

ISSUES IN THE TAXATION OF PENSIONS

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0. GENERAL FRAMEWORK OF PENSIONS AND TAXATION OF PENSIONS IN NORWAY

THIS CHAPTER GIVES A BRIEF OVERVIEW OF THE NORWEGIAN (OLD AGE) PENSION SYSTEM AND THE TAXATION OF PENSIONS IN NORWAY. DISABILITY PENSIONS ARE DISCUSSED ONLY BRIEFLY.

0.1 MAIN ELEMENTS IN THE PENSION SYSTEM

THE NATIONAL INSURANCE SCHEME

THE FOUNDATION OF THE NORWEGIAN OLD AGE PENSION SYSTEM IS THE PENSION SCHEME UNDER THE NATIONAL INSURANCE SCHEME, THE NIS PENSION SCHEME IN THE FOLLOWING. THIS SCHEME PROVIDES A BASIC PENSION LARGE ENOUGH TO COVER A MINIMUM OF EXPENSES FOR ALL PERSONS THAT ARE FULLY COVERED. IN ADDITION, PERSONS WITH A HISTORY OF TAXABLE INCOME IN NORWAY ARE ALLOWED EXTRA PENSIONS UNDER THIS SCHEME.

THE NIS SYSTEM IS BASED ON AN AMOUNT OF MONEY TERMED THE NIS BASIC AMOUNT (“GRUNNBELØP”), OR G, FOR SHORT. ONE G IS AT THE TIME NOK 62,892. THIS AMOUNT IS INCREASED EVERY YEAR IN ACCORDANCE WITH THE GROWTH IN AVERAGE WAGES.

THE *BASIC PENSION* OF THE NIS PENSION SCHEME IS BASED ON THE NUMBER OF YEARS OF INSURANCE, USUALLY THE NUMBER OF YEARS A PERSON HAS LIVED IN NORWAY. A MINIMUM OF THREE YEARS OF

INSURANCE IS REQUIRED. FOR PERSONS WITH LESS THAN FORTY YEARS OF INSURANCE, THE PENSIONS ARE REDUCED IN PROPORTION WITH THE LACK OF YEARS. THE FULL BASIC PENSION IS 1 G FOR SINGLE PERSONS, 0.8 G FOR PERSONS LIVING TOGETHER WITH A SPOUSE (WITH PENSION OR OTHER INCOME).

IN ADDITION TO THE BASIC PENSION, PERSONS WITHOUT ADDITIONAL PENSION RIGHTS RECEIVE A *SPECIAL SUPPLEMENT* OF APPROXIMATELY 0.8 G, THAT IS TIED TO THE NUMBER OF INSURANCE YEARS IN THE SAME FASHION AS THE BASIC PENSION.

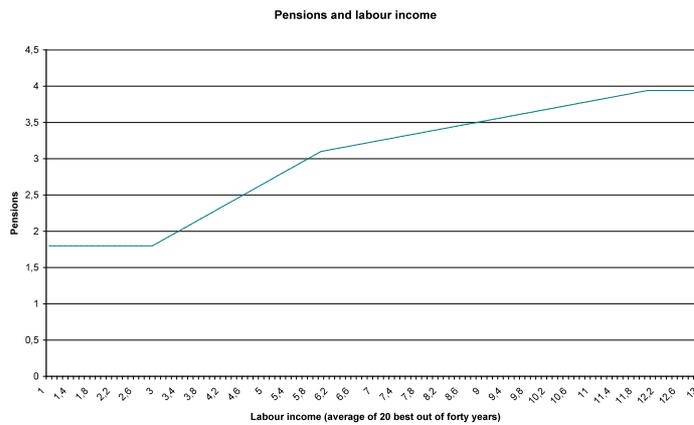
SUPPLEMENTARY PENSION IS BASED ON THE HISTORY OF TAXABLE INCOME THAT GIVES PENSION RIGHTS. IN SHORT, INCOME EXCLUSIVE OF CAPITAL INCOME GIVES PENSION RIGHTS. A PERSON ACQUIRES PENSION POINTS FOR THE AMOUNT OF INCOME, MEASURE IN G, THAT EXCEEDS 1 G. INCOME IN THE INTERVAL 6-12 G ONLY COUNTS FOR A THIRD, WHILE INCOME IN EXCESS OF 12 G DOES NOT COUNT AT ALL.

THE PENSION POINTS USED FOR CALCULATING ADDITIONAL PENSION IS BASED ON THE AVERAGE OF THE BEST TWENTY YEARS WITH PENSION POINTS. HOWEVER, FORTY YEARS WITH PENSION POINTS ARE REQUIRED, OR THE SUPPLEMENTARY PENSION IS REDUCED IN PROPORTION WITH THE DISCREPANCY.

THE AMOUNT OF SUPPLEMENTARY PENSION IS GIVEN BY THE AVERAGE PENSION POINTS ACCORDING TO THE SECTION ABOVE TIMES 0.42 G, THOUGH YEARS BEFORE 1993 COUNT AS 0.45. THE SPECIAL SUPPLEMENT IS REDUCED ON A ONE-TO-ONE BASIS AS THE SUPPLEMENTARY PENSION INCREASES.

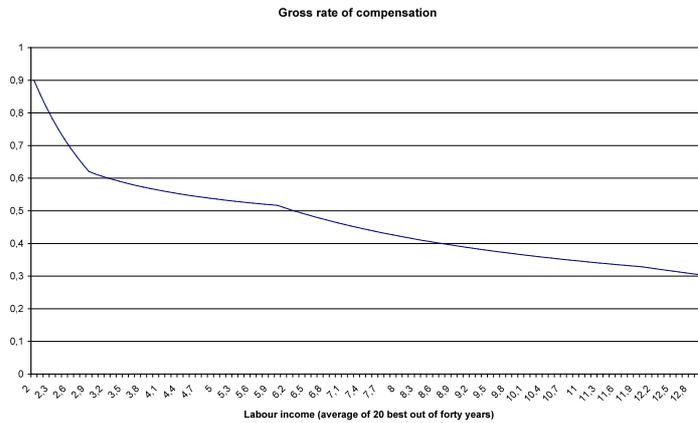
THE PENSION INCOME IN G IS ILLUSTRATED IN FIGURE 0.1. NOTE THAT E.G. 20 YEARS OF INCOME AT 4 G, BUT NO ADDITIONAL YEARS OF INCOME GIVE THE SAME PENSION RIGHTS AS AN INCOME OF 2.5 G IN THE FIGURE 0.1.

FIGURE 0.1 – PENSIONS AND LABOUR INCOME



THE STRUCTURE OF THE NIS PENSION SCHEME IS SOMEWHAT IMPORTANT, BECAUSE IT EXPLAINS SOME OF THE STRUCTURE OF THE ADDITIONAL PENSION SCHEMES. THE NIS SCHEME PROVIDES GROSS COMPENSATION RATES OF ABOVE 0.5 FOR INCOMES UP TO 6 G. FIGURE 0.2 SHOWS GROSS COMPENSATION RATES BASED ON FIGURE 0.1.

FIGURE 0.2 – GROSS COMPENSATION RATES IN THE NIS



FOR INCOMES HIGHER THAN 6 G, THE GROSS COMPENSATION RATE FALLS, AS INCOME IN EXCESS OF 6 G DOES NOT GIVE FULL CREDIT IN TERMS OF PENSION POINTS.

THE PUBLIC OCCUPATIONAL PENSION SCHEMES

THE PUBLIC OCCUPATIONAL PENSION SCHEMES ARE BASED ON A DIFFERENT PRINCIPLE THAN THE NIS. THE SCHEMES COVER PRACTICALLY EVERY EMPLOYEE IN THE PUBLIC SECTOR. THE PUBLIC OCCUPATIONAL PENSION SCHEMES ARE NOT BASED ON AN INCOME HISTORY LIKE THE NIS SCHEME, BUT ON THE INCOME AT THE END OF A CAREER. GIVEN FULL COVERAGE (WHICH REQUIRES 30 YEARS OF EMPLOYMENT IN THE PUBLIC SECTOR), THE GROSS COMPENSATION RATE IS 0.66 OF THE INCOME AT THE END OF THE CAREER (OR IN PRACTICE ACTUALLY A BIT MORE).

WE SEE FROM FIGURE 0.2 THAT A SUBSTANTIAL SHARE OF THIS COMPENSATION WOULD HAVE BEEN PROVIDED BY THE NIS PENSION SCHEME FOR MOST INCOME LEVELS. THE PUBLIC OCCUPATIONAL PENSION SCHEME PROVIDES THE REMAINDER FROM THE GRAPH AND UP TO 0.66.

OF COURSE, THE AMOUNT THAT THE PUBLIC OCCUPATIONAL PENSION SCHEMES PROVIDES NET OF THE NIS SCHEME IS INCREASING IN INCOME.

THE PUBLIC OCCUPATIONAL PENSION SCHEMES ARE PARTLY BASED ON LAW (FOR STATE EMPLOYEES) AND PARTLY BASED ON COLLECTIVE AGREEMENTS (FOR MUNICIPAL EMPLOYEES).

FOR MOST OF THE EMPLOYEES, THE PUBLIC OCCUPATIONAL PENSION SCHEMES HAVE THE SAME PENSION AGE AS THE NIS PENSION SCHEME. HOWEVER, A SUBSTANTIAL MINORITY HAS PENSION AGES THAT ARE LOWER THAN IN THE NIS PENSION SCHEME.

THE PRIVATE OCCUPATIONAL SCHEMES

PRIVATE OCCUPATIONAL PENSION SCHEMES ARE PRIMARILY PURSUANT TO ACT No. 16 OF 24 MARCH 2000 ON OCCUPATIONAL PENSIONS (OPA) OR ACT No. 81 OF 24 NOVEMBER 2000 ON OCCUPATIONAL DEFINED CONTRIBUTION SCHEMES (DCA). THE FIRST OF THESE LAWS REGULATES DEFINED-BENEFITS SCHEMES, WHILE THE SECOND REGULATES DEFINED-CONTRIBUTION SCHEMES. PENSION SCHEMES REGULATED UNDER THESE LAWS ARE GIVEN PREFERENTIAL TAX TREATMENT, SEE THE DISCUSSION OF TAXATION OF PENSION SAVINGS BELOW.

PENSIONS UNDER THE OPA "SCHEME" WORK QUITE LIKE THE PUBLIC OCCUPATIONAL PENSION SCHEME, WHILE THE GROSS COMPENSATION RATE CAN BE ANYWHERE FROM 0.6 TO 0.7. UNLIKE THE PUBLIC OCCUPATIONAL PENSION SCHEME, HOWEVER, THE OPA "SCHEME" DOES NOT "INSURE" AGAINST REFORMS IN THE NIS PENSION SCHEME.

THE DCA SCHEME IS IN A SENSE THE DEFINED-CONTRIBUTION COUNTERPART TO OPA. THE AIM IS STILL TO REACH A CERTAIN GROSS COMPENSATION. LIKE THE PUBLIC OCCUPATIONAL PENSIONS SCHEME AND

THE OPA, THIS MEANS HIGHER OCCUPATIONAL PENSION FOR INCOMES IN EXCESS OF 6 G. IN DCA, THE CONTRIBUTIONS MAY BE UP TO 5 PER CENT OF THE INCOME OF EMPLOYEES IN THE INCOME INTERVAL 1-6 G. FOR INCOME IN EXCESS OF 6 G, BUT UNDER 12 G, THE MAXIMUM CONTRIBUTION IS 8 PER CENT OF INCOME.

ABOUT HALF OF THE EMPLOYEES IN THE PRIVATE SECTOR ARE HISTORICALLY COVERED BY OCCUPATIONAL PENSION SCHEMES. HOWEVER, FROM 2006, PRIVATE OCCUPATIONAL PENSION SCHEMES ARE MANDATORY. (SEE DISCUSSION IN CONJUNCTION WITH PENSION REFORM BELOW.)

PRIVATE SAVINGS

AS IS SOMETIMES PROPER TO MENTION IN DISCUSSIONS OF PENSIONS, IT IS QUITE POSSIBLE TO PREPARE FOR LIFE AS A PENSIONER BY SIMPLY SAVING. THE MAIN VEHICLE OF PRIVATE SAVINGS IN NORWAY IS REPAYMENT OF MORTGAGES ON PRIVATE HOUSING. THE TAX TREATMENT OF THIS KIND OF SAVING COULD BE THE SUBJECT OF A REPORT IN ITSELF, AND IS NOT AN ISSUE THAT WILL BE PURSUED HERE.

PRIVATE SAVINGS THAT ARE CHANNELLED INTO TWO SPECIFIC FINANCIAL CHANNELS ARE SUBJECT TO PREFERENTIAL TAX TREATMENT. THESE ARE IPA, TO BE DISCUSSED IN CHAPTER 3, AND INDIVIDUALLY PAID ANNUITIES, ALSO TO BE DISCUSSED IN CHAPTER 3.

AFP

A MAJORITY OF EMPLOYEES (MAYBE 80 PER CENT) ARE ENTITLED TO A CONTRACTUAL PENSION PURSUANT TO COLLECTIVE AGREEMENTS (“AVTALEFESTET PENSJON” – AFP). THE AFP PENSION SCHEME IS AN

EARLY RETIREMENT PENSION SCHEME FOR PERSONS IN THE AGE GROUP 62-66 YEARS.

FOR THOSE ELIGIBLE, THE AFP SCHEME PROVIDES PENSION BASED ON WHAT THE NIS PENSION SCHEME WOULD HAVE GIVEN, HAD THEY STAYED ON IN THEIR JOB UNTIL AGE 67. IN ADDITION, THERE IS AN EXTRA BENEFIT OF EITHER NOK 11 400 (2004) TAX FREE OR TAXABLE NOK 20 400. THERE IS A RULE, HOWEVER, THAT THE GROSS COMPENSATION RATE SHOULD NOT BE IN EXCESS OF 70 PER CENT, SO COMPENSATION IN AFP IS NOT NECESSARILY MORE GENEROUS THAN IN THE NIS SCHEME (APART FROM THE OBVIOUS FACT THAT MOST OF THE PERSONS COVERED BY AFP WOULD NOT BE ENTITLED TO NIS PENSION.) EMPLOYEES (FORMERLY) IN THE PUBLIC SECTOR ARE ALLOWED THEIR FULL PUBLIC OCCUPATIONAL PENSION SCHEME ALLOWANCE FROM AGE 65.

AFP WAS INTRODUCED FROM 1988 (STARTING WITH PENSION ONLY FOR 66 YEAR OLDS). AFP IS A RESULT OF COLLECTIVE AGREEMENTS, THOUGH THERE ARE SUBSTANTIAL PUBLIC CONTRIBUTIONS TO THE SCHEME, ALSO FOR EMPLOYEES IN THE PRIVATE SECTOR.

A LARGE NUMBER OF PEOPLE IN THE SAME AGE GROUP RECEIVE THE NIS DISABILITY PENSION, WHICH IS BASED ON THE SAME PRINCIPLE: HOW MUCH NIS OLD AGE PENSION WOULD THIS PERSON HAVE RECEIVED IS HE/SHE HAD STAYED EMPLOYED UNTIL AGE 67? OF COURSE, DISABILITY IS A REQUIREMENT FOR RECEIVING DISABILITY PENSION, THOUGH A REMARKABLY LARGE NUMBER OF PEOPLE ABOVE 55 QUALIFY.

0.2 THE PENSION REFORM

A PENSION REFORM PROCESS WAS INITIATED IN NORWAY IN 2001, BY INITIATION OF THE PENSION COMMISSION. THE MAIN SPURS OF THE REFORM PROCESS WAS TO ENSURE THAT NORWAY HAD A PENSION SYSTEM THAT COULD MEET THE CHALLENGES OF AN AGEING POPULATION AND THE TREND TOWARDS EARLIER RETIREMENT. THESE CHALLENGES CAN BE SEEN AS CHALLENGES FOR THE REAL ECONOMY AND THE PUBLIC FINANCES, BUT ALSO AS CHALLENGES FROM AN INDIVIDUAL POINT OF VIEW, THAT IS, HOW DO ONE CONSTRUCT A PENSION SYSTEM THAT MEETS THE NEEDS OF THE POPULACE.

THE PENSION COMMISSION FINISHED ITS REPORT EARLY IN 2004, AND LATE IN THE SAME YEAR A GOVERNMENT WHITE PAPER WAS PRESENTED TO THE PARLIAMENT. THE WHITE PAPER WAS NOT DIRECTLY ACCEPTED, BUT A PENSION COMPROMISE BETWEEN THE GOVERNMENT AND SOME OF THE OPPOSITION PARTIES AT THAT TIME WAS REACHED.

THIS COMPROMISE ENSURED THE FOLLOWING:

- OCCUPATIONAL PENSION SCHEMES WILL BE MANDATORY, ALSO IN THE PRIVATE SECTOR.
- THE LONG TERM FINANCIAL HEALTH OF THE NIS PENSION SCHEME WILL BE SECURED BY THE INTRODUCTION OF “DELINGSTALL”, WHICH MEANS THAT EXPECTED INCREASES IN THE NIS PENSION SCHEME DUE TO INCREASED EXPECTED AGE WILL BE MATCHED BY (INVERSELY) PROPORTIONAL REDUCTIONS IN PENSIONS, REDUCTIONS THAT CAN, HOWEVER, BE COMPENSATED BY POSTPONING THE RETIREMENT.
- THE AFP PENSION SCHEME SHOULD CONTINUE TO EXIST IN SOME FORM.

IN ADDITION, A FRAMEWORK FOR THE FURTHER REFORMS WAS SUGGESTED. THE REFORM OF THE NIS PENSION SCHEME IS PLANNED TO BE IMPLEMENTED FROM 2010. A NEW WHITEPAPER IS SCHEDULED IN THE AUTUMN OF 2006.

MANDATORY OCCUPATIONAL PENSIONS

THE MANDATORY OCCUPATIONAL PENSIONS WILL BE PHASED IN THROUGH 2006. THIS MEANS THAT ALL EMPLOYERS MUST BUY COVERAGE FOR THEIR EMPLOYEES PURSUANT TO EITHER OPA OR DCA. MOST OF THESE OCCUPATIONAL PENSION SCHEMES ARE EXPECTED TO BE DCA SCHEMES WHERE 2 PER CENT OF THE WAGE INCOME IS CONTRIBUTED EVERY YEAR.

SIDE EFFECTS OF THIS REFORM IS THAT SELF-EMPLOYED INDIVIDUALS WILL ALSO BE ALLOWED TO SAVE IN PENSIONS SCHEMES LIKE THE DCA SCHEME AND THAT ORGANISATIONS THAT WERE FORMERLY EXCLUDED FROM SUCH PENSION SCHEMES (ORGANISATION THAT WERE EXEMPT FROM TAXATION) ARE NOW ALLOWED PENSION SCHEMES UNDER DCA AND OPA.

0.3 THE TAXATION OF PENSION INCOME

PENSION INCOME IN NORWAY IS PENSION FROM THE NIS PENSION SCHEME, THE OCCUPATIONAL PENSION SCHEMES, THE IPA AND EMPLOYER PROVIDED LIFE ANNUITIES. THE TAXATION OF PENSION INCOME IS SIMILAR TO THE TAXATION OF WAGE INCOME. THERE ARE HOWEVER SOME SPECIAL RULES.

TAXATION OF WAGE INCOME

THERE IS DUAL INCOME TAXATION IN NORWAY. *PERSONAL INCOME*, WHICH IS IN THIS CONTEXT GROSS WAGE INCOME, IS TAXED WITH A NATIONAL INSURANCE SCHEME TAX OF 7,8 PER CENT AND ADDITIONAL PROGRESSIVE SURTAX RATES OF 7 AND 12 PER CENT FOR HIGHER INCOMES. *ORDINARY INCOME*, DEFINED AS PERSONAL INCOME WITH VARIOUS DEDUCTIONS, IN ADDITION TO NET CAPITAL INCOME, IS TAXED WITH A FLAT RATE OF 28 PER CENT.

SPECIAL RULES FOR PENSION INCOME RELATIVE TO WAGE INCOME

PENSION INCOME IS PERSONAL INCOME.

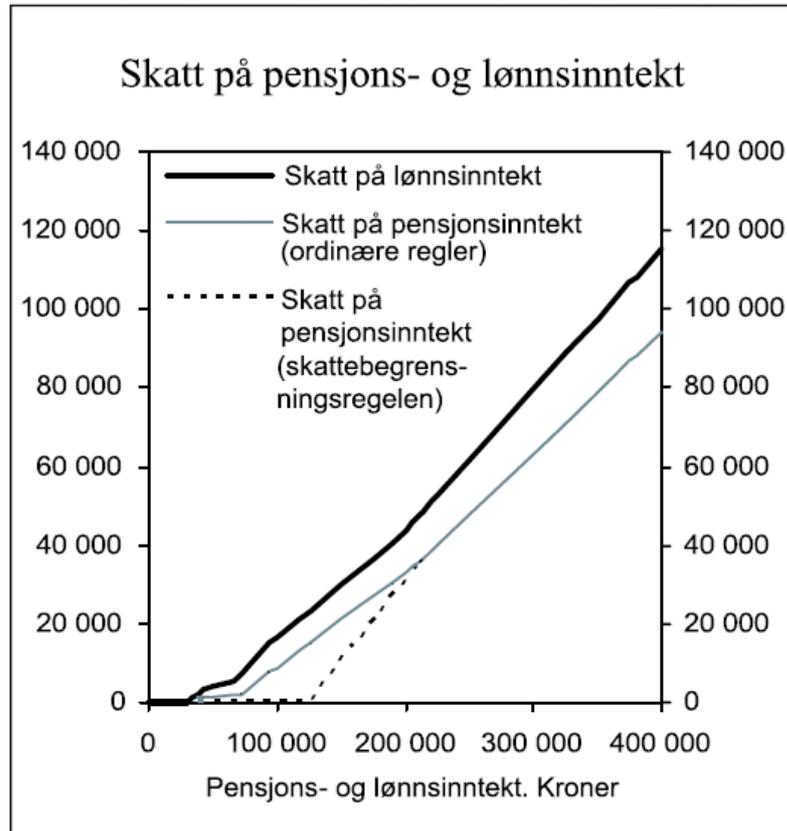
PENSION INCOME IS TAXED WITH A LOWER NIS TAX OF 3 PER CENT, IN CONTRAST TO 7.8 PER CENT FOR WAGE INCOME.

THERE IS A SPECIAL DEDUCTION FOR OLD AGE OR DISABILITY IN ORDINARY INCOME.

IN ADDITION, THERE IS A SPECIAL "RULE" THAT LIMITS THE TAX ON LOW PENSION INCOMES.

THE EFFECTS OF THESE RULES CAN BE DEDUCED FROM FIGURE O.3. THE FIGURE SHOWS THAT LOW PENSION INCOMES ARE NOT TAXED. FOR LOW TO MEDIUM PENSION INCOMES, THE MARGINAL TAX RATE IS QUITE HIGH. FOR HIGH PENSION INCOMES, THE AVERAGE TAX RATE IS ABOUT 5 PERCENTAGE POINTS LOWER THAN THE TAX RATE FOR WAGE INCOMES.

FIGURE 0.3 TAXES ON WAGE AND PENSION INCOME



SOURCE: ST.PRP. NR. 1 (2005-2006) SKATTE- AVGIFTS- OG TOLLVEDTAK.

1. CERTAINTY OR UNCERTAINTY CONCERNING CONTRIBUTIONS AND BENEFITS

ALL PUBLIC EMPLOYEES ARE COVERED BY DEFINED-BENEFITS PENSIONS SCHEMES. THOSE EMPLOYED BY THE STATE ARE COVERED DIRECTLY BY THE GOVERNMENT. THOSE WHO ARE EMPLOYED IN COUNTIES AND MUNICIPALITIES ARE COVERED EITHER THROUGH MUNICIPAL PENSION FUNDS OR THROUGH KLP, A MUTUAL INSURANCE COMPANY (OWNED BY THE CUSTOMERS).

ABOUT HALF THE EMPLOYEES IN THE PRIVATE SECTOR WERE UP TO 2006 COVERED BY OCCUPATIONAL PENSION SCHEMES. THESE WERE ALSO PREDOMINANTLY COVERED BY DEFINED-BENEFITS SCHEMES.

FIGURE 1.1 AND FIGURE 1.2 SHOW THE NUMBER OF EMPLOYEES COVERED BY DEFINED-BENEFITS AND DEFINED-CONTRIBUTION SCHEMES, RESPECTIVELY. NOTE THE DIFFERENT SCALE OF THE AXES IN THE TWO FIGURES. THE FIGURES INCLUDE SOME PUBLIC EMPLOYEES, NAMELY THOSE COVERED BY KLP, BUT EXCLUDES APPROXIMATELY 380,000 PUBLIC EMPLOYEES THAT ARE COVERED BY DEFINED-BENEFIT SCHEMES

FIGURE 1.1 – THE NUMBER OF PERSONS COVERED BY DEFINED-BENEFIT SCHEMES (EXCLUSIVE OF SPK AND MUNICIPAL PENSION FUNDS.)

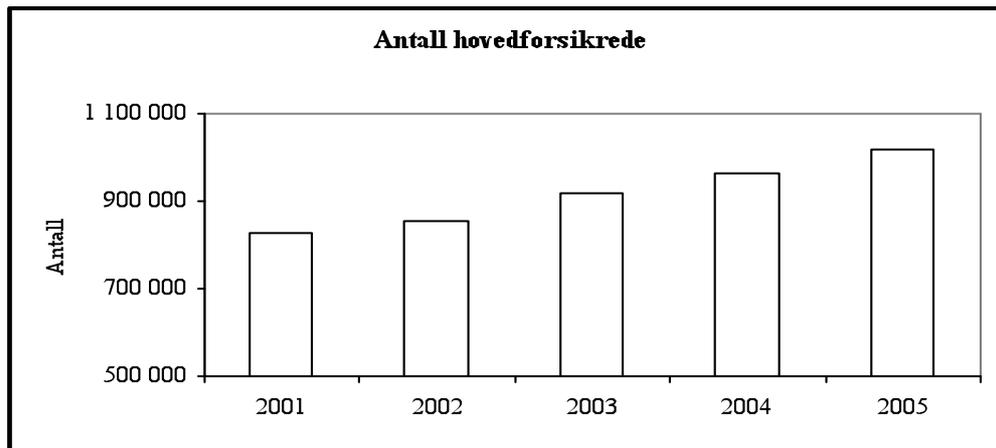
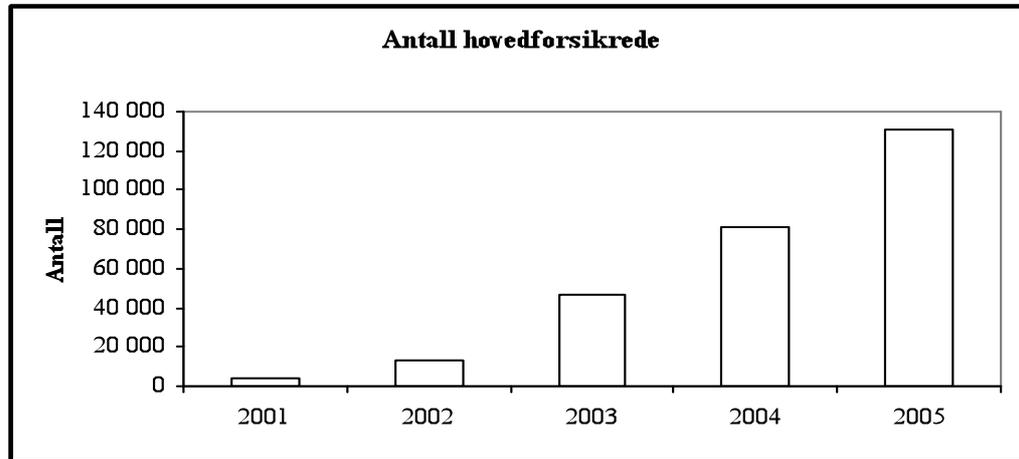


FIGURE 1.2 – THE NUMBER OF PERSONS COVERED BY DEFINED-CONTRIBUTION SCHEMES.



THE SHARE OF PENSION SCHEMES THAT ARE DEFINED-CONTRIBUTION SCHEMES ARE LIKELY TO INCREASE CONSIDERABLY IN 2006. AS MANDATORY OCCUPATIONAL PENSION SCHEMES ARE PHASED IN THROUGH 2006, WITH MINIMUM REQUIREMENTS DEFINED IN TERMS OF DEFINED-CONTRIBUTION SCHEMES, MOST OF THOSE WHO DID NOT HAVE AN OCCUPATIONAL PENSION SCHEME WILL THROUGH 2006 BE ENROLLED IN SUCH A SCHEME.

IN ADDITION, THE NON-PROFIT PRIVATE SECTOR, INCLUDING MANY ORGANISATIONS, WERE NOT PRIOR TO 2006 ALLOWED EITHER ORDINARY (PREFERENTIALLY TAX TREATED) DEFINED-CONTRIBUTION OR DEFINED-BENEFITS PENSION SCHEMES, WHILE THEY WILL NOW NOT ONLY BE ALLOWED, BUT ALSO REQUIRED, TO ENROL EMPLOYEES IN SUCH PENSION SCHEMES.

ABOUT 600,000 PERSONS ARE LIKELY TO BE ENROLLED, PRIMARILY IN DEFINED-CONTRIBUTION SCHEMES. THE REASON WHY MOST OF THESE ARE EXPECTED TO BE ENROLLED IN A DEFINED-CONTRIBUTION SCHEME IS

THAT THE MINIMUM REQUIREMENT FOR THE MANDATORY OCCUPATIONAL PENSION SCHEME IS DEFINED IN TERMS OF A DEFINED-CONTRIBUTION SCHEME, AND THAT THE LEGAL MINIMUM REQUIREMENTS FOR A DEFINED-BENEFITS SCHEME IS EXPECTED TO BE MORE EXPENSIVE TO THE FIRMS IN QUESTION THAN THE MINIMUM REQUIREMENTS FOR A DEFINED-CONTRIBUTION SCHEME.

THERE ARE ALSO RULES FOR SO CALLED "CLOSING" OF PRIVATE DEFINED-BENEFITS SCHEMES, WHICH MEANS A TRANSITION TO DEFINED-CONTRIBUTION SCHEMES, WHERE NEW EMPLOYEES ARE ENROLLED IN THE NEW SCHEME, WHILE CURRENT EMPLOYEES STAY IN THE DEFINED-BENEFITS SCHEME. THERE IS A CONTINUING FLOW OF EMPLOYEES FROM THE DEFINED-BENEFITS TO DEFINED-CONTRIBUTION SCHEMES, BUT THIS FLOW IS NOT PARTICULARLY LARGE, AS IS OBVIOUS FROM FIGURES 1 AND 2.

THE AMOUNTS PAID INTO THE DIFFERENT SCHEMES WERE APPROXIMATELY 29 BILLION NOK FOR THE DEFINED-BENEFITS SCHEMES (EXCLUDING SPK AND MUNICIPAL PENSION FUNDS AS ABOVE), AND 1,2 BILLION NOK FOR DEFINED-CONTRIBUTION SCHEMES.

IN TERMS OF CONTRIBUTIONS, THE DEFINED-CONTRIBUTION SCHEMES OPENING UP BECAUSE OF THE NEW MANDATORY OCCUPATIONAL PENSION SCHEMES ARE NOT EXPECTED TO EXCEED 3.5 - 4 BILLION NOK, SO IT IS SAFE TO CONCLUDE THAT:

IN TERMS OF OCCUPATIONAL PENSION SCHEMES, NORWAY IS MOVING TOWARDS A SITUATION WHERE ROUGHLY ONE THIRD ARE COVERED BY THE PUBLIC OCCUPATIONAL PENSION SCHEMES THAT ARE DEFINED-BENEFITS, A THIRD COVERED BY PRIVATE DEFINED-BENEFITS SCHEMES AND A THIRD COVERED BY PRIVATE DEFINED-CONTRIBUTION SCHEMES. THE TREND

TOWARDS DEFINED-CONTRIBUTION SCHEMES WILL THUS BE VERY STRONG IN TERMS OF THE NUMBER OF PERSONS.

IN TERMS OF CONTRIBUTIONS, NORWAY WILL STAY A PRIMARILY DEFINED-BENEFITS COUNTRY, AS THE DEFINED-BENEFITS SCHEMES ARE ON AVERAGE MUCH MORE GENEROUS (AND THUS COSTLY) THAN THE DEFINED-CONTRIBUTION SCHEMES.

IN ADDITION, THERE IS ALSO THE AFP SCHEME, WHICH IS AN OCCUPATIONAL PENSION SCHEME THAT COVERS PENSIONS FOR THE AGE 62-66. AFP IS A DEFINED-BENEFITS SCHEME.

THE (WEAK) TREND TOWARDS DEFINED-CONTRIBUTION SCHEMES IS NOT A RESULT OF A POLITICALLY DETERMINED PENSION REFORM. HOWEVER, THE CONSIDERATION THAT PRIVATE FIRMS WOULD FIND IT LESS EXPENSIVE AND MORE PREDICTABLE TO SUPPLY THEIR EMPLOYEES WITH AN OCCUPATIONAL PENSION SCHEME UNDER THE LAW OF "CONTRIBUTION BASED" SCHEMES MAY HAVE BEEN ONE OF THE MOTIVATIONS BEHIND THE DCA.

2. DEMOGRAPHIC TRENDS AND RETIREMENT BEHAVIOUR

2.1 DEMOGRAPHIC TRENDS

DEMOGRAPHIC TRENDS ARE VITAL TO THE FINANCIAL HEALTH OF THE PENSION SYSTEM. THERE ARE AT LEAST TWO IMPORTANT DEMOGRAPHIC TRENDS THAT ARE OF PARTICULAR RELEVANCE. FIRST, THE AVERAGE LIFE SPAN HAS INCREASED DURING RECENT DECADES AND IS EXPECTED TO INCREASE FURTHER THROUGH THE NEXT DECADES. SECOND, THE DEMOGRAPHIC PHENOMENON OF THE BABY BOOMERS, THAT IS, THE LARGE BIRTH COHORTS FOLLOWING WORLD WAR II, ARE ENTERING AGE GROUPS WITH DECREASING EMPLOYMENT AND INCREASING RELIANCE ON VARIOUS BENEFITS.

THE MOST USEFUL MEASURE OF THE AGE SPAN IN A POPULATION IS PERHAPS "EXPECTED AGE". "EXPECTED AGE" IS A SYNTHETIC MEASURE BASED ON THE PROPORTION SURVIVING BETWEEN DIFFERENT (TYPICALLY ONE-YEAR) AGE GROUPS. THUS, "EXPECTED AGE" CAN BE CALCULATED FROM STATISTICS ON SURVIVAL IN A POPULATION FOR A SINGLE YEAR. EXPECTED AGE IS ALSO EASILY DEFINED AND CALCULATED CONDITIONAL ON SURVIVAL TO A CERTAIN AGE. IT IS IMPORTANT TO BEAR IN MIND THAT WHEN MORTALITY RATES SHOW A DECREASING TREND, THE "EXPECTED AGE" IS LOWER THAN THE REAL EXPECTED AGE.

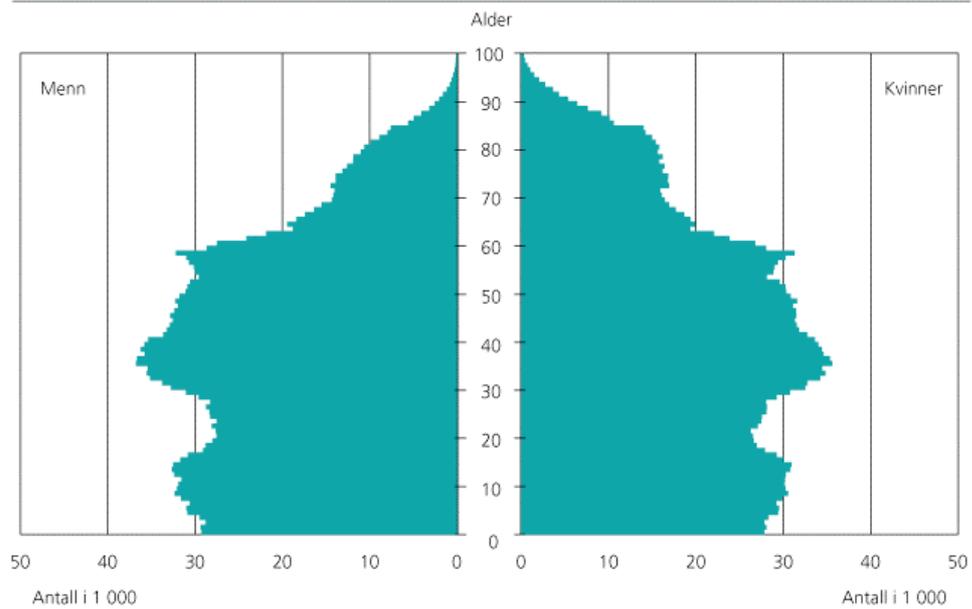
THE EXPECTED AGE FOR WOMEN HAS INCREASED FROM 77.7 YEARS IN AVERAGE IN 1971-1975 TO AN AVERAGE OF 82.5 YEARS IN 2005. THUS, THE INCREASE HAS BEEN OF ABOUT ONE YEAR OF AGE PER FIVE YEARS. THE EXPECTED AGE FOR MEN HAS INCREASED FROM 71.4 YEARS IN AVERAGE IN 1971-1975 TO 77.7 YEARS IN 2005, AN INCREASE OF ONE YEAR OF AGE IN A LITTLE LESS THAN FOUR YEARS. OBVIOUSLY, SUCH AN

INCREASE IN THE EXPECTED AGE HAS A LARGE IMPACT ON THE PENSION OUTLAYS WHEN PERSONS ARE ENTITLED TO PENSION BENEFITS AFTER PASSING SOME THRESHOLD AGE, AS THE EXPECTED NUMBER OF YEARS PAST SUCH A THRESHOLD AGE INCREASES (RELATIVELY) MORE THAN THE AGE IN GENERAL. E.G. IF A PERSON DIES AT THE AGE OF 77 INSTEAD OF AT THE AGE OF 71, THIS MEANS 10 YEARS OF BENEFITS INSTEAD OF 4 YEARS, IF PERSONS ARE ENTITLED TO BENEFITS FROM 67 YEARS.

THE BABY BOOMER PHENOMENON CAN BEST BE SEEN BY STUDYING THE POPULATION PYRAMID:

FIGURE 2.1 – POPULATION PYRAMID FOR NORWAY 2005.

Figur 4. Folkemengden etter alder og kjønn, registrert per 1. januar 2005



SOURCE: STATISTICS NORWAY

THE DRAMATIC DECREASE IN THE NUMBER OF PERSONS WHEN WE MOVE FROM AGE 59 TO 64 IS NOT DUE TO HIGH MORTALITY RATES, BUT THAT FEWER PEOPLE WERE BORN IN THESE COHORTS.

THE PYRAMID SHOWS THAT WE ARE MOVING FROM A SITUATION WHERE SMALL COHORTS OF PENSIONERS ARE SUPPORTED BY LARGE COHORTS OF WORKING AGE PERSONS TO A NEW PERMANENT SITUATION WHERE THE SIZE OF THE COHORTS ARE TO A LARGER DEGREE SIMILAR.

2.2 LABOUR FORCE PARTICIPATION AND EMPLOYMENT

IN ADDITION TO THE PURELY DEMOGRAPHIC PHENOMENA, IT IS VITALLY IMPORTANT WHETHER THOSE IN THE WORKING AGE POPULATION ARE ACTUALLY WORKING, AND GENERATING TAX REVENUE TO COVER PENSION OUTLAYS.

LABOUR FORCE PARTICIPATION IS DEFINED AS BEING EMPLOYED OR ACTIVELY SEEKING EMPLOYMENT. LABOUR FORCE PARTICIPATION IS A SLIGHTLY MORE USEFUL CONCEPT THAN EMPLOYMENT FOR STUDYING VARIATIONS IN LABOUR MARKET ACTIVITY OVER TIME, AS IT VARIES LESS THAN EMPLOYMENT WITH THE BUSINESS CYCLES. STILL, LABOUR FORCE PARTICIPATION IS A FAR FROM PERFECT MEASURE FOR THIS PURPOSE, AS PERSONS WITHOUT A JOB WILL TYPICALLY NOT ACTIVELY SEARCH FOR A JOB UNLESS THEY THINK THEY WILL BE OFFERED A SUITABLY ATTRACTIVE JOB.

THE LABOUR FORCE PARTICIPATION AND EMPLOYMENT RATES, DEFINED WITH RESPECT TO THE FULL POPULATION IN THE AGE GROUP 16-74 ARE SPECIFIED IN TABLE 2.1:

TABLE 2.1 – LABOUR FORCE PARTICIPATION AND EMPLOYMENT 1975-2005 (GENDER SPECIFIC NUMBERS IN PARENTHESES)

| | 1975 | 1985 | 1995 | 2005 |
|--|------|------|------|------|
|--|------|------|------|------|

| | | | | |
|--------------|--------------------------|--------------------------|--------------------------|--------------------------|
| LABOUR FORCE | 62,2 (77,4 / 47,0) | 68,7 (78,1 / 59,5) | 69,4 (75,0 / 63,9) | 72,3 (76,0 / 68,6) |
| EMPLOYMENT | 60,8 (76,0 / 45,6) | 67,0 (76,4 / 57,7) | 66,2 (71,3 / 61,1) | 69,1 (72,5 / 65,5) |

SOURCE: STATISTICS NORWAY, THE LABOUR FORCE SURVEY

DURING THE LAST 30 YEARS, THE LABOUR FORCE PARTICIPATION HAS INCREASED BY ABOUT 10 PERCENTAGE POINTS, A RESULT DRIVEN BY INCREASED FEMALE AND STABLE MALE LABOUR FORCE PARTICIPATION RATES.

THE AVERAGE EFFECTS ON HOURS WORKED AMONG THE EMPLOYED SHOW SOME DIFFERENT TRENDS, THOUGH GOOD LONG TERM DATA ARE A BIT DIFFICULT TO COME UP WITH. HOURS WORKED IN FULL TIME POSITIONS HAS DECREASED SOMEWHAT. THE PROPORTION OF PART TIME WORK HAS INCREASED AS WOMEN HAS ENTERED THE LABOUR FORCE. THE PROPORTION OF PART TIME WORK HAS DECREASED AS WOMEN HAVE TO A LARGER EXTENT ENTERED LONG TIME WORK. IN ADDITION, THE SHARE OF PART TIME WORK HAS INCREASED AS IT IS NORMAL TO WORK PART TIME DURING STUDIES.

A SHORT TERM TREND FOR HOURS WORKED IS PRESENTED IN TABLE 2.2

TABLE 2.2 AVERAGE HOURS WORKED PER WEEK AMONG THE EMPLOYED

| YEAR | AVERAGE HOURS |
|------|---------------|
| 2000 | 34,6 |
| 2001 | 34,6 |
| 2002 | 34,5 |
| 2003 | 34,4 |

| | |
|------|------|
| 2004 | 34,1 |
| 2005 | 34,2 |

SOURCE: STATISTICS NORWAY, THE LABOUR FORCE SURVEY

WE SEE THAT THE AVERAGE WEEKLY HOURS WORKED HAS DECREASED SOMEWHAT DURING THE LAST 5 YEARS. HOWEVER, THIS TREND IS NOT REINFORCED BY LONGER-TERM DATA ON THE PROPORTION OF THE EMPLOYED THAT ARE WORKING FULL TIME.

TABLE 2.3 SHARE OF THE EMPLOYED WORKING FULL-TIME (32+ HOURS PER WEEK)

| | ALL | MEN | WOMEN | MEN'S SHARE OF LABOUR FORCE |
|------|-------|-------|-------|-----------------------------|
| 1989 | 0,724 | 0,900 | 0,504 | 0,555 |
| 1990 | 0,725 | 0,900 | 0,513 | 0,549 |
| 1991 | 0,726 | 0,899 | 0,520 | 0,545 |
| 1992 | 0,725 | 0,893 | 0,525 | 0,544 |
| 1993 | 0,724 | 0,895 | 0,521 | 0,542 |
| 1994 | 0,731 | 0,899 | 0,533 | 0,542 |
| 1995 | 0,730 | 0,900 | 0,531 | 0,542 |
| 1996 | 0,732 | 0,895 | 0,540 | 0,541 |
| 1997 | 0,737 | 0,900 | 0,544 | 0,540 |
| 1998 | 0,739 | 0,900 | 0,551 | 0,539 |
| 1999 | 0,735 | 0,894 | 0,552 | 0,535 |
| 2000 | 0,742 | 0,893 | 0,568 | 0,534 |
| 2001 | 0,737 | 0,885 | 0,568 | 0,533 |
| 2002 | 0,734 | 0,884 | 0,565 | 0,529 |
| 2003 | 0,731 | 0,876 | 0,569 | 0,528 |
| 2004 | 0,727 | 0,871 | 0,566 | 0,528 |
| 2005 | 0,732 | 0,875 | 0,572 | 0,529 |

SOURCE: STATISTICS NORWAY, THE LABOUR FORCE SURVEY

THE SHARE OF THE EMPLOYED THAT ARE WORKING FULL TIME HAVE BEEN STABLE OVER THE LAST 16 YEARS, WITH AN INCREASE FROM 72.4 PER CENT IN 1989 TO 73.2 PER CENT IN 2005. THIS IS A REFLECTION OF THREE TRENDS. A LARGER PROPORTION OF MEN WORK PART TIME. A SMALLER PROPORTION OF WOMEN WORK PART TIME. THE WOMEN ARE AN INCREASING PROPORTION OF THE EMPLOYED.

THE EMPLOYMENT RATES AND THE NUMBER OF HOURS WORKED CAN BE DECOMPOSED INTO INDIVIDUAL LABOUR MARKET EPISODES SUCH AS LABOUR MARKET ENTRY, LABOUR MARKET EXIT (OR RETIREMENT) AND THE HISTORY OF FULL TIME/PART TIME WORK DURING THE LABOUR MARKET CAREERS. IT IS NOT PARTICULARLY EASY TO SUMMARIZE SUCH INDIVIDUAL LABOUR MARKET CAREERS.

2.3 LABOUR MARKET ENTRY

THE LABOUR MARKET ENTRY FROM 1975 TO 2005 CAN BE STUDIED FROM THE FOLLOWING NUMBERS ON LABOUR FORCE PARTICIPATION.

MOST PEOPLE ENTER THE LABOUR FORCE AT SOME POINT BEFORE THEY REACH 24 YEARS, WHILE THE LABOUR FORCE PARTICIPATION IS STILL SOMEWHAT LOWER IN THE AGE GROUP 25-29 YEARS THAN FOR OLDER GROUPS (ABOUT FOUR PERCENTAGE POINTS LOWER THAN FOR THE AGE GROUP 30-34 YEARS).

**TABLE 2.4 LABOUR FORCE PARTICIPATION IN YOUNGER AGE GROUPS
(GENDER SPECIFIC IN PARENTHESES)**

| | 1975 | 1985 | 1995 | 2005 |
|------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 16 – 19 YEARS | 41,7 (43,8 – 39,7) | 44,2 (45,5 – 42,6) | 36,8 (36,7 – 36,9) | 44,5 (42,7 – 46,2) |
| 20 – 24 YEARS | 58,6 (60,8 – 56,2) | 73,4 (79,5 – 67,2) | 67,3 (71,1 – 63,5) | 71,9 (74,7 – 69,0) |
| 25 – 29 YEARS | 70,9 (89,4 – 50,8) | 81,9 (91,7 – 72,0) | 81,6 (86,5 – 76,4) | 83,3 (87,2 – 79,5) |
| 30 – 34 YEARS | 74,7 (95,9 – 52,1) | 84,7 (96,2 – 72,3) | 86,3 (92,0 – 80,2) | 86,8 (90,9 – 82,6) |

SOURCE: STATISTICS NORWAY, THE LABOUR FORCE SURVEY

THE MAIN TREND IN TABLE 2.4, AS REGARDS THE LABOUR MARKET ENTRY, IS THE INCREASED LABOUR FORCE PARTICIPATION AMONG 20-24 YEAR OLDS. THIS CHANGE HAPPENED FROM 1975 TO 1985 AND CAN MOST LIKELY BE EXPLAINED BY INCREASED PART TIME WORK AMONG THOSE UNDER EDUCATION. A PART FROM THIS, THERE IS NO CLEAR TREND IN LABOUR MARKET ENTRY.

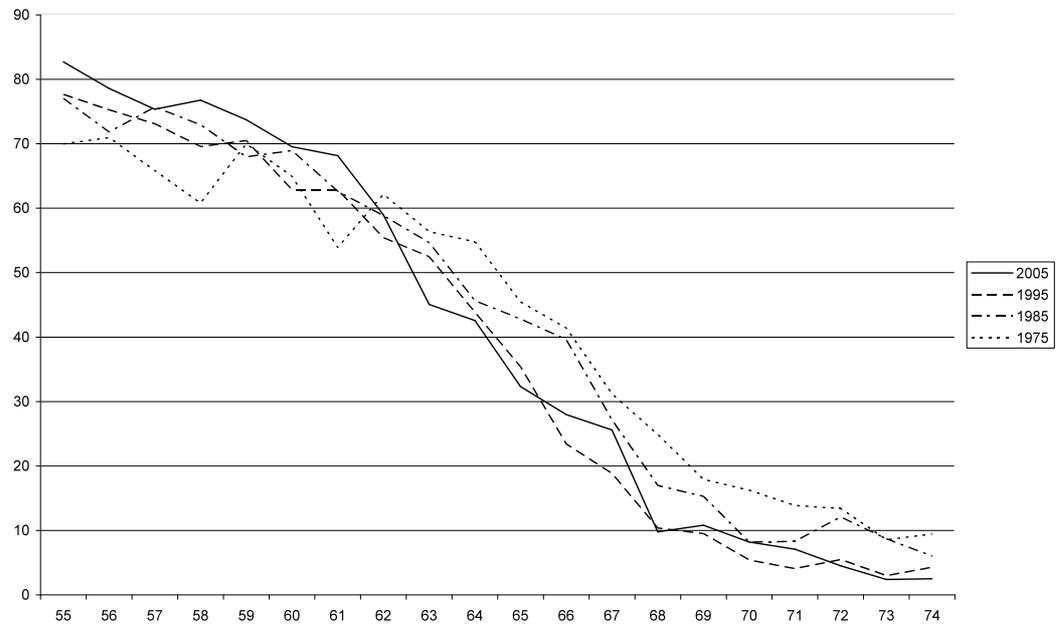
THE BIG PICTURE IN 2005 CAN BE DESCRIBED IN THE FOLLOWING WAY: FOUR OUT OF TEN WORK DURING THEIR LATE TEENS, MANY (MOST) OF THEM IN ADDITION TO PARTICIPATION IN FULL TIME SCHOOLING OR EDUCATION. IN THE EARLY TWENTIES, THIS NUMBER RISES TO SEVEN OUT OF TEN. IN THEIR LATE TWENTIES, 83 PER CENT ARE IN THE LABOUR FORCE, INCREASING ONLY FURTHER TO 87 PER CENT IN THE EARLY THIRTIES. MEN WORK SOMEWHAT MORE THAN WOMEN IN ALL AGE GROUPS

EXCEPT THE YOUNGEST. THIS CAN PROBABLY BE EXPLAINED BY HIGHER EDUCATIONAL PARTICIPATION FOR THE YOUNG WOMEN AND CHILD CARE FOR THOSE IN THE LATE TWENTIES AND EARLY THIRTIES.

2.4 RETIREMENT FROM THE LABOUR FORCE

THE LABOUR FORCE PARTICIPATION RATE PEAKS IN THE AGE 30-54 YEARS AND STARTS TO DIP AFTER THIS. FIGURE 2.1 SHOWS THE AGE PROFILE OF LABOUR FORCE PARTICIPATION TOGETHER AS WELL AS THE TREND OVER TIME IN THIS PROFILE. THE COMMON FEATURE OVER ALL THESE YEARS IS THAT THE LABOUR FORCE PARTICIPATION DECREASES FROM ABOVE 70 PER CENT AT 55 YEARS TO LESS THAN 10 PER CENT AT 74 YEARS. IN ALL THESE YEARS, THE EMPIRICAL PICTURE DIFFERS VASTLY FROM THE SIMPLE MODEL THAT “EVERYONE WORKS UNTIL THE PENSION AGE AT 67 AND THEN RETIRES”.

FIGURE 2.2 – AGE SPECIFIC LABOUR FORCE PARTICIPATION TOWARDS THE PENSION AGE, 1975-2005



SOURCE: STATISTICS NORWAY, THE LABOUR FORCE SURVEY

IN FACT, TO GET A GRIP OF THE BIG PICTURE, IT IS NECESSARY TO LOOK AT GENDER DIFFERENCES.

FIGURE 2.3 – AGE SPECIFIC LABOUR FORCE PARTICIPATION TOWARDS THE PENSION AGE, 1975-2005, MEN

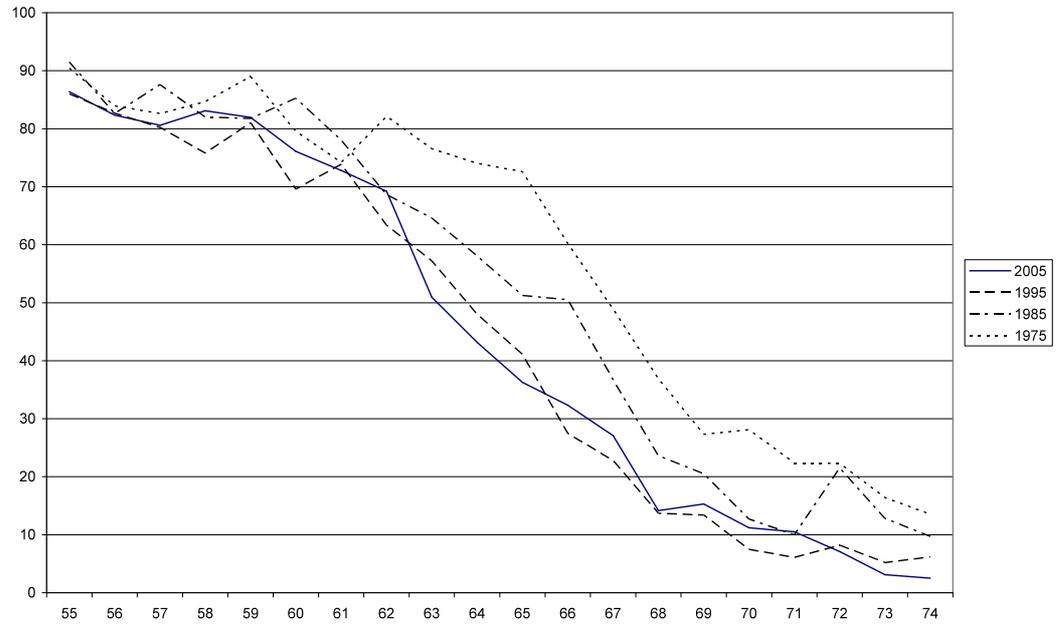
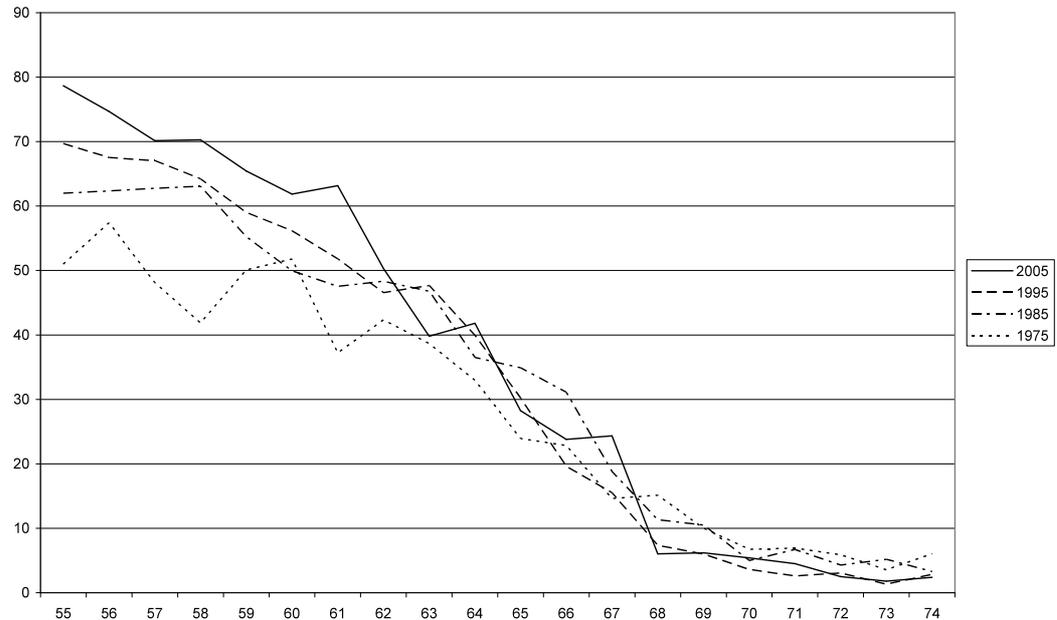


FIGURE 2.4 – AGE SPECIFIC LABOUR FORCE PARTICIPATION TOWARDS THE PENSION AGE, 1975-2005, WOMEN



THE MAIN TRENDS ARE THUS:

DURING THE LAST THIRTY YEARS, THE LABOUR FORCE PARTICIPATION OF MEN HAS FALLEN DRAMATICALLY FOR THE AGE OF 62 AND ONWARDS. QUITE A BIT OF THIS CHANGE HAPPENED EARLY IN THE PERIOD. THUS, IT CANNOT BE FULLY EXPLAINED BY THE INTRODUCTION OF AFP (STARTING FROM ABOUT 1988).

DURING THE SAME YEARS, THE LABOUR FORCE PARTICIPATION OF WOMEN AGED 55 HAS INCREASED DRAMATICALLY. THIS ALSO HOLDS ONLY FOR AGES UP TO ABOUT 62. THE SHARE OF WORKING WOMEN THAT RETIRES IN THEIR EARLY SIXTIES HAS THUS ALSO INCREASED.

IT IS HARD NOT TO UNDERESTIMATE THE ECONOMIC IMPORTANCE OF THESE TRENDS, BOTH FOR “REAL ECONOMICS” AND PUBLIC FINANCES.

2.5 INCENTIVES AND RETIREMENT

THE NOMINAL RETIREMENT AGE IN NORWAY IS AT 67 YEARS. THERE IS AN AGE LIMIT AT 70 YEARS, WHICH MEANS THAT PEOPLE DO NOT HAVE THE RIGHT TO CONTINUE IN THEIR JOBS AFTER THEY REACH 70 YEARS.

THE INCENTIVES FOR STAYING IN WORK PAST THE NOMINAL RETIREMENT AGE ARE SOMEWHAT WEAK. THE PENSION IS REDUCED BY 40 PER CENT OF INCOME IN EXCESS OF 2G. THUS, BY CONTINUING IN A FULL TIME JOB, THE PENSION WILL BE REDUCED BY AT LEAST 20 PER CENT OF THE LABOUR INCOME, IN EFFECT INCREASING THE TAX RATE ON LABOUR INCOME BY THIS AMOUNT, AN INCREASING THE EFFECTIVE MARGINAL TAX ON LABOUR INCOME WITH 40 PERCENTAGE POINTS (THAT IS, TO AT LEAST 75.8 PER CENT.) BEYOND AGE 70, THIS DISINCENTIVE IS REMOVED.

THERE ARE ALSO SERIOUS INCENTIVE PROBLEMS ASSOCIATED WITH THE AFP SCHEME. THE GROSS COMPENSATION RATE IN AFP MAY BE UP TO 70 PER CENT. THE NET COMPENSATION RATE IS HIGHER, BOTH BECAUSE PENSIONS ARE TREATED MORE GENEROUSLY THAN WAGE INCOMES WITH RESPECT TO TAXATION AND BECAUSE THE GENERAL SYSTEM OF TAXATION IS PROGRESSIVE. IN ADDITION, THE RETIREMENT DECISION DOES NOT AFFECT FUTURE PENSION RIGHTS. THUS, ONLY ABOUT 20-40 PER CENT (DEPENDING ON THE INCOME LEVEL) OF THE NET INCOME OF POTENTIAL RETIREES IN THE AFP SCHEME DEPENDS ON THEIR DECISION TO CONTINUE WORKING BEYOND AGE 62.

3. TAX TREATMENT AND LIFE CYCLE PERIOD

3.1 OCCUPATIONAL PENSION SCHEMES.

OCCUPATIONAL PENSION SCHEMES IN THE PRIVATE SECTOR MAY BE DESIGNED IN DIFFERENT WAYS, AND THE TAX IMPLICATIONS WILL, IN PART, BE VERY DIFFERENT DEPENDING ON WHICH MODEL IS CHOSEN.

FIRSTLY, THERE CAN BE ESTABLISHED A DEFINED-BENEFIT PENSION SCHEME PURSUANT TO ACT NO. 16 OF 24 MARCH 2000 ON OCCUPATIONAL PENSIONS (OPA). THIS APPLIES TO GROUP SCHEMES, WHICH RECEIVE, RELATIVELY SPEAKING, FAVOURABLE TAX TREATMENT WHEN THE REQUIREMENTS LAID DOWN BY THE ACT HAVE BEEN COMPLIED WITH. THE ACT ON OCCUPATIONAL PENSIONS IMPOSES REQUIREMENTS IN TERMS OF ORGANISATION, MEMBERSHIP, CALCULATION OF BENEFITS, ETC.

SECONDLY, THERE CAN BE ESTABLISHED A DEFINED-CONTRIBUTION PENSION SCHEME PURSUANT TO ACT NO. 81 OF 24 NOVEMBER 2000 ON OCCUPATIONAL DEFINED CONTRIBUTION SCHEMES (DCA). THIS ALSO APPLIES TO GROUP SCHEMES, AND IMPOSES LARGELY THE SAME REQUIREMENTS CONCERNING MEMBERSHIP, ETC., AS DOES THE ACT ON OCCUPATIONAL PENSIONS. BENEFITING FROM THE SAME FAVOURABLE TAX TREATMENT AS APPLIES TO SCHEMES UNDER THE OPA IS CONDITIONAL UPON COMPLIANCE WITH A NUMBER OF MANDATORY REQUIREMENTS UNDER THE ACT ON DEFINED CONTRIBUTION SCHEMES.

THE TAX TREATMENT OF THE OPA AND THE DCA SCHEMES IS BASED ON THE FOLLOWING PRINCIPLES:

- THE EMPLOYER HAS A RIGHT TO DEDUCT THE CONTRIBUTIONS PAID INTO THE PENSION PLAN.

- THE EMPLOYER'S CONTRIBUTION TO THE PLAN IS NOT CONSIDERED AS TAXABLE INCOME AT THE HAND OF THE EMPLOYEE.
- THE EMPLOYEE MAY, WITHIN CERTAIN LIMITS, CONTRIBUTE TO THE FUNDING OF THE PENSION SCHEME, AND SHALL IN SUCH CASES BE ENTITLED TO A TAX DEDUCTION IN RESPECT OF HIS OR HER CONTRIBUTION.
- THE ANNUAL RETURN ON THE PENSION PORTFOLIO IS NOT TAXED, NEITHER AT THE HAND OF THE EMPLOYER NOR THE EMPLOYEE.
- THE PENSION PORTFOLIO IS NOT SUBJECT TO NET WEALTH TAX.
- THE BENEFITS FROM THE PENSION SCHEME ARE TAXED AS PENSION INCOME AT THE HAND OF THE EMPLOYEE, WITH A MAXIMUM MARGINAL TAX RATE OF 43 PER CENT.

ALSO SELF-EMPLOYED INDIVIDUALS MAY (WITHIN CERTAIN LIMITS) CLAIM AN INCOME DEDUCTION FOR CONTRIBUTIONS TO AN OPA OR A DCA SCHEME.

THIRDLY, THE EMPLOYER CAN AGREE TO PROVIDE OTHER GROUP PENSION SCHEMES WHICH DO NOT COMPLY WITH THE REQUIREMENTS OF THE TWO PENSIONS ACTS. IN SUCH CASES, THE EMPLOYER HAS NO RIGHT TO DEDUCT THE CONTRIBUTIONS TO THE PENSION SCHEME; NEITHER WILL ANY CONTRIBUTION FROM THE EMPLOYEE BE DEDUCTIBLE AT THE HANDS OF THE EMPLOYEE.

THE OTHER TAX CONSEQUENCES, AS DESCRIBED ABOVE IN RELATION TO THE OPA AND THE DCA SCHEMES, WILL APPLY ALSO TO GROUP PENSION SCHEMES WHICH DO NOT COMPLY WITH THE REQUIREMENTS OF THE TWO PENSION ACTS. HOWEVER, THE MINISTRY OF FINANCE HAS IN THE FISCAL BUDGET FOR 2007 PROPOSED THAT THE PREFERENTIAL TAX TREATMENT OF GROUP PENSION SCHEMES (OTHER THAN OPA AND DCA SCHEMES) WILL BE ABOLISHED FROM 2007, AND THE EMPLOYER'S CONTRIBUTION

TO A GROUP PENSION SCHEME WILL BE TAXED AS ORDINARY WAGES AT THE HAND OF THE EMPLOYEE, REF. OT.PRP. NR. 1 (2006-2007) SKATTE- OG AVGIFTSOPPLEGGET 2007 - LOVENDRINGER.

FOURTHLY, THERE CAN BE ESTABLISHED AN INDIVIDUAL ANNUITY FOR EACH EMPLOYEE. NORMALLY THE EMPLOYEE IS THE BENEFICIARY UNDER THE INSURANCE AGREEMENT, AND IS THE ONE WHO IS ENTITLED TO RECEIVE PAYMENTS PURSUANT TO THE AGREEMENT. THE PAYMENTS MADE BY THE EMPLOYER TO THE PENSION PLAN ARE THEN CLASSIFIED AS SALARY PAYMENTS FOR TAX PURPOSES, AND ARE TAXABLE AS ORDINARY WAGES. AS A CONSEQUENCE OF THIS CLASSIFICATION AS SALARY PAYMENT, THE CONTRIBUTION IS DEDUCTIBLE FOR THE EMPLOYER. AT THE HAND OF THE EMPLOYEE, THE TAXATION WILL FOLLOW THE RULES OF INDIVIDUAL ANNUITIES NOT RELATED TO EMPLOYMENT, CF. BELOW.

AT LAST, A PENSION AGREEMENT MAY OBLIGE THE EMPLOYER HIMSELF TO MAKE THE PAYMENT OF PENSION AT A LATER DATE, WITHOUT INVOLVING AN INSURANCE COMPANY OR A PENSION FUND. SUCH PAY-AS-YOU-GO PENSION PAYMENTS WILL BE DEDUCTIBLE FOR THE EMPLOYER, AT THE TIME OF THE PAYMENT TO THE EMPLOYEE. THE EMPLOYEE WILL NOT BE SUBJECT TO ANY TAXATION UPON THE PENSION RIGHTS UNTIL HE OR SHE RECEIVES THE PENSION. THE PAYMENT WILL THEN BE TREATED AS PENSION INCOME.

IN THE PUBLIC SECTOR, MEMBERSHIP IN THE NORWEGIAN PUBLIC SERVICE PENSION FUND (STATENS PENSJONSKASSE) IS BY LAW MANDATORY FOR STATE EMPLOYEES. EMPLOYEES OF THE MUNICIPALITIES ARE - BY COLLECTIVE AGREEMENTS - MEMBERS OF MUNICIPAL PENSION PLANS, MOST OF THEM IN KOMMUNENES LANDSPENSJONSKASSE (KLP), A MUTUALLY OWNED INSURANCE COMPANY.

BOTH THE STATE AND THE MUNICIPAL PENSION PLANS ARE BASED ON DEFINED-BENEFIT PENSION SCHEMES. NORMALLY, THE PENSION WILL, AFTER 30 YEARS OF SERVICE, BE 66 PER CENT OF THE SALARY AT THE TIME OF RETIREMENT, WITH A DEDUCTION OF RETIREMENT PENSION FROM THE NATIONAL PENSION SCHEME.

THE QUESTION OF DEDUCTIBILITY IS NORMALLY NOT AN ISSUE IN RELATION TO THESE SCHEMES, AS THE STATE AND THE MUNICIPALITIES ARE NOT TAXABLE ENTITIES. FOR THE EMPLOYEES, THE TAX TREATMENT IS AS FOR MEMBERS OF THE OPA AND THE DCA SCHEMES, CF. ABOVE.

3.2 INDIVIDUAL PENSION SAVING PLANS

INDIVIDUAL PENSION SAVING PLANS – NOT RELATED TO EMPLOYMENT – HAVE IN PRACTICE BEEN MADE AS ONE OF THE FOLLOWING TWO TYPES OF AGREEMENTS:

FIRSTLY, AS AN INDIVIDUAL PENSION AGREEMENT (IPA) UNDER THE TAX ACT, WHICH IMPOSES REQUIREMENTS IN TERMS OF PORTFOLIO STRUCTURE, RETIREMENT AGE ETC. A TAXPAYER WILL BE ENTITLED TO DEDUCT PAYMENTS TO AN IPA UP TO NOK 40,000 ANNUALLY. THE DEDUCTION WILL HAVE EFFECT UPON THE COMPUTATION OF THE 28 PER CENT TAX ON GENERAL INCOME ONLY. THE PAYMENTS RECEIVED FROM THE PENSION AGREEMENT WILL ON THE OTHER HAND BE TAXABLE AS PENSION INCOME, WITH A MARGINAL TAX RATE OF 43 PER CENT.

ACCORDING TO CURRENT TAX LAW, IT IS NO TAXATION OF THE ANNUAL RETURN ON THE PENSION PORTFOLIO OF IPAs, AND AN IPA IS NOT SUBJECT TO NET WEALTH TAX.

OTHER INDIVIDUAL ANNUITIES MAY ALSO QUALIFY FOR A PREFERENTIAL TAX TREATMENT. IF CERTAIN REQUIREMENTS ARE MET, THE PORTFOLIO INVESTED WILL NOT BE SUBJECT TO NET WEALTH TAX. IN ADDITION, THE ANNUAL RETURN ON THE PENSION PORTFOLIO WILL NOT BE TAXABLE UNTIL IT IS DISTRIBUTED AS PAYMENT TO THE TAXPAYER. IN ORDER TO ACHIEVE THIS PREFERENTIAL TREATMENT, THE AGREEMENT MUST HAVE A LIFESPAN OF AT LEAST TWELVE YEARS, AND THE PAYMENT PERIOD CANNOT BE LESS THAN SIX YEARS.

IF THESE REQUIREMENTS ARE NOT MET, THE INVESTMENT WILL BE CONSIDERED AS A TAXABLE ASSET WHEN COMPUTING THE BASIS FOR THE NET WEALTH TAX OF THE TAXPAYER.

THE MINISTRY OF FINANCE HAS, IN THE FISCAL BUDGET FOR 2007, PROPOSED TO ABOLISH THE PREFERENTIAL TAX TREATMENT OF OTHER PENSION SAVING SCHEMES THAN THE OPA AND THE DCA SCHEMES (OT.PRP. NR. 1 (2006-2007) CHAPTER 5). ACCORDING TO THIS PROPOSITION, PAYMENTS TO AN INDIVIDUAL PENSION AGREEMENT MADE AFTER 12 MAY 2006 SHALL NOT BE DEDUCTIBLE, AND THE NET WEALTH TAX EXEMPTION OF CERTAIN INDIVIDUAL ANNUITIES WILL BE ABOLISHED FROM THE FISCAL YEAR OF 2007. WHEN THESE AMENDMENTS COME INTO FORCE, THERE WILL BE NO TAX FAVOURED INDIVIDUAL PENSION SAVING SCHEMES IN NORWAY.

3.3 TAX ASYMMETRY

THE MOST IMPORTANT EXAMPLE OF TAX ASYMMETRY IS THE TAX TREATMENT OF THE OPA AND DCA SCHEMES, AS COMPARED TO OTHER OCCUPATIONAL PENSION SCHEMES. THE PREFERENTIAL TREATMENT OF THE OPAS AND THE DCAs WILL – AND IS INTENDED TO HAVE - AN IMPACT ON THE CHOICE OF PENSION ARRANGEMENT.

THE TAX BENEFITS HAVE IN THIS WAY BEEN USED AS A POLICY INSTRUMENT TO ENSURE THAT THE PENSION SCHEMES CONTRIBUTE TO THE REALISATION OF CERTAIN PENSION POLICY OBJECTIVES. THE REQUIREMENTS APPLICABLE TO THE SCHEMES HAVE BEEN DESIGNED WITH OTHER SOCIETAL CONSIDERATIONS IN MIND THAN THOSE RELATING TO TAX LAW ONLY, HEREUNDER, FOR EXAMPLE, THAT THE SCHEME SHALL ENSURE EQUAL TREATMENT OF ALL EMPLOYEES OF THE FIRM AS FAR AS THE RIGHT TO MEMBERSHIP AND BENEFITS IS CONCERNED, SAFEGUARD ACCRUED ENTITLEMENTS, ETC. AT THE SAME TIME, THE TAX BENEFITS HAVE BEEN INVOKED AS MAKING SUCH INTERVENTION LEGITIMATE.

THE ANNOUNCED ABOLISHMENT OF THE PREFERENTIAL TAX TREATMENT OF OTHER OCCUPATIONAL PENSION SAVING SCHEMES WILL ENHANCE THE TAX ASYMMETRY IN FAVOUR OF THE OPA AND THE DCA SCHEMES. ON THE OTHER HAND, THE INTRODUCTION OF MANDATORY OCCUPATIONAL PENSION FROM 2006 (CF. CHAPTER 4 BELOW), COULD MAKE THE PREFERENTIAL TAX TREATMENT OF THESE SCHEMES LESS IMPORTANT, AS IT WILL BE MANDATORY FOR THE EMPLOYERS TO ESTABLISH AN OPA OR A DCA SCHEME.

3.4 MARGINAL TAX RATES

MOST CAPITAL INCOME ON PENSION PORTFOLIOS IS TAXED AS PENSION INCOME AT THE TIME OF DISTRIBUTION AS A PENSION, CF. CHAPTER 3 ABOVE. SUCH PENSION INCOME IS SUBJECT TO TAXATION AT PROGRESSIVE TAX RATES, WITH A MAXIMUM MARGINAL TAX RATE OF 43 PER CENT.

IT COULD, HOWEVER, BE HELD THAT THE CAPITAL INCOME (YIELD) ON THE PENSION PORTFOLIO IS JUST NOMINALLY SUBJECT TO THE SAID PENSION TAXATION. THE DEFERRAL OF THE TAXATION OF THE PENSION RIGHTS FROM THE TIME OF ACCRUAL OF THE PENSION RIGHTS TO THE TIME OF PAYMENT, WILL IN PRACTICE GIVE THE SAME NET (AFTER TAX) AMOUNT AS

IF THE PENSION RIGHT WAS TAXED AT THE TIME OF ACCRUAL, AND THE YIELD WAS NOT SUBJECT TO ANY TAX AT ALL. THUS, IT MAY BE ARGUED THAT THE EFFECTIVE TAX RATE OF THE CAPITAL INCOME FROM MOST PENSION PORTFOLIOS IS ZERO.

IN COMPARISON, OTHER CAPITAL INCOME (INCLUDING INCOME ON BONDS) WILL NORMALLY BE SUBJECT TO TAXATION AS GENERAL INCOME AT A (FLAT) TAX RATE OF 28 PER CENT AT THE HAND OF THE INVESTOR.

INCOME FROM SHARES (DIVIDENDS AND CAPITAL GAINS) WILL AT THE HANDS OF PERSONAL SHAREHOLDERS BE SUBJECT TO TAXATION ACCORDING TO THE SO-CALLED SHAREHOLDERS MODEL. THE SHAREHOLDERS MODEL IMPLIES THAT DIVIDENDS EXCEEDING A RISK-FREE RETURN ON THE INVESTMENT (THE COST BASE OF THE SHARES) ARE TAXED AS GENERAL INCOME WHEN DISTRIBUTED TO PERSONAL SHAREHOLDERS. WHEN ADDED TO THE 28 PER CENT COMPANY TAXATION, THIS GIVES A TOTAL MAXIMUM MARGINAL TAX RATE ON DIVIDENDS OF 48.16 PER CENT ($0.28+0.72*0.28$). THE PART OF THE DIVIDEND THAT IS NOT EXCEEDING A RISK-FREE RETURN ON THE INVESTMENT, IS NOT TAXED ON THE HAND OF THE SHAREHOLDER, AND IS THUS SUBJECT TO THE 28 PER CENT COMPANY TAXATION ONLY.

3.5 CEILINGS OF DEDUCTIBILITY

THERE IS NO FORMAL CEILING ON DEDUCTIBILITY OF CONTRIBUTIONS TO AN OPA SCHEME. HOWEVER, THE BENEFIT REGULATIONS IN THE OPA WILL ESTABLISH A CEILING ON THE CONTRIBUTIONS. ACCORDING TO THE OPA, THE DEFINED-BENEFIT RETIREMENT PENSION SHALL BE DETERMINED ON THE BASIS OF THE EMPLOYEE'S SALARY AND AN ESTIMATED RETIREMENT PENSION FROM THE NATIONAL INSURANCE SCHEME, AND SHALL REPRESENT THE DIFFERENCE BETWEEN A SPECIFIC

PER CENTAGE OF THE SALARY AND THE ESTIMATED NATIONAL INSURANCE BENEFITS.

THERE IS AN UPPER LIMIT ON THE AGGREGATE PENSION BENEFITS FROM THE PENSION SCHEME AND FROM ESTIMATED NATIONAL INSURANCE BENEFITS, WHEREBY THESE BENEFITS TOGETHER SHALL NOT EXCEED 100 PER CENT OF ANY SALARY UP TO 6 TIMES THE BASE AMOUNT OF THE NATIONAL INSURANCE SCHEME (6 G) AND 70 PER CENT OF ANY SALARY BETWEEN 6 AND 12 G. ANY SALARY IN EXCESS OF 12 G SHALL NOT QUALIFY FOR ANY PENSION BENEFITS WHATSOEVER UNDER THE OPA. THIS LIMIT ON THE PENSION BENEFITS WILL, TOGETHER WITH THE MINIMUM EMPLOYMENT PERIOD, CF. BELOW, INDIRECTLY SET A LIMIT ON THE CONTRIBUTIONS FROM THE EMPLOYER, AS THE CONTRIBUTION IS A FUNCTION OF THE BENEFIT IN A DEFINED BENEFIT SCHEME.

THE CALCULATION OF MAXIMUM PENSION SHALL BE MADE IN RESPECT OF ESTIMATED, AND NOT ACTUAL, PENSION FROM THE NATIONAL INSURANCE SCHEME. THIS IS BECAUSE FUTURE RETIREMENT PENSION PURSUANT TO THE NATIONAL INSURANCE ACT CANNOT BE CALCULATED WITH CERTAINTY AT ANY EARLIER POINT OF TIME BECAUSE OF, INTER ALIA, ANNUAL CHANGES TO THE BASE AMOUNT, AND THE "BEST EARNINGS RULE" OF THE NATIONAL INSURANCE ACT, ETC. THE CALCULATION OF BENEFITS FROM THE NATIONAL INSURANCE SCHEME IS DESCRIBED BELOW IN CHAPTER 4.

ONE CONSEQUENCE OF RELYING ON ESTIMATED PENSIONS FROM THE NATIONAL INSURANCE SCHEME IS THAT PENSION SCHEMES GOVERNED BY THE OPA CANNOT BE DESIGNED AS SO-CALLED GROSS SCHEMES. THE OPA DOES NOT ALLOW FOR COMPENSATION IN CASE ACTUAL PENSIONS FROM THE NATIONAL INSURANCE SCHEME ARE LESS THAN ESTIMATED. CORRESPONDINGLY, NO DEDUCTION CAN BE MADE IN THE PENSION BENEFIT FROM THE SCHEME IN CASE THE OPPOSITE HAPPENS.

ACCORDING TO THE DCA, THE MAXIMUM CONTRIBUTIONS ARE SET AS SPECIFIC PERCENTAGES OF THE EMPLOYEE'S SALARY: THE CONTRIBUTION CANNOT EXCEED 5 PER CENT OF THE PART OF THE ANNUAL SALARY BETWEEN 1 AND 6 G, AND 8 PER CENT OF THE SALARY BETWEEN 6 AND 12 G. IT CANNOT BE MADE CONTRIBUTIONS ON THE BASIS OF INCOME BELOW 1 G OR ABOVE 12 G.

3.6 MINIMUM EMPLOYMENT PERIOD

ACCORDING TO THE OPA, THE REGULATORY FRAMEWORK SHALL, AS FAR AS THE DEFINED-BENEFIT RETIREMENT PENSION IS CONCERNED, REQUIRE A 30-YEAR PERIOD OF SERVICE WITH THE ENTERPRISE TO QUALIFY FOR A FULL PENSION. THIS WILL ALSO HAVE AN IMPLICATION ON THE MAXIMUM ANNUAL CONTRIBUTION FROM THE EMPLOYER.

AS THE PENSION IN A DCA SCHEME IS A FUNCTION OF THE PAYMENTS, THE DCA DOES NOT REQUIRE ANY MINIMUM EMPLOYMENT PERIOD.

THE PENSION SCHEMES FOR EMPLOYEES OF THE STATE AND THE MUNICIPALITIES WILL ALSO REQUIRE A 30 YEAR PERIOD OF SERVICE TO QUALIFY FOR A FULL PENSION.

3.7 MINIMUM RETIREMENT AGE

BOTH THE OPA AND THE DCA REQUIRES A MINIMUM RETIREMENT AGE OF 67 YEARS. A LOWER RETIREMENT AGE IS SET FOR SOME CATEGORIES OF WORK THAT REQUIRE SPECIAL PHYSICAL OR PSYCHOLOGICAL QUALIFICATIONS, OR ARE CONSIDERED PARTICULARLY PHYSICALLY OR PSYCHOLOGICALLY DEMANDING.

THE PENSION SCHEMES IN PUBLIC SECTOR ALSO HAVE AS A MAIN RULE A MINIMUM RETIREMENT AGE OF 67 YEARS.

HOWEVER AS MENTIONED IN CHAPTER 0.1 ABOVE, MANY EMPLOYEES IN THE PRIVATE SECTOR AND ALL STATE AND MUNICIPAL EMPLOYEES ARE ENTITLED TO A CONTRACTUAL PENSION PURSUANT TO COLLECTIVE AGREEMENTS (AFP). ACCORDING TO THESE AGREEMENTS, AN EMPLOYEE MAY CHOSE TO RETIRE FROM THE AGE OF 62.

3.8 MINIMUM PENSION PERIOD

BOTH THE OPA AND THE DCA REQUIRE A PENSION PLAN WITH ANNUITIES FOR THE REST OF THE PENSIONER'S LIFE OR FOR A PERIOD OF AT LEAST TEN YEARS. THE PENSION CANNOT BE GIVEN AS A LUMP SUM PAYMENT.

3.9 INHERITANCE OF PENSION RIGHTS

ACCORDING TO THE OPA, THE CHILDREN DO NOT HAVE THE RIGHT OF INHERITANCE TO THE REMAINING PENSION ASSETS IN CASE THE PENSIONER DIES. THE PENSION SCHEME CAN, HOWEVER, INCLUDE A DEPENDENTS' BENEFITS PLAN, WHICH CAN GIVE DEPENDENT CHILDREN A PENSION UP TO THE AGE OF 21. (A DEPENDENTS' BENEFIT PLAN CAN ALSO INCLUDE PENSION TO THE SPOUSE OF THE DECEASED.)

IF THE DECEASED PENSIONER HAS A PENSION UNDER A DCA SCHEME, THE REMAINING PENSION ASSETS SHALL BE USED TO ESTABLISH PENSION(S) TO SPOUSE AND DEPENDANT CHILDREN. THE CHILD PENSION SHALL STOP WHEN THE CHILD IS 21 YEARS OLD.

A CHILD PENSION IS TAXABLE AS GENERAL INCOME ONLY, WITH A MAXIMUM TAX RATE OF 28 PER CENT IF THE CHILD IS 16 YEARS OR YOUNGER. FOR OLDER CHILDREN, THE PENSION IS TAXED AS PENSION

**INCOME, WHICH ALSO IS SUBJECT TO SURTAX AND MEMBERSHIP
CONTRIBUTION TO THE NATIONAL INSURANCE SCHEME.**

4. BALANCE BETWEEN MANDATORY AND VOLUNTARY PENSION ARRANGEMENTS, LEVEL OF PUBLIC PENSIONS AND DEGREE OF FREEDOM

4.1 THE NATIONAL INSURANCE SCHEME

NORWAY HAS A GOVERNMENT FUNDED PENSION SYSTEM, IN WHICH PERSONS INSURED UNDER THE NATIONAL INSURANCE SCHEME ARE ENTITLED TO VARIOUS BENEFITS IN CASH AND IN KIND, INCLUDING RETIREMENT PENSIONS. THE NATIONAL INSURANCE SYSTEM IS FINANCED BY CONTRIBUTIONS FROM EMPLOYEES AND SELF-EMPLOYED PERSONS, EMPLOYERS' CONTRIBUTIONS AND CONTRIBUTIONS FROM THE STATE. CONTRIBUTION RATES AND STATE GRANTS ARE DECIDED BY THE PARLIAMENT EACH YEAR AS A PART OF THE ANNUAL FISCAL BUDGET.

RETIREMENT PENSIONS CONSIST OF A BASIC PENSION, A SUPPLEMENTARY PENSION AND/OR A SPECIAL SUPPLEMENT, AND POSSIBLE SUPPLEMENTS FOR CHILDREN AND SPOUSE.

PERSONS, WHO ARE INSURED FOR PENSION PURPOSES AND WHO HAVE A TOTAL INSURANCE PERIOD OF THREE YEARS (NORMALLY ON THE BASIS OF RESIDENCE IN NORWAY) BETWEEN THE AGE OF 16 AND 66, ARE ENTITLED TO A BASIC PENSION. THE BASIC PENSION IS CALCULATED ON THE BASIS OF THE INSURANCE PERIOD, AND IS INDEPENDENT OF PREVIOUS INCOME AND CONTRIBUTIONS PAID. A FULL BASIC PENSION REQUIRES AN INSURANCE PERIOD OF MINIMUM 40 YEARS. IF THE INSURANCE PERIOD IS SHORTER, THE BASIC PENSION WILL BE PROPORTIONALLY REDUCED.

AS A STARTING POINT, THE BASIC PENSION EQUALS 100 PER CENT OF THE BASIC AMOUNT (G) (NOK 62,892). HOWEVER, THE FULL BASIC PENSION WILL BE 85 PER CENT OF THE B.A. IF THE PENSIONER'S SPOUSE RECEIVES PENSION OR HAS A YEARLY INCOME EXCEEDING 2 G. (NOK

125,784). AN OLD AGE PENSIONER SUPPORTING CHILDREN OR A SPOUSE MAY ALSO BE ENTITLED TO A CERTAIN SUPPLEMENT TO HIS OR HER BASIC PENSION.

THE SUPPLEMENTARY PENSION SCHEME WAS INTRODUCED IN 1967. A PERSON IS ENTITLED TO A SUPPLEMENTARY PENSION IF HIS/HER ANNUAL INCOME EXCEEDED THE AVERAGE G OF ANY YEAR FOR THREE YEARS AFTER 1966, AND IS CALCULATED UPON A SYSTEM OF PENSION POINTS EARNED ANNUALLY ON THE BASIS OF PENSION-EARNING INCOME DURING THE EMPLOYMENT PERIOD.

FOR EMPLOYEES, THE PENSION-EARNING INCOME EQUALS GROSS WAGES, WITH NO DEDUCTIONS. FOR SELF-EMPLOYED INDIVIDUALS, PENSIONABLE INCOME IS CALCULATED ON THE BASIS OF NET BUSINESS INCOME, ACCORDING TO SPECIAL RULES IN THE TAX ACT OF 1999, CHAPTER 12.

THE AMOUNT OF THE SUPPLEMENTARY PENSION DEPENDS ON THE NUMBER OF PENSION EARNING YEARS AND YEARLY PENSION POINTS. A FULL SUPPLEMENTARY PENSION REQUIRES AS A GENERAL RULE 40 PENSION-EARNING YEARS. IN THE CASE OF LESS THAN 40 PENSION-EARNING YEARS, THE PENSION IS REDUCED PROPORTIONALLY.

FULL CREDIT (PENSION POINTS) IS GIVEN FOR INCOME UP TO 6 G (NOK 377,352, AFTER SUBTRACTING ONE G. FURTHERMORE, 1/3 OF INCOME BETWEEN 6 G AND 12 G (NOK 754,704) IS CREDITED AS PENSION-EARNING INCOME. INCOME EXCEEDING 12 G. IS DISREGARDED.

EXAMPLE:

IF THE PENSION-EARNING INCOME IS NINE TIMES THE AVERAGE G. IN 2006, THE PERSON WILL EARN: $\underline{6 \times G - G + 3 \times G / 3} = 6$ PENSION POINTS

G

THE MAXIMAL PENSION POINT, WHICH CAN BE CREDITED FOR ANY ONE YEAR, IS 7.

BEFORE 1992, INCOME UP TO 8 G WAS CREDITED AT FULL RATE, AND THE MAXIMAL PENSION POINT WAS 8.33.

THE SUPPLEMENTARY PENSION IS THEN CALCULATED ON A BASIS OF THE AVERAGE PENSION POINT FIGURE FOR THE PERSON'S TWENTY BEST INCOME YEARS (FINAL PENSION POINT). THE SUPPLEMENTARY PENSION IS 42 PER CENT OF THE FINAL PENSION POINT.

EXAMPLE:

WITH A FINAL PENSION POINT FIGURE OF 6 AND THE CURRENT G OF NOK 62,892, THE SUPPLEMENTARY PENSION WILL BE $6 \times 62,892 \times 0.42 =$ NOK 158,488 (ASSUMING THE PERSON IN QUESTION HAS 40 PENSION EARNING YEARS).

FOR YEARS PRIOR TO 1992, THE SUPPLEMENTARY PENSION PERCENTAGE IS 45 INSTEAD OF 42, WHICH MAKES THE ACTUAL SUPPLEMENTARY PENSION CALCULATIONS SLIGHTLY MORE COMPLICATED THAN IN THE EXAMPLE ABOVE.

PENSIONERS WHO HAVE NO, OR ONLY A SMALL, SUPPLEMENTARY PENSION, ARE ENTITLED TO A SPECIAL SUPPLEMENT FROM THE NATIONAL INSURANCE SCHEME.

FOR AN UNMARRIED PENSIONER OR A PENSIONER WHOSE SPOUSE IS NOT A NATIONAL INSURANCE PENSIONER, THE SPECIAL SUPPLEMENT EQUALS 79.33 PER CENT OF THE G (NOK 49,892). THERE ARE SPECIAL RULES REGULATING THE SPECIAL SUPPLEMENT TO PENSIONERS WITH A SPOUSE

60 YEARS OR OLDER OR RECEIVING PENSION FROM THE NATIONAL INSURANCE SCHEME.

A FULL SPECIAL SUPPLEMENT IS PAYABLE IF THE INSURANCE PERIOD IS AT LEAST 40 YEARS, AND IS REDUCED PROPORTIONALLY IN THE CASE OF A SHORTER PERIOD. A SUPPLEMENTARY PENSION IS DEDUCTED FROM THE SPECIAL SUPPLEMENT.

AS DESCRIBED ABOVE, A PENSION REFORM IS IN THE MAKING, WITH CONSEQUENCES FOR THE OLD AGE PENSIONS IN THE NIS, CF. CHAPTER 0.2 FOR FURTHER DETAILS.

4.2 RETIREMENT AGE IN THE NIS

THE RETIREMENT AGE IN THE NIS IS 67. HOWEVER, IF THE PERSON CONTINUES TO WORK, PENSION POINTS MAY BE EARNED UNTIL THE AGE OF 70. IF THE INSURED PERSON MAINTAINS AN ANNUAL EARNED INCOME EXCEEDING 2 G, IN THE PERIOD BETWEEN THE AGE OF 67 AND THE AGE OF 70, THE PENSION IS REDUCED BY 40 PER CENT OF THE EXCEEDING INCOME.

THIS IS THE SAME RETIREMENT AGE AS IN PENSION PLANS PURSUANT TO THE OPA AND THE DCA AND IN THE PENSION SCHEMES IN PUBLIC SECTOR. AS MENTIONED IN CHAPTER 0 AND CHAPTER 3 ABOVE, MANY EMPLOYEES IN THE PRIVATE SECTOR AND ALL STATE AND MUNICIPAL EMPLOYEES ARE ENTITLED TO A CONTRACTUAL PENSION PURSUANT TO COLLECTIVE AGREEMENTS (AFP). ACCORDING TO THESE AGREEMENTS, AN EMPLOYEE MAY CHOSE TO RETIRE FROM THE AGE OF 62.

THE MINIMUM LEVEL OF THE OLD-AGE PENSION FROM THE NATIONAL INSURANCE SCHEME IS THE SUM OF THE BASIC PENSION AND THE SPECIAL SUPPLEMENT. FOR AN UNMARRIED PENSIONER THE MINIMUM

PENSION WILL ADD UP TO 179.33 PER CENT OF THE G (NOK 112,784). IT IS IMPORTANT TO NOTICE THAT ANY SUPPLEMENTARY PENSION IS DEDUCTED FROM THE SPECIAL SUPPLEMENT. THUS, MANY PENSIONERS END UP WITH A MINIMUM LEVEL PENSION, DESPITE OF THEIR PARTICIPATION IN THE LABOUR MARKET.

4.3 PENSION REDUCTION DUE TO SUPPLEMENTARY INCOME

THE RETIREMENT PENSION FROM THE NATIONAL INSURANCE SCHEME IS REDUCED, AS MENTIONED ABOVE, IF THE PENSIONER HAS EARNED INCOME ABOVE 2 G (NOK 125,784). THE PENSION IS REDUCED BY 40 PER CENT OF THE EXCEEDING INCOME.

THE PENSION WILL BE REDUCED BY PENSION-EARNING INCOME, WHICH IS DEFINED AS EMPLOYEE'S LABOUR INCOME AND NET BUSINESS INCOME FOR SELF-EMPLOYED INDIVIDUALS. OTHER TYPES OF INCOME, LIKE CAPITAL INCOME OR ADDITIONAL PENSION INCOME FROM OTHER SOURCES LIKE OCCUPATIONAL PENSION PLANS, WILL NOT REDUCE THE RETIREMENT PENSION.

THIS REDUCTION APPLIES TO PENSIONERS BETWEEN THE AGE OF 67 AND THE AGE OF 70 ONLY. WHEN A PENSIONER REACHES THE AGE OF 70, THE NATIONAL INSURANCE PENSION WILL NOT BE SUBJECT TO ANY REDUCTION, REGARDLESS OF THE LEVEL OF ADDITIONAL INCOME.

THE CONTRACTUAL PENSIONS ACCORDING TO COLLECTIVE AGREEMENTS, WHICH CAN BE RECEIVED FROM THE AGE OF 62, CF. ABOVE, ARE ALSO REDUCED BY PENSION-EARNING INCOME.

4.4 THE PENSION AS A FUNCTION OF THE RETIREMENT AGE?

AS DESCRIBED ABOVE, THE SIZE OF SUPPLEMENTAL RETIREMENT PENSION IN THE NATIONAL INSURANCE SCHEME WILL DEPEND ON THE NUMBER OF PENSION-EARNING YEARS (IN WHICH THE INDIVIDUAL MUST HAVE A PENSION-EARNING INCOME OF ONE B.A. OR MORE), AND ON THE PENSION POINT EARNED IN THE TWENTY BEST OF THESE PENSION-EARNING YEARS. THUS, THE PUBLIC PENSION IS NOT DIRECTLY A FUNCTION OF THE RETIREMENT AGE. HOWEVER, FOR MANY PENSIONERS THE CHOSEN RETIREMENT AGE WILL HAVE AN IMPACT ON THE NUMBER OF PENSION-EARNING YEARS, AND THUS INDIRECTLY AN IMPACT ON THE LEVEL OF THE SUPPLEMENTARY PENSION.

4.5 MANDATORY PENSION SCHEMES

ALL EMPLOYEES OF THE STATE MUST BY LAW BE A MEMBER OF THE NORWEGIAN PUBLIC SERVICE PENSION FUND. FOR MUNICIPAL EMPLOYEES, THE MEMBERSHIP IN A MUNICIPAL PENSION PLAN IS NOT MANDATORY BY LAW, BUT IN PRACTICE, ALL EMPLOYEES ARE MEMBER ACCORDING TO COLLECTIVE AGREEMENTS.

FROM 1 JANUARY 2006, THE MANDATORY OCCUPATIONAL PENSION PLAN ACT (MOPPA) OF 21 DECEMBER 2005 ENTERED INTO FORCE, OBLIGING ALL EMPLOYERS TO ESTABLISH AN OCCUPATIONAL PENSION SCHEME FOR THE EMPLOYEES OF THE ENTERPRISE. THE SCHEMES SHALL BE ESTABLISHED BY 1 JANUARY 2007, BUT SHALL HAVE ECONOMIC EFFECT FOR THE EMPLOYEES FROM 1 JULY 2006.

ACCORDING TO THE MOPPA, EMPLOYEES MUST HAVE EITHER A DEFINED BENEFIT OR A DEFINED CONTRIBUTION PENSION SCHEME. THE SCHEMES SHALL BE IN ACCORDANCE WITH EITHER THE OPA OR THE DCA (CF. CHAPTER 3 ABOVE). THE EMPLOYER'S CONTRIBUTION MUST BE AT LEAST 2 PER CENT OF THE EMPLOYEE'S EARNINGS BETWEEN 1 G AND 12 G.

THE MANDATORY OCCUPATIONAL PENSION PLANS IN PUBLIC SECTOR ARE OPERATED BY THE NORWEGIAN PUBLIC SERVICE PENSION FUND (COVERING THE EMPLOYEES OF THE STATE) OR A MUNICIPAL PENSION FUND. THE MOST IMPORTANT OF THE LATTER IS KOMMUNENES LANDSPENSJONSKASSE (KLP), A MUTUALLY OWNED COMPANY SPECIALIZING IN INSURANCE AND FINANCIAL SERVICES TO THE PUBLIC SECTOR IN NORWAY.

THE MANDATORY OCCUPATIONAL PLANS PURSUANT TO THE MOPPA WILL BE ESTABLISHED EITHER AS A PENSION FUND ORGANIZED AS A FOUNDATION, OR OPERATED BY AN INSURANCE COMPANY.

WITH THE INTRODUCTION OF THE MOPPA, ALL EMPLOYEES, IN PRIVATE AND IN PUBLIC SECTOR, ARE COVERED BY COMPULSORY TAX-FAVOURED PENSIONS SCHEMES AND ALL SELF-EMPLOYED INDIVIDUALS MAY SAVE WITHIN THE SAME SCHEMES. AS A RESULT, THE MINISTRY OF FINANCE HAS IN THE FISCAL BUDGET FOR 2007 PROPOSED TO ABOLISH THE PREFERENTIAL TAX TREATMENT OF OTHER PENSION SAVINGS SCHEMES, INCLUDING INDIVIDUAL PENSION AGREEMENTS AND OTHER INDIVIDUAL ANNUITIES, CF. CHAPTER 3 ABOVE.

IT REMAINS TO SEE THE EFFECT OF THE INTRODUCTION OF MANDATORY OCCUPATIONAL PENSION PLANS AND OF THE ABOLISHMENT OF PREFERENTIAL TAX TREATMENT OF INDIVIDUAL PENSION AGREEMENTS ON PRIVATE VOLUNTARY PENSION SAVINGS.

5. ISSUES OF FISCAL SUSTAINABILITY

THE SHORT TERM FISCAL SITUATION FOR THE NORWEGIAN GOVERNMENT IS HEALTHY. LARGE REVENUES FROM THE PETROLEUM SECTOR ENSURE THAT SUSTAINABILITY ISSUES ARE LESS PRESSING THAN FOR

GOVERNMENTS THAT RELY PRIMARILY ON ORDINARY TAX REVENUES. STILL, THE DEMOGRAPHIC TRENDS DISCUSSED IN CHAPTER 2, THE PENSION SYSTEM AND AGE-RELATED PUBLIC EXPENSES MORE GENERALLY, INDICATE THAT THE UNDERLYING GROWTH IN GOVERNMENT EXPENDITURES MAY RISE IN A FASHION THAT IS NOT COMMENDABLE. HENCE THE PENSION REFORM PROCESS, AS DISCUSSED IN CHAPTER O.

THE MAIN REASONS WHY THE NIS OLD AGE PENSION SCHEME MAY CREATE PROBLEMS FOR PUBLIC FINANCES IS THAT (I) THE REVENUES FROM THE PETROLEUM SECTOR OF TODAY'S ORDER OF SIZE ARE NOT EXPECTED TO CONTINUE FOR A LONG TIME (II) THE DEMOGRAPHIC TRENDS INDICATE THAT, GIVEN A PENSION AGE, THE NUMBER OF YEARS THAT PEOPLE WILL RECEIVE PENSIONS WILL INCREASE TOGETHER WITH PERMANENTLY LARGER COHORTS OF PENSIONERS COMPARED TO LATER COHORTS (III) NEW COHORTS WILL BE ENTITLED TO MORE GENEROUS PENSIONS.

THE FIRST ROW OF TABLE 5.1 SHOWS THE GOVERNMENT BUDGET BALANCE. THE SECOND ROW SHOWS THE BUDGET BALANCE CORRECTED FOR THE PETROLEUM SECTOR. IT DOES NOT MAKE MUCH SENSE TO DISCUSS THE TOTAL TAX REVENUES IN NORWAY, BECAUSE THE GOVERNMENT'S PETROLEUM REVENUES ARE A MIX OF TAXES AND INCOMES RELATED TO OWNERSHIP. THAT IS, THE "RESOURCE RENT" OF PETROLEUM IN THE NORTH SEA IS EXTRACTED PARTIALLY THROUGH THE TAX SYSTEM AND PARTIALLY THROUGH OTHER REGULATIONS AND DIRECT OWNERSHIP.

TABLE 5.1 FISCAL INDICATORS FOR NORWAY

Tabell 1.20 Finanspolitiske indikatorer

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>Statsbudsjettet</i> | | | | | | | | |
| Samlet overskudd på statsbudsjettet og Statens pensjonsfond - Utland. Mrd. kroner | 39,9 | 164,3 | 258,8 | 129,4 | 133,3 | 157,4 | 247,6 | 327,0 |
| Oljekorrigert overskudd. Mrd. kroner..... | -12,1 | -7,9 | -1,6 | -62,4 | -66,1 | -79,2 | -64,8 | -68,8 |
| Strukturelt overskudd. Mrd. kroner | -19,5 | -19,9 | -24,5 | -35,4 | -45,9 | -55,1 | -56,0 | -65,9 |
| Strukturelt overskudd. Prosent av trend-BNP for Fastlands-Norge | -1,9 | -1,9 | -2,2 | -3,0 | -3,7 | -4,2 | -4,0 | -4,5 |
| Underliggende reell vekst i utgifter. Prosentvis endring fra året før | 2,0 | 2,1 | 2,9 | 3,0 | 0,9 | 2,0 | 1,2 | 2,3 |
| <i>Offentlig forvaltning</i> | | | | | | | | |
| Nettofinansinvestering. Mrd. kroner | 77,1 | 228,6 | 206,8 | 140,9 | 118,7 | 195,6 | 303,5 | 375,0 |
| Nettofinansinvestering. Prosent av BNP..... | 6,2 | 15,6 | 13,6 | 9,3 | 7,5 | 11,4 | 15,9 | 18,4 |
| Pålopte skatter. Prosent av BNP..... | 43,0 | 43,1 | 43,4 | 43,7 | 43,0 | 44,1 | 44,8 | 45,4 |
| Offentlige utgifter. Prosent av BNP | 44,6 | 39,6 | 41,1 | 44,5 | 45,7 | 43,1 | 40,0 | 39,9 |
| Offentlige utgifter. Prosent av BNP for Fastlands-Norge | 53,1 | 52,8 | 53,8 | 55,7 | 57,3 | 55,5 | 54,1 | 54,8 |

THE CURRENT PROJECTION FOR 2006 IS THUS A SURPLUS OF 327 BILLION NOK. THE TOTAL GOVERNMENT EXPENDITURE WAS IN 2006, FOR COMPARISON, 683 BILLION NOK.

FOR A DISCUSSION OF THE FISCAL SITUATION WITH RELEVANCE TO FUTURE PENSION OUTLAYS, IT DOES OF COURSE NOT MATTER WHETHER TODAY'S REVENUES ARE ORDINARY TAX REVENUES OR PETROLEUM RELATED REVENUES. HOWEVER, PART OF THE PETROLEUM REVENUES SHOULD NOT BE CONSIDERED INCOME, BUT A SHIFT IN THE GOVERNMENT PORTFOLIO FROM OIL TO FINANCIAL ASSETS.

THE GOVERNMENT IN NORWAY TRIES TO COMPLY TO THE GUIDELINE THAT THE STRUCTURAL BUDGET DEFICIT, CONTROLLED FOR OIL, SHOULD NOT BE GREATER THAN THE LONG TERM RETURNS TO THE STATE PENSION FUND – ABROAD, SUCH THAT THE GOVERNMENT ONLY SPENDS THE RETURN TO THE FUND.

ABOUT 12.9 PER CENT OF GOVERNMENT EXPENDITURE WENT TO OLD AGE PENSIONS, INCLUDING SPK, BUT EXCLUSIVE OF MUNICIPAL EMPLOYEES. THERE IS NO TAX ON PENSION PORTFOLIO RETURN IN NORWAY.

THE PUBLIC SECTOR IN NORWAY IS A NET CREDITOR, NOT A DEBTOR. ANY PUBLIC DEBT IS THUS MATCHED BY PUBLIC ASSETS.

THE MAIN PART OF THE NORWEGIAN GOVERNMENTS FINANCIAL ASSETS ARE ORGANIZED THROUGH THE STATE PENSION FUND, WHICH COVERS THE TWO PREVIOUS INSTITUTIONS OF THE PETROLEUM FUND, NOW THE STATE PENSION FUND – ABROAD, WHICH INVESTS IN FINANCIAL ASSETS OUTSIDE NORWAY AND THE NATIONAL INSURANCE FUND, NOW THE STATE PENSION FUND, NORWAY, THAT INVESTS IN FINANCIAL ASSET IN NORWAY AND, TO A SMALLER EXTENT, OTHER SCANDINAVIAN COUNTRIES.

ANALYSES OF LONG TERM MACROECONOMIC ISSUES RELY HEAVILY ON THE MSG MODEL OF STATISTICS NORWAY. THIS IS A DYNAMIC APPLIED GENERAL EQUILIBRIUM MODEL, OR RATHER A FAMILY OF MODELS THAT ARE ABLE TO ADDRESS A NUMBER OF DIFFERENT LONG TERM MACROECONOMIC ISSUES. THE LONG TERM CONSEQUENCES OF CHANGES IN THE PENSION SYSTEM HAS BEEN ANALYSED WITHIN THIS MODEL (IN CONJUNCTION WITH DEMOGRAPHIC MODELS). SEE FREDRIKSEN ET AL. (2005).

6. INTERNATIONAL MOBILITY OF LABOUR AND CAPITAL

6.1 INCOME DEDUCTION FOR INDIVIDUAL CONTRIBUTIONS TO FOREIGN PENSION INSTITUTIONS

A PERSON RESIDENT IN NORWAY MAY CLAIM AN INCOME DEDUCTION FOR CONTRIBUTIONS TO AN INDIVIDUAL PENSION AGREEMENT (IPA). SUCH CONTRIBUTIONS MUST BE MADE TO A FINANCIAL INSTITUTION AUTHORISED TO OPERATE IN NORWAY OR TO A NORWEGIAN BRANCH OF A FINANCIAL INSTITUTION ESTABLISHED WITHIN THE EUROPEAN ECONOMIC AREA (EEA). THIS REQUIREMENT MUST BE MET REGARDLESS OF WHETHER THE PENSION PLAN WAS ESTABLISHED BEFORE OR AFTER THE PERSON IN QUESTION MOVED TO NORWAY.

IF THIS REQUIREMENT IS NOT MET, THE PAYMENT WILL NOT BE DEDUCTIBLE. HOWEVER, AS MENTIONED ABOVE IN CHAPTER 3, THE MINISTRY OF FINANCE HAS, IN FISCAL BUDGET FOR 2007, PROPOSED TO ABOLISH THE PREFERENTIAL TAX TREATMENT OF IPAS, AND CONTRIBUTIONS TO AN IPA MADE AFTER 12 MAY 2006 SHALL NOT BE DEDUCTIBLE AT ALL.

6.2 WITHHOLDING TAX

ACCORDING TO NORWEGIAN DOMESTIC TAX LAW, NORWAY HAS NO WITHHOLDING TAX ON PENSIONS (WITH THE EXCEPTION OF PENSIONS TO (FORMER) DIRECTORS, BOARD MEMBERS ETC. OF NORWEGIAN COMPANIES). HENCE, A PENSION PAYMENT FROM A NORWEGIAN PENSION INSTITUTION OR A NORWEGIAN EMPLOYER TO A PERSON RESIDENT IN ANOTHER STATE WILL NOT BE SUBJECT TO NORWEGIAN INCOME TAX. IT WILL NOT MAKE ANY DIFFERENCE WHETHER THE PERSON IN QUESTION IS A FORMER RESIDENT OF NORWAY OR NOT, OR WHETHER IT IS A PRIVATE OR PUBLIC PENSION.

THE LACK OF WITHHOLDING TAX MAY GIVE AN INCENTIVE TO EMIGRATE TO A COUNTRY WITH A LOWER TAX LEVEL OF PENSIONS, AS COMPARED TO NORWAY.

THIS SITUATION MAY CHANGE IN THE FORESEEABLE FUTURE, AS THE MINISTRY OF FINANCE IS NOW WORKING ON A PROPOSAL WHICH WILL MAKE PENSION PAYMENTS TO FOREIGN RESIDENTS SUBJECT TO NORWEGIAN WITHHOLDING TAX. THE DETAILS OF THIS PROPOSAL ARE NOT YET KNOWN, BUT A PAPER CONTAINING THE RELEVANT TAX LAW AMENDMENT PROPOSALS IS SCHEDULED TO BE SENT ON A PUBLIC GENERAL REVIEW IN THE LATE 2006. THE INTRODUCTION OF A NORWEGIAN WITHHOLDING TAX ON PENSIONS WILL CHANGE THE TAXATION OF PENSIONS FROM NORWAY TO RESIDENTS OF THE OTHER NORDIC COUNTRIES SUBSTANTIALLY. ALTHOUGH THE NORDIC TAX DOUBLE TAXATION TREATY ARTICLE 18 GIVES THE STATE OF SOURCE AN EXCLUSIVE RIGHT TO TAXATION, NORWAY CAN NOT TODAY MAKE USE OF THIS RIGHT, AND PENSION PAYMENTS FROM NORWAY TO RESIDENTS OF THE OTHER NORDIC STATES ARE TAXED IN THE STATE OF RESIDENCE, PURSUANT TO THE SUBJECT-TOTAX PROVISION IN THE NORDIC DOUBLE TAXATION TREATY ARTICLE 26.

ACCORDING TO THE OECD MODEL TREATY, PRIVATE PENSIONS PAID IN CONSIDERATION OF PAST EMPLOYMENT SHALL BE TAXABLE IN THE STATE OF RESIDENCE ONLY, AND PUBLIC PENSIONS SHALL - AS A MAIN RULE - BE TAXABLE IN THE STATE OF SOURCE ONLY. HOWEVER, IN TAX TREATY NEGOTIATIONS, NORWAY SEEKS TO ESTABLISH A RIGHT FOR THE STATE OF SOURCE TO LEVY WITHHOLDING TAX ON ALL PENSIONS, PRIVATE AS WELL AS PUBLIC, AND A RIGHT FOR THE STATE OF RESIDENCE TO TAX THE SAME PENSIONS, WITH A TAX DEDUCTION (CREDIT) FOR THE TAX PAID TO THE STATE OF SOURCE.

6.3 EXIT TAX

NORWAY HAS AN EXIT TAX ON STOCKS ONLY, AND HAS NO EXIT TAX ON PENSIONS OR PENSION PORTFOLIOS.

6.4 FOREIGN RESIDENTS WORKING IN NORWAY

RESIDENTS OF OTHER NORDIC STATES WORKING IN NORWAY MAY CLAIM A DEDUCTION FOR PAYMENTS TO AN INDIVIDUAL PENSION AGREEMENT (IPA) ON THE SAME CONDITIONS AS RESIDENTS OF NORWAY, CF. CHAPTER 3 ABOVE. HOWEVER, THESE TAXPAYERS MAY CHOOSE A STANDARD DEDUCTION OF 10 PER CENT OF THEIR TAXABLE GROSS INCOME FROM EMPLOYMENT IN NORWAY. THIS DEDUCTION CAN NOT EXCEED NOK 40,000. IF THEY CHOSE THIS STANDARD DEDUCTION, THIS WILL SUBSTITUTE MOST ACTUAL DEDUCTIONS (LIKE COMMUTER EXPENSES, INTERESTS ON DEBT ETC.), INCLUDING CONTRIBUTIONS TO AN IPA. THE STANDARD DEDUCTION THUS MAKES DEDUCTIONS FOR IPA CONTRIBUTIONS LESS PRACTICAL, AND LESS IMPORTANT. ANYWAY, AS MENTIONED IN CHAPTER 3, THE MINISTRY OF FINANCE HAS ANNOUNCED AN INTENTION TO ABOLISH THE RIGHT TO DEDUCT CONTRIBUTIONS TO IPAS ALTOGETHER.

IF A RESIDENT OF ANOTHER NORDIC STATE IS A MEMBER OF AN OCCUPATIONAL PENSION SCHEME PURSUANT TO THE OCCUPATIONAL PENSION ACT (OPA) OR THE DEFINED CONTRIBUTION SCHEMES ACT (DCA), HE OR SHE WILL HAVE THE SAME TAX FAVOURED TREATMENT AS RESIDENTS OF NORWAY, INCLUDING NO TAXATION OF THE EMPLOYER'S CONTRIBUTION TO THE SCHEME. THE EMPLOYEE IS ALSO ENTITLED TO A DEDUCTION IN RESPECT OF HIS OR HER CONTRIBUTION TO THE SCHEME. THIS DEDUCTION IS NOT COVERED BY THE STANDARD DEDUCTION MENTIONED ABOVE, AND THE EMPLOYEE MAY CLAIM BOTH THE STANDARD DEDUCTION AND A DEDUCTION FOR CONTRIBUTIONS TO THE PENSION SCHEME.

IF THE EMPLOYEE CONTINUES HIS MEMBERSHIP IN AN OCCUPATIONAL PENSION SCHEME IN HIS STATE OF RESIDENCY DURING HIS WORKING PERIOD IN NORWAY, THIS PENSION SCHEME WILL IN PRACTICE NOT COMPLY WITH THE OPA OR THE DCA, FOR TWO REASONS.

FIRSTLY, BOTH THE OPA AND THE DCA HAVE A REQUIREMENT THAT THE PENSION SCHEME SHOULD BE ESTABLISHED WITH A NORWEGIAN FINANCIAL INSTITUTION, OR A NORWEGIAN BRANCH OF AN INSTITUTION THAT IS DOMICILED IN ANOTHER EEA COUNTRY. THIS REQUIREMENT EXCLUDES PENSION SCHEMES IN FOREIGN FINANCIAL INSTITUTIONS WITHOUT THE SAID NORWEGIAN ESTABLISHMENT.

DEVELOPMENTS WITHIN EU AND EEA LAW IMPLIED A GROWING UNCERTAINTY AS TO WHETHER THIS COULD BE CONSIDERED IN ACCORDANCE WITH THE EEA AGREEMENT. CONSEQUENTLY, THE MINISTRY OF FINANCE PROPOSED IN 2004 THAT LIFE INSURANCE COMPANIES DOMICILED IN ANOTHER EEA-COUNTRY SHOULD BE PERMITTED TO OFFER PENSION SCHEMES GOVERNED BY THE OPA AND THE DCA WITHOUT HAVING TO SET UP A BRANCH IN NORWAY, REF. OT.PRP. NR. 1 (2004-2005) SKATTE- OG AVGIFTSOPPLEGGET 2005 – LOVENDRINGER . THE PROPOSAL IMPLIED THAT SCHEMES OFFERED BY SUCH COMPANIES SHALL ENJOY THE SAME TAX TREATMENT AS PENSION SCHEMES ESTABLISHED WITH INSURANCE COMPANIES WITH A PERMANENT ESTABLISHMENT IN NORWAY. THE PROPOSAL WAS ADOPTED BY LAW OF 10 DECEMBER 2004 NO. 77, BUT HAS NOT AS YET ENTERED INTO FORCE.

SECONDLY, THIS LEGISLATIVE AMENDMENT WILL, WHEN IT ENTERS INTO FORCE, EXPAND THE CIRCLE OF ENTITIES PERMITTED TO OFFER PENSION SCHEMES ACCORDING TO THE OPA AND THE DCA, BUT WILL NOT OTHERWISE AMEND THE REQUIREMENTS THAT HAVE TO BE MET BY THESE

SCHEMES, IN TERMS OF ORGANISATION, MEMBERSHIP, RETIREMENT AGE, CALCULATION OF BENEFITS, ETC. IN PRACTICE, A FOREIGN OCCUPATIONAL PENSION SCHEME – ESTABLISHED TO MEET THE REQUIREMENTS OF THE STATE OF RESIDENCE – WILL NOT MEET ALL THESE REQUIREMENTS IN THE OPA AND THE DCA. CONSEQUENTLY, IF AN EMPLOYEE CONTINUES HIS MEMBERSHIP IN AN OCCUPATIONAL PENSION SCHEME IN HIS STATE OF RESIDENCE DURING HIS WORKING PERIOD IN NORWAY, THIS PENSION SCHEME WILL IN PRACTICE NOT COMPLY WITH THE OPA OR THE DCA.

THE PENSION SCHEME WILL THEN BE REGARDED AS A GROUP PENSION SCHEME OUTSIDE THE OPA AND THE DCA. AS MENTIONED IN CHAPTER 3, THE EMPLOYER HAS NO RIGHT TO DEDUCT THE CONTRIBUTIONS TO SUCH SCHEMES (IF THE EMPLOYER IS SUBJECT TO NORWEGIAN INCOME TAX). NEITHER WILL ANY CONTRIBUTION FROM THE EMPLOYEE BE DEDUCTIBLE IN NORWAY AT THE HANDS OF THE EMPLOYEE.

HOWEVER, THE EMPLOYER'S CONTRIBUTION WILL NOT BE CONSIDERED AS TAXABLE INCOME FOR THE EMPLOYEE. IF THE (ALL THOUGH MORE RESTRICTED) TAX FAVOURED TREATMENT OF OTHER GROUP PENSION SCHEMES IS ABOLISHED, AS PROPOSED BY THE MINISTRY OF FINANCE IN THE FISCAL BUDGET FOR 2007, THE TAXATION OF SUCH CONTRIBUTIONS TO FOREIGN PENSION PLANS MAY ALSO BE ALTERED.

THE CONTINUING YIELD ON IPAs AND PENSION SCHEMES ACCORDING TO THE OPA, THE DCA AND OTHER GROUP PENSION SCHEMES IS NOT TAXABLE AS INCOME, CF. CHAPTER 3 ABOVE. CONSEQUENTLY, IT WILL NOT BE TAXED AT THE HAND OF THE FOREIGN EMPLOYEE. PENSIONS FROM SUCH PENSION SCHEMES WILL NOT (YET) BE SUBJECT TO NORWEGIAN WITHHOLDING TAX, IF PAID TO RESIDENTS OF AN OTHER STATE, CF. ABOVE.

6.5 NORWEGIAN RESIDENTS WORKING IN OTHER NORDIC COUNTRIES

A NORWEGIAN RESIDENT WORKING IN ANOTHER NORDIC COUNTRY MAY CLAIM A DEDUCTION FOR CONTRIBUTIONS TO AN IPA.

IF THE EMPLOYEE IS A MEMBER OF AN OCCUPATIONAL PENSION SCHEME, THE TAX TREATMENT WILL BE AS DESCRIBED IN CHAPTER 3. THIS INCLUDES BOTH MEMBERSHIP IN A NORWEGIAN SCHEME PURSUANT TO THE OPA OR THE DCA (WHICH PROBABLY IS MOST PRACTICAL IF THE EMPLOYMENT IN THE OTHER STATE IS TEMPORARILY), AND MEMBERSHIP IN A PENSION SCHEME IN THE OTHER NORDIC STATE, WHICH WILL BE REGARDED AS A GROUP PENSION SCHEME OUTSIDE THE OPA AND THE DCA.

NORWEGIAN RESIDENTS WILL BE SUBJECT TO NORWEGIAN INCOME TAX ON PENSIONS FROM BOTH NORWEGIAN AND FOREIGN PENSION SCHEMES ACCORDING TO NORWEGIAN DOMESTIC LAW. HOWEVER, IF THE PENSION IS SUBJECT TO WITHHOLDING TAX IN ANOTHER NORDIC STATE, THE PENSION CAN NOT BE SUBJECT TO NORWEGIAN INCOME TAX ACCORDING TO THE NORDIC DOUBLE TAXATION TREATY ARTICLE 18. IF IT IS NOT SUBJECT TO WITHHOLDING TAX, NORWAY MAY TAX THE PENSION, ACCORDING TO ARTICLE 26.

7. IMPLICATIONS FOR CAPITAL MARKETS AND FINANCIAL STABILITY

THE PRIVATE LIFE/PENSION INSURANCE COMPANIES AND PENSION FUNDS DO NOT PLAY A DOMINATING ROLE IN THE NORWEGIAN STOCK MARKET. ONE REASON FOR THIS IS THAT THE PENSION FUNDS ARE OF MODERATE SIZE, COMPARED TO THE SIZE OF THE FINANCIAL MARKETS OR THE SIZE OF THE NORWEGIAN ECONOMY. THE DEEPER REASON IS THAT THE BULK OF PENSION LIABILITIES ARE PUBLIC. COUNTRIES WITH PAY-AS-YOU-GO

PENSION SCHEMES DO NOT IN GENERAL HAVE PUBLIC FUNDS TO COVER PENSION LIABILITIES. NORWAY IS IN A SOMEWHAT SPECIAL SITUATION HERE BECAUSE OF THE INCOME FROM THE PETROLEUM SECTOR. THUS, ONE COULD SAY THAT THE WORRY IN NORWAY CORRESPONDING TO THE WORRY IN COUNTRIES WITH HUGE PRIVATE PENSION FUNDS IS THE ROLE OF THE GOVERNMENT IN THE FINANCIAL MARKETS. THESE ISSUES ARE TREATED BRIEFLY IN CHAPTER 5 ABOVE.

AS NOTED ABOVE, THE PRIVATE LIFE/PENSION INSURANCE COMPANIES AND PENSION FUNDS PLAY A LIMITED ROLE IN THE NORWEGIAN STOCK MARKET. ONE REASON FOR THIS IS THEIR SIZE, RELATIVE TO THE SIZE OF THE FINANCIAL MARKETS. THE LIFE AND PENSION INSURANCE COMPANIES CONTROLLED A CAPITAL OF ABOUT 570 BILLION NOK BY THE END OF 2005. THIS IS A BIT MORE THAN A THIRD OF THE COMBINED MARKET CAPITALISATION OF ALL THE LISTED COMPANIES AT OSLO STOCK EXCHANGE. HOWEVER, ONLY A SMALL SHARE OF THE CAPITAL IN THE COMPANIES, 20 PER CENT BY THE END OF 2005, WAS INVESTED IN STOCKS. AND ONLY ABOUT A THIRD OF THESE STOCK HOLDINGS WERE IN COMPANIES LISTED AT OSLO STOCK EXCHANGE. THE CONSEQUENCE IS THAT LESS THAN 3 PER CENT OF THE STOCKS AT OSLO STOCK EXCHANGE WERE OWNED BY LIFE/PENSION INSURANCE COMPANIES.

IN ADDITION TO THE LIFE/PENSION INSURANCE COMPANIES, PENSIONS SAVINGS ARE ALSO HELD BY PRIVATE AND MUNICIPAL PENSION FUNDS (EXCLUSIVE OF KLP). THE PENSION FUNDS CONTROLLED CAPITAL OF ABOUT 85 BILLION KRONER AT THE END OF 2005. THE PROPORTION OF THE CAPITAL IN THE PENSION FUNDS THAT WAS INVESTED IN STOCKS IS A BIT HIGHER THAN FOR THE INSURANCE COMPANIES, WITH ABOUT 30 PER CENT. THE SHARE OF THE STOCKS OWNED THAT WAS LISTED AT OSLO STOCK EXCHANGE WAS ABOUT ONE HALF.

THE PRIVATE PENSION INSTITUTIONS PLAY A MORE PROMINENT ROLE IN THE BOND AND CERTIFICATES MARKETS. THAT IS NOT A BIG WORRY, AS BOND AND CERTIFICATES ARE FINANCIAL ASSETS THAT ARE, USUALLY, BOUGHT FOR PURELY FINANCIAL REASONS, REGARDLESS OF THE OWNER. THUS, UNLIKE A SITUATION WHERE THE PRIVATE PENSION FUNDS ARE DOMINATING THE STOCK MARKET, ANY DOMINATION OF THE BOND MARKET WOULD NOT BE EXPECTED TO RAISE SERIOUS CORPORATE GOVERNANCE PROBLEMS.

TABLE 7.1 SHOWS THE OWNERSHIP STRUCTURE AT OSLO STOCK EXCHANGE. BY DECEMBER 2005, THE PRIVATE PENSION INSTITUTIONS OWNED 2.43 PER CENT OF THE STOCKS LISTED AT THE EXCHANGE. IT SHOULD BE ADDED THAT FOREIGN PENSION INSTITUTIONS (PLAUSIBLY A SUBSTANTIAL SHARE OF THE FOREIGN INVESTORS) ARE ALSO ACTIVE AT OSLO STOCK EXCHANGE, BUT THAT IS NOT AN ISSUE THAT IS RELATED TO THE NORWEGIAN TAXATION OF PENSIONS.

TABLE 7.1 SHAREHOLDER STRUCTURE AT 31 DECEMBER 2005 , OSLO STOCK EXCHANGE

Shareholder structure at 31 December 2005 / Aksjonærstruktur pr. 31. desember 2005

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | December 2005 | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | | | | | | | | Total | Main list | SMB | PCC |
| Government & municipalities | 15,90 | 18,79 | 15,09 | 15,85 | 15,58 | 23,08 | 38,20 | 43,05 | 41,33 | 36,98 | 34,38 | 37,53 | 0,59 | 3,40 |
| Comp. with governm. ownership | 5,90 | 1,58 | 1,06 | 1,08 | 1,27 | 1,49 | 0,82 | 0,71 | 0,76 | 0,60 | 0,51 | 0,55 | 0,09 | 0,00 |
| Banks & mortgage com. | 1,60 | 1,95 | 1,94 | 2,21 | 2,26 | 1,88 | 1,84 | 1,42 | 1,57 | 1,91 | 1,02 | 0,85 | 2,87 | 3,95 |
| Private pension funds/ | | | | | | | | | | | | | | |
| Life insurance | 8,30 | 8,07 | 8,51 | 9,19 | 9,06 | 6,67 | 4,87 | 2,89 | 3,18 | 2,84 | 2,43 | 2,43 | 2,43 | 4,00 |
| General insurance | 1,50 | 1,46 | 1,37 | 1,20 | 0,85 | 0,44 | 0,42 | 0,72 | 0,62 | 0,60 | 0,41 | 0,30 | 1,50 | 0,34 |
| Mutual funds | 4,50 | 6,25 | 8,21 | 7,99 | 8,41 | 7,06 | 5,16 | 4,24 | 4,60 | 4,18 | 3,91 | 3,66 | 6,63 | 2,20 |
| Other companies | 19,80 | 17,82 | 24,90 | 22,85 | 21,99 | 17,36 | 13,52 | 14,10 | 14,53 | 14,77 | 15,59 | 14,26 | 29,92 | 21,01 |
| Private investors | 9,30 | 9,15 | 7,72 | 7,77 | 7,84 | 7,73 | 5,92 | 5,43 | 5,53 | 5,26 | 4,66 | 4,01 | 11,63 | 51,84 |
| Foreign investors | 33,20 | 33,59 | 31,15 | 31,71 | 31,51 | 34,11 | 28,01 | 26,96 | 27,82 | 32,83 | 37,05 | 36,39 | 44,21 | 13,21 |
| Others | - | 1,34 | 0,06 | 0,16 | 1,21 | 0,19 | 1,25 | 0,48 | 0,05 | 0,03 | 0,02 | 0,02 | 0,12 | 0,04 |
| Total | 100,00 |

Source: The Norwegian Central Securities Depository

TABLES 7.2 AND 7.3 SHOW THE OWNERSHIP STRUCTURE IN THE BOND AND CERTIFICATES MARKETS. THE PRIVATE PENSION INSTITUTIONS CONTROL ABOUT 40 PER CENT OF THE LISTED BONDS AND CERTIFICATES IN 2005.

TABLE 7.2 OWNERSHIP STRUCTURE – BONDS, OSLO STOCK EXCHANGE

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------------|------|------|------|------|------|------|------|------|------|
| | % | % | % | % | % | % | % | % | % |
| COMPANIES | 6,3 | 6,9 | 7,1 | 6,7 | 6,9 | 5,8 | 5,8 | 6,1 | 6,6 |
| GOVERNMENT & MUNICIPALITIES | 3,8 | 4,0 | 3,4 | 3,3 | 3,5 | 4,5 | 5,3 | 4,5 | 4,3 |
| THE NATIONAL BANK | 2,0 | 2,7 | 2,0 | 2,0 | 1,5 | 1,4 | 1,2 | * | * |
| SOCIAL SECURITY ADMINISTRATION | 10,2 | 9,7 | 8,5 | 7,0 | 6,4 | 5,6 | 5,2 | 6,0 | 5,8 |
| BANKS | 16,0 | 17,7 | 13,5 | 14,3 | 14,2 | 15,9 | 15,7 | 16,4 | 14,7 |
| BOND FUNDS | 4,9 | 4,7 | 5,0 | 5,4 | 6,9 | 5,9 | 5,8 | 8,1 | 10,2 |
| MORTGAGE COMPANIES | 4,4 | 4,2 | 5,2 | 4,7 | 4,0 | 4,6 | 4,0 | 4,5 | 3,3 |
| INSURANCE & PRIVATE PENSION FUNDS | 43,4 | 38,7 | 40,6 | 36,5 | 37,7 | 37,9 | 38,4 | 38,6 | 37,9 |
| PRIVATE INVESTORS | 1,0 | 1,1 | 1,4 | 3,1 | 3,9 | 3,9 | 3,9 | 4,0 | 4,3 |
| FOREIGN INVESTORS | 8,0 | 10,4 | 12,3 | 16,8 | 14,4 | 14,3 | 14,3 | 11,4 | 13,1 |
| OTHERS | 0,0 | 0,1 | 1,0 | 0,2 | 0,6 | 0,2 | 0,0 | 0,0 | 0,0 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

TABLE 7.3 OWNERSHIP STRUCTURE – BILLS AND CERTIFICATES, OSLO STOCK EXCHANGE

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------------|------|------|------|------|------|------|------|------|------|
| | % | % | % | % | % | % | % | % | % |
| COMPANIES | 4,5 | 9,1 | 9,5 | 9,7 | 7,1 | 5,7 | 3,6 | 1,6 | 2,7 |
| GOVERNMENT & MUNICIPALITIES | 2,9 | 6,8 | 6,3 | 7,6 | 6,0 | 5,8 | 6,2 | 0,4 | 1,3 |
| THE NATIONAL BANK | 2,9 | 5,0 | 1,3 | 2,7 | 2,1 | 1,7 | 5,5 | * | * |
| SOCIAL SECURITY ADMINISTRATION | 1,5 | 1,0 | 4,7 | 6,8 | 4,8 | 2,8 | 1,0 | 13,4 | 8,3 |
| BANKS | 45,2 | 26,9 | 35,8 | 20,8 | 17,2 | 13,6 | 11,9 | 12,0 | 12,7 |
| BOND FUNDS | 7,9 | 12,0 | 12,0 | 19,5 | 17,3 | 18,7 | 21,5 | 8,6 | 27,3 |
| MORTGAGE COMPANIES | 2,0 | 4,1 | 2,6 | 2,6 | 2,6 | 3,6 | 3,6 | 5,1 | 3,4 |
| INSURANCE & PRIVATE PENSION FUNDS | 20,6 | 27,0 | 18,7 | 22,6 | 32,9 | 39,1 | 38,9 | 52,5 | 39,7 |
| PRIVATE INVESTORS | 0,1 | 0,2 | 0,3 | 0,4 | 0,2 | 0,2 | 0,1 | 0,0 | 0,0 |
| FOREIGN INVESTORS | 12,4 | 7,7 | 3,3 | 7,2 | 8,5 | 8,1 | 7,6 | 6,4 | 4,4 |
| OTHERS | 0,0 | 0,1 | 5,3 | 0,2 | 1,3 | 0,7 | 0,0 | 0,0 | 0,0 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

THE ROBUSTNESS OF THE FINANCIAL INSTITUTIONS IS AN IMPORTANT ISSUE. IN NORWAY, THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY MONITORS THE ROBUSTNESS OF THE FINANCIAL INSTITUTIONS. THE MAIN ISSUE WITH RESPECT TO THE PENSIONS INSTITUTIONS IS WHETHER THE COMPANIES ARE ABLE TO GENERATE SUFFICIENTLY HIGH RETURNS TO COVER THE DEFINED BENEFITS AGREEMENTS. THE INSURANCE PREMIA FOR THE DEFINED BENEFITS AGREEMENTS ARE

CALCULATED BASED ON THE “GUARANTEED INTEREST RATE” (GRUNNLAGSRENTEN), SET BY THE FINANCIAL SUPERVISORY AUTHORITY, FOR THE TIME BEING AT 2.75 PER CENT.

THE OBLIGATIONS OF THE INSURANCE COMPANIES TO THE POLICY HOLDERS IS TECHNICALLY ESTIMATED TO 485 BILLION NOK, OR ABOUT 85 PER CENT OF THE CONTROLLED CAPITAL. IT WOULD BE FORTUNATE IF THE COMPANIES HAD A SOMEWHAT LARGER RESERVE, WHICH WOULD ALSO PUT THEM IN A SITUATION WHERE IT WOULD BE PRUDENT TO TAKE SOMEWHAT LARGER RISKS.

IT IS ALWAYS PRUDENT TO WORRY ABOUT THE STABILITY OF FINANCIAL INSTITUTIONS. AS FAR AS WE ARE INFORMED, THE CAPITAL ADEQUACY RULES ARE SUFFICIENT FOR THEIR PURPOSE. HOWEVER, WE HAVE NOT MADE ANY INDEPENDENT ASSESSMENT OF THIS ISSUE.

THERE IS, IN PRACTICE, NO TAX ON THE CAPITAL GAINS OF THE PENSION INSTITUTIONS, SO PERFORMANCE EVALUATION WOULD BE THE SAME INDEPENDENTLY OF WHETHER THEY WERE BASED ON BEFORE-TAX OR AFTER-TAX MEASURES.

AS FAR AS WE KNOW, NORWEGIAN NON-FINANCIAL COMPANIES HAVE NOT ISSUED PENSION GUARANTEES THAT THREATENS THEIR SOLVENCY. UNDER MOST CIRCUMSTANCES, PENSIONS ARE ORGANISED THROUGH FINANCIAL COMPANIES. ORGANISING THE PENSION SCHEMES IN THIS WAY AND ACCORDING TO SPECIFIC RULES GIVES RISE TO PREFERENTIAL TAX TREATMENT, AS DISCUSSED IN CHAPTER 3 AND 4. IT IS LEGAL AND POSSIBLE TO AGREE TO COVER FUTURE PENSIONS WITHIN A NON-FINANCIAL COMPANY. WE DO NOT THINK THAT SUCH PENSION OBLIGATIONS IN NORWAY ARE OF AN ORDER OF SIZE THAT MAKE UP AN INDEPENDENT THREAT TO THE SOLVENCY OF FIRMS.

THE PENSION LIABILITIES OF PRIVATE PENSION INSTITUTIONS ARE NOT GUARANTEED BY THE GOVERNMENT. HOWEVER, SHOULD A PRIVATE PENSION INSTITUTION BE UNABLE TO COVER ITS LIABILITIES TO PENSIONERS, THE CENTRAL BANK WOULD HAVE TO MONITOR THE SITUATION CLOSELY. THE CENTRAL BANK HAS A RESPONSIBILITY AS A LENDER OF LAST RESORT AND MAY INTERVENE TO AVOID FINANCIAL BREAKDOWNS. THE GUIDELINES/RULES ON THIS ISSUE ARE UNCLEAR (CONSTRUCTIVELY UNCLEAR) SO AS NOT TO ENCOURAGE SPECULATION.

8. REFERENCES

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