Pension benefits outside of the pension system\textsuperscript{1}

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Abstract
In this paper we review a special pension scheme established by the Government of Iceland for elderly workers that foreseeably would not enjoy any significant pension benefits from the pension system founded on the basis of the general labour agreements of 1969. This pension scheme that was run alongside the private labour market pension system and social security was conceived as a temporary measure but extended over a longer time period than originally envisaged. Based on unpublished data we seek answers to questions on the financing of the scheme and its impact in terms of the relative share of its pension payments.

Keywords: Pension benefits for the elderly; pension rights; financing of pension benefits; PAYG pension scheme.

Introduction
Upon the foundation of the pension system of the private labour market on the basis of the labour market agreement of May 19, 1969, it was foreseeable that many workers running close to retirement would not enjoy pension benefits from the newly established pension funds since, because of their age, they would not have accrued any rights that would secure any significant pension payments. The Government responded to this by establishing a special pension scheme alongside the new system of pension funds and social security in order to secure the interests of these elderly workers. The scheme was set up as a temporary measure and now it faces coming to an end although its lifetime has extended over a longer period than originally envisioned. It is of interest to seek answers to questions on the financing of the scheme and its effect in terms of...
relative pension payments. The subject matter of this paper has not received significant attention. Reference can be made to the Report to the Minister of Finance of a special committee on a revision of the pension system, explanatory notes to Acts on Pensions for the Elderly and Ólafur Ísleifsson (2007 and 2013). For an international perspective we refer to Lindbeck and Persson (2003).

**Developments of the Pensions for the Elderly scheme**

The 1969 Agreement was not the sole endeavour of the social partners, the Federation of Labour (ASÍ) and the Employers’ Association (VSÍ). To be sure, their role in establishing the funds was paramount. However, the part played by the Government should not be overlooked, as stressed by former ASÍ president Ásmundur Stefánsson (1994). When the pension system of the general labour market was founded in 1969 it was obvious that many wage earners that were close to retirement would not enjoy pension payments from the new funds because they were already too old to have earned any rights that would provide them with a meaningful pension. The Government responded to this by establishing a special pension system, alongside the new system of funds in the general labour market and the general system of pension insurance, in order to assure benefits for these wage earners. In light of the financing of the scheme it falls under the category of a pay-as-you-go (PAYG) system.


Thus, in conjunction with the 1969 labour agreement, the Government issued a declaration dated May 18, 1969, stating that in order to facilitate a solution to the ongoing labour dispute, the Government would make arrangements to establish a pension scheme designed for elderly members of labour unions under the aegis of ASÍ. Three-quarters of these pension payments would be financed by the Unemployment Insurance Fund and one-fourth by the Treasury, on the assumption that pension payments made by pension funds to the union members in question would be no less than the amounts generally offered by currently operating pension funds. Moreover, the declaration stated that the occupational pension funds would assume the obligations created under the scheme no later than January 1, 1985.5

The scheme set up on the basis of this declaration was aimed at elderly union members who were about to leave the labour market without being eligible for pension fund payments. Thus, the aim of the scheme was to create rights for elderly members of labour unions in excess of what their contributing payments would have warranted, given that these union members were about to leave the labour market or, in some cases, had already left. The Government declaration was followed up by Act no. 18/1970 on pension benefits for elderly members of labour unions and amended by Act no. 63/1971 that bore the same title. This Act stipulated a financial basis for these pension payments for the following 15 years in the manner stated in the Government’s declaration. After that the pension funds would shoulder these obligations made to the elderly members of the
labour unions, given that at that time the expenditures due to these measures would have become significantly reduced.

By Act no. 18/1970 a special old-age support system was established that in essence constituted a PAYG scheme alongside the pension fund system. The main reason for introducing the Act was to secure financing for the scheme from the Unemployment Insurance Fund and the Treasury; otherwise the cost of the special pension rights granted to elderly union members would have had to be borne by the pension funds.

The beneficiaries of the system were members of pension funds within ASÍ that met certain requirements and their surviving spouses. In essence, the Act required that a union member be born no later than 1914 and be a member of a labour union that met the requirements of the Act on Unemployment Insurance. Payments were administered through the pension funds under the supervision of a Government appointed committee of three individuals, of which one was nominated by ASÍ and another by VSÍ, hereafter referred to as the supervision committee. The Act stipulated that in case a pensioner does not enjoy rights in any pension fund, his or her labour union shall determine and pay the pension benefits. The Act stipulated that the pension payments enacted by it would cease no later than January 1, 1985. This Act was revised the following year.

Widened participation and the introduction of the accrued points system

Act no. 63/1971 replaced Act no. 18/1970. Like the former Act, this new Act stipulated that the pension payments enacted by it would cease no later than January 1, 1985. According to this Act, the group of beneficiaries was widened to include members of unions outside the Federation of Labour (ASÍ). The current financing was left unaltered but the basis of pension payments was changed from being based on length of employment and average wages to points accumulated by the union member through his premium payments into a pension fund.

The original 1970 Act applied to elderly members of unions within the ASÍ. According to the 1971 Act the right to pension benefits was extended to members of other labour unions in case these unions fell under the definition as such of the Unemployment Insurance Act and were subject to the mandatory clause on pension fund membership. The right to a pension was granted to those who met all of the following conditions:

a. are full members of a labour union subject to to what is stated above,
b. were born in 1914 or earlier,
c. have reached 70 years of age and retired from employment. A person that had reached the age of 75 years would, however, have the right to pension benefits irrespective of whether the person had retired from employment or not,
d. would have incurred at least 10 years of rights accruals according to further stipulations.

The point accumulation system introduced by this Act deserves mentioning as it formed the basis of the accumulation of rights in the general pension fund system. Under this
system, pension rights are based on accumulated points. The number of points accumulated by an employee in any year is calculated as the ratio of the member’s wages for the given year and a given annual basis wage. This basis wage is defined as daytime wages for 52 weeks per year according to the blue collar union Dagsbrún’s 2nd wage schedule taking into account full seniority increases. An old age pension is calculated as a percentage of the yearly average of the basic wage for the last five years before drawing of pension. The percentage is determined as the number of points accumulated multiplied by a factor of 1.8. Spousal pension is calculated in a similar manner but the percentage calculated as the number of points accumulated with 5 points added to the total. Pension fund benefits and comparable payments made by the Treasury or other public funds would be subtracted from these pension payments.

**Introducing disability benefits and a special pension supplement**

The next significant change in the Government-sponsored old age support system took place in 1976 with Act no. 33/1976 when disability was added as grounds for benefits under the scheme. Thus, on January 1, 1976, disability became a new class of pension benefits in the pension scheme for elderly members of trade unions. For a person with 100% disability the amount of disability pension was to be based on points accumulated during the time of employment with the addition of points calculated until the age of 70, taking into account the average of the points accumulated in the three calendar years before the incidence of disability. Disability payments cease at 70 years of age and from that time an old age pension is determined on the basis of the number of points used for calculating disability benefits.

The Act, moreover, stipulated that the pension funds should finance a special pension supplement designed to ameliorate the negative effects of high inflation on pension benefits in real terms. This special pension supplement was based on an agreement made by the social partners in February 1976 to the effect that pension funds under their aegis should finance an indexation of benefits through linking these benefits closer to wage changes than was the case with pension benefits being based on a 5-year average. For this purpose, the pension funds should channel 4% of their contributions income in the years 1976 and 1977 into a special account. The supervision committee of the Government-sponsored scheme was given the task of allocating these funds across pension funds in relation to each pension fund’s estimated added burden due to this measure. In essence, this constituted a transfer between funds based on their age structure. Inasmuch as these funds did not suffice to pay for the special pension supplement, the pension funds should pay out of their own income for the pension supplement to their members.

**Universal pension rights and mandatory participation**

The Government-sponsored old age pension system further matured in 1979 with Act no. 97/1979 on Pensions for the Elderly. This Act extended the group of beneficiaries to include all individuals that met the relevant age requirements, including business own-
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ers. The extension of the coverage of the Act was based on a Government declaration to the effect that all individuals would be guaranteed pension rights similar to those stipulated by the Act on Pensions for the Elderly. This declaration was issued in relation to the June 1977 labour market agreement and a concurrent revision of the social partners’ February 1976 agreement on pension matters.19

Thus, the Government declaration was put into effect by a new Act on Pensions for the Elderly in 1979. The Act falls into six sections with Section I in substance containing the same provisions of the 1971 Act. Section I of the Act contains provisions on pensions for elderly members of labour unions that are essentially the same as those in the 1971 Act. Section II contains provisions on general pensions for the elderly, i.e., on rights for those that are covered neither by Section I nor by the provisions of Act no. 101/1970 on the Farmers’ Pension Fund. Section I requires membership in a labour union but other requirements are joint for Sections I and II. Broadly, these requirements are that a person

1. be born in the year 1914 or before,
2. has reached age 70 and left the labour market, or has reached age 75 irrespective of participation in the labour market,
3. and has earned rights for at least 10 years and has earned for each year at least 1/25 points.

The rights accumulation period is the time period from the year 1955 and after the age of 55 years that the person has had income including wages, dividends and profits, as further specified in the Act.20 Section II contains general provisions on pensions for the elderly, in particular on rights that neither fell under Section I nor the provisions of the Act on the Farmers’ Pension Fund. This fund was founded by a 1970 Act and stipulated that elderly farmers would enjoy the same pension rights as granted to pension recipients by Sections I and II in the Act on Pensions for the Elderly, with the proviso that the same conditions to earn pension rights were met.

By the provisions of Section II those individuals that not had been members of trade unions that met the requirements laid down in the Unemployment Insurance Act were guaranteed similar rights as members of trade unions. More specifically, the requirement of trade union membership and mandatory membership in a pension fund were relinquished. In addition it was stipulated that rights might be accrued with reference to employment income on the basis of tax returns and not only labour income as previously required. By these measures the right to pensions was made universal. In conjunction it was made mandatory for all to pay contributions to a pension fund. These measures listed here constitute the main changes effected by the 1979 Act.21

On the basis of the number of individuals 70 years and older, occupational structure, pension fund membership and pension payments on the basis of the 1971 Act and the Act on the Farmers’ Pension Fund it was estimated that the number of those who would obtain pension rights with more extensive compensation in 1979 was around 3,000. Several of the new pensioners were freelancers, but some were wage earners who engaged
in professions to which the 1969 agreement did not apply. It is believed that an overwhelming majority of the new pensioners had no rights in pension funds, whereas some of them had previously been members of a pension fund, but with low accumulated benefits, as they had paid premiums for a short period or because of limited indexation of pensions.\footnote{22}

Further, the Act contains provisions to preclude individuals from giving up retirement insurance that they have enjoyed in order to obtain rights on the basis of the provisions of Section II. This is justified by the view that it has to be considered unfair that a full payment would be required from those that on a mandatory basis or by choice have become members in a pension fund while others that have abstained from pension fund membership, without making any payments, obtain pension rights, not only for the past period but also for future times.\footnote{23}

The cost of the scheme as set up by the Act was allocated in the following manner:

a. Basis wages according to Section I should be borne by $\frac{3}{4}$ by the Unemployment Insurance Fund and $\frac{1}{4}$ by the Treasury.

b. The pension supplement prescribed in Section I would be paid in part by a joint contribution of the pension funds taking part in the social partners’ 1976 agreement on pension matters and in part by each pension fund. As stated earlier the joint contribution was to be financed by a part of the funds’ contributions income.

c. Pensions stipulated under Section II, as well as a supplement stipulated in a comparable Section II in the Act on the Farmers’ Pension Fund, was to be paid in two parts:
   1. All the pension funds that did not participate in the social partners’ agreement on pension matters should contribute the same percentage of their contributions income as the pension funds taking part in the agreement.
   2. The balance should be allocated between the Treasury (40%) and the Local Governments’ Equalization Fund and the Unemployment Insurance Fund (30% each).

d. The cost of financing an additional three points to the pension rights of Section I should be borne by the Unemployment Insurance Fund.

Based on a Government declaration issued in conjunction with a general wage agreement in October 1980, by Act no 52/1981 three extraordinary points were added to the accumulated points of those members of labour unions enjoying pension rights under section I of the Act on Pensions for the Elderly. This measure, which under the Act was to be financed by the Unemployment Insurance Fund, took effect as of December 1, 1980, and applied equally to basic pension rights and additional rights introduced for the purpose of protecting pension benefits from the effects of price inflation.\footnote{24}
Delinking the pension base from wages

Until 1984, pension benefits were based on a base wage defined as daytime wages for 52 weeks per year according to the blue-collar union Dagsbrún’s second wage schedule. By Act no. 117/1984 this reference to Dagsbrún’s second wage schedule was abandoned as of January 1, 1985. Instead, the Act introduced as a base wage the basic monthly wage amount of ISK 14,100. The supervision committee of the Government-sponsored scheme was charged with deciding on changes in this base wage, in conformity with changes in blue-collar workers’ wages in labour agreements.25

A more radical change can be said to have taken place in 1992, with regard to the basic reference of pension benefits, when the basic monthly wage was replaced by a basic monthly amount with no reference to the wage concept.26 Thus, as of January 1, 1992, pension benefits under the Act on Pensions for the Elderly were based on a basic monthly amount that should change subject to changes in the credit terms index as calculated by the Central Bank of Iceland.27 This change of reference for obtaining the basis of pension benefits was introduced in the parliamentary process to reflect a decision on similar changes that had already been made by a large number of the private labour market pension funds.28 This decision can be viewed in the light of the significant holdings of pension funds of index-linked assets and, hence, the need to eliminate a potential mismatch between the funds’ capital earnings and their pension liabilities.

Extensions of the lifetime of the scheme for elderly workers

Payments under the scheme were originally supposed to cease no later than January 1, 1985.29 The duration of the scheme, however, was extended in a stepwise manner to 1990, 1992, and 1997. Finally, in 1996 the duration of the scheme was extended indefinitely30, and, hence, can be expected to run its course as long as any of the scheme’s beneficiaries or their spouses remain alive.31

Benefits and financing of the Pensions for the Elderly scheme

In this section we view over time the pension benefits disbursed under the Pensions for the Elderly scheme and analyse the financing of the scheme.
Table 1. Pension payments under the Pensions for the Elderly scheme 1981-2006. Millions of krónur at current prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic pension</th>
<th>Pension supplement</th>
<th>Three point supplement</th>
<th>Pensions according to Section II</th>
<th>Farmers</th>
<th>Management costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>17.0</td>
<td>9.0</td>
<td>12.0</td>
<td>9.3</td>
<td>8.7</td>
<td>56.0</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>26.7</td>
<td>13.9</td>
<td>17.8</td>
<td>15.3</td>
<td>13.4</td>
<td>87.1</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>40.6</td>
<td>24.2</td>
<td>28.6</td>
<td>28.2</td>
<td>23.4</td>
<td>145.0</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>63.3</td>
<td>25.0</td>
<td>34.3</td>
<td>33.7</td>
<td>16.7</td>
<td>173.0</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>91.3</td>
<td>78.6</td>
<td>48.8</td>
<td>47.4</td>
<td>21.3</td>
<td>287.4</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>123.7</td>
<td>74.6</td>
<td>58.9</td>
<td>60.1</td>
<td>27.8</td>
<td>345.1</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>162.5</td>
<td>131.5</td>
<td>82.6</td>
<td>84.5</td>
<td>43.8</td>
<td>504.9</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>211.7</td>
<td>173.0</td>
<td>93.4</td>
<td>98.4</td>
<td>41.6</td>
<td>618.1</td>
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<td>260.8</td>
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<td>107.1</td>
<td>25.7</td>
<td>698.4</td>
<td></td>
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<tr>
<td>1990</td>
<td>310.0</td>
<td>196.6</td>
<td>103.8</td>
<td>115.2</td>
<td>13.2</td>
<td>743.9</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>345.7</td>
<td>117.9</td>
<td>105.8</td>
<td>115.8</td>
<td>11.5</td>
<td>702.3</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>263.5</td>
<td>0.4</td>
<td>99.9</td>
<td>112.2</td>
<td>-0.6</td>
<td>482.4</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>235.3</td>
<td>0.0</td>
<td>92.3</td>
<td>107.6</td>
<td>5.8</td>
<td>441.0</td>
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</tr>
<tr>
<td>1994</td>
<td>215.9</td>
<td>0.0</td>
<td>84.8</td>
<td>101.0</td>
<td>5.6</td>
<td>407.3</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>197.2</td>
<td>78.2</td>
<td>94.4</td>
<td>5.6</td>
<td>375.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>175.5</td>
<td>70.5</td>
<td>85.6</td>
<td>5.8</td>
<td>335.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>156.0</td>
<td>63.5</td>
<td>78.2</td>
<td>3.8</td>
<td>300.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>138.6</td>
<td>56.6</td>
<td>71.0</td>
<td>3.2</td>
<td>266.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>122.3</td>
<td>50.8</td>
<td>63.3</td>
<td>236.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>108.4</td>
<td>46.1</td>
<td>56.9</td>
<td>211.4</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2001</td>
<td>99.5</td>
<td>42.2</td>
<td>54.0</td>
<td>195.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>91.2</td>
<td>38.8</td>
<td>51.4</td>
<td>181.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>79.4</td>
<td>33.5</td>
<td>45.4</td>
<td>158.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>73.3</td>
<td>25.9</td>
<td>36.0</td>
<td>135.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>58.5</td>
<td>24.4</td>
<td>33.5</td>
<td>116.4</td>
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<tr>
<td>2006</td>
<td>51.5</td>
<td>21.5</td>
<td>30.9</td>
<td>103.9</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Annual accounts of The Supervisory Committee of Retirement Pensions and the Old Age Pension Fund

One can ask what would be the appropriate way to measure the impact of the Pensions for the Elderly scheme. It seems natural to ask how this scheme added to the pension benefits made by the pension funds. In Figure 1 the benefits under the scheme are shown as a proportion of all pension payments by the pension funds, public and private.
Thus, as Figure 1 depicts, in the period 1981-2006 the Pensions for the Elderly scheme added up to about one sixth to the pensions made by the pension funds. Over time, however, this proportion has been rapidly falling and has since the turn of the century amounted to 1% or less of total pension payments made by the pension funds.

Next we turn our attention to the financing of the Pensions for the Elderly scheme. Over time the cost has been differently allocated between the various entities involved. This allocation is shown in Figure 2, which clearly depicts that until 1991 the pension funds shouldered a significant portion of the cost due to the Act on Pensions for the Elderly. The cost, however, was unevenly allocated among funds due to the different age structure of individual funds. This factor, however, was an important proviso in the social partners’ agreement as it was considered fair to make funds with a favourable age structure lessen the burden of funds with a high proportion of elderly members. Thus, it can be stated that the cost of this benefit scheme was based on an intergenerational transfer.

Figure 2 also shows that the burden carried by the Unemployment Insurance Fund generally amounts to over half of the total cost of pension benefits paid on the basis of the Act. In this regard the most important factor is the financing of a ¼ share of the basis pension made by the Unemployment Insurance Fund ever since 1970. In addition in 1980 the Unemployment Insurance Fund was given the task of paying the three point pension supplement according to Section I of the Act. The financing of pension benefits is not among the original roles of the Unemployment Insurance Fund. This allocation of the Fund’s resources, however, was considered justifiable in view of the fact that the Fund is created by premiums that can be considered wage payments and that payments of pension benefits come close to the prime role of the Fund to secure for
workers financial support in case of unemployment. These payments, however, placed a severe burden on the Fund as can be seen from the fact that in 1991 the Fund spent 36% of its premium income on pension benefits.\(^ {32} \)

In 1991 this allocation of costs was changed.\(^ {33} \) At that time basic pensions and wage supplements were combined into one amount with the aim of pension funds paying their own members under Section I an indexed pension in accordance with the length of the period of contribution payments made by each pension fund member while the government would pay that part of the pension that was to be secured for the pensioners that had not made any payments into a pension fund. At this time the allocation of costs became as follows:

a. Cost of pensions under Section I payable by \( \frac{3}{4} \) by the Unemployment Insurance Fund and by \( \frac{1}{4} \) by the Treasury.

b. Cost of pensions under Section II payable by one half by the Treasury and by one fourth by each of the Unemployment Insurance Fund and the Local Governments’ Equalization Fund.

c. The cost of financing an additional three points to the pension rights of Section I should be borne by the Unemployment Insurance Fund.

The final change in the allocation of costs of the scheme took place in 1996 when the Treasury assumed all costs with the exception of a one-quarter share of benefits under Section II financed by the Local Governments’ Equalization Fund.\(^ {34} \)

**Figure 2.** Financing of the Pensions for the Elderly scheme 1981-2006. Millions of krónur at current prices

Remark. Author’s calculations. Data sources: Annual accounts of The Supervisory Committee of Retirement Pensions and the Old Age Pension Fund
The figure clearly depicts the allocation of costs under the Pensions for Elderly scheme, including the burden placed on the pension funds in financing the scheme until 1992. As a proportion of GDP the total financing peaks at 0.24% in the years 1987-8. The figure also shows how the Treasury has since 1996 shouldered the bulk of the cost of the scheme.

Table 2. The number of pension recipients under the auspices of the Supervisory Committee of Retirement Pensions 1995-2007. Numbers apply to January of each year

<table>
<thead>
<tr>
<th>Year</th>
<th>Old age</th>
<th>Spousal</th>
<th>Total</th>
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<tbody>
<tr>
<td>1995</td>
<td>2632</td>
<td>1478</td>
<td>4110</td>
</tr>
<tr>
<td>1996</td>
<td>2339</td>
<td>1402</td>
<td>3741</td>
</tr>
<tr>
<td>1997</td>
<td>2015</td>
<td>1345</td>
<td>3360</td>
</tr>
<tr>
<td>1998</td>
<td>1742</td>
<td>1274</td>
<td>3016</td>
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<td>1999</td>
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<td>1202</td>
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<td>2001</td>
<td>1046</td>
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<td>2002</td>
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<td>2003</td>
<td>732</td>
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<td>330</td>
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<td>913</td>
</tr>
<tr>
<td>2007</td>
<td>276</td>
<td>527</td>
<td>803</td>
</tr>
</tbody>
</table>

Source: The Supervisory Committee of Retirement Pensions

The old-age pension recipients are believed to have peaked at approximately four thousand individuals. By the nature of the scheme and as evident by Table 2, the number of beneficiaries is constantly falling and as shown in Table 3 the amounts involved have become negligible. It is predictable that during its last years of operation, pensions to surviving spouses will be the only payments under the auspices of the Supervisory Committee of Retirement Pensions.
Table 3. Pension payments under the Pensions for the Elderly scheme 1997-2006. Millions of krónur at current prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Old-age pensions</th>
<th>Spousal pensions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>172.9</td>
<td>121.7</td>
<td>294.6</td>
</tr>
<tr>
<td>1998</td>
<td>148.8</td>
<td>116.5</td>
<td>265.3</td>
</tr>
<tr>
<td>1999</td>
<td>127.3</td>
<td>109.0</td>
<td>236.3</td>
</tr>
<tr>
<td>2000</td>
<td>108.1</td>
<td>103.4</td>
<td>211.5</td>
</tr>
<tr>
<td>2001</td>
<td>94.8</td>
<td>100.8</td>
<td>195.6</td>
</tr>
<tr>
<td>2002</td>
<td>81.9</td>
<td>99.4</td>
<td>181.3</td>
</tr>
<tr>
<td>2003</td>
<td>67.3</td>
<td>90.9</td>
<td>158.2</td>
</tr>
<tr>
<td>2004</td>
<td>53.1</td>
<td>82.2</td>
<td>135.3</td>
</tr>
<tr>
<td>2005</td>
<td>40.8</td>
<td>75.6</td>
<td>116.4</td>
</tr>
<tr>
<td>2006</td>
<td>33.6</td>
<td>70.3</td>
<td>103.9</td>
</tr>
</tbody>
</table>

Source: Pension Funds’ Disbursement Office.

The Act on Pensions for the Elderly provides for disability pension benefits. All disability recipients, however, have at the beginning of the period covered by Table 3 reached retirement age. As shown by the table spousal benefits exceeded old-age benefits in 2001 and it is foreseeable that in the final years spousal payments will be the only payments made under the scheme, the administration of which was in 2009 transferred from the Supervisory Committee of Retirement Pensions to the Social Insurance Administration. The final payments will mark the end of the Pensions for the Elderly scheme, originally set up under the auspices of the government for a period of 15 years in order to facilitate the May 1969 agreement of the social partners on the establishment of pension funds for workers in the private market.

Conclusion

This paper has reviewed the Government-sponsored pension system set up alongside the pension system established by the 1969 general wage agreements. The objective of this system was to meet the needs of elderly workers that foreseeably had not or would not acquire any significant pension rights and hence only negligible pension benefits.

We have presented the developments of the scheme over time with an emphasis on the interaction between this scheme and the pension system. As an example the point system of rights accruals adopted by the pension funds originated in the Pensions for the Elderly scheme. In the same manner the delinking of pension benefits from wages originated in the pension system to be adopted by the Pensions for the Elderly scheme.

On the basis of unpublished data the paper presents the pension benefits paid by the Pensions for the Elderly scheme and its developing financing over time.
We pose the question of the impact of the scheme and present an answer in terms of the relative size of the pension benefits paid under this particular scheme in comparison to the benefits paid by the pension funds.

The Pensions for the Elderly scheme has all but run its course. It stands, however, as an example of how the Government facilitated the making of the historic 1969 wage agreements in which the Icelandic private market pension funds were established.

Notes

1 This paper is based on research presented in the author’s Ph.D. dissertation defended in May 2013 at the Economics Department of the University of Iceland (Ólafur Ísleifsson (2013)). The author would like to thank doctoral committee members professors Þorvaldur Gylfason, Lans Bovenberg and Sverrir Ólafsson and opponents professors Casper van Ewijk and Edward Palmer for useful comments, and Hallgrimur Snoranson and Þórarinn V. Bórarinsson for various advice. I am grateful to Davíð Steinn Davíðsson and Sigrurður Guðjón Gíslason for effective research assistance and Matthíður Hermannsdóttir and Þóra Gylfadóttir for advice on data. Dr Terry G. Lacy, translator, has kindly reviewed the manuscript. I thank two anonymous referees for helpful comments. Any remaining errors are mine.

2 Cf. pp. 7-8 and pp. 23-25 of the report.

3 Cf., e.g., the explanatory notes to the bill that became Act no. 80/1991, available at http://www.althingi.is/altext/115/s/0187.html.


5 Act no. 18/1970, Article 2.

6 Act no. 18/1970, Article 3.


8 Act no. 18/1970, Article 9.


11 Act no. 18/1970, Article 5.


14 Act no. 63/1971, Article 7. For a mathematical exposition of this formulation of benefits see Ólafur Ísleifsson (2009 and 2013)

15 Act no. 33/1976, Article 2.


17 This measure proved to last longer than originally envisaged. The 4% rate was initially extended to 1979, then 5% in 1980-84, 4% in 1985, 3% in 1986-89, 2% in 1990 and 1% in 1991.

18 Act no. 33/1976, Article 3.


20 Act no. 97/1979, Article 10.

21 In order to keep track of the legal developments on pension benefits for the elderly we note that the 1979 Act was re-issued with later amendments as Act no. 2/1985. The latter Act was re-issued with later amendments as Act no. 113/1994, available at http://www.althingi.is/lagas/142/1994113.html.


When the credit terms index was introduced in 1979 following the general introduction of indexation of financial obligations and wages by Act no. 13/1979 on Economic Management, two thirds consisted of the CPI and one third of the building cost index. This composition was altered in 1989 when the wage index was added to the composition with a weight of one third and the weight of the CPI reduced accordingly. The Central Bank of Iceland calculated and published the credit terms index until 1995. Since that time Statistics Iceland has published the index that changes from month to month in line with changes in the CPI, though since 2008 there has been a two month lag. Source: Statistics Iceland.


The extensions of the duration were enacted as follows: To 1990 by Act no. 117/1984, to 1992 by Act no. 130/1989, and to 1997 by Act no. 113/1994.


Explanatory notes to the bill that became Act no. 80/1991. The figure cited is based on a table that only appears in Alþingistíðindi, the printed version of the bill.

References

Alþingi website, www.althingi.is.


Central Bank of Iceland website, www.sedlabanki.is.


Greiðslustofa lifeyrisssjóða (Pension Funds' Disbursement Office) (1997). E-mail dated June 27, 2007, from Matthildur Hermannsdóttir to author containing data on old-age and spousal benefits under the Pensions for the Elderly scheme 1997-2006.


