

---

NATIONAL REPORT

DENMARK

CONTENT

- 1. ....General information
- 1.1. ....Facts about Denmark
- 1.2. ....Economics and politics
- 1.3. ....Pension saving market
  
- 2. ..Public pensions and private earnings
- 2.1. ....Public pensions
- 2.2. ....Wages and salaries
  
- 3. ....Consulting issues
- 3.1. ....New legislation re pension funds
- 3.2. ....General labour market pension

Author.....Ebbe Vagn Christensen

---

## 1. GENERAL INFORMATION.

### 1.1. Facts about Denmark.

Denmark is a constitutional monarchy, which elects at least every 4th year by proportional representation the "Folketinget" [The Danish Parliament].

Geographic is Denmark part of Scandinavia. The Capital is København [Copenhagen] situated on the island of Zealand.

Political is Denmark member of NATO and EEC.

The land area exclusive of Greenland is 43,092 square km consisting of the peninsula Jutland and 406 islands. The coast line is 7,314 km.

The population amounts to 5.1 millions of which 1.7 live in the Copenhagen region.

Table 1.1.1. - Population by sex and age.

Age	Males	Females	Total
		- in thousands -	
0 - 14	461	440	901
15 - 24	406	385	791
25 - 34	386	366	752
35 - 44	405	389	794
45 - 54	296	293	589
55 - 64	247	264	511
65 -	328	463	791
Total	2,528	2,601	5,129

---

Table 1.1.2. - Population by employment status. [Nov. 1985].

Labour force population	Males	Females - in thousands -	Total
Self-employed and assisting Spouse	176	96	272
salaried employees	535	630	1,165
Wage earners			
skilled	291	21	312
unskilled	294	292	586
Employees not further specified	109	120	229
Unemployed	81	117	198
Total	1,486	1,276	2,762

Table 1.1.3. - Expectation of life, years.

Age	Males	Females
0	71.6	77.5
15	57.6	63.3
25	48.1	53.5
40	34.0	39.0
65	13.9	17.8

---

---

Table 1.1.4. - Gross domestic product by type of expenditure

Temporary figures

	1985	1986	1987
	----- in DDK billions -----		
	USD = 14.5%	GBP = 8.0%	
Gross domestic product	620	667	693
Import of goods and services	223	216	230
Private consumption	340	365	376
Government consumption	155	161	176
Gross capital formation	122	143	128
Export of goods and services:	226	214	220

Table 1.1.5. - Central government debt and borrowing.

	1985	1986	1987
debt in percentage of gross domestic product			
Domestic debt	55.0	45.1	41.2
Foreign debt	15.0	18.0	18.4
	----- in DDK billions -----		
	USD = 14.5%	GBP = 8.0%	
Domestic debt	340	301	285
Foreign debt	93	120	128
Total	433	421	413

---

---

Table 1.1.6. - Total Taxation.

	1985	1986	1987
	----- in DDK billions -----		
	USD = 14.5%	GBP = 8.0%	
Income taxes, total	171	190	204
Comp. fees and fines	1	1	1
Social security contributions	11	10	13
Labour market contributions	2	2	2
Taxes on wealth, real property	12	13	16
Taxes on goods and services	104	121	123
Production taxes	1	1	1
Total	302	338	360

Table 1.1.7. - Tax incidence in % of Gross Domestic Product

	1985	1986	1987
Indirect taxes	18.2	19.6	19.6
Direct taxes	28.4	29.1	30.1
Other taxes	2.1	1.9	2.2
Total	48.8	50.7	51.9

Table 1.1.8. - Denmark's foreign assets and liabilities

	1985	1986	1987
	----- in DDK billions -----		
	USD = 14.5%	GBP = 8.0%	
Nett liabilities	244	262	272

---

---

## 1.2. Economics and politics in Denmark.

The latest figures released by the National Bureau of Statistics confirmed the expected picture of a stagnating economy governed by a fall in domestic demand. This is in line with the Government's economic strategy, which has aimed at depressing private consumption, thereby hoping to reduce the current account deficit. So far it has been successful, with the deficit declining from DKK 36 billions in 1986 to DKK 12 billions last year.

Up to now there has been a fairly strong correlation between GDP-growth and the current account deficit. The great challenge in the coming years is to generate economic growth, while at the same time securing a further reduction in the external deficit.

The overall picture is that of an economy not yet back on track, but heading in the right direction.

Danish politicians are aware of the need to change the economic structure. In spring 1989 the Government present "the most extensive political initiative in the history of Denmark" [PLANEN] comprising a reduction in corporate taxes as well as personal income tax, a new unemployment benefit system and introduction of a fee paying system for certain public services.

The purpose of the reform is to create a more dynamic economy which can utilize its productive resources without creating chronic current account problems.

The Opposition [the Social Democrats] have presented their own plan so the Danes are looking forward to an extensive political debate, for though there - generally speaking -

is consensus on the ends, there is disagreement about the means.

	1985	1986	1987	1988	1989E	1990E
	CHANGE IN VOLUMEN IN %					
GDP	4.3	3.1	0.7	-0.2	1.0	1.5
Private comsumpt.	5.3	4.1	-1.2	-1.3	0.5	0.5
Fixed business investments	16.8	16.6	-7.4	-6.9	1.0	3.0
Export of goods and services	4.3	-0.3	4.9	5.6	4.5	5.0
Current account % of GDP	-4.7	-5.5	-3.0	-1.7	-1.1	-1.0
Governm. finances % of GDP	-4.3	1.2	0.3	-1.6	-0.1	0
Unemploy. rate %	9.2	8.1	8.0	8.6	9.3	9.3
Consumer prices %	4.7	3.7	4.0	4.6	4.0	3.0
Yield long term bonds end Dec. %	10.3	11.9	12.2	9.5	9.0	9.0
DKK/USD end December	9.0	7.3	6.1	6.9	6.8	6.7

---

### 1.3 Size and dispersion of the pension saving market.

The size of the long time saving market was at the end of 1987 approximately:

	DKK m	USD m	GBP m
Total assets:	467,470	68,005	36,857
Contributions:	23,000	3,346	1,857

allocated in the following financial sectors:

	Contributions	Assets
Life Insurance Companies	50,8%	35,9%
Mutual Pension Funds <sup>*)</sup>	19,4%	14,8%
Company Pension Funds	3,9%	4,5%
Banks and Saving Banks <sup>**)</sup>	15,8%	11,2%
ATP <sup>***)</sup>	10,1%	12,1%
Social Pension Fund and Employee's "C.O.L." Fund <sup>****)</sup>	-	21,5%
Total	100%	100%

<sup>\*)</sup> Mutual Pension Funds cover persons of the same profession.

<sup>\*\*)</sup> A Bank is a stock company (an equity company), while a Saving Bank is a co-operative company

In an attempt to attract new capital savings banks are changed to stock companies.

<sup>\*\*\*)</sup> ATP, i.e. Labour Market Supplementary Pension. ATP is a compulsory pension scheme covering all gainfully employed persons. At present the con-

---

tribution is DKK 1,749.60 annually per full time employee, of which the employer pays 2/3 and the employee 1/3. From 1.1.1990 the annual contribution is increased to DKK 2,332.80.

\*\*\*\*) The Social Pension Fund is a State Fund funded through taxes to increase public pensions.

Employee's "C.O.L." Fund was established in 1977. 4 C.O.L.-adjustments were paid by the State during 1977-1979 to the Fund instead of being paid by the employer to the employee. A Lump sum benefit is granted to the employee at retirement or early death.

For the last few years the life insurance sector has been able to grow faster than the others sectors.

The life insurance companies are obliged to increase the value of investments in fixed interest bonds [76% of total assets end December 1987] mathematically, so the bond yields the same annual percentage rate until redemption.

With a sharp reduction of the yield for new investments since 1983 and with a firm principle of granting the same interest to all customers - new as well as old - they have been able to attract customers from the others sectors, which due to the same reduction of the yield have had a large increase of the market value.

Consequently some company pension funds and a number of customers in the bank and saving bank sector having had a large capital gain, transferred the cash value til a life insurance company, and continued to get a high interest due to the average principle.

---

## 2. PUBLIC PENSION AND PRIVATE EARNINGS.

### 2.1. The Danish Social Security System.

The social security system in Denmark is highly elaborated and very complexed. The Social Security System is financed by taxes. Benefits are fixed at a flat rate basis.

The below mentioned is a very brief outline of the rules regarding pensions and disablement pensions.

#### Old Age Pension

All citizens over age 67 are entitled to [1] the basic amount, but is tested between age 67 og 70 years on the basis of income earned by personal work.

There is [2] a pension supplement subject to a mean test.

#### Disability- and Early Retirement Pension.

The disability pension will be granted when the working ability is permanently reduced. This applies both to physical and mental health.

The pension can comprise [1] a basic amount, [2] a pension supplement, [3] a disablement amount, [4] a incapability amount, and [5] an early retirement amount.

The basic amount and the pension supplement are subject to a mean test, the disablement amount, the incapability amount, and the early retirement amount is not taxed and not subject to a mean test.

	Bene- fits	Loss of working ability
The highest Disability Pension:	1-4	100%
The middle Disability Pension:	1-3	67%
Increased Early Retirement Pension:	1+2+5	50%
Ordinary Early Retirement Pension:	1+2	None,
however a permanent need for maintenance must be proved.		

Benefits and mean testing.

The benefits amount to the following as per July 1989.

Married couples for each - both entitled to pension: I  
 Single persons: II

	-----DKK annually-----	
	USD=14.5%	GBP=8.0%
	I	II
1. Basic amount	41,244	43,384
2. Pension supplement	11,136	11,136
3. Disablement amount	16,440	19,308
4. Incapability amount	20,208	27,936
5. Early retirement amount	10,080	10,080
-----		
Working Income Limit	59,700	59,700
Income limit for full Basic Amount	59,700	59,700
Income limit for full Pension Supplement	30,900	15,500

---

Temporary Early Retirement Pension is managed through the Unemployment Funds, however mainly financed by taxes.

Conditions are between age 60 and 67 years, having been a member of an unemployment fund for at least 10 years, being entitled to daily cash benefits, permanent residence in Denmark, and not covered by disability pension.

The annual benefit amounts to 90% of the last salary, however not more than DKK 124,388 [USD=14.5%,GBP=8.0%] annually as per July 1st, 1989 and is decreased after 2.5 years to 80%.

The benefit is subject to a mean test for personal work and pension benefits connected with previous employment.

Temporary Early Retirement Part-Time Pension is paid through the local districts and financed by taxes. The program is a counterpart to the Early Retirement Pension Program, and benefits are calculated proportionally for reduction of working hours.

However no membership in an unemployment fund is required and there are no mean test of any kind.

Table 2.1.1. - Increase of Public pensions in %.

	1984	1985	1986	1987	1988
	-1985	-1986	-1987	-1988	-1989
Basic Amount	6.6%	4.1%	2.0%	3.9%	4.9%
Consumer Price index	5.8%	2.8%	4.8%	4.3%	5.0%

---

## 2.2. Wages/salaries in Denmark.

In Denmark we have a clear distinction between wage-earners (arbejdere) and salaried employees (funktionærer), which is somewhat incomprehensible to foreigners. In order to keep the following tables brief a summing up has been necessary.

Table 2.2.1. - Annual wages, males only!

Wage earners skilled/unskilled	1985	1986	1987	1988
	----- DKK -----			
	USD=14.5%			GBP=8.0%
Persons in th.	207	213	218	214
Skilled	174,500	185,700	199,900	209,200
increase,%	5.2%	6.4%	7.6%	4.7%
Unskilled	159,100	167,000	179,600	188,200
increase,%	5.3%	5.0%	7.5%	4.8%

Table 2.2.2. - 12 x salary for September, males only!

Salried employees. Incl. pension con- tributions etc.	1985	1986	1987	1988
	----- DKK -----			
	USD=14.5%			GBP=8.0%
Persons in th.	92	93	93	95
Average salary	210,000	222,300	238,900	252,500
increase,%	5.9%	5.9%	7.5%	5.7%
Median salary	193,900	205,400	218,800	230,900
increase,%	5.6%	5.9%	6.6%	5.5%

---

---

### 3. CONSULTING ISSUES.

The consultant actuary in Denmark has life and pension as his main field of activity, however non-life, economics [investment advisory], and statistics are growing areas.

Two issues are of very great present interest.

#### 3.1. New legislation regarding company pension funds.

In may 1989 the Danish Parliament enacted legislation revising the insurance and pension funds laws. The pension fund law was changed so the company pension funds are subject to essentially the same rules as the life insurance companies, and at the same time life insurance companies and the company pension funds were permitted to put more assets in equity investments. Under the new provisions up to 40% of the assets backing insurance liabilities may be placed in equities, provided that no more than 2% of the assets are placed in the investments of a single company. However the life insurance companies and the pension funds must not together have a controlling interest in a company.

The new legislation requires pension funds to provide early leavers with a higher vested benefit than up to now, where the minimum requirement was the paid contribution less risk charges and interest at 4.0-4.5% per annum.

Furthermore the law requires that defined benefit pension plans use actuarial assumptions to be "reasonable", which will mean that some of the funds will have to reduce the technical interest to 3% per annum in order to fund the liabilities within the limit of the real interest taxation, which seizes all interest on fixed interest bonds in excess of the rate of inflation plus 3.5 percentage.

---

### 3.2. New labour market pension.

The Danish economic problems encouraged the Danish government to bring forward proposals about a new General labour Market Pension. It was proposed, that 9% [starting lower, but increasing] of the annual salary/wages should be saved.

The problems were whether these savings should end up in a large general fund [controlled by the employees organizations] or in the existing financial sectors and whether such a pension scheme should be implemented by legislation or by the collective bargains.

As the collective bargains in spring 1989 ended up with a rather small increase in the salaries/wages, it all came to nothing, but it should be added, that a number of employees in the public sector [among them wage-earners, which up to now have been opposed to pension schemes] as part of the bargains were granted a pension contribution.

It is not likely that a general labour market pension scheme is implemented before 1991, at its earliest.

It is most likely that a general labour market pension scheme is accomplished as a result of collective bargains, and that the savings end up in insurance companies and pension funds, as Banks and Saving Banks do not offer insurance cover [unless in cooperation with a life insurance company] and at present is more geared to handle individuals rather than large groups.

Consequently it must be assumed that a rather large increase in Danish pension-business will take place in a few years, a development that will bring Denmark more in line with the other EEC-countries.