



ROYAL NORWEGIAN MINISTRY
OF LABOUR AND SOCIAL INCLUSION

EFTA Surveillance Authority
Avenue des Arts 19 H
1000 Brussels

BELGIUM

Your ref	Our ref	Date
Case No: 92185	24/2663-	30 September 2024

Reply to request for information concerning the accrual of old-age pensions in Norway when receiving invalidity benefits

Dear Ms. Moustakali,

Reference is made to your letter of 22 August 2024 regarding the accrual of old-age pensions in Norway when receiving invalidity benefits.

The letter contains several questions on the issue, and below you will find our response.

1. Please describe the current system of how individuals acquire rights for old-age pension in Norway, in particular how invalidity benefits contribute to the accrual of Norwegian old-age benefits.

As a starting point, we underscore that the information provided below relates to the Norwegian National Insurance Scheme (as opposed to occupational schemes). And more precisely: disability benefits according to Chapter 12 of the National Insurance Act (NIA) and old-age pensions according to Chapters 19 and 20 NIA.

As a consequence of a pension reform introduced in 2011, the Norwegian National Insurance Scheme's old-age pension system consists of both old provisions (Chapter 19 NIA) and new provisions (Chapter 20 NIA), as well as transitional provisions. Chapter 19 NIA applies to persons born up to and including 1962. Chapter 20 NIA applies to persons born from and including 1954. For people born in the years 1954–1962, the old-age pension consists of a proportional share according to each Chapter. Reference is made to Sections 19-1 and 20-1 NIA.

Postal address	Office address	Telephone	Department	Reference
Postboks 8019 Dep 0030 Oslo postmottak@aid.dep.no	Akersgata 64 www.aid.dep.no	+47 22 24 90 90 Org. nr. 983 887 457	Pension Department	Sasha Riakhina Fossebrekke +47 22 24 86 05

According to Chapter 20 NIA, the income-based pension is primarily calculated on the basis of pensionable income, cf. Section 20-4 Paragraph 1 Litra (a) NIA, cf. Section 20-5 NIA. National Insurance Scheme disability benefits and disability benefits under other schemes, such as occupational pension schemes, are not considered pensionable income, cf. Section 3-15 Paragraph 2 Litra (f) NIA.

Nevertheless, NIA disability benefits contribute to the accrual of new old-age pension, cf. Section 20-4 Paragraph 1 Litra (d) NIA, in accordance with the provisions laid down in Section 20-7 a NIA. The provisions entail that old-age pension is earned on the basis of the income which the disability benefit is meant to replace. This is, grossly simplified, the income a person had before the onset of the disability.

Every year a person receives disability benefit, until and including the calendar year when the person reaches 61 years, the person accrues pension rights based on 18.1 per cent of the calculation basis of the disability benefit, limited to 7.1 times the National Insurance Scheme's Basic Amount (*grunnbeløp*). Consequently, the accrual of old-age pension rights does not depend on the specific amount paid, but on the estimated income and the basis of the calculation of the disability benefit.

According to Chapter 19 NIA, the accrual of old-age pension based on disability benefit follows similar overarching principles as accrual under Chapter 20 NIA. As for Chapter 20 NIA, disability benefit is not considered pensionable income, cf. Section 3-15 paragraph 2 Litra (f) NIA. However, those who receive disability benefit are, as a main rule, credited with pension points for each calendar year the benefit is received, cf. Section 19-5 Paragraph 1 NIA cf. Section 3-17 NIA. The pension points should, explained in a very simplified manner, represent the income that the invalidity benefit is meant to replace. Therefore, according to Chapter 19 NIA, as is the case for Chapter 20 NIA, the accrual for old-age pension does not depend on the specific amount of the disability benefit, but is based on the income before the onset of disability.

2. Are invalidity benefits subject to tax or social security contributions in Norway? Are invalidity payments from another EEA State subject to similar levy? If so, do invalidity benefits from another EEA State also contribute to old-age pension in Norway?

The Ministry of Labour and Social Inclusion has submitted this question to the Ministry of Finance, who is responsible for the legal framework concerning Norwegian tax and social security contributions. The Ministry of Finance has provided the following information:

"In accordance with the Norwegian Taxation Act section 5-42 letter a, social security benefits, care benefits and other payments from care schemes and social security schemes, are subject to tax. This includes invalidity payments from all states."

Attention is also drawn to information from the Ministry of Finance in the answer to the next question.

We would like to underscore that it is not necessarily a correlation between, on the one hand, what income is subject to social security contributions, and, on the other hand, what income contributes to accrual of old-age pension. For instance, persons are obligated to pay social security contributions on income above a certain amount, even if this income does not provide social security rights or pension accrual.

The provisions regarding the accrual of old-age pension from the National Insurance Scheme based on disability benefit only apply to disability benefit under the said Scheme. Disability benefits from other EEA States do not count towards accrual of old-age pension under the National Insurance Scheme. This must be viewed in the context that it is not the disability benefit itself that is the basis of the accrual, but rather the calculation basis for the NIA disability benefit.

Furthermore, disability benefits under other schemes, such as disability benefits from Norwegian occupational pension schemes, do not provide pension earnings under the National Insurance Scheme.

3. According to the complaint, invalidity benefits were considered pensionable income before 2015, similar to wages, and would lead to accrual of pension holdings irrespective of whether the income was derived from Norway or another EEA State. Please describe the legal situation prior to 2015 concerning the tax treatment of invalidity benefits and the effect for the accrual of old-age pensions. Were there specific reasons to change the system?

1 January 2015, new provisions on disability benefits under the National Insurance Scheme were introduced. Among other objectives, the reform was necessary in order to adapt the disability benefit to the new old-age pension provisions. Furthermore, the reform entailed that the calculation method for disability benefits was amended and that the benefits were taxed as wage income.

Before the reform, the disability benefit was calculated as an old old-age pension according to Chapter 19 NIA, with certain adaptations including future periods of insurance and future pension points in the calculation, cf. Sections 3-6 and 3-17 NIA, as they read before 1 January 2015. The disability pension roughly corresponded to the old-age pension which the person concerned would have received under Chapter 19 NIA, provided the person had continued to work until the age of 67.

Under the new provisions, the disability benefit is calculated on the basis of income the five years prior to the onset of the disability.

However, it is not correct, as stated in the complaint, that disability benefit was considered pensionable income prior to 2015. Prior to 2015, disability benefit was considered a pension

covered by Section 3-15 Paragraph 2 Litra (a) NIA, which meant that the benefit was not considered pensionable income.

Accrual of old-age pension based on disability pension was done according to the same principles as today. Section 3-18 NIA, as it read before 2015, laid down the rules for old-age pensions according to the old provisions in Chapter 19 NIA. The calculation was carried out by including the determined future pension points in the calculation of the subsequent old-age pension.

As for new old-age pension according to Chapter 20 NIA, the rules were laid down in Section 20-7 a NIA, as it read before 2015, and entailed that a person who received a disability pension calculated on the basis of future pension points, accrued old-age pension on the basis of an estimated income.

The Ministry of Finance states the following about the tax regulations in regard to the reform:

«Before 2015, invalidity benefits were taxed as pensions. When pensions are taxed, a reduced rate of social security contributions is paid, according to the Norwegian National Insurance Act section 23-3 (2) no. 1. This rate is determined annually by the Norwegian Parliament (Stortinget). The minimum standard deduction for pensions before 2015 was 26-27 percent of the pension income, with an upper limit set by the Parliament, cf. the Norwegian Taxation Act section 6-32 (1) letter b and letter c.

After 2015, invalidity benefits are taxed as wages/salary. When wages are taxed, the social security contribution is paid at an intermediate rate, according to the Norwegian National Insurance act section 23-3 (2) no. 2. Invalidity benefits from the National Insurance act chapter 12 and invalidity benefits from other schemes, are listed in section 23-3 (2) no. 2 letter b. The intermediate rate is also determined annually by the Parliament.

Invalidity payments from other states were treated in the same way as Norwegian invalidity payments, both before and after 2015. However, tax treaties can limit the right to tax invalidity payments.

The minimum standard deduction for wage income has varied, but the deduction is higher for wage income than for pension income, both before and after 2015. In 2014 the minimum standard deduction for wages was 40 percent of the total wage income. In 2024 the minimum standard deduction is 46 percent. The minimum standard deduction for wage taxation has an upper limit, which is determined annually by the Parliament.

To compensate for higher rates and lower deductions, invalidity benefits were increased after 2015.»

Yours sincerely,

Dag Holen
Director General

This document is signed electronically and has therefore no handwritten signature

Attachments:

National Insurance Act (lov 28. februar 1997 nr. 19 om folketrygd), Norwegian version

Norwegian Taxation Act (lov 26. mars 1999 nr. 14 om skatt av formue og inntekt), Norwegian version