

Pensions at a Glance 2023



Denmark

Denmark: Pension system in 2022

The public pension scheme consists of a basic pension and means-tested pension supplements. There is also a minor statutory, fully funded pension scheme based on lump-sum contributions (ATP). Compulsory and fully funded, defined contribution, occupational pension schemes negotiated as part of collective agreements cover about 90% of the employed work force.

Key indicators: Denmark

		Denmark	OECD
Average worker earnings (AW)	DKK	468 195	291 969
	USD	66 165	41 261
Public pension spending	% of GDP	8.1	7.7
Life expectancy	at birth	81.9	80.7
	at age 65	85.0	84.6
Population over age 65	% of working-age population	35.6	31.3

Qualifying conditions

The public pension scheme is universal and covers the entire Danish population. Entitlement to pension is acquired on the basis of residence in Denmark and is thus not conditional on payment of contributions. The statutory retirement age is currently 67 years and is linked to increases in life expectancy, on the principle that the period in the retirement should remain constant, implying that increases in longevity are transmitted into retirement age on 1-to-1 basis. The parliament has confirmed increases to 68 years from 2030 and to 69 from 2035. A full public old-age pension requires 40 years of residence until 1 July 2025. Thereafter, a full public old age pension requires residence in Denmark for 9/10th of the period from the age of 15 to the public retirement age. Shorter periods qualify for a pro-rated benefit. Occupational pensions are available 3 years below the statutory retirement age in public pensions.

Benefit calculation

Public pension

The public pension scheme consists of a basic amount and a pension supplement. A means-tested housing allowance for pensioners is also available. Pensioners whose financial situation is particularly difficult may also receive a supplementary pension benefit, a personal allowance, a health allowance and a heating supplement.

Basic

The basic amount is DKK 6 547 per month or DKK 78 564 per year, equivalent to around 21% of average earnings of the working age population. There is an individual earnings test which means that the basic pension will be reduced if income from work (net of the 8% labour market contribution) exceeds DKK 348

700 (approximately 80% of average earnings). The basic amount is reduced at a rate of 30% against earned income above this level. The reduction due to income from work is expected to be abolished in 2023.

Targeted

As of 2022, the full pension supplement is DKK 7 472 per month or DKK 89 664 per year for single pensioners and DKK 3 800 per month or DKK 45 600 per year for married or cohabiting pensioners. The actual amounts are tested against all sources of personal income (including ATP and occupational pensions) apart from public pensions. The pension supplement is reduced by 30.9% of personal income exceeding DKK 89 700 for single pensioners. For pensioners cohabiting with a spouse/partner, who also receives social pension, the pension supplement is reduced by 16% of their total personal income exceeding DKK 179 700. If the spouse/partner does not receive a public pension the pension supplement is reduced by 32% of the couple's total personal income exceeding DKK 179 700. As of the 1 January 2023, the earned income of a spouse/partner will no longer be taken into consideration when calculating the pension. That is, the earned income of a partner will not lead to reductions in one's own pension supplement.

Pensioners whose financial situation is particularly difficult may also receive a supplementary pension benefit of DKK 18 600. The supplementary pension benefit is paid once a year. The benefit is means-tested and targeted to the poorest pensioners without significant liquid assets (the liquid assets may not exceed DKK 93 000).

Both the basic amount, the pension supplement and the supplementary pension benefit are regarded as taxable income. The abovementioned amounts are thus all before taxes have been deducted.

The public old-age pension benefits are adjusted annually in line with average earnings increases in the private sector.

Income from work up to DKK 122 004 annually is not taken into consideration when calculating (income-testing) the pension supplement and the supplementary pension benefit.

ATP - statutory savings based supplementary pension

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 statutory pension age and a survivors' lump sum benefit for dependents in the case of the early death of an individual member. ATP covers almost 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 annuity, which claiming can be deferred by up to 10 years, subject to actuarial adjustment. 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 3 408 per year in 2022. 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 table below (for monthly paid workers). In order to compensate recipients of unemployment insurance benefits, sickness insurance benefits and maternity/paternity/parental benefits, for the loss of occupational pension contributions suffered during their absence from the labour market, extra contributions are paid into the ATP pension scheme:

Monthly hours	<39	39-77	78-116	>116
Contribution, DKK/month	0.00	94.65	189.35	284.00

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The contributions are nominally fixed and only adjusted if and when the social partners decide to do so as part of collective agreements.

Pension rights with ATP are accrued on a what-you-pay-is-what-you-get basis. In principle each generation finance their own rights and ATP is devoid of intergenerational transfers. Pension rights are guaranteed nominal life-long rights paid from the statutory age of retirement.

The ATP scheme increases pensions in payment and pension rights if the board finds it to be financially sound. This is done in the form of bonus allowances which are increased in line with earned rights.

The modelling assumes full annuitisation and indexation to price inflation.

Occupational pensions

The occupational pension schemes are fully funded defined-contribution schemes agreed between the social partners through collective agreements. Some 90% of the employed work force is covered by such schemes. The coverage ratio has increased from insignificance in the mid-1980s due to the formation of new schemes covering blue collar workers. All public sector workers are enrolled, whereas for private sector employees the coverage is slightly lower. Self-employed workers are not covered by such schemes but can choose to enrol in a similar scheme. Contribution rates are set by the collective agreement. Contribution rates range from around 10% to 18%. The modelling assumes a contribution rate of 12%. Those employment-related contributions sum to approximately 120 billion a year (2021), while private voluntary contributions add another 15 billion. The total sum of wealth in those pensions (excl. ATP) has been valued at over 4 000 billion kr., or approximately 1.6 times the national GDP.

Typically, occupational pension schemes will cover a variety of social risks and provide a range of benefits – disability, survivors' benefits, old-age benefits and critical illness benefits. While old-age benefits are fully funded, other benefits are financed from on the PAYGO basis.

Benefits are usually withdrawn as an annuity. Schemes may allow some choice for members to design their pay-out phase e.g. in order to front load the benefit payments. Some schemes offer the option of allocating some of the contribution into a lump sum savings policy.

There are no vesting or portability issues related to Danish occupational pensions.

Variant careers

Periods of unemployment, parental leave, periods with part-time employment and other elements of variant careers will affect the accrual of funded pensions and therefore the aggregate pension. However, the composition of the overall pension system partly moderates such effects as the public pension is means-tested and substantial for most workers. Therefore, changes in employment or employment status will only affect part of the overall pension.

Early retirement pension

Denmark has four main early retirement programmes: two health-based disability programmes, and two rights-based voluntary programmes targeted individuals with long work-lives.

Disability pension: A disability pension can be granted at any point between the age of 18 and the public retirement age (67 years in 2023) if the working ability of the citizen in question is either 1) substantially and permanently reduced; 2) working ability is reduced to an extent, where self-support from any kind of work is unobtainable; or 3) all other attempts to improve the working ability has been exhausted. Citizens between the age of 18 and 39 can however only be granted a disability pension if the third criteria have been documented. In comparison to the other pension schemes, the disability pension is characterized as a permanent social benefit before the age of retirement rather than a pension. In 2020, an option to retire

early on the basis of health issues was introduced: it allows individuals who have at least 20 to 25 years (depending on occupations) of full-time employment and are unable to work more than 15 hours a week in their most recent jobs to receive a pension up to six years before the normal retirement age. The pension is DKK 19 360 per month for single households and DKK 16 457 per month for persons married/cohabitating.

Furthermore, there is a voluntary early retirement programme linked with unemployment insurance, which pays benefits between ages 62 (gradually increasing to age 64 in 2023 and further to age 65 in 2028) and until the statutory 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 17 609 per month for full-time workers and DKK 11 740 for part-time workers in 2022. It is not possible to combine receipt of voluntary early-retirement benefits with the social pension.

People who defer their voluntary early-retirement benefits until three years before their normal pension age and continue to work, receive a higher rate of voluntary early-retirement benefit equivalent to the maximum rate of unemployment benefit (or DKK 19 351 per month for full-time workers and DKK 12 901 for part time workers in 2022). Three years of full-time work is converted to a one-off tax-free lump-sum paid up to a maximum of 72% of the yearly amount of maximum unemployment benefit.

In 2021, a new right to early retirement benefits was introduced. The right to the early retirement pension is based on objective criteria concerning time spent on the labour market. 44 (or more), 43 and 42 years on the labour market gives the right to three, two or one year(s) with the early retirement pension, respectively.

The programme took effect in January 2022. Time on the labour market can be earned from the age of 16 until turning 61 (6 years before the statutory pension age). Included are periods as an employee, as self-employed (with profit), with unemployment benefit, with sickness benefit and maternity leave etc. The pension is DKK 14 008 per month, and is subject to earnings- and pension asset-testing.

Late retirement

Those who have reached the statutory retirement age (67 in 2022) and who are entitled to public old age pension may choose to defer the pension and participate actively on the labour market in return for a higher pension at a later stage. It is a condition that the person who has deferred his public pension has income from personal work for at least 750 hours each calendar year. The pension can be deferred two times and for up to 10 years in total.

People who continue working the first two years after they have reached the statutory retirement age may also be entitled to a tax-free lump-sum payment. If you work a total of 1 560 hours the first year after reaching the statutory retirement age, you are entitled to DKK 44 221. If you work a total of 1 560 hours the second year after reaching the statutory retirement age, you are entitled to DKK 26 322. It is possible to receive public pension while earning the right to the lump-sum payment.

Childcare

For periods on maternity/paternity/parental benefits, double the contributions is paid for ATP. The beneficiary will pay one-third of the contribution, with two-thirds being paid by the government/municipality. The government expense is covered by contributions paid by private employers. Maternity/paternity/parental benefits can be paid for up to 52 weeks in total.

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The right to benefits during leave was reformed in August 2022. The total number of weeks with benefits are 52. Expecting mothers have a right to benefits four weeks prior to the birth of the child. After the birth of the child, each parent has an individual right to 24 weeks of benefits. From 1 January 2023, parents having triplets, quadruplets etc. are entitled to an extra 26 weeks of benefits, which they can share.

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 common for young parents to resume work when the leave period ends unless the child is, for example, ill or disabled in which cases there will normally 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. The government or private employers and unemployment insurance funds pays two-thirds of the ATP contribution.

When unemployment insurance is exhausted, and the individual is on unemployment/social assistance, the ATP contribution decreases to the normal rate. The government pays two-thirds of the ATP contribution. There are no credits or contributions for occupational pension schemes for periods of unemployment.

Self-employed

None of the earnings-related schemes for employees, including ATP, is mandatory for the self-employed, thus, unless saving voluntarily, they would receive only the basic pension and targeted benefits. Around 60% of the self-employed contribute on average 7% of their income to voluntarily private pension schemes.

Personal income taxes and social security contributions

Tax treatment of pension contributions and pension savings

Private pension, including occupational, contributions to resulting in annuities are deductible. From 2018, an additional tax deduction for such pension savings – the Pension Contribution Tax Credit – has been imposed on contributions until a ceiling of DKK 75 600 (2022).

Pension contributions to lump sum pension schemes such as particular variants of the old-age-savings scheme (aldersopsparing) are not deductible. Contributions of DDK 5 500 (2022) are not subject to additional fees. The last 7 years this amount is raised amount is raised to DDK 54 200. Payments of non-deductible lump sum pension schemes are tax exempt.

Taxation of pensioners

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

Taxation of pension income

Periodic pension payments from lifelong pensions and annuity pensions are subject to personal income tax. There are no special reliefs for pension income. If the value of an occupational lifelong pension scheme at the time of withdrawal is relatively low, total savings are paid out as a lump sum amount, which is not

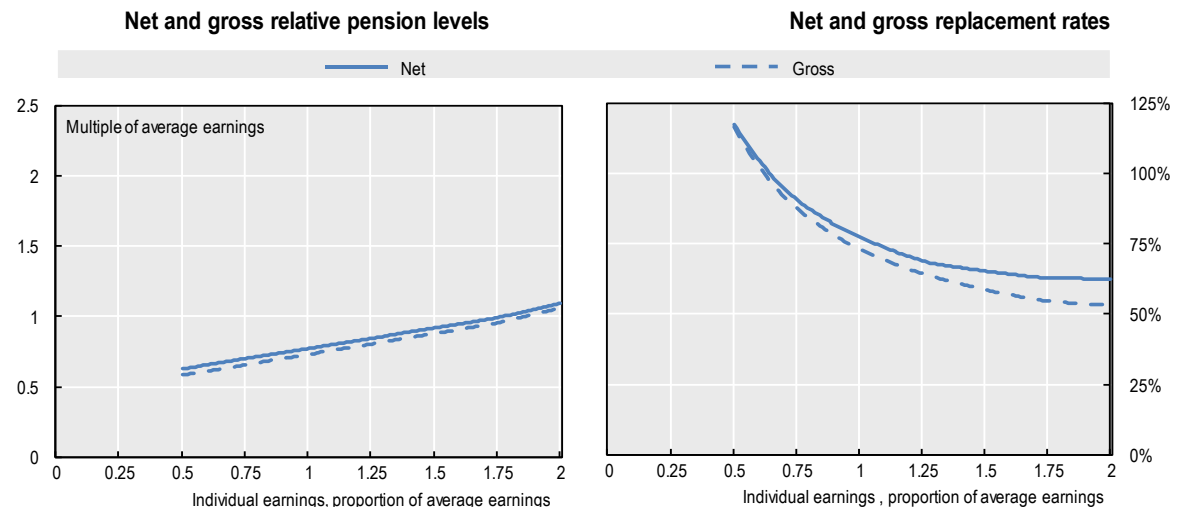
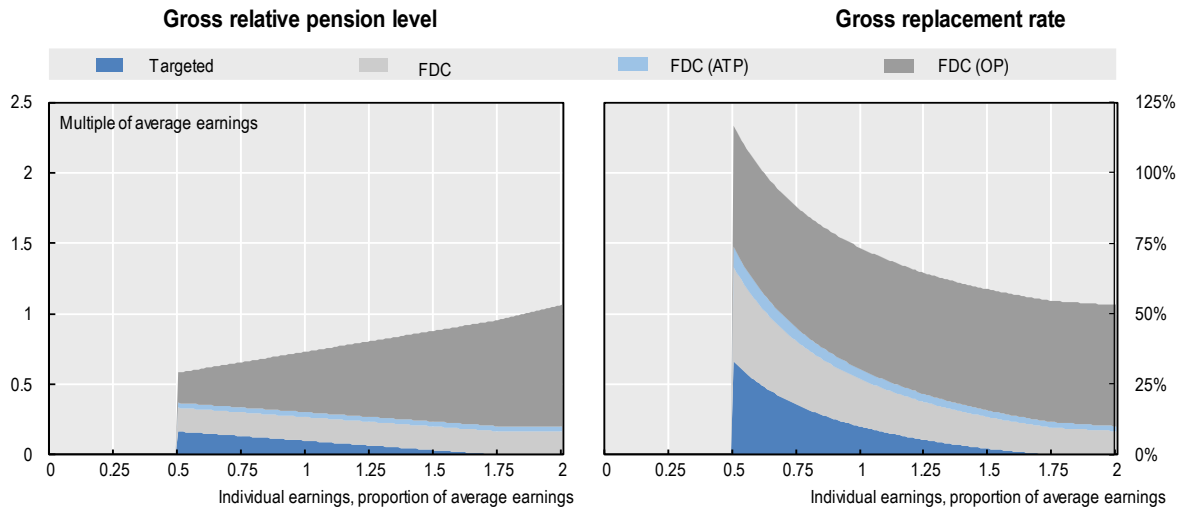
included in taxable income (and does not affect means testing). Instead, it is subject to a separate 40 % flat tax.

All returns from the pension savings are taxed separately from the personal income tax system, currently at a rate of 15.3%.

Social security contributions paid by pensioners

No social security contributions are paid in Denmark, as the social security is funded by the normal tax payments. Therefore, pensioners do not pay social security contributions.

Pension modelling results: Denmark in 2074 retirement at age 74



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	58.3	65.7	73.1	88.0	106.2	149.1
Net relative pension level (% net average earnings)	62.8	70.1	77.3	91.8	109.6	146.7
Gross replacement rate (% individual gross earnings)	116.6	87.6	73.1	58.6	53.1	49.7
Net replacement rate (% individual net earnings)	117.5	90.7	77.3	65.3	62.5	60.0
Gross pension wealth (multiple of individual gross earnings)	18.0	13.3	11.0	8.7	7.8	7.3
Net pension wealth (multiple of individual net earnings)	18.1	13.8	11.7	9.7	9.2	8.8

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.