Denmark

Denmark: Pension system in 2012

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 worker earnings (AW)	DKK	392 500	241 600
	USD	69 400	42 700
Public pension spending	% of GDP	6.1	7.8
Life expectancy	At birth	79.3	79.9
	At age 65	18.4	19.1
Population over age 65	% of working-age population	29.9	25.5

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Qualifying conditions

The normal pension age is currently 65 but will be increased gradually to age 67 in the period 2019-22. 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 5 713 per month or DKK 68 556 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 earned income exceeds DKK 291 200 (approximately 75% of average earnings). The benefit is reduced at a rate of 30% against earned income above this level.

Targeted

The full pension supplement is DKK 5 933 per month or DKK 71 196 per year for single persons and DKK 34 416 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 64 300, the targeted pension supplement is reduced by 30.9% of the excess income for single persons. The couples household income test is calculated for income above DKK 128 900 at a rate of 16%.

Connected with the public old-age pension, a supplementary pension benefit of DKK 11 200 is paid. 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 77 700).

The public old-age pension (the basic and pension supplement amounts plus the supplementary pension amount) 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% 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 was 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 3 240 in 2012. 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

Late retirement

It is possible to defer the public old-age pension for up to ten 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 one third of the contribution, with two-thirds being paid by the government/municipality. Maternity/paternity/parental benefits can be paid for up to 52 weeks in total. The four weeks prior to the birth and the first 14 weeks after the birth are reserved for the mother. The father is entitled to two 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.

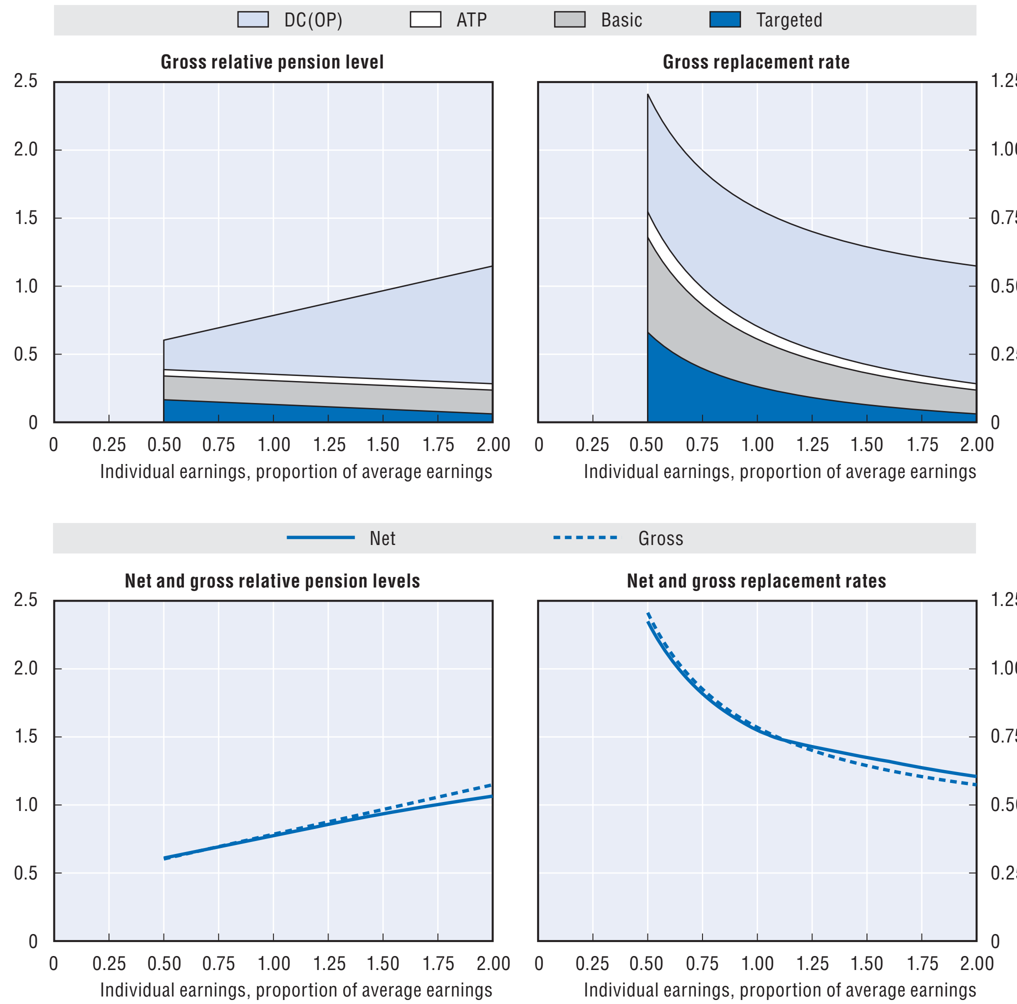
Unemployment

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 two-thirds 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 2014 and 2017) and until the normal pension age. To qualify, individuals must have been members of the unemployment insurance fund for at least 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 3 585 per week for full-time workers and DKK 2 390 for part-time workers (2012 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 3 940 per week in 2012). 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 147 516 in 2012.

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	74.5	60.3	69.4	78.5	96.7	114.8
(% average gross earnings)						
Net relative pension level	73.8	61.0	69.2	77.4	93.4	106.5
(% net average earnings)						
Gross replacement rate	83.7	120.7	92.5	78.5	64.4	57.4
(% individual gross earnings)						
Net replacement rate	82.4	117.5	90.9	77.4	67.4	60.5
(% individual net earnings)						
Gross pension wealth	13.9	20.5	15.5	13.0	10.4	9.2
(multiple of individual gross earnings)	*15.5*	*23.0*	*17.3*	*14.5*	*11.6*	*10.2*
Net pension wealth	9.5	14.4	10.7	8.8	7.0	5.9
(multiple of individual gross earnings)	*10.7*	*16.1*	*12.0*	*9.9*	*7.8*	*6.6*

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