

DENMARK

Denmark: pension system in 2008

There is a public basic scheme. A means-tested supplementary pension benefit is paid to the financially most disadvantaged pensioners. There is also a scheme based on individuals' contribution records, viz. the ATP. In addition, compulsory occupational schemes negotiated as part of collective agreements cover about 90 % of full-time employees.

Key indicators

		Denmark	OECD
Average earnings	DKK	359 300	207 000
	USD	70 500	40 600
Public pension spending	% of GDP	5.6	7.0
Life expectancy	at birth	78.3	78.9
	at age 65	82.6	83.1
Population over age 65	% of working-age population	26.8	23.6

Qualifying conditions

The normal pension age is currently 65 but will be increased gradually to age 67 in the period 2024-2027. A full public old-age pension requires 40 years' residence. Shorter periods qualify for a pro-rated benefit.

A full entitlement under the labour-market supplementary pension (ATP) requires a full career of contributions. The ATP scheme was established in 1964.

Benefit calculation

Basic

The full basic pension amount is DKK 5 096 per month or DKK 61 152 per year, equivalent to around 17% of average earnings. There is an individual earnings test which means that the basic pension will be reduced if work income exceeds DKK 259 700 (app. $\frac{3}{4}$ average earnings). The benefit is reduced at a rate of 30% against earned income above this level.

Targeted

The full pension supplement is DKK 5 130 per month or DKK 61 560 per year for single persons and DKK 28 752 per year for couples. The actual amounts are tested against all sources of personal income (including ATP and occupational pensions) apart from public pension. If household personal income exceeds DKK 57 300, the targeted pension supplement is reduced by 30% of the excess income for single persons. The couples household income test is calculated for income above DKK 115 000 at a rate of 15%.

Connected with the public old-age pension, a new supplementary pension benefit of DKK 7 800 was introduced in 2004. The supplementary pension benefit is taxable and paid once a year. The benefit is means-tested and targeted to the poorest pensioners without significant cash savings (maximum cash savings are DKK 59 900).

The public old-age pension (the basic and targeted amounts plus the pension supplement) is adjusted annually in line with average earnings. The adjustment is based on an index of wage increases during the two preceding years. If nominal earnings growth exceeds 2%, a maximum of 0.3 percent of the excess increase is allocated to a social spending reserve. Thus, indexation of pensions and other social benefits is based upon wage increases less any allocation to the reserve.

In 2008 a special tax deduction for worker-related earnings was introduced to defer full exit from labour market. From July 2008 each pensioner under the old age pensions system can subtract work income up to DKK 30 000 yearly in calculation of basic and targeted pensions.

Occupational

These schemes are fully funded defined-contribution schemes agreed between the social partners. Coverage of these schemes is almost universal. Contributions are typically between 9% and 17% of earnings. In 2006, the percentage for the majority of Danish workers has been raised to 10.8% and this contribution rate is used for the modelling. Benefits are usually withdrawn as an annuity. The assumed interest rate is 1.5% for recent contributions or new schemes. However, the schemes operate on a 'with-profit' basis, with pension increases depending on the return on assets and mortality experience of the fund. Many schemes also allow lump sum withdrawals. Since 2000, the annuity calculation must use unisex mortality tables.

Defined contribution

ATP (the Danish Labour Market Supplementary Pension) is a statutory, fully funded, collective insurance based, defined-contribution scheme. ATP provides a lifelong pension from the age of 65 and a survivors' lump sum benefit for dependents in the case of the death of the individual member. ATP covers all wage earners and almost all recipients of social security benefits. ATP membership is voluntary for the self-employed. ATP covers almost the entire population and comes close to absolute universality.

Technically, the old age pension of ATP is a guaranteed deferred annuity. The contribution is a fixed amount – as opposed to a percentage of income – varied only against the number of hours worked. A full-time employee will pay DKK 2 927 in 2008. Contributions are split, with two-thirds paid by the employer and one-third by the worker. The contribution schedule (the sum of employer and employee contribution) against hours worked is shown in the following table (for monthly paid workers):

Monthly hours	<39	39-77	78-116	>116
Contribution, DKK/month as from 2008	0	81	163	244
Monthly hours	<39	39-77	78-116	>116
Contribution, DKK/month as from 2009	0	90	180	270

The contribution is adjusted if and when the social partners decide to do so as part of collective agreements. Over the past 20 years the contribution has been increased in steps more or less in line with average earnings. The modelling assumes that the contribution will increase in line with average earnings. An increase of approximately 10% has been agreed for 2009.

Until 2002, each DKK 396 of contributions earned DKK 100 of pension benefits paid from 65 regardless of the age at which they were made. This implied an average (across all accruing cohorts) interest rate of around 4.5%. From 2002, a nominal interest rate of 1.5% has been assumed. In the model, it is assumed that the ATP earns the same interest rate as assumed for funded defined-contribution schemes in other OECD countries.

The ATP scheme increases pensions in payment and pension rights alike if its' financial condition allows. This is done in the form of bonus allowances. Increases are guaranteed as are earned rights.

The modelling assumes full indexation to price inflation.

An entirely new ATP pension accrual system has been introduced as from 2008. The model is based on swap interest rates as opposed to a fixed nominal interest rate of e.g. 1.5 %. The new pension accrual system will abandon the age-differentiated allocation to the guarantee and bonus pools and instead adopt a uniform division, with 80% of all contributions going to the guarantee pool and 20% going to the bonus pool.

Variant careers

Early retirement

There is a partial early retirement pension for workers aged between 60 and 65 who continue to work for 12 to 30 hours a week. The scheme is being phased out. It now applies only for workers born before 1 January 1959. The beneficiary must reduce weekly hours worked by at least 7 hours a week or at least one-quarter of total hours worked in an average week. The partial pension is calculated as a fixed amount for every hour that is reduced. The amount is approximately DDK 76 an hour for 2007. Since 1999 beneficiaries are subject to a pension deduction.

People covered by either early-retirement programme revert to the standard old-age pension once they reach the normal retirement age of 65 (due to their age they will not be affected by the legislated rise in the retirement age in the period 2024-2027).

Late retirement

It is possible to defer the public old age pension for up to 10 years. The increment for deferring pension for a year is the ratio of the period of deferral to average life expectancy at the time the pension is drawn. For example, population projections show life expectancy for a 68 year old to be 17.1 years. Thus, the increment for deferring for a year from age 67 would be $1 / 17.1 = 5.8\%$.

Childcare

For periods on maternity/paternity/parental benefits, double the amount of contributions is paid for ATP. The beneficiary will pay 1/3 of the contribution, with 2/3 being paid by the government/municipality. Maternity/paternity/parental benefits can be paid for up to 52 weeks in total. The 4 weeks prior to the birth and the first 14 weeks after the birth are reserved for the mother. The father is entitled to 2 weeks of leave during the first 14 weeks after the birth (paternity leave). The last 32 weeks can be divided or shared between the father and the mother (parental leave). Those out of the labour market caring for children beyond the maternity period typically switch to another scheme which also carries an ATP contribution. It is not common for young parents not to resume work when the leave period ends unless the child is e.g. ill or disabled in which cases there normally will be possibilities for drawing on some sort of public benefit with contribution to ATP. There are no credits or contributions for occupational pension schemes for periods out of paid work caring for children.

Unemployment

During unemployment, the unemployment insurance (or municipality if not insured) take over the payment obligation of the employer, and ATP contributions are paid at the double rate when receiving benefit from the unemployment insurance (normal rate if social assistance benefit). The government pays 2/3 of the payment when unemployment insurance is exhausted and the individual is on unemployment/social assistance. There are no credits or contributions for occupational pension schemes for periods of unemployment.

There is also a voluntary early retirement programme linked with unemployment insurance, which pays benefits between ages 60 (gradually increasing to age 62 between 2019 and 2022) and until the normal pension age. To qualify, individuals must have been members of the unemployment insurance fund for at least 25 years within the last 30 years and have paid voluntary early-retirement contributions during this period. They must also satisfy the conditions for entitlement to unemployment benefits in the event of unemployment at the time of transition to the voluntary early-retirement scheme. The benefit amount corresponds to the rate of unemployment benefits, subject to a limit of 91% of the maximum rate of unemployment benefit, equivalent to DKK 3 110 per week for full-time workers and DKK 2 075 for part-time workers (2006 figures). It is not possible to combine receipt of voluntary early-retirement benefits with the social pension.

People who defer the take up of voluntary early-retirement benefits for at least two years after they have become entitled to the benefit and are still working receive a higher rate of voluntary early-retirement benefit that is equivalent to the maximum rate of unemployment benefit (or DKK 3 415 per week in 2006). For three years' full-time work when an individual qualifies for voluntary early-retirement or the equivalent, a one-off lump-sum is paid up to a maximum of DKK 124 860 in 2006.

Personal income taxes and social security contributions

Taxation of pensioners

There are no special tax allowances or credits for pensioners. Pensioners can receive a tax credit for the property value tax.

Taxation of pension income

Periodic pension payments are subject to personal income tax. There are no special reliefs for pension income.

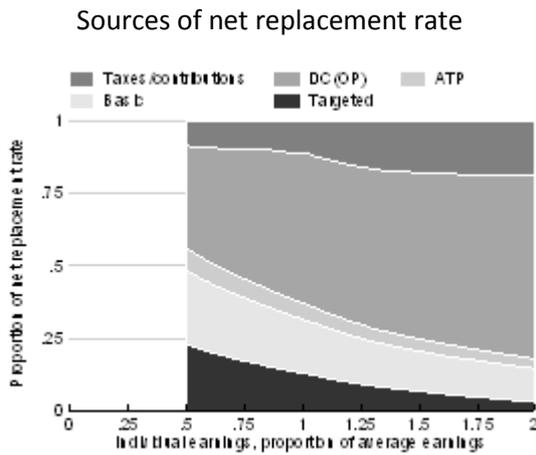
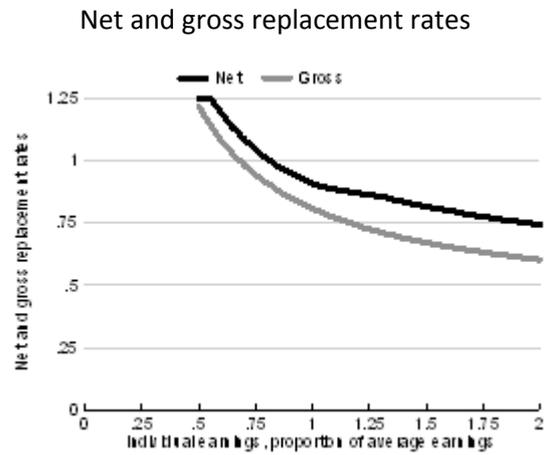
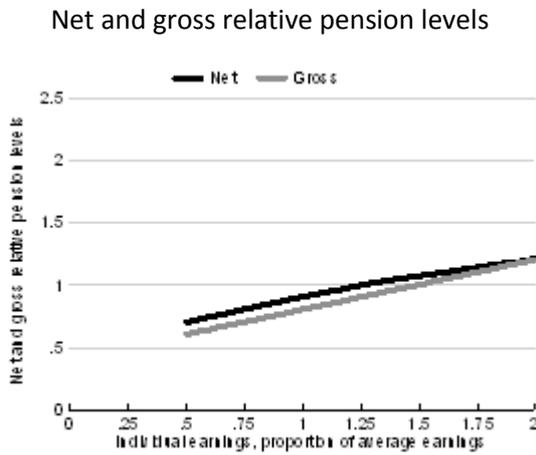
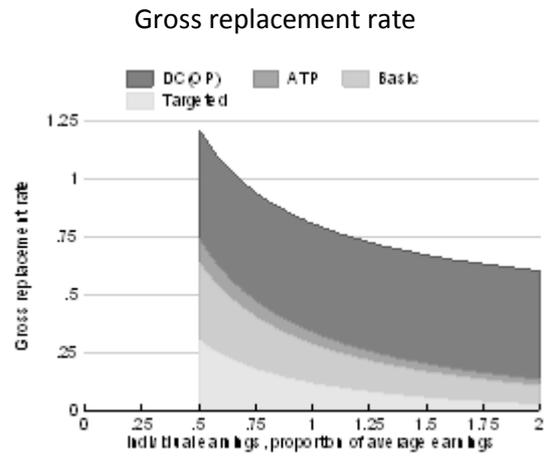
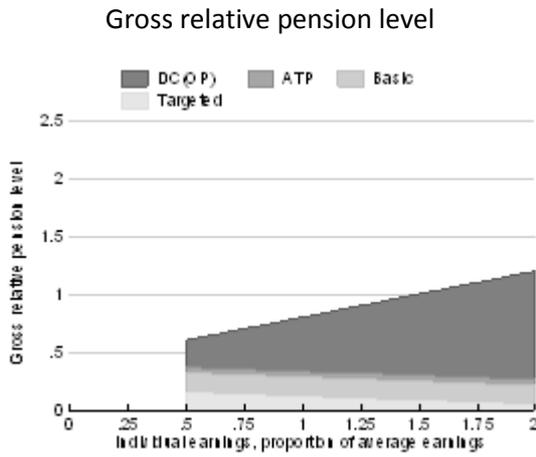
The ATP, occupational pensions and other private pension savings are subject to an ETT tax regime.

The payment under a funded pension scheme is subject to a flat tax at 40% on lump-sum withdrawals. Since 1984, the return on assets in pension schemes has been subject to a special tax. From 1984 to mid-1998, returns on bonds were taxed at a variable rate. The rate depended on the interest rate and inflation (*i.e.*, real-interest tax). The rate ranged between 40 and 50% for most of the period. From mid-1998, the return on equities was taxed at 5%. In 2000, the tax was changed to a fixed rate of 26% on bond returns and 5% on equities. Since 2001, all returns from the pension savings are taxed at 15%.

Social security contributions paid by pensioners

Pensioners do not pay social security contributions.

Pension modelling results: Denmark



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	75.4	60.3	70.0	79.7	99.1	118.5
Net relative pension level (% net average earnings)	85.6	69.9	80.0	89.8	106.5	119.8
Gross replacement rate (% individual gross earnings)	84.7	120.6	93.3	79.7	66.1	59.2
Net replacement rate (% individual net earnings)	94.5	131.9	103.3	89.8	80.8	73.3
Gross pension wealth (multiple of average gross earnings)	12.9 15.3	18.8 22.3	14.3 17.0	12.1 14.3	9.8 11.6	8.7 10.3
Net pension wealth (multiple of average net earnings)	8.6 10.2	12.8 15.3	9.6 11.4	8.0 9.5	6.2 7.4	5.2 6.1