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Social security in periods of high cost of living

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In recent years, high inflation has placed significant economic pressure on many Norwegian households. Price growth accelerated particularly from autumn 2021, and in 2022 consumer price inflation reached 5,8 percent. Many households faced rising energy and food prices alongside higher mortgage interest rates. For people with weak labour market attachment and public benefits as their primary source of income, such periods can be especially challenging. Since many benefit recipients have limited financial reserves, it is important to assess whether the welfare state can maintain the purchasing power of those living on social security during periods of high inflation.

The analysis examines income developments among recipients of four key income security schemes: old-age pension, disability benefit, work assessment allowance (AAP), and social assistance. The analyses are based on register data from Statistics Norway for the period 2006–2023, and we examine developments in the number of recipients, the prevalence of low income, and how the incomes of benefit recipients have developed compared to wage and price growth, both in the short and long term. We also examine changes in the demographic composition of the four groups of benefit recipients.

Trends in benefit receipt

Trends in the number of recipients differ across the various benefits:

- The number of old-age pensioners has increased sharply, from approximately 565,000 in 2006 to around 970,000 in 2023. This growth is driven both by demographic changes, particularly the post-war generations reaching retirement age, and by changes in the pension system that make it possible to draw a pension earlier and combine work and pension.
- The number of disability benefit recipients has also increased, but more in line with population growth.
- The number of work assessment allowance recipients varies over time and was somewhat lower in 2023 than in 2010, when the scheme was introduced.
- The number of social assistance recipients remained relatively stable as a share of the population, but rose towards the end of the period, particularly during the years of high price growth.
- During the high-inflation period of 2022 and 2023, the share receiving housing benefit among recipients of AAP and disability benefit also increased. This means that these benefit groups to a greater extent consisted of individuals under financial pressure because of housing costs and interest expenses.

Low income and poverty gap

Although income-security schemes are intended to provide income protection and secure an adequate standard of living, benefit recipients are overrepresented among people with low income. In this report, we use the standard European definition of low income, defined as equivalised household income below 60 percent of the median income.

For the population, the low-income rate has remained stable at between 9 and 11 percent during the period 2006–2023. Among benefit recipients, however, the shares are substantially higher. Social assistance recipients have by far the highest prevalence of low income, with more than half below the low-income threshold since 2014. Recipients of AAP and disability benefit have also seen a rising share with low income over the period. Old-age pensioners stand apart from the other groups in that the share with low income declined markedly until around 2011, and has since remained relatively stable, with a further reduction in 2023.

The report also includes analyses of the poverty gap, that is, how far below the low-income threshold the incomes of those with low income fall. The results show that the poverty gap is largest among social assistance recipients and recipients of AAP, while it is smaller among disability benefit recipients and old-age pensioners. For most groups, the poverty gap is relatively stable over time, but among AAP recipients the distance to the low-income threshold increases throughout the period. This suggests that the group increasingly consists of people with weaker labour market attachment and greater financial challenges.

Income development and inflation

The central question in the report is whether the incomes of benefit recipients have kept pace with wage and price growth. We compare developments in median income (P50), low income (P25), and high income (P75) with growth in the consumer price index (CPI) and in the wages of industrial workers during the period 2006–2023, and specifically during the high-inflation period 2019–2023.

Over the longer period, the incomes of several groups have developed relatively positively. Both old-age pensioners and disability benefit recipients have experienced income growth that largely follows or exceeds wage growth. This is particularly the case for individuals with lower incomes (P25) within these groups. Among AAP recipients, the picture is different. Here, the lower part of the income distribution has seen weaker growth than the upper part, when compared to the reference year 2010. The income of social assistance recipients has fluctuated over the period, but overall median income growth among social assistance recipients exceeds CPI growth and is fairly similar to industrial wage growth. Social assistance recipients with lower (P25) and higher (P75) incomes experienced similar developments.

Looking specifically at the high-inflation period and comparing the situation in 2019 with that in 2022 and 2023, the picture becomes more nuanced. In 2022, prices (CPI) rose faster than incomes for several groups of benefit recipients, implying a temporary weakening of purchasing power. In 2023, this was partly compensated through an unusually large benefit settlement and an increase in the National Insurance Scheme's basic amount (G), as well as an upward adjustment of the guideline rates for social assistance. These measures helped strengthen incomes again, particularly for old-age pensioners and disability benefit recipients. For recipients of work assessment allowance with the lowest incomes (P5), income growth was clearly below price growth in both 2022 and 2023. Among social assistance recipients the same applies to income percentiles P5, P10 and P15.

Our analysis of demographic changes in the benefit groups between 2019 and 2023 shows that changes are small in most groups. The most pronounced change is found among social assistance recipients, where the share of immigrants and women increased, which can be linked to the arrival of Ukrainian refugees. For the other benefit types, changes are limited, and the analyses therefore suggest that such compositional changes explain little of the income developments during the period.

We have also analysed the relationship between the minimum benefit levels in AAP and disability benefit, and the lowest wage levels in the wage distribution. The analysis shows that the minimum benefits lie well below the lowest wage levels throughout the period. This implies that individuals who move from benefits to work in low-wage occupations will normally experience financial gain, and that work incentives in the system have remained stable over time.

Overall, the analysis shows that developments in the income situation vary considerably across different groups of benefit recipients. In the long term, the incomes of many benefit recipients have grown in line with or more than wage and price growth. This applies particularly to old-age pensioners and disability benefit recipients. At the same time, low income is far more prevalent among benefit recipients than in the population as a whole, especially among recipients of social assistance and work assessment allowance.

Taken together, the analyses indicate that the Norwegian income-security system has largely managed to protect recipients from lasting falls in real income. However, many benefit recipients are in a financially vulnerable position to begin with. Among recipients of disability pension, work assessment allowance, and social assistance, the share with low income is higher than in the general population and has increased over the period studied. For some of those with the very lowest incomes, we have observed a tendency to fall further behind the general income developments in society. This raises questions about the level of minimum benefits, adjustment mechanisms, and the balance between income security and work incentives in the welfare state.

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