



2015 Pension Policy Notes

DENMARK

- Ensure that new disability scheme does not become a new pathway to early retirement.
- Closely monitor the pension entitlements of individuals that are not covered by occupational pensions in a stable way.

The pension system is diversified with high coverage rates. The public part consists of a basic flat-rate pension and a means-tested pension supplement that is paid to the financially most disadvantaged pensioners. If the pensioner's income (apart from the social pension) exceeds DKK 67 500 or about EUR 8 700 (for single persons in 2015, which represents about 16% of average worker earnings), this targeted supplement is reduced by 30.9% of the excess income. In addition, an extra pension benefit is paid to the poorest pensioners without significant savings. This benefit is taxable and paid once a year. There is also a mandatory occupational pension scheme (*Arbejdsmarkedets Tillaegspension, ATP*) based on equal contributions for all employees aged 16 to 67 with working times exceeding nine hours a week. In addition, quasi-mandatory privately managed funded occupational schemes cover about 90% of full-time employees. Most occupational schemes are of the defined contribution type with contribution rates between 12% and 17% and are negotiated as part of collective agreements. The occupational pension system for private sector workers was introduced in the 1990s and is not mature yet. However, parts of the private-sector "white collar" workers were covered by various types of schemes before the 1990s. The elderly also benefit from many publicly-provided tax-financed in-kind services which play a major role in enhancing living standards.

Key indicators: Denmark and OECD average

	Mid-1980s	Mid-1990s	Mid-2000s	latest available	latest OECD	long-term	long-term OECD
Pensionable age for a full-time career starting at the age of 20	67.0	67.0	67.0	65.0		67.0	
Retirement age	67.0	67.0	67.0	65.0	62.9 (61.8)	67.0	64.6 (64.4)
Net replacement rate, avg earner						66.4	63.2 (62.7)
Total mandatory contribution rate				13.4	19.1		
Total pension spending, % of GDP	8.2	10.2	9.6	13.1	10.3		
Public pension spending, % of GDP	6.9	8.4	7.3	8.4	8.4		
Public debt, % of GDP	76	82	45	56	115		
Employment rate 55-64, %	62.0 (39.8)	63.2 (36.1)	65.6 (53.5)	68.9 (57.6)	66.1 (49.1)		
Labour-market exit age	65.9 (63.8)	62.9 (59.3)	63.2 (61.9)	63.0 (60.6)	64.6 (63.1)		
Old-age poverty rate, %	19.5	12.3	10.2	4.6	12.6		
Life expectancy at 65, years	14.1 (18.0)	14.6 (18.0)	16.5 (19.3)	18.0 (20.5)	18.4 (21.5)	22.9 (24.6)	22.9 (25.9)
Old-age dependency ratio	0.26	0.25	0.25	0.33	0.28	0.48	0.57
Fertility rate	1.5	1.8	1.9	1.8	1.7	1.9	1.8

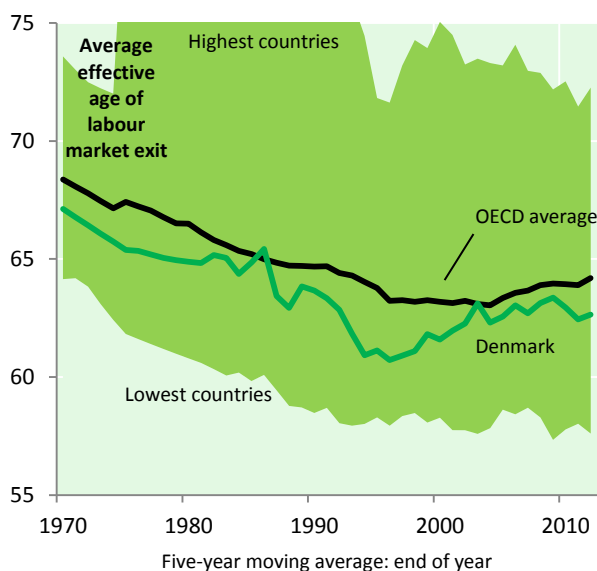
ote. The figures for women appear in parenthesis where they differ from those for men.

Long-term: Around 2060 based on all legislated reforms up to mid-2015.

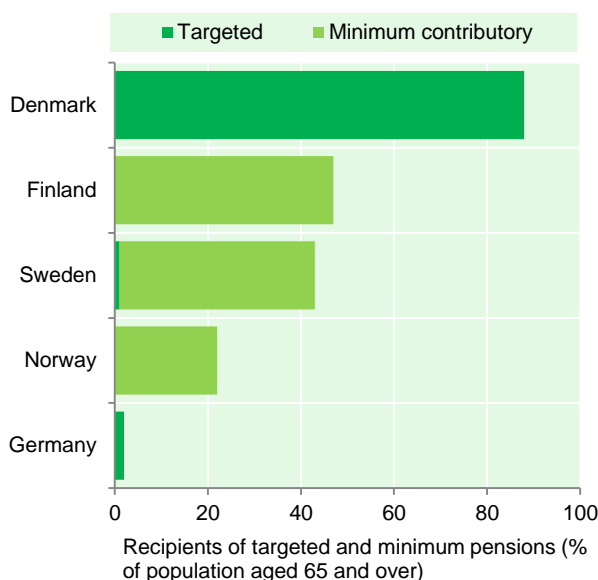
The labour market exit age is currently below the OECD average. The diagram below shows that in 1970 the average labour market exit age for men was almost 67 years, below the OECD average. Since then it has fallen to slightly below 63 years in 2012. Individuals leaving the labour market prematurely tend to do so through early retirement and disability schemes. Early labour market exit, along with a lower coverage of occupational pension schemes before the 1990s, leads to low levels of relative income for the individuals aged 66 and above compared

the total population. In the late 2000s, it was equal to 74% on average, the second lowest ratio within the OECD and below the average of 86%; as a result, almost 90% of individuals older than 65 are recipients of the targeted pensions. The basic pension and the targeted benefits are, however, successful in limiting old-age poverty and the poverty rates are far below the OECD average. In addition, there is ample provision of public services for the elderly such as elderly care. In order to sustain safety nets and public services in an ageing society, the main challenge is to increase employment rates amongst older workers.

Labour market exit age, average for men



Recipients of targeted and minimum pensions



Sources: OECD Pensions at a Glance 2013.

Recent reforms aimed at prolonging working lives. Legislative initiatives focused on increasing both the early-retirement age (*dk. Efterlønsalder*) and the eligibility age for the basic pension (*dk. Folkpensionsalder*). The early-retirement age has been increasing from 60 years for individuals born after 1 Jan. 1954 and is expected to reach 64 years in 2023 for individuals born after July 1959. Similarly, the eligibility age for the basic pension is set to increase from 65 years to 67 by 2022 for those born after July 1955. In order to protect workers in physically demanding jobs with work-related health problems and lack of work capacity while increasing the early-retirement age a new senior disability scheme was introduced in 2014. It will be an important challenge to ensure that this does not lead to an unwarranted number of recipients, as has often been the case in other Nordic countries.

The overall pension system is generous for both current and future pensioners. It will deliver higher net replacement rates than in many OECD countries assuming that individuals have a full career, are covered by occupational pension systems and work long enough. Since individuals without an occupational pension might risk lower incomes upon retirement and since little is known about this group, it is important to closely monitor both how individuals move in and out of coverage and how pension entitlements of non-covered groups evolve.

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