

**Exam 2018****Question 1*****Singapore and Denmark:***

Has the same population size (5.6-5.8 million inhabitants).

Same level of GDP / capita.

Have had a strongly increasing share of pensioners.

Both face a significant challenge in future demographics.

Nevertheless, the countries have developed completely different designs in their pension models. This means that the financing models are different, the services are different and the effect on social development and the economy is different.

There are advantages and disadvantages to both models.

The fund-based model in Singapore has the following benefits.

There is a high degree of sustainability built in, which secures the country financially against the increasing aging and changing demography structure. Every generation saves for itself. There are significant incentives to save for direct impact on old-age dependency. There is also motivation to remain in the labor market for as many years as possible and desirable, because it provides a better economy in old age. There is a great self-interest, as each one saves for them self, has its own account and can follow the development of the investment. Finally, there is no moral hazard effect on account of full transparency between contributions and benefits. Free lunch is not possible.

On the other hand, immigrants are not involved in the scheme either temporarily or long-term.

The disadvantage of the financing model is that the savers have a significant market risk. Furthermore, there is no less political risk at the top of the market development, because the government runs the CPF fund and makes government bonds available to the fund. Government and / or government interference may interfere with the optimal investment policy of the Fund's management.

Although Singapore has a policy of maintaining inequality in society. Dynamics, it is a weakness of their pension model that there is no degree of redistribution. Only people in the labor market are covered by nature, and people who are outside or who are "on and off" the labor market do not achieve pension coverage - only insufficient pension coverage.

It is a further weakness that the fund's savings policy is used for cyclical policy, so as to understand that in times of crisis; the government can reduce the companies' contribution rate to increase their competitiveness. This can interfere with the long-term saving plans.

Finally, both the companies 'and pension savers' contributions are reduced at the age of 55 and further at the age of 60 and 65 in order to strengthen seniors position in the labor market. This may be an advantage for seniors and businesses in terms of employment, but the risk is that seniors are stigmatized as a labor that is only competitive through reduced business contributions.

It can also cause a long-term financing problem, as part of the contributions go to health insurance, and the seniors' need for healthcare services increases strongly with age.

It is both dynamic and problematic that the CPF Fund's resources also go to education, health and investment in real estate. On the one hand, it gives a number of individual options for savers, on the other hand, an imbalance in the level of education, health care, conditions that are vital for maintaining an optimal level of welfare.

The Danish welfare model is quite different in the pension area. It is a universal model. The state pension is financed by general taxes. With income tax, people with high incomes pay a higher marginal tax. When paying out the benefits, there are additional benefits that are inversely proportional to the size of the income. This means that there is a solid redistribution in both the tax collection and the service allocation. This involves a significant contribution to the equality of society. The advantage is also that the total benefits are earmarked for the needs of the people. It must be included in this assessment that an inflationary society can, to a much greater extent, ensure price coverage for pensioners when the model is universal than the more uncertain foundation fund.

However, the Danish model for public old-age pension is not sustainable because of the increase in the number of old-age pensioners in the future due to the demographic development, will in principle push the maintenance task over to the next generations. Therefore, it has been necessary to intervene politically by increasing the retirement age in both the state pension and the early retirement pension. Many population groups will be able to increase their number of years in the labor market with no concern. In recent times, there has been the reaction of the groups in the population who will hit the retirement age with significantly reduced work capacity; not least the unskilled groups are employees with hard-wearing work functions.

As more and more people have wanted an improved economy in their retirement lives, fund-based labor market pensions have been built up, but together they have effects as the CPF fund in Singapore. In connection with this there is savings in private pensions, shares, bonds and fixed property.

This has meant that Danish pension savers have secured themselves in cases where real interest rates should develop at a higher level than economic growth in society. Should the opposite be the case, the state pension with a rate regulation with real wages as the driver will be the security guarantee for optimum development in the pensioners' support base.

This has meant that the Danish complex system, which is robust to many economic changes, but so complicated that it is difficult to figure out, is ranked No. 2 in the Mercers index of the pension system in the world, while Singapore is No. 7, however, no 1. amongst Asian countries.

**Question 2**

An important factor behind the development of the Danish welfare state has been the presence of sufficient labor. In the great days of welfare development from the 1960s to the 1980s, large new groups arrived into the Danish labor market, including the public sector.

It was primary women who, in increasing proportion, signed up for jobs both private and public. Excess labor for agriculture migrated to the cities and the large youth cohorts

The birth surplus from 1940-50 filled in the labor market well.

The welfare state's service area in education, care, care and treatment could be provided with sufficient and well-educated employees, but the business community was characterized by dis-industrialization and high productivity increases.

Such a new situation of light and substantial transfer disputes to the public cannot be foreseen in the future.

Therefore, one can go other and more complicated and uncertain ways to secure the workforce.

Most importantly and with the greatest effect, it is to increase the retirement age. This has so far had the effect that the average retirement age has grown by 2 years. In the future, this age will also increase due to the relevant reforms. An increase of 175,000 people alone is expected due to later retirement: however, the drawback is that more and more retirees in labor marked retirement plans can retire up to three years prior to their retirement plans and we do not know their response patterns. Add to this worn-down people and people with low education who will experience marginalization.

Throughout Europe, there is a dramatic increase in popularization, due to the low fertility rate. This has meant that all countries incl. Denmark has opened the borders for some immigration. It adds new culture, connections to new countries and inspiration, but also negative effects on the economy. Many immigrants have a significantly lower level of education and a tradition that women are not in the labor market. This means that large immigrant groups, not least from non-western countries, have a significant "take-up" rate in welfare, but a low labor market affiliation. Therefore, it is important that all institutions and employers implement integration programs.

Women have a slightly lower labor market affiliation than men. Here, it can mean a lot for improvements if all welfare measures against families, including the elderly, work optimally to maintain women in jobs.

For young people, precautions have been taken that can stimulate a faster completion of the study. However, it is a long-term problem that only 80-85% of a youth year completes a secondary or higher education. The government initially focused on 95% completing an education, the goal now being 90%. Experience shows that low-educated people, who, however, have become fewer, have an increasing and high "take-up rate" in transfer income. There is a considerable task of being solved for the Danish society.

Finally, there is a strong connection between pension reforms and the provision of labor. Older labor will be the biggest factor for new supply of crew to Danish society, including for the public sector in the future.