Efling - Trade Union

Kjarafréttir

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We hear that Icelanders are living longer than before and, therefore, the boards of private sector pension funds are planning to slow the acquiring of pension rights. This means that the "pension promise" (76% of average lifetime wages) which was aimed at by raising dues from 12% to 15.5% in 2016-2018 will not be fulfilled at 67 years of age, but rather at 70 years.

On the one hand, it sounds reasonable to raise the retirement age or slow the rights accumulation as fund members live longer. The same amount has to last for a longer time, as the lifespan lengthens. But this elides serious problems. The lifespan of different demographics is not being extended equally.

General workers start paying pension dues earlier than others (due to shorter schooling) but enjoy pensions for a shorter time than the more educated, 5 years shorter than university educated ones. This puts them at a considerable disadvantage in the pension system. They pay dues for longer, but get a pension for fewer years.

When the retirement age is raised or rights cut, then they face an even steeper disadvantage, in addition to their greater difficulty in working longer to maintain their previously earned pension. In neighbouring countries, this has been mended with countervailing measures. Similar solutions are offered here for Iceland.

University graduates are living longer. Should that lower workers' pension rights?

It is not the case that everyone is living longer. It is mostly university and middle school graduates who are seeing longer average lifespans, according to data from Statistics Iceland. Since 2011, those with only primary school education, mostly general workers, are not, as can be seen on Image 1.

Average lifespan by education, 2011–2020

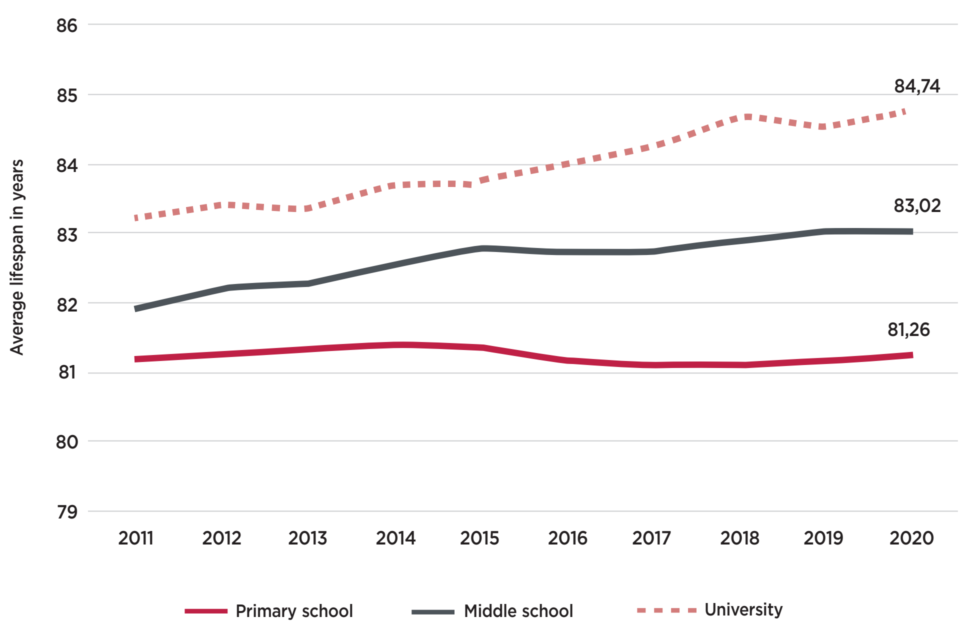

Image 1 Expected total lifespan at age 30 of people in different educational groups, from 2011-2020. Five-year averages, the year graphed and the four preceding years. *Source: Statistics Iceland.*

In fact, the average lifespan of those with only primary school education has been left unchanged through this period, with a small rise at the start and a drop after 2015. Specifically, the average lifespan has shortened in the case of women in this group, but increased very slightly in the case of the men. Taking both groups together, the change is close to none. In this relatively brief time, the average lifespan of university graduates has gotten 1–2 years longer. Middle school graduates also live longer, though not by as much as the university graduates.

Male primary school graduates now live nearly 5 years shorter than men with university degrees. In 2007-2011 the difference was about 4 years. Educated people are seeing a completely different development from general workers, as seen in Image 1. It is not the general workers who are creating problems for the pension funds by living longer. A higher number of foreign workers, arriving from countries with lower average lifespans than Iceland, may explain this development. The effects on the expected lifespan of workers (primary school educated people in the Statistics Iceland data) could be greater in coming years and decades, as this group starts showing up in the death rates.

This fact has effects that vary between funds. From 2011-2020, the group who make up most of Gildi members — general workers with only primary school education — are not really seeing any lengthening of their lifespan. There should be less cause there than in other funds to lower their rights due to a longer lifespan, given the Statistics Iceland data. In funds with more educated workers, however, like the mixed funds LíVe and LSR, there is greater reason to look at lengthening, but such action would hit the different groups of members in different ways.

When different groups see such differences in lifespans while average lifespans change, it is a serious concern for pension funds. Those who live the longest are most expensive, the others are cheaper.

What we see when looking at the lifespans of different classes and educational groups is this: Those least educated start work first (often as general workers), and start paying pension dues earlier. They live shorter than the more educated and get their pension for a shorter time. Thus, they get short shrift in the pension system (see more on that in an important article by Þorsteinn S. Sveinsson, economist at the Central Bank, “Áhrif hækkunar lífaldurs á lífeyrisréttindi”).

When it comes to lowering the pension rights due to a longer average age of the educated class, those who do manual labour have a much harder time extending their working life until 70, due to more physical and psychological strain over their working life, just to get the rights they should now get at 67. They may have to quit earlier, e.g. at 67 like they do now, but get a lower pension than those who have an easier time working until 70.

Thus we can say that the rights in pension funds will be restricted because the educated are living longer, but general workers/manual labourers will suffer by getting a lower pension, even if they’re not creating any problems for the pension funds by living longer.

Is it fair to reduce rights across the board, as these plans would? Don’t we have to take different averages into account when they are so far apart, as we’ve seen here?

Equalizing of private-public sector rights in trouble

When collective agreements of ASÍ unions were reviewed in 2016, there was reason for raises due to other groups having gotten a better deal than ASÍ members since 2015, people like doctors, top level officials and MPs. Part of those raises were negotiated into higher pension dues, from 12% to 15.5%.

This was supposed to raise the expected pension of private sector workers from 56% of average lifetime wages to 76%, at a par with the public sector. Now, four years after this plan came fully into effect, the plan is to lower rights again, closer to 66% than the 76% planned in 2016, given retirement at 67. The higher percentage can still be gotten by working three years longer, but that is a change for the worse in the case of those who have a hard time working longer, those doing strenuous work.

Since workers buy an insurance of their livelihood by paying pension dues, it is regrettable, to say the least, that the rights they’re getting are so fluid. Rights in pension funds are of course always dependent on the earnings of the funds, and the length of their members’ lifespan. These earnings have been very good in the last 5–10 years, which, all else being equal, should have given reason to increase the rights of members.

But when the average lifespan and its change varies so greatly from group to group, as we have demonstrated, this must be taken into account, either through social insurance or through the pension system.

Ways to fix this

When the active retirement age has been raised in nearby countries, or rights accumulation has been dropped due to a longer average lifespan, then serious discussions have ensued about compensation for people doing strenuous work, who will be hit harder than others by such a change. In Denmark, an early retirement scheme for such people was instituted on January 1, 2022 (**see here**).

The aim with that change is to mend the inequity faced by people who pay dues for more years, but get paid for a shorter time than those with more education and a longer lifespan. The method is this: When people are 61 years old and have been working for 44 years, they have a right to a full pension through the social insurance system 3 years before the general retirement age (e.g. at 64 instead of at 67). If they have worked for 43 years, they can do so 2 years before, and one year before if they’ve worked for 42 years. In the EU, similar schemes for those doing hard unskilled work have also been discussed along with plans to raise the retirement age.

How could we solve this problem in Iceland? Here, three options will be noted, to raise the pension of general workers as the rights in the pension system are lowered.

- Raising the TR means-testing limits for pension income to 100,000kr/month. That would give low-income people and those with lower claims in pension funds higher TR payments, which compensates for the planned reduction faced by retiring at 67.
- Introduce an early retirement scheme for people having done hard work for many years via the social insurance system, as in Denmark.
- Change the rights schemes in pension funds, shifting rights to those who live shorter, e.g. by changing the accumulation by age. This may be difficult in practice.

Option 1 would doubtless be the easiest in practice, and would do what it's supposed to, i.e. raising social insurance payments the most to general workers, the group which has the hardest time working until 70, as well as to low-income pensioners.

Regarding that route, one should keep in mind that in 2008, means-testing of pension income was set at 25,000kr and above, and had it been indexed to wages, as it should have been, it would now stand at 60,000kr/month. But it is still at a measly 25,000kr, and now includes capital income, too. This has meant a real decrease, and a big one, since 2008.

To raise this ceiling to 100,000kr/month would thus mostly be a reclaiming of rights workers already got in 2008, and only a 40,000kr addition on top of that. The gross cost to the state would be 15bn, but up to a third would be reclaimed via income and consumption taxes, so the net cost would be lower.

The uncut TR pension would also have to be raised to the level of the minimum wage, in accordance with article 69 of the laws on social insurance — 5% more are needed to reach that level.

With such a fix in the social insurance system, the pension system would become much more reasonable than now, and the low-income problem of pensioners would be much less. People would be able to enjoy the fruits of their pension savings better than they can now.

Then the contribution of the social insurance could be drawn down again after 2050, when the full gains of the increased dues negotiated in 2016 would be achieved, with 15.5% dues for 40 years. That's when private- and public sector rights will have been equalized.

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