

Geir Veland

# **Early retirement pension systems in Norway**

Occupations with lower age limit and  
their pension schemes



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## Foreword

This paper is about early retirement systems in Norway, age retirement limits and pension schemes for occupations who have a lower than standard age limit in the occupational pension system.

The client for the project is Norsk Lokomotivmannsforbund (National Union of Locomotive drivers) and their contact person in the project has been Øystein Aslaksen.

Fafo-researcher Geir Veland has written the paper and the Fafo-researchers Tove Midtsundstad and Anne Hege Strand has contributed in the quality insurance process. Thanks to them. Thanks also to our information office who have prepared and published the paper.

The author is fully responsible for errors and omissions in the paper.

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Geir Veland  
Fafo-researcher

# 1 Introduction

Special pension schemes for certain occupations have a long tradition in Europe. In many countries such pension arrangements were established long before general public pension systems were set up. Special occupational pension schemes were primarily developed in the public sector, and especially connected to civil servants and military personnel, but also to groups of employees in health care. In some cases it was particular occupations like seamen and fishermen who got their own pension schedule. In Norway we have examples of both of these types of pension arrangements for certain occupations.

In many countries these pension schemes formed a basis for the development of public pension systems. The existence of several, parallel, occupation-based pension schemes constituted the “spine” of the public pension system in some countries. In other countries the occupation-based schemes were transformed and continued to exist, in addition to the public pension system. Examples of this is the transformation of the teacher pension system into an occupational pension scheme on top of the basic and supplementary pension in the general public pension system, while seamen’s pension was transformed into an early retirement system. There are also examples which show that own pension schemes for certain occupations were established through collective agreements.

Because of these historic developments different occupation-based pension schemes exist today, and they link with the public pension system in different ways. Some schemes are a part of the public pension system, while others are partly complementary to the public system, or exist as own occupational pension schemes, independent of the public pension system.

In this paper we present the main components of the early retirement system in Norway. We have focused on pension schemes established for certain occupations with a lower age limit for pension withdrawal than the normal age limit of 70 years, which exists in the occupational pension system. In chapter 2, we first present in what way different retirement age limits exist in Norway. Second, we present the occupations in public and private sector which have a lower age limit than 70 years for retirement. Then we briefly discuss an interesting topic: Does an employee working in a sector with a lower retirement age limit have to retire at that specific age, or can he or she continue to work or to combine work and pension withdrawal? In chapter 3 we present the system of early retirement in Norway and specifically look at factors related to the pension schemes for employees who have a lower age retirement limit than 70 years:

- Conditions for early retirement
- Type of pension schemes
- Pension entitlements

- Financing of the pension schemes
- Administration of the pension schemes

This paper does not contain a full presentation of the early retirement system in Norway, but provides merely a brief introduction to how it works.



## 2 Occupations with lower than standard age limit for retirement

### 2.1 Development of age limits for retirement in Norway

The general age limit for retirement in Norway is 70 years. For some occupations there are age limits lower than 70 years, which means that an employee has a right to, and in several cases an obligation to, retire at a set age, varying for different occupations.

In Norway, an early retirement age can be established for:

- a) occupations which causes physical or psychological burdens in a way that normally implies that the employees cannot perform their work in a proper way up to the age of 70, or
- b) where the service require specific demands to physical or mental abilities, which normally weakens more strongly before the age of 70, and are required for proper execution of the work.

Early retirement for specific occupations is based on either

- 1) National law or
- 2) Collective agreement in the labour market

Whereas “Lov om aldersgrenser” (the law<sup>1</sup>) for public sector workers (civil servants) dates back to 1956, and comprises persons who are members of Statens Pensjonskasse (Norwegian Public Service Pension Fund), most of existing age limits for retirement were decided in 1995 and implemented from 1996. The law regulates at what age public servants can retire and “alderspensjonslovens § 2” (the law) states that the normal age limit for retirement is 70 years. However, lower age limits can be drawn for some occupations, at the age of 65, 63 or 60 years, according to point a) above.

The basic principle for public sector workers (and members of Norwegian Public Service Pension Fund) is that where the age limit for retirement is lower than 70 years (that is either 65, 63 or 60 years) it is possible to retire three years before the lower than standard age limit, provided that the sum of the employee’s age and years of service is at least 85 years.

It is pointed out in “forskrift om kommunale og fylkeskommunale pension schemes” (law regulation about municipal pension schemes) that the age limits for retirement in the municipal sector should not be lower than in the state sector. According to this reg-

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<sup>1</sup> LOV 1956-12-21 nr. 01: lov om aldersgrenser for tjenestemenn m.fl.

ulation, it is the labor market actors (the employer organization and trade unions) who decide the age limits in the municipal sector.

It is also decided by law, that some occupations outside the public sector should have an age limit for retirement lower than 70 years. Typical examples of such occupations are fishermen and seamen.

Age limits in the private sector are regulated in “forskrift til lov om foretakspensjon” (law regulation from 2000 and specifies which occupations that ) been given a set age limit for retirement

## 2.2 Occupations and age limits for retirement

About 30 percent of public employees have an age limit for retirement lower than 70 years (40 percent in the municipal sector and 12 percent in the state sector). In private sector it is estimated that about 8 percent of workers have an age limit for retirement lower than 70 years.

Table 1 shows occupations with age limits for retirement lower than 70 years in the public and private sectors.

Table 1. Age limits according to “forskrift til lov om foretakspensjon” and lov om aldersgrenser for offentlige tjenestemenn. Main groups of occupations.

Age limit	Private sector	Public sector (state and municipal sector)
55 years	Pilots, divers, rescuers on helicopters in the North Sea	
60 years	Flight crew	Military officers, police officers, fire officers, ambulance drivers
62 years	Drivers, transport workers (drivers)	
63 years		Shipmaster/machinist. Prison guards
65 years	Nurses, mining workers, operator of cranes, excavators, bulldozer, insurance agents, sellers (traveling), reindeer herders, employees on fixed oil installations, driving teachers.	Railway personal ((locomotive drivers and other employees with operational safety responsibilities), aviation personal, nurses, prison personal, cleaning personal, professional drivers, dentists, physiotherapist, milieu therapist.

As mentioned, it is possible for all occupations in public sector to retire 3 years before the age limits in table 1, if the sum of age and years of services is 85 years or higher.

A more detailed list of occupations with lower retirement age limits than 70, can be found at:

- Municipal sector:  
[http://www.regjeringen.no/upload/AID/publikasjoner/rapporter\\_og\\_planer/2009/R\\_OfTP\\_utvalget\\_11.03.2009\\_Vedlegg4\\_Saeraldersgrenser.pdf](http://www.regjeringen.no/upload/AID/publikasjoner/rapporter_og_planer/2009/R_OfTP_utvalget_11.03.2009_Vedlegg4_Saeraldersgrenser.pdf)
- State sector: [http://www.regjeringen.no/upload/FAD/Vedlegg/Lønns-%20og%20personalpolitikk/Aldersgrensehefte\\_09.pdf](http://www.regjeringen.no/upload/FAD/Vedlegg/Lønns-%20og%20personalpolitikk/Aldersgrensehefte_09.pdf)

## 2.3 Continue working after reaching retirement age limit

In the public sector, a person who works in a profession with a lower age limit for retirement than 70 years have to leave his or her job when reaching that age. Working beyond the age of 70 in these public sector jobs requires a special agreement with the employer. In order to continue working beyond 70 years of age in the public sector it is necessary to either retire from your public sector job and continue working with a new employer, or continue working with a new employer combined with pension withdrawal.

In the private sector, on the other hand, an employee does not necessarily have to leave his or her job when reaching the age limit for retirement. However, a private sector worker has the right to retire when reaching the set age limit for that occupation.

Whereas the problem in the public sector related to lower age limits for retirement is related to the possibility of continue working after reaching the age limit, the problem in the private sector is related to a lack of coordination between the age limit for retirement and the right to withdraw pensions from an occupational pension scheme. For instance, a private sector company with a lower age retirement limit for some of its workers may operate a pension scheme which cannot be activated at an earlier retirement age. This makes it more complicated for employees in the private sector to activate the right to retire early. For instance a private sector worker may have a right to retire but without the right to withdrawing a pension. In this case a private sector worker will normally continue working (in the same job or in another job in the same company) until the lowest possible age for pension withdrawal in that company is reached. Alternatively, the private sector worker in question may have access to an contractual pension scheme (AFP-scheme - see below) which can be activated from the age of 62 which can provide the retiree with a pension. In other words the rules for private workers are unclear in terms whether a worker have to retire at a set age, or whether the age limit only refers to when a person can retire. This question has been tried in the court quite recently ( see <http://www.ldo.no/no/Klagesaker/Arkiv/2012/112481/>) and the topic has stirred some debate in Norway.

The Norwegian pension reform the new Norwegian pension regulation have opened up for the possibility for all workers to retire from the age of 62 years (before 1.1.2011

from the age of 67) and receive a pension. (Alternatively combine pension withdrawal with work in another job.) This allows individual flexibility in the new general public pension system, and in the occupational pension system. Both the public and the occupational pensions systems open up for the opportunity to combine work and pension withdrawal from the age of 62. For example, it is possible to work full time and withdraw pension from public pension scheme, occupational pension scheme and the AFP-scheme – the last if you are qualified receive this pension. However, you have to fulfill the income demands to withdraw pensions (a yearly income above a certain level during working life).

This rule providing workers the opportunity to withdraw occupational pension from the age of 62 only applies to employees in the private sector. In the public sector it is not possible to receive a pension from the occupational system before the age of 67 (unless for employees in occupations with lower age limits for retirement). It is however possible for all public employees to retire either completely or partially at age of 62 with the AFP pension schedule (which after 1.1.2011 is different from the AFP-scheme in the private sector).

We do not know how many employees with lower age limits who actually continue working in other jobs, but there is no doubt that many of the employees who have lower age limits for retirement wishes to, and actually do continue, working beyond the set early retirement age, either in the same job (if possible) or in a different job (Midtsundstad and Nielsen 2013; Midtsundstad 2005; Statistics Norway 2008).

## 3 Pension schemes for occupations with lower age limit for retirement

### 3.1 Introduction

In the private sector it is not possible for an employer to establish special occupational pension schemes for certain occupations. All occupational pension schemes are company based and have to include all employees, independent of type of scheme (defined benefit or defined contribution). This law-based regulation and the so-called “principle of proportionality” constitute the framework for private occupational pension schemes. In the public sector, all employees are included in the pension system (with some exceptions).<sup>2</sup>

In order to establish special pension schemes for certain occupations, they have to be based on public law regulations. There are, however, some pension schemes which only include certain occupations, and most of them is regulated by law and institutionally controlled by the government.

### 3.2 The early retirement system in Norway

In this section we will give a brief description of the system for early retirement in Norway. Since 2011 and after the pension reform it is possible for all workers in both the public and private sectors to retire at the age of 62, and receive retirement pensions from the public pension system, provided that annual income exceeds NOK 318 000 in 40 years (measured in today’s money value).

Prior to 2011 the retirement age in the public system (The national Insurance scheme) was 67 years, and retiring any earlier than this required being included in the contractual pension system (the early retirement system AFP). All public sector employees have access to AFP, but only half of the employees in private sector (Nergaard 2009, Midtsundstad 2004).

It should be mentioned that since 2011, the contractual pension schemes (AFP schemes) differ quite considerably between the public and private sectors. In the public sector the AFP is still defined as an early retirement scheme for workers between the

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<sup>2</sup> State sector, municipal sector and publicly owned companies which have a public sector occupational pension scheme (in Norwegian Public Service Pension Fund - SPK, Municipal Pension Fund – KLP and schemes established in life insurance companies).

age of 62 and 67 years, and benefits only goes to those who actually retire (completely or partly) before the age of 67.

In private sector the AFP scheme was, as part of the collective agreement in 2008, adjusted to the principles in the new public pension system (the principle of actuarial neutrality), and after 1.1.2011 it is paid out lifelong from the time of withdrawal (flexible from 62 years of age). In other words, the pension is not restricted to those who actually withdraw their AFP pension and retiree between the age of 62 and 67 meaning that also those retiring after the age of 67 are entitled to an AFP pension.

In both AFP systems it is possible to retire completely or partially from the age of 62, but the private sector system is more flexible. In the private sector it is possible to combine pension and work almost at your own desire (e.g. you can withdraw pension and continue to work full time), while in the public sector you have to work 60 per cent or more to withdraw a partial AFP pension, and there are strong restrictions for occupational pension withdrawals and the combination of working beyond retirement age and withdraw pension (cf above).

Retiring before the age of 62, is generally only possible if you have become disabled, or work in an occupation with a set low retirement age. This applies to a few occupations, as shown in table 1. In the latter case you will receive pensions from the occupational pension scheme before the age of 62 if you are employed in the public sector. Normally this is not the case for private sector employees (with a few exceptions).

### 3.3 Occupational pensions and early retirement in public sector<sup>3</sup>

All public sector workers in occupations with an age limit for retirement lower than 70 years (table 1) are comprised by the same pension scheme. The only difference is at what age the retirement limit is set, which may vary according to occupation (because of a) and b) in section 2.1). Workers with lower age limits for retirement can retire and withdraw pensions from the occupational pension scheme earlier than other public employees.

The occupational pension scheme in the public sector is a final salary defined benefit system. Normally it requires 30 years of accrual (at retirement day - maximum of 40 years from start to retirement) to reach the maximum pension of 66 percent of final salary. In general, a person can retire 3 years before the age limit, if the sum of age and years of accrual is 85 years or more, or at the age of 67. If your age limit is 70 years, you can retire at the age of 67 years. If your age limit is lower than 70 years you can retire before the age of 67 years if the sum of your age and years of accrual is 85 years or more. This means that if your age limit is 65 years you can retire at the age of 62, and if your age limit is 60 years, you can retire at the age of 57. An example can illustrate this

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<sup>3</sup> In the following chapters we do not include the contractual pension scheme (the AFP – system).

point: a police officer has a set occupational retirement age at 60 years. This means that police officers may retire at the age of 57 years, if he or she has 28 years of pension accrual ( $28 + 57 = 85$ ).

Table 2. Occupational pension scheme in public sector. Description of the key factors.

Conditions for early retirement	Type of pension scheme	Entitlements in the pension scheme	Financing the scheme	Administration
That you belong to an occupation with lower age limit for retirement. That means the conditions referred to in section 2.1	Defined benefit. Pension, based on the principle of final salary.	Normally: If 30 years of accrual: 66 percent of final salary. Pension level guaranteed.  If the sum of age and years of accrual is at least 85 years, employees can retire 3 years earlier than the set age limit.	State sector: pension expenditures are financed by the state budget, employer and employee contributions (employees pay 2 percent of their salary).  Municipal sector: The municipalities finance most of the expenditures. Employees (in all public sector) pays a contribution of 2 percent of their salary.	State sector: The pension schemes are administered by SPK (Norwegian Public Service Pension Fund).  Municipal sector: In general the pension schemes are either run by KLP or other life insurance companies. KLP manages the pension scheme for nurses.

In the state sector the pension schemes are administered by SPK (Norwegian Public Service Pension Fund) and is owned by the government (Ministry of Labour), The pension expenditures are financed by the state budget, premiums from public companies which have their pension scheme in SPK, and employee pension contributions paid at 2 percent of gross salary. In the municipal sector the expenditures are mostly financed by the municipality, however the employees also here pay a contribution of 2 percent of the salary. The pension schemes for the municipality sector are either administered by KLP (Kommunal Landspensjonskasse = Pension Fund owned by its customers), or life insurance companies delivering public pensions. KLP also manages the pension scheme for nurses, including nurses working in private companies.

Besides retirement pension, the public occupational pension scheme also includes disability pension and dependents pension.

### 3.4 Occupational pensions and early retirement in the private sector

Currently it is now possible for private sector employees to retire and receive pensions from the occupational system from the age of 62. This is not possible in the public sector (unless you have a lower occupational age limit for retirement). Prior to 2012 it was not possible to retire and receive occupational pension earlier than from the age of 67, unless for occupations with lower age limits.

Private companies which had employees with lower age limit had to pay all the pension cost connected to those employees until the age of 67, unless the employees continue to work above the age limit in the same job or in another job in the company. As far as we know, there are just a few cases where age limit and possibility to retire and receive pensions coincide (cf. above). One example is pilots and cabin personal.

Because of the new and flexible pension system as mentioned above, all employees can now retire from the age of 62 and receive pensions from the public pension scheme, occupational pension scheme and the AFP scheme (if qualified to receive this pension).

The system of having lower age limits for retirement for some occupations has not yet been evaluated in relation to the introduction of a new pension system with new flexibilities in retirement age. This is an issue likely to be discussed further in the coming years. One point is that the system of age limits for employees in the private sector (except for nurses and other health care personal) in practice do not function as intended, since there are no law-based obligation for private companies to establish a pension scheme at the set early age limit for retirement for some occupations.

In the private sector about 1,1 million employees have a define contribution scheme and about 340 000 employees have a define benefit scheme. Define benefit schemes are likely to be transformed, by law regulation, into hybrid schemes (based on a principle of define contribution) in the near future.

In define benefit schemes the pension levels varies between 60 and 70 percent of final salary and the actual pension level depends on different factors. The level is therefore not guaranteed (as in public schemes), but rather a pay-out level the scheme aims to achieve. Most define benefit schemes provides a pension level at 66 percent of final salary, or lower. To get a maximum pension pay-out, you have to be a member of the company pension scheme for 30 years (at retirement day), or maximum 40 years from first being employed in the company to retirement day.

In define contribution schemes, which now is the most common scheme in private sector, the contribution rates vary from 2 to 5 percent of wages between NOK 80 000 and NOK 400 000, and between 2 and 8 percent of wages between NOK 400 000 and NOK 960 000. Almost half of the employees have a contribution rate of 2 percent of wages, which is the minimum rate in the law of mandatory pension from 2006.



Table 3 Occupational pension schemes in private sector. Description of the key factors.

Conditions for early retirement	Type of pension scheme	Entitlements in the pension scheme	Financing the scheme	Administration
That you belong to an occupation with lower age limit. That is the conditions referred to in section 2.1	Define benefit or define contribution	Define benefit: Pension level 60–70 percent of final salary. Pension level not guaranteed .  Define contribution: Between 2 and 5 percent of wage between NOK 80 000 and NOK 400 000 and 2 and 8 percent between NOK 400 000 and NOK 960 000.  Almost 50 percent have 2 percent contribution.	Both types of schemes: employer covers all the expenditures through premiums or contributions. Employee contribution allowed, but not normal.	Define benefit: Own pension fund (big companies) or life insurance company.  Define contribution: Life insurance company, banks, fund and asset management companies

Defined benefit schemes in the private sector normally include disability pension and dependent pensions. Insurance products like disability pension and dependent pensions are not that common in defined contribution schemes (less than 40 percent have disability pensions).

Employers in private occupational pension schemes pay all costs and contributions, including administration costs and asset management. Employee contribution is allowed, but it is not common.

Define benefit schemes are administered by life insurance companies or company owned pension funds. The former is the most common. Define contribution schemes are administered by life insurance companies, banks, or fund and asset management companies.

We do not have good data on the kinds of pension arrangements for employees in occupations with lower age limits for retirement in the private sector, but as we have mentioned, we do know that there is a poor relationship between the existence of a lower age retirement limit (the right to retire early), and the existence of pension arrangement corresponding with this lower retirement age for private sector workers.

## 4 Conclusions

The overall pension system in Norway has undergone several changes over the past seven years. Occupational pension has become mandatory by law from 2006, and the public pension system was reformed and changed substantially from 2011.

In addition the contractual pension scheme (AFP) in the private sector (a system for early retirement based on an agreement between the actors in the labour market) was changed in 2011, and is now a system of life long pension payment, flexible in the sense that withdrawal can start any time from the age of 62. The AFP-system in the public sector has remained unchanged, and is still defined as an early retirement system for employees between 62 and 67 (65) years.

The occupational pension system in the private sector is about to undergo further changes and the traditional define benefit schemes are likely to be transformed to new types of (hybrid) pension schemes.

During the work with the pension reform, the government signalled that the age limits of certain occupations would be considered changed. One of the main arguments in favour of changing the age limits in the public pension system is that the increasing life expectancy of the population will make early retirement more expensive in the future. In addition, the new flexibility introduced in both public pension and occupational pension systems allows retirement from the age of 62, and this has also made it of current interest to review the age specific rules for early retirement in some occupations. One issue that has been raised in the public debate is what the criteria should be that govern access to an early retirement in some occupations. Should it be the nature and the risk involved in the job that decides the need for an early retirement, or should it be whether it should be reaching a certain age, as is the system today? Because of high resistance from trade unions as well as legal ambiguities, this is a discussion that has been postponed. Whether the age limits will be raised or changed in the future, therefore remains undecided.

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# Early retirement pension systems in Norway

This paper is about the early retirement systems in Norway, age retirement limits and pension schemes for occupations who have a lower age limit than standard age limit in the occupational pension system.



P.O.Box 2947 Tøyen  
N-0608 Oslo  
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