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Indicative answers – correction guide

In this century, the parliament has carried out extensive reforms of the old-age pension system and early retirement law, for the sake of the sustainability of the Danish economy. Consideration has also been given to the supply of labor, as the increase in early retirement and later retirement age from 65 years in 2019 onwards has provided incentives to remain in the labor market. In the short term, the reforms have improved the market in the state's economy. However, a number of societal debates have arisen which, if they lead to legislative changes, can modify the effect of the major reforms of 2006 and 2011. Therefore, four questions have been asked, all related to the reform work of this century.

A. Differentiated national pension

The Danish Social Democracy has proposed to implement the differentiated retirement age, by occupation, education or employment. The idea is that there is a big difference in the residual life of a 60-year unskilled worker and an academic of the same age. If the retirement age is continuously increased to 70 years until 2040, employees in certain industries with a high degree of attrition will only receive a very short period of retirement often characterized by significant age-related or occupational disorders. On the other hand, employees with medium or long-term higher education with a less abusive job will be able to accommodate many years of healthy aging and will thus accumulate a significant transfer income from the state in the form of the basic pension and possible supplementary pension. Not least, female academics, by virtue of their longer lives than men, will benefit from the many years of public pension. Therefore, the Social Democracy has launched a study that will allow certain sectors and areas of the labor market to be able to obtain a state pension before the official retirement age.

Its effect is first and foremost of a principled and administrative nature. As in some countries in Europe, there is no tradition of discriminating between industries in the award of public pensions. Here, the principle of universality is supplemented by further transfers to the weakest income groups. Therefore, the proposal will represent a breach of the welfare tradition in Denmark. The choice of industries where employees receive previous pension and others will be perceived as stochastic and inexplicable. The scheme can become expensive and will challenge the sustainability of the Danish economy; furthermore, there will be ongoing popular pressure that more and more industries are covered by the lower retirement age. The incentive to work up the age will be weakened.

For the individual, the employees who are at risk of being worn out, provided that their particular industry is covered by the scheme, will achieve a number of years in healthy aging before any consequence of attrition sets in. This is precisely the social purpose of the scheme.

B. Revision of the welfare settlement with consequence after 2040

The senior pension agreement of early summer 2019 provides for the establishment of a committee to look at the social and economic consequences of the welfare reform from 2040 onwards, where the retirement age is increased from 70 years and upwards regulated by a demographic index of the average life expectancy of a 60-year-old. At that time, not many will be part of the early retirement system and for many of those who are, they will only achieve marginal effect of the scheme. This means that the retirement age in the old-age pension will govern the development. Reducing in the future retirement age will have many consequences.

First, the change will mean that the sustainability of the Danish economy will be weakened. On the one hand, there is today a sustainability of 1.8% of GDP (Economic Councils, autumn 2019), which means that it is possible to relax the reform without the sustainability indicator going negative. However, a number of welfare improvements have been implemented in recent years that have already drawn on sustainability. Secondly, one must expect that the population will generally provide less labor than today. Thirdly, in contrast to differentiated old-age pensions, this scheme will benefit the entire older population to a much greater extent, and thus also benefit groups outside the manual labor market. With the welfare reform of 2006, Denmark will in a few years sovereignly achieve the highest average retirement age if the actual withdrawal follows the official retirement age.

C. Senior disability benefits (now senior pension)

With the agreement on a senior pension agreement, the Minister of Employment anticipates that up to 17,000 people will benefit from the scheme when fully phased in. The scheme, which is universal, but narrowly assessed, after an assessment of the degree of attrition and work capacity (less than 15 hours per week) could apply to everyone, and it is possible to retire at an early retirement level up to 6 years before the official old-age pension.

So far, the scheme must be administered by the municipalities, but will be transferred to a state authority later. This scheme will selectively cater for those who are affected by attrition (a concept that is difficult to define, however), but will not take into account those who are at particular risk throughout their lives and who wish to achieve a number of healthy years. Retirement before the attrition effect puts on health. It is expected that a number of persons on cash assistance, flexible benefits or other public benefits will transfer to the scheme. In doing so, these people achieve a more dignified withdrawal while limiting the net costs of the scheme by the public spending already provided to them today. When this scheme, which is expected to come into effect in 2020, is implemented, it can result in the costs of differentiated old-age pension being expected to be somewhat lower. The effect of the scheme is expected to be limited on durability, since many are already on the border of the labor market. Therefore, the supply of labor is also expected to be only slightly affected. The social consistency at the individual level can be positive provided the administration of the scheme becomes generous.

D. Labor market pension for the residual group

Since the early 1990s, the Danish labor market has built up compulsory pension schemes in funded pension funds, so that a significant part of the labor market employees are gradually covered by schemes financed by pension contributions from both employees and employers. However, it is estimated that approx. 750,000 people in a labor market of DKK 2.9 million stands without a labor market pension or with only a negligible one.

This means that this group, unless it has other savings or living options, may be at risk of developing into a low-income group in retirement. It is an inhomogeneous group, consisting of self-employed people who do not save for retirement, free agents who are looser associated with the labor market or employed on short contracts or the salary, persons who are currently outside the labor market for cash assistance, etc. The difficulty of involving this group is, first, that their incomes are uneven and often small.

The groups of self-employed people will often oppose forced savings and postulate that they save up in their business that may not have a pension value of significance when they reach the goal. Finally, the large group outside the labor market is unlikely to have the finances to pay for a pension scheme. A forced scheme can become difficult to manage and ascertain the measurement of deposit in relation to the fluctuating economies.

However, the experience gained from the ATP scheme is favorable. Here, the state pays the contribution for unemployed, etc., so that they do not miss available years of payments. If this happens to the low-income group in connection with a labor market pension for this group, it will mean increased spending for the state in the short term but an improvement in long-term sustainability when pension benefits fall to taxation. If pension payments reach 10% of the income of these groups, this will in the long term mean that the state saves expenses on a number of transfer income to pensioners. Social, such a scheme will strengthen the economy of the lowest income groups in retirement and create greater dignity around their withdrawal from the labor market and make them self-sufficient.