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**Beskæftigelsesministerens besvarelse af spørgsmål nr. 2 af 30. november 2006 fra Folketingets Europaudvalg**

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Vedlagt er henvendelse fra de danske arbejdsmarkedsparter til Kommissionen vedr. direktivforslag om overførsel af supplerende pensionsrettigheder til besvarelse af Folketingets Europaudvalgs spørgsmål nr. 2 af 30. november 2006. Udenrigsministeriet anmodes om at videresende vedlagte til til Europaudvalget.

Besvarelsen oversendes alene elektronisk til Udenrigsministeriet.

Med venlig hilsen

Claus Hjort Frederiksen

**The Danish Confederation of Professional Associations, Salaried Employees' and Civil Servants Confederation, The Danish Confederation of Trade Unions, The Confederation of Danish Employers, Local Government in Denmark, Confederation of Danish Employers' Associations in Agriculture, Danish Regions**

## **The Social Partners joint view on the proposal for a directive on improving the portability of supplementary pension rights.**

### **Introduction**

The social partners in Denmark endorse the main intention of the proposal which is facilitating cross-border portability of supplementary pensions in the European Union.

Labour mobility is an important element of the Danish Flexicurity-system and workers' free movement is a key element of the EU internal market. The Danish Social Partners find that lowering obstacles to labour mobility in the area of supplementary pensions is part of an important feature of fostering workers' free movement within the EU.

While agreeing on the overall purpose of the proposal the Social Partners in Denmark view the EU Commissions proposal for a directive on improving the portability of supplementary pension rights with serious concern.

The Danish Social Partners recommend the articles on transferability in the draft directive to be changed to avoid undermining of the collective features of the Danish supplementary pensions schemes. If this is not done the Danish social partners prefer that the directive focus on securing acquired rights.

In the view of the social partners the current draft proposal will fundamentally change the Danish Labour Market Pensions System – a system that has been built up over the last 100 years by the social partners. The Danish Pension System received the following comments in the latest review carried out by the European Commission:

“The strategy for ensuring adequacy and financial sustainability of pension provision seems appropriate. The reforms needed to achieve the adequacy and solidarity objectives have been put in place over the last decade with support from a broad majority in Parliament. A budget policy leading to quick debt reduction has already been sustained for some years and all major parties support the continuation of this policy until 2010, when the public debt will have been largely eliminated. A further rise in employment will be difficult to achieve in view of the limited labour force reserves, but it is not implausible given Denmark's proven track record in employment. In particular, the incentives for older workers to defer their retirement could be further strengthened.

In sum the pension system seems to be financially sustainable in the long term under present policies with a fairly equitable sharing of the burden between generations. Building up occupational pensions will increase replacement rates in the future and thereby alleviate potential pressure for increases in public pension rates. Yet, the sustainability calculations hinge critically on maintaining large surpluses in public finances during this decade. Further labour market reforms would seem to be needed to ensure the assumed increase in the labour supply, which in turn is needed for ensuring the debt reduction strategy necessary for financial sustainability.”

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This note explains the concern of the social partners in Denmark and it has been handed over to the Commission at the meeting between the Social Partners in Denmark and representatives from the Commission in Copenhagen 25 April 2006.

**This note explains the joint view of the above mentioned social partners in Denmark. Each organisation has in addition to the views expressed in this note separate views on the proposal for a directive.**

### **The Supplementary pensions System in Denmark**

In 2002 and 2005 the EU Commission received country reports on adequate and sustainable pensions. The descriptions on Denmark are annexed this note.

In the country summaries the Danish supplementary pensions system has been described by the following:

“The second pillar consists mainly of occupational schemes based on collective agreements at the sectorial level which are fully funded defined-contribution schemes. These schemes have been expanded significantly since the 1980s and now cover more than 80% of the employed workforce. While based on individual accounts, these trade-union initiated schemes have important solidarity elements, in particular invalidity insurance and the absence of health criteria for qualification purposes. In addition, they do not present barriers to labour mobility, thanks to immediate vesting and transferability between schemes. The normally regressive distribution effects and public budget costs of tax incentives for supplementary pension provision are moderated by the fact that tax exemption only applies to income tax at a standard rate and that returns on investments are taxed. In 2002, the statutory Special Pension Savings scheme was redefined as a savings scheme without any redistribution objective and based on individual accounts. “

The Social Partners largely agree on the description of the Danish system.

However the description should be supplemented by stressing, that the Danish Supplementary Pensions System secures supplementary pensions for up to 96 pct. of the workforce according to the latest publication from the Ministry for Economics and Business Affairs<sup>1</sup>. The high coverage is primarily due to the fact that the supplementary pensions in Denmark are established as a part of the collective agreements negotiated by the social partners. More than 85 pct. of the workforce in the private sector and more than 99 pct. of the workforce in the public sector are covered by collective agreements.

The supplementary pension scheme is hereby an obligatory element of the employment contract. It is an important characteristic that the mandatory feature also covers the choice of pension fund. The individual worker can not decide to join another pension fund than the one in the collective agreement.

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<sup>1</sup> Ministry for Economics and Business Affairs, Økonomisk Tema nr. 2, November 2005, Pensionsopsparringen i Danmark, p 20,

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Employees who are not covered by supplementary pensions are in general employees with a limited connection to the labour market. They have a yearly income which is low and they will in general receive a (fairly) high compensation from the public pensions (based on legislation), when they retire.

The obligatory characters of the supplementary pensions make it possible for an individual worker to be covered by a supplementary pension on ordinary terms without being subject to prior health examination. In this way the Danish System cover workers who due to their health-situation could not be covered on ordinary terms.

It is an important feature of the Danish obligatory supplementary pension schemes that they preserve the element of life long revenue based on a collective solidarity approach. However some elements of sum payments have been allowed.

Another element of the Danish supplementary pensions is that the obligatory pension schemes all are based on the UNI-SEX-principle. In consequence savings are redistributed from men to women. It is therefore important that a coming directive does not undermine the obligatory characters of the supplementary pensions in Denmark.

All the pension funds secure dormant pension rights for the individual who stop contributing for one reason or another. For all the systems that are built on collective pension funds each individual has a sense of responsibility by adopting the bargaining result each time the collective agreement is negotiated.

**Brief history on the establishment of Labour Market Pensions in Denmark**

The labour market pensions system where contributions are paid by both employers and employees goes back to the beginning of the 20 century.

<b>Year of establishment</b>	<b>Name of the pensions fund</b>
1900	Pension fund for workshop white collar workers in steel industry.
1912	Pension fund for bank wage-earning and salaried employees.
1917	PFA pension fund for white collar workers in private industry.
1919	Pay as you go pension system for state civil servants. Establish by law.
1928	Pension fund for visiting nurses.
1940	Pension fund for veterinaries.
1946	Pension fund for doctors.
1947	Pension fund for chemist's assistants.

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1953	Pension fund for graduate engineers.
1954	Pension fund for architects.
1955	Pension fund for physiotherapist.
1958	Pension fund for Danish B. Sc. in engineering. Pension fund for nurses and other hospital staffs. Pay as you go pension system for local government civil servants. Establish one-sidedness by the municipalities as employers.
1960	Pension fund for masters of Arts, masters of Science.
1961	Pension fund for lawyers, solicitors.
1961	Pension fund for economists.
1965	Pension fund for laboratory technicians.
1966	Pension fund for certified nurse-midwife.
1968	Pension fund for white collar workers in Danish Regions.
1970	Pension fund for graduates in agriculture.
1972	Pension fund for legal professions and university economists.
1976	Pension fund for drivers in Capital traffic.
1977	Pension fund for social workers.
1978	Pension fund for kindergarten and pre-school teachers.
1979	Pension fund for bank sektor.
1980	Pension fund for chemist's assistants.
1989-	Life Insurance funds for skilled and unskilled workers covering more than 9/10 of the labour market. <sup>2</sup>

However it was in 1989 in the public sector and in 1991 in the private sector that the second pillar supplementary pensions was agreed upon covering the largest groups of workers on the labour market (skilled and unskilled workers).

The local and regional employer's organisations together with the trade unions agreed in 1989 on establishing a funded pensions system for all their employees. In 1991 the private employers together with their trade union counterparts reached agreement on the establishment of a funded pensions system for all their employees (skilled and un-skilled workers).

Since then the Social Partners has continually been adding resources to the different funds every time the collective agreements has been renegotiated. That has normally been every second, third or fourth year.

<sup>2</sup> The Ministry of Social Affairs, National Strategy report on pension system 2002 p.2

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Today many pension funds have merged, new have developed and others are working under new names. A new list of all the pension funds can be drawn up like the one above. But it has been suppressed to ease the reading of the note.

**Labour market pensions as part of Danish economy**

The main purpose from the public and private employers when covering all their area with pension funds was to secure individual workers a lifelong base income after he/she had stopped working. The other main purpose was to reduce and limit the public expenditure on social service.

Both private and public employers normally have regarded the revenues paid into pension schemes as a proper use of the funds available. A very important aspect in this connection is that the employees make priority of contributions to the pension schemes in the collective bargaining rounds.

Since the main pension obligations to the workforce in Denmark do not stem from a pay-as-you-go-system but is based on funded schemes - it has increased and facilitated the capital supply in Denmark benefiting the entire economy.

**Moving between the different pension funds when changing jobs**

The legislation covering obligatory supplementary pension schemes in Denmark stipulate a possibility to change pension scheme in connection with a change of employment relationship. This obligation has led to an agreement on transfer of acquired pension rights in the case of job change covering all the obligatory pension funds. The agreement has the nick name "Change Job Agreement". The agreement gives the necessary flexibility to the labour market and secures that the worker can transfer his acquired pension rights to the scheme covered by his new job without been penalised or having his rights reduced.

It is a fundamental principal that the individual worker is not obliged to move his acquired pension rights to the scheme mandatory to his new job – but he can do so if he would like to.

And old agreement between state and local government secure the same possibility for civil servants in state and local government irrespective of whether the move from state to local government or visa versa.

**Main problems with the directive on supplementary pensions**

**1. Speculations against main purpose of the pensions fund**

The main purpose for the trade unions and the employer organisations when covering the labour market with pension funds is to ensure that every individually worker is secured a life long supplementary income when retired.

If the Directive imposes an individual right for an outgoing worker to move acquired savings to pension schemes in countries with much more weight on lump sum payments, the Directive will threat the extensive coverage of supplementary pensions in Denmark.

The Directive will in this way open for speculations against the pension funds and all the problems concerning adverse selection would come true.

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It will be open to men or women who would try to avoid funds established on the UNISEX-principle. Some people would tend to leave funds which guarantee lifetime payments for funds that pay out the savings over a shorter period. In the latter case the period between the payments stop and death will have to be covered by the publicly funded pensions (first pillar) with detrimental effect on public finances.

It will also result in the exclusion of a large proportion of workers from being covered on ordinary terms because of their health situation. Today - by virtue of the obligatory character of the pension schemes - they are covered on ordinary terms.

**2. The right to move to a pension fund free of choice**

It will not be possible to keep the obligatory system of supplementary pension in Denmark if the directive allows the individual worker to move to a pension scheme free of choice.

Today almost all employees are covered by supplementary pension schemes which are fixed in the collective agreement covering their employment relationship or in their employment contract.

In Denmark it is mandatory that a right to move to a new pension scheme is limited to the pension scheme fixed by the new employment relationship.

**3. The directive makes the European court of justice competent in the area of supplementary pensions**

Disputes concerning some of the issues dealt with in the directive are now solved in the ordinary system for handling legal disputes on the labour market in Denmark. When the directive comes into force the disputes can be taken to the European Court of Justice. In this way the directive opens up for court cases and interpretations not foreseen when adopting the directive.

In the Danish Labour Market Legal System the Social Partners exercise influence through arbitrating judges from the two sides of industry. This system has for more than 100 years proved functionally in daily life.

**4. The directive creates uncertainty about the Danish pension system**

The directive gives rise to serious concern on both sides of industry concerning the stability of the pension system in the long run. Given the long-perspective nature of pension savings and the extraordinary need for stability in this area the Social Partners would be very reluctant to make further priorities in the area of supplementary pension if they do not have the proper assurance for the revenues paid into the pensions system.

Building pension rights takes a very long time and requires a lot of faith of the future terms when the pension should be paid to the beneficiary.

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**5. The proposal creates disproportional problems compared to the effects of the Directive.**

Given the remarks on points 1-4 the social partners in Denmark find that the proposal for a directive creates disproportional problems for the Danish pension system compared to the minor effects the proposal might have on the mobility of the workforce.

**What do the Danish Social Partners want from the European Commissions directive?**

- A. **First demand:** For pension funds based on collective agreements the social partners can demand that a transfer of acquired savings can be limited to pension funds with similar character. In this connection an obligation could be placed on the minimum of the savings used on lifelong disbursement and/or the safety for the future administrations.
- B. **Second demand:** When a worker changes job he/she can only transfer the acquired savings to the pension scheme fixed by the new employment contract and not to a pension scheme of individual choice.
- C. **Third demand:** The social partners in Denmark find that securing acquired rights compared to establishing rights for transfers is a better way to reduce obstacles to labour mobility in the field of supplementary pension.
- D. **Fourth demand:** The total directive should have the possibility to be implemented through collective agreement as for instance it was formulated in the working time directive.
- E. **Fifth demand:** The receiving pension scheme in connection with a job change should not be allowed to demand the fulfilment of extraordinary terms as a condition for obtaining rights according to the pension scheme. New members should have the same rights and obligations as old members. If a medical examination has been accepted by the former pension fund the new fund must accept the member on these terms.
- F. **Sixth demand:** The pension fund should only be obliged to give information to its members.

## **The Danish labour market System**

### **1. European Commissions report 2002 on Denmark**

In 2002 the EU Commission made a joint report on adequate and sustainable pensions. In the country summaries the description of the Danish pensions system was the following:

“The first pillar of the Danish pension system consists of the universal, residence-based and non-contributory, statutory old age pension scheme that is financed from general taxation and consists of a flat-rate benefit and an income tested element. It is designed to secure a decent minimum standard of living for all citizens from the age of 65. A full public old-age pension is conditional on 40 years’ residence in Denmark. The benefit is indexed to private sector wages and is taxable. It consists of two parts, a basic amount that goes out to everybody and a supplement, which is income tested. The post-tax, net value of the two benefit elements corresponds to 47% of the average take-home pay of a worker. At present the basic pension is paid to 99% of residents above retirement age. Of these 99% receive the full basic amount and 64% the full supplement. For single pensioners the basic pension constitutes 61% of their income.

A second tier of the first pillar consists of the statutory, working time-related, fully funded ATP scheme (which is available for all economically active persons, but only offer benefits at a moderate level equivalent to 20% of the 1<sup>st</sup> pillar pension) and the statutory labour market supplementary pension scheme for recipients of anticipatory pensions (SAP). The ATP scheme provides for a substantial amount of redistribution notably in favour of the unemployed and disabled. In addition, civil servants’ pension schemes, which are statutory and paid for by taxes, are included in the first pillar.

The second pillar consists mainly of occupational schemes based on collective agreements at the sectoral level which are fully funded defined-contribution schemes. These schemes have been expanded significantly since the 1980s and now cover more than 80% of the employed workforce. While based on individual accounts, these trade-union initiated schemes have important solidarity elements, in particular invalidity insurance and the absence of health criteria for qualification purposes. In addition, they do not present barriers to labour mobility, thanks to immediate vesting and transferability between schemes. The normally regressive distribution effects and public budget costs of tax incentives for supplementary pension provision are moderated by the fact that tax exemption only applies to income tax at a standard rate and that returns on investments are taxed. In 2002, the statutory Special Pension Savings scheme was redefined as a savings scheme without any redistribution objective and based on individual accounts.

The third pillar consists of individual pension savings schemes, many of which result in lump sum benefits instead of annuity payments.

Access to a number of needs- and income tested cash supplements (e.g. housing, heating and medicine allowances), to free health and long-term care and to recreational activities contribute to guaranteeing a decent minimum standard for all.

#### **Challenges**

While the Danish system currently appears to provide a solid and decent income level to all long-term residents, there appear to be weaknesses as far as the relative living standard of the elderly is concerned, although national data present a different picture from ECHP data. In view of the fact that a significant proportion of wage earners were only covered recently

109 by occupational schemes, it can be expected that many people retiring over the next 15-20 years will have had insufficient access to schemes that allow income levels to be maintained after retirement. Over the long run the situation can be expected to improve thanks to the gradual accrual of occupational pension entitlements based on collective agreements.

However, access to income maintenance through occupational schemes for people in non-standard jobs could be improved. The increasing importance of occupational pension schemes which reflect earnings could result in a somewhat greater gap between the pension incomes of men and women.

Expenditure on public old-age pensions stands at 4.4% of GDP and is estimated to increase by 3.4% of GDP by around 2035. However, including all public pension schemes (such as disability pensions, civil servants pensions and statutory supplementary pension schemes), the total expenditure amounted to 10% of GDP in 2000 and is estimated to rise to 14.5 % by 2030 and to decrease to 13.3% by 2050 (Economic Policy Committee projections). The strategy for financial sustainability hinges upon maintaining a surplus on public finances averaging 1½-2½% of GDP up to 2010 and an increase in the labour force of 133,000 persons by 2010 also. Both of these goals are ambitious and are at the same time crucial for the strategy to succeed, given the relatively short period of time for reacting if underlying assumptions on economic developments should not hold.

Since Denmark already has one of the highest employment rates in the EU, labour reserves are small. The pension reforms undertaken during the 1990s are expected to increase the labour force participation of older workers during this decade, but only by about the amount that is needed to offset the impact of the ageing workforce. In addition, employment is to be raised through substantially improved employment rates among immigrants and an improved integration into employment of the disabled as well as by increasing the effectiveness of labour market policies.

#### Meeting the challenges

The Danish national strategy report expresses satisfaction with the reforms implemented over recent years and stresses that no major adjustments to the system are planned at present. The system is based on a broad consensus between the major parties about the overall structure and the relative role of its various elements. In addition, a large majority in parliament agreed in 2000 on the principle that the public old-age pension should form a sound income basis for present and future pensioners.

The expansion of occupational pension schemes is expected to raise replacement rates significantly and hence to reduce the current income maintenance gap. Yet the first pillar will continue to play a lead role in provisions. By 2045, income from the basic pillar will still account for about 50% of the average income of pensioners. A potential drawback of defined-contribution occupational schemes in terms of gender equality, i.e. lower pensions for women reflecting their longer life expectancy, is avoided by calculating pension benefits on a unisex basis.

A major focus of the reforms during the 1990s was employment promotion through better work incentives and working conditions for older workers. The pre-early retirement scheme, which was a transitional allowance for people aged 50-59 years who had become

unemployed and had contributed to the unemployment benefit scheme for at least 30 years, was closed for new entrants in 1996 and will be fully phased out by 2006. The voluntary early retirement scheme was made less attractive for individuals in 2001 through the obligation to contribute to the scheme if a person opts to retire early. In addition, a special tax exemption for contributions was introduced for people who postpone the take-up of a voluntary early pension. Yet, the implicit tax on working beyond the ages 60, 62 and 65 is in many instances still substantial. Regarding the disability pension scheme, rehabilitation measures have been reinforced and the focus has been switched to encouraging people to continue at work by mobilising the remaining capacity to work from those wishing to benefit from the scheme. Measures taken have already resulted in a lower number of new disability pension claimants.

An increased labour force and a further reduction in unemployment are also seen as crucial for enabling the government to face increasing expenditure while implementing its debt repayment strategy. The government aims to maintain on average a general budget surplus of 1½ to 2½% of GDP up to 2010.

The complex structure of the Danish system (means-tested elements, ATP, fined contribution schemes) can make it difficult to have a clear idea of a person's income situation after retirement. This issue is addressed by an obligation on pension schemes to disclose their administrative costs and performance records. In addition, the ATP scheme, in co-operation with almost all other pension providers, runs an internet site where individuals can have their prospective net income from various pension schemes calculated.

#### Conclusion

The strategy for ensuring adequacy and financial sustainability of pension provision seems appropriate. The reforms needed to achieve the adequacy and solidarity objectives have been put in place over the last decade with support from a broad majority in Parliament. A budget policy leading to quick debt reduction has already been sustained for some years and all major parties support the continuation of this policy until 2010, when the public debt will have been largely eliminated. A further rise in employment will be difficult to achieve in view of the limited labour force reserves, but it is not implausible given Denmark's proven track record in employment. In particular, the incentives for older workers to defer their retirement could be further strengthened.

In sum the pension system seems to be financially sustainable in the long term under present policies with a fairly equitable sharing of the burden between generations. Building up occupational pensions will increase replacement rates in the future and thereby alleviate potential pressure for increases in public pension rates. Yet, the sustainability calculations hinge critically on maintaining large surpluses in public finances during this decade. Further labour market reforms would seem to be needed to ensure the assumed increase in the labour supply, which in turn is needed for ensuring the debt reduction strategy necessary for financial sustainability."

## 2. **European Commissions rapport 2005 on pensions system in Denmark**

In 2005 the EU Commission made a new report on adequate and sustainable pensions. In the country summaries the description of the Danish pensions system was the following:

“The public old age pension is a universal, residence-based and non-contributory statutory old age pension scheme financed from general taxation. A full public old-age pension is conditional on 40 years’ residence in Denmark after the age of 15. It consists of a basic amount and an income tested pension supplement. The pension depends on the pensioner's present income and marital status, but assets have no effect on the amount. The benefits are adjusted once a year based on the wage development in the private sector, and are taxable. Since 2003, in addition a supplementary pension benefit of a flat rate amount is paid once a year to the most disadvantaged pensioners (means-tested). For the 70% of older people with the lowest incomes, social pension accounts for 50% or more of the gross income for both single pensioners and couples. The statutory retirement age for both men and women is 65 years, being lowered from 67 years in July 2004.

Reforms were undertaken during the 1990s, aiming in particular at increasing labour force participation of older workers so as to offset the impact of an ageing workforce. In addition, people who postpone the take-up of a voluntary early retirement benefit beyond the age 62 are paid a tax-free bonus at the age of 65 (that increases with time worked beyond the age 62). Rules on deferred pension were introduced with effect from 1 July 2004. Persons who have reached public old-age pension age and who participate actively in the labour market (at least 1,500 hours annually) may choose to defer their public old-age pension against having later their current public old-age pension increased by a supplement for deferred pension.

Denmark has the supplementary mandatory funded **ATP** scheme, which can be considered as part of the first pillar due to the fact that it is mandatory. But it has also the characteristics of an occupational pension scheme as it is employment-related and organised in private funds, thus not burdening public finances. On average ATP offers about 10% of public old-age pensions to current pensioners. In collective agreements of 2004 covering the private labour market, the social partners agreed in raising contribution rate to ATP by 9% in 2006.

The Special Savings Scheme (**SP**) was launched in 1999. All employees and self-employed contribute 1% of their income in order to receive benefits, that are paid out over a 10-year period after the retirement age is reached. A decision was however made to suspend payments to the SP plan for the years of 2004 until 2007. Almost all citizens of working age are in ATP and SP and even several groups of persons temporarily or permanently outside the labour market pay contributions to the schemes. Thus, these schemes ensure almost all future pensioners supplementary pension besides public old-age pension.

Statutory pensions are supplemented by occupational pension schemes, such as **Labour market pensions**, labour market supplement pensions (SAP) and individual pension saving. Especially labour market pension schemes expanded during the last 25 years from 30% to some 90% coverage of employees. The bulk of labour market pensions are defined contribution, i.e. the amount of the pension depends on the contributions paid. In 2004, contributions to the agreement-based labour market pension schemes were typically 7-10 per cent of the wage in the private labour market and 12-16 per cent of the wage in the public labour market. In connection with the collective bargaining in 2005, a number of increases of these contributions were agreed. The employer contributes two-thirds, while the individual person contributes one-third.

Access to a number of needs and income tested cash supplements (e.g. housing, heating and medicine allowances), as well as to free health and long-term care and to recreational activities contribute to guaranteeing a decent minimum standard for all.

#### Current situation

**Adequacy.** The relative income of all people aged 65+ relative to the complementary age group 0-64 stands at 70%, which is lower than in most of the other member states.<sup>1</sup> In spite of the projected significant rise of funded schemes, the first pillar will continue to play an important but decreasing role in pension provision.

The statutory pension schemes maintain the risk of poverty of the elderly people on a moderate level (21% at the 60% threshold) higher than that of the 0-64 years (10%).<sup>2</sup> The gender gap between men and women is one of the lowest in Europe. This is linked to the high labour market participation of women and also to prevalence of supplementary labour market pension of women as high as the one of men. In addition, pension rights in ATP and labour market pensions (since 1998) are calculated on the basis of a unisex principle. The unisex principle implies that a person's gender must not be taken into account when pension is calculated in regard to the remaining projected life expectancy.

Theoretical pension replacement rates of today are relatively low compared to almost all other member States. The current total gross replacement rate is 49%, resulting in net replacement rate of 71%. Since most Danish funded schemes are not yet fully mature (a majority of new pensioners have not yet contributed during a full working life) the level of measured income of pensioners relative to the working age population will improve gradually, in particular for people on low and average incomes. The counterpart is however that the build-up of the mandatory savings-based schemes to some degree will supersede other savings. The replacement rate ensured by the pension system must be seen in relation to the supplementary benefits targeted at pensioners and the public financed health and elderly care.

The Danish Government wishes to put self-employed persons on an equal footing with employees when it comes to the possibility for saving up for retirement. Self-employed persons can now achieve full deductions for pension contributions of up to 30 per cent of the profit for the year and can thus decide on an ongoing basis how much they wish to contribute.

**Financial sustainability:** Public debt has been reduced since 1998 and is below the average in EU, being 45.9% of GDP in 2003 and the State budget was in small surplus in 2002 (0.7% of GDP) and 2003 (0.3% of GDP). Government has set the operational fiscal target of upholding a structural budget surplus of 0.5 - 1.5 per cent of GDP (1.5-2.5 per cent of GDP including ATP) on average through 2010. The reduction of debt improves fiscal sustainability. To support the long-term sustainability of public finances and the pension

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<sup>1</sup> Accumulated wealth, which is higher for older people, should also be considered when comparing living standards across generations. Due to data limitations unfortunately this is not possible for all countries.

<sup>2</sup> This figure does not include as income negative capital income and imputed rent from private housing, which gives an incomplete picture of income situation, in particular for older people. When taking into account this more comprehensive definition of income, the risk of poverty in Denmark for elderly people is fairly the same as in the rest of the population (8.7% for people aged more than 65 and 10.6% for people aged more than 75, compared to 9.8% for 0-64 aged people).

system tight expenditure control and a permanent rise in employment generated from new structural policy initiatives are pursued. In relation to this, the Government has launched the integration plan that a majority of the political parties have agreed on in June 2005.

The total employment rate (75.7%) and the total female employment rate (71.6%) are currently the highest in the EU (2004), while the one of older workers (60.3%) is the second highest and far exceed the Lisbon targets. As from 1 July 2004, the age at which a person becomes eligible for public old-age pension is 65 years (before it was 67). The formal pensionable age was lowered as part of a reform of the voluntary early-retirement scheme in 1999. The lowering of the formal pensionable age is not assessed to have any significant effect on the average retirement age.

Modernisation: Reduced transfer fees for individual pensions in the 3. Pillar contracted in pension companies have improved the possibilities for transfer, and this is expected to result in intensified competition between companies and thus greater efficiency. Nevertheless, the bonus potential is not transferable between pension providers and this makes the consequences of a transfer less transparent. Frequent job/industry changes, leave, etc. could have unfavourable impact on labour market schemes, as a new employee is often subject to a waiting period before he/she becomes a member of the pension scheme.

The complex structure of the Danish system (means-tested elements, ATP, defined-contribution schemes) can make it difficult to have a clear idea of a person's income situation after retirement. This issue is addressed by an obligation on pension schemes to disclose their administrative costs and performance records. In addition, a common database, *PensionsInfo*, has been established in cooperation between pension funds, life-insurance companies, banks and public authorities. *PensionsInfo* gives the individual pension saver access to information from almost all pension suppliers, thus enabling him/her to get a total overview of his/her pension savings.

#### Outlook, reform measures and policy debates

Denmark is projected to face similar demographic trends to most EU15 Member States in until 2030 and then experience more favourable trends. According to the latest projections of Eurostat, ageing would be slower than the average EU. Indeed, the elderly dependency ratio will increase from the present 23% (2004) to 38% in 2030 and 42% in 2050, staying significantly below the EU25 average of 52% in 2050.

Since persons are now entitled to higher pensions compared to previous rules, supplements for deferred public old-age pension for people who wish to work beyond the retirement age of now 65 will not necessarily improve fiscal sustainability. Nevertheless the aim is to increase the average retirement age by six months to the age of 61.5.

The expansion of occupational pension schemes (SP and labour market schemes) is expected to raise replacement rates significantly and hence to reduce the current gap. Theoretical total gross replacement rate for a worker retiring at 65 after 40 years at the average wage is expected to increase from 49% in 2005 to 64% 2050 because of an expected increase of the gross replacement rate in the second pillar from today 4% to 25% in 2050 and despite a slight decrease of the gross replacement rate for the first pillar (including ATP) from 45% today to 39% in 2050. Because of taxation of the pensions, the increase in total net replacement rate is significant lower, starting from 71% in 2005 to 76% in 2050.

Denmark's national strategy report highlights that the budgetary pressure from ageing is not only related to public old-age pension, but also to health and elderly care expenditures, and that the sustainability of the public pension system cannot be assessed independently of other public expenditures and the overall assessment of the long-term sustainability of public finances because public pensions are financed by general tax revenues. Latest available national budgetary projections included in 2004 in the context of the assessment of the long-term sustainability of public finances indicate that public pension spending will grow by 2.3 p.p. of GDP between 2004 and 2050, while total age-related expenditure by 6.0 p.p. between 2004 and 2050. [*Paragraph to be updated with latest AWG projections*]

ATP and SAP savings-based schemes, pension rights are earned on the basis of a unisex principle. SP is a purely saving-based scheme without re-distribution. The unisex principle, which implies that a person's gender must not be taken into account when pension is calculated, became statutory for labour market pensions in 1998. The principle will only take full effect for pensions paid out from 2040. As regards maternity leave without wage, the social partners in the central, local and regional government area agreed in connection with the collective bargaining in 2005 that pension contributions will be paid in the maternity leave periods in which no wage is paid.

The system is based on a broad consensus between the major parties about the overall structure and the relative role of its various elements. In addition, a large majority in parliament agreed in 2000 on the principle that the public old-age pension should form a sound income basis for present and future pensioners. The government has set up a Welfare Commission charged with submitting specific proposals before the end of 2005 for reforming the Danish welfare model, including social pensions. In the light of the analyses from the Welfare Commission and with a view to maintaining the long-term targets of economic policies, the Government will in spring 2006 present a new economic multi-year plan for Denmark, covering at least the period up to 2015.

#### Conclusion

The strategy for ensuring adequacy and financial sustainability of public pension provision seems appropriate. A budget policy leading to quick debt reduction has already been sustained for some years and all major parties support the continuation of this policy until 2010, when the public debt is expected to be substantially reduced.

In sum, the pension system seems to be financially sustainable in the long term under present policies with a fairly equitable sharing of the burden between generations. Denmark reports not only one of the lowest gender gap between men and women in the risk of poverty in Europe but also a very small gender gap in the pension entitlements of the current pensioners. While relative living standards of older people are moderate, building up private pensions is expected to increase replacement rates in the future and thereby alleviate potential pressure for increases in public pension rates. Nevertheless, the future contribution of private pensions to adequate pensions would benefit from periodic reviewing.

Yet, the sustainability calculations hinge critically on maintaining large surpluses in public finances. Furthermore, ambitious targets have been set to increase employment by 60.000 persons by 2010. Given Denmark's proven record in employment, further rises in employment rates will be difficult to achieve and will require further measures, especially to slow the outflow of older workers through early retirement scheme.

In the light of the proposals for welfare system reforms from the Welfare Commission and with a view to maintaining the long-term targets of economic policies, the Government will in spring 2006 present a new economic multi-year plan for Denmark, covering at least the period up to 2015.”