Denmark

There is a public basic scheme with an income-tested supplement for low-income pensioners. There are also two schemes based on individuals' contribution records, the ATP and SP, or special pension savings schemes. In addition, voluntary occupational schemes cover about 80% of the workforce.

Qualifying conditions

The normal pension age is 65 (67 for people born before 1 July 1939). A full state old-age pension requires 40 years' residence. Shorter periods qualify for a pro-rated benefit (subject to a minimum of three years' residence). A full entitlement under the labour-market supplementary pension (ATP) and the special saving scheme (SP) requires a full career of contributions. The ATP scheme was established in 1964 and a full career is considered as full-time contributions at the normal rate since this date.

Benefit calculation

Basic

The full amount is DKK 4 377 per month or DKK 52 524 per year, equivalent to 17% of average earnings. There is an earnings test which means that the benefit will be reduced if pay exceeds DKK 223 200 per year (around three-quarters of average earnings). The benefit is withdrawn at a rate of 30% against earnings above this level. (The indexation of the basic pension amount is described below.)

Targeted

The full pension supplement is DKK 4 406 per month or DKK 52 872 per year for single persons (again, around 17% of average earnings). The amounts are tested against all sources of income (including ATP, SP and voluntary occupational pensions) apart from the basic pension amount. The pension supplement is withdrawn once income exceeds DKK 49 200 a year for single persons (around 16% of average earnings). The withdrawal rate is 30% of income above the threshold for a single person.

The basic amount and the pension supplement are uprated annually in line with average earnings. If nominal earnings growth exceeds 2% a year (measured over the previous two years), a maximum of 0.3 percentage points of the excess of earnings growth over 2% is allocated to a social-spending reserve. The baseline economic assumptions are that nominal wage growth is above 2%, and so the maximum allocation to the reserve is taken into account in the modelling.

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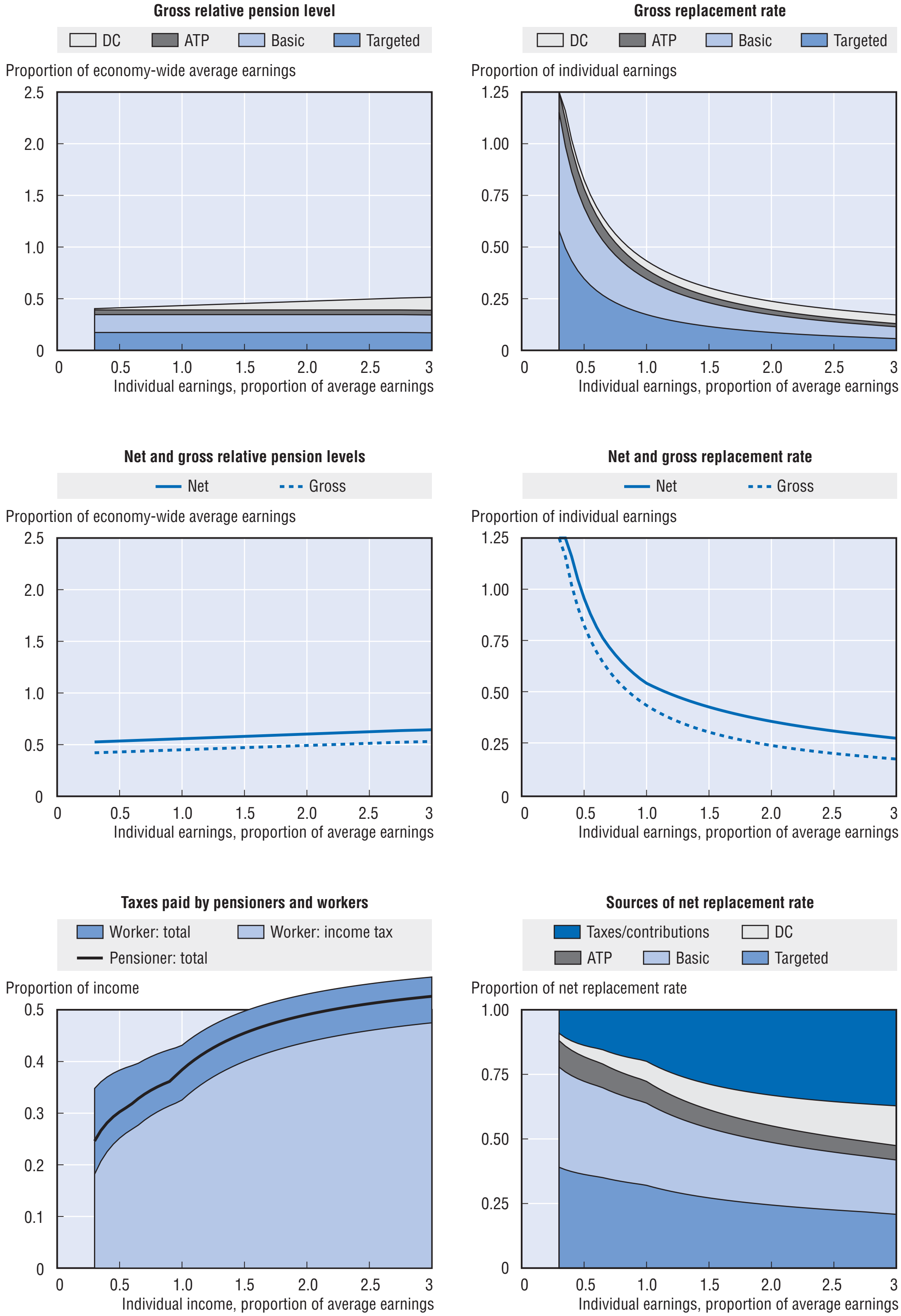
Pension modelling results: Denmark



Source: OECD, based on information provided by the countries.

ATP scheme

The ATP scheme is based on deferred annuities. Contributions are split with two-thirds paid by the employer and one-third by the worker. The contribution amount depends not on earnings but on the number of hours worked as shown in the following schedule (for monthly paid workers):

Monthly hours	< 39	39-77	78-116	> 116
Contribution, DKK/month	0	74.55	149.10	223.65

Thus, a full-time employee in the private sector paid DKK 2 684 in 2002. The value of the contribution is adjusted sporadically based on negotiations between the social partners. For example, an increase of 9% has been agreed for 2006. However, this will only partially make up for earlier lags behind the increase in average earnings. The modelling assumes that the contribution will increase in line with average earnings, which has been the broad pattern since the introduction of the ATP scheme in 1964.

Until 2002, each DKK 396 of contributions earned DKK 100 of pension benefits from 67 regardless of the age at which they were made. Currently, an assumed nominal interest rate of 1.5% is applied to the value of contributions paid. Thus, contributions made earlier in the working life earn more benefits (because of the compound interest effect). ATP is a "with-profit" scheme: if actual returns exceed 1.5%, pensions may be increased. In the model, it is assumed that the ATP earns the same interest rate as assumed for funded defined-contribution schemes in other OECD countries.

The ATP is obliged to increase pensions in payment in line with price inflation if its financial condition allows. The modelling assumes full indexation to price inflation.

Defined contribution

Employees, self-employed and recipients of unemployment and sickness benefits contribute 1% of earnings to this mandatory scheme. This, along with accumulated investment returns of the fund, is paid out after the worker reaches pension age. If the balance is less than DKK 15 000 at age 65, it is paid as a lump sum. If it is between DKK 15 000 and DKK 120 000, then $^1/_{10}$th of the balance is paid out in the first year, $^1/_9$th the next year etc. If the balance is more than DKK 120 000 at age 65, then the payments are monthly with annual adjustments to reflect the market value of the account. Investments are currently managed centrally. But from 2005, members will be able to choose their manager and portfolio. There is no ceiling to earnings covered by this scheme.

Voluntary occupational

These schemes are fully funded defined-contribution schemes agreed between the social partners. Coverage of these schemes is almost universal. Contributions schemes are typically between 9% and 17% of earnings. Benefits are usually withdrawn as an annuity. The assumed interest rate is 1.5% for recent contributions or new schemes. However, the schemes operate on a "with-profit" basis, with pension increases depending on the return on assets and mortality experience of the fund. Many schemes also allow lump sum withdrawals. From 2000, the annuitisation calculation must use unisex mortality tables.

Targeted cash benefits and services

There are special needs- and income-tested benefits for over 65s. In addition to free health and long-term care, favourable housing benefit rules, heating allowances and other benefits are available.

Personal income taxes and social security contributions

Taxation of pensioners

There are no special tax allowances or credits for pensioners.

Taxation of pension income

Pension payments are subject to income tax. There are no special reliefs for pension income.

The payment under a funded pension scheme is subject to a tax of 40% on lump-sum withdrawals. Since 1984, the return on assets in pension schemes has been subject to a special tax. From 1984 to mid-1998, bonds were taxed at a variable rate. The rate depended on the interest rate and inflation (*i.e.*, real-interest tax). The rate ranged between 40 and 50% for most of the period. From mid-1998, the return on equities was taxed at 5%. In 2000, the tax was changed to a fixed rate of 26% on bond returns and 5% on equities. Since 2001, the rate has been 15% for all types of investment income. This tax regime applies to both the SP and to occupational plans.

Social security contributions paid by pensioners

Pensioners do not pay social security contributions.

Pension modelling results: Denmark

Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	2.5
Gross pension level	41.2	42.3	43.3	45.4	47.5	49.6
(% of average earnings)						
Net pension level	51.9	53.0	54.1	56.4	58.7	60.9
(% of average net earnings)						
Gross replacement rate	82.4	56.4	43.3	30.3	23.8	19.8
(% of individual earnings)						
Net replacement rate	95.6	68.0	54.1	42.5	35.5	30.8
(% of individual net earnings)						
Gross pension wealth	7.0	7.2	7.4	7.7	8.0	8.3
(multiple of average earnings)	*8.1*	*8.2*	*8.4*	*8.7*	*9.0*	*9.3*
Net pension wealth	7.5	7.7	7.8	8.2	8.5	8.8
(multiple of average net earnings)	*10.2*	*10.3*	*10.5*	*10.8*	*11.2*	*11.5*

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