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*Published in:*
Extended Working Life Policies

*DOI (link to publication from Publisher):*
10.1007/978-3-030-40985-2_16



*Publication date:*
2020

*Document Version*
Publisher's PDF, also known as Version of record



*Citation for published version (APA):*
Jensen, P. H. (2020). Denmark. In Á. Ní Léime, J. Ogg, M. Rašticová, D. Street, C. Krekula, M. Bédiová, & I. Madero-Cabib (Eds.), *Extended Working Life Policies: International Gender and Health Perspectives* (pp. 229-239). Springer. https://doi.org/10.1007/978-3-030-40985-2_16

# Chapter 16
# Denmark

**Per H. Jensen**

**Abstract** This chapter discusses the preconditions for high and rising female labour force participation rates among older workers in Denmark, marked by a highly developed welfare state and flexible labour markets. Main findings are that changing labour market practices of older women are conditioned by economic and symbolic stimuli encouraging older workers voluntarily to prolong their working life as well as measures combatting exclusionary mechanisms in the Danish labour market.

**Keywords** Employment · Gender · Older workers · Pension system · Labour markets · Work life quality

## Introduction

Denmark is a prototypical egalitarian, Social Democratic and women friendly welfare state. For decades, Denmark has also been among the EU countries exhibiting high employment rates among older workers. Between 2000 and 2017, the employment rate among workers 55–64 years of age grew from 56 to 69%. Employment rates among older women has increased substantially; from 47% in 2000 to 65 in 2017. Among EU-28 countries in 2017 only Sweden, Finland, Lithuania, Estonia and Germany had older women's employment rates similar to Denmark (Eurostat n.d.-c).

Growth in employment among older workers in Denmark between 2000 and 2017 has occurred in a relatively favourable economic environment. Before the financial crises (i.e. 2000–2009) the overall unemployment rates varied between 3.4 and 5.5%. Unemployment peaked in 2011 at 7.6%; afterwards unemployment decreased to 5.7% in 2017 (Eurostat n.d.-a). Overall, the Danish economy did not suffer as severely from the financial crisis when compared with many other countries.

The Danish welfare state also helps to facilitate work life balance for women aged 55–64. Routine access to high quality child and eldercare institutions means

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Á. Ní Léime et al. (eds.), *Extended Working Life Policies*,
https://doi.org/10.1007/978-3-030-40985-2_16

that women can participate in paid employment rather than provide unpaid care to grandchildren or frail elder parents or partners (Frericks et al. 2014).

Although Denmark represents a Social Democratic welfare state, for decades the Social Democratic Party has had limited control in government. Between 2000 and 2011 the government was led by the Liberal Party; between 2011 and 2015 by the Social Democratic Party, and since 2015 the government has again been led by the Liberal Party. Shifting governments has introduced measures to prolong working lives, and these measures have been oriented to both the supply and demand side of labour markets.

## Pension Policy

The Danish pension system is regarded as sustainable and robust in relation to changing ageing demographics. It meets all requirements and recommendations from the World Bank (World Bank 1994); the World Bank recommends that pension systems are constructed as three pillars systems: a publicly managed system with mandatory participation, a privately managed mandatory savings system, and voluntary savings. The Danish pension system has been identified as the highest-ranking retirement income system annually from 2012 to 2017 by the Melbourne Mercer Global Pension Index (2017). The Melbourne Mercer Index compares retirement income systems around the world based on their adequacy, sustainability and integrity.

Although the Danish pension system may be adequate and sustainable, it is also very complex. Since the 1960s, the Danish pension system has grown from a one pillar to a multi-pillar system; from a dominantly public to an increasingly private system and from a mainly collective to a more individualised system. The three major pillars of the Danish pension system are: (1) state organised pensions, (2) privately and collectively organised occupational pensions and (3) private and individual pension savings (for a historical description of the development of the Danish pension system see: Andersen 2011; Andersen and Jensen 2016).

Pillar one: All citizens above the state pension age (in 2017, 65 years of age) are entitled to a universal tax financed, flat rate, state pension. This basic pension is roughly €9,980 annually for a single pensioner in 2018. Full entitlement requires at least 40 years of residence in Denmark after age 15. People who do not fulfil these demands—but have been residents for at least 10 years—will receive a fraction of the pension, dependent on their years of residency in Denmark.

The rights based basic pension is topped up by different means-tested benefits. First is a means-tested pension-'supplement' amounting to about €10,800 annually for a single pensioner in 2018. However, additional means-tested pensioner benefits exist, such as housing benefits (maximum annually is €6,340), support for heating (maximum €680 annually), supplementary pension benefits (maximum is €2,400 annually), and support for extraordinary expenses in particular health related expenses.

The first pillar also includes a compulsory, contributory and fully funded supplementary benefit (ATP) covering all wage earners as well as unemployed and disability pensioners. The ATP is financed as a tax on labour costs. Contributions depending on working hours and remuneration and are rather low. The maximum annual ATP benefit amounts to about €3,200 for people who entered the labour market at the age of 18 and left the labour market at the age of 65.

Pillar two: As an outcome of collective bargaining agreements, a formally private occupational pension scheme gradually emerged starting in the 1960s. Occupational groups have gradually been covered by different occupational pension schemes, and as of 1991, most segments were covered by occupational pensions. Pension contributions are negotiated among social partners and may differ between occupations—normally contributions are at least 12% of wages and employers usually contribute two thirds and employees one third. The pension schemes are fully funded and pension savings are secured in pension funds, often administrated in close association with trade unions.

Occupational pension schemes are organised according to principles of defined contributions, meaning that individual pension benefits depend on individual contributions; returns on invested capital (the pension fund invests the money), and retirement age alongside adjustments due to changes in longevity. The system is stripped of any form of redistribution.

Pillar three: The third pillar is composed of an array of four different individual pensions saving schemes, encouraging personal pension savings, primarily administrated by banks or insurance companies. The four private saving schemes primarily differ in relation to the amount that is deductible from taxable income, the age at which pensions can be paid out, and the period of time the pensions are paid out.

For most Danish pensioners, their actual pension is made up of a combination of income from all three pillars. However, wage income as well as income from Pillar two and three has repercussions on pension income from Pillar one.

First, if a person living alone has an income from Pillar two and three of more than €9,500 per year, a deduction will be made in the means-tested pension-'supplement'. With an income of more than €44,000 from Pillar two and three, entitlements to the means-tested pension 'supplement' terminates.

Second, if a person entitled to the basic state pension has a wage income of more than €43,000 annually, deductions will be applied to the basic state pension. A wage income of more than €76,000 annually results in the basic state pension being terminated. However, if a person who works at least 1,000 hour per year decides to postpone his/her claims on the basic citizen based state pension, benefits will increase proportionally under a scheme called '*Opsat Pension*'. If, for instance, a person postpones his/her take up of the basic pension by four years, the basic pension increases by 27%, providing an incentive to postpone retirement (Amilon et al. 2008). If postponed by four years, the state pension amounting to €9,980 annually for a single pensioner, increases to €12,675 annually.

So far, the Danish pension system is perceived as socially sustainable. Pensioners who are solely dependent on income from pillar one (e.g. a woman who has been a housewife all her life and divorced at the age of 66) are well protected against relative poverty using EU's poverty definition as a yardstick—except for immigrants who have not had at least 40 years of residency. Only people who have had 40 years of residence in Denmark, Greenland or the Faroes between the age 15 and 65 are fully entitled to the universal tax-financed, flat rate, state pension. People who have resided less than 40 years in Denmark are only entitled to a fraction of the state pension (so called fraction pensioners). For instance, people having resided 20 years in Denmark are only entitled to 50% of the state pension. The rate of people 65+ at risk of poverty or social exclusion in Denmark in 2015 was 9.9%, compared to 17.4% across EU-28 (Eurostat n.d.-b).

The overall trend, however, is that Pillar two turns into the dominant part of the Danish pension system in terms of retirement income security, and may crowd out all of the means-tested pension benefits in Pillar one. In 2014, only 54% of Danish pensioners received means-tested pension 'supplement' from Pillar one, and this proportion will decline in the future as Pillar two becomes fully implemented when those who were enrolled in the system from 1991 at the age of their retirement have paid lifelong contributions to the occupational pension system. That is, in the future the Danish pension system will primarily consist of the citizenship based state pension, ATP, occupational pensions and private pension savings.

As Pillar two matures, the Danish pension system becomes highly 'privatised' and is deemed economically sustainable. Basically, Pillar two and three are based on fiscal welfare principles. People do not pay taxes on income that is used to contribute to the pension system and pension funds themselves are wealthy. By 2015, assets held in these funds amounted to 201% of GDP. When pensions are paid out (from all three Pillars), they are subject to ordinary income tax. Therefore, the fully funded pensions will provide the state with income tax revenues from future pension payments. It has been calculated that future pensioners will become 'net contributors' to the welfare state. Future pensioners will even finance increasing expenditures to the health and eldercare sectors (Nielsen 2012).

From a gender perspective the occupational pension system is rather unequal. Each occupation bears its own pension risks, meaning that men (e.g. typified by engineers) and women (typified by nurses) are enrolled in different occupational pension schemes (Pillar two). Pay rates often vary in occupations dominated by one gender, with women's occupations typically paying less. This will give rise to gender differences in future pension benefits. The fact that women earn less on average (thus, contributions to occupational pensions are lower) and live longer (pension saving must stretch over a longer period) means that women's pensions will be systematically lower than for men. Further aggravating such gender inequalities is that women do not contribute to Pillar two during periods of maternity (Jørgensen 2008).

## Recent Reforms in Pension Policies

The Danish pension system was subject to major reforms in 2006 and 2011, where the major outcome was that the age for the basic state pension between 2019 and 2022 will gradually be raised from 65 to 67. In addition, the state pension age was made dependent on life expectancy, using 1995 as baseline. Consequently, the state pension age will be raised to 68 years in 2030, to 69 in 2035 and to 70 in 2040, provided that life expectancy improves five years. Between 1995 and 2016, life expectancy has already risen more than five years, from 75.3 to 80.9 years. Therefore, the pensionable age seems likely to increase in the future, even beyond 70 years of age. Recent predictions estimate that those born between 1979 and 1982 will not be able to retire until they reach the age of 72, while the pensionable age for new-born Danes will be 76.5 years.

## Employment Policies

Since the late 1990s, Denmark has initiated several measures to prolong working life. A compulsory retirement age was abolished in most professions, meaning that older workers are not forced to retire when they meet the state pension age. Furthermore, discriminatory arrangements in labour market policies were abolished as of January 1st 2007. Until 1996 older workers above the age of 50 did not—and unemployed in general—have the right of and obligation to 'activation' (e.g. job-training, education etc.), and until the 2006 reform older people above the age of 60 did not have the same rights and duties as unemployed people in general (Arbejdsministeriet 1997). This reflects that, until recently, older workers have been considered as peripheral and marginal components of the workforce by the public authorities.

Until 2006 the unemployment benefit system functioned as a de facto early exit/retirement pathway. Various regulations guaranteed that unemployment benefit recipients between 55–59 years of age would not lose their rights to unemployment benefits. When these rules were abolished as part of the 2006 reform, a senior job scheme was created, guaranteeing unemployed people 55 years of age (or older) having lost their rights to unemployment benefits to be offered a 'senior job'. The municipality of residency is obliged to provide the senior job to the person in question. Senior jobs must be in accordance with conditions set up in the collective agreements and ordinary jobs must not be converted into senior jobs. In 2015 about 4,500 people were enrolled in the senior job scheme (Finansministeriet 2016).

The 2006 and 2011 reforms also discouraged voluntary early exit/retirement with the aim of increasing labour supply. Until 2014, people with 25 years contribution to the early retirement scheme could freely choose to take up early retirement (between age 60 and 64). Chronologically, the scheme proceeds entitlements from Pillar one as the state pension age in 2014 was 65; early retirement benefits could be combined with income from Pillar one and two, and it is even possible to work while receiving early retirement benefits, but few do so. The early retirement benefit amounts to about €28,000 annually (subject to ordinary income tax) in 2018. The 2006 and 2011 reforms, however, reduced the duration of benefits from five to three years, meaning that early retirement benefits can only be claimed 3 years before the state pension age.

People who are eligible for the early retirement benefit, but who do not take up early retirement, are eligible to a tax-free premium of €22,000 when they reach the state pension age. Historically, there has been a strong gender bias among recipients of the early retirement benefit. In 2014, for instance, 58% of recipients were women and 42% men, most probably because retirement comes in couples, there is a tendency that Danish women leave the labour market when their older in age spouse retires (Friis 2011). As time progresses, however, the early retirement scheme becomes less valuable, primarily because income from Pillar two and three as of 2014 are fully deducted from the early retirement benefit.

On the demand side, public and private companies have been encouraged to employ senior management policies to address hiring and retainment of older workers. As of the late 1990s the Government launched so-called information campaigns designed to persuade employers to retain or recruit older workers. These information campaigns are anchored in social gerontological insights as well as the credo from American human resource management philosophy, epitomised as diversity management (Friis et al. 2008). These campaigns approach employers as rational actors. Consequently, it is expected that employers will change behaviours once fully informed about all the advantages of older workers. The campaigns bear some resemblance with the slogan of the civil rights movement in the USA, 'Black is beautiful', only in the Danish case it is 'Grey is beautiful'. Hiring and retaining older workers is presented as a win-win situation. The campaigns bring the message that older workers are equally productive compared to younger workers, and that diversity (including age diversity) in the workplace is good for business.

Information campaigns were communicated in the form of codes of good conduct, benchmarking, and the collection, analysis and spreading of good age management practices. Good examples were presented as routes worth following and emulating. As an integrated part of information campaigns, a senior praxis prize was awarded every year to a large, medium and small-sized companies whose policies and accomplishments regarding older workers were regarded as exemplary. The senior praxis prize is awarded by the Ministry of Employment and the minister him/herself presents the prize (Friis et al. 2008).

The various forms of age management campaigns have been accompanied with an age management consultancy scheme. From the late 1990s, Danish firms were offered five hours of free consultancy to help them formulate and implement age management. However, the consultancy scheme was abolished in 2009. When the Social Democratic government was formed in 2011 campaigns supporting employers' adaptation of age management policies were terminated. Still, age management seems to have integrated into Danish companies. About 50% of Danish firms with more than 10 employees report that they have a senior policy, part-time/flexible work hours as the most common instruments (Jensen and Møberg 2012).

## Health Policies

Until 2003, people aged over 50 could be awarded a disability pension if their labour market prospects seemed poor. In 2003 eligibility criteria were tightened and changed. While the earlier focus was on 'loss of employability', the focus after 2003 has been on 'working capacity', meaning that any working capacity should be used. Since 2003, several reforms have tightened the tests of work capacity. Most recently, a reform enacted in 2012 emphasised 'reablement', and it was decided that a person below 40 years of age could not be granted a disability pension. The effect has been that, between 2011 and 2017, the number of newly awarded disability pensions fell from 16,909 to 9,674 individuals. The disability pension is a tax financed benefit amounting to about €30,000 annually; 54% of recipients are women while 46% are men. These gender differences in disability pensioning are most probably, similar to Norway, attributable to women's poorer self-reported health, greater levels of mental distress, lower wages, and more unfavourable working conditions including job strain and less control over work (Claussen and Dalgard 2009).

As mentioned, the pension reform in 2011 raised the age of eligibility for early retirement from 60 to 64 years of age by 2022. However, it was recognised that not all beneficiaries of early retirement benefits would actually be able to work until the age of 64. Therefore, in 2011 a non-contributory senior disability pension was introduced for people unable to work, available up to 5 years before the pensionable age. Eligibility does not differ much from the 'ordinary' disability pension. In 2017, only about 1,000 persons had been awarded the senior disability pension.

As an alternative to disability pensions, a flex job scheme was introduced in 1998 to facilitate the employment of persons with disabilities, allowing them to lead an economically active life. Working hours are flexible, but basically wage and work conditions are similar to ordinary work conditions. Flex jobs carry a wage subsidy and in 2015 about 70,000, out of total labour force of 2,861,000, were employed as flex jobbers. About 61% of all flex jobbers are women while 39% are men. Again, these gender differences are most probably attributable to differences in health among men and women.

## Precarious Employment

In 2017 about 21% of all employed older workers (55–64 years of age) were working part-time. Some gender differences do exist, 33% of all employed older women (55–64 years of age) were working part-time in 2017. A relatively small proportion of women working part-time do so involuntarily. Involuntary part-time employment as percentage of total part-time employment among older workers was 13%, while involuntary part-time work among older women working was 14%. In EU-28 involuntary part-time employment as percentage of the total part-time employment was

22.6% (Eurostat n.d.-d). That is, the proportion of older women engaged in involuntary part-time work is much lower in Denmark as compared to an EU-28 average (Eurostat n.d.-d).

Job security in general is rather low in Denmark and labour turnover is among the highest among OECD countries in Western Europe (OECD 2016). This is a result of low levels of employment protection, which form part of Danish flexicurity. Flexicurity is a mechanism that supposedly creates flexible labour markets. It consists of a combination or interaction between low levels of employment protection, generous unemployment benefits and active labour market policies (for a discussion of the Danish flexicurity model and its preconditions, see Jensen 2017). Older workers are vulnerable in highly flexible labour markets. As part of the 2006 reform, the EU directive from 2004 on age (direct and indirect) discrimination was enacted, but age and gender discrimination legislation is not able to safeguard older female or male workers. Courts always accept the reason for firing given by the employer. That is, the case is closed if employers have not explicitly referred to gender or age as a reason for layoffs or firings.

Overall quality of work conditions is high in Denmark. Already Gallie (2003) found that work life quality is relatively high in Denmark, and more recently Eurofound (2013) has found that overall employment quality in Denmark is among the highest in Europe (only surpassed by Finland).

## Danish Debate

In Denmark at least two debates have structured ideas about prolonging working life: One associated with neo liberalism has argued that pension systems are economic unsustainable and function as disincentives to work. Demographic ageing will furthermore reduce the supply of labour in the future which supposedly is damaging for the economy. Therefore working longer has been conceived to be a necessity. These arguments were verbalised by the Economic Advisory Council (as off the late 1990s) and public commissions (e.g. the Welfare commission in the middle of the 1990s and the Labour Market commission in the late 1990s), and these ideas were adopted by the Liberal led government and transformed into reforms in 2006 and 2011. The 2006 Welfare reform was supported by the Social Democratic Party (and partially by trade unions) while the 2011 Retirement reform was objected by the Social Democrats and trade unions, while strongly supported by employers association.

Another parallel debate was based on activities in the Senior Policy Committee established by the Social Democratic government in 1999. This debate argued that early retirees are socially excluded and suffer from loss of citizenship due to poor health or because they are victims of ageist attitudes and discriminatory practices of employers. From this perspective, social integration or the opportunity to work longer is preconditioned by changes in employers' behaviour. To some extent this perspective was adopted by the Liberal led government in the 2000s. This led, as mentioned above, to measures such as information campaigns aimed at spreading good age management practices. These activities, however, terminated with the coming of the financial crisis and the formation of a Social Democratic government in late 2011.

## Conclusion

The employment rate of older women has been growing relatively fast since 2000. These changes in older women's practices intersect with changing welfare policies and changing labour markets.

Within a framework of relatively low unemployment rates, the aim of shifting governments since 2000 has been to increase labour supply. Measures have been a combination of retrenchment (pension, disability, early retirement and unemployment benefit schemes) and the introduction of economic incentives encouraging prolongation of working life (e.g. *Opsat Pension*). These new trends in policies represent new ideas promulgated by the Economic Advisory Council as of 1998 and by public commissions (e.g. the Welfare Commission and Labour Market Commission) primarily staffed with supply side economists. Ideas were adapted by the Liberal led government leading to major reforms in 2006 and 2011 to be enacted as of 2014. Still, the Danish pension system continues to be rather generous in the face of retrenchment. Poverty among pensioners is relatively low.

In the years to come the Danish pension system will be increasingly developed as a privatised, fully funded defined contribution scheme. Pensioners will become net contributors to the welfare state as pension income is subject to ordinary income tax. Trends towards privatisation may lead to an increase in gender inequality in living conditions of pensioners. Pension funds are gender segregated which will lead to lower pensions in female dominated pension funds (women earn less and live longer than men live).

In parallel to this, measures with the aim of reducing social exclusion of older workers have been introduced including the abolition of the compulsory retirement age. Age biases in active labour market policies have been abandoned. New employment opportunities have been introduced (senior and flex jobs); this includes attempts to persuade employers to apply senior policies. In addition, older people may find it attractive to continue working because work life quality is relatively high. However, gender differences in working life continue to exist, women's working conditions are less favourable, contributing to women exiting the workforce earlier than men.

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