

PART II

Chapter 6

**Ageing and the Public Service
in Denmark**

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Executive Summary

Relative to other OECD member countries studied, the ageing strategy of the Danish government is quite robust, even ambitious.

The strategy effectively balances two sets of measures and priorities, corresponding to the two main objectives of the ageing strategy: containment of rising public expenditures (pensions, public wages, healthcare, etc.) and maintenance of capacity. Three major dimensions of the ageing strategy can be identified: i) the human resource aspects, designed specifically for the central government; ii) the institutional and welfare aspects, which entail public sector-wide restructuring; and iii) the adaptation of management tools.

- Whereas several OECD member countries have seized upon ageing as a window of opportunity to downsize the public workforce at the central level and manage pension liabilities through increases in mandatory contribution periods and constraints on early retirement, the Danish ageing policy follows a different path to ageing reform, implementing an expansive framework for retaining older workers. This is a function of both the relatively favourable demographic situation in Denmark and of policy choices.
- Workforce planning and reorganisation are also at the core the ageing strategy, along with an institutional and staff reallocation strategy. Unlike in many other countries, proactive measures have been planned to ensure that the new demand for public services due to demographic changes can be satisfied (new institutional arrangements, reallocation of resources and staff).
- Finally, a major effort is being made by the Danish government to strengthen some of its management tools and adapt them to better meet ageing challenges. These efforts include mobility, recruitment and competence development measures.

1. Ageing: Facts, figures and forecasts

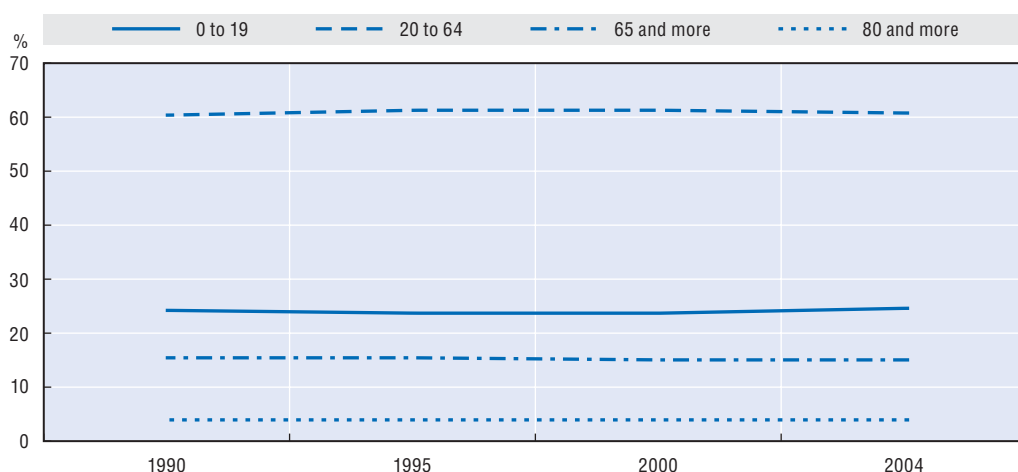
1.1. Ageing population and labour market: facts and consequences for public finance

1.1.1. Ageing population¹

The ageing situation is less dramatic in Denmark than it is in other countries, with a relatively slower increase in life expectancy than in many OECD member countries. Up to 2010, the population in Denmark is projected to remain close to its present size of 5.38 million and thereafter contract slowly to 5.15 million by 2050.²

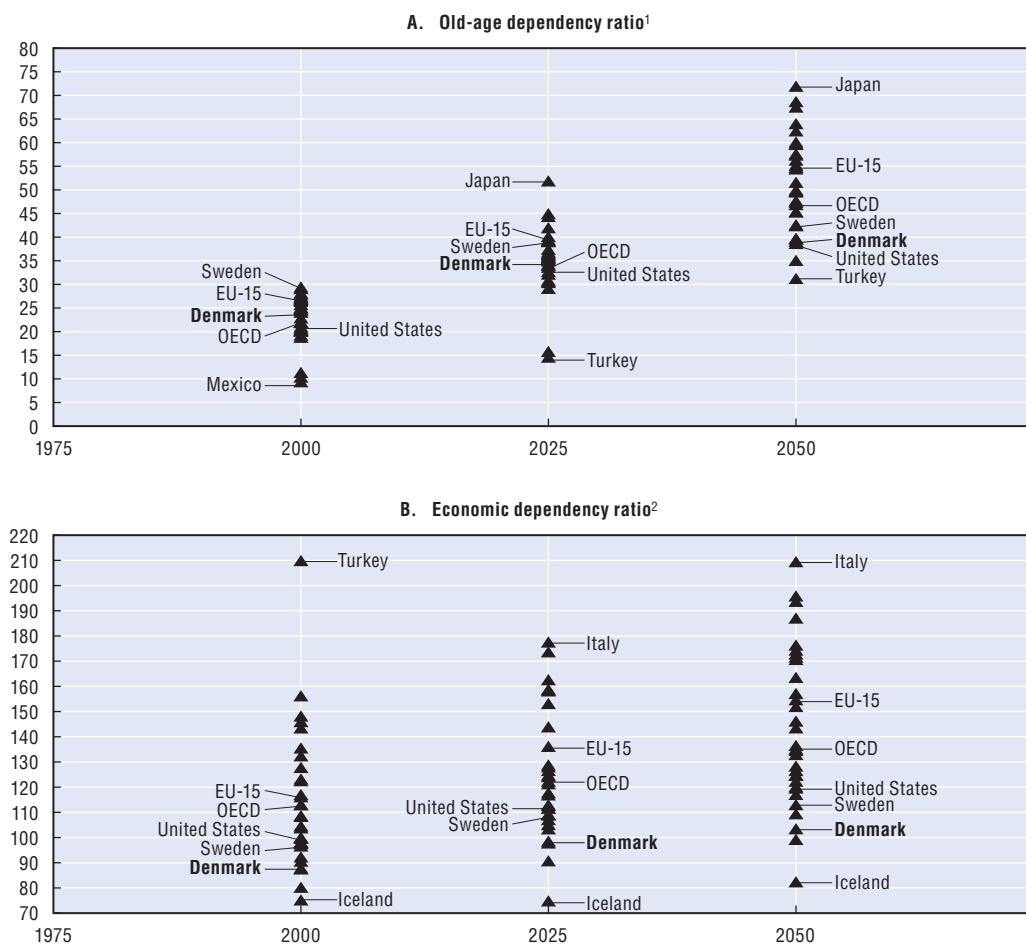
The old age dependency ratio is expected to rise from 24% in 2000 to around 39% in 2050. This means that in 2050 there could be around 2.6 individuals of working age for every person over the age of 65, compared to a ratio of four-to-one in 2000. With a likely fall in the number of persons under the age of 20 by 2060, the increase in the dependency ratio over the next five decades appears less problematic than the increase in the old-age dependency ratio. Nonetheless, the economic dependency ratio could rise from 88% in 2000 to 99% in 2025 and reach 104% in 2050. Although these figures are less dramatic than in

Figure 6.1. Proportion of age bands in the total population



Source: Eurostat, national sources.

Figure 6.2. Demographic dependency ratio in OECD member countries, 2000-2050



1. Ratio of the population aged 65 and over to the population aged 20 to 64.

2. Ratio of people who are inactive to those in the labour force. The labour force projections assume that participation rates by age and gender remain constant at their 2000 levels.

Source: *Ageing and Employment Policy/Vieillesse et politiques de l'emploi*. Denmark, OECD, 2005, drawn from national population projections (central variant) except for Greece and Luxembourg where data come from the 2004 Eurostat projections, and for Mexico and Turkey where data come from United Nations, *World Population Prospects 1950-2050* (2002 Revision).

other OECD member countries, the increased burden on those in the labour market will still be significant in Denmark.

1.1.2. Ageing labour market³

Although the total labour force participation rate in Denmark is among the highest in the OECD, that of the 60-64 age group is slightly below the OECD average. Depending on the labour force participation rates of older people, over the next five decades the total labour force might decrease by about 12%, increase marginally, or increase by as much as 120 000.

On the other hand, the participation rate of older workers in the public sector, specifically, is high. This is an interesting structural specificity of the public workforce, allowing for an easier transition from a management system based on high staff turnover due to early retirement to a system focused on the retention of older workers due to the shrinking 20-64 cohort.

1.1.3. Assessing the ageing problem from a macro perspective: Financial difficulties ahead

OECD data projections⁴ have generated several scenarios including demographic effect measurement, health status of the old population and income elasticity: public health care expenditure is expected to rise from 5.3% of GDP in 2005 to a bracket of 5.6-8.8% in 2050 (the median scenario forecast is 7.0%).⁵ As a percentage of GDP, public expenditures, as well as the forecasted increase in public expenditures, are significantly below the OECD average.⁶ However, projections including long-term care expenditures are the following: from 7.9% in 2005 to a bracket of 10.3%-12.9% of GDP in 2050.⁷ Long-term care expenditures, as a percentage of GDP, are significantly above the OECD average and are forecast to increase significantly more than the OECD average.

As a result, total public health and long-term care spending, which is now significantly above the OECD average, is expected to increase slightly (compared to other OECD member countries) and to converge towards the OECD average in 2050. The overall increase is, however, significant in economic terms.

Meanwhile, public expenditure on education as a share of GDP is forecast to decrease from 7.6% in 2002 to 7.3% in 2030 and 7.5% in 2050.⁸ The decreasing trend in education expenditure is quite smooth compared to the sharp increase in projected health and long-term care expenditures. In this respect, Denmark's primary fiscal challenge has more to do with public service delivery issues than with other age-related spending, like pension liabilities.

In January 2001, the government launched the 2010 Plan for Fiscal Sustainability. In its 2004 report, the Welfare Commission presented projections for the adjustments needed to ensure financial sustainability to 2040. Based on the assumption that welfare schemes remain unchanged, these projections indicated that public savings would need to reach 3.7% of GDP from 2021 onwards.⁹

1.2. Ageing civil service

1.2.1. Current situation

The possibility of a shrinking labour force is an economy-wide issue, but the situation is much more critical in the public sector. Almost 33% of Danish state sector employees are

over 50 years of age, whereas in the private sector the figure is 20%. The largest group of employees in the central state sector are those aged 55-59, whereas the largest group of employees in the private sector is much younger, aged 25-39.

**Table 6.1. Age structure in the Danish state sector
(state sector, including agency employees)**

Age	Number of employees (man-year)
Less than 20 years	366
20-24 years	5 119
25-29 years	12 625
30-34 years	18 278
35-39 years	20 333
40-44 years	21 723
45-49 years	21 823
50-54 years	21 693
55-59 years	22 065
60-64 years	9 951
Over 65 years	1 743

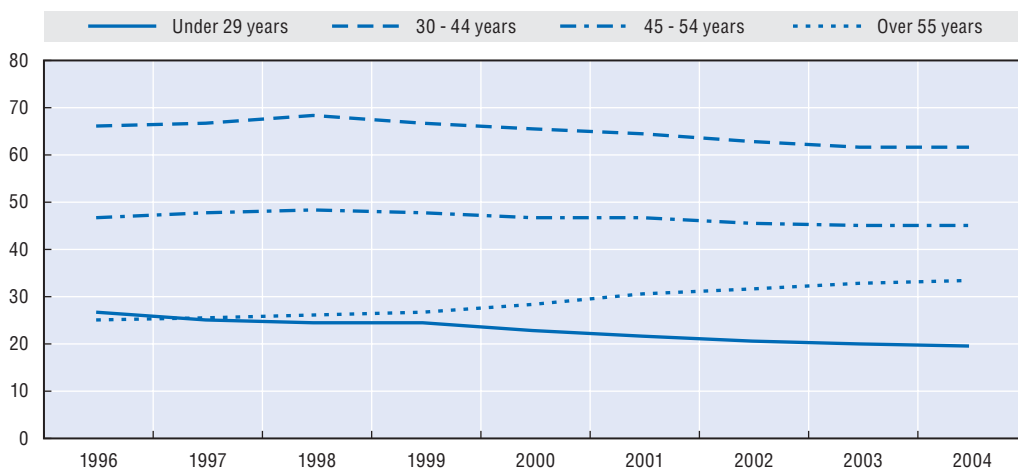
Source: Ministry of Finance, State Employer's Authority, The Negotiation Database, 2Q 2005.

Since 1996, the number of people over the age of 55 in this sector has increased, due only in part to the political agreement on defence that included a staff reduction in this sector (the defence sector generally has a higher percentage of younger employees). It is also due to the workforce adjustment policy of the last few years, which has led to a reduction in the number of recruitments in order to meet government budgetary targets. Thus, workforce rejuvenation has been constrained by the workforce planning strategy.

1.2.2. Large-scale departure

According to a 2002 Ministry of Finance document on state sector personnel, projections for the civil service staff show that the number of active civil servants is

Figure 6.3. Age structure in the Danish state sector over the last 10 years



Source: Ministry of Finance, State Employers' Authority, The Negotiation Database, 2nd Q for each year.

expected to fall from the current level of approximately 117 000 employees to roughly 80 000 in 2010. These projections include all causes of departure.

Projections for the age structure of the Danish state sector show that the number of employees under 40 will decline between 2001 and 2011, while the number of workers over 40 will remain steady.

Contrary to recent trends, the number of older workers will remain constant, but their proportion of the workforce will increase until 2011. This means that the proportional size of the younger cohorts will decrease in the coming years. Indeed, large-scale departures and the increase in the proportion of older workers will begin significantly from 2010 at the central government level. Large-scale departures will commence abruptly in 2010 and continue at a constant rate until 2025. From 2010 to 2020, 30% of civil servants will exit the workforce.

Figure 6.4. **Number of active civil servants**

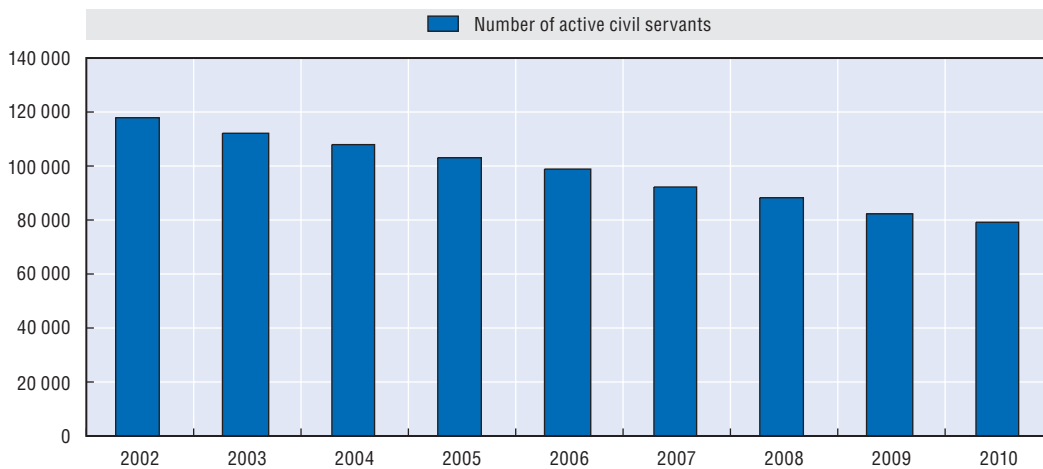
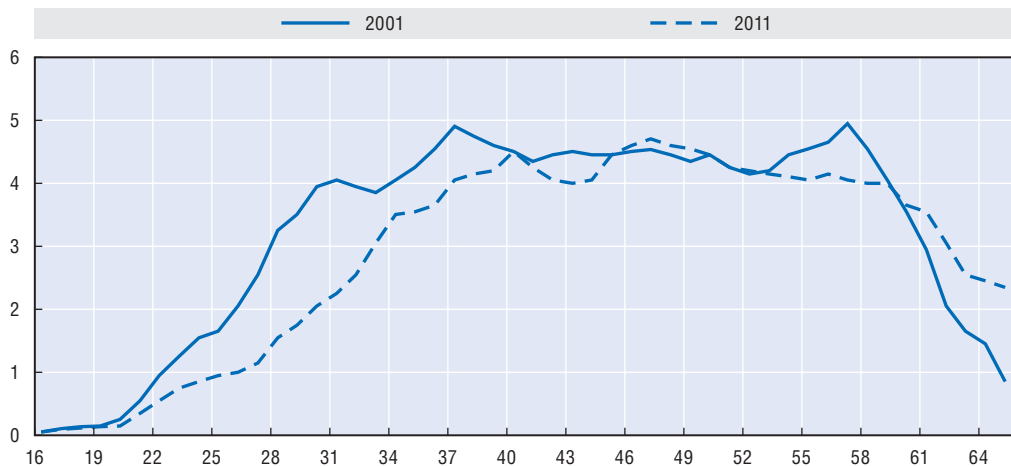


Figure 6.5. **Age distribution in the Danish state sector: 2001 (observed) and 2011 (key forecast)**



Source: ISOLA 2Q 2002, ISOLA PROMS 2001/2002. Ministry of Finance, State Employer's Authority, "Arbejdsmarkedspolitisk redegørelse for staten 2002", November 2002.

1.2.3. Most affected sectors and functions

Central government ministries and agencies

The data show that the Ministries of Ecclesiastical Affairs, Foreign Affairs, Culture, Taxation, and Education will be particularly affected by staff departures due to the relatively high percentage of employees aged 55 and older.

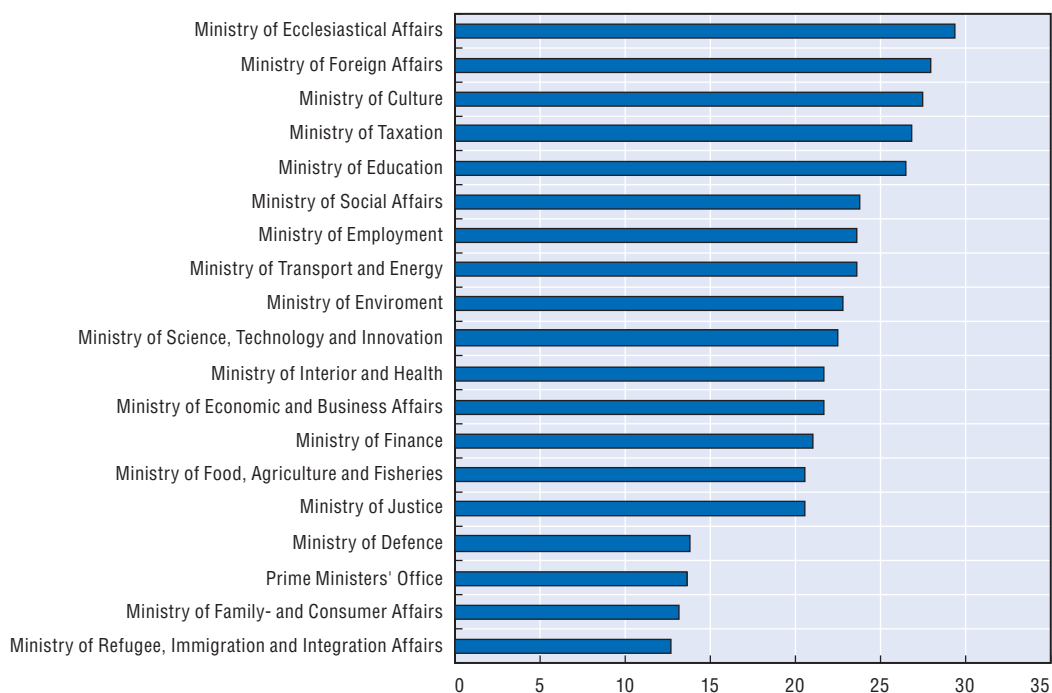
Local government, education and health sectors

There is no specific data on the demographic structures of the education and health sectors since these sectors are the responsibility of local government (including regions and municipalities), which fall outside the scope of the statistical surveys.

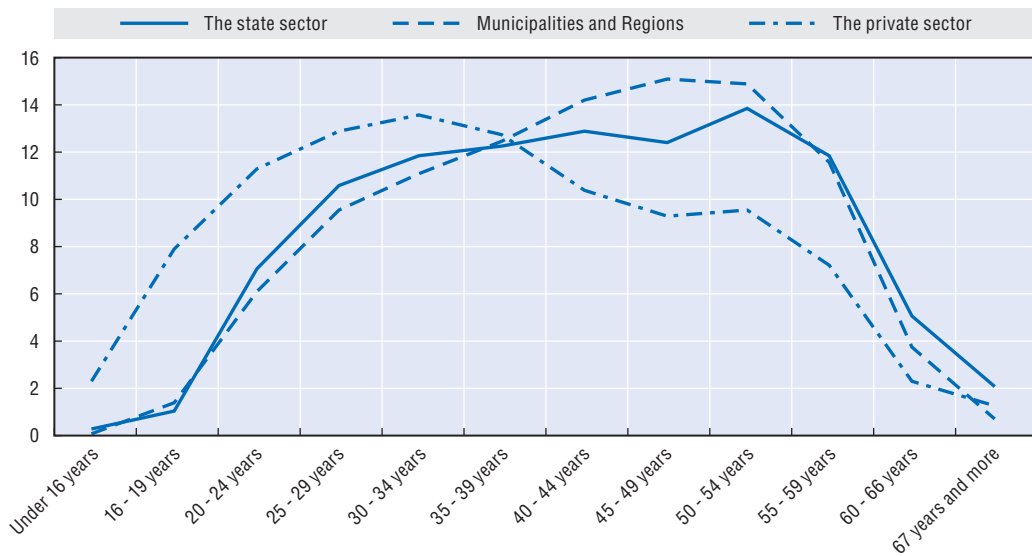
However, a general demographic trend has been identified at the municipal and regional government level: whereas the largest group of employees at the central government level is the 55-59 cohort, the largest groups at the municipal and regional government level are the 45-50 and the 50-55 cohorts, each at 15% of the total workforce. Finally, the 55-59 cohort is comparable at both levels of government, at around 12% of the total workforce. The proportion of older workers at the regional and municipal government level reaches 30%.

Given this demographic reality, local governments will be more affected than the central state sector in terms of the scale of departures. In addition, the large-scale departures will be longer and more sustained at the local government level: the peak will occur in 2015 and will continue at constant levels until 2025. As a result, health and education sectors, managed at the local level of government, are forecast to be the most affected by the ageing process.

Figure 6.6. **Per cent of employees in each ministry over the age of 54 years**



Source: Ministry of Finance, State Employer's Authority, The Negotiation Database, 2Q 2005.

Figure 6.7. **Age distribution according to sector (%), 2001**

Source: Statistics Denmark, StatBank Denmark (employed wage earners distributed by sector, working hours, age and gender).

Leadership and management functions

In Denmark, the central government has a relatively high number of older managers. This is a function of the broader age structure (i.e. a high proportion of workers that will retire from civil service in the next five to 15 years), but also of the nature of managerial recruitment policies (i.e. managers are recruited later in their careers, especially top managers).

2. Adapting the civil service to ageing challenges: Government strategy and actions

2.1. Design and leadership of ageing strategies

The Ministry of Finance's State Employer's Authority exercises administrative leadership for the ageing strategy, as well as for all other civil service HR strategy. The central government's ageing policy is delegated and devolved – each state institution is responsible for its own policy regarding ageing, which is normally part of its personnel policy. A survey from September 2004 showed that 71% of Danish state institutions had formed their own local policy on ageing.

However, the Ministry of Finance is also responsible for providing statistical tools for all ministries and general statistics regarding all employees in the state sector. In this respect, the Ministry of Finance ensures that the ageing policy is coordinated across agencies and ministries.

The ageing strategy can be divided into three main areas:

1. First, it is part of the global human resource management plan for the public sector, the Danish government's Personnel and Management Policy. As part of this policy, in June 2003, the Ministry of Finance's State Employer's Authority published a dossier entitled *Older Workers in the State Sector: Knowledge and Inspiration to Develop and Retain Older Workers*. This aspect is specific to the civil service at the central government level.

2. Second, the public sector ageing policy includes workforce adjustments and institutional plans for the entire public sector, including at the local government level. It comprises plans to reshape public service delivery, including resource and staff reallocations across levels of government, so as to respond to the increasing demand for public services due to an ageing population.
3. Third, the ageing strategy is coordinated and linked with the government's broader economy-wide plan for the labour market, adopted in February 2005, entitled *New Goals – Government Platform*. The ambition is to increase employment by up to 60 000 people by 2010 across the entire labour market, in order to integrate macroeconomic constraints into ageing policies.

2.2. Measures taken to meet the challenges of ageing

2.2.1. Decreasing costs and increasing productivity, while maintaining capacity

Pension reform

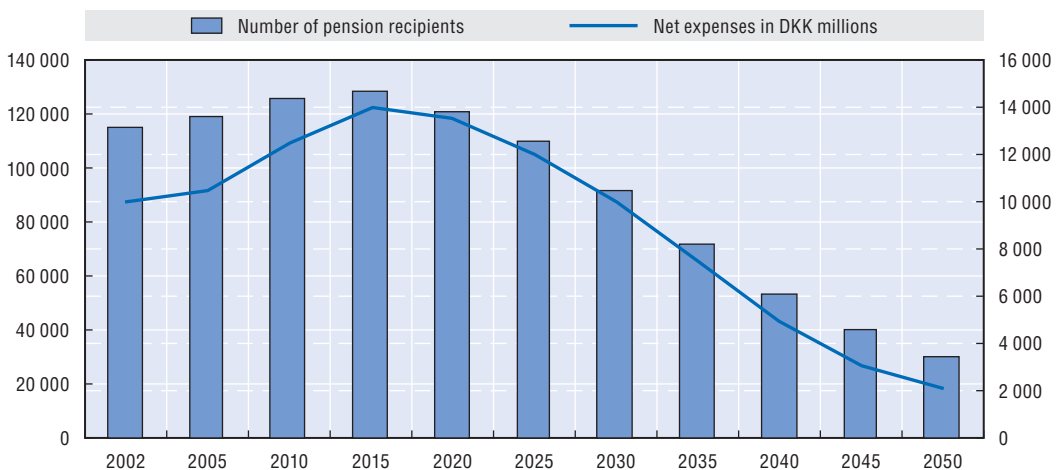
Public expenditure increases due to pension costs

The public sector scheme for civil servants is entirely separate from the broader national scheme. There are separate but identical schemes for central government civil servants and local authority civil servants. Between 1995 and 2006, the cost of pension liabilities reached 10.5% of the state budget (this only includes those employed at state level). Based on a 2002 projection of pension expenditure by the Ministry of Finance, the number of pension recipients is forecast to grow by 30 000, between 2005 and 2015, and then decrease steadily until 2050. Similarly, the cost of public pensions will increase from DKK 12 billion, currently, to DKK 14 billion, by 2015, and then decrease.

Pension benefits

Provisions relating to the calculation of pension benefits have not been reformed, nor have the minimum legal requirements for full pension benefits (again, this is only for staff employed at state level). One of the first steps of pension reform has been to focus on a

Figure 6.8. Pension recipients and net expenses until 2050



Note: Civil service pensions include own and surviving spouse pension, as well as full-time temporary childcare.

Source: State Employer's Authority's projection. Prices are in 2003 prices (wage and price adjustment for 2003 Budget Act = 1 026).

reduction of public pension coverage. This has mainly been the result of a systemic shift from civil service employment towards employment based on collective bargaining agreements made in 2001 (normalization process). The number of public pensions has also been reduced due to the workforce downsizing trend at the central government level. Accordingly, the central government civil service consists mostly of senior managers, judges, police, and prison and defense staff. Other groups are typically employed under collective bargaining agreements similar to those in the private sector.

Retirement age and contribution period

The normal retirement age at full pension has been reduced from 67 to 65 recently (fully in force as of July 2006). Although this appears to run opposite to the trend in other OECD member countries, this decision was based on the fact that the working population over the age of 65 is quite small, and thus not worth devoting substantial resources to retaining them longer. It was decided to introduce a combination of measures aimed at retaining older workers aged from 60 to 65, with a specific focus on those aged between 62 and 65, both for capacity reasons and cost savings.

It should be noted that the reduction in retirement age has not decreased the minimum contribution period, which is set separately. The mandatory minimum retirement age with full pension is 65, and the maximum contribution period is 37 years. However, the civil servant pension scheme is a pension assurance scheme, which is not dependent on the amount of contributions paid. The only limit is the pension eligibility age: three years service after the age of 25. For this reason, policies to delay large-scale departures have not been focused on increasing the retirement age but on incentives to retain older workers.

There is no legal mandatory retirement age in the Danish state sector in general. Flexible retirement limits have been set up, providing various options: the upper limit is 70 (mandatory retirement age) and the normal retirement age (understood as the minimum limit) is 65. The collective bargaining agreement with employees covers people up to the age of 70. If the employer wants to prolong the agreement, a specific contract with the individual employee is required.

Several retirement arrangements have recently been launched to retain older workers: i) for civil servants, supplementary pension benefits, as well as more seniority in the civil service pension scheme and/or a retirement bonus; ii) for employees under collective bargaining agreements, a retirement bonus (based on seniority) as well as two to four years of extra pension contributions to the private pension scheme.

Early retirement schemes

There are no mandatory early retirement schemes, as such, since there is no legal retirement age. However, three categories of “early retirees” can be identified and specific measures have been introduced to constrain each of them:

- Civil aged between 55 and 60: Very constraining measures have been introduced. The primary aim is to reduce the cost of pension liabilities and the wage bill, but also to delay large-scale departures (early retirees reduce costs over the short-term). A specific measure has been launched in which employees over 55 are “down-shifted”, with full or partial pension benefits and/or salary compensation over a certain period of time (three years).

- Employees aged between 60 and 65: Measures introduced for this age group include a combination of incentives and mandatory measures. In the event of retirement between the ages of 60 and 64, pension benefits are reduced by 2% to 10%. Furthermore, if retirement occurs before the age of 62, pension benefits are reduced by 50% of the supplements granted to pensioners below the age of 65. It seems that the main objective of these policies is to reduce early retirement between 60 and 62. For retirees aged between 62 and 65, measures mostly take the form of incentives, and are thus primarily designed to delay large-scale departures (not only to contain the pension costs). This is also part of a capacity challenge, since there is an attractiveness and efficiency interest for the public sector to retain competent employees whose skills are in demand. Thus, employees aged between 62 and 65 are also targeted by these policies. Indeed, although the total labour force participation rate in Denmark is among the highest in OECD, the participation rate for the age group 60-64 is slightly below the OECD average.¹⁰
- The third category of early retirees comprises special groups of civil servants with lower mandatory retirement ages – especially in the police and defence – of 60, 63 or 65 (see Table 6.2).

A total of 26 615 state sector employees have a lower mandatory retirement age, which represents a relatively significant proportion of civil servants. These rules have not been reformed.

Workforce replacement and adaptation to structural changes

Downsizing

As shown in Figure 6.9, the Danish state sector has been slightly downsized over the past few years (from 141 993 employees in May 1999 to 134 500 employees in December 2003).

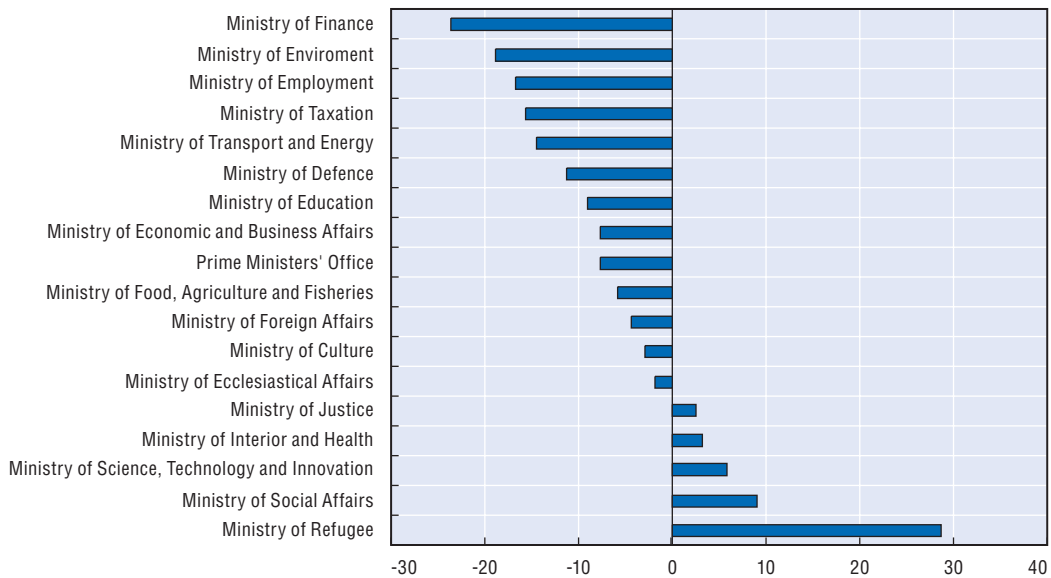
The relative changes show that the Ministries of Finance, Environment, Employment, and Taxation have had the largest reduction in staff. At the central government level, two main reforms have been achieved: drastic reduction of the central government units, through normalisation and partial privatisation. However, the actual number of posts open for recruitment has been quite stable over the last five years. As underlined by the Ministry of Finance, the workforce downsizing policy has been neutralised by a slight increase in the number of departures due to retirement. This means, basically, that the balance has been achieved through a high replacement rate of retirees.¹¹ It is difficult to determine whether the downsizing of 8 000 employees is due to the public sector-wide workforce adjustment policy or to a replacement rate that is not exactly at parity (*i.e.* 1 departure = 1 new recruit).

Table 6.2. **Number of employees with a lower mandatory retirement age**

Employer	Number of employees	Mandatory retirement age
Police	11 700	63
Criminal Correction	3 800	63
Defence	9 000	60
Air Traffic Management	615	60
Danish State Railways	1 500	65
All	26 615	

Source: "Longer on the Labour Market", Ministry of Employment, Ministry of Social Affairs, Ministry of Economics and Business Affairs and the Ministry of Finance, June 2003.

Figure 6.9. **Relative change in number of employees (% of total for each ministry), 1999-2003**



Source: Ministry of Finance, State Employer's Authority, *Statens personale i tal 2004 (The State Sector Personnel in Denmark)*, 2004, page 9, based on figures from ISOLA.

Replacement and other recruitment policies

The state sector will need to recruit an additional 1 600 employees per year until 2011. This short-term evaluation is already very useful for planning an active capacity maintenance strategy for the coming years. It seems that the upcoming workforce adjustments will be reworked as part of the ageing policy in order to meet related capacity challenges. As explained by the Danish administration, “this could imply an increase in recruitment rates if it is decided to maintain the total number of employees at the present level”.

In addition, unlike in some OECD member countries, the upcoming workforce adjustment may turn out to be proactive: it is already certain that the administration will not maintain recruitment freezes.

Indeed, the Ministry of Finance, as specified in the Danish State Personnel and Management Policy of 2003, is working towards a broader recruitment policy including older workers. Besides, this proactive recruitment strategy is planned for the public sector as a whole, not only for the central government level. One sector targeted for additional recruitment has already been identified: the size of the staff providing care for the elderly will have to be increased in the coming years.

However, the Danish government remains vague about the current and the prospective personnel replacement rate. There is some evidence that the current workforce adjustment includes a set replacement rate (see above), but the policy remains unclear as to the rate itself. Furthermore, there is no specific replacement rate established at the public sector-wide level.

Finally, this workforce strategy constitutes part of broader currents in the changing profiles of new recruits (i.e. the content of the recruitment policies). Recruitment rates and

workforce planning are correlated to broader efficiency goals. Over the last 10 years, there has been a shift from recruits with lower education levels to people with higher education levels (for instance, academic degree-holders). This trend is expected to continue in the future. However, as for the replacement rate, the Danish state has no centralized information base on future needs with regards to specific profiles.

The component of Danish ageing policy dedicated to management functions is linked to financial considerations. The renewal policy for management capacity seems to be tied to cost containment policies, as top managers receive a partially seniority-based remuneration.

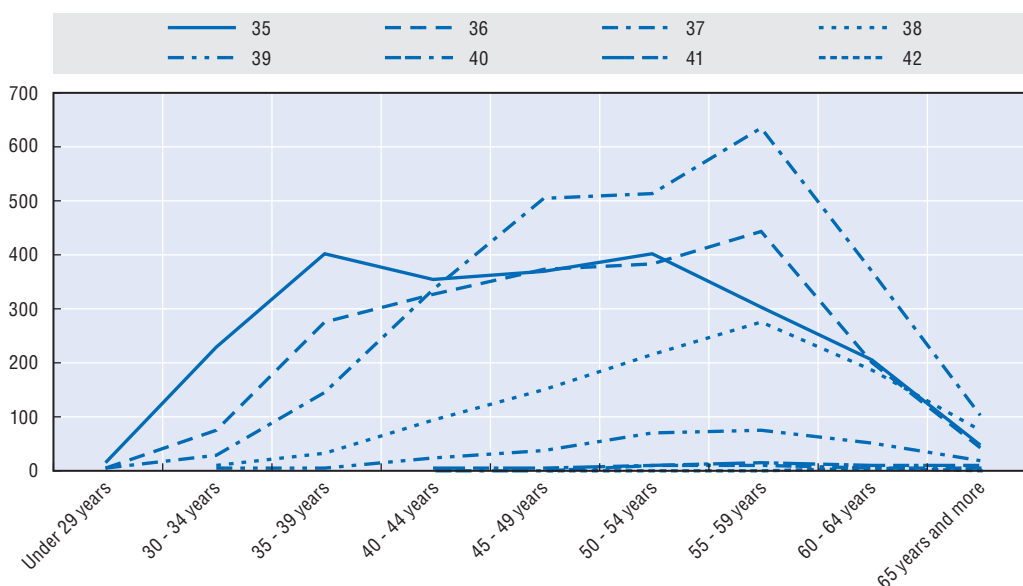
Figure 6.10 indicates a correlation between wage brackets and age. All employees in the 38-42 wage brackets are top managers in the Danish administration. Employees in the 36-37 wage brackets comprise part of the middle management and chief advisors. Employees in the 35-36 wage brackets can be line managers or specialists in the state sector.

A replacement policy for managers is already in place, deploying two main management tools: increased internal vertical mobility and additional merit-based recruitment. A policy of identifying other personnel in an organisation who are capable of taking over managerial functions has already been implemented. Second, some institutions use the options in the new Danish pay system to attract persons with needed qualifications.

Public sector attractiveness policies/programs

The Ministry of Finance's State Employer's Authority has placed a high priority on working to improve the competitiveness of the sector in attracting new employees to the various state institutions. The age structure of the public sector – in particular, the large proportion of older workers – will increase the sector's attractiveness challenges. Additional recruitment of personnel with specific skills will likely be required, and the

Figure 6.10. **Age distribution related to wage-brackets**



Source: Ministry of Finance, State Employer's Authority, ISOLA (Information System on Wage and Working Conditions), Q1 2005.

private sector will experience lower attractiveness challenges (see Section 2). Thus, attractiveness objectives may have to become an increasing priority of the ageing policy.

The current attractiveness policy includes marketing activities targeting desirable prospective recruits, for example newly educated academics (at career and education fairs, etc.). It also includes broad changes to the pay system (making it more attractive for younger people to enter the state sector) and a modern and active personnel policy (being a frontrunner in relation to HRM, as compared to the private sector). Differences in retirement and pension arrangements, between the public and private sectors, may turn out to favour the former, creating indirect incentives to attract skilled recruits. However, this advantage will be eliminated in the future. New personnel will be employed under collective bargaining agreements that provide pension schemes similar to those in the private sector. Against this background, the need is already apparent for new instruments to increase the attractiveness of the public sector, given the context of imminent large-scale departures.

Some measures to ensure the attractiveness of institutions at the local government level, which manage key ageing sectors like health and long-term care, have been introduced. For instance, a rule has been instituted stating that a state civil servant's benefits may be transferred to a local authority's civil servant pension scheme without any penalty.¹² This kind of policy facilitates horizontal staff mobility across levels of government and sectors.

Additional measures

Changes in the compensation system/salary incentives

The primary financial consequence of ageing, as highlighted by the Danish government, is not pension liabilities, but high levels of remuneration for a growing number of older workers in the public sector. The pay system has been reformed independent of the ageing strategy, but the intensifying fiscal pressures due to an ageing civil service have increased the need for further reform.

The new pay system in Denmark, introduced in 1997, has been used to motivate personnel to develop their competencies and seek out new tasks. This is the result of a superstructure based on personnel qualifications and performance. In this respect, the linkage between ageing management issues and management adaptation is obvious. The new pay determination has substantially decreased the importance of seniority in the pay scale. It may have a deep impact on upcoming workforce planning, allowing for a policy of active recruitment to replace departing skills.

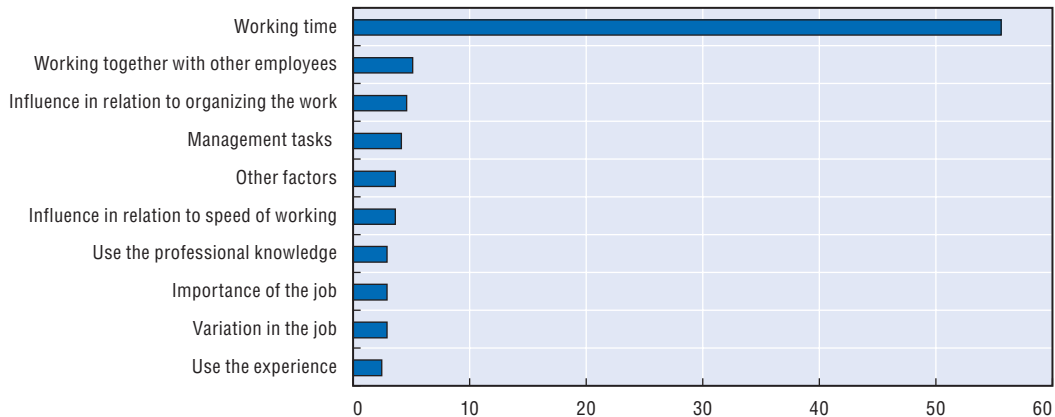
Incentives to delay the effective retirement age through improved employment conditions

Among other policies, Denmark has introduced training and coaching for older workers, including individual career counselling (from outside the institution). However, older workers have not participated in training programs to the same extent as younger workers. The programs are often not geared to the needs of older workers, who require different kinds of skill development than younger workers, i.e. less academic and more based on their considerable practical experience.

Flexible working time and satisfaction

This is one of the main management tools to be developed as part of the older worker retention policy. The Danish Ministry of Finance's State Employer's Authority conducted a

Figure 6.11. **The most important factors in relation to stay or leave the workplace (in %)**



Source: Ministry of Finance, State Employer's Authority, IDEAL-project, 2001.

study, in close cooperation with unions, on the retention of older employees in the workplace (called the Ideal Project). As a part of this study, surveys were conducted among older employees on the factors that influence their decisions on whether to leave the workforce. This survey clearly shows that working time is the crucial factor (see Figure 6.11).

The collective bargaining agreements allow employers to give employees over the age of 60 a reduction in the number of working hours of up to 15 hours per week with partial or full compensation in relation to pension. For employees over 62, employers can grant up to 12 days of sabbatical with full salary. For employees over 60, the option of a reduction in working time with full or partial compensation in relation to pension has been implemented.

Management policies dedicated to older workers

Some Danish state institutions have introduced special performance interviews for older workers (Senior Interviews).

Mobility and career progression

One of the main objectives of the upcoming capacity maintenance strategy in the ageing context is to increase mobility across the state sector, as well as across the public sector as a whole (i.e. vertical and horizontal mobility).

Knowledge management and training

Competency development has been identified as the second main priority of the central administration's HR ageing policy. The Danish state sector expects all employees to develop their own competencies and skills. This policy is followed up with a number of initiatives to increase awareness of the need for skill development for older workers and to give them new possibilities. This implies efforts to develop new training programmes, etc.

One aspect that may become important, in the context of large-scale departures, is the transfer of institutional memory. Specific frameworks have already been implemented in the civil service for this purpose. Danish state institutions use various

mechanisms to ensure that knowledge will be transferred between older workers and their younger colleagues, including coaching and mentoring. For personnel over the age of 62, flexible time and bonuses are often made conditional on mentoring younger employees.

Another major reform that will probably be implemented in the coming years is the development of training programs to increase competencies. This goal will be correlated with mobility reform: as underlined by the Ministry of Finance, one of the major concerns of mobility reform is to improve the general skill level among employees in order to enable such mobility. According to the Danish authorities, mobility can be used as a workforce readjustment mechanism only if the lack of skills can be directly filled by already existing personnel, even during large-scale retirement periods.

Flexible employment conditions

In most Danish state institutions it is possible to make individual agreements for telecommuting and flexible working hours for the entire staff. It is not expected that this will be further developed to meet ageing challenges.

Performance management and HRM development

There are no plans to reform the global framework for performance management. However, the specific management framework targeting older workers may be strengthened in the upcoming years. The Ministry of Finance's State Employer's Authority is creating dossiers, surveys and "guidebooks related to experienced workers."

2.2.2. Institutional changes and reallocation of resources

Institutional division of responsibilities and budget reallocation across levels of government

One of the key components of the Danish strategy is to reorganize public service delivery, creating new institutional arrangements for the healthcare and education sectors. A major reform was already adopted by Parliament in June 2005. The structural changes to the public sector entered into force in January 2007. Institutionally, two major changes were introduced:

- The intermediate level of government – i.e. the regions – were to be largely eliminated. This will lead to a restructuring of the competencies/responsibilities currently split between the state and the local levels. The responsibilities of the existing 14 regions will be divided between the municipal level and the central state level. Only five regional authorities will remain in place, but their responsibilities will be entirely focused on public healthcare services. Their primary responsibility will be to manage hospitals, in order to make health sector management more robust and efficient.
- Local governments were to be restructured, in order to create more robust and efficient entities for public service delivery. This corresponds to the goal of preparing for the increases in demand for certain public services. For this purpose, the existing 273 municipalities were to be merged into 98 larger municipalities. As underlined by the Danish government, future ageing challenges are the key impetus for the reform: "one of the most important reasons for the major structural change is the intention to increase the capacity of municipalities to meet the challenges of an ageing population."

Resource reallocation between levels of government and sectors

As in other OECD member countries, expanded budgets will be needed in certain targeted sectors, like health and long-term care. Denmark is one of the only OECD member countries studied that explicitly plans to reshape current resource allocation to favour local government units in charge of health and elderly care.

Staff reallocation according to public service priorities

Policies to facilitate and encourage horizontal staff mobility across the public sector have already been developed. This remains one of the key aspects of public sector institutional reform conducted within the ageing strategy. This institutional reform explicitly involves a reallocation of staff across sectors and levels of government, so as to respond to changing demands. In the coming years, the ageing policy will entail a transfer of staff from shrinking central government entities to local administrative units responsible for healthcare services. The aim is to ensure that skill and staff needs are met. This is the lesson learned from 2001-2002, when the Danish state sector faced major staff reorganization, including a number of lay-offs (approximately 1 600 employees).

The Danish government has prioritised sectors dealing with health and elderly care – often described as a shift from “cold hands” (employees working in control and administration) to “warm hands” (people in the care sector). Most of the newly prioritized functions are located in the municipalities and the regions. This entails considerable growth in the number of employees in the municipalities and regions and a downsizing of the state sector, which will be effected through a transfer of staff and internal mobility as well as additional recruitment in the health and long-term care sectors. It should be noted that the Danish government’s intent is not only to allocate more resources to the care sector, but also to encourage management improvements to ensure that the additional resources result in higher standards and levels of service.

3. Impact of government ageing strategy and reforms

3.1. Cost containment

Projections of pension expenditures show that the coming decade (2005-2015) will be the critical period in terms of cost increases. The main difficulties in maintaining the sustainability of pension funds will occur between 2010 and 2015, corresponding to a period of net increases in pension expenditures, but also to a peak in large-scale departures, both at the central and local levels of government.

Over the short and medium term, until 2015, it seems that the increase in pension costs is not only due to the demographic factor (increasing proportion of retirees and older workers), but also to the financial incentives aimed at keeping older workers at work (especially for the targeted population 62-65), which will increase the public wage bill as well as pension liabilities. After older workers have paid their additional contributions, it is unclear how positive the financial balance of these reforms will be.

After 2015, net expenses are projected to decrease at the central level, in parallel with the decreasing proportion of pensioners. This would allow for new workforce adjustments to counter the peak in large-scale retirements in the local governments, and maybe even for a restructuring of public service delivery in the health and education sectors.¹³ However, this assumes that workforce adjustments are made on a public sector-wide basis, across different levels of government and sectors.

3.2. Capacity maintenance

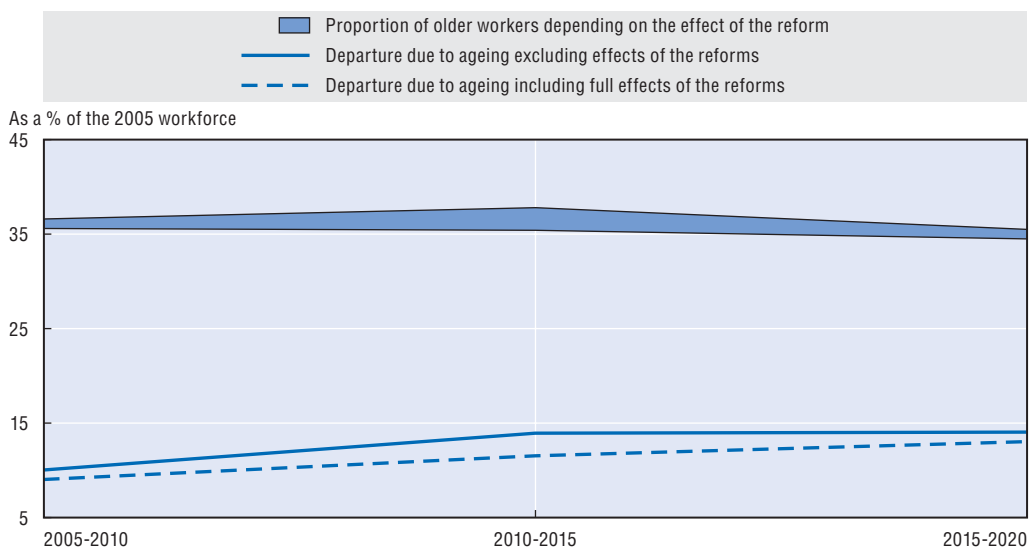
As has been previously mentioned, the ageing strategy already includes plans to reshape workforce planning and, to a certain extent, future capacity maintenance needs. However, there remains some uncertainty regarding the replacement rate of retiring staff, especially those working in the health and long-term care sectors. Furthermore, the definition and implementation of a workforce adjustment policy adapted to large-scale departures will be determining for the efficiency of the public sector as a whole.

Policies for retaining civil servants over 62 are supposed to have medium term effects, leading to a three-year delay of large-scale departures. However, this has yet to be confirmed. Indeed, there are some indications that outputs may differ from expectations. A survey conducted by the Ministry of Finance's State Employer's Authority, in 2004, showed that only one-quarter of all Danish state institutions have retirement agreements with their employees (including flexible working time and financial bonuses). Thus, the actual retirement delay may be very limited, since the ageing strategy remains managed at the level of individual institutions, without much centralized coordination of policies.

On the other hand, some other tools – and particularly non-pension related arrangements to retain older workers, as well as management adaptations to deal with structural HR changes – are quite comprehensive and well correlated to a coherent capacity maintenance strategy directly linked to ageing challenges. In this respect, the Danish ageing policy appears more developed than that of most OECD member countries taking part in the study. In particular, the existence of measures to increase both vertical and horizontal mobility is quite rare.

The other issue related to the fiscal peak is to avoid attractiveness and maintenance problems. Indeed, if no specific workforce adjustments are undertaken to deal with skill shortages, as part of the upcoming HR measures of the ageing strategy, it may lead to wage

Figure 6.12. **Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented (state sector)**



Hypothesis: steady rates of older worker retention, between 60 and 65 and above 65 (effective retirement age: 62 years).

Source: Ministry of Finance; OECD forecasts.

bill increases in order to attract new employees in targeted sectors. Further reform may be needed to increase coordination between sectors and ensure capacity efficiency. Everything will depend on the balance that is struck between the replacement rate and additional recruitment. Other decisions will have to be made involving the determination of the level of annual recruitment and the use of internal mobility. Vertical mobility may be used to mitigate replacement needs and reallocate a certain number of current personnel within the public sector. But this will also require additional reform of the training and knowledge management programs, so as to maintain the functions that will be particularly affected by large-scale departures (e.g. managerial functions). In addition, effective use of horizontal mobility may soften the additional recruitment needs in some specific sectors of local government, especially healthcare. In any case, there is no doubt that management reform, including mobility and proactive workforce adjustments (additional recruitment, especially in local government), could begin to offset a replacement rate set below parity.

3.3. Taking advantage of ageing to reorganise public services and improve efficiency

The effectiveness and efficiency of the healthcare sector seem to be a very high priority within the Danish public sector ageing strategy. The fact that institutional reforms, as well as resource reallocation and horizontal mobility, are included in the ageing strategy already singles Denmark out as among the most ambitious of OECD member countries in tackling these issues. The important role played by the Danish Welfare Commission must be highlighted. Its tasks are to analyze and forecast social trends, including the age structure, and advise the government as to how best to secure the future of social security and a highly functioning welfare system. Coordinating HR ageing policies and welfare system reform would ensure a more consistent strategy for future institutional arrangements, as well as staff and resource allocation.

4. Conclusion

The Danish ageing strategy is one of the most ambitious and complete among those studied in this review. It consists of both a management adaptation policy and a proactive restructuring policy for public service delivery as a whole. The projected workforce readjustment policy contains capacity maintenance strategies that should help ensure that the sectors most affected by large-scale staff departures and public service demand increases remain responsive. But this will depend on future policy decisions within the public sector ageing strategy, especially as to personnel replacement rates. If it is set at a high level, active recruitment already being planned in targeted sectors, as well as resource and staff reallocations, may contribute to a broad reshaping of public service delivery and a reorganisation of the entire administration, resulting in a public sector prepared to meet the challenges of ageing.

However, some elements of the ageing strategy remain rather limited, including the reform of the pension schemes that might be insufficient to delay large-scale departures over the coming decades. It is also possible that the rather ambitious Danish reforms could benefit from stronger coordination of strategies and policies across delegated institutions and local governments.

It is not clear that the Danish ageing strategy is understood as a window of opportunity, in the way that it is in many other OECD member countries. The Danish government has achieved workforce downsizing as part of public sector reform, but not clearly as part of its ageing strategy. The ageing workforce adjustment policy has not

clearly taken into account the opportunity of ageing to reduce the number of staff and/or reallocate funds and posts across the public service.

Notes

1. This section draws mainly from *Ageing and Employment Policies/Vieillessement et politiques de l'emploi: Denmark*, OECD, 2005, Chapter 1.
2. According to the three main variants of population projections produced by Statistics Denmark (www.dst.dk), the country's population in 2050 could range from 5.26 million to around 5.67 million.
3. This section draws mainly on *Ageing and Employment Policies/Vieillessement et politiques de l'emploi: Denmark*, OECD, 2005, Chapter 2.
4. "Projecting OECD Health and Long-Term Care Expenditures: What are the Main Drivers?", *Economic Department Working Paper*, No. 477, OECD, February 2006.
5. According to the cost containment scenario.
6. OECD averages: 5.7% in 2005 and 6.3-9.6% in 2050 (median scenario: 7.7%).
7. According to the cost containment scenario and cost-pressure scenario, respectively. OECD averages: 6.7% in 2005 to 10.1-12.8% in 2050.
8. "The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States on Pensions, Healthcare, Long-Term Care, Education and Unemployment Transfers (2004-2050)", *European Economy Special Report*, No. 1, 2006, DG Economic and Financial Affairs, European Commission, 2006.
9. *Ageing and Employment Policies/Vieillessement et politiques de l'emploi: Denmark*, OECD, 2005.
10. *Ageing and Employment Policies/Vieillessement et politiques de l'emploi: Denmark*, OECD, 2005.
11. There is no precise data on the departure replacement rate.
12. See OECD (2006), "Public Sector Pensions in OECD Countries", GOV/PGC/PEM(2006)4, OECD, Paris.
13. Since it would entail a reduction in the wage bill and pension liabilities.

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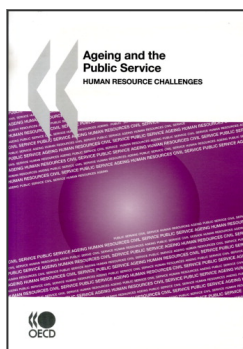
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