

Iceland

The public pension has three components, including a basic and two income-tested schemes. There are also mandatory occupational pensions with a hybrid (albeit mainly defined-benefit) formula.

Qualifying conditions

The normal pension age is 67. A full basic pension is earned with 40 years' residency. The pension is proportionally reduced for shorter periods of residency, with a minimum of three years required. The pension age is also 67 for members of private-sector occupational plans but is 65 for public-sector workers.

Benefit calculation

Targeted

The full basic pension value is ISK 19 900 per month, equivalent to around 9% of average earnings. This benefit is income-tested: withdrawal begins once income (from sources other than the supplementary pension) exceeds ISK 1 296 060, equivalent to half of average earnings. The withdrawal rate is 30%. This income test applies only to non-pension income, such as earnings or capital income.

A second element is the pension supplement. The maximum value of this benefit is ISK 34 372 per month for a single person, some 16% of average earnings. This benefit is withdrawn against income above ISK 415 894 per year (around 16% of average earnings). The basic pension, however, does not affect the value of the pension supplement. The withdrawal rate for the income test in the pension supplement is 45%.

Finally, there is an additional pension supplement with a maximum entitlement of ISK 15 257 per month, just 7% of average earnings. This is withdrawn against all other income at a rate of two-thirds.

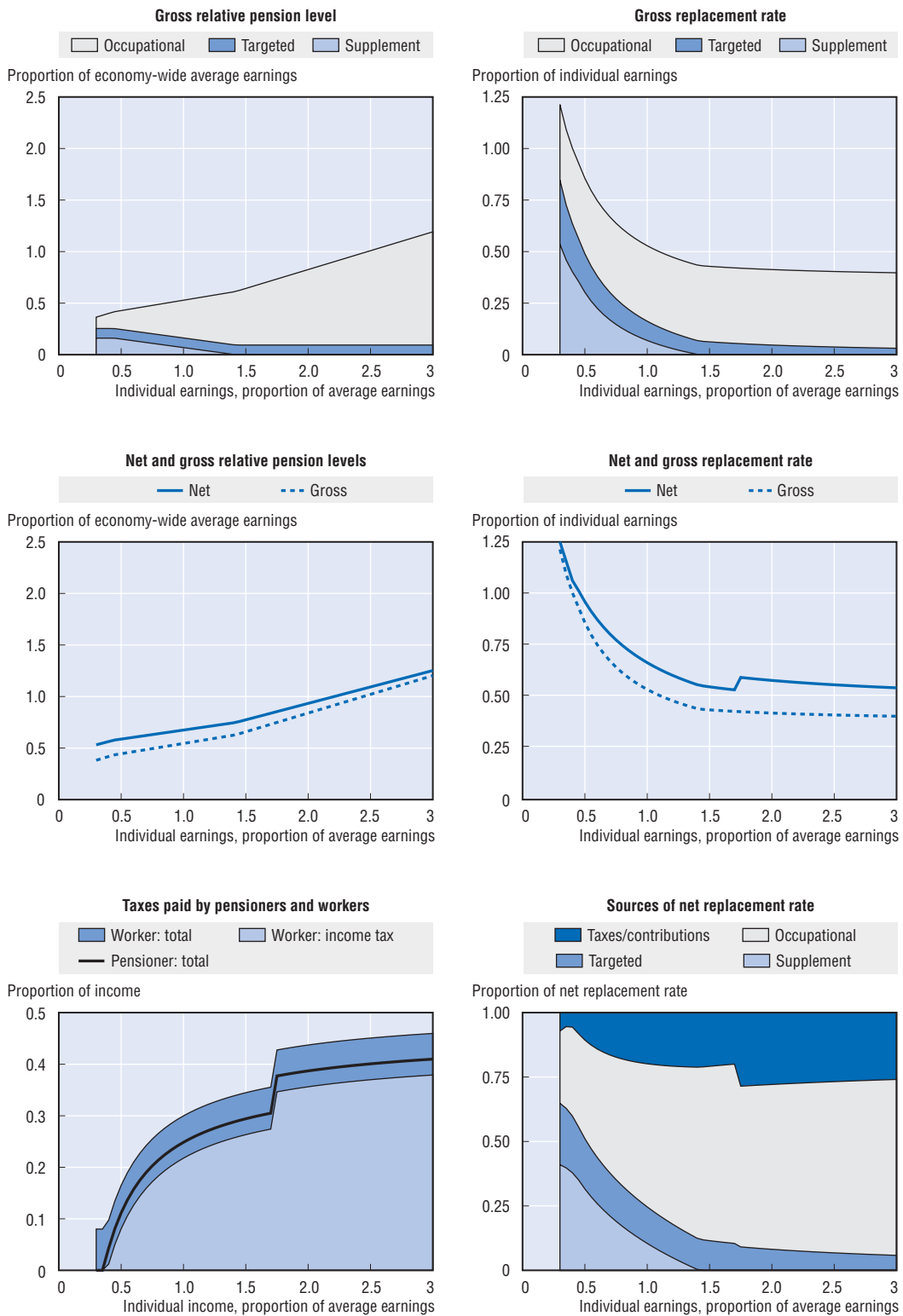
The benefit levels are adjusted in line with public-sector pay (which is assumed here to be equal to the standard assumption of economy-wide earnings growth).

Mandatory occupational

Employer schemes are mandatory. The law requires schemes to target a replacement rate of 56% with 40 years' contributions, giving an accrual rate of 1.4% for each year of service. Coverage is mandatory for people aged 16 to 70. The earnings base in this calculation is average lifetime salary for each year of membership. There is no ceiling to pensionable earnings. Past earnings are effectively valorised in line with prices.

Occupational pensions in payment must by law be increased at least in line with consumer price inflation.

Pension modelling results: Iceland



Source: OECD, based on information provided by the countries.

In practice, many schemes pay more than the legal minimum outlined above, typically introducing a hybrid defined-contribution/defined-benefit element into the system. There is a minimum contribution to occupational schemes of 10% of earnings. Contributions above the level needed to finance the statutory benefits described above can be used either to increase defined-benefit entitlements or diverted to individual accounts thus delivering a defined-contribution pension. However, the modelling covers only the mandatory component and not these extra-statutory benefits (which are by no means guaranteed).

Personal income tax and social security contributions

Taxation of pensioners

Pensioners are taxed in the same way as people of working age: there are no additional allowances.

Taxation of pension income

There is no specific relief for pension income.

Social security paid by pensioners

Pensioners do not pay social security contributions.

Pension modelling results: Iceland

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	42.8	47.8	52.8	64.3	82.6	100.9
Net pension level (% of average net earnings)	57.1	61.5	65.9	76.0	92.0	108.1
Gross replacement rate (% of individual earnings)	85.5	63.7	52.8	42.8	41.3	40.3
Net replacement rate (% of individual net earnings)	95.8	77.1	65.9	54.1	57.2	55.1
Gross pension wealth (multiple of average earnings)	7.1	7.8	8.4	9.9	12.6	15.3
Net pension wealth (multiple of average net earnings)	9.5	10.0	10.5	11.7	14.0	16.4

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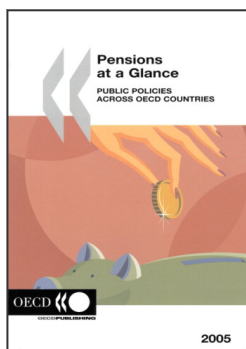
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