

Summary

In 2011 the National Insurance Scheme (NIS) introduced a new flexible old age pension which fundamentally changed the Norwegian retirement system. Eligible retirees can now draw an old age pension from age 62 and work as much as they want without their pension being reduced. In addition, the private sector early retirement scheme (AFP scheme) has been reformed. It is no longer an early retirement pension per se, but rather a lifelong supplement to the NIS flexible old age pension, available to all employees covered by an AFP scheme. At the same time, all private sector employees are from 2006 entitled to an occupational pension, and occupational pension regulations have changed.

Within the public sector there have only been minor changes. The AFP scheme in public sector continues as a subsidised early retirement which can be taken, in part or in full, between the ages of 62 and 67. Drawing an AFP pension does not influence later old age pension levels, but combining an AFP pension and work reduces early retirement pay-outs. Public sector occupational pensions are to be adjusted in line with life expectancy and pensions are indexed. There are, however, transitional arrangements for cohorts born before 1959, for whom the new rules do not apply. Public sector employees are also eligible for the NIS flexible old age pension, but contrary to private sector employees they cannot combine an flexible old age pension with an AFP pension

This report describes the changes in the municipal labour market. How do retirement trends and patterns affect labour supply? What are the consequences of different retirement schemes, senior worker policies and personnel policies more generally?

More people working beyond age 50

This report examines retirement patterns among municipal employees between 2002 and 2012. Expected retirement age among employees aged 50 years increased in this period. This increase is primarily due to fewer employees drawing pensions or before the age of 62. Additionally, there has been an increase in the number of employees drawing partial disability pensions and partial AFP pensions.

Combining work and a pension is commonplace

An important goal of the Inclusive Work Life (IWL) Agreement is to increase employees' work ability by allowing employees to combine work and a disability pension. In the municipal sector the measure seems to have been successful in achieving this goal. The number of municipal and county employees drawing a partial disability pension has increased substantially, from 36 per cent in 2003 to 56 per cent in 2012 (among new disability pensioners aged 50 or over). Over the same period, the total number of disability pensioners has remained stable.

Since March 1998 municipal and county employees in Norway have had access to partial early retirement from 62 years which can be combined with partial work. The share of AFP retirees combining partial AFP and partial work increased from less than 20 per cent in 2003 to 29 per cent in 2012.

Drawing a pension in the municipal sector does thus not necessarily mean stopping work. A significant number of pensioners combine work and a pension. One in every three employees aged 55 years or more receiving either a disability pension, AFP pension or occupational pension combine a partial pension and work.

The possibility for an individualised and flexible transfer from work to retirement

Although the employees are entitled to reduced working hours from age 62 and have the possibility to combine a partial AFP pension and part time work, the employer must agree to such an arrangement. Survey data show that reduced working hours and working part time is not an option for all employees, even though an increasing number of employees perceive that the municipal sector is trying to accommodate a flexible and individualised transfer from work to retirement. Six out of ten report that it is very or fairly easy to combine partial AFP pension and part-time work at their workplace. There seems to be a lower likelihood of employees taking early retirement if they perceive employers to be willing to accommodate phased retirement and a combination of partial AFP pension and part time work.

Attitudes to and appreciation of older workers

Most municipal managers do not expect any changes regarding sickness leave, use of new technology, productivity or the possibility for promotion if mean staff age were to increase by five years. In addition, a large proportion of municipal managers expected technical expertise to increase with age. Nonetheless, two thirds expect labour costs to increase as the labour force ages, due to wage and pension schemes and senior worker policies. About one in four also expect sickness leave to increase and productivity and use of new technology to decrease.

Most former and current municipal and county employees have a good relationship with their immediate superior and feel that their work is appreciated. Less supportive leadership increases the likelihood for early retirement, although only a small percentage experiences this.

The significance of the Inclusive Work Life Agreement and senior worker policy

Personnel policies for older workers – senior worker policies – are mainly stipulated by the IWL agreement. At the company level, senior worker policies comprises general personnel policies for all ages as well as specific measures to prevent or change negative attitudes towards older works, measures to prevent health problems and/or promote lifelong learning, a positive working environment and delay retirement.

In 2013 about 90 per cent of all municipal and county employers with more than 10 employees stated that they were promoting senior worker policies. The corresponding figure in the private sector is much lower. Close to two thirds of municipalities have in place measures to prevent health problems, and more than four fifths have in place measures to facilitate and prolong work among employees with health problems or reduced work ability. In addition, close to two fifths of all municipalities offer training to older workers (55+) to continue developing their skills and careers, and about half have established special measures and arrangements to keep older workers (62+) from retiring. Most measures were initiated after 2004 and became more widely used between 2005 and 2013.

About one third of employees and retirees stated that they had been offered one or more measures at 62 years of age or later. Most had been offered extra days off or reduced working hours with full or partial wage compensation.

However, it is still unclear if and how senior worker policies and measures influence retirement behaviour, since only about a quarter of municipal employers have evaluated their policies and measures. Still, about seven out of ten managers view senior worker measures as effective. Among older workers only one in three think that senior worker measures contribute to their prolonged work, and the number is lower still among the highly educated. Analysis based on data from the retrospective cohort study show that employees who were offered some measure are more likely to delay their retirement than employees who did not receive such an offer. Given the conflicting findings and lack of research on senior worker policies, more research is needed in order to make stronger conclusions with regard to the significance of senior worker policies and measures.

Special retirement age

The general mandatory retirement age in the public sector is 70. Beyond this age employees cannot expect to keep their jobs. Several occupations within municipalities and counties have a lower age limit age, i.e. a special retirement age. When an occupation has a special age limit employees have a right to, and in some cases have to, retire at an earlier age.

Nearly 50 per cent of employees with an occupation that has a special age limit retire early. Altogether, retirement due to special age limits only constitutes a small part, about one in six, of all retirement prior to 67 years. The main reason for not retiring at the special retirement age is that employees wish to continue working. Only a few choose to continue working due to expected low pension pay outs (less than 30 years membership an public pension fund).

The special age limits does not in itself increase overall early retirement, as both municipal employees with and without an occupation that has a special retirement age have about the same likelihood of retiring at age 62. What would happen if the special retirement age was removed? About half of employees believe they would delay retirement

and continue in the same occupation, maybe with fewer hours. Half of those who draw an occupational pension early continue working. This indicates that a significant proportion of them have both the will and the ability to continue working. However, one in four special retirement age pensioners are unwilling to continue work. Health problems are a common cause for early retirement.

Comparing early retirement in the private and municipal sectors

The private sector AFP scheme was changed in line with NIS new flexible retirement scheme in 2011, whereas the AFP scheme in the municipal sector remains unchanged. We have compared the two AFP schemes to see how the changes in the private sector have influenced early retirement.

Between 2009 and 2011 there was a significant reduction in early retirement among eligible 62 year old private sector employees. In 2011, private sector early retirement among 62 year olds was almost as low as in the municipal sector. Although fewer employees were drawing the AFP pension, there was also a substantial reduction in the number of employees receiving other benefits (e.g. health benefits). When studying employees who continued working after drawing an early retirement pension (AFP) at 62 years, we find that private sector employees are more likely to reduce their working hours (measured as a wage reduction) than municipal employees.

The change in private sector early retirement scheme (AFP) seems to have increased the employment rate among 62 year olds to about the same level as in the municipal sector. However, among those who continue working beyond 62 years, reduced working hours are more common in the private sector.

If a similar reform was to impact municipal employees it is unclear whether this would have the same influence on employment rates. There might be a bigger potential for growth in the private sector compared to the public sector precisely because they had a lower rate of employees who continue working. Also, it is unlikely that the increased employment figures correspond to a similar increase in years of employment. A higher proportion of private sector employees experience a wage reduction than municipal employees, thus indicating that private sector employees are more likely to reduce their working hours. A municipal retirement reform would also be contingent on other available benefits and services, including the special age limits, and on municipal senior worker policies and measures. This would in particular apply to employees with health issues, since it has been established that a large proportion of those who take early retirement in the municipal sector, excluding those receiving disability benefits, do so because of health reasons.

Possible effects of the pension reform

An important consequence of the Pension reform is that since 2011, the lower the age at which an employee retires, the lower the annual pension they receive, since the accumulated pension funds have to be distributed over more years. Municipal employees

were not influenced by these changes. When asked how they would behave given the same rules as in the private sector, two out of five municipal employees stated they would not change their behaviour. Almost 50 per cent said they would delay retirement. Among those who worked to 65 years, one in three thought they would have continued working. This implies that the change represents less of an economic incentive to continue working with increasing age.

Part of the pension reform involves adjusting (i.e. scaling down) pensions in line with increases in life expectancy. Use of the life-expectancy adjustment can be seen as a substitute for an increase in the statutory pension age. Authorities expect this to delay retirement. This change applies to municipal employees as well, but only for cohorts born after 1958. When asked how they would behave given an increase in life expectancy of about a year, one in five early retirees state they would work as long as needed to avoid a cut in their pension. Among those still employed after age 65, two in five would prolong work. The difference in responses between early and late retirees is probably not only due to different priorities, but also real differences in the possibility of continuing work (e.g. due to health differences).

Stopping work used to be a precondition to receiving a retirement pension. With the pension reform this precondition was removed. It is now possible to draw a full retirement pension and early retirement pension and continue working full time. When asking municipal employees how they would behave given such regulations, between 19 and 36 per cent stated that they would combine full-time work and a full pension. Such a solution is most tempting among employees still working at ages 65-69. Among early retirees there was less interest.

Knowledge of retirement schemes

How different pension schemes and changes to them affect individual plans and behaviours is not determined only by the changes themselves, but also by knowledge about the changes. In order to make reliable plans for retirement it is crucial employees know their rights and pensionable income.

Previous studies have shown that most people know very little about their pension rights. In addition, knowledge is unevenly distributed by social strata. This applies to municipal and county employees as well, where only one in three employees aged 62-69 years thinks they have good knowledge about how changes to the new National Insurance Scheme pension affect public sector employees. One in three is not aware of the possibility of combining partial early retirement pension (partial AFP) and part time work from age 62, and one in two does not know that such a combination might impact pension pay outs. As older workers usually have better knowledge about pensions than younger workers, the results indicate that young municipal employees will have little knowledge about their pension schemes. Knowledge about pensions influences early retirement behaviour: the more employees know about consequences of the pension reform, the more likely they are to delay retirement.