

13 October 2022

Tinna Finnbogadóttir



The Icelandic pension system

Performance, strenghts and challenges

Government of Iceland

Ministry of Finance and Economic Affairs



Agenda

- Performance of the Icelandic pension system
- Strengths of the Icelandic pension system
- Challenges of the Icelandic pension system

- The views expressed in this presentation are my personal opinions and do not necessarily reflect the ministry's views





Performance

Iceland – the „bestest“ in the world?

Adequacy

-  1. Iceland (85,8)
-  2. Portugal (84,9)
-  3. Netherlands (84,9)

Sustainability

-  1. Iceland (83,8)
-  2. Denmark (82,5)
-  3. Netherlands (81,9)

Integrity

-  1. Finland (93,3)
-  2. Norway (90,3)
-  3. Netherlands (87,8)
- .
- .
- .
-  7. Iceland (84,4)



Strengths



Topic	DK	IS	NL
Household savings + debt	11	20	14
Tax treatment	11	20	20
Access age to pension plans	40	40	20
Level of home ownership	8	15	14
Labor force participation	27	33	26
Member protection from fraud or insolvency	3	13	3
Annual reports req.	0	11	10

Mercer comparative strengths

- General economic conditions are positive contributors
 - healthy household balance sheets
 - labor force participation
 - level of home ownership
- Members are protected from fraud within funds and creditors in the event of employer insolvency



Challenges



Mercer comparative challenges

Topic	DK	IS	NL
Net replacement rate	100	92	100
Annuity income streams + reverse mortgages	32	30	36
Divorce	0	6	12
ESG in investment strategies	2	2	7
Info for new members	13	0	13

- In last year's Mercer evaluation the net replacement rate only gave Iceland 77 points
- Despite a fairly strong leaning towards annuity income streams the Icelandic system has no reverse mortgages
- Mercer encourages us to „protect all the pension interests of both parties in a divorce“
- Working on a new draft bill that includes mandatory info for new members

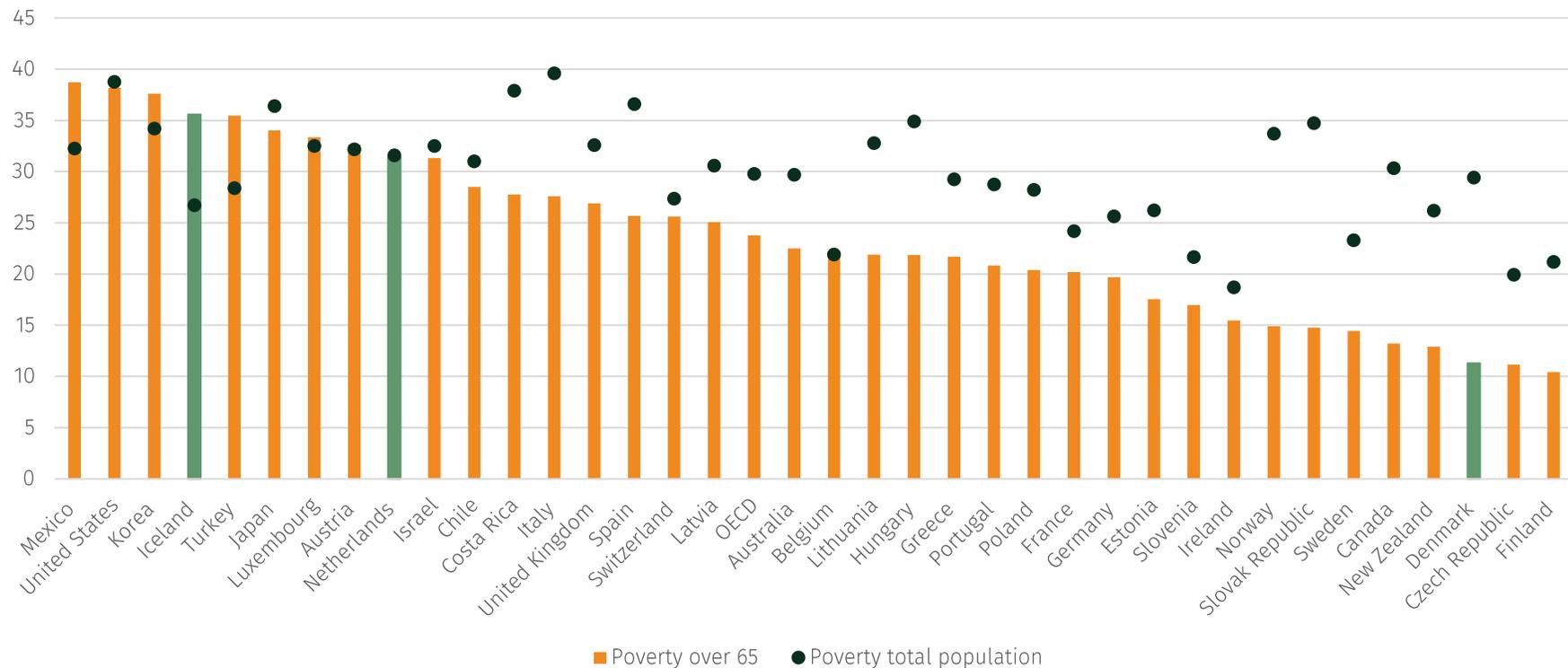


Challenge #1



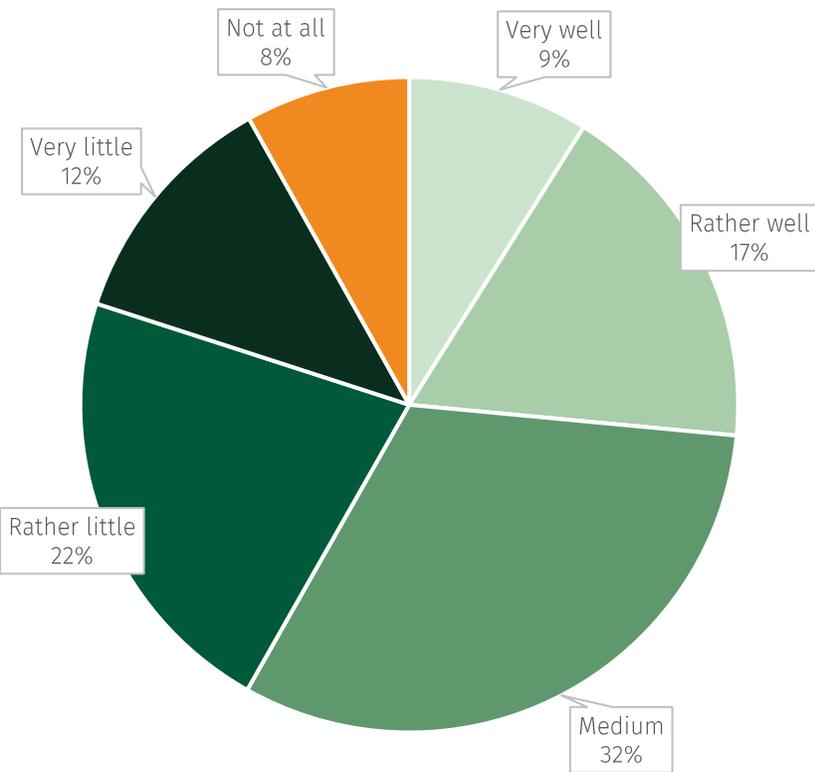
Iceland – largest poverty depth of elderly

Poverty of the elderly is uncommon in Iceland – but the poor are worse off than in DK and NL

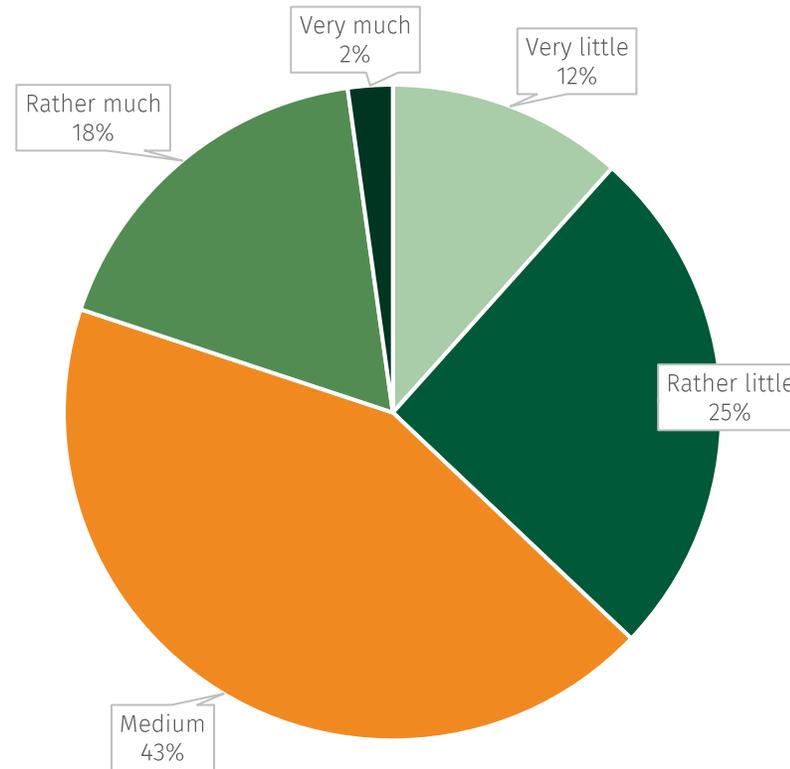




How well do you know the pension benefits you will receive at retirement?



How much trust do you have towards the pension funds?



System obscurity

The system is complicated, people do not know their pension benefits and are indifferent to the pension system.



Pension system immaturity + lack of knowledge about the system => challenge

- There is a disconnect
 - The system is well funded and assets are 2x GDP
 - Still, poor elderly people are poorer in Iceland, relative to the general poor population, than in Denmark and the Netherlands
 - People do not understand the system and hear older people talk about their poor financial situation.
 - What impression do younger people today get about their pension in the future? Solidarity is necessary for the continued functioning of the system.



Challenge #2



„The main objective of the pension system is that all people **have commensurable pension benefits**. Other important goals are to increase choice in pension savings, to encourage competition between funds and to ensure direct influence of pension members on the funds' strategies and their boards.“

Explanatory notes from the draft bill of law that became the Act on compulsory pension savings and the operations of pension funds (from 1997). Translation and omissions are mine (TF).



Choice for some but not others => non – commensurable pension benefits

- Some employees have to pay into a certain fund as a part of their wage agreement – other employees can choose the fund they want
- Those who can choose their fund generally have two perks:
 - A portion of their mandatory pension savings (the 12% fee) can be **inheritable** and if they take their private savings out as a lump sum they can reduce the effect of income testing on their **right to pension from the public system**
 - They can get higher benefits, even after taking into account a later pension age
- Benefits accrued in a collective scheme can not be transferred between funds, despite a new employment and a different wage agreement
- These differences can create a certain disgruntlement – chips away at the solidarity necessary for the system

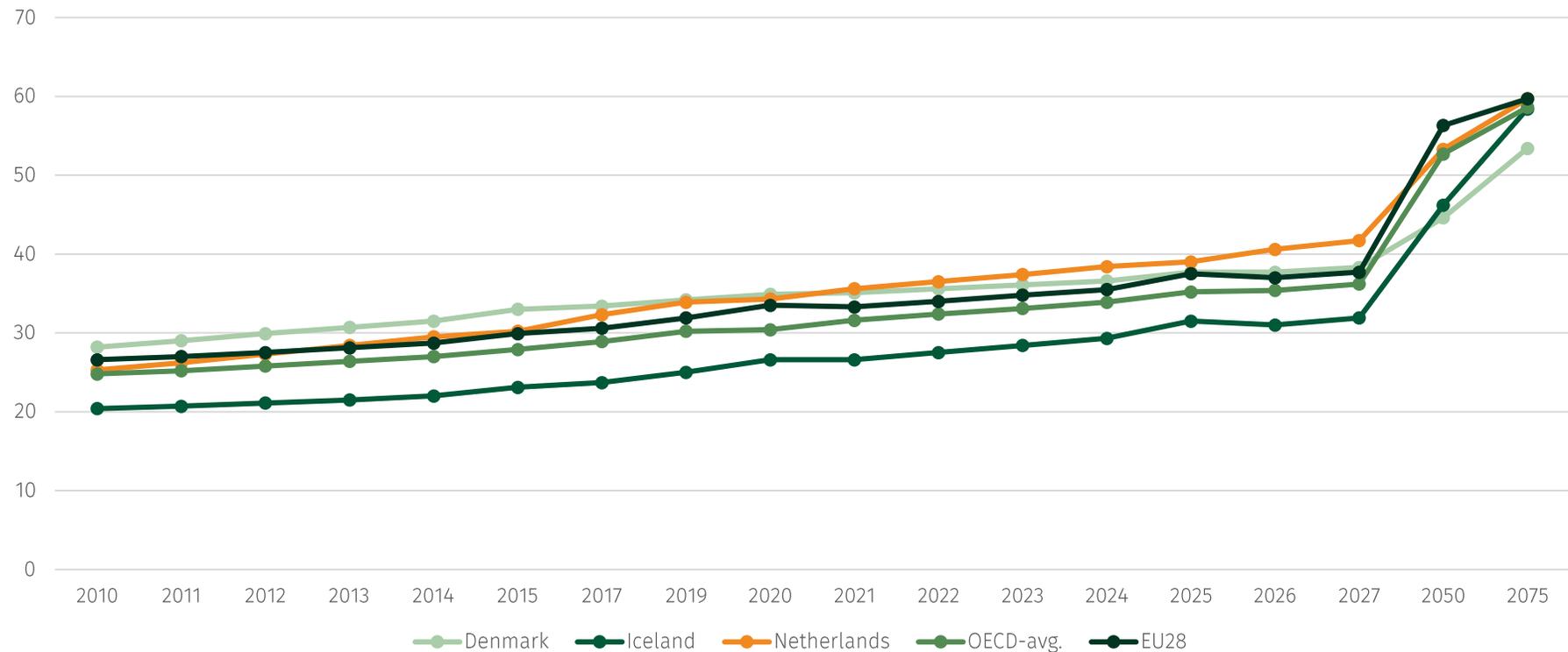


Challenge #3



Old age dependency ratio

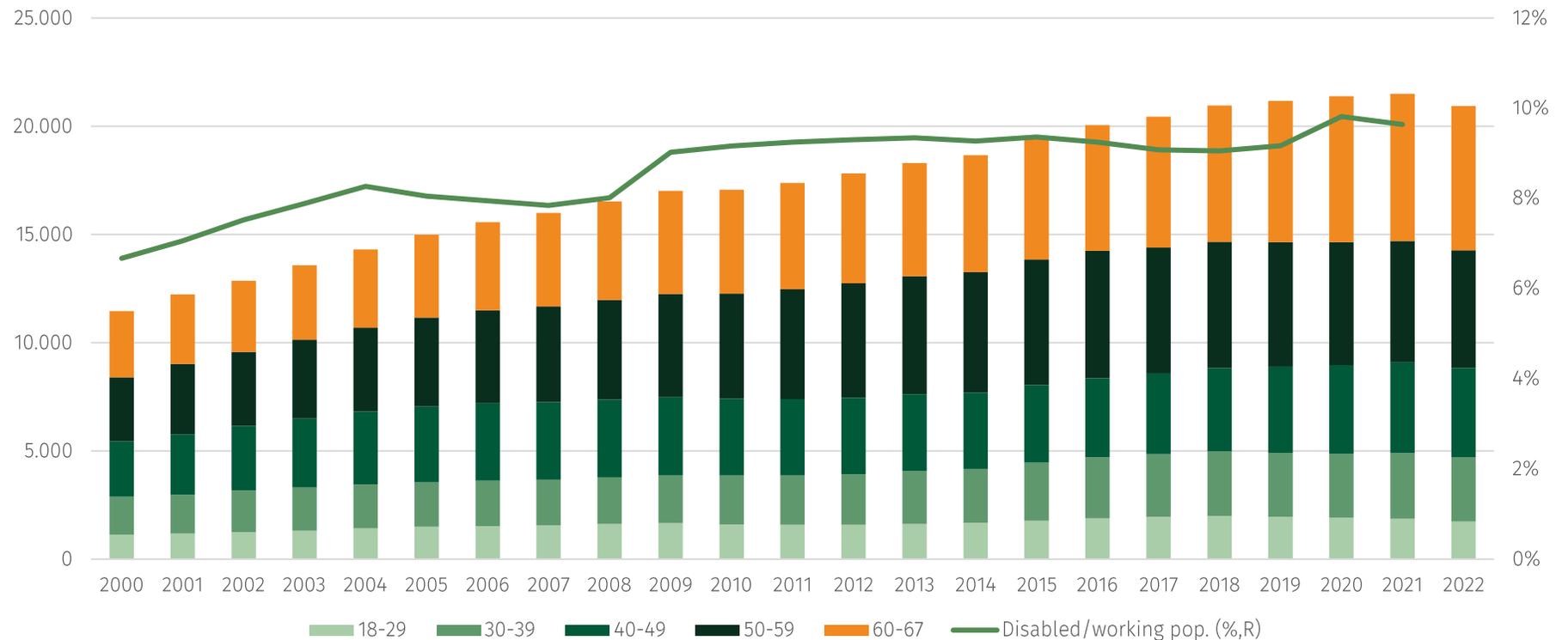
Iceland's adjustment will be the steepest





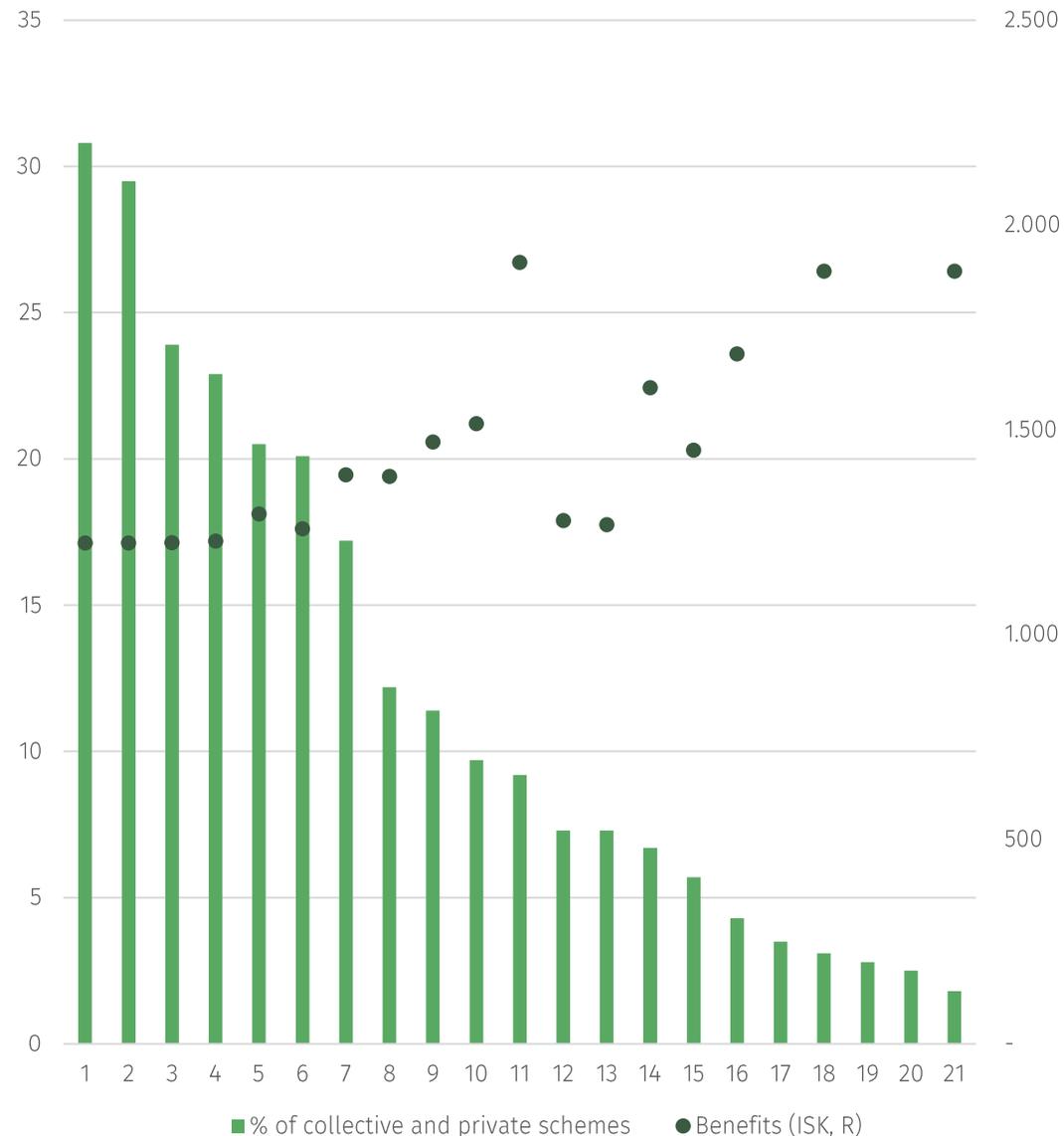
Disability has been increasing

Disability of 50+ is the main reason for the increase





Disability pension benefits as a share of total benefits, per fund



Disability pension is vastly different between funds

- Funds with lower disability pensions promise higher benefits per 10.000 ISK paid
- Funds with higher disabilities tend to have lower life expectancy
- The treasury has subsidised disability pension benefits – with payments to each fund reflecting their share of the disability pension. The subsidy is about 10% of what the treasury spends on public disability pension.



Take aways

- Iceland has a robust pension system
- The system still exhibits some growing pains. Full benefits take a while to be realized and if patience runs out, solidarity could break.
- People do not know much about their pension funds, their pension savings or how the system works.
- Benefits accrued can be vastly different between otherwise similar individuals – another threat to solidarity.
- Dependency is increasing – associated challenges.

13 October 2022



Thank you!

Government of Iceland
Ministry of Finance and Economic Affairs