anyway, even if they were on the same hourly rate (OECD, 2002c). The fact that women are more likely to work part-time than men does

[27] That is living standards will continue to increase but only by half as much in the decades after 2010 compared to preceding decades.

[28] The age gap between men and women in Portugal is only 5 percentage points, whereas the United Kingdom has the widest gap with 25 percentage points. OECD finds that countries with higher female employment rates also tend to have wider wage gaps. According to OECD this is primarily due to the fact that a higher proportion of female employees is low-skilled, i.e. less educated, in countries with high female employment rates, notably the Nordic countries, the United Kingdom and the United States, which causes a wider gender gap in wages (OECD, 2002c).

not necessarily reflect their own wishes. According to OECD labour force statistics the majority of involuntary part-time workers[29] by total employment in all included countries[30] but one, Turkey, is women. Of the 85,200 involuntary part-time workers in Denmark in 2001, 65,200 were women, whereas the corresponding figures for Norway were 38,200 out of 52,400[31].

Pension payments are often related to income, contributions and/or previous employment. In consequence, lower earnings and lesser labour force attachment may imply that women will generally attain lower pensions than men. The fact that women in general earn less than men would in my opinion imply that they have lesser opportunities to secure their pensions through individual savings. Evidence[32] suggests that women are more dependent on all kinds of state support, but especially income. To the extent fewer women than men receive occupational pensions and/or have individual saving schemes, women will be more dependent on public pension income than men. If this is the case women will be more vulnerable than men for reduced public pensions, which is one possible response to contain public pension expenses as the population ages.

Gender differences also concern the transition from work to retirement and care giving, both of which may be related to differences in labour force participation patterns. The rates of female employment are increasing, although still relatively small in many countries, but women remains the main providers of informal care for family member[33]. Informal care is generally unpaid work, which only in some countries and to a limited extent is granted pension rights. Relatively low employment rates, at least compared to men, and informal care giving combined may explain why pension income for women in many countries is either low or non-existing (OECD, 1992:29).

As women have longer life expectancy and generally marry men older than themselves, they also tend to live alone longer. Hence elderly single person households are predominantly female households (ibid:25). In addition, women tend to have longer periods of frailty and

[29] Defined as part-time workers working less than 30-usual hours per week because they could not find full-time employment.
[30] 25 of 30 OECD countries, omitting Germany, Korea, Mexico, United Kingdom and the United States.
[31] Source: OECD online database (OECD, 2003d).
[32]Studies of older women in EEC countries (Coopmans, Harrop & Herman-Huiskes, 1989; Harrop, 1990 in OECD, 1992:46).
[33] This is not to say that men do not contribute, but the majority of family carers is women.

poverty near the end of their lives (OECD, 1997a:13). Reduced public pensions would in my opinion in particular affect women.

As labour force participation may be related to total pension payments and one of the reasons for ageing populations is low fertility rates, I would like to point out that some hypotheses link increased female labour force participation with declined fertility. Empirical data from the 1980s indicates that the developed (industrialized) countries experiencing the largest increase in female labour force participation rates tend to have the largest declines in total fertility rates. In the 1990s the changes in both rates have slowed down. Compared with other economies and countries[34] the pattern is, however, not consistent (Lim, 2002:3-5). Esping-Andersen, on the other hand, finds that female employment levels are currently positively related to fertility[35], whereas the relation was negative in 1960. Nevertheless, with regard to population ageing he holds the view, reasonably I may add, that if welfare states discourage fertility, whether directly or indirectly, they may cut their future financial viability (Esping-Andersen, 1999:68). It is my opinion that in responding to the ageing trends politicians should consider measures to increase labour force participation, particular among women. At first glance this may appear to conflict with the aim of increasing fertility to offset ageing. However, by promoting family-friendly policies[36] to enhance the possibility of combining work and family life, both high female labour force participation and high fertility rates may be attained[37]. This view is supported by Esping-Andersen's study, which indicates that the relationship between changes in fertility and female employment will be positive where day care and family services or part-time employment are available (ibid:69). To the extent adequate day care coverage increases female participation in the labour force, it may also increase the overall employment rate. Recent OECD research (OECD, 2003c) indicates that the right policy balance between work and family life, i.e. family-friendly policies, will benefit society in general by inter alia increase employment and strengthen gender equity.

[34] Inter alia several of the transition economies, where both rates have fallen and the Asia-Pacific countries, which have no clear pattern.

[35] The higher the level of female employment the greater the level of fertility. It should be noted that this "deduction" is not necessarily valid beyond the countries included in his study However, he finds the Scandinavia countries ranking among the highest fertility levels in Europe and the highest female employment rates in OECD, whereas Italy and Spain have the world's lowest fertility levels and female employment rates well below the OECD average (Esping-Andersen, 1999:67)(OECD, 2002f:306).

[36] An OECD study of work and family (OECD, 2003c) includes childcare, child-related leave and tax/benefit policies. I would like to add child allowance and granting pension credits for informal care work.

[37] As opposed to "punishing" women pension-wise for bearing and rearing children, which does not strike me as the way to improve fertility.

4.4 Intergenerational Effects

The ageing of the population will not only affect the various generations, but also their interrelations. Such intergenerational changes may take one of two recognised directions. One is towards a stabilisation of a new balance in accordance with the changed demography. The other may be towards a period of intergenerational tension. Either way the social contract among the generations needs to be rethought and updated because it is based on demographic and social assumptions that will no longer be valid (OECD, 1997b:12).

4.4.1 The Social Contract

The social contract among generations is most obvious in the case of education and pension. Today everyone contributes to the cost of public education and public pensions regardless of whether they themselves or their family members benefit (ibid:26).

The current social contract assumes that the age structure of the population resembles a pyramid, implying that there are many people in younger age groups at the base and increasingly fewer people in older age groups at the top. Generational relations are mainly limited to two generations, parents and children, with more children for the adult generation to support. These assumptions may have been sufficiently valid to provide the basis for social policies in the 1950s, 1960s and even into the 1970s, but today they are being outdated. In many countries the age structure is already beginning to resemble a cylinder rather than a pyramid, and there are of yet more parents and grandparents to support fewer number of children (ibid:25). The latter is likely to result in an increase of transfers to young people inside families.

4.4.2 The Question of Intergenerational Fairness

The generational contract will also be affected by the fact that it is ultimately the younger generation, i.e. those currently under 40 years, who will have to carry the bulk of rising pension costs due to population ageing. This raises the question of intergenerational fairness.

According to OECD figures the economic status of older people in many countries has generally improved over the past two decades relative to the economically active. This is partly due to improved pension benefits and increased coverage and partly due to favourable tax treatment (OECD, 1997a:13). On average the wealth position of older people also surpasses that of other groups mainly due to the fact that they have had a longer period of time in which to accumulate assets. The most important asset for the majority of older people is their home and in general more elderly persons tend to own their own homes than non-elderly households. In contrast to young homeowners, the majority among the elderly home owners have paid off their mortgages (OECD, 1992:27). In addition, many of today's older generation benefited from the increase in property values and the corresponding reduction in fixed-interest mortgages in the 1970s and early 1980s (OECD, 1997a:13). Despite wages and profits from property and investment, transfers are the major source of income for older people in OECD countries, and according to OECD figures a larger number of elderly households in OECD countries would be poor if they did not receive benefits (OECD, 1992:31). The fact remains that even among older age groups some people are living in relative poverty, especially the widowed, the divorced and the never-married women.

The younger generation of today also faces disadvantages that rather worsen than improve their economical situation as compared to older generations. The combination of attaining longer, i.e. higher, education and poor education grants leave graduates with huge debts to pay when they (finally) enter the labour market. With rising housing prices, it becomes difficult for young people to even enter the housing market not to mention the large down payments they face as new homeowners. At times of rising unemployment younger people may in particular find it difficult to enter the labour market and/or be among the first to be given notice on account of (low) seniority[38]. This is the reality many young people today are facing, the selfsame generation that is likely to shoulder the lion's share of the burden of ageing populations.

The above mentioned aspects have already constituted a relative difference in the economical situation between the younger and older generations. As I see it herein lies a latent tension embedded, a tension that may be triggered by an unfair allocation of burden between the generations and result in a rising intergenerational tension. According to an OECD study (1997a:14) there is of yet little evidence to support this view. In my opinion, the establishment

[38] In most OECD countries the youth unemployment rate (up to the age of 24) has remained twice or more the adult rate (25-54). Previous analyses also suggest that youth employment prospects are particular sensitive to the economic cycle and OECD (1996 in OECD, 2002d) found that in percentage-points youth unemployment rates tend to rise slightly more than adult unemployment rates during a recession and youth unemployment rates are much higher to start with (OECD, 2002d).

of popular movements advocating senior policies may reflect a future potential for intergenerational tension. The DaneAge Association (*ÆldreSagen)* in Denmark founded in 1986 and its more recent Norwegian equivalent the Senior Cause (*Seniorsaken),* formed in 2002, are both party-political neutral organisations established to ensure the interests of older people. The former has currently 435.000 members and one of its main objectives is to act on behalf of older people in relation to central and local government and other decision makers who may influence the quality of life of older people[39]. The latter appears more aggressive in its campaign. Launched under the motto “we are older, we are stronger, we are dangerous […]” it turns on the age group 25 to 38, accusing it for trying to diminish the role and influence of people aged 50+. Addressing in particularly people over 50, it generally intends to pursue “the good life” (Bergens Tidende, 2002ab). In contrast one of the objectives of *Norsk Pensjonistforbund (NPF),* The Norwegian Association of Pensioners, is security and solidarity between generations. For over 50 years NPF has acted on the behalf of pensioners, cautious of turning groups against each other, under the assumption that aims can only be met through collaboration across generations[40]. With approximately 85,000 contributing members, NPF is somewhat smaller than the Danish Associations of Senior Citizens, *Ældremobilseringen*, which comprises five out of six senior citizens’ organisations in Denmark and has a total membership of 450,000. Although founded in 1992, several of its member organisations date back to 1929. As the DaneAge Associations, its main objective is protecting members’ interests vis-à-vis public authorities in matters concerning the elderly[41], which may conflict with the interests of younger generations.

Ageing and life-course patterns are re-balancing the intergenerational social contract. Thus, many existing social programmes are based on demographic and social assumptions that are no longer valid. The ageing of the population has barely begun and the heaviest effects will in most countries not be felt until after 2010. This presents limited time to implement reforms inter alia to ensure a more balanced future distribution of the burden associated with ageing. For reforms to be successful it may be essential to build up understanding and support in the population at large.

[39] (ÆldreSagen, 2003).
[40] (Pensjonistforbundet, 2003).
[41] (Ældremobiliseringen, 2003).

4.5 Pressure on Public Finance

Due to the fact that governments traditionally have borne a major share of social expenditures, public expenditures are expected to grow considerably over the next decades as the pressure on social policy and health, education, pension and active labour market programmes is expected to increase. Admittedly, as the number of children declines the pressure on public spending on education and child benefit will lessen, but this will more or less be matched by increasing costs associated with lifelong learning and the care of frail older people. The latter is expected to rise in accordance with the increasing rate of very old people. At the same time the ageing of the population will place strains on public spending, mainly due to the commitments embedded in current public pensions (OECD 1997a:15).

According to OECD estimations public pension accounts in the OECD area will generally go into deficit in about ten years time and without reforms the growth of pension costs in most OECD countries will be increasingly difficult to handle (OECD, 1998:13). With potentially increasing pension costs at hand, it is necessary to examine more closely financing, benefit levels and eligibility and incentive structures of existing public arrangements in order to find room for improvement and reform. For politicians this may be an unpopular task to undertake but nonetheless essential, hence the importance of building public support.

The ageing of the population will also result in changed patterns of savings, investment and capital accumulation (OECD, 1997a:14). This is especially the case for national savings, which ageing population tend to reduce, and government savings due to the increased pressure on spending. Current estimates even suggest that if policies are not changed, we may witness a dramatic decline in national savings and some countries may experience net national savings to be negative. Although the evidence for private savings is less clear, they are anticipated to be lower as well. Combined, these predictions should give reason for concern.

5.0 Public Policy

Though ageing populations are inevitable, the effects of ageing will to a certain degree depend on the allocation of time to work, learning, leisure and the giving and receiving of care by people of different ages (ibid:10). Formal education is still concentrated among the young, work among people in their middle years and leisure and chronic illness among the old. However, changes in the age structure of the population can and are likely to have large effects on education, the labour market and on the provision of pension and dependent care. We are already witnessing an evolution in the use of time patterns as people stay in school longer and retire earlier. It is thus the combined effect of ageing and changing life-course arrangements, which is of importance for governmental remedial action and public policy (ibid).

5.1 Traditional and Existing Public Policy's Shortcomings

The main problem of much of today's existing public policy is that it does not take the above mentioned life cycle and ageing considerations into account. Instead, traditional policies have assumed that people pass trough three more or less separate stages of life. Education is regarded to be for the young, pensions for the old and jobs and family for those in between, i.e. in their middle years. As a consequence of this focus, traditional policies tend to have various shortcomings. This is particularly profound in situations where the assumed stability in jobs or family is absent and at the main transition points in life, i.e. from school to work and work to retirement. The model's simplicity also disregard certain life stages all together as well as the fact that action at different stages of life can re-enforce each other like traps related to low skills, low income and marginal jobs (ibid:11).

Admittedly, these shortcomings have been recognised and in many countries reforms are either being implemented or are under way. Many of the reforms have one feature in common; they encourage a more integrated pattern of work, learning, leisure and care-giving over the entire life-course (ibid).

5.2 A New Perspective

In relation to public policy it is the combined effects of *population ageing, individual ageing,* and *active ageing* that are of importance. Previously only individual ageing and population ageing have been the subjects of study, and though these studies have been helpful in uncovering the challenges posed for public policy they have hardly been able to point to solutions. This shortcoming is, however, a natural consequence of their focus. It goes without saying that public policy can only have a very restricted direct effect on population ageing. Even enhanced migration would only make a small difference to the age structure of the population. By adding the feature of active ageing, a new perspective has been announced which may increase the understanding of how policy should respond. After all, government policies already influence the way in which people allocate activities over their lifetime (ibid). With an improved understanding it should be possible to develop policies in accordance with demographic trends and thus ease the challenges society is and will be facing due to the ageing of the population.

Whereas current public policy is often supported by and founded on analysis dealing with shorter-term phenomena, the active ageing perspective is well adapted to policy analysis that includes a longer-term dimension due to its ageing and life cycle focus. It is further anticipated that analysis which takes account of ageing and life cycle considerations should lead to more coherent policies and an improved recognition of the fact that what happens on one stage of life may impact on other stages as well (ibid).

This new perspective has extended the traditional focus on inequalities associated with earned income and tax/transfer systems, to also include matters like intergenerational transmittal of wealth and care within the family. We have also witnessed a response from public policy, most typically in the form of promoting lifelong learning and flexibility in working life arrangements and removing disincentives to flexible patterns of work (ibid:12).

6.0 Summary

In many OECD countries the period of "favourable"[42] demographics is ending. The baby-boom generation is reaching the age of retirement whereas the size of the working-age population is declining. Due to increased longevity and low births and mortality rates populations are ageing. The challenge of ageing populations is complicated by changing life-course patterns. In general, people are spending increasingly longer time outside than inside the labour market due to longer education, unemployment, early retirement and longer life expectancy.

OECD countries are facing profound social, financial and political challenges due to population ageing, of which the heaviest effects will be felt from 2010, when the proportion of people in older age groups rises significantly. As a consequence, the dependency ratio will increase and public finance be pressured, especially due to heavy pension expenses. How heavy and severe the financial burden of pension benefits will be, depends primarily upon the extent and implementation of remedial measures.

OECD stresses the need for political action and outlines seven principles for guiding and achieving reform. The principles are recommendations on how to respond to the challenges of an ageing population with regards to the overall pension system, the labour market, health care and finance and how to diversify risks and burden. The principles recommend direction for reform rather than stipulating specific measures, although suggestions are given. The OECD principles are presented in the following chapter.

[42] Refers to populations where the baby boomers of working age support relatively fewer retirees (OECD, 1997a:10).

III OECD Direction for Reform

The ageing of the population will affect almost all fields of society, and OECD identifies several areas for reform, including pension systems, employment, health care and fiscal policies. All in all OECD presents seven principles for guiding and achieving reform, of which only some will be directly related to my analysis, notably the first, second and fourth principles, which address the pension system, job opportunities and retirement income. Regarding transition from work to retirement, employability of older workers and general pension arrangements, the current trend of early retirement is of importance, both as cause and effect.

The chapter opens with identifying various reasons for early retirement, categorised as *push, pull* and *jump* factors. In order to counter early labour market exit, the influence of these factors must be reduced. This notion is reflected in the OECD view of adopting an "active ageing policy" and in the OECD principles, which are presented subsequently. As mentioned, my focus will be on the principles addressing the pension system, employability and retirement income, which will be further outlined and elaborated. Since the publishing of the OECD principles[43], the awareness of the fact that the population is ageing has increased, and the issue is currently high on the political agenda. Initiatives to obtain a better understanding of the challenge at hand have been taken, and in many OECD countries reforms are already being implemented or are emerging. The progression of reform related to retirement incentives, employability of older workers and retirement income in the OECD area in general will briefly be mentioned, with references to topical reforms in Norway and Denmark elaborated in chapter VI. The chapter closes with a presentation of the normative foundation I find to be reflected in the OECD principles for reform.

1.0 Factors for Early Exit

In order to respond to the trend of early retirement, the reasons for early exit should be identified. Whether the decision of early exit is based on a rational individual choice or is a result of structural constraints, would affect how to address and counteract this behaviour. The factors recognised to influence exit behaviour are commonly categorised into *push, pull* and *jump* factors (Solem & Øverbye, 2002:3).

[43] In the OECD report "Maintaining Prosperity in an Ageing Society"(1998).

Push factors are work-related and address conditions like poor working environments, structural unemployment, circumstances that may reduce the work ability of older workers and negative attitudes and informal policies towards older workers. These are all factors that can push the individual toward early retirement where this is an option. However, once the consequences of the beforementioned conditions are recognised, policy measures directed to reduce the influence of push factors can be implemented. Accordingly, such measures should include improved working conditions, subsidies or tax exempts for employers recruiting or retraining older workers, the removal of any disincentives for employers to either recruit or retrain older workers and an improvement of older workers' work ability per se (ibid).

Pull factors on the other hand address conditions outside work, which are pulling towards early retirement. Favourable pension arrangements, like pre-retirement and anticipatory/disability pension schemes, is probably the most important pull factor. The former includes the AFP-scheme in Norway and the post employment wage scheme in Denmark. The Norwegian scheme is a negotiated agreement[44], not a public legislated arrangement like the Danish post employment wage. Nevertheless it is partly state-funded and "approved" by government. Generous disability pension schemes with relaxed terms of entry which may not facilitate combining work and pension, would be another pull factor. Policy measures tightening eligibility rules or lowering benefit levels, granting higher pension if retirement is postponed or implementing rules that favour combining work with pension would limit the influence of pull factors (Solem & Øverbye, 2002:3).

J*ump* factors relate to individual choice and indicate a preference to leave work for something considered more attractive, like leisure activities, voluntary work, education or spending more time with one's family. The main difference between jump factors and pull and push factors is that the former to a greater extent emphasise the individual aspect, recognising that individual preferences and choices may be more or less unaffected by present structural incentives[45] (ibid:3). Surveys of older workers and younger retirees imply that a large proportion of workers aged 55 to 64 who leave their last job for full time leisure actually do so voluntarily (OECD, 1998:42). Policy measures aimed at reducing the influence of jump factors are more or less the same as for push and pull factors. Measures to increase the attractiveness of work

[44] Based on negotiations between employers and employees.
[45] Hence, the effect or success of policy measures aimed at reducing the influence of jump factors is by definition limited.

would include tightening eligibility rules or reducing benefits, as well as improving working conditions. In addition, implementing more favourable tax rules and/or improving the possibilities for combining work and retirement, may enhance the attractiveness of combining part-time work with partial retirement, rather than opting for full time leisure (Solem & Øverbye, 2002:3).

The focus of attention in this thesis is primarily the pension system and how governments try to reverse the trend of early retirement and facilitate continued employment after a certain age in response to the challenges of ageing populations. It is the policy measures aimed at reducing the influence of the above factors I am interested in, rather than the respective factors per se. In my case study of Norway and Denmark, I will examine their respective pension arrangements and the extent they facilitate current exit behaviour.

In order to maintain labour force participation rates the impact of push, pull and jump factors should be diminished. Reducing push-factors would imply improving the working environment and employment conditions for (older) workers. In order to decrease the impacts of pull factors the overall pension system should be addressed, existing disincentives to employment after a certain age removed and incentives to prolonged employment[46] enhanced. These measures could increase the willingness of older workers to not only remain in but also prolong their employment. The OECD recommendations can be considered a mixture of measures aimed at reducing the influence of push, pull and jump factors[47]. I will in the following address anti-push policies with regards to employability and a more inclusive labour market, but my main focus is pension schemes and initiatives for reducing pull factors.

1.1 Falling Retirement Ages

OECD emphasises that if people work longer, the material standards of living as well as the tax base, which usually finances public pension systems, would be higher (OECD, 1998:14). Nevertheless, the number of people opting for early retirement is increasing. In both Norway and Denmark the average retirement age is below the standard age of retirement by roughly 4-7[48] and 5 years respectively (cf. ch. V). A rising demand for more leisure and a history of high

[46] Continue in employment after reaching the standard age of retirement.
[47] It should be noted that the OECD (1998) does not employ the terms push, pull and jump factors.
[48] Depending on the age groups included; by 4 if only counting pensioners over 50, by 7 if young pensioners are included.

and persistent unemployment may have contributed to this tendency. However, there is no denying that current public pension and social systems as well as tax systems, separately and in interaction, often discourage workers to remain in employment until as well as beyond retirement age. As pension incomes on early retirement tend to be higher than they would be on an actuarially neutral basis, the attractiveness of early exit should come as no surprise (ibid:43). Funded or quasi-funded schemes may also facilitate retirement by allowing early retirement and offering little if any additional private pension benefits accruing after the "standard" retirement age. All aspects which can be classified as pull factors for retirement.

The exit behaviour of self-employed differ from current retirement trends as they in all OECD countries tend to retire at significantly later ages than dependent employees (ibid). This tendency may be attributable to the fact that self-employed workers are often entitled to lower public pensions than employees and have more flexibility in choosing when to retire. In other words, self-employed seem less susceptible to the influence of push and pull factors, probably because their push factors are weaker and pull factors less attractive. This indicates the utility value of implementing measures to reduce the influence of these factors and thereby also the incentives to (early) retirement.

Some countries have, directly or indirectly, encouraged early retirement as a mechanism for reducing unemployment. In practice this has entailed relaxing entitlement conditions for disability- or unemployment-related benefits (ibid). Though these measures have proved useful in the past they are about to backfire at the outlook of an ever-decreasing labour force because they at present constitute push factors for early exit.

1.2 Public Income-support Systems

In order to reduce the incentives to early retirement and disincentives to continued employment other public income-support systems besides the national old-age pension should be addressed as well. Today many public transfer programmes allow older workers to withdraw from the labour force before the standard age of retirement. Not necessarily their original purpose in theory, it has become their effect in practice. The importance of such programmes as well as their characteristics vary across countries. With this in mind I will briefly address the three main types: disability pension schemes, unemployment-related schemes and special early-retirement schemes (ibid:47).

Several countries have to some extent used disability programmes to facilitate early retirement. As a consequence the proportion of elderly of working age drawing disability benefits has risen in most OECD countries at a time when the general health status has improved (ibid). Although eligibility is based on labour market and medical criteria, empirical evidence implies that access is more readily granted when unemployment is either high or rising. In addition there seems to be an acceptance for easing conditionality for older workers who are approaching the standard retirement age, e.g. in Scandinavia eligibility criteria for disability pension have traditionally been laxer for older workers (Øverbye, 1997:12).

According to OECD (1998:48) more than half of OECD countries permit drawing unemployment benefit from the age of 55 to the age of retirement. In principle, this is facilitated either by the fact that there is no time limit for such benefits or because there exists special arrangements for older workers. Job-search requirements may for instance be less strictly applied to older workers, as in Denmark. Other countries may permit long-term unemployed to access old-age pension at an early age. Relaxed entitlement conditions accompanied by generous benefit levels make labour force exit via unemployment-related benefit programmes financially attractive. Analysis confirms that such programmes indeed tend to depress labour-force participation of older worker (ibid:49).

OECD considers special early retirement schemes, originally intended to facilitate early withdrawal from the labour market at times of high unemployment rates, to be of significance in a few countries only, e.g. the post employment wage in Denmark. Faced with projections of an ever-decreasing labour force, the importance of such means to ease the social cost of structural changes in the economy is diminishing. It should be noted that OECD considers it possible that such schemes may finance a significant number of early withdrawals in Norway in the near future (ibid)[49]. Denmark, on the other hand, has introduced a post employment wage reform[50] to decrease the number of participants in the long run, as it over the years had become the most dominant path to early retirement for workers over 60 (Bingely et al., 2001:17).

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[49] OECD does not give grounds for this assumption. I do, however, consider it likely that the introduction and the expansion of the pre-retirement arrangement *AFP*, cf. ch. V, Norway section 3.1, have strengthened incentives to early retirement in Norway, which may result in increased pre-retirement rates.

[50] The reform is outlined in ch. V.

1.3 Active Ageing Policy

In meeting the challenges of an ageing population, OECD encourages an “active ageing” policy. An active ageing policy would imply a higher degree of flexibility in how individuals and families allocate their time spent in work, in learning and school and leisure (OECD, 1998:14). There are several ways public policy can foster such “active ageing”. One is removing any potential constraints on life-course flexibility. By ensuring lifelong learning and more flexible work-retirement transitions, the range of options available to the individual will be widened. Thus, an active ageing policy is consistent with policy measures aimed at reducing the influence of push, pull and jump factors. An active ageing policy may counteract the tendency of increasing passivity in the labour market and other domains of life as people grow older. After all, “there is no biological reason for terminating work in people’s 60s” (ibid:83). Active ageing reforms should remove any undesirable constraints on life-course flexibility, whether related to health, physics, inflexibility in the work place or public policy, and strengthen support to individuals in making lifetime choices. Implementing active ageing policies would not only benefit the individual, but society too, especially in the longer run.

An active ageing policy promotes activity of older people in the labour market as well as in the broader community. Apparently, how people spend their older years is to a certain extent set by how they spend their working years. In other words, focus should be on patterns of work and leisure over the course of life rather than on older years only (OECD, 2000:103). This would imply that initiatives supporting an active role for older people in the community should address people at all ages rather than target older people in particular, as initiatives may be more likely to succeed if they influence people’s behaviour before they retire.

2.0 OECD Principles for Reform

By request at the ministerial meeting in 1996, the Organisation for Economic Co-operation and Development initiated a thorough analysis of the challenges its member countries will be facing due to ageing populations. Its work led to the publishing of the OECD report ”Maintaining Prosperity in an Ageing Society” in 1998. The ageing of the population is well documented both for individual countries and for the OECD as a whole, as are their challenges described in the previous chapter. The report stresses the need for action, i.e. initiating and implementing reform, at an early stage as it finds that if postponed, the reforms will end up more severe and difficult than necessary.

OECD identifies seven principles for guiding and achieving reform:

1. "Public pension systems, taxation systems and social transfer programmes should be reformed to remove financial incentives to early retirement, and financial disincentives to later retirement.
2. A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skills and competences to take them.
3. Fiscal consolidation should be pursued, and public debt burdens should be reduced. This could involve phased reductions in public pension benefits and anticipatory hikes in contribution.
4. Retirement income should be provided by a mix of tax- and transfer systems, funded systems, private savings and earnings. The objective is risk diversification, a better balance of burden-sharing between generations, and to give individuals more flexibility over their retirement decision.
5. In health and long-term care, there should be a greater focus on cost-effectiveness. Medical expenditure and research should be increasingly directed to ways of reducing physical dependence, and explicit policies for providing care to frail older people should be developed.
6. The development of advanced-funded pension systems should go hand-in-hand with that of strengthening the financial market infrastructure, including the establishment of a modern and effective regulatory framework.
7. Strategic frameworks should be put in place at the national level now in order to harmonise these ageing reforms over time, and to ensure adequate attention to implementation and the build-up of public understanding and support" (OECD, 1998:18).

The follow-up report "Reforms for an Ageing Society", published in 2000, concludes inter alia that current policy reforms in accordance with the above principles could have large effects on the future institution of retirement and its finances. The report also recognises that major changes are already underway, at least in some member countries and looks further ahead towards the next steps that need to be addressed. Where both reports start off assessing policy reforms at the national level, the latter finishes off by advocating initiatives at the international level as well.

OECD stresses that the change in the institution of retirement itself should be the focus of further monitoring and sharing of experiences, as this is where current reforms are supposed to have their greatest impact. Consequently, the financing and duration of retirement, the work-retirement transition as well as the health, social and economical well-being of pensioners and their contribution to the economy and society at large will come under scrutiny. As OECD finds that reforms are either taking place or are on their way in many OECD countries, it recommends that emphasis now be put on managing and sustaining reform. At an international level this could be achieved by focusing on disaggregated policy analyses, analyses of reform, monitoring, data gathering and applied research (OECD, 1998:18).

2.1 Incentives to Retirement

1) *Public pension systems, taxation systems and social transfer programmes should be reformed to remove financial incentives to early retirement, and financial disincentives to later retirement.*

Several studies find that old-age pension systems in practically all OECD countries discourage work at older ages (OECD, 1998:43). In actuarially neutral systems the expected pension wealth[51] would be independent of age. This is rarely the case in actual pension systems of today. Instead expected pension wealth usually falls with continued work after a certain age, producing another pull factor for retirement. Even private occupational schemes tend to discourage continued employment for older workers by not increasing eventual benefits of working beyond pension age (ibid:46). On the other hand, workers may change jobs and thereby accrue rights elsewhere. Occupational schemes need to be regulated in order to remove or weaken any incentives to early retirement.

OECD considers the standard age of eligibility to only modestly effect the actual retirement age, and neither expects nor envisages the actual retirement age to rise by as much as any increase in the standard retirement age. After all, the majority of workers in most member countries have left the labour force well before the standard age of retirement (ibid:44). Interestingly, evidence suggests that the standard age of entitlement may actually constitute a

[51] Defined as “the discounted value of pension benefits less the cost of obtaining them”(ibid:44).

barrier to continued employment after pensionable age[52]. Rising the minimum eligibility age may have stronger effects than rising the standard retirement age (ibid). The receipt of early pension is often conditional on withdrawal from the labour market. In addition, continued employment beyond the minimum age is rarely accompanied with corresponding pension gains, although early pension access may result in actuarial reductions. Raising the minimum age for pension entitlements may reduce the influence of pull factors and hence influence actual retirement ages. This presupposes that other early-retirement paths are foreclosed as well.

OECD analysis (ibid:45) suggests that the pension level has little impact on the retirement decision of older workers. Hence, reducing the size of pension benefits will not necessarily induce future retirees to remain longer in the work force[53]. Though OECD in part disregards the influence of pension levels, it emphasises the importance of pension accrual rates . In most countries rights accrue steadily until a maximum number of years of contributions have been attained[54], after which there is no further increase in eventual pension rights. Relating pension accrual rights to employment and contributions throughout working life[55] may increase the incentives for older workers to remain in employment.

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[52] The opportunity cost of continuing in employment after pensionable age is often very high. Pension systems rarely encourage continued employment, some countries even have a statutory ban on combining work with pension payments. And in countries where pensions and employment in principle can be combined, the receipt of old-age pension is often conditional on leaving current employment (ibid:44).

[53] On the other hand, reducing pension benefits is one alternative for easing the financial burden of larger cohorts of pensioners.

[54] In both Norway and Denmark an insurance period of 40 years is required to attain full basic pension. In order to receive full supplementary pension in Norway, 40 years in employment is the criterion and prolonged employment is not credited further.

[55] E.g. the Swedish pension system reform of1999, introduced contribution-defined pensions based on life-savings (Pensjonskommisjonen, 2002:98).

2.1.1 OECD Recommendations

In the longer term, OECD advocates the necessity of increasing the effective retirement age (ibid:19). This would not only increase the length of time in which contributions can be made, but also reduce expenditures. Increasing the standard age of retirement cannot alone, if at all, slow or reverse the trend towards ever-longer periods of time spent in retirement. This assumption is supported by the fact that the actual retirement age is currently lower than the public age of full retirement. Public pension systems interact with other social transfer programmes, and hence an increase in the entitlement age will per se not necessarily countervail incentives to early retirement present in other transfer programmes. Multiple reforms are needed and should according to OECD include:

-"Increasing length of the contribution period for full benefit and generally linking life-time benefits and contribution. At a minimum, benefits should continue to accrue with every year that is worked.

-Removing pension earnings rules and other penalties for working later.

-Increasing the average age of entitlement to full pension[…] Increasing the lower age limit for early entitlement.

-Moving strongly in the direction of actuarial neutrality of pension benefits for people who retire earlier or later than the standard age.

-Aligning more closely early retirement ages in occupational pensions and public old-age pension systems where the private and social costs and benefits associated with earlier retirement differ.

-Phasing out programmes that encourage early retirement for labour market reasons.

-Phasing out preferential treatment for older people in disability, unemployment insurance and other social programmes, i.e. ending their role as quasi early-retirement programmes" (OECD, 1998:20).

2.1.2 Reform Trends Affecting Retirement Incentives

In the next decades the number of workers making pension contributions will shrink compared to the number of retirees drawing pension benefits, with subsequent negative financial and social consequences. The overall situation can be improved by taking measures to reverse the trend of early retirement, which many OECD countries currently are undertaking. Work incentives in pensions are being strengthened and disability insurance closed down or restricted. Denmark offers a premium for workers eligible for post employment wage, who postpone entry beyond the age of 62 (cf. ch. VI).

Whereas new pathways to retirement, notably gradual transitions from work to retirement, are being adapted, current early retirement schemes are restricted. This is reflected in Denmark where access to the so-called transitional allowance scheme, addressing the long-term unemployed aged 50-59, was closed for new entrants in 1996. As this decision will not affect current recipients, who will continue to receive allowance until they turn 60, it will not phase out until 2006. In Norway the government collaborates with labour market partners in order to tighten the early retirement scheme, ATP, of which among other changes the rules for part-time pensioners have been restricted (OECD, 2000:21). Committees evaluating the feature of early retirement have been appointed and proposals for restricting current paths to early exit have been submitted, e.g. NOU 1994:2 (cf. ch. VI).

Policies to encourage later and in some cases more gradual transitions from work to retirement still remain. Evidence implies that the recent trend of ever-earlier retirement may have come to a halt in most OECD countries, but rarely indicates a shift towards later retirement or a more flexible retirement transition (ibid:87). On the other hand, OECD recognises that it may suffice to remove disincentives to continued employment after the standard age of retirement, making provision of incentives to positively encourage working longer unnecessary. In fact, the so-called “first-wave” reforms are expected to significantly slow the current trend of ever-longer retirement, and in some countries even reverse them (ibid:13).

2.2 Employability

2) *A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skills and competencies.*

The aim of the former principle of increasing the willingness of older worker to remain in employment rather than opting out has to be matched by a sufficient number of job opportunities for older workers (OECD, 1998:14). This would include a retraining of older workers, as well as a change in attitudes of firms towards hiring older workers and recognising their potential and experience.

Today older job losers often face serious difficulties in re-entering the labour market, and for many the loss of a job equals long-term unemployment. According to OECD the present employment problems of older workers may arise from relative low levels of foundation skills, notably literacy and numeracy, as they generally had less opportunity to undertake formal education than today’s youth (ibid:85). Any skill disadvantage of older people should be reduced as new cohorts of older workers have better skills. Nevertheless, some jobs require skills that may diminish or deteriorate with age, like motor skills, and thus cause older workers the loss of a job. This may be counteracted by increasing the opportunity for people to change careers in mid-life, ensuring that older workers could transfer to occupations where the required skills are either unaffected or enhanced by age, notably communication skills and experience.

OECD stresses a pro-active approach, advocating the need for adjusting career structures and options at all ages. The emphasis should be on the skill base with which workers enter the later stages of their careers, rather than initiate remedial training after employment problems have occurred (ibid:89). This approach presupposes the existence of learning opportunities and adaptable workplaces.

Employment problems of older workers may to some extent result from age discrimination among employers as well as unwillingness on behalf of older workers to take lower-paid jobs. However, current evidence is ambivalent. Although surveys indicate that people believe age discrimination exists and favour anti-age discrimination legislation, experience from countries with such legislation implies that their direct effect is limited (ibid:88).

An enhancement of the employment opportunities of older workers should according to OECD be addressed within the overall labour market conditions (ibid:89). The concern at present is a lack of demand of workers in general rather than older workers in particular. If unemployment is high and persistent, it will be difficult to employ an increasing labour supply of older workers. Without undermining the necessity of ensuring the employment opportunities and skills of older workers, it is important to develop and employ reforms that can attain high levels of employment and labour market adaptability[56].

2.2.1 OECD Recommendations

According to OECD two aspects are relevant in enhancing job opportunities for older workers, namely the overall demand for labour and special factors that disfavour older workers' employment opportunities. It advocates that the general directions for reform include:

-“Increasing the priority to lifelong learning for all – the operational means of investing in human capital.

-Increasing labour market information, including that related to means of achieving employability for longer working lives.

-Providing comparable information to support retirees in playing a more active role in the economy and society.

-Developing effective Active Labour Market Programming to help older workers find new jobs.

-Removing discrimination against hiring older workers.

[56] In the following only the former, i.e. reforms ensuring the employment opportunities of older workers, will be addressed further.

-Maintaining and increasing action in response to OECD Job Strategy recommendations, which will contribute to the overall health of the labour market, including that for older workers" (OECD, 1998:20).

2.2.2 Reforms Enhancing the Employability of Older Workers

In my opinion, the employability of older workers should be addressed before attention is directed to work incentives and disincentives, as their employability (or lack thereof) may in some cases per se constitute push factors. As it were, this could diminish any affects of removing work disincentives embedded in the pension system and/or the strengthening of work incentives. If older workers do not posses the required skills, there are few jobs available in general and/or for older workers in particular[57], how can pension reforms increase the employment of older workers be effective in practise? Employers may be reluctant to hire older people, either due to general prejudice or prejudicial regulations that increase the costs of employees in proportion to age. A disfavouring labour market may be as important, or even more, for the individual worker's retirement decision as pension schemes' incentives/disincentives to work. To the extent employability is influenced by demand, the success of ageing reforms will depend upon the overall unemployment situation. There is a relation between the labour force participation rate for people over the age of 55, and the extent employability of older workers is seen as a policy priority[58] (OECD, 2000:25). I question how initiatives to strengthen work incentives can be successful, if the rate of unemployment generally is high and older workers experience a reluctant labour market.

Various measures are directed to enhance the employability of older workers, but on balance most reforms address the removal of work disincentives rather than the employability of older workers *per se* (ibid). However, the Danish government initiated a Senior Policy Initiative Committee in 1997 to ensure that the labour force participation rate of older workers is maintained and measures to help older people find new employment were, i.e. Senior Jobs and "flex jobs", were adopted. The former provide older long-term unemployed a foothold in the labour market through targeted subsidies, whereas the latter are created on special terms by the government as a means to integrate weaker groups. In addition efforts have been made to re-integrate long-time sick leave recipients into the labour market.

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[57] For instance jobs that may facilitate physical fatigue or a need for working reduced hours.
[58] Analysis of national questionnaires indicates that countries with low participation rates of older workers tend to identify their employability as a particularly important challenge for policy (ibid).

Lifelong learning is a central policy in attaining a workplace for all ages. Several countries, Norway included, has implemented special reform in the education system addressing adult education (ibid:31).

2.3 Retirement Income

3) *Retirement income should be provided by a mix of tax- and transfer systems, funded systems, private savings and earnings. The objective is risk diversification, a better balance of burden-sharing between the generations, and to give individuals more flexibility over their retirement decision.*

If the structure of retirement income is not reformed, public pension accounts in most member countries will go into deficit in about ten years time (OECD, 1998:13). OECD recognises that existing public pensions systems, usually financed by payroll taxes, are likely to remain the major source of income for pensioners, but it stresses the need to take other resources into account as well, like private pensions, earnings and assets. Such reforms necessitate the establishment of a sound regulatory framework for private pension funds, including occupational pension schemes. If implemented, these reforms would probably attract greatest response from middle and high-income earners, as a way of supplementing their public pension. Were middle and high-income earners to receive most of their retirement income from sources beyond public pension, they may prove reluctant to contribute to the maintenance of public pensions. An income gap between retirees with public pensions only and retirees with additional income sources may progress and develop. Hence, the importance of implementing reforms with enough warning and timeframe to allow people to adjust to the new conditions. There are limits to how soon such reforms can be implemented due to inter-generational equity consideration as current workers will be “paying twice”, both for the pensions of current retirees as well as their own pension funds (ibid).

OECD emphasises the necessity of combating poverty among older people, as this is a central goal, as well as an indication of success, of pension policy. The economic position of older people has been improving in most countries, and it is considered unlikely that recent reforms will negate these gains. The economic situation of older people in general is stable or improving, both absolutely and in relation to the rest of the population, but poverty in old age remains to be eliminated in OECD countries (OECD, 2000:56). OECD infers that current reforms, even those reducing the overall generosity of public pensions, will not necessarily weaken the position of low-income groups if reforms especially assert low-income groups, single elderly and women in particular, as well as ensure that the progress of recent decades is not being undermined (ibid:59).

Public pay-as-you-go pension systems must according to OECD probably reduce their current generosity if their future sustainability is to be maintained. Lowering public pension replacement rates will most likely not affect the majority of retirees significantly, as international studies imply that the living standards of older people do not depend directly on the generosity of public pensions (OECD, 1998:51). For many the standard of living actually rises when they retire, but maybe more importantly, for most it does not drop. In fact, the income of older people has been growing relative to the rest of the population in most member countries, and if current trends continue, the average income of older people may exceed that for the general population in a number of OECD countries (ibid:56-59). Admittedly, the level of public pension is still critical for low-income households, notably low earners and people with marginal attachment to the labour force. A lowering of public pension levels may have to be accompanied by greater targeting, e.g. by stipulating high floors and low ceilings on pensions, features already common in pay-as-you-go schemes (ibid:60).

A lowering of public pension implies placing greater reliance on other “pillars” beside the public pension system, notably private pensions like labour market and individual pension schemes. However, increasing the reliance on private pension schemes calls for adequate regulatory framework including *inter alia* non-discriminatory access to pension schemes. It may also necessitate making some minimum contributions to advance-funded private pension schemes mandatory. Alternatively, pay-as-you-go systems can shift their benefits to a defined-contribution basis, and thereby mimick some of the features of advance-funding. It should be noted that defined-contribution plans entail transferring risks to individuals (ibid:61).

OECD envisages a future retirement income system consisting of a mixture of “pay-as-you-go and advance-funded, defined-benefit and defined-contribution, public and private, mandatory and voluntary, saving and earning” elements (ibid:62). Due to demographic and fiscal pressures the second element in each pair are expected to play a larger role in the coming years, which may ensure an overall better balance between individual and collective responsibilities.

Basically, OECD advocates a pension system with comprehensive coverage, sustainable financing and a mix of public and private components, what OECD refers to as a “modern” pension model[59], as opposed to systems that “over-rely” on a single pillar, notably a large pay-as-you-go public pension (OECD, 2000:46). OECD generally favours a strengthening of private pensions as this is supposed to not only create more balanced pension systems, but also compensate for declines in the size of public pensions. Reform trends in some OECD countries are moving beyond policies that only focus on pensions and may for instance include the role of taxation and public transfers related to health and long-term care. From this may be gathered that policies should focus on the range of resources that support older people, rather than pensions alone (ibid:47).

2.3.1 OECD Recommendations

OECD recognises that there are no “one-size-fits-all” when it comes to pension reforms due to country specific differences. Countries will choose different routes because their starting-points differ and, I might add, because values and preferences presumedly differ. Nevertheless, OECD emphasises moving in the following directions:

-“Increasing the size of advanced-funded elements in countries where pay-as-you-go systems now dominate” (OECD, 1998:22). This could include increasing advance-funded elements within public plans, encouraging advanced-funded occupational schemes, introducing mandatory individual accounts, reducing benefit levels in pay-as-you-go public plans in order to make room for other sources of retirement income, or some combination of the above.

-“Reducing the size of public pension benefits where these are now unnecessary high” (ibid). OECD stresses that public pensions should only aim at meeting poverty alleviation goals[60]. Once these have been met the individual retirement income should reflect individual choice

[59]Whether intended or not, the use of the term “modern” indicates in my opinion a stand that other systems, notably pay-as-you-go and systems entailing many uncoordinated elements and large gaps in coverage, are outdated or less developed.

[60] Ch. IV addresses the somewhat higher ambitions of the *Scandinavian* welfare states, cf. the principle of generosity.

based on all available resources on retirement, and not public pension alone. Hence earnings, private savings or the use of assets like reverse-mortgages for housing should be included.

-“Adjusting earnings-related pensions so that there is a direct link between life-time benefits and contributions in those countries where this is not yet the case” (ibid). Within pay-as-you-go systems this could include calculating benefits or shifting to defined-contribution, and generally encouraging the use of advanced-funded accounts by individuals and private sector employers.

-“Providing significant voluntary and mandatory elements in earnings-related pensions” (ibid).

-“Funding pensions aimed at anti-poverty objectives out of general revenues” (ibid), where this is not already the case.

-“Separating out the anti-poverty and income-replacement elements of public pension into different programmes” (ibid). The respective programmes should have their own objectives and characteristics and should be a long-run target.

-“Targeting in anti-poverty programmes” (ibid) by employing means that operate unobtrusively and at a low cost, notably refundable tax credits. It should, nevertheless, be admitted that a low basic minimum also has merits as it entails fewer work disincentives.

-“Abolishing pension benefit arrangements that are obsolete or inconsistent with stated policy objectives” (ibid) by inter alia subjecting pensions to income tax and either phase out or target subsidised privileges for seniors like various public senior discounts. A reduction of excessive preferential tax treatment for occupational pensions and individual pension arrangements[61] is also suggested.

-“Maintaining the confidence of both beneficiaries and the public at large in private pension schemes by upgrading the regulatory framework” (ibid). It should safeguard non-

[61] In my opinion this recommendation appears to be inconsistent with the OECD policy of a mutli-pillar pension system as preferential tax treatment may constitute incentives to private pension participation, which could enhance the importance of labour market and individual pensions. On the other hand I realize that it may comply with the notion of subjecting pensions in general to (income) tax as it would increase general tax revenues.

discriminatory access to pension schemes, the protection of vested rights, as well as the transferability of pension rights.

2.3.2 Retirement Income Reform

Several OECD countries are currently reforming their retirement income systems by increasing contribution rates, reducing benefit levels and rising the effective age of retirement. According to OECD assessments these reforms have so far only modestly reduced disincentives to work after a certain age (ibid:51).

In Norway proposals for introducing actuarially early pensions and actuarially increased postponed pensions have been motioned and a Pension Commission is appointed to address the future pension system. In Denmark several reforms restructuring the pension system have been introduced, and labour market pensions and the ATP schemes have become more prevalent (cf. ch. VI).

OECD concludes that a rapid evolution towards a more diversified, multiple-pillar system of pension provision for older people is progressing. As of yet empirical evidence do not indicate any convergence towards a common model, although current reforms seem to reflect certain common objectives that comply with OECD recommendations.

2.4 The Normative Foundation of OECD Recommendations

OECD does not directly advocate distinct normative principles, but its recommendations seem to reflect certain underlying values. Below I will in general comment the normative values I find embedded in the OECD recommendations and some of their implications. In the following chapter, to which references are made, these values are compared with the principles of the Scandinavian welfare state.

OECD recommends increasing the role of second and third pillars, i.e. occupational and individual pension schemes, to attain a sustainable pension system as the population ages. Occupational and individual pensions are savings-based schemes and are as such not as exposed to demographic changes as pay-as-you-go systems[62]. On the other hand, funded

[62] Cf. (OECD, 1998:56), (Ministry of Social Affairs, 2002a,p.2).

schemes are vulnerable to financial market developments and may default at the expense of the individual (OECD, 1998:56,61). Private pension schemes entail transferring risk, which in public schemes is often shouldered by the state or the collective community, to individuals. The OECD principles thus seem to emphasise individualism rather than collectivism, and individual responsibility compared to public responsibility. In my opinion this could undermine public support for the public pension system and the Scandinavian welfare state, which is characterised by its emphasis on public responsibility (cf. section 3.2 ch. IV). To the extent private pension provision[63] diminishes the role of the state as (main) provider of pensions, public support for the latter may decrease as reluctance towards contributing to benefits of minor personal relevance[64] surfaces and/or increases. It is also possible that individualism begets individualism, i.e. a stress on individuals and individual responsibility within pension systems may raise a demand, by politicians and/or segments of the population, for increased individualism in other sections of society. Admittedly, OECD does not reject public responsibility altogether. It considers eliminating poverty to be a public responsibility[65], but stresses that individual retirement income otherwise should reflect individual choices and basically be the responsibility of the individual.

The OECD principles further reflect a pro-active approach according to which it should always pay to work, pension-wise. Benefits should at least continue to accrue with every year that is worked and contributions paid, both before and after the standard age of retirement. Employees, who nevertheless choose early retirement, should not receive any gain in output or material living standards. By introducing actuarial pension benefits and income-related pensions based on life-earnings and –savings, early retirement would imply reduced pensions whereas postponed retirement would entail increased pension compared to retiring at the standard age of retirement. The approach also includes stimulating employment through general schemes for attaining high levels of employment and targeted programmes addressing older workers in particular. OECD advocates a more inclusive labour market and lifelong learning for all.

OECD advocates stricter public pension benefits, both with regards to eligibility and pension level, generally linking life-time contributions and benefits and increasing the extent of

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[63] That is occupational and individual pension arrangements, cf. ch. IV section 3.2.1.
[64] I.e. benefits received are not in proportion to contributions made.
[65] OECD considers combating poverty to be an essential feature of pension policy (cf. section 2.3 this chapter).

individual pension accounts, measures that may strengthen incentives to work. OECD generally recommends increasing elements of targeting in public pension benefits; Public pensions should only aim at meeting poverty alleviation goals, and eligibility should therefore be means-tested. Per se targeting and means-testing challenge the principle of universality[66], and the (unknown or immeasurable) "impact" it may have on society, like perhaps enhanced spirit of community and collectivism. An "equivalent"[67] impact of means-testing may be stigmatisation, as it is generally assumed that means-tested benefits may stigmatise recipients, compared to universal schemes where everyone benefits. The generosity of means-tested benefits may over time decrease if the average voter is reluctant to support benefits of little or no personal relevance, particularly if they have to fend their own pensions in addition. If this is the case, income and social status inequalities between pensioners of public and private pensions may increase, compared to if benefits were universal. I would also like to point out that compared to universal benefits, means-tested benefits entail increased bureaucracy, and thereby increased administration costs and arbitrary "gate-keeper" decisions.

Decreasing public benefit levels and increasing age of eligibility should reduce public pension expenses. OECD advocates increasing the importance of occupational and individual pension schemes in order to reduce public pension provision. Although increased private pension provision may reduce public expenses, I question whether it would actually reduce the total pension expenditures. In my opinion the difference is who shoulders the burden, not the total weight of the burden itself. By reducing public pension expenses pension costs are basically transferred to individuals more directly through increased personal savings, as opposed to indirect general taxation. OECD recommends introducing elements of funding within pay-as-you-go systems and that defined-contributions rather than defined-benefits be emphasised. In my opinion lower public pensions and increased private pension provision may increase inequalities among pensioners, particularly regarding income and standard of living. Economic disparities during working years will be maintained after retirement as low-income earner groups are likely to receive no or low private pensions and hence primarily rely on decreased public pensions, whereas high-income earners may attain relatively high private pensions (to top of any public old-age pension). Increased private provision at the expense of public provision may accordingly challenge the principle of redistribution, embedded in some pension systems.

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[66] According to which public benefits should include the population at large, cf. ch. IV section 3.3.
[67] In the sense that causality may be assumed but not proved.

Whether or not the notions of individuality, limited public pensions, targeting and the pro-active approach reflected in the OECD principles comply with the normative foundation of the Scandinavian welfare state, and the normative values reflected in reform initiatives in Norway and Denmark, will be addressed in subsequent chapters.

2.5 Policy Requirements

OECD (1998:49) indicates that the retirement decision is strongly influenced by policy. In other words policy measures should be able to slow or, preferably[68], reverse the current trends of early retirement. OECD acknowledges that rising the standard retirement age alone is unlikely to suffice. To the extent reforms only address the national old-age pension, other sources of public transfer income, notably disability pension and unemployment allowance, may provide older workers the opportunity of early retirement. Thus, reforms must assure consistency and coherence between public and occupational pension schemes respectively as well as topical social programmes. As reforms are needed across numerous departments and programmes at multiple levels of government, co-ordination is essential. It may also be necessary to consider some form of particular political responsibility due to the fact that ministerial time is limited (ibid:109). OECD argues that ensuring public support and understanding and monitoring the progress of ageing reform strategies will be important for achieving reform. OECD further advocates sharing information on results and experience across countries, which is partly my intention.

[68] To which I concur with OECD.

3.0 Summary

In meeting the challenges of an ageing population OECD considers it necessary to increase or at least maintain the labour force participation rate by raising the actual age of retirement, especially as the average age of retirement is currently below the standard retirement age and generally falling. Exit behaviour is primarily influenced by push, pull and jump factors, relating to work, pension schemes and individual choices respectively. In order to affect the trend of pre-retirement, the impact of these factors needs to be diminished by removing work disincentives and/or increase incentives to (prolonged) employment.

OECD advocates the need for reform due to individual and population ageing and changing life-course patterns. In this respect OECD recommends seven principles for reform, of which my main concern primarily is the principles addressing the overall pension system, employability and retirement income. These recommendations can be considered a mixture of measures aimed at reducing the influence of push, pull and jump factors respectively. In subsequent chapters I will address anti-push policies with regards to employability and a more inclusive labour market, but my primary concern will be pension schemes and initiatives for diminishing pull factors.

OECD recognises that there are no “one-size-fits-all” solutions when it comes to pension reforms due to country specific differences. The extent and severity of the challenges of population ageing may differ across countries, as may the overall pension systems and specific schemes and the normative principles they are based upon. Accordingly, the OECD recommendations may be more or less in conformity with existing policies and values in the respective member countries. The extent to which the OECD principles are compatible with the normative principles of the Scandinavian welfare state will be addressed in the following chapter.

IV Analytical Approach

1.0 Strategy and Country Choices

The distinct welfare regimes are perceived to pursue various policies, for different reasons and with different means (Esping-Andersen, 1990:26). I therefore find it plausible to assume that their response to the challenges of the ageing population may differ likewise. The OECD principles are meant to assist and guide member countries in meeting theses challenges, and do so irrespective of type of welfare regime. The path of reform and the implications of changing social policy in accordance with the OECD guidelines may differ from country to country depending on their respective type of welfare system. As the essential features of the OECD guidelines may be more or less in compliance with the respective type of welfare regime, the progress of reform may run more or less smoothly. In the former case changes in social policy may not constitute many obstacles or serious difficulties, whereas in the latter case the implications and hence the objections, may prove extensive.

This chapter addresses the methodological aspects of my research, my choice and use of methodical design and strategy and any weaknesses that may arise. I have chosen a comparative approach, as this appears the most fruitful approach. A comparative case study of two countries is likely to provide better knowledge of my focus of attention than a single case study would. It also allows more in-depth analysis than a study of many countries, although a combined design would be preferable with more time at disposal.

My thesis is restricted to two countries only, in part of practicality. The focus on the Scandinavian welfare state limits the number of OECD countries suitable for my analysis by definition. The Scandinavian welfare state is generally considered to cluster four Nordic countries; Norway, Denmark, Sweden and Finland (Esping- Andersen & Korpi, 1987:69), (Leibfried and Ferrera in Arts & Gelissen, 2002:149), of which any of the four could have been chosen for analysis. As my scope of analysis is rather extensive[69], I will confine my analysis to two countries only for practical reasons. My reason for selecting Norway and Denmark is a personal interest, partly aroused by the findings of Eitrheim and Kuhnle (2000:45). In their analysis of the Nordic welfare states in the 1990s, they find the basic pension structure in Norway and to a certain extent Denmark to be unaltered, compared to Finland and Sweden. Reforms in social security are most marked in the two latter countries,

[69] Including the transition from work to retirement, the pension system and current reforms.

whereas changes in Norway and Denmark are considered few and modest. They conclude that Nordic welfare state developments in the 1990s are slightly divergent, with Finland and Sweden on one side and Norway and Denmark on the other[70]. The similarities of the four countries are often emphasised, but country specific differences do exist. To illustrate, Denmark is the Nordic country first to enter the European Union, whereas Norway twice through referenda has declined entry, which may indicate differences in their respective normative values. This is an interesting thought, although beyond the object of this analysis, which further aroused my interest.

It would undoubtedly be easier to study only one of the four countries. However, by including two any deductions may be substantiated or weakened depending on whether or not my findings prove valid in both countries. The approach allows me to analyse whether or not the OECD principles are similarly reflected in Norwegian and Danish reforms. Using ideal types like the Scandinavian welfare state may be problematic, a subject that will be discussed subsequently. In addressing the pension systems in Norway and Denmark, I intend to envisage the extent to which their systems comply. That countries are classified as belonging to the same welfare regime does not necessarily imply that their welfare schemes and benefits are identical. Countries may vary in degree if not in kind, and common normative values may find various expressions perhaps particularly at times of reform.

This study aims at answering the following questions and thereby contribute new knowledge: Are Norway and Denmark moving in the same direction regarding pension reform? Do their reforms reflect the normative foundation of the OECD principles or the Scandinavian welfare state? And are any of the two countries becoming less “Scandinavian” with regards to their type of old-age welfare?[71] To illustrate, previous findings of Esping-Andersen and Korpi indicate that Denmark is moving away from the ”Scandinavian model” due to, at that time, current welfare state cutbacks and changes in legislation (1987:55). They regard Denmark a more liberalistic outlier, compared to Norway Sweden and Finland, especially in pension

[70] Eitrheim and Kuhnle stress that their observations should not overshadow the stability of the Scandinavian type of welfare present, albeit to various degrees, in all four countries.
[71]Analysing reform of welfare for the elderly with regard to universality and generosity of pensions and the extensiveness of social care, Kvist (1999:249) concludes that Norway is moving closer to the Scandinavian type of welfare and today has the most ”Scandinavian” welfare for the elderly. Kvist actually refers to the Nordic model, but it is mainly the label that distinguishes his Nordic model from my Scandinavian model.

policy[72]. Eitrheim and Kuhnle (2000:54) consider Norway the strongest representative of the "Scandinavian welfare model", but they do not restrict their scope to pension policy only although this aspect is included. The question of interest is whether my findings will support or run counter to the conclusions of these previous studies.

I will further clarify the term "welfare state" in general and the Scandinavian welfare state in particular. The latter is an ideal-type and the use of ideal-types, their merits and inherent problems will be discussed. In outlining the normative principles of the Scandinavian model the focus will primarily be on pension systems rather than the welfare state per se[73].

2.0 What is the Welfare State?

As previously mentioned, the OECD principles do not accommodate the Scandinavian welfare state in particular, but rather welfare states in general regardless of regime. This would imply a welfare state definition general enough to cover the OECD recommendations and their original range of coverage and the OECD member states, although my primary concern is the Scandinavian type of welfare.

According to the historian Asa Briggs "a welfare state is a state in which organised power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for example sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services" (Briggs, 1985:183).

Briggs' definition thus distinguishes the welfare state from the so-called social services state "where communal resources are employed to abate poverty and to assist those in distress" (ibid), as the objective of the former goes beyond the aim of the latter in bringing in the idea of the optimum rather than the older idea of the minimum. The welfare state stresses the

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[72] At the time of analysis Denmark still had no earnings-related superannuation, i.e. ATP, and private and occupational pension play an important role (cf. ch. V).
[73] After all, my object of attention is primarily pension schemes and incomes and to a certain extent employability, not the overall welfare state.

notion of equality of treatment in addition to the fight against class differences or the needs of particular schedules` groups.

So far I have stressed the notion of the state and its responsibility for the overall welfare, at least at a minimum level, of the population without explicating or stipulating the extent of state responsibility. The level of welfare and its coverage may thus differ across various welfare states. In compliance with the above definition, the term welfare state may be perceived as referring to a state's constellation of socio-economic institutions, policies and programmes intended to promote people's welfare in general (Goodin et al., 1999:5). In order to distinguish the welfare state from other modes of welfare provision, the welfare state is stipulated as "a system of compulsory, collective and largely nondiscretionary welfare provision which intervenes in a market economy to meet certain of people's basic needs" (Goodin, 1988:11-12). Further, the welfare state is a system for the allocation of goods and burdens on the basis of principles related to human worth **(**Eriksen, 1996:55). In my opinion both the future allocation of goods and burdens are susceptible to policy changes due to the challenges of ageing populations, to which the OECD principles offer several responses. This is not to say that other options and means may not prove as feasible and effective, but that is not the object of this analysis to determine. Rather than discuss the efficiency and sustainability of the OECD principles themselves, I conceive them to be guidelines for action member countries are recommended to take at the demographic outlook.

2.1 Types of Welfare States

The above definition of the welfare state is purposely broad in order to cover not only the OECD principles, but all of its member states as well. This leaves a definition that allows distinct welfare states to range differently on a variety of dimensions. Coverage and extent of available social services may vary considerably, as may public policy and the way it is put into practise. In welfare policies a distinction is often made between universalism and the selective principles of residualism and reciprocity (Kildal & Kuhnle, 2002:3). The principle of universalism implies that social rights are based on citizenship or residency. As a matter of right, all members of a population category are eligible for benefits provided to cover certain politically defined need situations. Selective programmes may either be of a residual means-testing kind, targeting the poor, or insurance-based reciprocal, targeting individuals who cannot provide for themselves and the working population in general[74]. Depending on the different objectives, goals and values underlying the individual welfare state, so-called regime-types can be distinguished (cf. appendix A).

There are various reasons for applying regime-types in analyses of welfare states and welfare policy. In this study regime-types are employed to cluster nations according to their welfare regime and thereby clarify the overall normative foundation of the welfare state in Norway and Denmark respectively without entering into country specific details. Esping-Andersen (1999:73) stresses clustering cases according to typology may help identify some underlying connecting logic. Besides, typologies are helpful tools for generating and testing hypotheses.

Gösta Esping-Andersen distinguishes three distinctive regime-types; a liberal, a social democratic and a corporatist welfare regime (Esping-Andersen, 1990:26), outlined in appendix A. According to this distinction, the Scandinavian type/model of welfare falls under the heading of the social democratic welfare regime. Stephan Leibfrid on the other hand, distinguishes four different regimes of welfare with the Scandinavian countries constituting a regime-type of their own[75]. Both typologies, as well as several others, are founded on Titmuss' (1974) ideal types, respectively the institutional redistributive model, the residual welfare model and the industrial achievement-performance model (Kuhnle, 2001:53). What is of particular interest is that in addition to their compatibility, the various typologies all classify the Nordic countries as belonging to the same regime-type (cf. Ferrera, Bonoli, Siaroff in Arts & Gelissen, 2002:149). Alongside their geographical and cultural closeness, this makes a strong case for treating them together in discussing their welfare state's normative foundation. After all, the welfare policy and system in the Nordic countries are rather similar as compared to welfare states belonging to other regime-types. Nevertheless, I simplify at the expense of accuracy. In the following I will for the sake of simplicity and accuracy refer to the Scandinavian welfare state, alternatively the Scandinavian model,

[74] Universal and selective programmes also differ in their allocation of benefits, or kind of needs. In universal programmes need is defined according to professional norms, irrespective of the economic circumstances of the individual. In selective programmes the criterion for receiving provision is *financial capacity,* that is the *lack of means* or *the ability to pay.* The former targets the economic weakest, whereas the latter targets the economically active population (Kildal & Kuhnle, 2002:3).

[75] I would like to note that Esping-Andersen and Korpi (1987:71) find evidence suggesting that Norway, Denmark, Sweden and Finland forms a distinctive "Scandinavian welfare model". In "The Three Worlds of Welfare Capitalism" (1990) Esping-Andersen does not regard the "Scandinavian welfare model" a distinct welfare regime, but as included in the social democratic welfare regime. In a recent revision he denotes that this regime is "virtually synonymous with the Nordic countries" (1999:78).

although its elements mainly are mainly derived from Esping-Andersen's social democratic regime-type[76]. It should be noted that although Esping-Andersen finds the Scandinavian countries to primarily be "social democratic", or having a Scandinaivan type of welfare in my case, he acknowledges that they also have certain liberal elements (Esping-Andersen, 1990:28). In other words, welfare states do not have to be "pure" types in order to be classified.

2.2 Ideal Types

At this point it is necessary to stress that the respective regime-types are only to be regarded as prototypes or what Weber labelled ideal types (Weber, 1971). This means that they are intellectual constructions modelled on certain aspects of actual conditions. In so far as ideal types only extract some essential characteristics whereas omitting others, they are not a description of reality. They are utopian and do not exist empirically in their entirety.

In social science aspects of reality are often compared against typologies in order to attain a better understanding of actual empirical conditions. However, typologies are neither to be regarded as the "ultimate truth" nor used as a foundation for evaluating reality. Creating ideal types is not an object but a means to measure and describe factual situations (ibid:201). Nevertheless, they are useful as tools for forming more parsimonious conceptions[77] of a conceivably complex and disordered reality. My purpose of presenting and applying regime-types is to attain a proper comprehension of the welfare state in Norway and Denmark, in as much as regime-types operate to cluster nations according to their type of welfare regime and of generating and testing my hypotheses regarding pension reforms.

Still, the creation and use of ideal types are both questioned and disputed and even critical use may be contested. It is necessary to be aware of the pitfalls of applying typologies and the problems, which may arise. Arts and Gelissen (2002:137) conclude that real welfare states in general are not pure types but rather hybrid cases, but find reasons for continuing to work on and with the original or modified typologies of Esping-Andersen. They consider typologies

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[76]I consider the Scandinavian welfare state to fall under the heading of his social democratic welfare regime, with the former a subordinate/secondary category that inherits the characteristics of the more generic social democratic welfare state, whereas the inverse will not necessarily be true. This discussion is continued in section 2.2.1.

[77] Or categories.

fruitful to empirical science in its infancy, as a means to represent reality. To the extent the comparative macro-sociology of welfare states can be described as being in “statu nascendi”, they regard the formulation of typologies useful.

2.2.1 Parsimony versus Complexity

The respective welfare regime-types are parsimonious versions of the world and only extract some aspects of a more complex reality, whereas actual welfare states may have elements from more than one regime-type. This may constitute a problem in the classification of welfare states. However, this obstacle is mainly related to classical categorization, where the actual welfare states have to fulfil all aspects of a respective regime-type in order to be classified as belonging to a specific type (Collier & Mahon, 1993:848). As a consequence the scientist may very well end up with no real members in either of the respective regime-types, in which case there would hardly be any point in using regime-types for classification purposes. A strict application of the classical principle of classification may lead to a premature abandonment of still potentially useful categories. It may be too early to reject regime-types all together just yet. Typologies in general, regime-types in this case, can still be useful means for classifying empirical cases if the less rigid approaches of either family resemblance or radial category are considered.

According to the principles of family resemblance there is not necessarily one single attribute that all category members share. Instead family members are recognised by their contrast to nonfamily members by acknowledging the attributes the former share to varying degrees, although there may be no trait that all family members have in common (ibid:846). This classification procedure makes it possible to classify and compare welfare states that differ in one or more aspects but nevertheless have essential similarities. Radial categories also allow for the possibility that two members may not necessarily share all of the conceivably defining attributes. In contrast to family resemblance the overall meaning of a radial category corresponds to the “best” case, or a prototype of the category[78]. This primary category

[78] Collier and Mahon (1993:853) emphasise that a category is an analytic construct, an ideal type, of which each specific case should only be expected to be a partial approximation. They refer to Burger’s interpretations of Weber’s theory of concept formation, which recognises commonalities between family resemblance and radial categories on one hand and Weberian ideal types (1976:115-16, 156-57). According to Burger Weber recognised that concepts are usually not based on defining properties shared by all cases to which the concept refers, hence they do not follow classical categorisation. In contrast to strict classical categorisation, Weber emphasised the use of ideal types in which the key attributes were expected to be present to varying degrees. Collier and Mahon

consists of attributes that are understood and recognised when found together, of which the secondary subordinated categories are variants. Whereas the secondary categories share defining attributes with the primary one, they do not necessarily share the full complement of its attributes, nor the attributes of each other. This means that if the procedures of family resemblance and/or radial category are accepted and pursued the potential pitfall of classical categories, i.e. failing to classify real, complex cases according to analytical, parsimonious concepts, may be avoided. In which case regime-types may be applied as the basis for classifying welfare states, though it means that the latter may not share all of the defining attributes of the former.

2.2.2 "Conceptual Stretching"

Whereas typologies are static in nature, situations and conditions in the world are in constant alteration. This constitutes another potential problem because ideal types may become outdated and out of touch with reality. This problem is related to the notion of "conceptual stretching" or what Collier and Mahon refer to as "the distortion that occurs when a concept does not fit the new cases"(1993:845), but it may also arise from changes over time within cases. If welfare states undergo more or less essential changes, they may no longer "fit" the regime-type they originally were classified as belonging to. It may be necessary either to re-evaluate their membership, or reconsider the overall categories all together.

Welfare states may and do change over time, which could present a problem in clustering them, perhaps in particular when a geographical term such as the "Scandinavian" welfare state is employed. The fact that a typology or ideal type has a geographical label does not necessarily imply that it (only) fits its geographical point of reference in the longer term. The Scandinavian countries should therefore not uncritically be classified as belonging to the Scandinavian type of welfare. Further, Finland is usually classified as a *Scandinavian* welfare state (Esping-Andersen & Korpi, 1987:42), (Ferrera and Leibfried in Arts & Gelissen, 2002:149).

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conclude that the procedures for making generalisations with family resemblance and radial categories are of relevance to ideal types as well.

Several welfare states have over the last decades to a certain extent incorporated features from another regime-type than the one they are classified as belonging to. True, most welfare states have always had elements from more than one regime-type, but I think it is safe to presume that the mixture of regime-type attributes now are more pronounced[79]. By applying the principles of family resemblance and/or radial categorisation instead of the more rigid classic classification, this obstacle may to a certain extent be surmounted. There is still no denying that typologies ignore the fact that most welfare states are a mixture of various regime-types (Kuhnle, 2001:54). From a strict classical classification's point of view, when reality no longer "fit" or "fit" more poorly with existing typologies, there is good reason for questioning their utilitarian value as well as their intrinsic aspects and headings.

2.2.3 Contested Headings

I especially want to address the labelling of Esping-Andersen's regime-types. A potential problem with ideal types in general is that they may be given political or normative headings, and as such be ascribed particular and unfortunate values and connotations. In other words contested labels may draw attention away from the subject matter. To illustrate I will address the heading of the "social democratic" regime-type. The term "social democratic" may leave the impression that it mainly was social democrats who developed the welfare state in these countries. Admittedly, social democrats have pursued and promoted equality of the highest standards, in contrast to equality of minimal needs (Esping-Andersen, 1990:27**)**. But conservative parties have supported and consented to the development and maintenance of the welfare state as well. The social policy laws at the end of the 19th century in Denmark were for instance motioned by conservative governments (Kuhnle, 1983:78). And contrary to what might be perceived as "common knowledge", the welfare state as such has neither been threatened nor curtailed under periods of conservative and liberal rule.

Kuhnle (ibid:81) argues that conservative, liberal and social democratic parties can represent the social democratic tradition of inter alia emphasising the importance of the state for social policy. Public engagement in social policy progressed through coalitions across party politics and a social political active state is advocated in both socialistic and non-socialistic circles. In

[79] To illustrate, the Norwegian welfare state has since the 1980s incorporated features of the corporatist regime-type, like work related benefits and private insurance schemes, whereas several European countries are approaching the Scandinavian model by extending their benefits to larger segments of the population (Kuhnle, 2001:54).

a paper on the principle of universalism, Kildal and Kuhnle (2002:19) preliminary conclude that they have not found a “clear social democratic vision behind the political initiatives towards universalism”.

In addition the meaning of the term “social democratic” has changed over time. The social democracy of today differs from the social democracy of previous times. The policy of social democrats has changed and will continue to change, both in regard to welfare and social policy as well as in other aspects. Hatland (1992:99) states that a universal social policy is currently considered an essential element of the social democratic ideology in Scandinavia. Nevertheless, the Social Democratic Party in Norway actually contributed to means-testing of social insurance benefits in 1923 and 1936 (ibid:62), whereas the Conservative Party was the first party to include the principle of universalism, with. the aim of a universal pension scheme, in its programme. True, the Norwegian social democrats supported abolishing the means-test in 1957, as motioned by the conservatives, but not without internal dispute. In Denmark a social democratic government in 1976 means-tested the child benefit, but the means-test was abolished in 1986 by a coalition of non-social democratic parties. Henceforth the Danish child benefit is universal (ibid:100). The above examples may to a certain extent reflect pragmatism, but pragmatism is historically and currently not limited to non-social democratic parties: Social democrats may and do advocate both means-testing and earnings related pensions, elements traditionally considered as belonging to the liberal and corporatist welfare regimes respectively.

Though the criticism of the labelling of regime-types is justified, the pitfall of rejecting still potential useful typologies should be avoided. The elements inherent in each regime-type should be considered apolitical by not giving individual parties or ideologies exclusive property rights to particular regime-types or the concepts they are founded on. The respective regime-types are based on the different ways social welfare is actually put into practice and are as such to some extent independent of both political ideologies and alternating ruling parties.

As stated earlier, I will refer to the Scandinavian welfare state/model to avoid the political and normative values connected with the heading of Esping-Andersen’s social democratic regime-type. However, a simple change of name does not alter the fact that I apply an ideal type with its subsequent pitfalls and shortcomings. Besides, I have already stated that employing the geographical term *Scandinavian* may in itself be problematic. Geographically *Scandinavia* refers to Norway, Denmark and Sweden, whereas the typology Scandinavian model includes Finland as well. The countries are geographically and culturally close and in many respect rather similar[80]. Still, I simplify at the expense of accuracy as an ideal type by and large highlights similarities as compared to differences. The Scandinavian welfare state may reflect underlying normative foundations shared by the countries it clusters, but this does not imply that their respective welfare regimes are identical.

3.0 The Normative Principles of the Scandinavian Welfare State

In the following I will elaborate the normative aspects of the Scandinavian welfare state. The Scandinavian welfare state is henceforth to be regarded as a theoretical device only, used to assess the plausibility and suitability of the Scandinavian countries to meet the OECD principles for reform from a normative perspective. By normative foundation I refer to standard principles or pattern of principles, which welfare measures may both reflect and be factual implementations of. Whether or not all welfare measures are in accordance with the underlying normative values or the means for achieving them are effective, is beside the point in this context. The question is whether or not the normative guidelines of OECD are in conformity with the overall normative foundation of the Scandinavian model. If this prove to be the case, it may be plausible to assume Norway and Denmark to follow the OECD direction and that the process may run relatively smoothly, i.e. with little political conflict and opposition. If the opposite prove to be true, I assume that the OECD principles of reform may be met only partially and reluctantly, as the process itself may be contested and resisted. In order to discuss compliance the normative foundation of the Scandinavian welfare state has to be elaborated.

3.1 How to Outline the Scandinavian Model?

The welfare state as it historically develops in Scandinavia places great emphasis on the fact that goods and burdens are to be distributed according to the universal principles of justice and human dignity (Eriksen & Loftager, 1996:2). This implies that the security of the

[80] A comparative study (Castel, 1993 in Kautto et al., 1999:5) features the Scandinavian group of nations most conspicuously as a distinctive group.

individual's life and well-being are no longer the sole responsibility of individual capacity and accidental circumstances as each citizen is guaranteed at least minimum standards of income, livelihood, housing accommodation as well as education. Entitlements are given as legal rights and perceived as means to provide equal chances to employ civil rights. The public sector is designed to counterweight the shortcomings of the market by compensate its negative by-products and substitute its failures. Already from the outset the development of social rights is closely interrelated to the notion of solidarity and shared standards of moral outlooks (ibid). In other words, the welfare state both expresses and depends on normative processes and moral values.

Though the social democratic welfare regime arose in reaction to the social consequences of free market economics and liberal politics, it still remains a dominant model, particularly in the Scandinavian countries[81]. The question is how to characterize this type of welfare. Kuhnle (2001:53) states that the Scandinavian welfare state is well known for its large public sector, extended social security and egalitarian principles. Benefits are financed through general government revenues and based on citizenship. Esping-Andersen and Korpi (1987:42) primarily emphasise four key features, which set the Scandinavian approach apart. Its stress on public responsibilities have marginalized and to a certain extent superseded private provision of welfare. Only in Denmark do private pensions play a significant role[82]. Generally, it entails a commitment to universalism and equality of status in the pursuit of a more egalitarian society and benefit levels and the standard of social service are very high. The Scandinavian type of welfare is considered strongly de-commodifying, securing citizens a significant degree of personal independence from the labour market. Kautto et al. (1999:13) list several aspects characteristic of the welfare state in the Nordic countries[83], like a comprehensive social policy and a commitment to full employment, accompanied by active labour marked measures. The welfare system is based on a high degree of universalism though there exist some targeted measures as well. Generally all citizens are entitled to the same basic social services and benefits. Taxation is relative high and income security is based

[81] Esping-Andersen (1990:73) ranks the Scandinavian countries as strong social democratic welfare states as measured by their "average universalism" and "average benefit equality". The former being indicated by the proportion of the population covered across pensions, sickness and unemployment benefits, and the latter by the differential between basic and maximum benefits across the three programmes. One might, however, question, whether his "average benefit equality"-criteria is the most meaningful measure of equality.
[82] With regard to private pension schemes, Denmark clusters with countries where these are very important, whereas Norway and Sweden cluster at the other extreme (Esping-Andersen & Korpi, 1987:76).
[83] Norway, Denmark, Sweden and Finland.

on a flat-rate basic security with an additional earnings-related part. Income distribution is relatively even as compared to other countries, both with regard to wage dispersion and disposable income. Poverty rates as well as differences in levels of living are considered to be relatively low. A gender equality aspect, typical of the Nordic countries, is reflected in the broad participation of women in wage labour and the fact that most families are two breadwinners.

So far I conclude that the characteristics of the Scandinavian welfare state are numerous. Social scientists may emphasise different aspects in their analyses, but certain features reoccur and may reflect underlying principles and values. For instance, the notion of universalism may be regarded as an essential normative principle of the Scandinavian welfare state, inter alia reflected through various measures of income security and equal income distribution.

I have chosen four features I consider both intrinsic of the normative foundation of the Scandinavian welfare state and of importance in meeting the challenges of the ageing population. The aspects, which will be elaborated and operationalized, are *state/public responsibility*, *universalism*, *generosity* and the fusion of welfare and work, as reflected in the pronounced commitment to *full-employment*. The latter may be distinguished from the others by not being directly related to the pension system per se, but the right to work has equal status to the right of income protection and the Scandinavian welfare state depends on its attainment (Esping-Andersen, 1990:28). Besides, employability, i.e. maintaining or increasing the rate of employment, is of importance to national economy, general welfare and pension systems irrespective of welfare regime, in particular as population ages.

3.2 Public Responsibility for Welfare Provision

One of the characteristic features of the Nordic countries is the dominant role of the state and the public sector (Eitrheim & Kuhnle, 2000:55). The Scandinavian type of welfare[84] assigns the state both an active role and the responsibility of promoting the welfare of its citizens. In

[84] In the study of Esping-Andersen and Korpi (1987) the focus of attention is the social democratic welfare regime. Hence, it is the social democratic welfare regime that advocates state activity and responsibility according to Esping-Andersen and Korpi. As I consider the Scandinavian welfare state a subcatergory of the social democratic welfare regime their findings apply as well. Nevertheless, it should in all fairness be stressed that the denotation of the social democratic welfare regime is more extensive than in the case of the Scandinavian model of welfare.

the Scandinavian countries this emphasis on public responsibilities has even lead to an almost marginalization of private provision and the market mechanisms (Esping-Andersen & Korpi, 1987:69). The Nordic countries have of recently opened up for private initiatives as welfare provision is concerned, especially in the fields of health and social care services and social insurance (Eitrheim & Kuhnle:54). Nevertheless, Eitrheim and Kuhnle find the importance of the state in absolute terms has actually increased and remains the dominant provider of welfare. This is not to say that welfare provision is a zero-sum game with a clear-cut substitution/crowding in quantitative terms between public and private pensions. Both public and private provision may increase simultaneously, although their relative interrelation may be displaced[85]. In general the state has a larger role vis-à-vis the market and civil society than in other countries (Kvist, 1999:232). Hence, I emphasise state responsibility for welfare provision as one of the normative principles of the Scandinavian model.

3.2.1 Public versus Private Pension Provision

Regarding pensions, Esping-Andersen (1990:102) considers the state the principal link between inputs and outcomes and the state is central in defining regime types. In his opinion the universalist social-citizenship model is only possible where the state crowds out both the market and corporatism. Hence, welfare states should be identified according to their interaction with the market and alternative private arrangements respectively.

Pension systems are generally regarded as based on three pillars, national pension schemes constituting first pillar, labour market or occupational pension schemes second pillar and individual pension agreements as third pillar. The two latter pillars are considered private pension arrangements. With regard to state responsibility for pension provision, the main distinction is between public and private provision. The extent and importance of the different pillars varies across welfare states. Norway and Denmark have a mix of public and private arrangements, with the state-funded old-age pension as the dominant pillar both in coverage and as a source of income. It should be noted that private pension schemes play a more significant role in Denmark than in Norway (Esping-Andersen, & Korpi, 1987:55), (Esping-Andersen, 1990:102), (Pedersen, 1996: 8-14).

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[85] Some advocate a complementary relationship where the expansion of public pensions may cause growth in private pensions (Hannah, 1992, Dobbin and Boychuch, 1996 in Pedersen, 2002c:3). Others assume private pensions to be primarily independent of public pension systems and rather related to institutions and processes in the labour market and the capital market (Von Nordheim-Nielsen, 1988; 1991 in Pedersen, 2002c:4).

In addressing the pension system, I will primarily focus on the distinction between public and private pension schemes, whereas the differences between second and third pillar, although significant, will be less emphasised. In general, the presence of laws distinguishes public schemes from contractual arrangements. Public schemes include pensions directly legislated and administered by the state or pensions provided by private sector through an explicit government mandate (Esping-Andersen, 1990:81). Civil-service pensions are labour market pension schemes for public sector employees. They generally reflect the government's role as employer and are thus regarded as second pillar pensions, although they admittedly have features in common with first pillar, notably being financed by and paid out of government budgets and prescribed by statutory law. The Danish ATP, SP and SAP[86] are all statutory, supplementary pensions and are regarded as public pensions accordingly (cf. ch. V).

Private pensions include both occupational and individual pension schemes. The former is primarily a form of group insurance or of trade-unionism and is generally mandatory, whereas the latter rather reflects the notion of self-reliance within competitive contracting and is voluntary. In Norway there are important differences between occupational pensions in the public and private sector and a distinction is made between the two. In employing the labels *public* and *private* occupational pension, I refer to the respective sector and not type of pension provision. Public and private occupational pension are first and foremost labour market pensions, constituting second pillar and are considered private pension arrangements henceforth[87].

State provision of pensions can be measured by the relative importance of public and private schemes. To the extent reform measures increase the importance of second and third pillar and/or reduce first pillar in extent and as a source of income, this may be indications of reduced public provision. Extent addresses the schemes' population coverage, whereas the aspect of income source is related to the relative portion public and private pension benefits respectively constitute of the total pension income of individual pensioners.

[86] The additional labour market pension (ATP), the labour market-like supplementary pension scheme (SAP) and the special pension scheme (SP).
[87] Although, public occupational pensions are regulated by law (cf. appendix B).

There are primarily two types of national pensions, universal flat-rate pensions and actuarial pensions based on previous contributions and employment (Esping-Andersen, 1990:93). The former correspond to the minimum pension in Norway and Demark, whereas the latter is reflected in the earnings-related supplementary pension in Norway and the ATP scheme in Denmark. Private pensions are usually fully funded, contribution-defined, premium-reserve schemes, e.g. labour market pension schemes in Denmark, although in Norway occupational pensions are defined benefit arrangements (cf. appendix B).

One question of interest in the following is whether the emphasis of state responsibility for welfare provision embedded in the Scandinavian model complies with the normative foundations of the OECD principles for reform. Another question is whether or not Norway and Denmark will experience a change in the provision of welfare due to their ageing populations. Do pension reforms in either country suggest replacing the currant dominance of the first pillar with a multi-pillar system, by increasing the role of private pension schemes? Already in 1981 OECD states that in light of future demographic and economic challenges, new agents of welfare beyond the state ought to be developed and the relationship between private action and action by the state readdressed (Kuhnle & Alestalo, 2000:9). On the other hand, the Nordic countries enjoy “widespread political consensus, both among political elites and the electorate, about the continued public responsibility of welfare provision”(Eitrheim & Kuhnle, 2000:49).

3.3 Universality

According to Esping-Andersen's analysis (1990:75) universalism is the reigning principle in the Scandinavian welfare state. He measures the degree of program universalism as the average percentage of population, aged 16-64, eligible for sickness, unemployment and pension benefits respectively. My focus will primarily be national old-age pensions addressing the elderly. I will assess the aspect of universality according to coverage and allocation criteria of national basic and national supplementary old-age pensions[88]. In addition I will address the Danish ATP in particular, as it is a statutory pension currently covering 60 per cent of old-age pensioner. Of the statutory pension schemes it is the most prevalent and its future coverage is estimated to amount to 92-96 per cent (ATP, 1995:7)

Generally, benefits are either universal or conditional/selective of a residual or reciprocal kind. Residual benefits refer to transfers that are income- and/or means-tested, whereas reciprocal benefits are premised on previous contributions, earnings and/or employment performance. In the following benefits will be regarded universal to the extent they include all residents[89] of Norway and Denmark, irrespective of previous income, contribution and labour market affiliation. Universal schemes incorporate the entire population, and recipients are not required to justify their claims as benefits are given as a matter of legal rights. With regard to the pension system in Norway and Denmark, the normative principle of universality is reflected in the provision of public minimum pensions.

The amount recipients receives from national old-age pensions may be affected by any additional income he or she may have. To some extent pensioners are allowed to earn additional income while receiving pension, but once a certain fixed level is exceeded, the pension payments will be reduced. This is means-testing of a residual kind as it is related to current income and not previous earnings. I argue that this graduation does not diminish the universal aspect of the national old-age pensions in Norway and Denmark. As old-age pension is related to retirement, although mainly premised on age, the argument can be made

[88] This concurs with Kvist's assessments of the universality of national old-age pensions (1999:238). His findings result in the trichotomy of universal, selective and residual pensions, with the conclusion that the Norway, Denmark, Sweden and Finland have retained universal pension benefits.

[89] Membership of the Norwegian national insurance scheme requires a minimum residency of 12 months cf. Trygdeloven §2-1. A membership period of 3 years is required for basic pension entitlement §3-2 (Kjønstad, 1998:58). Denmark has three criteria for pension entitlement; citizenship, permanent residency currently and at least 3 years between the age of 15 and 65. If the latter amounts to 10 years of residency, the criterion of Danish citizenship is disregarded cf. Lov om social pension §§1-4 (Retsinfo, 2003).

that if additional earnings on retirement exceed a certain level the recipient has not really retired.

Universality is an essential feature of the Scandinavian welfare state, but to what extent is it reflected in the pension systems in Norway and Denmark? I have hinted that both entail selective features, the question is whether the OECD direction for reform would diminish the aspect of universality further. Whether it is at all possible to maintain universal pensions and attain a sustainable pension system with population ageing remains to be seen. Meanwhile reforms and motions may indicate whether or not politicians consider universality a likely and/or desirable feature of a future pension system.

3.4 Generosity

Benefits in the Scandinavian welfare state are generally considered generous, especially for low-income groups, as they provide the opportunity of a ”normally” accepted standard of living (Kvist, 1999:232). Without further specifications it should be noted that benefits in the Scandinavian welfare state have to maintain a certain level of generosity to be “acceptable” even to the better-off citizens (Esping-Andersen & Korpi, 1987:70). Otherwise they would most likely choose (supplementary) private schemes and be less inclined to accept additional obligatory payments for public benefits.

As already stated, I find the aspect of universality in the pension system to be primarily reflected in the provision of a basic pension, ensuring economic security for all citizens. In my opinion generosity is related to the level of basic pension and the emphasis on attaining a “fair” compensation level where pension income reflect pre-retirement income levels. I regard the level of compensation as fair when it provides the opportunity of maintaining a standard of living not far from the accustomed pre-retirement mode of living. Whereas economic security in the Scandinavian welfare state is provided by the state, the compensation level is related to national pension supplements, labour market pensions and individual pensions. With regards to the aspect of generosity, my focus will primarily be the pension rate and compensation level of national pensions.

The question is how to measure whether national pensions are becoming more or less generous. Kvist measures the generosity of national old-age pensions by their average net replacement rate (1999:238). He concludes that Danish public pensions are still generous, although they become somewhat less generous towards the end of the period studied[90]. Table 3 ch. V reflects national pension benefits in Denmark and Norway. The table indicates that after taxation pensioners in Norway enjoy higher benefit levels than their Danish equals. If current pension levels in both countries are considered relatively generous, decreasing benefits will be an indication of decreasing generosity. Besides reducing benefit levels, the generosity of benefits can be reduced by introducing or expanding income-testing and/or increasing the relative size of income tested pension supplements, neither of which generally attract much attention (ibid:249). Other indications of decreasing generosity are shortened benefit periods and prolonged waiting periods and tightened eligibility (Eitrheim & Kuhnle, 2000:54).

Does the generosity of the Scandinavian welfare state comply with the normative foundations of the OECD principles? And how is the principle of generosity reflected in pension reforms and proposals in Norway and Denmark? In meeting the challenges of an ageing population will the current, generous pension benefits be reduced as measured by benefit levels, benefit periods and/or eligibility?

3.5 Full Employment

I include the fusion of welfare and work, reflected in the commitment to a full-employment guarantee, in the normative foundation of the Scandinavian welfare state as the right to work is given equal status to the right of income protection. To a certain extent the Scandinavian welfare state depends on its ail of full employment. Due to the enormous costs embedded in maintaining this welfare system, revenue income must be maximized and the number of people living off social transfers minimized, both of which could be obtained by endeavouring full employment (Esping-Andersen, 1990:28). Without a high level of employment[91] it would be difficult to preserve the structure of the public welfare system in the future.

The normative principle of full employment is inter alia reflected in so-called “active labour market” policies, i.e. political labour market interventions. These policies include efforts to

[90] The period from 1990 to 1997, cf. ch. V section 2.3.
[91] Attained trough measures like education, job training and rehabilitation.

increase the demand for labour, programmes intended to affect the supply of labour and measures facilitating the matching between the two, that is job-seekers and jobs respectively (Esping-Andersen & Korpi, 1987:56). “Active labour market” policies also include the protection of individual workers by regulating working hours, conditions and wages, not to mention providing education and training to assist those out of work (Goodin et al., 1999:47). The Nordic governments have been proclaiming the goal of full employment since the Second World War, which is also reflected in their embrace of the so-called “work-line” (Eitrheim & Kuhnle, 2000:56). The approach has resulted in modifications of several security programmes, where the incentives for beneficiaries, both actual and potential, either to be in or find work are strengthened.

With respect to the normative principle of full employment, I will confine my analysis to policies and measures either embedded in or directly related to the overall pension system. I will not focus on measures for increasing the overall labour demand or programmes directed at the unemployed in general. Rather, I will address policies and measures directed to decrease the rate of early retirement and increase the employment rate among the old and to a certain extent welfare recipients, e.g. disability pensioners.

Some considers the full-employment guarantee the most exposed aspect of the Scandinavian welfare state with regard to domestic and external economic challenges (Eitrheim & Kuhnle, 2000:56). But the challenge is also related to demography. The share of the population of working-age is decreasing, both in absolute and relative terms, whereas social expenses are expected to increase significantly. From the outset, population ageing does not per se seem to create any obstacles for pursuing the goal of full employment, rather to the contrary. The question is whether the aspect of full employment is consistent with OECD recommendations. In chapter V I address whether or not incentives embedded in the overall pension system comply with the objective of full employment. Incentives to early retirement and disincentives to prolonged employment and postponed retirement will for instance counteract the goal full employment. In general, work incentives within the pension system and in reforms may be considered as reflecting the full-employment guarantee.

4.0 The Normative Foundation of the OECD Principles and the Scandinavian Model Compared

In part, the object of my thesis is to analyse whether or not the normative foundation of the OECD principles and the Scandinavian welfare state concur. To the extent their normative values correspond, I expect the actual reforms in Norway and Denmark to reflect OECD recommendations and vice versa.

Table 1 illustrates the normative principles I find reflected in the Scandinavian model and the OECD recommendations respectively. The former stresses the responsibility of the state for welfare provision and advocates universal public benefits, providing fundamental economic security through the basic pension. A reasonable level of compensation is maintained through public pension supplements and private pension schemes combined. The OECD principles, on the other hand, underscore the responsibility of the individual. Pension income should reflect individual choice, through private schemes and individual accounts, not public pensions alone. Increasing the role of private and individual pension schemes also implies transferring risk to individuals. OECD does not disregard public pension provision per se, fighting poverty is still regarded a public responsibility, but public pension provision is recommended reduced in order to make room for increased private provision. The state should primarily provide means-tested benefits, targeted to the needy rather than providing universal benefits.

OECD advocates that public benefit levels should only aim at meeting poverty alleviation goals, and that unnecessarily high benefits should be reduced accordingly. The report does not, however, specify what it considers high benefit levels. The aspect of “minimal” public benefits contrasts with the notion of relatively generous benefit levels embedded in the Scandinavian model, which it to a certain extent also depends upon. With regard to employability, the normative principles of the Scandinavian welfare state and OECD more or less comply. Both favours high level of employment and active measures to attain this objective. By guaranteeing full employment, the Scandinavian welfare state may be regarded as more committed to this principle than the OECD approach.

Table 1: An illustration of the normative principles reflected in the Scandinavian model and the OECD principles for reforms

	Normative principles	
Welfare state dimensions	The OECD principles for reform	The Scandinavian welfare state
Responsibility	Primarily individual -private and individual schemes and accounts “Reduced” state -means-tested provision	Primarily state -public schemes Allows for private and occupational supplements, the stress on supplement
Public benefits	Targeted/ means-tested	Universal
Benefit level	Only meet poverty alleviation goals	Generous -basic pension -compensation level
Employment	Pro-active approach -e.g. high levels of employment and lifelong learning	Full employment

5.0 Summary

So far I have addressed the welfare state per se and different types, with emphasis on the Scandinavian welfare state. I have chosen to apply ideal types in order to enhance comprehension of the welfare state in Norway and Denmark respectively. The use of ideal types is both disputed and contested, and I have accordingly discussed some of the pitfalls of applying typologies both in general and in this study in particular.

My focus on the normative principles of the Scandinavian welfare state is based on the notion that these values are reflected in the pension systems in Norway and Denmark, an aspect that will be addressed in the subsequent chapter. In this chapter I have elaborated and operationalized four normative principles I find embedded in the Scandinavian model. In comparing the normative foundation of the OECD recommendations and the Scandinavian model respectively in light of public versus private pension provision, universality, generosity and employment, I find their intrinsic values mainly diverge. This does not necessary imply that implemented and/or proposed reforms in Norway and Denmark may not comply with OECD recommendations. Due to the estimated challenges of ageing, Norwegian and Danish politicians may be inclined to introduce measures that are not in accordance with the normative principles of the Scandinavian model.

Before considering actual reforms and motions, I will in the following chapter attend to the pension systems in both countries inter alia in light of the normative principles of the Scandinavian welfare state. One important aspect will be the extent to which these normative principles are actually reflected in the pension systems in Norway and Denmark. Although Norway and Denmark generally are considered *Scandinavian* welfare states, no actual welfare state is a pure type. Besides, countries are usually classified according to a combination of aspects[92], of which pension benefits only constitute one. Accordingly, a low score on one dimension may be counterweighted by a high score on another. With this in mind I direct my attention to the pension system.

[92] Notably unemployment benefits, family allowances, sickness benefits, financing regulations and the quantity of welfare state expenditure etc.

V The Pension System

Before turning to pension reforms and recommendations for reform I would like to present the pension systems in Norway and Denmark. How can reform policies and their manifestations otherwise be fully appreciated and comprehended? The preceding chapter addressed the welfare state in general and the Scandinavian welfare state in particular. This chapter falls into line by directing attention to one aspect of the welfare state, namely the pension system. Social protection arrangements for the elderly can be divided into income protection and care related services, of which I will focus on the former. Income protection refers to cash transfers and includes public and private, collective and individual arrangements. Broadly defined, cash transfer could include *housing allowance, personal allowance* and *assistance allowance* as well as old-age pension. With regard to retirement income, all of the above transfers could be of importance at least for the individual recipient[93]. Whereas the old-age pension in Norway and Denmark is universal for all residents of a certain age, the allowances are unrelated to age but targeted to people with low income and/or high expenses. On account of their general nature, their modest benefit levels and the fact that there are relatively few recipients among the elderly[94], I will disregard these allowances and henceforth focus on old-age pensions.

Old-age pensions are often regarded the backbone of the Scandinavian welfare state as they were typically the first schemes implemented[95]. Old-age pensions usually constitute the loin's share of public social expenditure and they generally affect the whole population (Kvist, 1999:246). In Norway and Denmark old-age pension and some targeted arrangements are primarily the responsibility of the state, whereas private pension schemes, notably occupational (collective) pensions and individual insurance pensions, provide pension supplements. The pension systems in both countries are a mix of public and private arrangements, where the state-funded old-age pension constitutes the dominant pillar in coverage and as a source of income. In Norway the state provides a national basic pension, a special pension supplement and an earnings-related supplementary pension. In Denmark statutory pension schemes encompasses public old-age pension, including basic amount and a supplementary pension, ATP, SP and SAP. A more thorough elaboration of the respective

[93] Elderly may also have capital income, income from work and benefit from lower taxes, cheap transportation and other subsidies. These arrangements will not be addressed in particular.
[94] In Norway, targeted arrangements only accounts for 3 per cent of the total public cash transfers whereas old-age pension accounts for 97 per cent (Daatland, 1997:13).
[95] Although in Norway national insurances for industrial accidents and sickness, the latter means-tested on earnings, preceded old-age pensions (Hatland, 1992:40).

pension systems is included in appendix B, which this chapter is mainly based on. For questions about the pension systems, whether arising from the following presentation or general curiosity, I refer to the appendix.

The chapter consists of two sections commencing with a presentation of the overall pension systems in Norway and Denmark in light of the normative foundations of the Scandinavian model as previously defined. The question of interest is to what extent the normative principles are reflected in the actual pension system. As the preceding discussion of ideal types indicated, the fact that Norway and Denmark may be characterised as *Scandinavian* welfare states does not imply that they share all features, in this case normative principles. The respective normative values may be more or less emphasised and more or less reflected in actual implementations. In this respect the two countries may as well differ from each other as from the typology per se. To illustrate, Kvist reckons Norway has moved slightly closer to the Scandinavian model of welfare for the elderly, whereas Denmark has made a slight move in the opposite direction. At present he considers Norway to have the most "Scandinavian" welfare for the elderly as conceptualised and measured by universality, generosity and extent[96] (1999:249). The second section gives an introduction of various paths to early retirement embedded in the pension systems in Norway and Denmark. The section addresses pre-retirement schemes and schemes entailing incentives to early retirement, which in practise (unintentionally) provide older workers the possibility of early labour market exit.

1.0 The Pension System in light of the Scandinavian Model

The preceding chapter defines the normative foundation of the Scandinavian welfare state according to the embedded principles of state/public responsibility, universality, generosity and the guarantee of full employment. In the following I will regard the overall pension system in Norway and Denmark in light of these normative principles.

My intention is not to assess whether or not Norway and Denmark are *Scandinavian* welfare states. This I assume to be the case. I would, however, like to address how the aspects of the Scandinavian welfare state are reflected in the pension system. The object is not only to present but also to better comprehend the nature of the respective pension system, by

[96] Kvist considers that the changes regarding the universality and generosity of pension systems during the 1990s, amounts to differences in degree rather than in kind and none of the Nordic countries are excluded from belonging to the Scandinavian model of welfare for the elderly (ibid).

regarding their normative foundation. This point of view may also provide an indication of whether or not reforms in Norway and Denmark are likely to converge with the OECD recommendations. In the preceding I have concluded that the normative foundation of the OECD principles and the Scandinavian model differ in certain aspects. I assume that if and where the pension systems diverge from the normative foundation of the Scandinavian model, Norway and Denmark may be more inclined to follow the OECD recommendations and vice versa

1.1 Public Responsibility

With regard to the pension system, the notion of state responsibility is reflected in public provision of old-age pension, in contrast to private pension provision. As previously mentioned, the pension systems in Norway and Denmark are a mix of public and private arrangements, where the former dominates, although private pensions are becoming more prevalent especially in Denmark. In Norway the state has incorporated the middle class within an advanced second-tier, earnings-related scheme on top of the flat-rate pension. According to Esping-Andersen (1990:26) this retains state universalism and blocks off the market. The fact that Denmark has no earnings-related superannuation pension, may explain why particularly occupational and to some extent individual pensions play a relatively large role as compared to Norway (Esping-Andersen & Korpi, 1987:52). Pedersen finds that throughout the period 1970 to 1992[97] private pension expenditure, measured as percentage of GNP, is higher in Denmark than in Norway. Admittedly, both countries experience an increase in the share of private pensions, but the increase is stronger and more persistent in Denmark. By 1992 the share of private pensions has grown from 1.6 to 3.5 per cent in Denmark and from 1.1 to 2.0 in Norway (1996:8). Private pension expenditure measured as percentage of total public and private expenditure indicate containment in Norway and growth in Denmark[98]. Private pension contributions are higher in Denmark throughout the period, even though occupational pensions are concentrated on a more narrow section of wage earners than in Norway, but from the mid-eighties private pensions in Norway have a marked increase (ibid:14)[99].

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[97] With respect to occupational pension Pedersen (2002b:77) finds that more recent figures on coverage and growth in extent are scarce.

[98] In Norway private pensions amount to 17 per cent of total pension expenditure in 1970 and after decreasing to 14 per cent in 1985 their share reaches 18.3, whereas Denmark experiences a steady increase from 20 to 30 per cent by 1992 (Pedersen, 1996:9).

[99] Regarding the size of accumulated pension funds as a percentage of GNP, the higher contribution rates after 1970 puts Denmark in the lead and with total pension assets in the area of more than half of the annual gross-national product Denmark ranks among the leading countries in the world (The Danish Ministry of Finance,

Table 1: The Norwegian and Danish pension systems as of 2002 with a multipillar approach

	Publicly administered mandatory schemes. First pillar	Privately administered mandatory schemes. Second pillar	Privately administered voluntary schemes. Third pillar
Goal	Redistribution Prevent poverty	Savings and replacement rate	Savings and flexibility
Method	Universal flat-rate benefit or Income related benefit or Guaranteed minimum pension	Personal pension scheme or Work-related pension scheme	Personal pension scheme or Work-related pension scheme
The Norwegian pension system	Public old-age pension -basic pension -special supplement -earnings-related supplementary pension	Occupational pensions in public and private sector[100]	Individual pension savings
The Danish pension system	Public old-age pension -basic pension -supplementary income-dependent pension	Labour market pensions	Individual pension savings
	ATP Civil service pension SAP SP		

Based on the multi-pillar approach as described in Ministry of Social Affairs, 2002a,appendix 2 and information on the respective pension systems in appendix B.

•The intention of Norwegian earnings-related supplementary pension is ensuring a more reasonable compensation level rather than preventing poverty per se.

•Additional Labour Market Pension (ATP), labour-market like supplementary pension scheme (SAP) and Special Pension Scheme (SP), cf. appendix B, Denmark section 1.2.

The pension systems in Norway and Denmark can be characterized as resting on three pillars, illustrated in table 1, although neither fits the multipillar approach perfectly. In Norway the backbone of the pension system, the National Insurance Scheme (*Folketrygden)*, both provides a minimum of security for all citizens irrespective of income before retirement and ensures that the income of pensioners is proportional to their pre-retirement level (NOU

1993 in Pedersen, 1996:14). Norway experiences a steadily decline in total pension fund assets during the 1970s followed by a growth at a very high pace since the mid eighties.

[100] Participation is mandatory for employees of companies and institutions with pension funds and insurance-based arrangements. Employers with private pension arrangements, whether in public or private sector, are obliged to cover all of their employees, cf. appendix B, Norway section 1.3.

1998:19,p.17). Whereas the former is characteristic of first pillar, the latter objective is generally considered a second pillar feature in the multipillar approach. In Denmark the purpose of public old-age pension and the ATP is providing fundamental social security during retirement, whereas the compensation level is primarily ensured by private pension schemes, notably labour market and individual pensions (ATP, 1995:31). The statutory ATP, SP and SAP schemes provide funded pension supplements to ensure their members higher pensions. Although statutory, they entail features from both first and second pillar and are thus often considered to constitute a separate pillar, cf. appendix B.

The relative importance of the respective schemes/pillars can be measures by weighing the individual schemes according to their role as a source of income and/or their coverage, cf. table 2. The relative weight of the various schemes with regard to income is not comparable across the two countries, as different measures are used[101]. The national old-age pension constitutes the dominant source of income for most Norwegian pensioners, comprising about 2/3 of their average income (Daatland, 1997:13). However, the number of pensioners with additional income is increasing. In 1990 roughly 50 per cent of all pensioner households received occupational pension in addition to old-age pension. By 1999 the figures have risen to 70 per cent (Pensjonskommisjonen, 2002:28). Public and private occupational pensions are supplementing the statutory pension in Norway and account for 17 per cent of earned pension rights in 1992[102] (Daatland, 1997:13). In Denmark public old-age pension constitutes approximately 50 per cent of a pensioner's[103] total income in 1998, ATP about 2.5 per cent, civil service pensions almost 9 per cent and labour market and individual pensions 12 per cent (Ministry of Social Affairs, 2002a:6). With regard to coverage 60 per cent of all pensioners in Denmark in 1995 received ATP-benefits, 15-18 per cent were covered by labour market pension schemes, while 10-12 per cent acquired pensions from individual arrangements (ATP, 1995:6).

With regard to retirement income, OECD recognises that existing public pensions systems are likely to remain the major source of income for many retirees (OECD, 1998:13). Nevertheless, it indicates a necessity for reducing the dominance of the first pillar, both in

[101] With regards to the relative weight of the schemes as a source of income it has proven difficult to obtain comparable data. Thus, the schemes in Norway and Denmark are measured by their percentage of earned pension rights and of total pension income respectively.
[102] Obtaining current figures has proven to be difficult.
[103] Over the age of 67.

order to increase the role of the second and third pillars and to contain public spending in relation to population ageing. OECD advocates a multi-pillar pension system, rather than the dominant one-pillar system currently found in both Norway and Denmark. Whether reforms and motions for reforms in Norway and Denmark favour a more multi-pillar system, will be addressed in the subsequent chapter.

Table 2: An illustration of the relative importance of the various pension schemes as measured by their extent, i.e. coverage and role as a source of pension income.

		Coverage, percentage of all pensioners	Pension income source •
Norway	Public old-age pension	100%	82%
	Occupational pension	70% in 1999	17%
	Individual pensions		2%
Denmark	Public old-age pension	100%	49.6%
	ATP	60% in 1995	2.4%
	Civil service		8.8%
	Labour market pensions	15-18% in 1995	12.1%
	Individual pensions	10-12% in 1995	
	Other income[104]		27.1%

Source: Ministry of Social Affairs, 2002a:6, Daatland, 1997:13, Pensjonskommisjonen, 2002:28 and ATP, 1995:6.

• As measured by percentage of earned income in Norway at the 1992-level and percentage of total pension income in Denmark, the latter 1998-figures.

1.2 Universality

Due to the expected challenges of an ageing population, various reforms of the pension system have already been passed and implemented or are commencing. Nevertheless, universality has remained a central feature of the Nordic pension system and all citizens or residents are still guaranteed a minimum pension (Kvist, 1999:249). There has been development towards increased reliance on national supplementary pensions at the expense of basic pensions due to the introduction or expansion of income means-testing on basic amount and/or the increased relative weight of pension supplements. Whether these changes will actually undermine the aspect of universality per se in the longer term, remains to be seen.

[104] E.g. earnings, capital income etc.

Generally, old-age pensions consist of basic pension and pension supplements. Their purpose can respectively be regarded as providing fundamental economic security and maintaining a reasonable income level, or level of compensation. Both Norway and Denmark guarantee their older citizens a state-funded minimum pension, irrespective of previous income, contribution or employment. Entitlement is related to residency, with a minimum requirement of three years, whereas 40 years is required in order to obtain full basic pension. In this respect, the principle of universality is retained. Basic amount in Denmark is graduated for additional earned income above a certain limit, on the grounds that pensioners with relatively high income have not really retired and hence should not be entitled to full basic amount (Regeringen, 2000:28). In Norway a similar graduation only applies to recipients under 70, while basic amount in Denmark is graduated regardless of age[105]. In my opinion this graduation does not make the national basic pension in Denmark less universal than the Norwegian (cf. ch. IV section 3.3).

The national pension supplements in both Norway and Denmark are conditional/selective of a residual or reciprocal kind. In Norway the supplementary pension is “insurance-based reciprocal” as it is premised on previous earnings and labour market affiliation. In addition Norway has introduced a flat “special supplement” of a residual means-testing kind, targeted at pensioners with no or low supplementary pensions. The Danish pension supplement is of a residual means-testing kind, and is reduced if additional earnings of the recipient and his or her spouse/cohabitant reach a certain amount, assets excluded (Ministry of Social Affairs, 2002a, appendix 2). In other words both basic amount and the supplementary pension in Denmark are irrespective of previous labour market affiliation, though they to a certain extent depend on additional income. Kvist stresses that Denmark has increased the relative size of the national pension supplement subjected to means-testing against other pension income. Accordingly, pensioners with major income from occupational pensions will receive a reduced national pension (1999:246). Admittedly, the element of means-testing is more pronounced in the Danish pension system, but on the other hand the Norwegian pension system entails an aspect of reciprocity not found in Denmark. In this respect I do not consider one to be more “universal” than the other, as both pension systems include selective/conditional features. Kvist (ibid:249) concludes that despite means-tests and earnings-related national pensions, the principle of universality remains a distinctive feature

[105] Until 1994 basic amount for all aged 70 or more were provided irrespective of additional earnings (Plovsing, 1994:36).

of the pension systems in Norway and Denmark. The national pensions are described further in the appendix.

It should briefly be noted that the aspect of universality in the pension system may in the longer term be affected by a shift towards more reliance on national pension supplements and less on basic pension. This shift primarily addresses people with considerable income from earnings, private pensions and/or other sources and is basically a result of means-tested basic pension and/or increased relative weight of pension supplements.

Esping-Andersen recognises that almost all countries dominated by universal rights of citizenship regardless of need, contribution or labour market affiliation, have developed supplementary earnings- and work-related schemes[106] to complement public flat-rate benefits (1990:49). In Norway the supplementary pension is related to previous income, counting the 20 "best pension-earning years", whereas the work-related element in the Danish public pension system is embedded in the ATP scheme**.**

ATP is a statutory supplementary pension scheme in Denmark, which I classify as public. Although mandatory for all wage earners and certain groups of transfer recipients, its coverage is not yet universal. The scheme is, however, expected to attain almost universal coverage in the long run (ATP, 1995:9). ATP is contribution-defined, but depends on the scope of employment rather than earnings. In this respect dependency on previous income is less pronounced in Denmark as compared to Norway (Søndergaard, 1999:297). Originally, the work-element was prevalent in the ATP scheme, as coverage was based on labour market affiliation. Reforms incorporating certain groups of pension recipients and voluntary members have, however, weakened the work-element. Nevertheless, the relation to labour market affiliation still prevails. Hence, I regard the current ATP to be a selective scheme of a reciprocal kind.

To sum up, basic pension in both Norway and Denmark currently retain the principle of universality with regard to coverage and allocation criteria. In my opinion this does not apply to the various pension supplements, where the aspect of selectivity appears to prevail.

[106] Earnings- and work-related pensions are usually regarded aspects of the corporatist welfare regime. But then Esping-Andersen recognises that currently most countries presents a system mix, i.e. have incorporated elements from more than one welfare regime (1990:48).

1.3 Generosity

Generous benefits are generally regarded essential features of the Scandinavian welfare state. The question currently at hand is how this supposition complies with the benefit levels of the national old-age pension. Kvist (1999:249) finds that as a consequence of the increasing reliance on supplementary pensions, the generosity of basic old-age pension in Denmark has to a certain degree decreased. His study indicates that Danish pensions went from being “fairly” generous in 1990 to “more or less” generous in 1997[107]. The main reason appears to be that increases in benefits did not fully correspond to increases in real wages, although current pensioners were compensated in a reform in 1994. Kvist measures the generosity of national old-age pensions by their average net replacement rate. It should in this respect be noted that Danish pensioners are taxed according to the same rules as those applying to other taxpayers, whereas tax rules in Norway especially favour pensioners.

Eitrheim and Kuhnle concur that an overall tendency in the Nordic countries in the 1990s is decreased welfare generosity[108], with the exception of Norway (2000:54). Admittedly, some schemes in Norway have been modified, while the generosity of others has actually increased. Albeit not necessarily valid for all countries and all schemes, benefit levels are generally reduced, benefit periods shortened while waiting periods are prolonged, eligibility is tightened and the “work line” (*arbeidlinje)* more pronounced[109]. To illustrate, the labour market reform in Denmark in 1994 both tightened eligibility and shortened benefit periods.

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[107] Kvist stresses that Norway may run counter to this trend, as his study has no available data for Norway.
[108] However, they address the welfare state in Norway, Denmark, Sweden and Finland in general and not only pension systems.
[109] Reflected in increased emphasis on rehabilitation, activation, education and training.

The level of national pensions in Denmark, i.e. basic pension and supplement, is more or less equivalent to the minimum pension in Norway. Nominally the rates are higher in Denmark, but as the special deduction for old-age pensioners was removed in the middle of the 1990s, current pensioners in Denmark pay higher taxes than pensioners in Norway (Pedersen, 2002a:10).

Table 3 illustrates national pension benefits in Denmark and Norway. Before taxation, single pensioners seem to receive more generous benefits in Denmark. However, Danes are taxed according to the same rules as general taxpayers, whereas tax rules in Norway especially favour pensioners. Comparing total monthly pension amount after taxation, both single and married pensioners in Norway enjoy more generous benefit levels.

Table 3: Monthly minimum amount of pension, 2000

		Denmark, DKK	Norway, NOK
Single people	Basic amount	4 130	4 091
	Supplement	4 095	3 245
	Total before tax	8 225	7 366
	Total after tax	6 097	7 336
Married couples	Basic amount	8 260	6 136
	Supplement	3 756	6 491
	Total before tax	12 016	12 672
	Total after tax	9 494	12 672

Source: NOSOSCO, 2002:126

Whereas table 3 reflects the benefit levels of national old-age pensions, table 4 illuminates the compensation level of the national basic pension and national pension supplements combined. For a single pensioner with maximum insurance period, the net compensation level is almost identical in Denmark and Norway, amounting to well over 60 per cent of average industrial wages[110] in 1998. Net monthly minimum pension in both countries are considered relatively high at the international level, even compared to Sweden and Finland, with respectively 427 and 373 Euro. Monthly minimum pension is converted into purchasing power parity (PPP), which takes into account what recipients can actually purchase for the money they receive. Expressed in PPP the net minimum pension in Denmark appears to be higher than in Norway, whereas the figures in table 3 indicate the opposite. PPP may, however, be a more accurate measure for comparison as it reflects the actual purchasing power of pensions and not just their nominal value. Over time the generosity of national pension benefits in Norway and

[110] Wage for the "average Production Worker" as defined by OECD.

Denmark may have decreased, but at the international level, they are still regarded relatively generous, cf. the *Long-term programme 2002-2005*[111].

Table 4: Net levels of basic pension and national supplements for single pensioner with maximum insurance and average industrial wage, at the 1998-level.

	Denmark	Norway
Net compensation level	63%	62%
Net minimum pension in euro converted into PPP	602	549

Source: The Long-term programme 2002-2005

1.4 Full Employment

The introduction of labour market measures and reforms in Norway and Denmark has entailed a more active welfare state enhancing labour market re-entry for the unemployed through inter alia training and education (Eitrheim & Kuhnle, 2000:54). Active labour market schemes have especially been a success in Denmark in recent years, although the political concern for the "work line" is pronounced across the Nordic countries.

Unemployment insurance benefit to people of working-age is related to earned income and is only allocated when earnings completely or partially fail. Employment is decisive for insurance demands and the Nordic countries have prioritised the goal of full employment for a long time. This policy may partially be due to a wish for keeping social expenditures down, but also a protestant belief that participation in the labour market is beneficial to the individual as well as society at large[112] (Hatland, 2001:86). Insurance policies and arrangements primarily need to take two considerations into account, providing financial security when earned income fail, while advocating work to make sure that people choose employment over welfare benefits. In Norway the latter is particularly stressed in the *Rehabilitation White Paper* of 1992[113].

1.4.1 The "Activation" Strategy

Jon Kvist (2001:5) distinguishes the activation policy in the Nordic countries from its European counterparts by the *extensive* and *intensive* intervening role of the state. The former

[111] Langtidsprogrammet, Stortingsmelding no. 30 (2000-2001).
[112] This protestant work ethic may worsen the situation for the unemployed who may feel pushed out and rejected by society as well as the labour market in addition to experience financial difficulties.
[113] *Attføringsmeldinga*, Stortingsmelding no. 39 (1991-1992)

refers to getting the broadest section of the population into work or similar activities, whereas the latter implies that all of the state's policies aspire this goal. The objective of participation in ordinary paid work may prove impossible to achieve for certain groups. Hence the term "activation" in the Scandinavian countries is more broadly understood as participation in some sort of activity, reflected in the provision of alternative activity for people who cannot undertake ordinary paid work.

The "activation policy" in Denmark and Norway favours enforcing obligations to work and enhancing activation measures rather than lowering benefit rates and/or wages. There is also a political focus on strengthening the position of particularly vulnerable groups in the labour market by improving their qualifications (Kvist, 2001:5). Active labour market measures for adapting the labour force to structural changes include educational programmes, training and similar competence-building initiatives. Traditionally, participation has been based on rights and opportunities rather than duties and sanctions, although the obligation to actively seek work is central in Scandinavian welfare programmes. Kildal (2001:6) finds that new "work and activity approaches" emerge in the Scandinavian countries during the 1990s, where negative incentives, "sticks" take precedence over positive ones, "carrots", characteristic of previous active labour market policies. The new approach entails a workfare[114] element, i.e. a duty to work in return for benefits in the lowest tier of the income maintenance system, which especially distinguishes it from traditional work approaches. In Denmark the aspect of workfare was introduced in a labour market reform in 1993, obliging all social assistance recipients to participate in some sort of municipal activity. Refusal will impose a 20 per cent cut in benefits, cf. "sticks", whereas compliance implies receiving a wage based on the collective labour market agreement (Abrahamson, 1999:412; Goul Andersen, 2002:81 in Kildal, 2001:9). With its strong emphasis on activation, duty and a trend towards workfare, Denmark is regarded a pioneer in Scandinavian compulsory activation. The Norwegian work approach also emphasises strengthening incentives to work by use of sticks with the aim of actively linking benefits to work requirements, and thereby abandoning passive income support policies, cf. the *Rehabilitation White Paper* of 1992 and the *Welfare White Paper* of 1995[115]. This feature is reflected in the obligation for recipients of unemployment benefits to

[114] "Workfare programmes *oblige* able-bodies recipients to *work* in return for their benefits on terms *inferior* to comparative work in the labour market and are essentially linked to the *lowest tier* of public income maintenance systems" (Kildal, 2001:3)

[115] *Velferdsmeldingen*, Stortingsmelding no. 35 (1994-1995).

accept any work the employment office deems suitable anywhere in the country, reinforced in 1998 (ibid).

During the 1990s some Scandinavian welfare policies become stricter, others more generous (ibid:14). The former inter alia includes tightened eligibility criteria by increasing the focus on observable, medical diagnosis and reduced periods and levels of support. In Norway the possibility of granting disability pension due to “age weakening” was abolished in 1991 and recently a motion on reducing the period of disability support is submitted, cf. ch. VI. In Denmark the rules of eligibility to post employment wage, the dominant path to early labour force exit, have been tightened on several occasions and entrance to the transitional allowance scheme was terminated as of 1996. Both countries stress that disability/anticipatory pensions should only be awarded once rehabilitation and activation measures are exhausted, cf. section 2.0. The work approach is reflected in the fact that retraining efforts also include older workers and incentives to re-entering the labour market for recipients are being created. So far the generous benefit levels typical of Scandinavia have not been attacked (Øverbye, 1997:14).

Although Denmark and Norway are both moving towards workfare and a stronger emphasis on the aspect of “duty” by use of sticks, their official reasons differ. In Denmark high unemployment rates and increased public spending have given grounds for introducing workfare. Interestingly though, Danish researchers point out that elements of workfare were actually introduced after the recovery of Danish economy (Loftager, 1998; Goul Andersen, 2002: in Kildal, 2001:9). Norway on the other hand, experiencing high economic growth and low unemployment rates from the beginning of the 1990s, states a financial concern for future generations, a concern for the work ethic and the dissolution of individual responsibility as reasons for justifying workfare (Kildal, 1998 in Kildal, 2001:14). Kildal concludes that although workfare is embedded in both parts of the two-tiered welfare system, as of yet it only constitutes a small portion of Scandinavian welfare reform. Rather than being replaced, the overall income-maintaining system is slightly scooped out and supplemented by workfare-related schemes.

1.5 Comparative Remarks

Table 5 summarizes the above-presented aspects of the pension systems in Norway and Denmark in light of the OECD recommendations and the Scandinavian welfare state. The table is an extended version of Table 1 in chapter III and suggests that the pension systems in Norway and Denmark incorporate elements of both OECD and the Scandinavian welfare state, although the characteristics of the latter prevails. To the extent that the values embedded in the OECD recommendations are reflected in the pension system it is my opinion that both countries may be (more[116]) inclined to follow the OECD directions for reform. The fact that private pension schemes and accounts are more prevalent in Denmark could imply that Denmark is more inclined than Norway to follow the OECD multi-pillar pension provision approach, which entails downscaling public provision to facilitate private pension schemes. A multi-pillar approach implies increased individual responsibility for one's retirement income. Although public pensions in both countries are primarily universal, certain benefits are means-tested. As means-tests are more pronounced in Denmark, this could indicate that Norway would be more reluctant to follow suit. On the other hand, Norway is not unfamiliar with selective pensions although the main principle is reciprocity rather than residualism. The principle of reciprocity is also reflected in the OECD recommendation of strengthening the relationship of earnings, contributions and benefits. In this respect Norway may be more inclined to follow OECD recommendations.

With regard to benefit levels of public pensions, both Norway and Denmark reflect the aspect of generosity typical of the Scandinavian welfare state. I thus find it unlikely that either country would implement reforms reflecting the OECD view that public pension should only meet poverty alleviation goals. Whether or not my assumptions will prove likely, will be addressed in the following chapter. The aspect of employment embedded in the OECD principles and the Scandinavian model is generally similar, which also applies to the activation strategies in Norway and Denmark. In other words, general employment policies to boost employment rates and labour force participation, including workfare, would concur with normative values of both the Scandinavian model and OECD recommendations.

[116] Compared to if the normative values embedded in OECD and the pension systems diverge.

Table 5: An illustration of normative values embedded in the OECD principles and the Scandinavian model as reflected in the pension systems in Norway and Denmark as of 2002

	Normative principles			
Welfare state dimensions	OECD	Scandinavian welfare state	Norway	Denmark
Responsibility	Primarily individual -private and individual schemes and accounts "Reduced" state -means-tested provision	Primarily state -public schemes Allows for private and occupational supplements, stress on supplement	Public pension provision dominates -not prevalent private provision	Public provision dominates -more prevalent private provision than Norway
Public benefits	Means-tested/targeted	Universal	-Universal minimum pension -reciprocal supplementary pension -residual means-tested special supplement	-Universal minimum pension -residual means-tested supplementary pension
Benefit level	Only meet poverty alleviation goals	Generous -basic pension -compensation level	-Generous basic pension -Generous compensation level	-Not as generous basic pension as Norway -Equivalent the Norwegian compensation level
Employment	Pro-active approach -e.g. high levels of employment and lifelong learning	Full employment	Full employment -elements of workfare	Full employment -elements of workfare

2.0 Pre-Retirement Paths and Work Incentives/Disincentives

In previous chapters I address the increasing trend of pre-retirement and its subsequent challenges with regard to pension system and ageing. Norway and Denmark have, together with Iceland, the highest retirement age in Europe (Hatland, 2001:109). Nevertheless, their actual retirement age are considerably lower than the standard age of retirement. This is primarily due to various paths to pre-retirement provided by the pension system in general and pre-retirement schemes in particular, notably the AFP in Norway and the post employment wage and the transitional allowance schemes in Denmark. Although not "voluntary" pre-retirement schemes, disability/anticipatory pensions have in practice provided a path to early exit. In Norway this is reflected in the fact that the disability pension remains the most important path to pre-retirement. I refer to the disability pension in Norway and the anticipatory pension in Denmark, although their objectives are more or less the same. In fact, the latter was originally labelled disability pension. However, the term anticipatory pension better complies with the current Danish term *førtidspension*, whereas Norway still apply the term disability, *uførhet*[117]. They are equivalent in the sense that they are public early retirement schemes, though not voluntary, and condition eligibility on health criteria, although Denmark also includes social criteria.

The following section focuses on various paths to early retirement embedded in the overall pension systems in Norway and Denmark. Schemes entailing early retirement have been introduced as means to redistribute employment from older workers to the young unemployed at times of increasing unemployment and are sometimes "exploited" by companies at times of labour redundancy and cutbacks. On one hand, their implementation may reflect current sentiments in the population for lowering the retirement age (ibid:109). On the other, their existence and embedded incentives may actually contribute to increased sentiments for early retirement. A survey conducted by MMI[118] in 2002 indicates that on average Norwegians wish to retire at the age of 59 (Aftenposten, 2002). In this context schemes providing early retirement may constitute pull factors for early labour force exit and in practise undermine the actual standard age of retirement. Faced with an ageing population and a decreasing labour force, the embedded work incentives and disincentives of early retirement schemes should be reassessed. In the following I direct attention to schemes I consider to constitute important paths to early labour force exit in my two countries. This is not to say that the presentation is complete. Denmark has various public pre-retirement schemes, where the objective in both theory and practise is to provide the opportunity of early retirement, whereas in Norway such schemes are non-existing. With regard to Norway I thus present schemes that to a certain extent provide the possibility of early labour force exit for older workers.

The strength of pre-retirement paths as pull factors will partly depend on whether or not they constitute a viable option to continued employment. The transition from work to retirement implies replacing earned income with pension income, their interrelation being referred to as

[117] The anticipatory pension in Denmark have various levels consisting of distinctive allowances, inter alia a disability allowance which is included in two of the levels, cf. Denmark section 2.1.
[118] The survey was performed on behalf of Storebrand and included 3500 Norwegians.

the level of compensation. The higher the compensation level, the stronger the incentives to retirement may be perceived. To the extent costs associated with early labour force exit do not outdo its gains, early retirement may in fact be regarded as a rational choice. This is not to say that the decision of pre-retirement is necessarily rational. Besides, arguments can be made for considering either work or retirement a good per se. Several aspects may influence the retirement decision, of which only some are a direct result of public pension policies. I do not intend to explain why an increasingly share of older workers opt for early retirement. I do, however, consider that pre-retirement schemes may provide strong and rational incentives to early labour force exit, which may be influenced through reform policies.

Norway

Pre-retirement arrangements are decreasing the actual retirement age, though the standard age of retirement has reminded unaltered at 67. In 2000 the average age of labour force exit is 62.8 years in Norway, only counting pensioners over 50 years. If young receivers of disability pension are included, the average exit age is only 59.6 years[119] (Hatland, 2001:110). Of the 630 000 people who received old-age pension in 2000, 610 000 were 67 years or older (ibid:214), leaving a considerable number of pensioners below the age of 67. Due to the projected reduction of the future labour force, the various pre-retirement paths need to be addressed. Restricting one path will hardly counteract the tendency of early retirement if other schemes still favour or render pre-retirement possible. Likewise, schemes providing a bonus to those who defer retirement are not likely to be successful if other retirement options are more attractive. Despite the tendency of early retirement, the labour force participation rate of older workers in Norway is among the highest in the world. On the other hand, participation of elderly has decreased, the average working hours per person has dropped considerably, whereas the extent of part-time employment has increased significantly since 1970. From 1980 to 2000 the labour force affiliation of men aged 60-64 dropped from 75 to 61 per cent and from 35 to 14 per cent for men over 65. Meanwhile the labour force participation of women aged 60-64 increased from 41 to 48 per cent (Pensjonskommisjonen, 2002:21).

A distinction may be drawn between permanent and in principal temporary pre-retirement arrangements. The distinction is of particular importance to social security and pension policies. AFP is considered a permanent arrangement because it neither assumes nor implies a re-entry to previous or other employment, though AFP-pensioners are generally allowed

[119] The figures include retirement through the AFP and the National Insurance Scheme.

additional income without reducing their pension payments. Disability pension holds an intermediate position. It is in principal a temporary arrangement, unless the claimant is at least 50 per cent disabled until the age of 67. Otherwise it is considered possible and generally desirable that the disabled may re-enter the labour force. In reality fully disabled often consider themselves permanently “retired” and disregard re-entrance altogether regardless of any improvement in their ability to work (NOU 1994:2,p.93). Although sickness benefit and daily allowance may compensate temporary droppings of income, they are not pension arrangements as such. They may, however, directly precede pension payments in accordance with their intent in cases of actual sickness and/or unemployment or due to deliberate (mis)use as means of pre-retirement. Either way they may in practise constitute temporary pre-retirement arrangements.

2.1 The Disability Pension

Despite the introduction of the AFP, the disability pension scheme constitutes the most widespread pre-retirement path in Norway[120], in part because eligibility criteria traditionally have been laxer for older workers (Øverbye, 1997:12). It was for instance possible for employees above 63 to be granted a disability pension in Norway under the diagnosis “age weakening”, a policy abandoned in 1991[121]. The only entrance criterion for a flat-rate disability pension is residency, whereas an earnings-related disability pension normally requires work experience. Regulation further stipulates treatment and rehabilitation to precede the assignment of disability pension.

The disability pension scheme is based on the line of thought that one should not be punished for leaving the labour force due to disability. Full disability pension is measured out like pre-retirement pensions and the disabled is credited pension credits (or pension points) until the age of retirement. In other words, the claimant is entitled to the same old-age pension as were he or she employed until the age of 67 (Hatland, 2001:98).

To a certain extent regulation permits people on disability pension to undertake employment. Partially disabled claimants, less than 100 per cent but more than 50 per cent disabled, may receive rated disability pension amounting to 50, 60, 70, 80 or 90 per cent of full disability

[120]The number of recipients and new entrants is relatively high, although restricted to disabled.
[121] Although the practise is maintained in public occupational pension funds cf. appendix B.

pension. Thus, claimants may have additional income, provided it is in accordance with their rated disability pension. In the second year the ceiling on additional income is raised without the rate of disability being re-evaluated, allowing the recipient an annual income equivalent to basic amount in addition to the amount already granted on the basis of the remaining ability of earning an income[122] (Kjønstad, 1998:458). Claimants of full disability pension may only earn a totalling 10 per cent of previous income. Recipients of disability pension are given trial-periods in the labour market where they may try their ability in the labour market with the security that if unsuccessful, they will not have to re-apply from scratch (Øverbye, 1997:14). Free amounts and trial-periods limit the risks of trying to (re)enter the labour market[123]. In practice, however, there are primarily two ways of exiting disability pension, death or transfer to old-age pension (Hatland, 2001,p.99).

The number of recipients of disability pension has increased more or less continuously since its implementation in 1961. In the peaking years of 1987 and 1999 roughly 33 600 people entered the scheme and at the turn of the century almost 280 000 claimants received disability pension (Hatland, 2001:99). In addition 70 000 below the age of 67 received rehabilitation benefits (ibid:214). This development led to governmental intervention and parliamentary initiatives in the 1980s and 1990s. Is should be noted that the contemporaneous restrictions of the old-age pension, notably the lowering of the income ceiling (cf. appendix B section 1.2), also effected the disability pension scheme. Measures aimed at limiting entrance to disability pension have been implemented, like the tightening of the geographical and occupational mobility requirements in 1990. In 1991 Parliament tightens the medical conditions by emphasising diagnoses, which permanently reduce functional ability. Henceforth regulation requires that the medical diagnosis should be the “primary cause” of reduced income (ibid:117). The *Rehabilitation White Paper* of 1992 stipulates that the insurance arrangements should incorporate a “work line”, stipulating that people generally should earn their own income through work rather than be supported by benefits. This strategy, which has been the most important approach to reduce the growth of public welfare spending in the 1990s, has included improving medical and occupational rehabilitation as well as requiring claimants to “earn” their received benefits.

[122] Upon which the rate of disability was based in the first place.
[123] This does not necessarily imply that the incentives to enter work are more pronounced than the disincentives.

In general rehabilitation precedes an application for disability pension. This is usually not required of people between the ages of 55 and 60 whose return to their original or equivalent employment are considered unlikely, who may apply for disability pension directly. As rehabilitation benefits are not credited pension point unless being directly succeeded by disability pension without work intermission, claimants in this age group are often recommended to circumvent rehabilitation altogether. In addition applicants over 60 years are not subjected to the same mobility requirements in order to obtain employment (Engelstad, 1992:23).

In the long-term the above restrictions have proven rather ineffective in reducing the number of recipients of disability pension. Hence the so-called Sandman-committee was established. In its report of 2000 it proposes to reduce the level of sick leave. Sick leave is identified as the first step towards disability and disability pension and reducing the level of sick leave is expected to decrease the number of disability claimants. The committee does not propose restricting the entitlement to disability pension, but recommends increasing rehabilitation measures and extend their financial support as long as there is hope of improving the ability of work. The report advocates a temporary disability pension[124] as well as enhancing the combination of work and pension (Hatland, 2001:105). Which of the above suggestion will be adopted and implemented, if any, still remains to be seen.

2.2 Schemes Favouring Early Exit

In 1973 Norway granted an allowance for pensioners to choose a mix of pensions and earnings, provided they retired between the ages of 67 and 70. Hence Norway became the first OECD member to introduce part-time pension (Øverbye, 1997:15). Apart from the disability pension, no public pre-retirement path exists in Norway. However, a collectively bargained early retirement scheme set up by the social partners, the AFP, is providing voluntary early retirement.

2.2.1 AFP

The National Insurance Scheme does not include a pre-retirement arrangement, but in practise disability pension and local programs have constituted a path to early retirement for older

[124] Not generally, but in cases where recipient maintain some ability of earning an income in the future (Hatland, 2001:105).

workers (Daatland, 1997:19). Increased unemployment during the 1980s prompted trade unions to demand a provision for a “worthy” exit for elderly members, a demand the Government was reluctant to comply. The confederation of trade unions (LO) gave pre-retirement schemes top priority in wage negotiations, which resulted in an agreement between the unions and the employer organisations in 1988. The special pre-retirement scheme, the AFP, was introduced (Øverbye, 1997:19). Its objective is to offer workers the possibility to completely or partially retire from the labour force before the age of 67.

Though formally a private arrangement, the AFP is financed by employer contributions and a 40 per cent basic state funding. It covers 2/3 of the work force, and by 2000 about 32 000 receive AFP-pension (Hatland, 2001:214). Initially the AFP scheme only addressed the 65 and 66 years old, but the age of eligibility is lowered to 64 in 1990 and further to 62 in 1998. According to eligibility criteria, applicants are required to having been employed for at least 10 years after the age of 50 with an income above basic amount. Annual income in the year of application must exceed basic amount, which is the principal rule for earning pension credits. An AFP-retirement will not affect the public superannuation from the age of 67 (Øverbye, 1997:16).

In general the AFP portion is equivalent to the old-age pension the recipient would receive at the age of 67. The rate of compensation is more favourable for people with low income and less generous for people with higher income (NOU 1994:2,p.129). As opposed to old-age pension, AFP is not tax deductible and net income of AFP will usually be considerably lower than the equivalent of disability and old-age pensions. However, AFP-pensioners on a minimum pension level are exempted taxation, cf. minimum pensioners, and to a greater extent additional earnings is rendered possible as compared to disability pension regulation (Sirnes, 1990:178).

The framing of the AFP provides strong incentives towards early labour force exit. According to AFP-regulations annual pension will in general be irrespective of whether the recipient retire at 62 or 67. This is a result of the fact that the annual pension is not correlated to age upon retirement. The national old-age will be estimated as were the pensioner in employment until reaching the age of 67 and taxes on pension income is lower then on earned income (NOU 1998:19,p.30).

The AFP-pension is coordinated with public occupational pensions. Private occupational pension earning will not continue once the AFP-pension is withdrawn. Private employees withdrawing AFP-pension may loose substantial occupational pension payments after the age of 67 due to the fact that the private occupational insurances are based on progressive pension-earnings, as opposed to the linear pension-earnings in the public occupational pensions. In private occupational pension arrangements half the premium is often paid after the employee has reached 60 years. An employee retiring at the age of 64 may thus annually loose 15-20 per cent of the occupational pension as compared to if he or she had continued in their employment until the standard age of retirement (NOU 1994:2,p.129).

In combining AFP and work, the AFP-portion will be reduced according to the total income of pension and earnings. Employment in the private sector, provided income do not exceed basic amount, and public employment without public pension funds will not affect pension payments. The rules of reduction are identical to the ones applying to old-age pensioners between the ages of 67 and 70. The employer is not obligated to offer shorter hours and besides, the AFP scheme presupposes the employee to resign current employment, regardless of whether the employee wants full, ¾, ½ or ¼ AFP (Sirnes, 1990:177). The entitlement to AFP does not apply above the age of 67 or on receipt of disability pension, rehabilitation benefit or survivor's pension.

Evidence[125] suggests that AFP and endowment benefits combined are often applied upon retrenchment and as means to reorganise (NOU 1998:19,p.57,237). In this respect the withdrawal of AFP-pension is not necessarily the wish of the employee, it may as well reflect the employer's need to reduce the number of hands. The endowment pension is meant to increase total pension income and encourage employees to opt for early retirement. On the other hand, using pre-retirement as a means for retrenchment entails that dismissal is not required to be founded on facts, which may increase the applied pressure on older workers.

2.2.2 Unemployment Benefits

For unemployed over the age of 60.5, the National Insurance Scheme may in practise provide daily allowance until the standard age for retirement, from the age of 64 without

[125] Inter alia a survey conducted by Opinionen AS on behalf of the committee "On Flexible Retirement" (NOU 1998:19,p.237).

intermittence. Thus, for older recipients daily allowance may approximate pre-retirement pension (NOU 1994:2,p.99). The level of compensation is relatively generous. Recipients over the age of 64 are emitted a minimum daily allowance amounting to 3G, and payments are, in contrast to other groups of transfer income, regulated according to changes in basic amount (Kjønstad, 1998:218).

2.2.3 Endowment Pension

Daily allowance has to some extent been employed in informal pre-retirement of older employees, particularly at times of labour redundancy and cutbacks. The former employer will in this case usually provide an additional endowment pension, a so-called *gavepensjon,* to supplement daily allowance. Older workers are offered retirement with a certain amount of previous wages guaranteed, provided they register as unemployed in order to receive daily allowance. If the offer is accepted, their former employer will supplement their income with an endowment pension. In April 1993 it was estimated that the number combining endowment pension and daily allowance constituted somewhere between 2 500 and 3 000 people, whereas 9 277 people over the age of 60 were registered as unemployed (NOU 1994:2,p.112). On account of stipulation changes in December 1994, daily allowance and endowment pension are henceforth coordinated (NOU 1998:19,p.237). Daily allowance is reduced with the equivalent of the endowment pension upon dismissal or resignation. At a minimum, the combined benefits should at least amount to 3 per cent of basic amount a week. A similar coordination regulation was adopted in 1997 with regard to the disability pension.

Norway has avoided so-called employer-sponsored occupational schemes encouraging exit between the ages of 55 and 60[126] due to government regulations. In order to receive favourable tax treatment, Norwegian occupational pensions cannot provide benefits, with the exception of disability and survivor's pensions, before their employees reach the retirement age. In addition benefits have to be in the form of annuities and not lump-sums (Øverbye, 1997:20). The fact that white-collars are over-represented among the holders of occupational pension implies that regulatory policies may limit the pre-retirement path of salaried staff especially. In other words, governments can influence the designs of private and negotiated retirement schemes through regulation and tax incentives. Hence, governmental (pre-) retirement policy need not only address the design of public or mandatory pension schemes.

[126] In US and Australia firms apply such schemes to encourage early exit (Øverbye, 1997:20).

Denmark

Although the standard age of retirement in Denmark is 67, 65 from 2004, the average actual retirement age is lower, currently about 61 years. The major decline in labour market participation occurs from the age of 60 when many become eligible to the post employment wage. From the age group 55-59 to 60-62 the participation rate in 1998 dropped from 72 to 39 per cent (Bingley et al, 2001:7). This may partly be a result of the generous provision of voluntary retirement, i.e. broad and relaxed conditions, from the age of 60, whereas retirement at younger ages primarily is a question of health conditions and eligibility for anticipatory pension. A study from 1997 of the correlation between health problems/disability and anticipatory pension also indicates occurrence of either moral hazard or imperfect targeting. On the other hand, eligibility to post employment wage is conditioned on previous labour force participation and may thereby discourage temporary leave. This also applies sick pay and unemployment insurance benefits, also premised on previous labour participation (Søndergaard, 1999:310).

The participation rate, especially for the age group 60 to 67 which in 1998 constituted 59 per cent, is still high in international comparison despite the availability of various paths of labour force exit. Financial incentives may strongly favour early retirement particular for low-income groups, for whom the net replacement rates sometimes exceed 100 per cent, implying that some may actually suffer a net income loss on working (ibid:316). On the other hand, people with higher income will generally receive a relatively low level of compensation from pre-retirement schemes as compared to earnings, which may constitute a disincentive for early exit for this group[127] (Bingley et al., 2001:7).

The negotiated pension schemes in Denmark are less centralized than the AFP-scheme in Norway and may vary across the various branches of the economy. The schemes are, however, anticipated to be more important as regards regular retirement, including disability, than early retirement (Øverbye, 1997:20).

Generally, Denmark offers the most extensive pre-retirement schemes in Scandinavia (ibid:15). In contrast to Norway, Danish part-time pensions combining work and retirement

[127] Net compensation for low-income groups is approximately 70 per cent as compared to “only” 40 per cent for the high-income groups (Bingley et al., 2001:8).

also include those who retire before the formal retirement age. A partly pension allows claimants to receive pension while working reduced hours. The scheme includes the self-employed, although stricter eligibility criteria apply as compared to employees. The post employment wage scheme provides the opportunity of complete withdrawal from the labour market. Both schemes apply from the age of 60, but eligibility is more restricted in the latter as applicants are required to have been a member of an unemployment insurance fund for at least 20 out of the last 25 years[128]. It is possible to receive permanent daily allowance (or unemployment benefit) from the age of 50, provided the recipient is eligible for early retirement benefits upon turning 60. Øverbye (ibid:16) concludes that Norway and Denmark represent opposites in their approach to pre-retirement.

2.1 The Anticipatory Pension[129]

Although not a "voluntary" early retirement scheme, the anticipatory pension (*førtidspension)* provides a path to early retirement. Next to the old-age pension, it is the main social security benefit in Denmark and available to citizens aged 18 to 65[130] whose capacity for work is significantly reduced. Eligibility was initially conditioned on health criteria alone, but is gradually extended to also include social criteria. Anticipatory pension is only awarded once rehabilitation and activation measures and other relevant possibilities for using or enhancing remaining working capacities are exhausted. At the age of 65/67 recipients enter the old-age pension scheme (Jørgensen, 2002c:36). The anticipatory pension is a defined benefit scheme fully financed from general tax revenues.

On average 8 per cent of the population in Denmark receives anticipatory pension. Not surprisingly, elderly are generally more likely to be awarded anticipatory pension than the young, in part because of gradual wear and tear. It is primarily people aged 50 to 66 who receive anticipatory pension and in 1990 their share amounted to 63 per cent. The corresponding annual figures in the period 1990 to 1997 range from 50 to 70 per cent (Weatherall, 2002:7).

[128] Though membership is voluntary, unemployment insurance funds cover about ¾ of the labour force (ibid:15).
[129] Under the pension reform of 1984 the term disability pension was abolished and replaced with *anticipatory pension* (Simonsen & Damsø, 1998:13). I refer to the latter, but there is in principle no distinction between the two as they refer to the same social benefit, and both are still employed.
[130] People who turned 60 prior to July 1999 may under certain conditions receive anticipatory pension until the age of 67.

The Danish anticipatory pension is graduated according to the loss of capacity for work, and there are four types of pension levels (table 6). The highest anticipatory pension addresses citizens between 18 and 60 whose working capacity is negligible. Claimants between the ages 60 to 66 are in other words excluded. The intermediate level refers to people aged 18 to 60 whose earnings capacity are reduced by approximately 2/3 and people at the age of 60 to 65/67 with no earnings capacity. The ordinary anticipatory pension covers the age category 18 to 66 whose capacity for work has been reduced by at least 50 per cent as a result of health and/or social reasons, although persons above 50 years may receive on social grounds alone (Jørgensen 2002c:36). Recipients of ordinary anticipatory pension less than 60 years may be awarded an additional anticipatory amount, *førtidsbeløp,* resulting in an increased ordinary anticipatory pension level.

Table 6: The distinct levels of the anticipatory pension in Denmark.

Ordinary level	Increased ordinary level	Intermediate level	Highest level
			Unemployability allowance
	Anticipatory amount	Disability allowance	Disability allowance
Pension supplement	Pension supplement	Pension supplement	Pension supplement
Basic amount	Basic amount	Basic amount	Basic amount

Source: Ministry of Social Affairs, 2002b:23

The anticipatory pension is gradually reduced if the recipient has supplementary income. More precisely, basic amount and the pension supplement are graduated according to the recipient's income, whereas the anticipatory amount, the disability amount and the unemployability allowance are not be affected (Jørgensen, 2002c:36).

Pensioners over 60 receiving pension at the highest or intermediate level, may opt to make their pension temporarily suspended, a so-called dormant pension[131]. The intention is to enhance and encourage attempts to resume employment by providing a guarantee of re-claim without re-application. This means is usually applied when prospects indicate that earned income will exceed the earned amount allowed while receiving pension and it remains uncertain whether the recipient can fully maintain employment. Pensioners accepting a "flex

[131] *Hvilende pension.*

job"[132] may also have their anticipatory pension made dormant (Simonsen & Damsø, 1998:147). If the pensioner does not reclaim his or her pension within a given time frame, the pension will be deprived.

In contrast to the Norwegian disability pension, participation has been relatively stable partly due to the opening up of other non-health related pre-retirement paths (Bingley et al., 2001:4). Nevertheless, the anticipatory pension remains the dominant source of income for the non-working segments of the population aged 50 to 60, 60 being the eligibility age for receiving post employment wage.

According to change in legislation in 2001, the anticipatory pension will be reformed with effect from 2003. Succeeding implementation, pensions are only awarded at one level and the focus is on the resources and potentials of recipients rather than their limitations (Ministry of Social Affairs, 2002b:23). The reform is elaborated in the following chapter.

2.2 Post Employment Wage, PEW

The dominant path to early labour force exit is through the post employment wage scheme, the so-called *efterløn,* from 1978. The scheme was adopted at a time when unemployment was high and rising, and the main idea was to have elderly workers retire early in order to make room for the young. In theory the scheme only intended to redistribute a restricted number of physically demanding jobs from older workers to young unemployed. In practise, the scheme became a means to reduce the pension age for broad groups in the labour market (Binley et al., 2001:6). The scheme becomes increasingly popular and by 1999 the number of participants is close to 150.000 (Hansen, 2001:4).

The rules of eligibility to post employment wage have been tightened on several occasions and a reform to be phased out in the coming years was enacted in 1998/99. Accordingly, two PEW schemes are currently running in Denmark. The old PEW-scheme addresses members[133] who turned 60 prior to July 1999, whereas a new and more flexible scheme includes members turning 60 after this date. This section addresses the old PEW-scheme, whereas the new post employment wage is outlined in chapter VI. I should note that the new scheme is given

[132] Denmark uses so-called "flex jobs", governmental programmes creating jobs on special terms, as means of integrating weak groups.

[133] I.e. members of an unemployment insurance fund

precedence, both because it has been running for a couple years already and because it eventually will replace the old scheme completely.

At the age of 60 to 66 it is possible to enter the scheme from both employment and unemployment depending on long-term labour market attachment as documented by membership of an unemployment insurance fund. The old PEW-scheme requires membership for 20 of the past 25 years and upon entrance members must either be eligible for daily allowance or receive transitional benefit (Jørgensen, 2002c:59).

The old scheme allows claimants to work 200 hours annually without reducing their post employment wage. Once this limit is exceeded, entitlements are lost completely and permanently (Binley et al., 2001:6) Workers offered early retirement by occupational pension schemes and eligible for post employment wage, will generally postpone the former and enter the latter due to the means-testing rules inherent in the PEW-scheme.

The post employment wage is primarily financed from general tax revenues and benefits correspond to daily allowance for the first 2.5 years, after which it is reduced to 82 per cent of this rate (table 7). When the recipient turns 67(65[134]) the post employment wage is replaced by the national pension (Jørgensen, 2002b:72). The net replacement rate for low-income groups is relatively high, especially at the step 1-level. For this group it may not pay to continue to work, or the economical difference between working and receiving post employment wage is small (Hansen, 2001:4). Not surprisingly this pre-retirement scheme has proven to be a popular exit path.

Applying members satisfying all of the above requirements are generally issued a post employment wage certificate, *efterlønsbevis*. Entrance is not conditioned on holding a PEW-certificate, but the certificate provides certain guarantees and possibilities. The certificate ensures that holders remain eligible to post employment wage even if they upon entry are no longer at the disposal of the labour market[135]. The PEW-certificate makes provision for the post employment wage to at least correspond to the PEW-amount at the time of issue. If entry is postponed, the post employment wage is not affected by any wage reductions (Jørgensen,

[134] Cf. the lowering of the standard age of retirement from 2004.
[135] Due to sickness, inability to undertake ordinary employment, imprisonment etc. Applicants must still meet the remaining stipulations for entry.

2003:48). This stipulation allows certificate holders to reduce their working hours, provided he or she does not exit the labour force all together, while retaining their already earned rate of PEW-payments. In this respect the scheme may entail a more flexible transition from full time employment to retirement.

2.2.1 Semi-Post Employment Wage

The semi-post employment wage of 1995 is a variety of the PEW-scheme. It addresses workers eligible for post employment wage who wishes to work part-time or retire gradually. The semi-post employment wage provides partial compensation for the loss of earnings as a result of reduced working hours. Claimants are required to reduce their hours by at least ¼, whereas the average number of hours worked weekly should at a minimum amount to 12. Regulations allow transfer to the post employment scheme and vice versa (NOU 1998:19,p.181). The scheme has not proved particularly popular, only covering about 1500 people per June 1998, partly due to its relative low benefits and the fact that part-time employment in Denmark is scarce[136].

2.3 "Partial Pension"

The intention of the partial pension (*delpension)* is to facilitate the transition from work to retirement. The Act of partial pension stipulates that loss of income due to reduced hours should be compensated economically. The scheme includes wage earners aged 60-66, provided they turned 60 prior to July 1999, and otherwise wage earners between the age of 60 and 65, who reduce work by at least 7 hours or 25 per cent. Continued employment should at least amount to 12 hours, 30 at the most. The partial pension presupposes that labour market affiliation constitutes 10 years full time employment within the last 20 years. The partial pension is estimated according to hours reduced and per January 2002 the estimation is based on a basis sum of DKK 128.602, of which the annual partial pension constitutes 1/37 for every weekly hour reduced (Jørgensen, 2002c:35).

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[136] Cf. note 24.

2.4 The Transitional Allowance Scheme

In 1992 a new early retirement scheme, the transitional allowance[137], is introduced. Eligibility was initially the age group 55-59, but in 1994 the eligibility age was lowered to 50. Eligibility was also conditioned on being a member of an unemployment insurance fund and having been unemployed for at least 12 out of the last 15 months (Bingley et al., 2001:6). Due to its unexpected high participation rate exceeding preconceived government assumptions, entry was terminated at the end of 1995. This decision may reflect a change in attitude towards seniors as it increasingly becomes clear that future policy "need to" encourage seniors to stay longer in the labour market rather than opting out. At the age of 60 current recipients are automatically transferred to the post employment wage scheme. From having about 46.000 participants in 1996, the number is reduced to approximately 30.500 members in 1999 (Hansen, 2001:5).

Similar to the benefits of post employment wage, the transitional allowance is related to daily allowance, constituting 82 per cent of its maximum rate. Claimants receiving social pension benefits[138] cannot simultaneously enter the transitional benefit scheme. Participants may undertake employment, but not without affecting the transitional allowance. A deduction will in this case be estimated according to the deduction regulations for daily allowance (Jørgensen, 2002b:74).

Table 7: Maximum benefit levels (DKK) in various Danish schemes per week, 2003

	Full time insured	Part-time insured
Transitional Allowance	2.555	1.700
Post employment wage, new scheme at a 91% rate	2.835	1.890
Post employment wage, new scheme at a 100% rate	3.115	2.075
Post employment wage, old scheme Step 1	3.115	2.075
Post employment wage, old scheme Step 2	2.555	1.700

Source: Jørgensen, 2003:85.

3.0 Summary

This chapter presents, together with appendix B, an introduction to the pension systems in Norway and Denmark. By presenting the pension system in light of the Scandinavian model, I

[137] *Overgangsydelse.*
[138] Benefits assigned in accordance with the Social Pension Act, *Lov om social pension.*

aim to hypothesize the probable inclination of Norway and Denmark to comply with OECD recommendations. The characteristics and the normative values of the Scandinavian welfare state are reflected in the actual pension systems, although I also find features in accordance with the OECD view. The fact that the pensions system in Norway and Denmark also include features that diverge from the Scandinavian welfare state should not come as a surprise. After all, the Scandinavian welfare state is an ideal type and does not exist empirically in its entirety. Actual welfare states are not pure types but generally hybrid cases with features from more than one welfare regime. I assume that to the extent the pension systems diverge from the Scandinavian welfare state, Norway and Denmark would be more inclined to move in the direction recommended by OECD. To the extent that their pension systems differ and Denmark is considered the lesser "Scandinavian" of the two, I suspect that Denmark may be leaning more in the OECD direction than Norway.

The pension system is an essential aspect of the welfare state in particular sensitive to the combined effects of ageing and changing life-course patterns. On the other hand, pension schemes may influence labour force participation and retirement patterns through embedded incentives and disincentives to work.

Paths to early labour force exit, whether intended as pre-retirement schemes or not, constitute pull factors for older workers. Their strength and popularity partly depend on their ability to provide viable options for continued employment. It is my opinion that the more generous benefits and the laxer criteria for entry, the stronger their embedded incentives towards early retirement will be. Pre-retirement schemes may be beneficial at times of depression when unemployment levels are high or rising, at which some were also implemented. The fact that schemes were adopted as measures to combat unemployment may explain their incentives to early retirement. However, faced with a declining labour force and an increasing share of pensioners, they may actually be disadvantageous. This is not to say that pre-retirement schemes should be abandoned all together. It is, however, my opinion that their embedded incentives/disincentives and their future role be reassessed. Pension policies can influence the retirement decision of the individual worker to a certain extent by making prolonged employment more attractive and/or early retirement less. Pension policies, reforms and recommendations for reform in Norway and Denmark are the focus of attention in the succeeding chapter.

VI Policy Reform and (beginning) Action

Population ageing, increased public spending, decreased labour force and a trend of early retirement. Against this background pension systems are being assessed, scrutinised and reformed. The Norwegian Government has (rather late) appointed a committee to review and elucidate reform of the Norwegian pension system. Its final report will be presented in the autumn of 2003, but a temporary report is already published. Denmark has outlined a general strategy addressing future demographic challenges, focusing on attaining a sustainable pension system responsive to demographic changes. The pension system is considered sustainable once the provision of a reasonable[139] pension income is consistent with a sound national economy.

In the following I outline what I consider some of the most significant pension and pension-related[140] reforms and motions in Norway and Denmark. I want to address two questions in particular: To what extent do reforms reflect OECD recommendations? Are Norway and Denmark converging and/or moving away from the Scandinavian welfare state with respect to pension arrangements and employment policies?

To a certain extent my focus on Norway and Denmark differs, as the two countries apparently are on various stages of responding to the challenges of ageing populations. With numerous reforms already adopted and/or implemented, Denmark appears to be ahead of Norway. This notion is partly substantiated by the Danish national strategy report's[141] conclusion that the pension system is well-balanced and sustainable, and the fact that no further major system adjustments are planned. In Norway the question of how to attain a sustainable pension system remains under deliberation and so far few pension reforms have been introduced. This is not to say that Norway has not initiated measures altogether. Nevertheless, in addressing reform policies in Norway and Denmark, my focus will primarily be on reports and motions for reform in the former, and already adopted and/or implemented reforms in the latter.

[139] Pension income is considered reasonable if recipients do not experience a drastic fall in income after retirement.
[140] Notably regarding employability and the transition from work to retirement.
[141] cf. Denmark section 1.0.

Norway

Norway experiences a record high employment rate in 2000, continuing in 2001, and appears to have little work capacity available, although unemployment is rising in 2003. Expenditures on illness and disability pensions have increase partly due to demographic changes. The government aims to increase labour force affiliation in order to meet the challenges of an ageing population, reflected in recent changes of the disability pension and an intention agreement with the labour market parties to enhance a more “including” working life.

1.0 The Disability Pension

In 2001 the Government implements a five-year experiment addressing the reactivation of recipients of disability pension. Re-entry to the labour force is to be enhanced through the means of wage subsidies and temporary employment. The experiment allows people to work on a temporary basis for one year only, after which they must attain permanent employment. Employers receive a wage subsidy for a maximum of tree years amounting on average to 50 per cent of pay and social charges (ibid:19). New stipulations of 2002 reduce labour market measures addressing both ordinary and disabled jobseekers, while directing certain measures at the disabled exclusively and more room is given for local assessment and individual adaptation.

The Government has put forward a motion (Ot.prp. 102, 2001-2002) on a temporary disability pension, reducing the period for reception and generally improving efforts of rehabilitation. To indicate that the new pension is not a permanent benefit, the motion proposes it be estimated according to the rules of rehabilitation payments rather than the old-age pension (Pensjonskommisjonen, 2002:81).

1.1 A more Including Labour Market

On account of the increasing rate of sick leave and disability pension and decreasing labour force participation among elderly over 60, the Intention Agreement on a more Including Working Life (IA) was introduced in October 2001 for an experimental period of four years. The purpose of the agreement is to reduce absence due to illness by improving the employment conditions and options for elderly employees and people suffering from reduced working capacity. The agreement went into force in January 2002 (NOSOSCO, 2002:17).

The IA intends to increase the employability and labour force demand for older workers, notably by lowering the tax for employers, which actually discriminates older employees[142] (Pensjonskommisjonen, 2002,p.53). A national all-out effort for senior policy in the labour market is initiated with to prolong employment. These measures comply with OECD recommendations (cf. ch. III).

In accordance with the IA aim of taking care of the resources and labour of older workers to counter early exit, the government finances an action program for senior policies from 2001 to 2005 prepared by the labour force parties. The objective is to enhance incentives to remain in employment rather than opt for early retirement by furthering a good working environment and personnel policy (NOSOSCO, 2002:20). By improving incentives towards prolonged working career and working conditions, the program generally complies with OECD recommendations.

2.0 Committee Recommendations

2.1 The Committee "On Work and Retirement", NOU 1994:2

An awareness of the necessity of maintaining a high labour force participation rate combined with a wish for providing older employees the possibility of early retirement, resulted in a governmental appointed committee in 1993. The committee was requested to address the transition from work to retirement and recommend measures for reform (NOU 1999:2,p.14).

The committee recommends coordinating endowment pensions and daily allowance to prevent them from being (mis)used as "push out-measures" (cf. ch V section 3.2.3). To enhance work incentives for the elderly, it suggests reimposing a waiting reward (*ventetillegg)* for postponing the national old-age pension. The objective is to increase the average retirement age with three years by 2015 through implementing measures stimulating continued employment and preventing older workers from being pushed out of the labour market. If this objective is not met, the committee suggest employing stronger and more direct measures. It suggests restricting paths to early exit, notably the AFP, and raising the standard

[142] The tax, *arbeidsgiveravgiften,* presents disincentives for employers to recruit or retain older workers as this generally implies higher taxes.

age of retirement beyond 67[143] (ibid:33). The objective of increasing the average retirement age complies with the OECD view.

2.2 The Committee "On Flexible Retirement", NOU 1998:19

In 1997 the Government appoints a committee to assess the issue of pre-retirement with the object of increasing the average age of retirement. The committee was inquired to recommend measures for strengthening incentives to prolonged labour market affiliation without disregarding or compromising the aspect of flexible retirement. Its evaluations and recommendations is presented in the report " On Flexible Retirement"[144] (NOU 1998:19,p.9).

The committee recognises the challenge of introducing flexible retirement while stimulating older workers to remain in the labour force[145] (ibid:32). Of particular interest to my study, I may add that the report inter alia addresses the OECD principles for reform. This does not necessarily indicate that its conclusions are especially influenced by OECD recommendations, although the question presents itself.

The report recommends graduating pension benefits according to age upon retirement. This implies permanently curtailed pension for those who choose to retire prior to the standard retirement age and increased pension when retirement is postponed (ibid:41). Compared to current regulation this would increase the economic benefits of prolonged employment and complies with the OECD recommendation that benefits at a minimum accrue with every year in gainful employment.

Regarding the framing of a pre-retirement scheme, the committee favours a universal[146] and flexible programme within the National Insurance Scheme. The committee holds that a publicly administered pre-retirement scheme would better stimulate older and healthy workers to continue in employment than agreement-based arrangements (ibid:44). AFP is recommended replaced with public early retirement schemes with actuarial early pensions and

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[143] It should be noted that committee members representing employers and employees respectively opposed these proposals (Solem & Øverbye, 2002:14).
[144] Labour union members withdrew from the committee prior to its final presentation due to disagreements concerning certain amendments to the pension system, including the AFP (Solem & Øverbye, 2002:14).
[145] Generally, the committee presupposes that the National Insurance Scheme remains the main pillar in the pension system and that a balance between redistribution and the insurance aspect is attained.
[146] The committee rejects selective pre-retirement schemes in principle and on administrative grounds. Establishing publicly accepted criteria for eligibility would prove difficult, as experienced with the AFP, and a selective programme would not be compatible with the aspect of increased flexibility (NOU 1998:19,p.44).

actuarial increased postponed pensions (Solem & Øverbye, 2002:14). From this I gather that the committee finds pre-retirement to be a matter of public, as opposed to private, responsibility. OECD does not directly advocate or disregard pre-retirement schemes per se[147]. Introducing the actuarial principle would be in accordance with OECD recommendation.

The committee expresses concern over the fact that employee quarters on principle aim to lower the eligibility age for AFP-pension to 60 years. Besides, curtailing benefits according to age upon withdrawal, the committee recommends increasing the required number of years of employment upon entry. The current criteria of 10 years of pension-earnings after reaching 50 is proposed extended to 20 years beyond the age of 40 (NOU 1998:19,p.53). The practise of crediting pension-earnings embedded in the AFP is criticized because it entails that old-age pension payments are not affected by age upon retirement. The committee rejects the notion that AFP-pensioners be treated on a par with disability pensioners on the grounds that AFP is a *voluntary* pre-retirement scheme and suggests that this practise is abolished altogether from 2007. In my opinion the crediting of AFP-pensioners strengthens incentives towards early retirement, which OECD generally recommends be diminished. It would be difficult to determine how this aspect influence the decision of early retirement, but in theory incentives to early retirement counteract the objective of increasing labour force affiliation among the elderly, which the committee advocates be the superior aim of future pension policy (ibid:33). The committee recommends enhancing the opportunity and flexibility of combining pension and work, which would ease the transition from work to retirement and suggests that the AFP offer other options of semi-retirement besides a 20 or 40 per cent retirement.

On the grounds that the majority of pensioners today has had opportunity to earn a supplementary pension and as the minimum pension level has increased, the committee considers that the distributional political basis of current tax regulation has diminished. It suggests that tax rules for pensioners over time approximate tax regulations for wage earners (ibid:42), which is the case in Denmark. A move in this direction would be in accordance with the OECD suggestion of subjecting pensions to income tax where this is not already the case.

[147] Cf. Denmark section 4.0 for a further discussion on the OECD view on pre-retirement schemes.

2.3 The Pension Commission

In 2001 the Norwegian Government appoints a parliamentary Pension Commission, *Pensjonskommisjonen*, to address the main principles and objectives of a future sustainable pension system[148]. The Commission will submit its final report in the autumn 2003, but presented upon request a preliminary report on objectives, principles and alternative pension models in September 2002. The Commission emphasizes that its evaluations and recommendations are preliminary and not founded on consequence analyses[149]. Its recommendations are based on two models it considers the most likely alternatives for a future pension system; a modernized national insurance pension or a national flat-rate basic pension respectively.

The preliminary report gives a brief account of the pension system in a few selected countries, Denmark included, and refers to analyses, reports and recommendations of international organisations like the World Bank, the European Union and the OECD[150]. It is, in other words, possible that international experience and recommendations may influence the final evaluations and recommendations of the Commission. For instance, the Commission stresses the importance of funded systems as a means to maintain a balanced burden-sharing in the population. It recommends funding parts of the pension obligations of the National Insurance Scheme, the State's Pension Scheme and/or attaching greater importance to premium-based labour market pension schemes and individual pension arrangements (Pensjonskommisjonen, 2002:68). This emphasis of funding is consistent with OECD recommendations and the Danish pension system, where the element of funding is extensive, at least compared to Norway. Whether or not the preliminary report generally complies with the OECD view will be addressed subsequently.

2.3.1 A Sustainable Pension System

The report states that a future pension system should distribute income, benefits and burdens equally between generations. The public pension scheme should maintain its aim of income redistribution, for instance through taxation. Pension obligations and promises must be met in

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[148] The pension system should respond to demographic changes, provide flexible retirement and ensure redistribution and equality of status (Pensjonskommisjonen, 2002:7)
[149] *Konsekvensutredninger.*
[150] Including the OECD principles for reform addressed in ch. III.

a way that provides residents economic security and maintains general financial sustainability both in the shorter and longer term (ibid:70).

According to the Commission a sustainable pension system depends on a large labour force, a low unemployment rate and an inclusive labour market, inter alia attained by restrincting the increase of early retirement and encouraging prolonged employment. By relating pension benefits more closely to earnings and contributions, the incentives to labour market exit may decrease and continued employment favoured (ibid:16).

The report acknowledges the importance of pull and push factors respectively with regard to the trend of early retirement. It stresses improving the labour market footing of older employees and diminishing current push factors in employment policy and the employer tax (ibid:54). The impact of pull factors are to be reduced by ensuring that early retirement is not supported economically, which to a certain extent is the case today. Current AFP-benefits are not affected by the retirement age of the recipient nor is the national old-age pension affected by AFP-retirement. Whereas full national pension is attained after 40 years, full AFP-pension requires in practice only 35. Hence, if a person declines an entitled AFP-retirement and –pension, his or her "pension wealth"[151] will be reduced. As retirement between the ages of 67 and 70 is optional, postponing retirement implies reducing one's pension wealth, particularly if full national pension is already attained (ibid:54). The Commission recommends measuring annual pension according to age upon retirement, the total pension earning period and expected duration of retirement. Accordingly, a low retirement age would entail reduced annual benefit, whereas prolonged employment would increase pension earnings and total pension payments. In this respect the report concurs with OECD recommendations, which stipulate that benefits at least should accrue with every year in gainful employment irrespective of the standard age of retirement. Workers, who nevertheless choose early retirement, should not receive any gain in output or material living standards, as the case may be with AFP.

The present tax structure generally favours pensioners as compared to wage earners with equivalent income as the former pays less tax. Originally the easy tax terms were introduced because pensioners generally constituted a low-income group. The report questions whether

[151] Refers to the value of the expected total pension payment at the time of retirement (ibid:54).

tax regulation should continue to favour pensioners in the future, but only concludes that any tax change should consider the minimum pension level (ibid:57). OECD recommends abolishing arrangements that are obsolete or inconsistent with stated pension policy objectives. In my opinion current taxes are incompatible with the aim of a better balance of burden-sharing between generations. Especially as the Commission acknowledges that even if a more balanced burden-sharing is attained within the pension system, the overall burden[152] will nevertheless fall on the employees. In my opinion the original grounds for taxes favouring pensioners per se are not valid anymore as many pensioners today are relatively comfortably off. Nevertheless, I concur with the Commission that any changes in tax regulations should be based on the level of minimum pensions, which would only partially comply with the OECD suggestion of subjecting pensions to income tax.

There are conflicting interests between the principle of redistribution and measures encouraging elderly to remain in employment. Economic incentives of the latter imply improving the correlation between contributions paid and benefits received, which counter the principle of redistribution. It may also prove difficult to attain a sustainable pension system without increasing the importance and the responsibility of labour market and individual pension schemes. If pension benefits are not to be reduced and the general tax level not increased, pension contributions may have to be increased by enhancing the connection between the individual premiums and benefits. In principle this is also attainable in public pensions, but it implies reducing the element of redistribution. The Commission concludes that a high employment rate, which would increase private pension provision, and a sustainable pension system may conflict with the principle of redistribution (ibid:26).

2.3.2 Funded Schemes

OECD generally recommends that the overall pension system should include a mix of tax- and transfer schemes, funded schemes and private earnings and savings. The Commission concurs that funding public pension obligations could ensure a balanced burden-sharing between generations and a sustainable pension system. In addition it considers funded schemes to be more stable to demographic changes.

[152] With regard to health and long-term care expenses and reduced tax revenues.

In the long run funded pension schemes strengthen the relation between contributions and pensions respectively. Pension arrangements in the private sector are ordinarily funded, whereas individual pension schemes always are. The potential risk of funded schemes is related to the pension funds returns. However, as the profits of the pension fund increase, funded pension schemes will entail lower expenses than pay-as-you-go schemes. The two proposed models, the flat-rate basic pension and the modernized national insurance pension, both entail funded schemes. The former may primarily increase the element of funding through the second and third pillar, i.e. labour market and individual pension schemes, whereas the latter may introduce funded schemes within the public system (ibid:58).

Replacing a dominant pay-as-you-go system with a more funded system will entail some undesired consequences. The transfer will generally imply that wage earners for a period will have to finance both currently running pensions and their own future pensions. In this respect Norway enjoys a fortunate position due to the Petroleum Fund. The Commission suggests basing national pension funds partly on the Petroleum Fund to cover already established pension obligations. The Commission further proposes funding the State's Pension Scheme to increase the awareness of pension expenses and generally further saving (ibid:67).

2.3.3 Basic Security

The preliminary report stresses that the National Insurance Scheme should maintain its provision of basic security by guaranteeing a minimum pension based on residency irrespective of previous income or contribution. The purpose is to ensure all pensioners a means of subsistence and entails economic and social redistribution (ibid:70). Basic security can be attained either through a "guarantee pension", *garantipensjon*, complementing the lack of or low income-related pensions or through a universal flat-rate basic pension based on residency. In either case the Commission finds that basic security should be financed by the state through general taxation and its level correspond the current minimum pension.

A flat-rate basic pension would imply considerable gross savings with regards to long-term national pension expenses[153]. Basic security would not be targeted as the same amount is provided for all pensioners irrespective of income (ibid:74). The universal aspect embedded in

[153] It may reduce the expenses of the National Insurance Scheme by 40 per cent compared to maintaining the current pension system, whereas a guarantee pension with a pension percentage of 50 probably would maintain the current level of national pension expenses (ibid:56).

a basic pension is in conformity with the Scandinavian welfare state but may conflict with the OECD view that public pensions should only aim at meeting poverty alleviation goals. A universal basic pension further entails relatively high pension expenses to be financed through taxation. On the other hand, low-income groups with various pension supplements may attain a relatively high level of compensation.

In comparison the guarantee pension is targeted and effective because it is only provided if earned pension is below a certain minimum level (ibid). Hence, it may comply with the OECD objective of only meeting poverty alleviation goals, depending on its stipulated level of generosity. The pension entails low expenses on basic security, but the means-testing complicates the pension system. The guarantee pension entails expanding means-testing compared to current regulation which diverges from the universal aspects of the Scandinavian welfare state. It may also be seen as an indication of reduced pension generosity, provided generosity is not strictly measured by economic criteria, cf. ch. IV section 3.4.

2.3.4 Proportional Level of Compensation

According to the Commission future pension benefits should ensure a compensation level in proportion to previously earned income, contribution and pension earnings. The level of compensation could either be guaranteed by a mandatory, public income-related pension supplemented by occupational and/or individual pensions or completely entrusted to occupational pensions supplied by individual pensions (ibid:17). In my opinion the generosity of pension benefits is not as likely to be reduced if income-related pensions are made mandatory, compared to if they are voluntary.

The Commission advocates mandatory income-related pensions, whether public or private, on accounts of distribution, gender neutrality, risk diversification, expenses etc. (ibid:76). If the compensation level primarily is provided by the state, there is a risk that the aspect of redistribution could take precedence over the aspects of earnings and savings. The risk of private pension schemes, both individual and occupational, is rather related to the proceeds of the capital invested. This also applies to public schemes financed through funds rather than according to the pay-as-you-go principle. Other than recommending that an income-related pension be mandatory, the Commission has of yet not taken a definite stand on whether the compensation level should be the responsibility of public and/or private schemes respectively.

OECD generally recommends increasing the size of advanced-funded elements in countries where pay-as-you-go systems now dominate and suggests increasing advance-funded elements within public plans and introducing mandatory individual accounts. The two alternatives presented for ensuring the compensation level in a future Norwegian pension system both comply with the above recommendations, provided that a public scheme is funded or that private schemes, occupational and/or individual, are mandatory.

2.3.5 Life-Earnings and Life-Savings

The Commission generally recommends that a future pension system encourages dispersing income and consumption over the course of life by emphasizing life-savings and life-insurance. The former implies that each saves up for old age, whereas the latter involves diversifying risks related to old age, disability and loss of breadwinner between the participants of the pension arrangement (ibid:70). The issue of implementing features of life-earnings has, however, been raised before. In the NOU report 1994:2 the majority of committee members suggests introducing life-earnings to strengthen incentives to prolonged employment (p.247). The majority of the committee members of the NOU report 1998:19 (p.49) does not recommend a pension system based on life-earnings[154].

Both pension models presented in the report entail strengthening the correlation between previous income, contributions and pension benefits compared to current pension regulations. Income-related pensions can be based on salary upon retirement, total life-earnings or average income for a certain number of years, of which the current pension system is based on the latter[155]. The Commission is of the opinion that the relation between earned income and pensions is best ensured through pensions based on life-earnings and advocates that this aspect is included in a pension reform (Pensjonskommisjonen, 2002:77).

The overall emphasis on life-earnings and –savings of the preliminary report is in conformity with the OECD recommendation of “generally linking life-time benefits and contributions”. By introducing life-earnings and –savings, it will pension-wise always pay to work. This is

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[154] The majority acknowledges that life-earnings reward long careers to a greater extent than current pension regulation, but considers pensions without curtailment according to age of retirement insufficient for increasing the average retirement age. Besides, it may undermine general support for the standard age of retirement.

[155] The “best pension-earning years”-rule, cf. appendix B

also in accordance with the OECD recommendations, which stipulate that benefits at a minimum should accrue with every year in gainful employment.

An introduction of life-earnings will generally benefit people with long careers and steady income whereas people with varied and increasing income and/or who alternates between full-time and part-time employment will receive lower pension compared to current pension regulation (ibid). Today people with similar life-income may receive different pensions, and some receive almost equal pension amounts despite different life-incomes. The Commission finds this unreasonable and claims that the income-related pension to a greater extent should reflect total income over the career course (ibid:33). The Commission recognises that this may particularly affect women as more women than men are employed part-time. It does, however, not propose remedial measures.

A pension system based on life-earnings may also disadvantage groups with late labour market entry like students undertaking higher education and groups with early exit, notably the pre-retired. Whereas a pension reform may discourage early retirement, it should in my opinion not produce disincentives, whether intended or not, towards higher education. I acknowledge that with regard to population ageing it is important to maintain an extensive labour force, but not at the expense of the rate of people with higher education. In this day and age high skilled knowledge is an asset, which in the longer term may per se benefit our society and economy.

Pensions related to life-income will also affect groups with long and/or several periods of absence from the labour market, notably women on maternity leave, unemployed and people on sick leave or in rehabilitation. It should also be stressed that some may experience several of these situations at various stages, and certain groups may be more exposed than others. The director of equality of gender (*likestillingsdirektør)* Mona Lisa Asp criticizes pensions based on life-earnings for discriminating women. She claims that 90 per cent of all women will receive lower pensions and that if implemented the pension system would imply a large setback as regards equality of status (VG, 13.01.2003). She receives support from LO, The Norwegian Confederation of Trade Unions, which considers women with higher education and extended[156] maternity leave to have the most to loose if the “best pension-earning years”-

[156] That is time spent in informal care of children beyond the stipulated period of maternity leave.

rule is removed. Of the total number of minimum-pensioners in 1999, the rate of female recipients constituted 87 per cent (LOnytt, 15.01.2003). It is not unlikely that this rate may increase if the "best pension-earning year"-rule is removed without adequate compensation for particularly disadvantaged groups. The students' national organisation, *Studentenes Landsforbund,* concurs that the proposal of the Pension Commission discredits long education, as (long) periods of study in essence will imply pension-earning time lost. To compensate, the students' national organisation suggests crediting students pension credits[157] (Universitas, 22.01.2003). Whether or not the directed criticism will be taken into consideration in the final report and/or future reforms remain to be seen.

2.3.6 Alternative Pension Systems

The report outlines two alternative models for a future pension system, a modernized national insurance scheme or a flat-rate basic pension scheme. Both entail financing basic security through general taxation at the level of today's minimum pension. Both models intends to increase the connection between contributions and payments and stress the importance of life-earnings and –savings in meeting the challenges of the aging population, although in different ways. The former model entails relating life-income and benefits in national pensions, whereas the latter strengthens the correlation between life-savings and pensions through the private pension schemes. Either way the Commission recognises that a reform requires transfer arrangements and adaptive measures in order to ensure the predictability of pensions and individual pensions rights (Pensjonskommisjonen, 2002:14).

Model I

A modernized national insurance scheme should, according to the Commission, enhance the correlation between pensions, contributions and income. The proportional income-related pension would be a national premium-funded pension, providing old-age pension for all citizens in proportion to total income. Pension earnings should be life-earnings with every year of income and contribution counting equally. A guarantee supplement graduated against the income-related pension could also be graduated against mandatory supplementary pensions. A guarantee supplement is considered a targeted, inexpensive and effective means for ensuring basic security (ibid:44). Redistribution is notably ensured through basic security and pension credits for unpaid care of own children and relatives in need of nursing.

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[157] With regard to old-age pension, Germany credits certain non-contributory periods including studies beyond the age of 16, notably completed technical training or higher education (EU, 2003).

Public occupational pensions would become purely supplementary to a modernized national insurance pension. The Commission recommends that the total level of benefits from occupational pension and national insurance pension correspond current pension levels and that regulation of public and private occupational pension schemes is coordinated and simplified (ibid:18).

Estimations suggest that this model could increase the pension percentage[158] from 42 to 50 on account of the savings made in abolishing the basic pension and the "best pension-earning years"-rule. If the current minimum pension level is maintained, the pension level for the lowest income group will not be affected. The future payment level of other groups will depend on the pension percentage chosen and the redestributive aspect. The latter would, however, violate the principle of a proportional pension[159]. Income groups above the lowest income level and groups with middle incomes are expected to receive reduced pension benefits compared to current pension stipulations, whereas the high-income group will experience increased pensions. A somewhat higher income will be required in order to receive more than the minimum pension amount due to the dropping of the basic pension. In other words, if this alternative is chosen the number of minimum pensioners is likely to increase. Nevertheless, the Commission recommends that the model is evaluated further (ibid:14).

The proportional rate between income and pension will depend on the pension percentage chosen. According to the Commission, the pension percentage should ensure a fair compensation level for pensioners not receiving the guarantee supplement without requiring a too high premium. In order to restrict the responsibility of the state, a ceiling on pension earnings is proposed with an equivalent ceiling on premium payments (ibid:46). The higher the pension percentage, the lesser need for supplementary pension schemes, and vice versa. On the other hand, the lower the ceiling on pension earnings, the increasing need for such pension supplements.

An income-related pension proportional to previously earned income is expected to provide stronger work incentives than a flat-rate basic pension for all by generally stimulating employees to remain in the labour force and to postpone retirement. For pensioners entitled to

[158] The relation between income and pension.
[159] However, any undesired distributional effects could be compensated by changing the tax structure.

the current supplementary pension, who become minimum pensioners in a modernized system, work incentives will decrease. In other words, the means-testing of the guarantee supplement provides disincentives to work. The model also entails a somewhat more uneven pension distribution as compared to the current pension system. The Commission assures that the aspects of (re)distribution and work incentives will be addressed further in its final report (ibid:47).

Model II

The presented alternative is a system based on a national flat-rate basic pension irrespective of previous income. Income- and earnings-related pensions ensuring the level of compensation are entrusted to funded occupational and individual pension arrangements. The Commission has not yet reached a decision as to whether such schemes should be voluntary or mandatory. Any changes should only apply future earnings and not affect pension earnings already attained. According to the Commission this alternative should imply a future reduction of taxes to the National Insurance Scheme, notably the employer- or national insurance tax (ibid:17).

This model will mainly continue recent pension developments and any changes will probably not be revolting. The national pension has for example gradually been “flattened” as the minimum pension has increased and the pension supplement decreased. In addition, supplementary pensions like occupational and individual arrangements have become more common and conditions for occupational pensions in the private sector are improved. As the model implies that the compensation level is ensured by occupational and individual pension arrangements, their extent and coverage would have to increase. An advantage with entrusting income-related pension to labour market and individual pension arrangements is more flexible schemes emphasizing freedom of choice (ibid:42).

By removing the pension supplement, national insurance taxes can be reduced accordingly. This would benefit minimum pensioners, who would receive the same amount in benefits but pay reduced tax, and people with high income who currently pay high taxes without receiving equivalent high pensions. Recipients of supplementary pension and people with middle income would, however, end up with lower pensions compared current pension regulation. This also applies those who currently benefit the most of the “best pension-earning years”-rule. On average people would neither benefit nor lose from working (ibid).

Whereas it today is possible to attain full occupational pension after a minimum of 30 years, the Commission reckons that contribution-defined arrangements would strengthen incentives to prolonged employment. The report recommends maintaining the “proportional principle”, i.e. that the total benefits of basic pension and other pension schemes should not constitute a higher percentage of income for members with high income than members with lower income (ibid:43).

The model clearly defines the responsibility of national old-age pension and supplementary pension schemes respectively, provided the latter are not guaranteed by the state. Basic security will hardly be targeted as it is provided to all citizens, which means that the taxation level will be relative high. In addition, there will rarely be a correlation between contributions to and benefits from the national pensions compared to the former model (ibid:14).

Transition

The Commission acknowledges that reforming the pension system necessitates transition rules ensuring predictability and adaptability respectively. One possibility is distinguishing between previous and future pension rights and earnings. In this case pension rights already attained would not be affected. Reforms and new regulations would only affect future pension earnings and rights. This requires handling two different systems simultaneously for a number of years and it would accordingly take a long time for the new system to take full effect. The alternative is relating regulation to age cohorts for whom the respective old and new stipulations fully apply. In other words, new regulation addresses people under a certain age, whereas the old regulation applies for people above a certain age. For the intermediate stages pensions are proportionally estimated according to both old and new regulations. This alternative would limit the period of transition by accelerating the introduction of the new system to a certain extent (ibid:49). The preliminary report does not recommend one transitional method in particular but relates the choice of transition rules to the respective pension models.

2.3.7 Pre-Retirement and Flexible Retirement

The report stresses that a pension reform should provide a possibility of withdrawing old-age pension from the age of 62 if certain requirements on previous labour force attachment and pension earnings are satisfied. A future pension system should ensure flexibility on the extent of retirement while ensuring that it will always be worthwhile economically to work. Thus, a long career and postponed retirement should result in a higher annual pension. The Commission also recommends that the specific age limits for certain groups be revised and modernized (ibid:17). A modernization could entail that upon reaching a certain age employees are offered adjusted tasks and responsibilities instead of retirement. Such measures would comply with OECD’s emphasis on attaining employability for longer working lives.

The Commission stresses the need for pension arrangements to increase allowance for earnings while withdrawing pension to improve flexibility, increase labour force participation and ease the transition from work to retirement. Such measures should be elaborated in collaboration with the labour market parties (ibid:82)

The Commission and OECD respectively concur that it should always pay to work pension-wise and both stress the notion of flexibility which would give the individual more of a say in his or her retirement decision. The preliminary report does not comply with the OECD recommendation that the lower age limit for early retirement should be increased, which may be due to the fact that Norway currently has no public pre-retirement scheme, the AFP being a private arrangement only covering two-thirds of the labour force. In fact, the Commission recommends extending the provision of pre-retirement to include every older employees. To the extent this may decrease the average age of retirement[160], it diverges from the explicit aim of OECD as well as the Commission. The universal aspect of the recommendation is, on the other hand, in accordance with the normative foundation of the Scandinavian welfare state. To a certain extent it also complies with the OECD notion that regulations of private schemes prevent non-discriminatory access to pension schemes. The Commission proposes that the lower age limit for entry should correspond to the current limit for AFP-entry, i.e. 62 years, whereas OECD recommends increasing the lower age limit for early entitlement.

There are conflicting interests. On one hand, the Commission holds that the pension system should provide the opportunity of pre-retirement with a reasonable level of compensation in proportion to previously earned income. On the other, generous early retirement benefits in mandatory arrangements will provide incentives to early exit and may decrease the labour

[160] Or at least maintain the current rate of pre-retirement.

force participation rate of elderly further. The Commission thus emphasizes that in outlining a more flexible pension system, the objective should be encouraging employment of the elderly (ibid:39).

2.3.8 Pension Supplements

In 2001 a pension reform introducing favourable taxes on contribution-defined pension schemes is implemented, with the objective of increasing the extent of labour market pensions in the private sector. It is yet too soon to draw any conclusions on whether or not the reform has produced the desired effect (ibid:37). The reform is in accordance with the OECD suggestions of generally stimulating occupational pension schemes.

The Commission recognises that the regulations of occupational pension schemes in the public and private sector discourage, maybe even prevent, labour force mobility from one sector to another. Although stipulations ensures full mobility within the respective sectors, it is almost impossible for a private employee to enter the public sector and a public employee to enter the private sector without affecting his or her pension earnings. This is primarily due to the fact that private occupational pensions are net arrangements, whereas public occupational pension are gross arrangements. The Commission recommends harmonizing the arrangements in order to enhance mobility and ensure previously earned pension rights by making public occupational pensions net arrangements (ibid:38).

The OECD principles for reform stress the importance of labour market pension schemes but do not express a preference for neither net nor gross pension arrangements. The objectives of the Commission of ensuring mobility and pension rights, reflect the OECD view that regulations should protect vested rights and ensure the transferability of pension rights in order to maintain confidence in private pension schemes.

Denmark

In Denmark discussions on reform and initiatives have already been on the agenda for some time, and a general strategy consisting of three main areas is adopted. The strategy implies a gradual ongoing shift of emphasis from pay-as-you-go to funded schemes, reverse the declining average retirement age and increasing the labour force participation of claimants of various public income transfers. The latter may reduce public expenditure and simultaneously expand the tax base (Bingley et al., 2001:16). In other words, the Norwegian and Danish response to ageing generally complies.

Specifically, the government intends to increase the employment rate of approximately 87 000 people from 2000 to 2010, during which the labour force is expected to decrease by 66 000 people due to the demographic development. Accordingly, the employment rate must increase by 153 000 in order to meet the stipulated objective. Already adopted reforms are expected to increase the participation rate by 80 000 people until 2010. Implemented reforms include the stop of new entrants to the transition allowance scheme in 1996, the reform of the voluntary early retirement scheme in 1999 and the anticipatory pension reform as from 2003 and measures to increase the employment of people suffering from reduced working capacities (NOSOSCO, 2002:8).

The action plan "More People in Work" was presented by the Government in 2002. In addition to enhancing job provision for unemployed in general, it stresses a need for increasing the focus on work for the elderly unemployed in particular. The action plan aims at enhancing the incentives to work by ensuring that it is worthwhile for everyone to undertake employment compared to receiving benefits (ibid:9).

1.0 The National Strategy Report on the Danish Pension System

The Laeken European Council in December 2001 adopted eleven objectives for securing sustainability of pension systems. It would be interesting to compare these objectives with the OECD principles for reform, but that is beyond my scope. During the summit the member states were requested to present a national strategy report on pensions before September 2002. The Danish contribution is addressed subsequently.

The Danish report holds that the overall pension system is "well-balanced and able to secure present and future pensioners adequate coverage" particularly once the aim of reducing government debt is attained (Ministry of Social Affairs, 2002a:1). This view of contentedness is further reflected in the fact that no major system adjustments are currently planned. But then again the Danish pension system has undergone a number of changes in recent years[161],

[161] The report emphasises the increased prevalence of labour market pensions and supplementary pensions administered by the ATP, the anticipatory pension reform and enhanced incentives for older workers to remain in employment.

of which some will be presented in the following, which have made the system more robust towards demographic changes.

The aim of increasing activity is related to the recent reforms of the transitional allowance, the post employment wage and the anticipatory pension schemes. Although the influx to these schemes has fallen significantly since 1996, the effects of the reforms will primarily occur once they are fully phased in (ibid:21). Nevertheless, the report advocates structural labour market improvements in order to increase the employment rate. This view is reflected in the action plan "More people in Work" presented by the Government in the autumn 2002, which focuses on improving financial incentives to work, enhancing the efficiency of finding people jobs and more flexible measures for finding the fastest way to employment. Measures address the population in general, but may be of particular importance to elderly who increasingly opt for early exit and often find it hard to re-enter the labour market after a period of absence.[162]. This complies with the OECD recommendation of developing effective active labour market programmes to help older workers find new jobs. OECD also stresses the need for employing reforms that generally can attain high levels of employment.

The national strategy report complies with the OECD view that the pension system should avoid obstructing labour market flexibility with regard to access to pension schemes in general and changes in employment especially (ibid:25). Access to second pillar pensions is considered relatively flexible, mainly requiring a minimum age of 20 and 9 months of service in the line of business[163]. The fact that Danish labour market pensions are funded implies that pension benefits depend on contributions paid and returns obtained. Accordingly, employees will not lose their pension rights on changing jobs[164]. It is a statutory requirement of life insurance companies and pension funds that members in mandatory pension schemes may transfer their pension, free of charge and without losing pension rights, in connection with changing employment. This job-change agreement ensures that employees may transfer their earned pension rights and gather their pension savings in the institute, which the contributions from the new job are paid.

[162] Due to for instance sickness, unemployment etc.
[163] Groups with non-standard employment are not so dependant on coverage from labour market pensions because they can choose to enter individual pension schemes instead.
[164] In contrast to Norway where employees may suffer a loss in pension especially when moving between the public and private sector cf. Norway section 2.3.8 and appendix B, Norway section 1.3.2.

2.0 The National Pension

The relative weight of the pension pillars is expected to change in the near future, in particular due to the ongoing expansion of labour market pension schemes. As labour market pension schemes mature, the number of people with pension supplements will increase, while the share of pensioners with national old-age pension only will decrease (Regeringen, 2002:73). Seeing that the national supplementary pension is partially means-tested against other pension income[165] exceeding a certain amount, the relative importance of the national old-age pension will decrease whereas the role of labour market pensions, ATP and SP as pension providers increase. As part of the post employment wage reform, the means-testing of public old-age pension is eased as regards income from work (Ministry of Social Affairs, 2002a:6).

In 1999 a change in legislation, taking effect from July 2004, reduces the public old-age pension age from 67 to 65 (ibid:6). Indirectly the reform appears to diverge from the OECD direction of increasing the average age of retirement[166]. At first glance, the decision of reducing the standard age of retirement, and thus the age of eligibility, does not seem to be in accordance with the aim of increasing the average retirement age. On the other hand it reflects the widening gap between a relatively high standard retirement age and a decline in the actual average age of retirement. Per se, the initiative would seem to discourage rather than promote prolonged employment and increase rather than reduce public pension expenses. This is, however, not necessarily the case.

As a matter of fact, a significant share of people aged 65 and 66 receives a post employment wage, which is actually higher than the old age pension level. Reducing the age of eligibility to old-age pension may in other words actually decrease public expenditures, provided people who originally did not receive any income transfers do not enter at the age of 65 (Bingely et al., 2001:17). I question whether this assumption will prove valid. Due to changes in the means testing of basic amount, gradual retirement is made more attractive to improve the transition from work to retirement. The reduction of basic amount begins at a higher level of income and the rate of reduction is reduced from 60 to 30 per cent. Basic amount will not be fully phased out until the level of income significantly exceeds the average income of skilled

[165] Including labour market and individual pensions.
[166] On the other hand, OECD assesses the standard age of eligibility to only modestly effect the actual retirement age (cf. ch. III).

workers, raising the question of whether the reform will actually reduce total public pension expenditures as predicted.

In my opinion the lowering of the standard age of retirement may indicate an enhancement of the generosity aspect. As mentioned previously (cf. ch. IV section 3.4), the generosity of benefits may not be reflected and measured in economic terms only. The lowering of the retirement age generally increases the benefit period, which I find reflects an aspect of generosity particularly considering the outlook of increased public pension expenses and the increasing share of pensioners.

2.1 ATP

In 1997/98 an ATP-reform is implemented with the intention of ensuring better pension coverage for people with no or limited affiliation with the labour market, long or many periods with no employment or who exit before the standard age of retirement. The ATP-scheme is extended to include several groups who temporarily receive social benefits, to provide them the opportunity of attaining a higher pension (ATP, 1996:5). The reform renders it possible for recipients of lasting transfer benefits[167] to pay voluntary contributions and enhances the possibilities for people with early retirement to improve their pension coverage.

The intention of improving the pension level for certain exposed groups, although targeted, may appear to run counter the OECD view that public pensions should only aim at meeting poverty alleviation goals. ATP is a pension supplementary scheme, aimed at ensuring the replacement rate rather than prevent poverty. Admittedly, I have classified ATP as a public scheme, together with SP and SAP, on the grounds that they are statutory. ATP is, nevertheless, a fully funded scheme and entails no public expenses. Thus, I do not consider the OECD recommendation that public pensions only meet poverty alleviation goals necessarily includes the ATP scheme.

As from 1997/98 double ATP-contributions are payable in connection with unemployment, sickness, childbirth and participation in training programmes. As a result, people with periods of absence will receive a higher ATP-pension than ordinary contributors. This aspect will to

[167] Notably anticipatory pension, partial pension, transitional allowance, post employment wage and semi-post employment wage (ATP, 1996:6).

some extent counter the effects of the labour market pension schemes, where the size of pension benefits is determined by labour market affiliation and are affected by periods of unemployment and sickness without pay etc. where no contribution is made. The purpose of the double ATP-contribution is to provide some compensation for the groups in question, for whom contributions are financed by members of unemployment insurance funds collectively contributing one third, private employers collectively contributing one third and the member paying the remaining third (ibid:8).

According to recent changes taking effect from January 2001, future ATP-pension rights will be estimated on an age-dependent basis[168]. As the reform matures individual benefits are assumed to better reflect the value of the contributions made by the individual and the scheme will be more robust to demographic changes (Ministry of Social Affairs, 2002a, appendix 2). As part of the anticipatory pension reform, ATP is made mandatory for new anticipatory and their contributing share will be reduced to one third of full contribution from January 2003. Simultaneously, the share of the contribution paid by voluntary members is reduced.

Overall, I find the ATP scheme to be in accordance with the OECD recommendation of increasing advance-funded elements within public plans. As a contribution-defined scheme, ATP enhances the direct link between contributions paid and benefits received, which is recommended by OECD. This is, however, only partly true for the groups of transfer payment recipients included in the scheme. OECD advocates providing significant voluntary and mandatory elements in earnings-related pensions. Admittedly, ATP is related to the scope of employment rather than earnings, but it constitutes a supplementary pension scheme mandatory for all wage earners, and certain recipients of transfer payments, while admitting voluntary members. I do not think the reform necessarily counters the OECD principles for reform, although it does diminish the relation between individual contributions and benefits, but not only at the state's expense.

2.2 SP

According to a change in the SP scheme in 2002, a person's future contributions will be added to his or her savings and the aspect of redistribution will cease making the new SP-scheme a

[168] Previously, the ATP-pension was age neutral in the sense that payments did not depend on when contributions were made, cf. appendix B, Denmark section 1.2.2.

purely funded non-redistributive scheme like its predecessor DMP[169] (Ministry of Social Affairs, 2002a:7). Henceforth, future SP-payments depend on individual earnings during one's working years, which is in accordance to the OECD view of establishing a direct link between life-time benefits and contributions.

3.0 The Anticipatory Pension Reform

Since 1988 the influx to the anticipatory pension scheme has decreased[170], but the number of entrants has been particularly low in recent years, amounting to 21.286 in 1997[171]. This may in part be due to more resources being spent on rehabilitation and the increased provision of "flex-jobs" on special conditions in the period 1989-1999, providing an alternative to anticipatory pension. On the other hand critics claim that the decline of new entrants is rather a result of tightened eligibility requirements. Bingley et al. (2001:17) emphasise that it is still too early to reach any conclusion of the effects of these policy changes as they have only been in effect for a short period of time. The anticipatory pension reform is expected to reduce the influx of new entrants, compared to if no initiatives were implemented (Ministry of Social Affairs, 2002a,appendix 2).

In 2001 a reform of the anticipatory pension scheme, coming into force in January 2003, is adopted. The reform entails an enhancement of the connection between labour force activation measures and the anticipatory pension. Preventive steps are emphasised and the responsibility, influence and opportunities of the individual is strengthened by including claimants in the process (Ministry of Social Affairs, 2002c:10). The objective is to improve the possibilities of persons with reduced capacity for work to enter or continue in employment. The focus of attention is the actual resources of recipients, their potential rather than their limitations. Activation measures are preferred to passive provision. This complies with the conclusion of a recent study (Weatherall, 2002:11) that protracted income-replacing provision, notably cash benefits (*kontanthjælp)* and sickness benefits, increases the probability of receiving anticipatory pension. From 1990 to 1997 roughly 70 per cent of the anticipatory pensioners received some kind of social benefits the year preceding entrance. This is hardly surprising as recipients of social benefits generally have more social and health

[169] DMP was introduced in 1998 but already replaced by the former SP scheme in 1999 (Socialministerier, 2002a:15).
[170] During the 1990s the number of recipients awarded anticipatory pension has dropped by roughly 20 per cent (Weatherall, 2002:7).
[171] Between 1990 and 1997 the highest number of awards constituted 28.625 in 1991 (Weatherall, 2002:15).

related problems than the general population. On the other hand, evidence indicates that prolonged rehabilitation[172], which is not merely a passive benefit provision, reduces the risk of becoming anticipatory pensioner the following year. This suggests that rehabilitation serves it purpose of improving individuals' attachment to the labour market and decreasing their likelihood of becoming anticipatory pensioners (ibid), (cf. Filges et al., 2002).

According to the new stipulations anticipatory pension is awarded on a capacity to work-criterion, *arbejdsevnekritertiet*. The criterion refers to the capacity to meet labour market requirements, including specific work tasks, to attain an income of full or partial self-support (the capacity for work-notice[173] § 4). Anticipatory pension is only awarded once the working capacity of the applicant is permanently reduced to the extent that he or she can no longer support themselves and rehabilitation and activation measures are exhausted (Ministry of Social Affairs, 2002c:12). Individuals' capacity for work is assessed regardless of any structural problems in the labour market, like high or rising unemployment, or geographical limitations. In other words, whether employment is available or not is of no relevance. The reform stresses the actual capacity for work, whereas the original anticipatory pension emphasised the opposite, i.e. loss of capacity for work. The former is considered to better enhance comprehension of eligibility decisions, ensuring that recipients with actual work capacity are provided the possibility of remaining attached to the labour market (Jurainformation, 2001:30). The anticipatory pension reform reflects the current activation strategy in Denmark. The activation line aims to provide citizens the opportunity of remaining or becoming self-supporting, whether by ordinary employment or through flex job (Ministry of Social Affairs, 2002c:12).

The reform generally simplifies the anticipatory pension scheme by replacing the original four pension levels with one rate only, corresponding the level of daily allowance for single pensioners and 85 per cent thereof for married/cohabitant couples. Special benefits for anticipatory pensioners, like health allowance, heating benefits and personal allowance, are abolished. The anticipatory pension is independent of previous income or employment, but is graduated according to any additional income of the recipient and his or her spouse/

[172] I.e. *revalideringydlesen*.
[173] Arbejdsevne-bekendgørelsen.

cohabitant. According to the reform benefits are subjected to taxation[174] (ibid:10). The taxation and the abolition of special benefits generally comply with the proposals made by OECD of subjecting pensions to income tax and phasing out or targeting subsidised privileges for seniors.

Stipulations embedded in the reform improve pension savings for anticipatory pensioners, notable by introducing a supplementary labour market pension scheme, SAP, and making ATP-contributions mandatory. In this respect the reform complies with the OECD recommendation of introducing mandatory individual accounts. For recipients awarded anticipatory pension prior to January 2003 ATP-contribution is voluntary. The government provides 2/3 of the contributions to ATP and SAP and the recipient the remaining 1/3 (ibid). Rendering participation in the ATP scheme mandatory ensures anticipatory pensioners a higher income upon transfer to the national old-age pension. On the other hand, the old-age pension is partly means-tested against income as the supplementary pension is graduated once additional income exceeds a certain amount. To the extent the number of pensioners with graduated national pension increases, the expenses of the national old-age pension may be expected to decrease. In Denmark only the national old-age pension is a publicly financed pay-as-you-go scheme. By increasing the role of supplementary pension schemes, which in Denmark primarily are funded and contribution-defined, public pension expenses may be reduced or at least contained and make the overall pension system more robust towards demographic changes[175]. This would comply with the OECD recommendation of a more multi-pillar pension system.

3.1 SAP

The public labour market-like supplementary pension scheme for anticipatory pensioners is a part of the anticipatory pension reform. Its objective is to provide anticipatory pensioners the opportunity of supplementary pension savings in order to be on a more equal footing with members of labour market pension schemes. Contributions amount to 2.8 per cent of the anticipatory pension for a single person, of which the recipient pays one third and the state the remaining two thirds (Ministry of Social Affairs, 2002a, appendix 2).

[174] The anticipatory pension amount and the disability allowance in the original scheme were not taxable (Ministry of Social Affairs, 2002b:23)

[175] Funded schemes are generally considered more robust to demographic changes cf. ch. III, section 2.4.

Participation in the scheme is voluntary, compared to the mandatory ATP, and addresses recipients awarded anticipatory pension both prior and after January 2003. Pension rights are gender neutral, i.e. the fact that life expectancy for men and women differ does not give grounds for distinctive pension rights. SAP-contributors are given individual accounts administered by ATP, a life insurance company or pension funds as chosen by the contributor (Ministry of Social Affairs, 2002c:43).

The introduction of SAP is in accordance with OECD recommendations of improving the importance of funded elements in the overall pension system, whether within public or private plans. Contributions to SAP are voluntary, but as the state provides for 2/3 of the annual payments, the incentive for participation is in my opinion strong. The intention of the SAP of increasing the compensation level may conflict with the OECD view that public schemes primarily should aim at meeting poverty alleviation goals. On the other hand, it reflects the values of state responsibility and generosity of the Scandinavian welfare state. At the outset the implementation of SAP entails increased public pension expenses due to the fact that the state is obligated to pay 2/3 of individual contributions. However, as the scheme mature the number of recipients receiving a relatively decent SAP-pension may increase. To the extent the combined payments of ATP and SAP increase the number of pensioners with additional income above the level set for graduating the national supplementary pension, total public pensions expenses may in the longer term decrease.

4.0 The Post Employment Wage Reform

Since its implementation in 1979 the post employment wage scheme has become the most dominant path to early retirement from the age of 60. Initially the only financial incentive for postponing entry was eligibility to maximum unemployment insurance benefits until the age of 67, provided entry was delayed until the age of 63. However, a recent reform[176] aims to enhance incentives for postponement further. In the long run it is estimated that this reform and the reduction of the retirement age combined, will significantly decrease the number of participants in the PEW scheme (Bingely et al., 2001:17).

Originally, the PEW-scheme was introduced as a means to redistribute employment from older workers to young unemployed. Its intention was to encourage early retirement for labour market reasons, hence it should, according to the OECD view, be phased out. The scheme may have outplayed its original role, but rather than closing the scheme altogether, cf. the transitional allowance scheme[177], the Danish government has chosen to reform it.

The view of the OECD on the subject of pre-retirement schemes is in my opinion ambiguous. On one hand, financial incentives to early retirement are recommended removed and programmes encouraging early exit for labour market reasons phased out, which could be comprehended as a general disregard for pre-retirement schemes. On the other hand, OECD seems to acknowledge early retirement schemes by suggesting that the lower age limit for early retirement is increased and the early retirement ages in occupational and public old-age pensions respectively be more closely aligned. In my opinion pre-retirement schemes will by definition entail some financial incentives to early labour force exit, otherwise they would not provide a viable option to continued employment. I hold that the financial incentives cannot be removed altogether without undermining the purpose and function of the schemes, whereas their strength as pull factors is another matter. I also fail to see the distinction between general pre-retirement schemes and programmes encouraging early exit for labour market reasons, which OECD seems to make. In practise their result will be the same. All in all I find the OECD view on pre-retirement to a certain extent self-contradictory. In consequence, I only assess whether the reform of the PEW-scheme complies with OECD recommendations and not its existence as such.

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[176] Gradually taking effect from July 1999.

[177] The termination of the transitional allowance scheme is in accordance with OECD recommendations, only the scheme was closed prior to their publishing.

The primary purpose of the post employment wage reform is to provide financial incentives for older workers to remain in the labour market and to facilitate gradual retirement. This is in accordance with the general OECD view on work and retirement. The reform includes elements making the scheme less attractive when joined early and elements encouraging postponed entry. The former implies means-testing against other pension arrangements, whether actual or future payments, primarily from private and occupational schemes. The latter is reflected in the introduction of a special tax-exempt premium[178] for people who postpone entrance beyond the age of 62. If entry is postponed 2 years, the means-testing against other pension arrangement will only be on actual payments (Hansen, 2001:8). As the reform has only been in effect for a relatively short time, its impact on labour force participation and exit is difficult to ascertain. On the assumption that the reform will reduce the implicit tax on continued work, especially for the age groups 61 and 63-64, a recent study[179] predicts that the reform will increase the average age of retirement with 1-1.5 years for eligible[180] men and 1-2 years for women.

The reform tightens the required years of membership of an unemployment insurance fund and changes the estimation of allocated benefits. Whereas benefits previously were reduced according to the period of receiving PEW, current benefits depend on age upon entry being 60-61 or 62 or older. In the former benefits constitute 91 per cent of maximum unemployment insurance benefits and benefits are means tested against income from all other pension schemes. In the latter case benefits are equivalent to the maximum of unemployment insurance benefits and only means-tested against income from pension schemes with payments originating from previous employment. Prior to the reform, no age-distinction was made (Bingley et al., 2002:18). The lower age of entry is not increased, as recommended by OECD, but the fact that incentives to enter at the age of 60 or 61 are weakened, and incentives to postponed entry are enhanced, indicates a move in the direction advocated by OECD.

Besides having turned 60 and being a member of an approved unemployment insurance fund, eligibility to the new post employment wage is conditioned on a membership period of at least 25 out of the last 30 years. Members are also required to have paid a PEW-contribution for at least 25 out of the last 30 years and have to be eligible for daily allowance upon

[178] This would constitute 50 per cent of the annual income of an unskilled worker provided work is continued until the new age of retirement of 65 (Bingley et al., 2001:18).
[179] Danø et al. 2000 in Bingley et al. 2002:18.
[180] Meeting the criteria of the post employment wage scheme.

unemployment or receive transitional benefit. Eligibility ceases at the age of 65 whereupon the post employment wage is replaced by the national pension (Jørgensen, 2002a:4).

The reform replaces the previous allowed work limit of 200 hours annually, with a more flexible regulation enhancing the financial incentives for remaining in work. The new PEW-scheme does not restrict the amount a claimant may work while receiving post employment wage, but the post employment wage will be reduced by each working hour. One post employment wage hour at the highest rate of daily allowance equals approximately DKK 84, and the post employment wage is accordingly reduced with DKK 84[181] for each working hour, irrespective of the hourly pay. This aspect facilitates gradual retirement, although in proportion to the level of income[182], and may ease the transfer from work to retirement. Eligibility is terminated if the claimant works 30 hours or more a week (Bingley et al., 2001:18). Members of the old scheme may choose whether to work within the 200 hours limit without reducing their post employment wage or according to the new regulations (Jørgensen, 2003:53).

The new PEW-scheme presents incentives for postponing entrance. Holders of a PEW-certificate postponing entry for two years are granted certain privileges, notably a post employment wage equivalent to the individually estimated daily allowance rate, favourable pension deduction and the opportunity to earn a tax-free premium. The latter implies that once the “two years rule” is met, a member can earn a tax-free premium for every 481 working hours, which correspond to a quarter of full-time employment, i.e.13 weeks a 37 hours. This privilege applies to both fully and partly insured members. Employment within the two-year period is not taken into account (ibid:39). The premium for every 481 hours worked amounts to 6 per cent of the maximum daily allowance rate, i.e. roughly DKK 9.719 for member with full-time insurance and DKK 6.474 for the part-time insured in 2003. The premium is paid once the member turn 65 and hence the maximum possible premium[183] to be attained is approximately DKK 116.628 for fully insured members and about DKK 77.688 for those partly insured. Basically the premium is rendered for not withdrawing the post employment wage. The rules for earning a premium will also apply members of the old PEW-scheme.

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[181] At the 2003-level (Jørgensen, 2003:20).
[182] The fact that the post employment wage is reduced by a fixed amount regardless of the hourly pay benefits in particular higher income earners compared to lower income groups.
[183] On account that the PEW-certificate is issued at 60 and the holder does not withdraw post employment wage but remain in employment.

The PEW-amount received varies according to whether a member has a full-time or part-time insurance. The post employment wage is equivalent to the daily allowance rate members would be entitled upon unemployment at either time of entry or the issuing of the PEW-certificate. The amount can at the most constitute 91 per cent of the highest daily allowance rate. Per January 2003 the maximum post employment wage amounted to DKK 2.835 a week for fully insured members amounted and DKK 1.890 for the partly insured. If entry is postponed for two years after the issue of the PEW-certificate, members may at the most receive a post employment wage of DKK 3.115 a week (ibid:36).

Maximum yearly post employment wage (DKK) in 2003

	Full time insured	Part-time insured
New scheme	147.935	98.625
Old scheme, step 1	162.546	108.279
Old scheme, step 2	133.323	88.710

Source: Jørgensen, 2003:86.

Originally, the post employment wage scheme is a nonce offer. However, new stipulations allow members one re-entry, provided they withdraw to re-affiliate with the labour market and are entitled to daily allowance upon re-entrance (ibid:76). The possibility of re-entrance may encourage recipients to return to the labour market full-time by providing a guarantee that withdrawal from the scheme not necessarily has to be final. I think that a fear that the costs of leaving the scheme may exceed the gains may constitute a greater disincentive for re-entering the labour market than were re-entrance to the PEW-scheme not an option. If the opportunity of employment presents itself, I suspect that recipients would be more inclined to accept knowing that if it does not work out they may still be eligible to post employment wage.

To the extent the post employment wage reform changes the original intent of the scheme, i.e. as a labour market means, its existence may not necessarily be inconsistent with OECD recommendations. However, some still regards the post employment scheme as a labour market means (cf. Jørgensen, 2003:3). Generally, the reform reduces the strength of incentives for early labour force exit and encourages employment by rewarding postponed entry. In this respect the reform complies with the OECD principles for reform.

5.0 Summary

Overall, Norway and Denmark seem to share certain views on the challenges posed by ageing and the response needed. Common aims include ensuring a sustainable pension system[184], reversing the declining age of average retirement and increasing labour force participation by strengthening work incentives generally and among transfer recipients in particular, e.g. through workfare and reactivation.

Few of the reforms and motions for reform included in this study diverge directly, i.e. entail a move in the opposite direction, from OECD recommendations, although the extent of actual compliance may vary. Particularly with regard to employment policies and measures for improving employability among older workers, Norway and Denmark comply with each other as well as OECD recommendations, which I assumed to be the case[185]. The fact that few reform/motions conflict directly with OECD recommendations does not necessarily imply Norwegian and Danish endorsement of the OECD direction for reform. Indirectly reforms may diverge from the OECD view by ignoring and/or neglecting to adopt or act on recommendations given. Some of the OECD recommendations are disregarded altogether in Norwegian and Danish pension reforms and proposals, implying that pension arrangements OECD recommends changed remain unaltered, which may be indications of diverging opinions. Norway and Denmark both express intentions of maintaining minimum pensions, which conflict with the OECD view that public pension should only meet poverty alleviation goals. To the extent their explicit aim of sustaining current compensation levels entail state guarantees and state provision, both countries diverge form the OECD notion that total

[184] Primarily entailing a sound economy to meet current and future pension obligations and a pension system responsive to demographic changes. The latter is assumed to be attained by strengthening the elements of funding.
[185] Cf. ch. V section 1.5.

pension income should reflect individual choices[186]. This said, it is my opinion that OECD never intended for countries to comply with all of its recommendations in the first place[187]. I generally regard the seven main principles as guidelines for reform directions, whereas the more specific recommendations[188] primarily are suggestions for illustrative purposes. All in all, the recommendations may or may not suit distinctive countries depending inter alia on their welfare regime, which I assume to affect their respective directions for reform.

The drawing of any conclusion about direction for reform in Norway is complicated by the fact that reform proposals rather then actual implementations seem to dominate and I cannot foresee which ones will be enacted or whether they will be implemented according to their original proposed wording. At this stage I would like to note that from my point of view reform motions primarily indicate the views of the proposer and segments of (public) authorities[189], which not necessarily comply with general public policy. With regard to the two alternative pension models proposed by the Pension Commission, I could not say that one is better than the other in light of OECD recommendations. Both may reflect the OECD view, although perhaps to various degrees and on different aspects. I would like to point out that the model based on a national flat-rate basic pension, would entail a pension system à la the current pension system in Denmark, whereas the proposed alternative would distinguish the pension systems in Norway and Denmark even further.

With its elements of funding[190], individual accounts and partly income means-tested national pension, Denmark may appear to have a pension system which comply more with OECD recommendations than Norway, at least for the time being. Reforms in Denmark generally aim to strengthen funding and private pension provision and extend their coverage by including particularly vulnerable groups[191]. As reforms and (new) schemes mature, the share and coverage of private pension provision are expected to increase, which may ease the demographic pressure on public spending. In my opinion the Danish pension reforms entail a move in the direction recommended by OECD, although the reforms also include elements typical of the Scandinavian welfare state, which may diverge from the OECD view. I consider

[186] For instance with regard to years in gainful employment, age of retirement, individual pension contributions and savings.
[187] And if this were the case, it would appear to me not a very realistic point of view.
[188] Concrete reform proposals of each principle, cf. ch. III sections 2.1.1, 2.2.1 and 2.3.1.
[189] Which may or may not reflect the views (of segments) of the general population.
[190] Which may be considered extensive compared to Norway.
[191] I refer to groups that would otherwise receive lower pensions due to limited or reduced labour market affiliation.

the most significant discrepancy between Denmark and OECD to be the lowering of the standard age of retirement of the former. True, the intention of thereby reduceing public spending[192] would be in accordance with OECD recommendation. On the other hand, I fear it may generate sentiments[193] that could strengthen the current trends of early retirement, despite the fact that Denmark has a pronounced aim of the opposite

That Denmark generally appears to comply more with the OECD view than Norway, may support my assumption that Denmark already from the outset was somewhat closer to the OECD view on pension policies. On the other hand, it may result from the fact that Denmark is a forerunner in implementing reform, at least compared to Norway. It will be difficult to draw further conclusions until the nature of actual reforms in Norway is known.

[192] The post employment wage scheme apparently being considered more expensive than the national old-age pension.
[193] Of public endorsement of early retirement.

VII Concluding Remarks

I have addressed various aspects of the ongoing demographic trend of ageing, notably *population*, *individual* and *active* ageing. Combined and separately these interrelated trends entail challenges that will affect most aspects of society politically, socially, fiscally and maybe even normatively. At first glance individual and active ageing may appear to primarily be of individual matter, addressing the individual per se as it were. But aggregately, the fact that individuals are living longer and are spending a decreasing amount of their lifespan in actual employment due to later labour force entry and/or exit, is affecting the collective society. I have to admit that it is not without personal interest that I have regarded potential and probable consequences of ageing, in particular as it inter alia is my generation that presumably will shoulder the lion's share of the burden. The burden of ageing populations will inter alia reflect itself in health and long-term care, general labour market and productivity demands and increased pension costs. I have primarily focused on the latter, notably addressing pension and pension-related[194] arrangements and policies.

1.0 Problematic Encounters

My study was complicated by the fact that direction for reform in Norway is primarily still being deliberated and of pension policies needing to be clarified, whereas Denmark has implemented several reforms to increase pension system robustness towards demographic challenges. Denmark is currently not considering further system adjustments, which may indicate a perception that all required measures are initiated. The fact that Denmark is ahead of Norway in introducing pension reform may be an indication of a greater willingness for reform[195]. But it may also be the result of a more pronounced need for reform. After all, Norway holds a distinctly favourable position regarding the increasing pension costs due to its oil revenues and the Petroleum Fund. However, oil revenues depend on oil prices, which tend to fluctuate according to international affairs.

[194] I.e. employability of older workers and the transition from work to retirement. I consider the former important as labour force participation rates among older workers are generally significantly lower than the remaining population of working-age. Despite a willingness to work, many older workers experience a reluctant and discriminating labour market.

[195] Whether this may also be an indication of a stronger leaning towards OECD views in general, is another matter for discussion. I do, however, not disregard that to the extent the Danish pension system reflects view and values of OECD, theses values may also be reflected in the general public and political opinion.

During this process I have discovered that some figures and data of documentation regarding pensions in Norway have proven especially difficult to obtain, notably on private pensions. Recent figures on the scope of private pensions, pension earnings and their share of total pension income for the average pensioner have proven unavailable[196]. Pension reforms and policies are being deliberated, it may seem, without regarding the actual extent of current private pension provision. I do not imply that these figures would significantly alter the decisions finally taken, but I consider them important aspects that ought to be included in the overall equation. In comparison, corresponding data in Denmark are plentiful.

2.0 Restating the Questions

Are Norway and Denmark complying with the OECD recommended direction for reform in responding to the challenges posed by ageing? In answering this question I have chosen to address the pension system and related reforms in light of the normative foundation of the Scandinavian welfare state in an attempt to hypothesize the direction for reform. My tentative assumption is that a comparison of the normative values (I found) embedded in the OECD principles for reform and the Scandinavian welfare state, could indicate whether or not their respective reform policies would be likely to comply with OECD recommendations.

To what extent do the normative features of the OECD principles and the Scandinavian model correspond/differ? I find the normative foundation of the OECD principles and the Scandinavian welfare state to primarily differ on *public responsibility, universality* and *generosity,* and more or less comply regarding the aspect of *full employment*. Per se this could suggest that Norway and Denmark would be reluctant to comply with OECD recommendations, perhaps because it may be perceived[197] as a too radical move away from the Scandinavian welfare state model. By considering the pension system in light of the Scandinavian model and including my findings in the equation, my initial assumption is modified. The current pension systems in Norway and Denmark reflect characteristics and normative values associated with the Scandinavian welfare state, but I also find features complying with the OECD view, which may indicate a lesser reluctance to follow the OECD direction for reform. To the extent that the pension systems in Norway and Denmark differ, I assume that Denmark might be somewhat more inclined to follow the OECD view.

[196] Cf. note 97.
[197] Both by politicians and the general public.

2.1 An OECD Direction for Reform

Are Norway and Denmark moving in the direction recommended by OECD? I would like to note that although reform measures are found to be in accordance with the OECD view, this does not necessarily imply that they are proposed/implemented on OECD advice. Any concurrence may be coincidental and unintended. It is also a question of the order of succession[198], as certain reforms in Denmark were motioned and adopted prior to the publishing of the OECD recommendations.

I am admittedly somewhat surprised at the extent to which reforms and motions for reform appear to be in accordance with OECD recommendations, particularly as OECD generally stresses diminishing the role of public pensions and public responsibility, enhancing private pension provision, and thereby transferring responsibility and risks to individuals. Both Norway and Denmark intend to strengthen the role of private pension provision, although not primarily by downscaling public provision. Funding and individual accounts have nearly been non-existing in Norway, whereas they are more common and widespread in Denmark. Nevertheless, sentiments for complying with OECD recommendations, entailing pension arrangements more in line with the ones found in Denmark, may currently be observed in Norway. In a new pension arrangement coming into force January 2004, the Norwegian Employers' Association (NHO) is replacing defined-contributions with contribution-defined pensions. In consequence new NHO-employees[199] will no longer be guaranteed a pension of a specific amount[200]. LO criticizes this arrangement for transferring risks from companies to individuals, whereas NHO encourages others to follow suit by advocating that contribution-defined schemes are less expensive for companies to run, and are more "company-friendly"[201] (Nettavisen, 2003).

2.2 The End of the Scandinavian Model as Reflected in the Pension System?

If Norway and Denmark to a certain extent are moving in the direction recommended by OECD, does this entail a move away from the Scandinavian welfare state as reflected in the

[198] Whether reforms precede or succeed OECD recommendations.
[199] Employees of NHO, not employees of firms that are members of NHO, although NHO encourages its members to introduce similar arrangements.
[200] Whereas today's defined-benefit generally guarantees NHO-employees a pension of 66 per cent of wage upon retirement.
[201] Cf. According to Myles (1996 in Esping-Andersen, 1999:177) that a shift from defined-benefits to defined-contribution plans is a case of shifting costs from employers to workers.

pension system and related policies? In my opinion the answer is both yes and no. It is more a question of degrees rather than either-or. As the normative foundation of OECD and the Scandinavian welfare state primarily diverge, the enhancement of one may to a certain extent necessarily imply a curtailment of the other.

It appears to me that both countries attempt to attain “the best of two worlds”, by combining conflicting elements of the Scandinavian welfare state and the OECD recommendations. In my opinion Denmark has followed the OECD direction without compromising its *Scandinavian* welfare state. The national pension, which reflects public responsibility, still is and will most likely remain the most important pension pillar. Recent reforms imply increased state provision of pension supplements for particularly vulnerable groups where private pension provision fails and the aspects of universality and generosity appear to remain at their current levels. Norway and Denmark concur that the future public pensions, cf. first pillar, should maintain their guarantee of minimum economic security in old age with relatively generous benefits.

As private pension schemes mature, and to the extent participation is encouraged[202], their share of total pension income and coverage will increase. Despite these projections neither Norway nor Denmark suggests reducing general public pension levels accordingly. In fact, the lowering of the retirement age in Denmark may enhance the generosity aspect of the pension system, provided generosity is not measured on economic terms only[203]. On the other hand, the general strengthening of workfare may indicate an inclination of reducing the overall aspect of generosity, at least as reflected in eligibility criteria. Workfare elements are in accordance with the aim of full employment. This implies that an extensive definition of the *generosity* aspect may conflict with the aim of full employment, although both are embedded in the Scandinavian welfare state.

The lesson for Norway to learn would be that it is possible to follow OECD recommendations within a Scandinavian welfare state. Whether complying with OECD recommendations in the longer term may weaken the normative values of the Scandinavian welfare state as reflected in the pension system, remains to be seen. So far, I may only conclude that following the

[202] For instance by initiating incentives or making participation mandatory.
[203] That is an extensive definition of *generosity*, including benefit periods, waiting periods, eligibility and the principle of universality.

OECD direction for reform not necessarily implies a change of welfare regime type, i.e. to a liberal or a conservative welfare regime. In re-classifying welfare regimes the issue is the over-dominating character of the entire welfare package, not whether or not one programme deviates from the typology (Esping-Andersen, 1999:88). Besides, in the words of Esping-Andersen: “It is one thing to redesign of reform the ways in which the *state* delivers welfare, another to recast the entire welfare regime” (1999:173).

2.2.1 The Final Report of The Pension Commission: What to Expect?

Whether or not Norway will maintain the principle of universality and the aspect of generosity embedded in its future pension system remains to be seen, but the final report of the Pension Commission may give an indication. A modernized national insurance scheme, as outlined in the preliminary report, would if adopted curtail the universality principle as it entails increased means-testing compared to the alternative flat-rate basic pension model and current regulation.

Admittedly, I am anxiously awaiting the final report of the Norwegian Pension Commission in part because its recommendations are likely to hit my and following generations the hardest. Is it plausible to assume that a commission, with an average age above 50, will tend to the interest of future generations if it entails greater costs on their own behalf? The Commission emphasises the necessity of diversifying risks and sharing the burden related to demographic and economic changes[204], which is not only a question of sharing the burden within generations but also between generations. In my opinion this aspect is only partly reflected in the preliminary report.

Has the criticism aroused by the preliminary report affected the Commission and its final recommendations? May we expect that the Commission recommends granting students pension points for each year in higher education and/or that remedial measures are taken to ensure that women are not (again) the main pension losers? Is it pessimistic or realistic not to expect the Commission to suggest introducing a special pension tax/contribution on the

[204] (Pensionskommisjonen, 2002:16).

wealthy “dessert generation”[205], i.e. the Norwegian baby boomers, who appears to be the pension winner in the preliminary report?

I fear that the interests of the current 40-60 age cohort will be given precedence, both in the final report and in future pension reform. In part because young people apparently are less inclined to use their electoral vote than older people. Young people hardly worry about their old-age pensions, although they probably should especially as reforms may strengthen the relation between life-earnings and -savings and benefits. Young people may feel estranged from the on-going pension debate, the subject is probably not decisive for their vote, which may diminish political inclination of protecting their interest compared to the interest of older people. Older people, on the other hand, are generally more aware of and interest in their pension rights and benefits and what they stand to lose on reform. Thus, I assume that they would be more likely to protest reforms compared to younger generations.

3.0 Current Events and (future) Challenges

The sentiment for increased spending of oil revenues and the Petroleum Fund appears currently to be widespread both among segments of politicians[206] and the general population. The Pension Commission recognises that the size of the Petroleum Fund currently corresponds to the obligations of the supplementary pension. Earmarking the Petroleum Fund for future pensions will not meet the total future pension costs, additional reforms will be required as well[207]. Even if expenses on pensions were cut back by 2-3 per cent of BNP, which would reduce the level of pension expenses by 10 to 20 per cent, their increase would nevertheless be higher than in most countries (Pensjonskommisjonen, 2002:25).

While pension reforms are being elaborated, politicians advocate increasing the spending of oil revenues on the grounds that it will not have a negative influence on the national economy. Perhaps not, but a decreased Petroleum Fond may increase the need for more severe pension reform in order to the meet future pension costs. In the summer of 2003 the opposition parties

[205] *Desertgenerasjonen.* Generally the term denotes a generation benefiting from the labour and hardship of previous generations. The term is culturally conditioned, perhaps only valid for Norway. I employ the term to refer to the post-war baby-boomers in Norway in particular. The term was originally used in reference to Norwegian labour youth of the 1960s (Store Norske Leksikon, 2003).
[206] In the 2003 revised national budget the government suggests increasing the spending of oil revenues by NOK 6.9 billions compared to balanced budget (St.meld. nr.2, 2002-2003:7).
[207] The Pension Commission acknowledges that increased future spending of oil revenues would require extending the provision of occupational and individual pension arrangements.

force the Norwegian Government to increase pension expenses by half a billion. Will this be the beginning of a spending stream, political parties overbidding each other on pension rights and promises in order to increase their electoral support? After all, the median voter is getting older.

I find it disturbing that Norway as of yet has not introduced any major reforms. Reforms need time to mature, as does the consolidation of public support. To illustrate, during the summer of 2003 France experiences several massive national strikes as public sector workers demonstrate against a governmental planned pension reform[208]. The strikes coincide with a series of major protests against pension reforms in Austria (BBC News, 2003) and some predict that the summer of 2003 will be “the summer of discontent”[209] partly due to initiated pension reforms. Are we witnessing a growing intergenerational tension, which current demonstrations and protests are indications of? Will Norway experience similar reactions once a pension reform is finally presented?

I assume that Norway may encounter greater difficulties in introducing pension reforms, particular in terms of gaining public support, than Denmark has experienced. To my knowledge the process of pension reform in Denmark has run relatively smoothly. But then again, applying the term reform on the recent changes in the Danish pension system may be called into question, at least when referring to reforms that reduce already established pension rights. Rather than reducing benefits and rights, pension *reforms* in Denmark entail a more extensive system of tariff negotiated pension arrangements, probably due to the fact that Denmark never introduced a second-tier of income-related public pensions. As private pension provision generally has been more extensive and common in Denmark, I expect that reforms enhancing private pension may be more contested and disputed in Norway. To the extent pension reforms in Norway reduce existing public pension rights and promises, I assume that reform implementation may prove more difficult and protested than in Denmark.

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[208] The reform, intended to shore up a growing deficit, entails increased payment period for receiving full pension and higher contributions of employees to reduce public pension deficit. Two opinion polls indicate that a majority of the population in France is sympathetic to the cause of protest. The unions acknowledge that measures need to be taken provided, I might add, that it is not at their expense. The problem is that someone has to pay, whether they agree to or not. Improving public awareness of the situation and ensuring public support may be essential, particularly if intergenerational conflicts are to be prevented.

[209] Italy and Germany are reducing social benefits due to strains of population ageing and high unemployment.

3.1 Future Studies

With respect to subsequent studies of pension systems and pension reform, it would be interesting to address implemented reforms in Norway, as they cannot be avoided or continuously postponed. Will Norway follow Denmark in the direction for reform or will their respective pension systems diverge further? I suspect that Norway may be more reluctant to implement OECD recommended reforms than Denmark, which I consider to be somewhat closer to the OECD view on pension from the outset. In Denmark, the object of further attention should be on the actual effects of the reforms as they mature. Do they comply with their intended and estimated effects? Are the initiated measures sufficient with regard to the challenges posed by ageing? Future studies may provide more information on whether or not the Norwegian and Danish response to ageing imply a divergence from the Scandinavian welfare state as reflected in their pension systems. It may not be the original intention of reforms to move away from the normative principles of the Scandinavian model, but as reforms develop and mature they may come to have this effect in practice.

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Appendix A: Welfare State Regimes

Esping-Andersen stresses that the term welfare *regimes* “refers to the ways in which welfare production is allocated between state, market, and households” (1999:73). In other words, there are three sources of managing social risk and how risks are pool will in effect define a welfare regime (ibid:33). Esping-Andersen originally (1990:47-78) defined welfare regimes in terms of the mix of public and market provision as measured by their modes of stratification/solidarity and degree of “de-commodification”. De-commodification refers to the extent a service is rendered as a matter of right and enables a person to maintain a livelihood without reliance on the market, whereas politics of stratification/solidarity denotes the way welfare states manage risk inequalities. In the revision 1999 Esping-Andsersen includes the aspect of “de-familialization”, which refers to politics that lessen individuals’ reliance on the family by maximising their economic resources independently of familial or conjugal reciprocities (:45). He maintains the “three worlds” typology, and their original labelling[210], of “liberal”, “conservative” and “social democratic” welfare regimes.

With regard to welfare state solidarity Esping-Andsersen distinguishes three models. The residual approach of the liberal welfare regime generally targets risk strata and divides society into a self-reliant majority that obtain adequate private insurance and a minority of dependent welfare state clients. Residual benefits are typically needs-tested and ungenerous since the support of the median voter is unlikely to be high due to scare personal relevance. The corporativist approach of the conservative welfare regime pools risk by status membership (usually compulsory) and is most typical expressed by occupational differentiation. The universalist approach typical of the social democratic regime implies a notion of solidarity as it pools all individual risks under one umbrella, on the grounds that the risk *is* universal or the idea that the risk *should* be shared universally.

According to Esping-Andersen social risks are the building blocks of welfare regimes and where the state absorbs risks, the satisfaction of need is both de-commodified, i.e. taken out of the market, and de-familialized, i.e. taken out of the family (1999:40). Esping-Andersen stresses that the mere presence of social assistance/insurance does not per se necessarily bring about de-commodification or, I might add, de-familialization. For instance, needs-tests and meagre benefits curtail the de-commodifying effect, whereas benefits based on citizenship,

[210] Cf. discussion on contested headings ch. IV section 2.2.3.

offering a basic equal benefit to all, are not truly de-commodifying if they do not provide recipients with a genuine option to work. In other words, for welfare states to be de-commodifying they have to emancipate individuals from market dependence (1990:22). The concept of de-commodification parallels the concept of de-familialization, only where the former related to the market the later relates to the family (1999:51). De-familializiation refers to the degree to which households' welfare and care responsibilities are relaxed via state or market provision. Examining familialization through welfare state provision, Esping-Andersen presents a bimodal picture with the social democratic regimes as distinctly de-familialized (ibid:62). With regards to de-familialization through the welfare state, within households and to a certain extent through markets the social democratic regimes remain the only truly distinct cluster. "Basically, via the de-familialization of welfare responsibilities, the social democratic welfare state helps commodify women (and so lessens the dependence on males) so that it can then de-commodify them" (ibid:46).

Esping-Andersen characterises the liberal welfare regime inter alia by a political commitment to minimize the state, to individualize risks and to promote market solutions, thereby disfavouring citizens' entitlements. It has a narrow definition of eligibility and employ means or income tests to ascertain desert and need (1999:47). The conservative welfare regime is described as a blend of status segmentation with corporatist status divisions permeating social security systems, and familialism, in terms of a male-bread winner bias of social protection and a centrality of the family as care-giver and ultimate responsible for its members' welfare. Compulsory social insurance is complemented with residual schemes for strata without "normal" employment patterns. Whereas liberal residualism is related to market failure, conservative residualism responds primarily to family failure. Both regimes favour a passive approach to employment management, but on different grounds. Where the liberal regime prioritises unregulated labour markets, the conservative regime emphasises strong job protection for already employed adult, male households (ibid:83). Esping-Andersen distinguishes the social democratic welfare regime by its commitment to universalism, comprehensive risk coverage, generous benefit levels and egalitarianism[211]. It is active in its effort to de-commodify welfare by minimizing market dependency and to attain its explicit goal of full employment, as reflected in active labour market policies. The social democratic

[211] In terms of the practise of universalism, the active promotion of well-being and life chances perhaps particularly for women and redistribution and the elimination of poverty (Esping-Andersen, 1999:80).

regime is a state-dominated welfare nexus with an emphasis on de-familialiazation, inter alia because rights are attached to individuals (ibid:80).

Table 1: An illustration of welfare state regimes characteristics

	"Liberal"	"Corporatist"	"Social democratic"
Role of: -Family -Market -State	 Marginal Central Marginal	 Central Marginal Subsidiary	 Marginal Marginal Central
Welfare state: Dominant mode of solidatity	Individual	Kinship Corporatism Etatism	Universal
Dominant locus of solidarity	Market	Family	State
Degree of decommodification	Minimal	High (for breadwiner)	Maximum
Conditions for entitlement	Need, in response to market failure -restrictive income and/or means-test *Residualism*	Work performance and contributions -Need, in response to family failure *Reciprocity*	Citizenship *Universalism*
Benefits	Modest -associated with stigma	-Contribution-defined[212]	Generous -graduated according to earnings
Examples[213]	The United States, Canada and Australia	Austria, France, Italy and Germany	The Scandinavian countries

Source: Esping-Andersen, 1999:74-86, Esping-Andersen, 1990:26 and Kildal & Kuhnle, 2002:3.

The nation classification in Table 1 is based on the distinctions made in Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990), where nations cluster according to modes of stratification/solidarity and degree of de-commodification. The "conservative" principle of solidarity is identified according to the degree of status segregation, measured as number of occupational pension schemes and the degree of "etatism" as measured by the expenditure on government-employee pensions. The "liberal" principle of solidarity is represented by the relative weight of means-tested welfare benefits measured as a percentage of total public social expenses, the importance of the private sector in pensions and health care as measured by its share of total pension spending and total health spending respectively. Finally, the

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[212] Cf. actuarial benefits with a contractual relationship between prior work and contributions and benefits, eg. how much a person has to work or contribute to qualify.

[213] Esping-Andersen finds that welfare states cluster, but stresses that there are no pure cases. Although the Scandinavian countries may be predominantly social democratic, they entail liberal elements, notably earnings- and work-related schemes complementing the flat-rate universal benefits.

“socialist” principle of solidarity is associated with the degree of program universalism, measured as average percentage of population aged 16-64 eligible for sickness, unemployment and pension benefits and the degree of equality in the benefit structure (Esping-Andersen, 1990:73).

Esping-Andersen identifies the de-commodifying potential of actual welfare programmes according to eligibility rules and restrictions on entitlements, income replacement and the range of entitlements provided. In the former, schemes are considered de-commodifying if access is easy and adequate standard of living is provided irrespective of previous labour force attachment, needs-test and contributions. Further, schemes have to ensure a certain level of income replacement level in order not to drive the recipient back to work as soon as possible (ibid:46).

The “social-democratic” welfare states, the Scandinavian countries included, appear to have high de-commodification and strong universalism, whereas the “liberal” Anglo-Saxon welfare states have low de-commodification and strong individualistic self-reliance. The “corporatist” Continental European countries are etatist and modestly de-commodifying (ibid:50). Esping-Andersen attempts to measure the de-commodifying potential of old-age pension by capturing their degree of market-independence for the average worker. According to his analysis, the pension schemes in the Nordic countries have a particular high degree of de-commodification.

Appendix B: The Pension Systems in Norway and Denmark Elaborated

Norway

1.0 An Introduction to the Norwegian Pension System

The Norwegian pension system rests on three pillars respectively; the national old-age pensions, labour market pension and individual pensions. The National Insurance Scheme *(folketrygden)* is the backbone of the Norwegian pension system and has primarily two main objectives. It provides a minimum of security for all citizens irrespective of income before retirement through the basic pension. Secondly, it intends to ensure that pension income is proportional to pre-retirement level, reflected in the supplementary pension complementing the basic pension (NOU 1998:19,p.17). Labour market pension schemes include both public and private occupational pension arrangements as well as pre-retirement pension agreements, notably AFP. Individual pension schemes are agreements between the individual and a financial institution on the initiative of the former.

The correlation between labour market affiliation, i.e. pension earnings, and the level of national pension has over time decreased. This is mainly due to a curtailment of the special supplement against the supplementary pension, a reduction of the supplementary pension and a ceiling on pension earnings (cf. subsequent section 1.1). Accordingly, incentives to labour market participation in order to secure income after retirement are weakened. The national minimum pension has gradually been increased, providing incentives to exit the labour market at the first favourable opportunity (NOU 1998:19, p.30).

The national old-age pension constitutes the dominant source of income for most pensioners, comprising about 2/3 of their average income (Daatland, 1997:13). However, the number of pensioners with additional income is increasing. In 1990 roughly 50 per cent of all pensioner households received labour market pensions in addition to the old-age pension. By 1999 the figures had risen to 70 per cent (Pensjonskommisjonen, 2002:28). The old-age pension will be more thoroughly elaborated in the following, with additional emphasis on labour market pension schemes and individual pension arrangements.

1.1 Historical Background

Traditionally, income protection in old age was considered a personal and/or family responsibility. Local government provided protection through the poor laws and/or through charity. From the turn of last century certain pension arrangements were gradually developed, like the Norwegian Public Service Pension Fund for state employees in 1917 and occupational pension schemes for local government employees but also in private industry. These arrangements were directed at certain groups in private industry covering selected groups in management mainly (Daatland, 1997:14).

The development and implementation of a national pension scheme turned out a long and slow process. The Norwegian Parliament, *Stortinget*, approved an introductory plan in the 1920s, but a national old-age pension scheme did not come into effect until 1937. While Parliament disagreed on whether insurance benefits should be proportional to contributions made throughout working-life or means-tested with a basic pension securing a minimum economic standard to all elderly, local government maintained the responsibility for subsistence through social security under the poor laws. Many municipalities established old-age pension schemes and by 1922 means-tested basic pension was implemented in 105 municipalities, covering 40 per cent of the Norwegian population (Hatland, 2001:84). Although the national old pension scheme was approved in 1936, many local arrangements continued as supplements until the national pension reached a reasonable level.

The national old-age pension was originally a modest and means-tested pension of the social security type, payable from the age of 70 (Daatland, 1997:14). Means-testing was gradually curtailed until its final abolishment in 1957 (Hatland, 2001:84) Henceforth the old-age pension is universal and flat-rate. Other national benefits, like the disability pension and survivor’s pension, were later modelled on the old-age pension scheme. The next major reform was the National Insurance Act of 1966, integrating various insurance and pension schemes in the National Insurance Scheme. It also introduced new principles, including a modified insurance principle reflected in a supplementary pension based on previous earnings to top of the basic pension. (Daatland, 1997:15). The basic pension provides economic security for all, whereas the supplementary pension rewards previous contributions. The latter allows the well-off to earn substantial supplementary pension benefits, making it possible to maintain an accustomed standards of living as pensioners, while the former benefit the less well-off because of its redistributional profile[214]. Basically, the national old-age pension includes all residents, all profit and accordingly all should be motivated to support the scheme and contribute.

In addition to the basic pension and the supplement pension, a flat "special supplement", *særtillegg,* was introduced in 1969, granting a minimum supplement to "basic amount" (G). The special supplement benefits pensioners with no or low supplement pension, and with the basic pension[215] it constitute the minimum pension. Initially the special supplement only constituted 7.5 per cent of basic amount, but it has gradually been raised and constituted 80 per cent for singles and 55 per cent for couples in 2000 (Hatland, 2001:208). As a result the minimum pension is increased, amounting to NOK 92.104[216] in May 2001 (ibid:106). In order to adjust the minimum pension benefits, the government can either change basic amount or the rate of the special supplement. If the growth of the minimum pension exceeds the growth of basic amount, which was the case fin the period 1980-1995, the difference between the average supplementary pension and the minimum pension will over time diminish. This may at the outmost result in a system where everybody receives equal pensions. Thus, the political practice of pension regulation between 1980 and 1995 actually undermined the relation between occupational income and future pension contributions. This policy has lately been changed, and pension adjustments are again primarily addressing basic amount (ibid:210).

In 1973 the standard age of retirement was lowered to 67. In addition some flexibility was introduced, making it possible to defer the pension totally or partially until the age of 70 and for employees in the public sector to continue working until this age. At the same time 67 became the mandatory age of retirement in many private industries (Daatland, 1997:15).

1.2 The National Pension

The national pension scheme is based on a mix of social security and insurance principles. In practice a tax-based system, financed by contributions from employers, employees and the state on a pay-as-you-go basis (ibid:16). The fact that pensions primarily are financed by

[214] With an income ceiling on pension credits for higher income groups and higher replacement rates for lower income groups, the supplementary pension also holds a redistributional profile (Daatland, 1997:16).
[215] The Basic pension covers income equivalent to G by 100 per cent, income between G and 6G by 42 per cent, with income between 6 and 12G counting a third. Income above 12 G is not reflected.
[216] The amount addresses single pensioners. Couples may receive a somewhat smaller pension as the basic pension for each is reduced to 75 per cent of G.

current income would imply increased taxes in meeting the increased pension costs of an ageing population (Hatland, 2001:214).

All residents in Norway, with a minimum of three years residence, are entitled to minimum pension, but an insurance period of 40 years is required in order to obtain full basic pension. Accordingly, many first generation immigrants will not acquire full pension[217] (Daatland, 1997:54). The supplementary pension is related to previous income, counting the 20 “best pension-earning years”. For full value, 40 years in employment is required and the first cohort with the possibility of obtaining full supplementary pension reaches the retirement age in 2007.

According to pension regulation pensioners are allowed a certain additional income while receiving old-age pension, without affecting the latter although special restrictions apply. At the age of 70 pension payments will not be affected by additional income regardless of its amount. This rule applies national as well as labour market pensions (Engelstad, 1992:85). The rules restricting income only refer to earned income, whereas income from interests, property return, stocks, occupational pensions and individual pension insurance are disregarded.

Between the ages of 67 and 70, the old-age pension will be graduated according to pension-earning income unless the annual amount constitute less than basic amount. Since 1997, pension payments are reduced by 40 per cent, as compared to the previous per cent, of the amount exceeding basic amount. For AFP-pensioners pensions still decrease with the equivalent of 50 per cent of the amount above basic amount. In addition, the total of pension and pension-earning income for this group cannot constitute more than 100 per cent of previous pension-earning income, a restriction which was otherwise removed in 1997. Regulations imply that most income groups may receive a small old-age pension while continue in full employment (Kjønstad, 1998:688).

In general recipients of disability pension may have an income equivalent to the half of basic amount. If this amount is exceeded considerably, the claimant may risk losing their pension altogether. At the age of 67 the disability pension is replaced by the old-age pension and the

[217] On the other hand some may have portable pension rights from their home country. They can also apply for cash support through various programmes (Daatland, 1997:54).

allowed annual income is doubled. Recipients granted 50 per cent disability pension and working part-time 50 per cent are allowed an income of half their previous income[218] (Engelstad, 1992:88).

Old-age pension is taxable but also deductible, making the actual tax rate lower then on earned income. Recipients of minimum pensions only, with no additional income, is exempted income tax altogether (Sirnes, 1990:168).

Recent changes to the national pension scheme include cuts in earnings to the supplementary pension, intended to limit future pension expenditure. Introduced in 1992, it will affect future, and not present pension levels, and then only the higher income groups. By lowering both the income ceiling for supplementary pension credits and the factor in the supplementary pension formula, the future ratio of the maximum to the minimum pension will be reduced from 3 to 2.5 (Daatland, 1997:17). Simultaneously, pension rights are expanded by granting supplementary pension credits for informal care work[219]. As the majority of informal caretakers are women, this expansion will primarily benefit women, who in general receive far lower pensions than men.

1.2.1 Coordination Regulations

In 1959 an act coordinating pensions and benefits became effective. The purpose of the act is to regulate interacting benefits to prevent claimants receiving double benefits (Kjønstad, 1998:676). For claimants entitled to national pensions and public occupational pension scheme benefits are coordinated, otherwise it would actually be possible to attain a higher income as a retiree than as an employee (Engelstad, 1992:56).

Coordinated benefits are estimated on the basis of national pensions. Pensions from public occupational schemes, or public pension funds, are “put in” and counted until the total sum of the two pensions combined constitute the amount guaranteed. With full pension-earning years the total sum will always amount to at least 66 per cent of previous income (for further details

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[218] Additional income may only amount to half of basic amount if the part-time worker/pensioner does not hold permanent employment.

[219] Caretakers of children under the age of 7, elderly, sick or disabled are granted pension benefits equivalent to an income of 4G. Though below the average earnings for men, it is well above the average credits of working women (Hatland, 2001:109).

see section 1.3.1). The actual coordination is undertaken by the pension funds after national pension payments are made.

1.3 Labour Market Pensions

Public and private occupational pensions are supplementing the statutory pensions. They are regulated by law or agreements respectively, and subsidised by the state through tax deduction (Daatland, 1997:19). Labour market pensions cover 60 per cent of the labour force in 1990, the majority from public sector (Hatland, 2001:111). The fact that regulation and stipulations of public and private occupational schemes are not identical complicates the overall pension system and may affect labour force mobility between the public and the private sector. In the following I address general labour market pension schemes, covering the main occupational groups. Special schemes providing full old-age pension from earlier ages than 67 for special occupational groups[220] will not be addressed.

1.3.1 The Public Sector

In public sector all employees are in principal members of an occupational pension scheme with separate arrangements for state and local government employees. "Public" occupational pensions refer to the statutory commitments of the State's Pension Fund, *Statens pensjonskasse*, and corresponding municipal occupational pension agreements (NOU 1994:2,p.15).

The State's Pension Fund constitutes the main arrangement. Henceforth 1980 state pensions are regulated according to changes in basic amount in order to secure accordance with wage increases (Hatland, 2001:112). The Municipal National Pension Fund, *Kommunal Landspensjonskasse*, includes the majority of employees in local councils and counties, whereas a minority is member of "The Independent Municipal Pension Fund", *"De selvstendige kommunale pensjonskasser"*. They are all integral parts of a common pension scheme and pensions are calculated according to common regulations (Engelstad, 1992:38). Whereas local government schemes are organised in funds, this is not the case for state occupational pension scheme (Daatland, 1997:19). In principal the same rules and regulations apply the different "public" occupational pension arrangements, hence they are in the following addressed as a whole rather than treated separately.

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[220]Like military personnel, policemen, pilots etc. (Daatland, 1997:19).

“Public” occupational pensions are defined-benefit arrangements with a commitment for future pension benefits to cover a fixed portion of previous income earnings. They guarantee a 66 per cents replacement rate of gross income for medium income groups with 40 pension-earning years. Due to an income ceiling, the replacement rate is somewhat lower for higher income groups (ibid). Pension-earning in public pension funds is linear, that is the number of pension-earning years will secure a corresponding percentage portion of full pension and public employees may change employment within public sector without reducing their pension entitlements or pension-earnings. The premium for members of public pension funds is 2 per cent of earned income. The age of retirement in public pension funds is 70 years, although members may withdraw occupational old-age pension from the age of 67 (NOU 1994:2,p.117). However, it is currently possible to retire at the age of 62 through the AFP.

The fact that public occupational pensions are gross arrangements, implies that pensions are coordinated with national insurance benefits by reducing the supplementary occupational pension. Thus, the arrangement represents a gross guarantee for a certain pension benefit, as opposed to net arrangements which constitute a subsidiary net benefit in addition to an expected, not actual, national insurance benefit (ibid).

Once occupational pension is withdrawn, the public employee cannot continue in his or her employment or accept other employment covered by public pension funds, i.e. employment in public sector, without reducing his or her pension payments. Pension-earning income from private sector will on the other hand not affect public occupational pension payments. If the employee continues working part-time after the age of retirement, the pension will be estimated according to the portion of the wage that is no longer received (ibid:118). In public sector various stipulations refer to additional income while receiving pensions, and regulations distinguish between income from private and public sector respectively and whether the recipient is under or over the stipulated occupational age limit (Engelstad, 1992:88).

For former public employees receiving gross old-age pension and/or AFP from public occupational pension funds, there is no ceiling on earned income, provided they originate from employment in private sector. If the claimant, while receiving pension, continues working in the public sector, different rules will apply. In principal the pension will be adjusted to prevent the total amount of both pension and earned income exceeding full wages. The pension is not affected if the claimant accepts pension wage, constituting NOK 63 in 1992. If this pay is accepted, the old-age pension or AFP is not affected regardless of the amount earned. Further, pension payments are not affected if the claimant work less than 15 hours/half-time post and is under the age limit. Receiving a fee as a consultant or special advisor at a department for a task completed, will not affect the pension either (ibid:88).

Pension funds also provides occupational disability pension to public employees, guaranteeing in principal 66 per cent of final wages after being coordinated with the national disability pension, which claimants are required to apply for as well. Though the disability rate awarded by the occupational pension schemes and the National Insurance Scheme usually corresponds, the former have less strict terms of entry. Whereas the National Insurance Scheme requires a disability of at least 50 per cent, pension funds have no such limit. As opposed to the national disability pension, pension funds have retained the provision of disability pension for claimants over the age of 64 under the diagnosis “age weakening” (NOU 1994:2,p.119).

1.3.2 The Private Sector

Occupational pensions in private sector include pension funds and insurance-based arrangements covering all of the employees of the respective companies. Benefits are restricted to a certain level of total pension, the expected national insurance benefit included (ibid:115). In general “private” occupational pensions can only be withdrawn after the claimant has reached the age of 67. Accordingly, private occupational pension cannot be given as an additional benefit to ordinary AFP-pensions provided from the age of 62.

Within the private sector various collective occupational pension arrangements exist, of which none guarantee a specific replacement rate, cf. pensions in the public sector. In this respect public employees have in general a higher pension level than private employees. Public employees may change place of work, provided they remain in the public sector, without suffer a drop in pensions, whereas private employees usually have to “start afresh” because previous pension earnings will not be taken into account in further pension estimations. The Public sector also provides greater opportunities for employees to vary their working hours without affecting their pension and part-time employment is credited higher pensions than part-time work in the private sector (Engelstad, 1992:39).

In “private” occupational pension schemes the employer generally pays the premium for his or her employees, although in some cases employees pay a premium of 2 per cent of their wages. The annual premium increases as the employee reaches the age of retirement and may for employees close to the retirement age almost be equivalent to their salary. Companies pay a relatively low premium for young employees and a considerable higher premium for older employees. This age-discriminating feature may result in employment policies favouring younger employees (ibid:71).

With the introduction of the national supplementary pension, it was assumed that occupational schemes would be crowded out. By currently covering about 40 per cent of the employees in the private sector, this assumption is proven wrong (Daatland, 1997:19). Due to the fact that the national pensions provide more favourable coverage for the low-income groups, the supplementing occupational pensions will be of greater importance to the higher-income groups (NOU 1994:2,p.123).

Occupational pensions in private sector are net pension schemes supplementing and not coordinated with national insurance benefits, like “public” occupational pensions. A certain level of national pension payment or disability pension is taken into account, whereupon the occupational pension is estimated as an additional net benefit. In consequence all employees will have equal occupational pensions, expressed in percentage. The arrangements do not provide complete pension coverage by themselves, but depend and are based on national pensions. Net arrangements do not make provision for any changes in the national pension system, like the gross guarantee in public occupational arrangements does. Hence, a net benefit is basically less favourable than gross pension, but as the former supplements national pensions without coordination, the total pension result of the respective arrangements will roughly be the same (ibid:122).

Like “public” occupational arrangements, “private” occupational pensions are primarily defined-benefit and rising pension costs are succeeded by higher member premiums. In 2000 Parliament passed a resolution introducing defined-contribution pensions in private sector, in which contributions are fixed and pensions adjusted according to individual contributions.

The purpose is enabling more private corporations to provide supplementary pension arrangements for their employees as the pension costs of defined-contribution arrangements are more predictable for both the employer and the employee than defined-benefits arrangements (Hatland, 2001:112).

There is in principal no limitation on additional income inherent in occupational pension arrangements in the private sector. It is, nevertheless, unlikely that claimants will only receive "private" occupational pension without also receiving national pension. Thus, in practice the regulation of the national pensions will apply, i.e. a maximum ceiling on earned annual income equivalent to basic amount (Engelstad, 1992:89).

1.4 Individual Pension Arrangements

Individual pension insurance is also supplementary to the national old-age pension, though less widespread and common than occupational pensions. In 1992 individual pension insurance only constituted 2 per cent of earned pension rights, which may be due to the generous coverage and levels of the collective pension schemes. Individual pension insurances must comply with public regulations in order to be tax deductible (Daatland, 1997:20).

Individual pensions are neither affected by nor coordinated with national or labour market pensions. There are several different arrangements, but traditionally members commit to pay fixed annual premiums in return for fixed pensions payments after the age of 67, usually over a ten years period. It is also possible to pay at convenience when one's financial situation allows, rather than commit to fixed annual sums. Individual pension arrengements generally offers the possibility of retiring at the age of 64. By buying a pension certificate, "*pensjonsbevis",* a certain payment, which can be further extended by private contributions, is secured upon retirement. Insurance companies and banks provide individual pension arrangements and their popularity is increasing. Initially individual pension arrangements were associated with favourable rates and taxes. You no longer save tax, but upon buying individual pension insurance the net tax is partly postponed. Some of the pension payment is, however, subjected to double taxation because upon payment a national insurance tax will have to be paid too (Engelstad, 1992:84).

Denmark

1.0 An Introduction to the Danish Pension System

The intention of the pension system in Denmark is to ensure security in terms of pensions for all citizens and enable pensioners to maintain an income level during retirement that reasonably reflects their pre-retirement level, cf. the level of compensation. It is generally regarded that the income of pensioners should provide them the opportunity to maintain a standard of living not far from their accustomed mode of living during their working years. The flat-rate national pension provides a minimum of economic security in old age, whereas the demand for pension supplements is primarily met by private pension arrangements. The compensation level is ensured through the combined benefits of national pensions, labour market pensions and individual savings respectively (Regeringen, 2000:5).

The national pension is separate from and independent of previous labour market affiliation. Work-related pensions include the public ATP scheme and labour market pensions, which are both contribution-defined and funded. The relative prevalence of funded pension schemes implies that pressure on public finance due to demographic changes is lower in Denmark than countries with “pure” pay-as-you-go system (ibid:6).

The pension system in Denmark can be considered a three-pillar system with the national old-age pensions, labour market pensions and individual private schemes constituting separate pillars. The ATP scheme is, however, sometimes considered a pillar on its own[221], illustrated in table 1.The national old-age pension, first pillar, still remains the single most important component in the overall pension system. Participation in the ATP scheme is becoming more common, and in the future almost every old-age pensioner will receive ATP-benefits. Nevertheless, ATP-benefits have only recently reached a noticeable pension level. Relatively few people currently receive old-age pension benefits from labour market pension scheme, but due to the establishment of several new labour market pension schemes and subsequent growing membership figures, labour market pension schemes are estimated to increase in importance. Still, it will take several decades before the new labour market pension schemes affect the overall pension system as they are contribution-defined and hence take a long time to mature and attain significant impact (ATP, 1995:4).

[221] Described as a three-pillar system, the ATP scheme (in addition to Sp and SAP) is not regarded as a separate pillar but as a “hybrid” of the first and second pillar, i.e. stat-funded pensions, and labour market pensions respectively. (Cf. Regeringen, 2000 and Ministry of Social Affairs, 2002a).

Universal coverage under all pillars is not expected in the future. Rather, changes are likely to entail more people experiencing a multi-pillar system as a reality than at present. In the longer term everybody will continue receiving a state-funded old-age pension and most will receive ATP-benefits. Whereas at least half of the pensioner will be covered by labour market pension schemes, only a few will receive individual, private pensions (table 1).

Whereas the national pension is separate from and independent of previous labour market affiliation, the implementation of the ATP scheme introduced a differentiation between the majority of the wage earners and the rest of the population. This differentiation is further cemented by the growing membership of labour market pension schemes. The Danish pension system is characterised by having two different labour market based supplementary pension schemes complementing each other. Hence, the future pension system will have more individualised pensions and the pension to “top-up”[222] the national old-age pension, will increasingly be determined by participation in the labour market, income level, membership of pension schemes etc (ibid:5). Due to the multi-pillar feature of the pension system, the issue in Danish pension policy is how these schemes interact and how they are to be weighted.

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[222] The Danish pension system is referred to as a “top-up” system because benefits from the various pillars are not mutually exclusive but are rather put on top of each other (ATP, 1995:6).

Table 1: The four pillars in the Danish pension system

	State-funded old-age pension	ATP	Labour market pension schemes	Individual, private schemes
Coverage	Universal	All wage earners	Wage earners covered by collective agreements	At the initiative of the beneficiary
Purpose	Provision of fundamental security	Provision of fundamental security	Maintenance of income level	Maintenance of income level
Financing	Taxation	Contributions by employers and wage earners	Contributions by employer and wage earner	The individual
Contributions		A fixed amount according to extent of employment	A certain percentage of wages	Relatively modest
Benefits available from	The 67th birthday	The 67th birthday	The 60th birthday	The 60th birthday
Current membership figures[223]	100 %	60%	15-18%	10-12%
Estimated future membership figures	100%	92-95%	55-56%	15-20%

Source: ATP, 1995:6

1.1 Historical Background

In 1891 Denmark passed an act[224] establishing old-age pension to the deserving needy not already covered by the poor relief, making Denmark one of the first countries introducing a public old-age pension arrangement (Regeringen, 2000:27). Henceforth the Danish old-age pension system is financed trough general taxes, generally includes every citizen and benefits are graduated according to supplementary income.

The act of 1891 included in principal everyone over the age of 60 who could not support themselves. In 1922 the initial alms principle is replaced by the principle of law, abolishing the original right of the municipalities to estimate benefits on discretion. In addition the old age benefit was reduced according to the income of the recipient. The national pension is introduced in 1957, generally including every citizen regardless of income. The previous terms of income regulations are nevertheless sustained, although a minimum amount is

[223] Percentage of pensioners currently receiving benefits from the various pillars.
[224] “Lov om alderdomsunderstøttelse til værdige trængende uden for fattigvæsenet”.

provided for all irrespective of income. With the act in 1964 the full national pension is established, implying a gradually modification of the income regulations. As of April 1970 basic amount is no longer adjusted according to income. The act also introduced a supplementary income-dependent pension, on the grounds that the non-graduation of basic amount would only benefit pensioners with additional income[225]. From 1970 everyone who actually retires from the labour market, i.e. no longer has independently earned income, is from the age of 67 entitled a fixed basic amount. From its introduction in 1957, the old-age pension benefits have been divided into a steadily more earnings-unrelated basic amount topped up by earnings-related supplements (ibid:29).

In 1982 and 1993 the graduation of basic amount was re-adjusted and accordingly the basic amount is phased out when income from work, but not capital income, reaches a certain amount. The stated reason for this alteration was that recipients with relatively high additional income have not actually retired from the labour force and hence should not be entitled to full basic pension[226]. With the tax reform in 1994, the personal deduction for recipients of national pension was reduced and pensioners are now taxed according to the same rules as those applying to other taxpayers, as compared to Norway where tax rules especially favour pensioners. To compensate a subsequent reduction of their net income, the supplementary pension was simultaneously increased (ibid).

The standard age of retirement, i.e. the qualifying age for pension benefits, is currently 67 years in both Denmark and Norway. Denmark on the other hand, decided in 1999 to lower the age to 65 with effect from 2004, cf. ch. VI.

[225]In the period 1972 to 1975 the graduation of the supplementary pension is modified.

[226] The fact that basic amount was independent of other income until 1993 may reflect the policy of those years of trying to combat unemployment by reducing the supply of labour (Bingley et al., 2001:16).

1.2 The Public Pension System

The current public pension system includes the national pension and the pension supplements ATP, SP and SAP. The national pension is provided independently of previous relation to the labour market, whereas labour market affiliation is of great importance to the latter. DMP, the temporary pension fund and LD[227], the wage earners famine fund, are temporary arrangements currently being winded up and will subsequently not be addressed. The civil service pension scheme will be considered a labour market pension scheme, although it shares some of the features of the public pension schemes. ATP and SP are defined contributions pension arrangements established by law, cf. public pensions. Due to the fact that they are based on contributions and savings, their pension payments depend on the number of years of contribution, which also apply labour market pensions (ibid:25). Members renounce current personal consumption until retirement in order to obtain a higher level of compensation than the national pension would otherwise provide.

The average total income for pensioners is relatively high, partly due to property return and additional pension supplements. Currently, the disposable income for pensioners amounts to somewhere between 60 and 70 per cent of previously earned income (Regeringen, 2000:8). Nevertheless, not all pensioners have additional pension supplements and in general the national pension constitutes the most important source of income for pensioners. And for the time being the additional pension supplement arrangements only constitute a significant aspect of the economic situation of 30-40 per cent of the well off pensioners.

1.2.1 The National Pension

The national pension aims at securing an income for everybody aged 67[228] or older in order to prevent and minimize the risk of poverty in old age. The level of compensation for low-income earners is high, approximately 70 per cent, whereas the equivalent for people with higher income is “only” about 42 per cent (ibid:26). In other words the old-age pension favours the most needy pensioner. Nevertheless it constitutes a fundamental pension income to be topped up by various supplementary incomes. The upper- and middle-bracket income

[227] DMP is the so-called *Den midlertidige Pensionsopsparing* and LD refers to *Lønmodtagernes Dyrtidsfond* (Regeringen, 2000:36).
[228] In 2004 the standard age of retirement, and the age of eligibility, will be reduced to 65 years. Henceforth, the age criterion is changed to 65 for everybody younger than 60 years in 1999.

groups may undertake additional arrangements, i.e. labour market pensions and individual savings in order to obtain a higher level of compensation.

As in Norway, 40 years of residence is required to obtain full old-age pension. Any shorter and the pension will be reduced accordingly. In principle everybody receives the same amount, although benefits are graduated according to marital status and additional earnings, whereas previous labour market affiliation is of less importance. Basic amount is graduated according to income from personal work exceeding a certain amount[229], whereas the supplementary pension is reduced if the total income[230] of the pensioner and his or her spouse/cohabitant, is above a certain limit (Søndergaard, 1999:300).

Benefits are annually adjusted according to wages in the private sector. In 2002 basic amount and the supplementary pension combined amounted DKK 105 400 for a single pensioner and DKK 77 200 for couples (Ministry of Social Affairs, 2002a, appendix 2). The national pension should been seen in conjunction with a number of other subsidies and benefits of which recipients may be eligible to, notably support for heating expenses, health allowance and personal allowance and especially favourable rules regarding housing benefits and tax on owner-occupied dwellings respectively.

1.2.2 ATP

An Additional Labour Market Pension, the ATP, was established in 1964, with the purpose of providing a pension supplement for all wage earners. Contribution is mandatory for all wage earners between the ages of 16 and 66[231] working more than nine hours a week (Regeringen, 2000:36). During the 1990s the scheme was extended to include beneficiaries of transfer income like unemployment benefit, sickness and maternity benefits. In addition pre-retirement and part-time pensioners and recipients of post employment wage may enter the scheme as voluntary members. In 1998 ATP has 4,1 million members, whereof approximately 448 000 pensioners. Because the scheme now also covers people with only a rare affiliation to the labour market, it is estimated that it in time will cover nearly 98 per cent of all old-age pensioners.

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[229] DKK 223,200 at the 2002-leve (Ministry of Social Affairs, 2002a, appendix 2).
[230] That is general income, not only income from personal work.
[231] 64 years for people turning 60 after July the 1st 1939.

The ATP is a fully funded, contribution-defined, premium-reserve scheme. The flat rate contributions depend on the number of working hours and not the size of income. Wage earners pay one third of the full contribution, and employers the remaining two thirds. Recipients of transfer income pay only one third, compared to voluntary members who pay 50 per cent of the contribution. The annual contribution varies between DKK 1.500 and 2.700. The public Danish supplementary pension is distinct from the schemes in the other Nordic countries, Norway included, and has never become as important source of income for pensioners as it has in the neighbouring countries. The scheme was expanded in 1991 with the introduction of a special pension saving scheme, the SP, and it is estimated that their combined significance will increase in time (ibid:33).

In July 2001 the highest ATP benefit approximates DKK 20 3000 annually, constituting 20 per cent of the national pension (Ministry of Social Affairs, 2002a,appendix 2). It is, nevertheless estimated that the ATP in the future will constitute roughly 50 per cent of basic amount[232], 40 per cent when retiring at the age of 65. The ATP payments are age neutral in the sense that payments do not depend on when contributions are made. To illustrate, a contribution of DKK 400 entitles an annual life-benefit of DKK 100, irrespective of age of the contributor. Thus, the yielded interest of contributions from young members is relatively low, whereas contributions from older members may give a substantial return. This aspect of age neutrality entails redistribution across member groups, which makes the scheme less robust to demographic changes (ibid:37).

Due to developments within the Danish pension policy, the status of the ATP scheme is expected to change. It will remain the most important supplementary pension scheme both in terms of extent and benefits, although with a higher social accentuation. This is primarily due to the fact that contributions are not related to income but levied on a number of transfer incomes. The ATP scheme will especially be of importance to all low-income groups and groups with less stable employment conditions and wage earner groups not covered by labour market pension schemes (ATP, 1995:28). As opposed to labour market pension schemes, ATP mitigates social differentiation because it implies a higher basic pension which in general is unaffected by the factors causing differentiation. In a way, the ATP-benefits will also be of particular importance to groups with a low retirement age. The fact that early retirement

[232] I.e. DKK 25 000 in 2000.

generally leads to lower pension benefits under both labour market pension schemes and the ATP, makes individual benefits more important.

1.2.3 SP

The SP is a so-called Special Pension Scheme introduced in 1999. Contributions are mandatory for all employees and recipients of transfer payments between the ages 17 to 66, cf. ATP, and constitute 1 per cent of wages. The accumulated benefits are paid as a 10-year annuity from the age of 67, 65 from 2004, and is subjected to taxation (NOSOSCO, 2002:127). Initially payments from the SP provided claimants an average payment rather than a payment depending on preceding contributions. Thus the SP had a redistribution aspect based on the accumulated amount of work rather than individual earnings. This practise is changed by an amendment adopted in 2002 with effect from contributions paid for 2001 onwards. The amendment implies that contributions in full will be added to the contributor's own savings and as a consequence redistribution no longer takes place (Ministry of Social Affairs, 2002a,appendix 2).

The ATP and SP are defined-contributions pension arrangements established by law. Due to the fact that they are funded and based on contributions, their pension payments depend on the number of years of contribution, which is also the case for labour market pensions (Regeringen, 2000:25). Whereas labour market pension benefits also depend on the individual earnings history throughout the working life, this is not the case with the ATP and SP schemes.

1.2.4 SAP

The public labour market-like supplementary pension scheme for recipients of anticipatory pension is a part of the anticipatory pension reform entering into force January 2003. The scheme is described in chapter VI.

1.3 Labour Market Pension Schemes

In contrast to the statutory public pension schemes, the labour market pension schemes are based on agreements by the social partners or in individual enterprises. Like the ATP, these arrangements are generally fully funded, contribution-defined, premium-reserve scheme and the employees/employers pay contributions as a percentage of wages. Pension benefits vary according to the size of the contributions and its yielding interests. There is an actuarial correlation between contributions made and benefits attained and benefits reflect the (lifelong) extent of employment and the related level of income. Today a significant and increasing part of pension expenditure is privately financed (Ministry of Social Affairs, 2002a, appendix 2).

In Denmark labour market pensions date back to the Danish Constitution of 1849 whereas the civil servant pension system has been in force since 1919. During the 1950s and 1960s labour market pension schemes were established for other groups of employees in public sector as well as for academics in both private and public sector. Nevertheless, in 1985 only a third of the population participates in labour market pension arrangements, whereas two thirds are only covered by the national pension and ATP-benefits. Hence LO presents a motion for pension reform, which in the period 1989 to 1993 results in the establishment of several new pension arrangements in both public and private sector (Regeringen, 2000:34). The new schemes double the number of employees covered, and currently almost all public and most private employees are included. Labour market pensions are still developing, hence the differences in contributions across various sectors[233]. The contribution percentage of older labour market schemes is approximately 12-16 per cent whereas a rise to 9 per cent up to 2004 is agreed for most of the new schemes (Ministry of Social Affairs, 2002a,appendix 2).

Most labour market pension schemes are either industry- or profession-wide, whereas some cover the employees of one single firm or enterprise only. In either case the schemes will only include the wage earners who are covered by the various kinds of agreement, to whom the scheme is compulsory (ATP, 1995:16).

Generally the structure of the labour market pension arrangements are defined contributions with 3 per cent of earnings from the worker and 6 per cent from the employer. The schemes are collective and mandatory. The former implies that individuals may secure benefits independent of individual risk, while the latter ensure high prevalence. Most, if not all, of the arrangements offer pre-retirement before the standard age of retirement, generally from the age of 60 with an actuarially reduction depending on the specific age (Bingley et.al., 2001:5).

[233] The contributions expressed in percentages in new arrangements, like industrial arrangements, are generally lower than the equivalent of old arrangements, e.g. the arrangement for engineers.

There are currently about 1,6 million contributors to labour market pension schemes. The stress on funded arrangements is reflected in the extension of the labour market schemes and the fact that contributions have increased (Regeringen, 2000:26). Estimations imply that the number of claimants receiving significant labour market pension in the future will increase.

In the long run the growing membership figures of labour market pension schemes are likely to effect the overall pension system. An increasing number of pensioners will receive considerable supplementary pensions and in consequence fewer will experience a drastic fall in their disposable income when they retire. On the other hand, pension income will increasingly depend on previous attachment to the labour market, which may cause considerable social differentiation (ATP, 1995:22). Labour market pension schemes only cover jobs that fall under the collective wage agreement and arrangements concluded, which may result in a differentiation of the social security available for those who are respectively “inside” and “outside” these schemes. Due to the fact that the various schemes were introduced over a relatively long period and that benefits depend on the total amount contributed, there will be differences between young and old schemes. In turn this may cause significant differences among pensioners even within the same age cohorts. Under a maturing scheme, benefits payable to young employees upon retirement will exceed payments to older colleagues who of course by then have been retired for some time. Periods of absence from the labour market due to unemployment, maternity, sickness etc. will further cause differentiation within labour market pension schemes. Because pension rights are only accrued on the basis of pay received from employment covered by the pension agreements, other income will not contribute to the accumulation of pension rights (ibid:24).

1.3.1 Civil Service Pension Scheme

Occupational pensions for employees in public sector has been stipulated in the constitution from 1849, as compared to labour market pensions, which are established by agreements. The pension scheme for civil servants in governmental service laid down in the Public Servants Act, whereas the equivalent for local authority officers is laid down in pension regulations. Civil service pensions further differ from labour market pension schemes by being a public tax-financed, i.e. pay-as-you-go, defined-benefit scheme unrelated to the building of funds (Ministry of Social Affairs, 2002a, appendix 2). Payments are estimated according to years of service upon retirement and the pensionable salary upon retirement. It is the only pension scheme in Denmark related to labour market affiliation not based on prior savings. Most local authorities and some counties have hedged their commitments by taking out insurance in Municipal Pension Insurance Company limited, KP, to which they pay premiums. In return the payments from KP cover their expenditure on civil service pensions (c.f. Norway 1.3.1).

In January 2002 roughly 75 000 claimants received public employee pension (ibid). It is, however, estimated that its importance for state-employed will decrease, as state-employed public employees increasingly will be covered by schemes defined and financed by contributions, which will be more consistent with the flexible and individual wages of the public sector.

1.4 Individual Pension Arrangements

Banks, insurance- and pension institutions provide individual pension arrangements. The schemes differ considerably and their membership figures are high. Currently well over 1,1 million people contribute to such individual arrangements (Regeringen, 2000:26). The average contribution is relatively modest, but so are the rights accrued. Like the labour market pension schemes, benefits can generally be obtained from the 60th birthday (Table 1).