COUNTRY SPOTLIGHT | DENMARK

The path to a sustainable future

Recent reforms to the system have addressed challenges posed by an ageing population and lack of private pensions, but additional issues remain unresolved

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Denmark has consistently been named as one of the best countries to retire in in Europe, largely due to its pension system, which has attracted attention for its flexible and financially robust structure.

The Danish pension system consists of both private and public programmes – a compulsory state pension, a supplementary occupational pension and an optional private pension are available to the population.

The mix between tax-financed, pay-as-you-go public pensions and funded labour market pensions in the system has proven a very robust solution to several issues. Yet the Danish market is not without its challenges.

Ageing population

As in most developed countries, the biggest problem facing the Danish economy and its pension system is the challenge posed by an ageing population.

The country's total population of 5.82 million consists of 1.27 million people aged between 60 to 79 who are either in retirement or soon will be, according to Statista.

As a result, the workforce as a percentage of the Danish population is expected to diminish significantly over the next few years, creating a shortage of workers.

WTW Denmark co-CEO, Lars Christensen, explains that the elderly population's deteriorating health issues have also ramped up the pressure on public expenses and has contributed towards a shrinking workface.

"The important question is how we can secure a healthier workforce in the coming years, where we can address health issues in a more detailed and pre-emptive way than we do today," says Christensen.

To combat the challenges presented by an ageing population, Denmark's recent pensions reforms aim to keep workers in work for longer and help stabilise the economy.

Like many countries in Europe, one option has been to change the age of retirement. In 2022, the pension system's retirement age for both men and women was increased from 65 to 67 and upcoming changes plan to increase this again to 69 in 2035.

PensionDanmark, a labour market pension fund with €40 billion assets under management, chief economist, Tove Birgitte Foxman, praised the increased retirement age for effectively incentivising workers to stay in work for longer and for helping to address the lack of a workforce challenge.

The retirement age increase also reflects the country's growing life expectancy – currently 82 in Denmark – that is allowing more people to work later in life, he explained.

"Denmark has chosen a model where the retirement rate is indexed to increases in longevity," says Birgitte Foxman. "The mechanism is a cornerstone, at the same time securing sustainable public finances and labour supply."

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Despite receiving praise, many experts argue the upcoming increase to the retirement age must not discriminate against the large number of seniors suffering with medical conditions.

The current pension system excels at supporting customers with a short-term illness as it provides a floor under every person's income to protect against unexpected life circumstances, says Sampension, a public pension scheme with €43 billion assets under management, head of market and customer advisory, Anne-Louise Lindkvist.

"The system is a supplement to the public health system, for example, helping pension customers get back to work fast in connection with short-term illness," she says.

However, Forsikring & Pension, a trade association for insurance companies and pension funds, deputy director, Karina Ransby, explains that to successfully continue increasing the retirement age, a system is required to support those physically unable to work due to persisting health problems, which are common in the elderly.

"We're in favour of this increasing retirement age. But if you aren't able to work, because you are run down, you should have some kind of pay, which right now is the big topic in the Danish parliament," says Ransby.

Retiring without saving

Many Danes do not have a workplace pension scheme and have not set aside additional savings for their retirement, and this is creating another problem for the Danish pension system.

Less than 5 per cent of workers have their own private pension. That group typically consists of self-employed workers and those without a collective agreement, says Ransby.

Although the percentage is small,

the place of private pensions remains an important issue, one yet to be adequately addressed or resolved by the Danish government, according to Ransby, who explains that a commission last year suggested that those who do not save should pay 3.3 per cent of their income into a pensions savings account.

However, this is viewed as an ineffective solution as 3.3 per cent is widely accepted as an insufficient amount to support a senior during their retirement years. "We're very keen on solving this problem for the 5 per cent who don't have their own pension savings. How do we get them to start a pension account?" asks Ransby.

Issues remain

Even though recent and upcoming changes to the Danish pension system have been commended, many commentators insist issues remain, which must now be addressed.

Akademiker Pension, a public pension provider with €17 billion assets under management, chief of membership, Vibeke Aagaard, praises the pension system for being "very flexible in accommodating changes in working life".

However, many pension schemes have urged the Danish government to amend the system to grant seniors greater flexibility in the way they choose to work. Sampension is one of these, with Lindkvist arguing the system should make it easier to work part time as a senior. She suggests the system should provide pensioners with the option to temporarily stop receiving their pension and return to work if they wish.

Ransby agrees and is critical of the current inflexibility in a system that stops many pensioners who want to work again from pausing their pension. "If you figured out that it was too boring or you are still too fresh to retire, it should be possible to pause your pension then work for a few years and then start your pension again," she says.

Introducing a change to the pension system to allow seniors to return to work in a more flexible way would also help reduce the workforce shortage created by an ageing population, adds Ransby.

Greater flexibility in the retirement system would not only benefit pensioners, argue supporters of the reform, it could also benefit savers under the current retirement age.

"It is worth considering increasing the flexibility for contributions so that people can plan their contributions according to life circumstances, and maybe to provide the opportunity for people to withdraw part of their savings along the way to support, for example, a career change," says Lindkvist.

Customers have also demonstrated an increased preference for sustainable investments, leading some pension funds to introduce climate policies.

This is another preference that could feature in a more flexible retirement system.

Birgitte Foxman suggests the government incentivise pension funds to introduce and adopt sustainable investment policies to this growing investor demand. "Some Danish pension funds have been pioneering the inclusion of ESG into their investment policies, and we would like to see this trend continue and be enforced over the coming decades – not least with respect to climate and national security issues," she notes.

Too much change?

While the recent changes to the Danish pension system are welcome, some observers believe the pace of regulatory change is making it difficult for many customers to keep up.

Lindkvist explains that even though the reforms are succeeding, the system has become so complex that ordinary people are struggling to understand it.

"The legislation changes all the time, which weakens the Danes' trust in the system. For instance, many young people believe the national pension scheme won't exist when they retire," she says.

The pace of change needs to slow down, concludes Lindkvist, and the pension system must be simplified and become more transparent to allow customers to understand how reforms will affect their retirement income.