Icelandic Pension System

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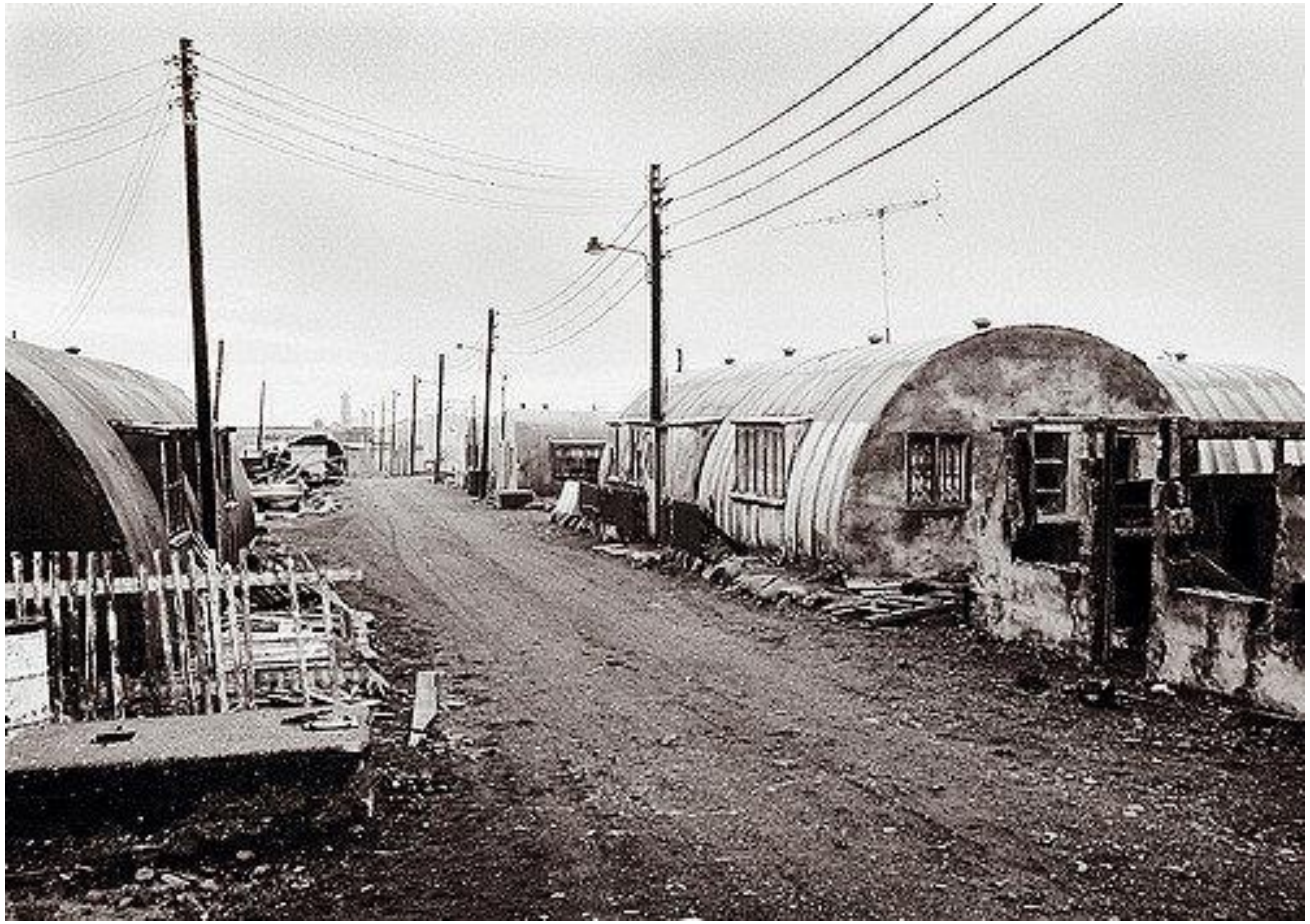
SARPUR
Byggðasafnið Skógum



Iceland at a Glance

1900
Iceland is one of the poorest countries in Western Europe

1902
First motorized fishing vessel, called Stanley

1918
Iceland becomes a sovereign country

1919
First Icelandic Pension fund established based on new laws (Predisessor of LSR)

1920
Iceland is still very poor, 44% of residential buildings are still turfhouses

1921
The operation of the Reykjavik Electricity Authority begins formally

1931
Capital controls implemented

1944
Iceland declares full independence

1948
Iceland starts to receive significant aid from the Marshall Plan

1955

Unemployment-benefits established

1965

Landsvirkjun, energy company government owned is established

1969

The foundation of the current pension fund system established as a part of collective wage agreements. Mandatory participation in pension funds for workers in labor unions in the general labor market and full funding

1969

The herring fails to appear

1970

Rio Tinto formally opens an aluminium smelter in Straumsvik

1974

Mandatory participation in Pension funds was established by law for all wage earners, including those outside labor unions

1976

Iceland established international recognition of 200-nautical-mile Fishing is the main export of the country

1970-1985

Pension funds are required to invest 20- 40% of their portfolio in government related projects such as indexed government bonds, the Icelandic Investment Fund, and the State Housing Fund.

1985 / 1986

The Icelandic stock exchange (Kauphöllin / Verðbréfaþing) established.

Iceland at a Glance

1992
Privatization starts with the printing office Gutenberg

1993
Capital controls abolished

1994
Iceland joins the EEA

1997
Major Pension Reforms, effectively creating the „three-pillar“ system

1999
Supplementary pension funds (pillar III) start to collect contributions

2008
The three largest banks collapse within a few days. Capital controls implemented.

2009
The Icelandic Enterprise Investment fund established (PE)

2010
Eyjafjallajökull erupts, boosting Iceland‘s profile globally

2017
Capital controls on pension funds fully abolished

Facts and figures

Population of Iceland: **391.810** (2025 Q2)

Pension assets (2025 Q2):

- **8.211 billion ISK** (≈58 billion EUR)
- **179% of 2024 GDP**
- **21 million ISK** (≈148.000 EUR) per inhabitant

Contributions

- Mandatory **15,5%**
- Supplementary pension savings **4%-6%**

The Icelandic Pension System

The extent and lifespan of the pension system

Pillar II and pillar III

Age 16
Start making contributions

First home
Pension fund Mortgage
Tax free lumpsum/ mortgage payments from pillar III

Disability?
Disability pension

Age 60
Pillar III open for withdrawal

Age 67
Retirement age, although flexible

Age of passing
Survival pension to spouse and children

Investments
Domestic and global

Three pillar pension system

The main characteristic of the Icelandic pension system is the operation of mandatory occupational pension funds

First pillar	Second pillar	Third pillar
Tax-financed public pension Minimum pension Income adjusted	Occupational pension funds Mandatory savings based on wages. Fully funded system	Voluntary individual pension savings with tax incentives

Retirement income

Mandatory system

I
Social insurance

II
Pension funds

Voluntary savings

III
Supplementary pensions

IV
Other savings and assets

The first pension pillar

Basic structure	Basic amounts in 2024	All amounts income-tested
Each year of residence 1/40th of entitlement, minimum 3 years residence Inflation protected (CPI or better) After 40-year residence: Full basic amount (income-tested)	Person, living alone: 417.391 ISK (€ 2.800) Person, sharing: 333.194 ISK (€ 2.200)	First 25,000 ISK per month exempt (€ 170) • Income from work 200,000 ISK (€ 1,400) All other income: 1st pillar pension reduced by 45% of income

The second pension pillar

Mandatory contributions at ages 16–70

Mainly industry-wide pension funds

- membership governed by labor contracts

Managers, specialists, self-employed are free to choose pension funds;

- several „free“ pension funds focus on them

The second pension pillar

- Regulated and fiscally stimulated by government
- Contributions tax-exempt up to a limit
- Everyone has access; full coverage of working population
- Minimum contribution 15,5% by law (4%+11,5%)
- Pensions are inflation-protected (CPI)

Check's and balances

DC, older DB run it's course

- With each contribution, the fund member earns lifelong benefits.
- Relative to their contribution
- And according to their age at the time of the contribution

A mutual insurance system

- Risks like longevity, disability, or death are shared collectively among all members

Yearly calculation of deficit/surplus by law

- Deficit/surplus above 5% - over five years
- Deficit/surplus above 10% - immediate response

More than old age pension

Disability pension

- If illness or accident reduces their work capacity by at least 50% and their income is similarly reduced

Pension of a surviving spouse

- Full pension for the living spouse shall be paid for at least two years

Pension for surviving children

- Is paid until children reach at least 18 years

The third pension pillar

Government-approved savings products

Managed by 2nd pillar pension funds,
banks and insurance companies

Fiscally stimulated by government,
tax-exempt contributions up to a limit

Individual decision to participate,
approx. 60% participation

The Synergy of the Three Pillars

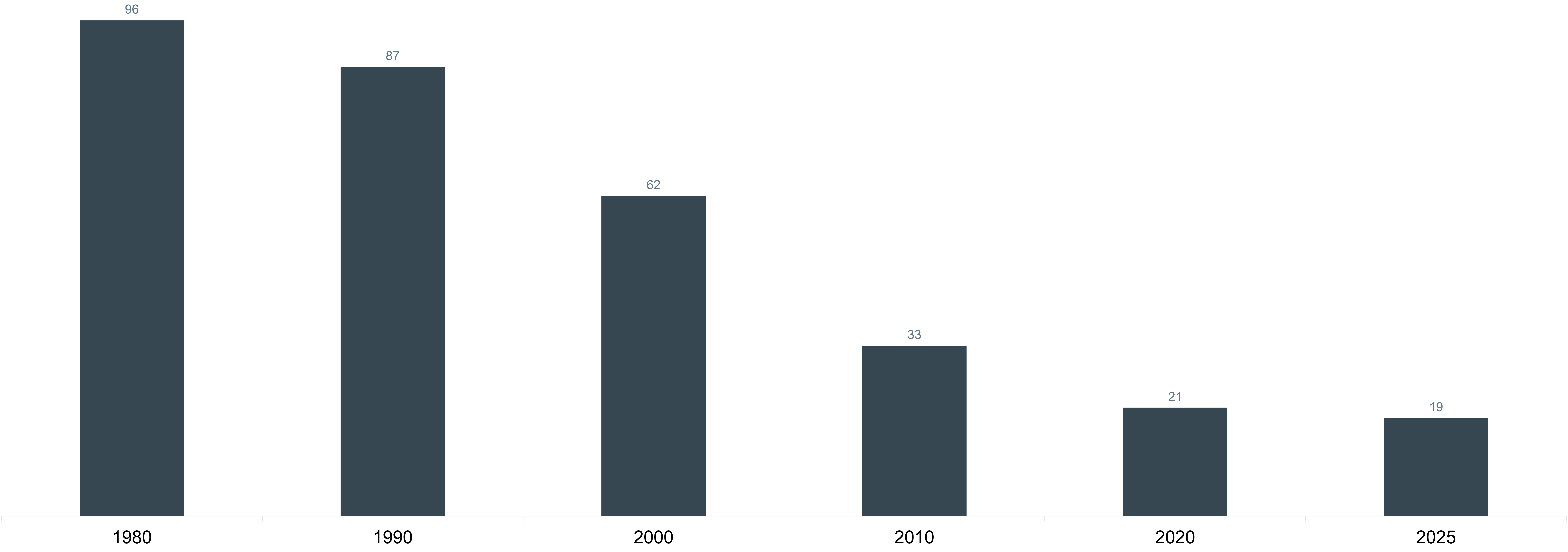
A healthy balance between fixed lifelong payments and autonomy, security and flexibility

First pillar	Second pillar	Third pillar
Minimum pension Income adjusted Security, protection against severe poverty	Mutual insurance system Fixed lifelong benefits, inflation secured Security and predictability	Private pension Full autonomy of withdrawal Flexibility in income and age of retirement

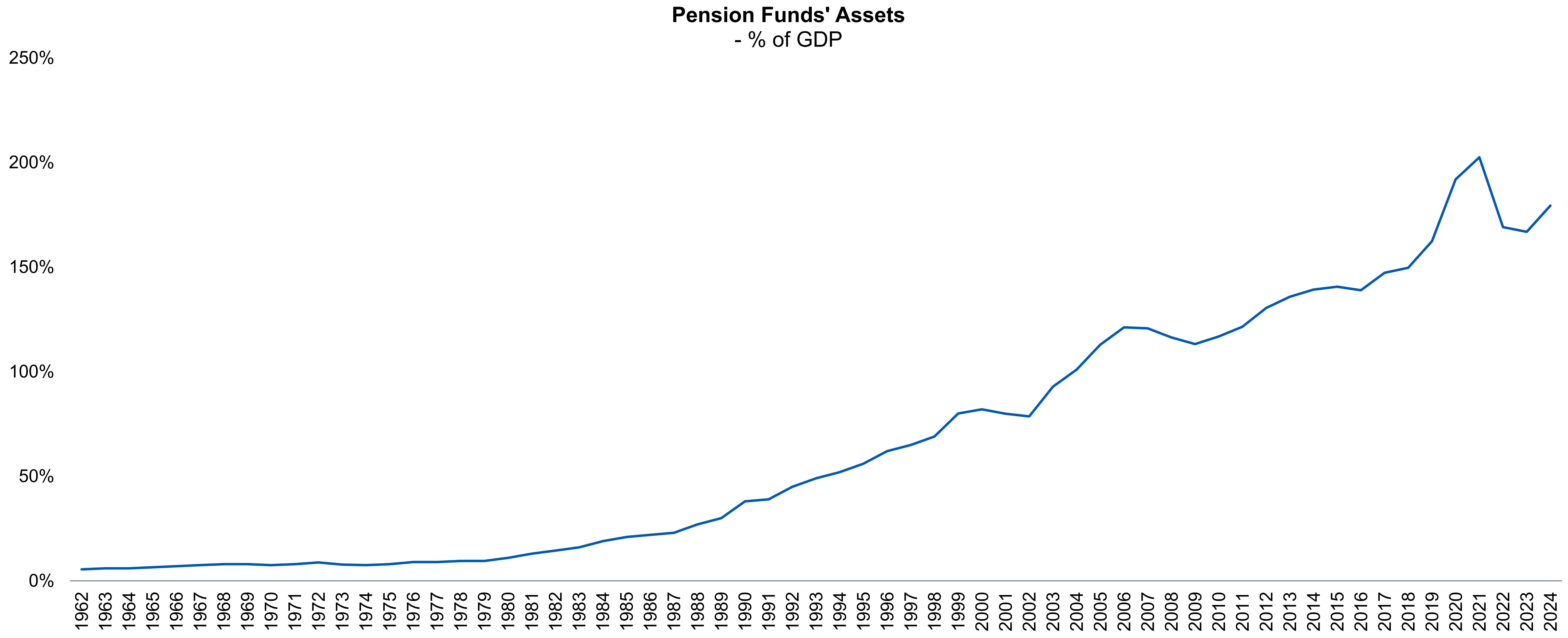
A big fish in a small pond

Iceland has 19 pension funds

Number of pension funds has decreased steadily for many years

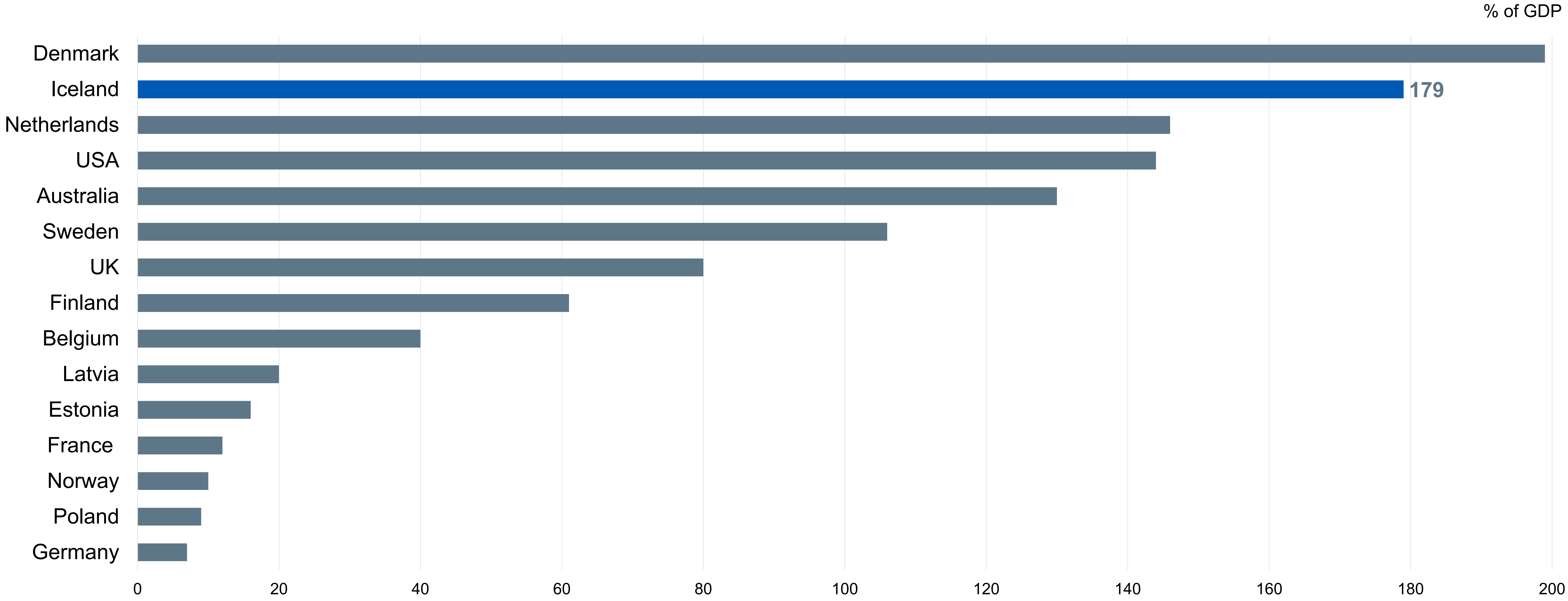


Outpacing the Economy



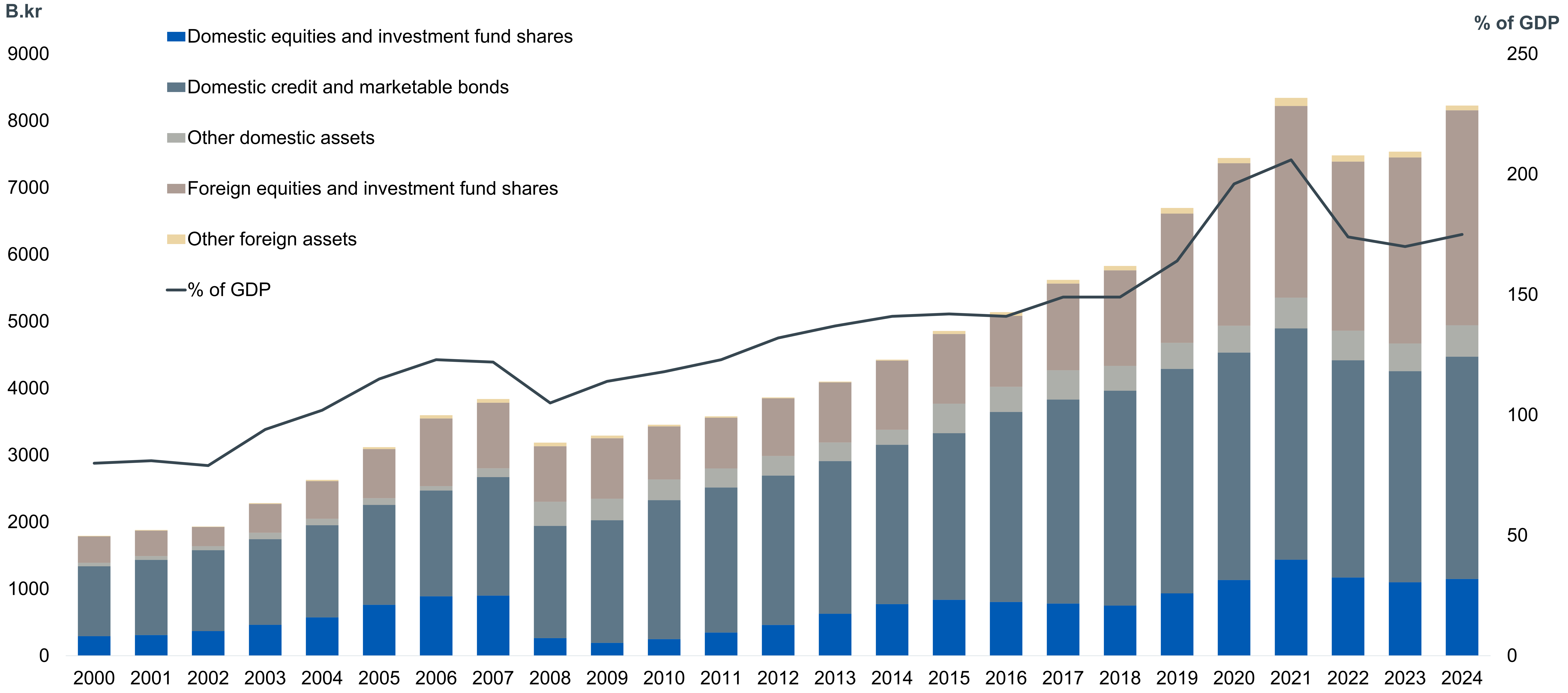
 Sources: Icelandic Pension Funds Association, Central bank of Iceland, Arion Research

Pension assets to GDP
2025 Q2



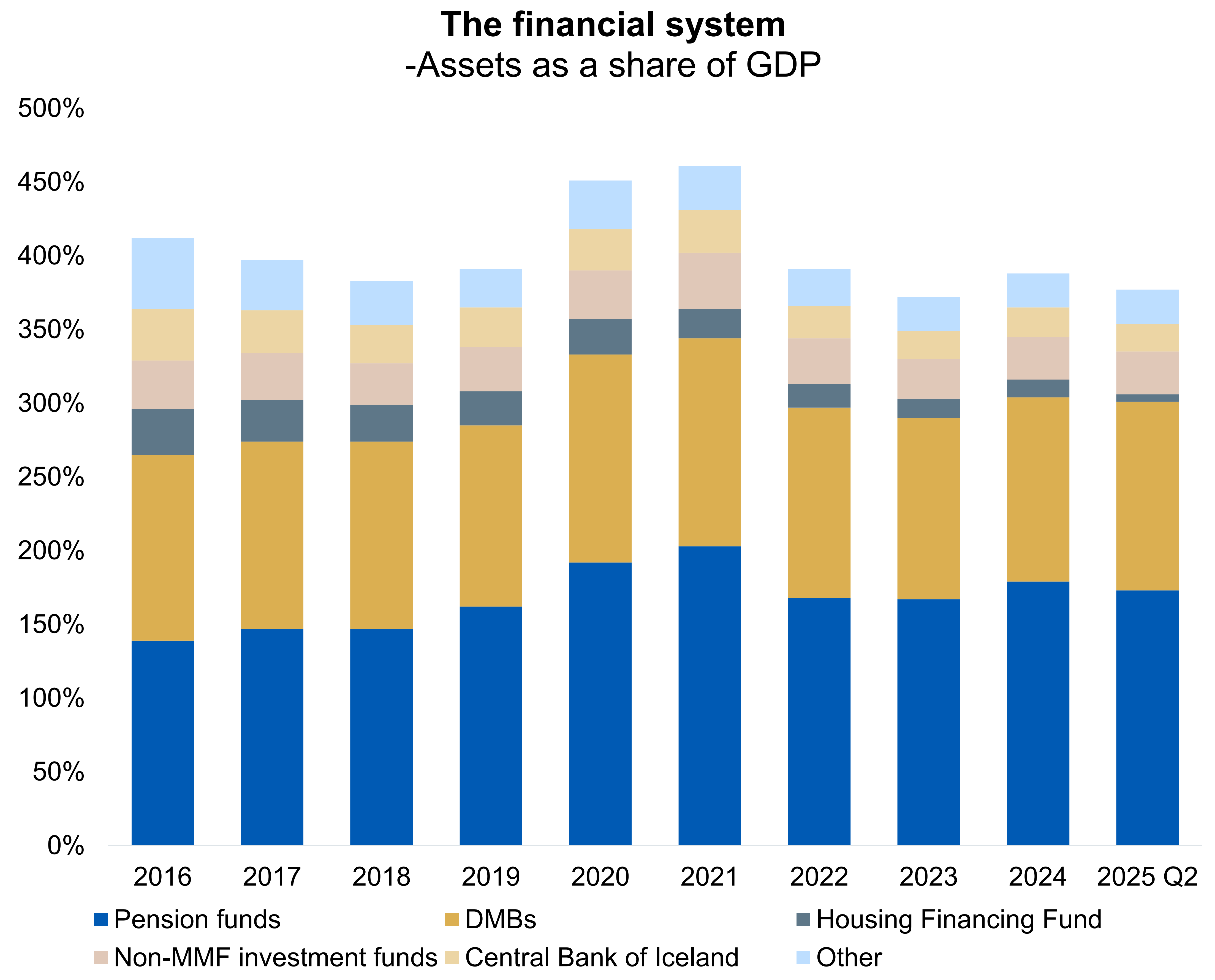
 Source: OECD, Pensions at a Glance 2023

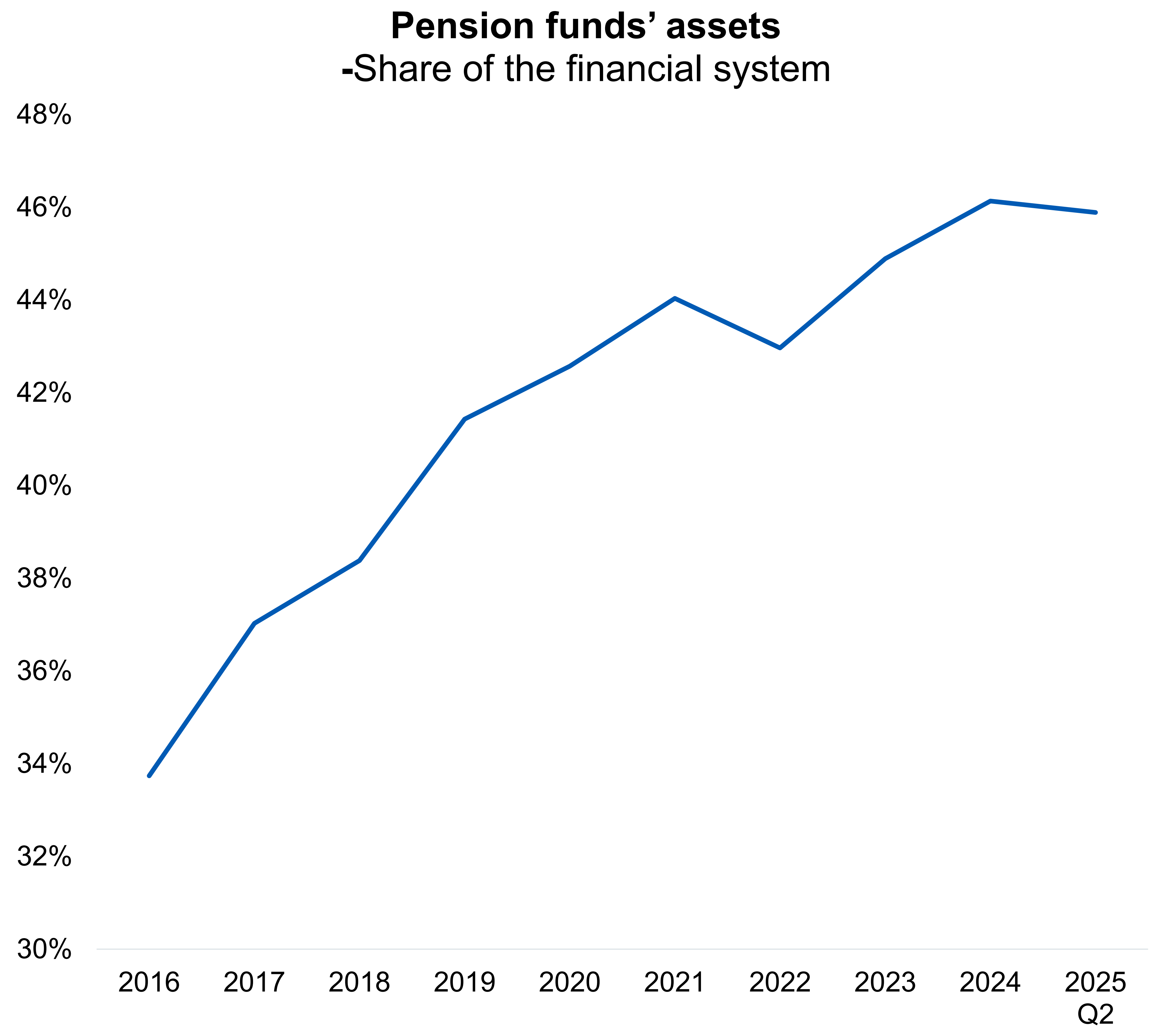
Pension fund assets

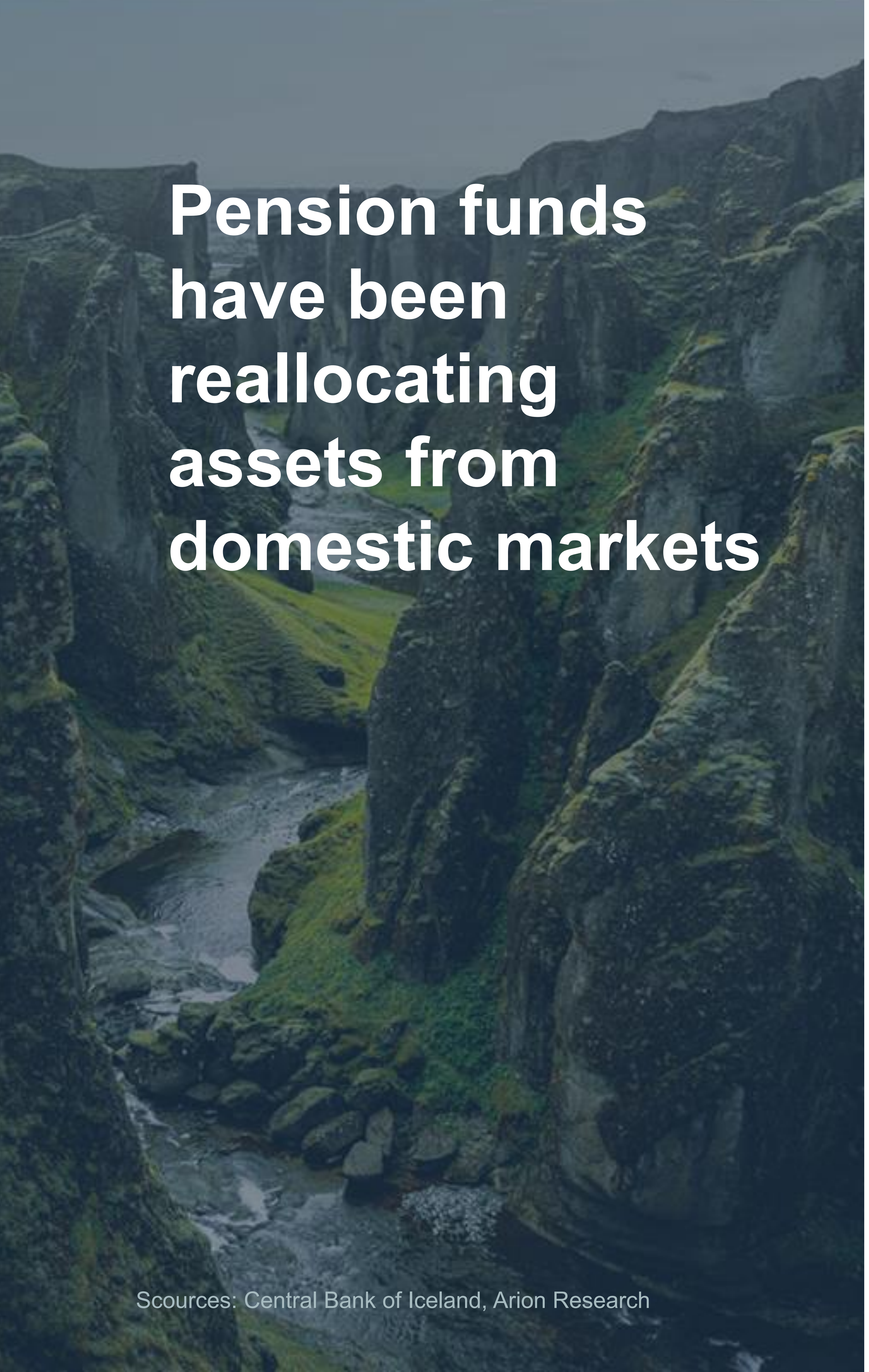


1. Real pension funds assets at fixed december 2023 prices.
Sources: The Central Bank of Iceland, Statistics Iceland

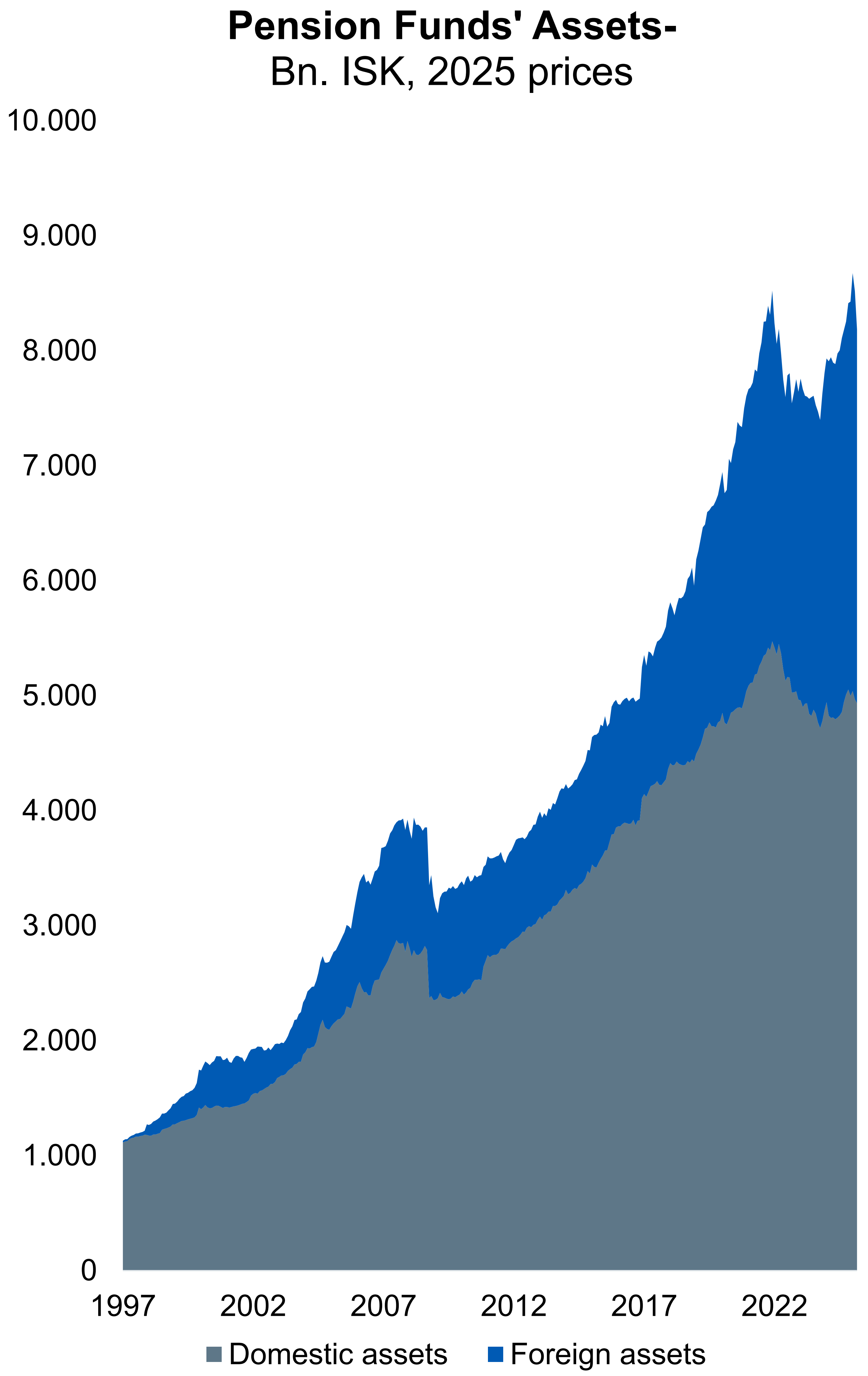
Pension funds - a significant part of the financial system

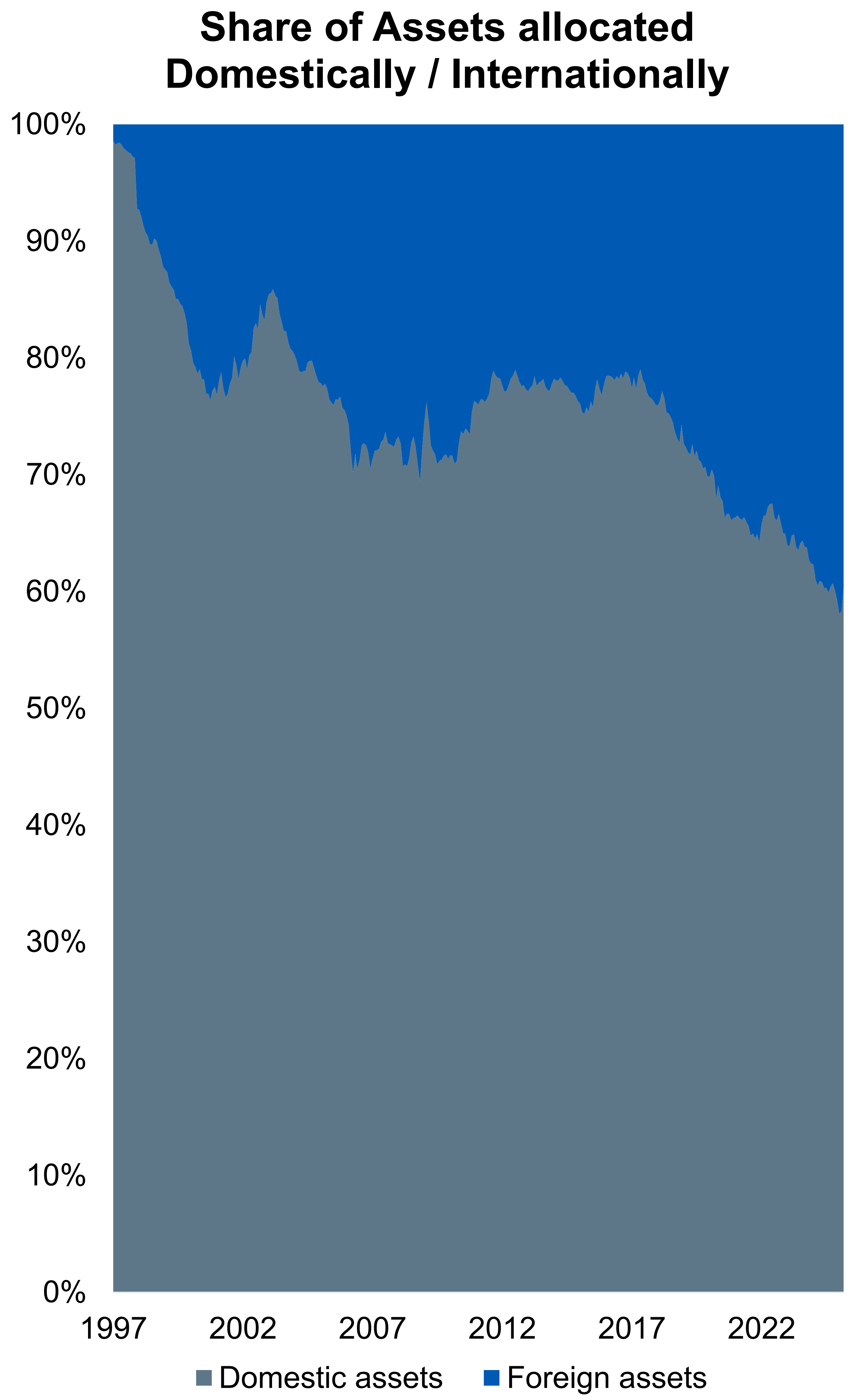






Pension funds have been reallocating assets from domestic markets

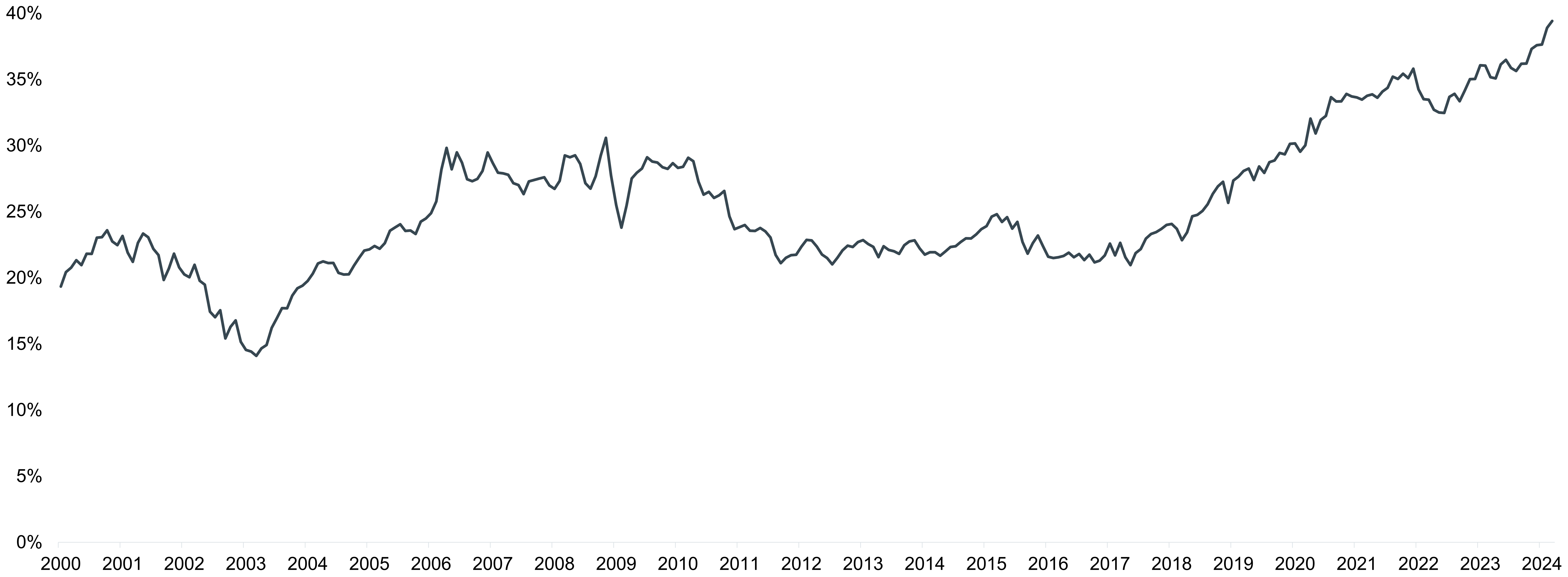




Scources: Central Bank of Iceland, Arion Research

Global assets

Percentage of total assets



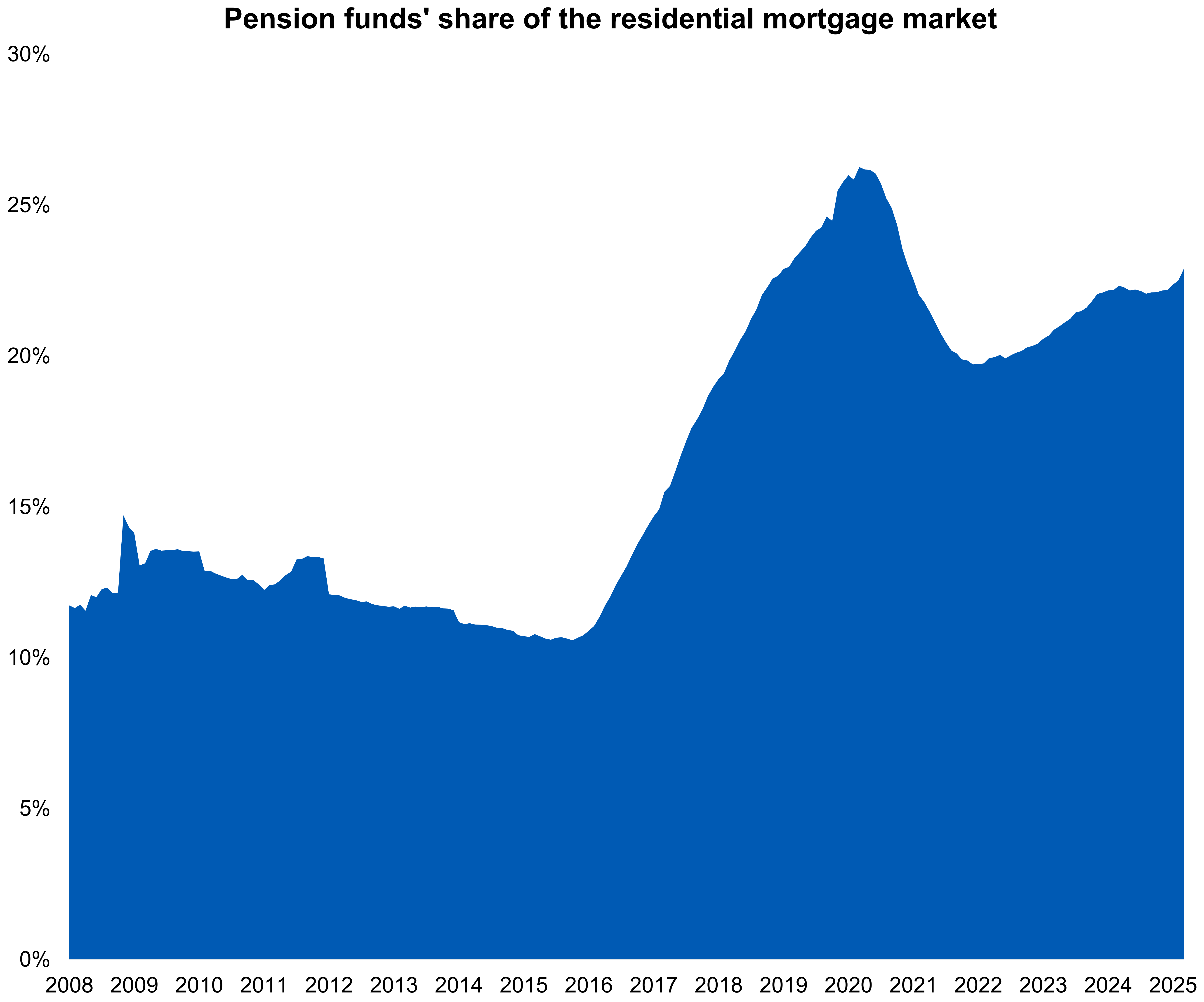
 Source: The Central Bank of Iceland

Pension funds finance 18% of corporate debt

Share of corporate dept (non-financial institutions) held by Pension funds (loans and bonds)*

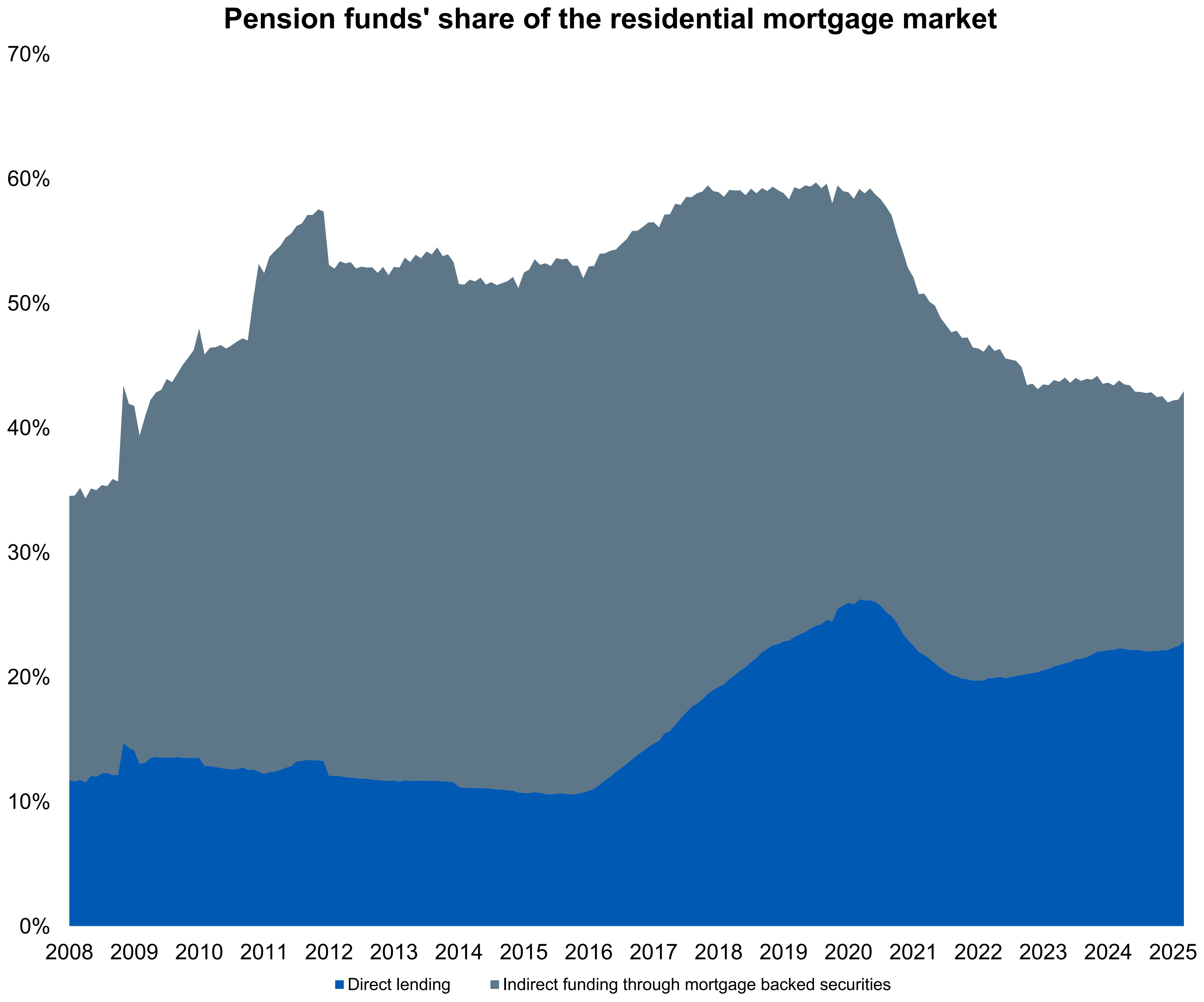
Scources: Central Bank of Iceland, Arion Research
*Share of outstanding loans held by Banks, Pension funds, Insurance companies, Government credid funds, mutual funds, and other financial corporations. Excludes, evertyhing else, such as trade payables.

Pension funds play a big role on the household mortgage market



Scources: Central Bank of Iceland, Arion Research
*Share of outstanding loans held by Banks, Pension funds, Insurance companies, Government credid funds, mutual funds, and other financial corporations. Excludes, evertyhing else, such as trade payables.

And even bigger if we take into account mortgage backed securities



Scources: Central Bank of Iceland, Arion Research
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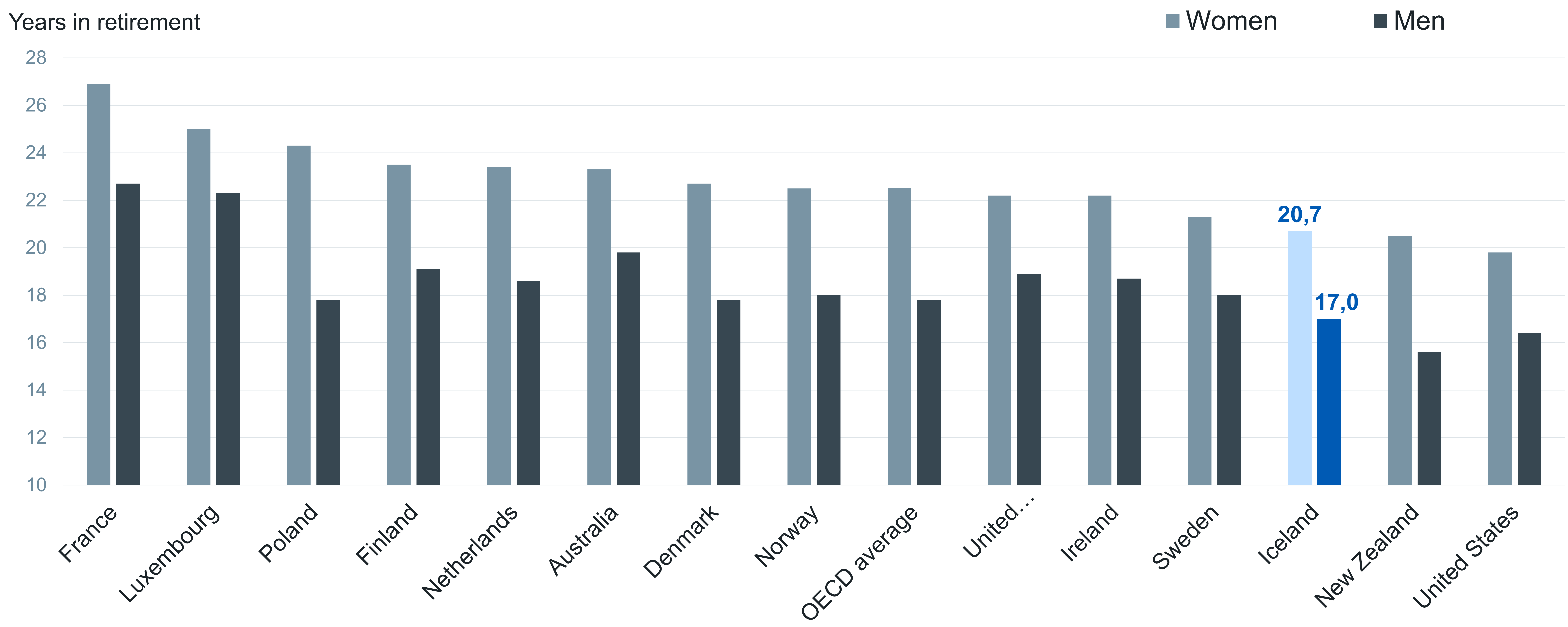
Outlook: Key challenges and positive developments

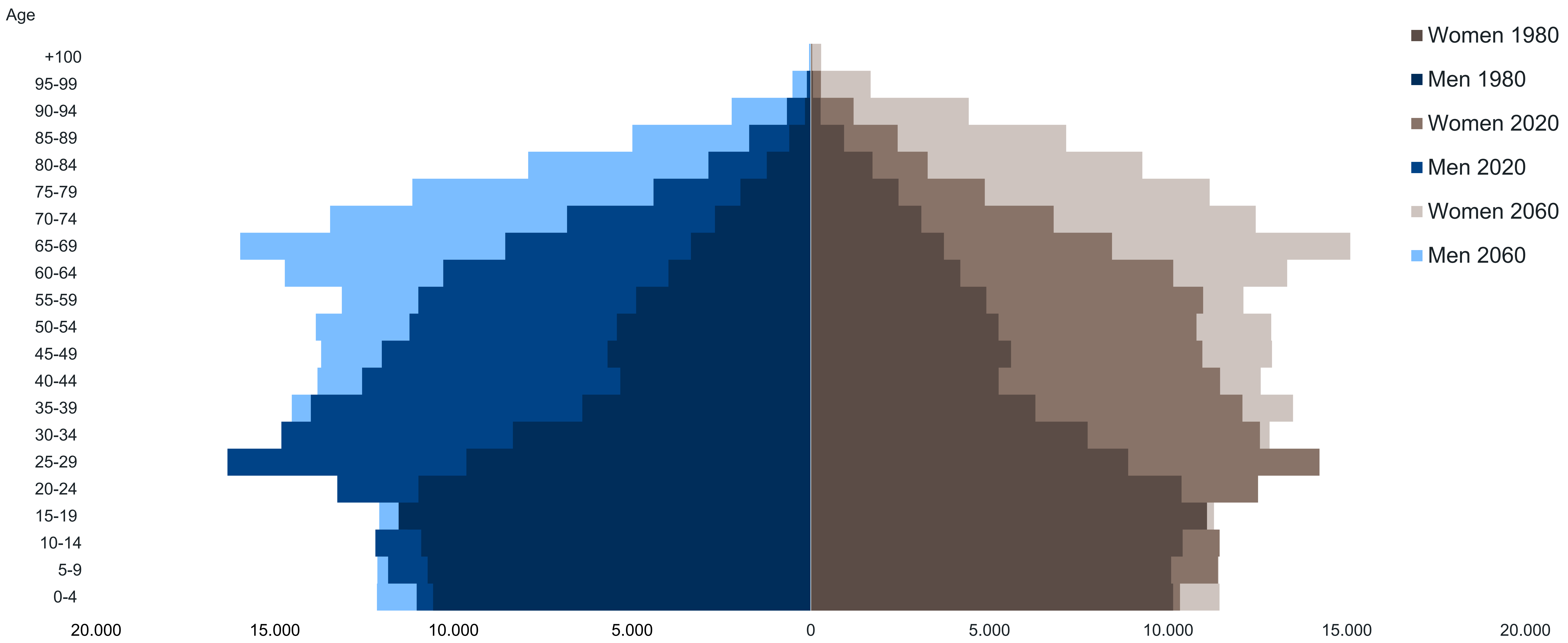
Expected number of years in retirement

OECD comparison



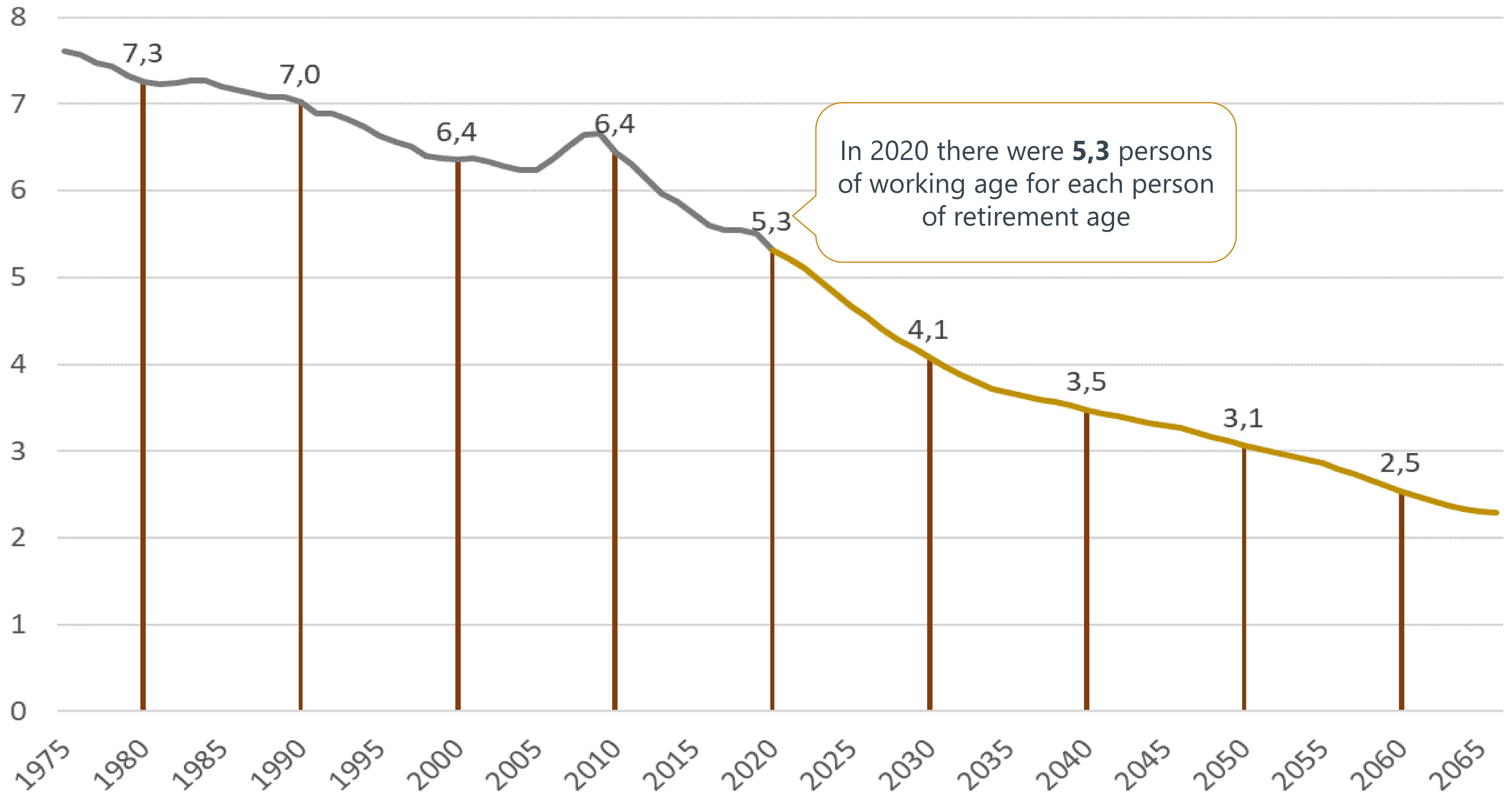
 Source: OECD - Pension at a glance 2023

Demographic changes



 Source: Statistics Iceland

Persons of working age vs. retirement age



 Source: Statistics Iceland

Challenges and positive development

Fully funded pension system

- Pillar II and Pillar III fully funded
- Government "pay as you go" system slowly becoming less significant

Mercer CFA

- Icelandic pension system ranks number two, following Netherland, in the Mercer Index.

Longevity and increase in disability

- Changes have been made to accommodate for increased longevity
- Expected changes in legislation on disability benefits

Challenges and positive development

Required long term returns

- Historically Icelandic pension funds have had robust returns

Working towards increased asset diversification

- Current cap on global investments slowly being lifted
- Fx challenges

The importance of supplementary pension

- The variety of private and supplementary pension schemes has become excessively complex

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