



LANDSSAMTÖK LÍFEYRISSJÓÐA

Comparison of pension systems in five countries:

Iceland

Denmark

The Netherlands

Sweden

United Kingdom

English summary of a report in Icelandic,

based on data from OECD

(Organisation for Economic Co-operation and Development)

and other public institutions

February 2017

Introduction and main findings

The Icelandic Pension Fund Association has published a comparison of pension systems in five countries: Iceland, Denmark, The Netherlands, Sweden and the United Kingdom. The comparison, completed in February 2017, contains seven chapters:

1. Goals and characteristics of pension systems
2. Main characteristics of the pensions systems in the five countries
3. Comparison of pensions, using extrapolation
4. Comparison of pensions of current beneficiaries
5. Financing of pension systems
6. Age distribution and labour participation
7. Comparison of pension systems by foreign specialists

The annexes contain a list of sources, detailed descriptions of the pension systems in the five countries, comparison tables and data on current minimum pensions in the five countries. This summary in English contains only excerpts from chapters 3-7 and none from the annexes.

The data mainly comes from OECD databases and reports, with complementing data and information from Eurostat and pension authorities in the five countries. Data is predominantly from 2015, but in some cases the newest data available is from 2013 or even 2011.

Main findings:

- Despite relatively low public funding of pensions (in part explained by a lower ratio of older people than in the comparison countries) the replacement ratios in the Icelandic pension system compare favourably with the other systems for two reasons:
 - Protection against serious poverty is achieved by focusing payments from social security on people with low pension income or otherwise at a disadvantage, but others receive little or nothing.
 - The pension schemes of occupational pension funds can guarantee adequate replacement ratios, albeit after a longer working life than is common in the other countries.
- Iceland already has by far the highest ratio of funded pensions (occupational pension funds and voluntary personal pension savings). In the other four countries, the bulk of pension payments comes from public pay-as-you-go systems.
- When calculating the expected pension of a newcomer to the job market, the Dutch system delivers the highest replacement ratios and highest income equality both from the public system and from the occupational pension funds. Iceland comes second.
- The Icelandic system stands out with high income testing of public pensions. Iceland is also the only one of the five countries where public pension payments cease if the occupational pensions reach a certain limit.
- Iceland has higher income equality than the other countries, there are proportionally fewer people below the poverty line and pensioners come out fairly well in this comparison with other age groups and the whole population.
- Iceland has lower pension payments as a ratio of gross domestic product than the other four countries.
- The analysis of two foreign research units of strengths and weaknesses of several dozen countries indicates that Iceland would receive high marks in such comparison and probably reach one of the top places or at least make the top 10 list.

Pension entitlements

(excerpts from chapter 3 in the original report)

The chapter draws on material and calculation results from the **Pensions at a Glance 2015** report issued by OECD. A full description of the methodology is provided in that report.

Replacement ratios before taxes:

1st pillar

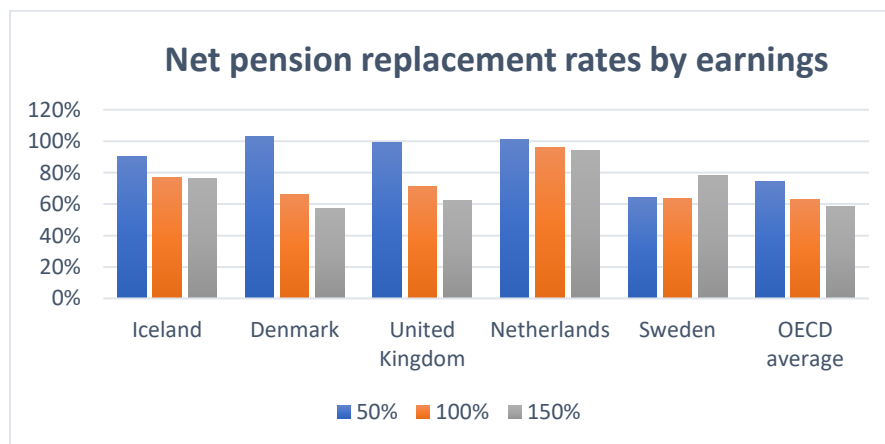
% of average wages	50%	100%	150%
Iceland	16.8%	3.4%	2.3%
Denmark	56.2%	21.5%	10.3%
Netherlands	54.2%	27.1%	18.1%
Sweden	42.7%	42.7%	29.5%
United Kingdom	59.4%	29.7%	19.8%
OECD average	53.2%	40.9%	35.5%

2nd pillar

% of average wages	50%	100%	150%
Iceland	65.8%	65.8%	65.8%
Denmark	51.3%	46.3%	44.7%
Netherlands	39.8%	63.4%	71.2%
Sweden	21.7%	21.7%	43.6%
United Kingdom	31.1%	31.1%	31.1%
OECD average	Not calculated		

Replacement ratios of average work life income after taxes, 1st and 2nd pillar combined

% of average wages	50%	100%	150%	200%	300%
Iceland	82.6%	69.2%	68.1%	67.5%	66.9%
Denmark	107.4%	67.8%	55.1%	51.6%	48.2%
Netherlands	94.0%	90.5%	89.3%	88.7%	88.1%
Sweden	64.4%	64.4%	73.1%	77.9%	82.8%
United Kingdom	89.5%	60.8%	50.9%	Not calculated	
OECD average	64.8%	52.7%	47.5%	Not calculated	



The comparison shows that all five countries are above the OECD average, but they reach this in a different manner. Iceland has by far the lowest ratio from public pensions but makes up for it with higher ratios from occupational pension funds.

All five public pension systems protect the low-income groups and give them a higher replacement ratio than other groups. The occupational pension funds generally pay pensions relative to contributions and therefore the most likely outcome is for replacement ratios to be similar, regardless of income. This is, though, not the case in the Netherlands and Sweden where, due to caps on pension rights in the public system, higher-income groups are allowed to increase their pension rights accruals in the occupational pension funds.

Overall the Dutch system delivers highest replacement ratios and least fluctuations by income. Iceland comes second.

Incomes and poverty of older people (excerpts from chapter 4 in the original report)

The comparison is based on OECD data originating in statistics institutions in the five countries.

Income distribution and poverty

Income distribution by GINI-coefficient:

	Whole population	66 years and older
Iceland	0.244	0.227
Denmark	0.254	0.225
Netherlands	0.280	0.229
Sweden	0.281	0.271
United Kingdom	0.358	0.322

Poverty ratio by age-groups:

Whole population	66-75 years	76 years and older
4,6%	2,0%	4,3%
5,4%	2,3%	6,2%
7,9%	1,8%	2,5%
8,9%	5,2%	11,4%
10,4%	10,9%	17,0%

Iceland has the least income inequality of the five countries and poverty ratios are also low. Overall the Netherlands come out best for senior citizens.

Relative standing of minimum pensions and senior citizens' income

	Minimum pension (2016) compared to poverty line (2013 data)	Income of senior citizens compared to medium population income	Minimum pension as ratio of income of senior citizens
Iceland	23%	84%	74%
Denmark	30%	73%	89%
Netherlands	17%	82%	72%
Sweden	-24%	80%	48%
United Kingdom	-2%	83%	59%

Iceland's minimum pension is well above the poverty line and the income of senior citizens is closer to the medium population income than is the case in the other four countries.

Incomes of people aged over 65, % of population incomes

Country	All aged over 65	Age 66-75	Aged over 75
Iceland	93%	97%	87%
Denmark	77%	82%	69%
Netherlands	87%	99%	78%
Sweden	86%	98%	68%
United Kingdom	82%	89%	74%

Income composition of senior citizens

Pension income	Asset income	Wages
62%	11%	27%
65%	19%	16%
83%	7%	10%
74%	12%	14%
(Data not available)		

Overall, Iceland comes out strong in this comparison, but this is in part explained by the higher employment rates of senior citizens than in the other countries, resulting in a higher share of wages in total income.

Demographic and economic context

(excerpts from chapters 5-6 in the original report)

Funding of pension systems	Total contributions from wages to pillars 1 and 2 (current and planned)	Expenditure on pensions as ratio of GDP (2013)
Iceland	19.5%	5.3%
Denmark	21.5-27.5%	9.6%
Netherlands	25.4-27.3%	10.1%
Sweden	23%	10.2%
United Kingdom	33.8-35.8%	10.2%

Iceland has the lowest pension contributions of the five countries and the total pension expenditures are just over half of the expenses in the other countries, as a ratio of GDP.

Country demographics	Median age	Old-age dependency ratio, whole population	Old-age dependency ratio of working age population	Employment rates of older workers	Age	Age	Age
					55-59	60-64	65-69
Iceland	36,3	13,1%	19,7%	Iceland	86%	82%	53%
Denmark	42,0	18,0%	27,9%	Denmark	78%	48%	16%
Netherlands	42,5	17,1%	25,9%	Netherlands	71%	70%	15%
Sweden	41,2	19,9%	31,3%	Sweden	82%	66%	21%
United Kingdom	40,5	17,0%	26,0%	United Kingdom	73%	48%	21%

Iceland has a younger population, lower old-age dependency ratios and higher employment rates than the other four countries, all of which leads to a lower pension burden.

	Normal pensionable age 2014	Average effective age of labour market exit		Expected years in retirement		Future retirement age
		Men	Women	Men	Women	
Iceland	67	69,4	68,0	15,3	18,6	67
Denmark	65	63,0	60,6	18,3	23,3	67
Netherlands	65,2	62,9	61,9	19,2	23,5	67
Sweden	65	65,2	64,2	18,2	21,9	65
United Kingdom	65 (62,5 women)	64,1	62,4	18,5	22,7	68

Iceland already has a higher retirement age than the other four countries, although some of them have already decided to raise the age limit. Iceland is the only country where people on average stay in the labour market beyond the normal pension age. These two factors result in significantly fewer years in retirement, which leads to a lower pension burden.

Iceland and the global pension indices

Two international firms calculate a global pension index annually and publish reports of the ranking and methodology. Iceland is not included in their analysis, but it can be argued that Iceland would probably be ranked in one of the top positions and at least in the Top 10, for two reasons:

1. Iceland comes out very strong in the comparison described in this report (pages 3-5).
2. Applying the criteria listed by the two firms to the characteristics, current and forecast status of the Icelandic pension system identifies very few weaknesses and gives a picture of overall strength which is at least equal to the other four countries.

Potential weaknesses of the Icelandic system by the criteria of Melbourne Mercer are:

- Protection: Members of defined-contribution occupational pension funds (2nd pillar) may experience benefit cuts if investment returns are inadequate, as solvency adjustments are required by law. The stringent income-testing of public pensions (1st pillar) could also lower the rating.

Potential weaknesses of the Icelandic system by the criteria of Allianz are:

- The stringent income-testing of public pensions (1st pillar) and the rapid increase in the old-age dependency ratio over the coming decades.

The global pension index rankings and index values (in parentheses)

<i>Melbourne Mercer Global Pension Index (27 countries)</i>	<i>Allianz Pension Sustainability Index (54 countries)</i>
1. Denmark (80,5)	2. Denmark (7,93)
2. Netherlands (80,1)	3. Sweden (7,81)
5. Sweden (71,4)	4. Netherlands (7,75)
11. United Kingdom (60,1)	11. United Kingdom (7,20)