

Pension Reforms in Denmark

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Introduction

In many ways the Danish pension system is nothing special compared with other systems in Europe. As other pension systems in as well the EU countries as the applicant countries, it consists of three tiers, a basic social old age pension, occupationally related supplementary pensions and private pension savings. However, the weighting of these three elements is what makes the Danish pension system distinct: great emphasis is put on public old age pension for all citizens regardless of their previous attachment to the labour market.

In recent years, the Danish pension system has undergone a number of reforms that have changed the constitution of the system *from purely public to partly private*. This also indicates a shift in the ideology governing the pension policy. The reluctance against following the Nordic pattern of introducing an income related supplementary pension scheme in the 1960s could be seen as a result of strong resistance against passing the income differences of working life on to the age of retirement as it was expressed by one of the leading social science experts, Bent Rold Andersen. Instead, the basic supplementary pension scheme, the *ATP (Arbejdsmarkedstillægspension)*, was introduced in 1964, but for several reasons the scheme was never fully developed and therefore also never gained any real importance. Today, people mostly regard it as a (hidden) part of the tax system.

Up through the 1980s, concerns about the future demographic burden emerged in the welfare debate all over Europe. How could the welfare state be sustained when too few people of working age should provide for too many elderly? In Denmark, this rising concern with demographic changes was interpreted as a question of whether the public PAYGO old age pension, the so-called ‘peoples pension’ could survive in the years to come with its present features. Several white collar employee groups had already established occupational pensions up through the 1960s and 1970s – in the middle of the 1980s about one third of the employed was guaranteed an additional pension as a supplement to the old age pension when they retired. As we will dig more into later, the bourgeois government and the social partners made an agreement that would benefit the macro economy as well as the future pensioners by establishing occupational pensions for the remaining two-thirds of the employees.

In 2001 Denmark spent DKK 90 billion on public old age pension (peoples pension). When expenditures on survivors and disability are included this amounted to Euro PPS 3.632 per capita which was at par with Norway, Sweden, Belgium, France, Germany, Italy, the Netherlands and the United Kingdom (NOSOSCO 2003: 181). The peoples pension is financed out of taxation while the occupational pension schemes are financed out of contributions from employers and employees.

In this paper we will present a historic view of the Danish pension system after WW2 and how we ended up with the current system. In addition to this we will discuss if the recent changes from a purely public to a partly private pension system should be regarded as path dependency or a path-breaking tendency. Finally, future challenges to the Danish pension system – including the early retirement scheme and how to possibly get rid of it – will be dealt with.

The Danish pension system after WW2

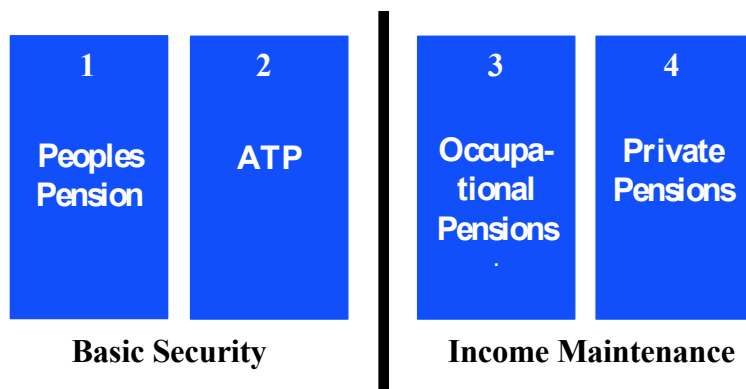
Before we turn to the most recent development we will very briefly explain some of the first basic steps in the establishment of the Danish pension system. These preliminary schemes are important for a number of reasons. First of all, they show that though Denmark today is considered to belong to the Scandinavian welfare regime with generous, universal benefits based on individual rights this was not initially features of the Danish welfare schemes. Furthermore, as will be dealt with later, a number of similarities exist between the original pension schemes and the recent wave of privatisation that has characterised the last 20 years.

Already in 1891 the first pension-like scheme, the '*Aldersomsunderstøttelsen*', was introduced as a social policy measure for the worthy needy. The main principle was that Danish citizens who had reached the age of 60 and who were in need of help would be entitled to the '*Aldersomsunderstøttelsen*' that should be generous enough to make it possible for the old person to provide for him- or herself. However, to receive the benefit some preconditions had to be met: The claimant was not allowed to have received any social assistance in the previous ten years and the social contingency causing the need for help was not to be self-induced. The benefit was calculated on behalf of an individual means test (Johansen 1996).

Though the conditions that had to be met in order to qualify for the '*Aldersomsunderstøttelsen*' might sound pretty harsh comparing to what we know of nowadays, it then indicated a major step forward, since receiving the benefit was not followed by losing citizen rights such as the right to vote as had been the case previously. The 1891 act on the '*Aldersomsunderstøttelsen*' can be regarded as a first foundation stone in the Danish welfare model with general access or right based on citizenship to a means tested benefit financed by taxes and administered by the local governments (Johansen 1996; Due & Madsen 2003; Green-Pedersen forthcoming).

Nevertheless, the individual means testing felt humiliating for people who had to go through it, and it was removed in 1922 – partly as a consequence of the rising labour movement who – in many instances and at times - have had great influence on Danish welfare policy. This we will return to later. After the 1922 reform the ‘*aldersrente*’ - as it then was renamed - was a fixed amount regulated by certain settled rules according to the claimant’s income (Johansen 1996).

Today, the Danish pension system is usually regarded as consisting of three or four distinct pillars as illustrated in the figure below:



Source: Nielsen 1998

Whether there is three or four pillars depends how the *ATP* is grouped – some place it together with the peoples pension, other classify it with the occupational pensions, which according to the terminology must be the most proper place to put it. In this paper we follow Nielsen’s (1998) framework with four pillars where the *ATP* has got a pillar of its own, the reason for this being that even though the *ATP* as indicated above is of little importance in the pension package, the reform that

resulted in the *ATP* is of great interest - not at least because Denmark with the non-income related *ATP* schemes broke with the Nordic pattern (Nielsen 1991).

The numbers of the four pillars are not put on randomly. Firstly, they indicate a sort of chronological order as the peoples pension was introduced before the *ATP*, which again - generally speaking - was introduced prior to the occupational pensions. Secondly, when ignoring the distinct *ATP* pillar, the numbers express the relative importance of the three remaining pillars of today's individual pensioner, as the peoples pensions still constitutes the basic element in the pension package. In addition to the latter, the number order of the pillars can be regarded as an indication of the cumulative 'top-up' that exists. Finally, the numbers could also be seen as an expression of the degree of privatisation as the higher the number get, the more privatised the scheme is and the less people it covers.

In what follows, the main features and reforms that have resulted in each of the four pillars will be analysed.

1. The Peoples Pension

The basic social pension, the peoples pension, is one of the elements in the Danish pension system that definitely ties the Danish model to the Scandinavian welfare regime. The peoples pension is based on citizenship, and it is therefore a universal right, and is financed by taxes following the PAYGO logic where the generation in active employment pays the pensions of contemporary pensioners.

In 1956 the *Aldersrente* was substituted by the peoples pension (*Folkepension*) which gave a basic pension to everyone 67 and older; and to those who had nothing else an additional amount was added, but as a means-tested part. With this reform the pension age was increased from 65 to 67 and the citizenship element was installed. From 1964 to 1970 the composition of the basic element and the additional

means-tested element was radically changed towards what was described as ‘full’ peoples pension paid to everyone meeting the age criteria, supplemented with a flat-rate addition to those having no other means.

This truly universal provision was and is conditioned upon some residence criteria. In order to be eligible one must have been living in Denmark for at least three years all together and for non-nationals they must have 10 years of residence in Denmark, including five years immediately before pension. One is then eligible for a pension calculated as a fraction of the years set against 40. I.e. to receive a full pension (basic amount) it takes 40 years of residency between age 15 and 65 (since 2004). If one has been living in Denmark e.g. for five years one is entitled to 5/40, provided one lives in the country currently.

The basic amount (*grundbeløb*) in 2002 was DKK 52,872 (Euro 7,108) that may be reduced according to the professional earnings of the pensioner if they exceed DKK 223,200 (Euro 30,005). Pension supplement (*pensionstillæg*) was DKK 24,672 (Euro 3,317) that may be reduced on account of the earnings of the pensioner and spouse if they exceed DKK 98,800 (Euro 13,282) or DKK 49,200 (Euro 6,614) for a pensioner living alone. If the spouse is not pensioned, his/her earnings are not taken into account up to DKK 154,100 (Euro 20,716).¹ Pensions are taxed in the same way as wages (MISSOC 2002).

¹ The adjustment rate (*satsreguleringsprocenten*) for social pensions, as well as that for the other transfer incomes (*overførselsindkomster*), is set once a year on the basis of wage development. The basic amount (*grundbeløb*) depends on the income gained from the pensioner's professional activity. Reduced by DKK 30 (Euro 4.03) for every DKK 100 (Euro 13) earned in excess of DKK 223,200 (Euro 30,005) per year. Pension supplement (*pensionstillæg*) is reduced by 30% of earnings and any other kind of income (earnings of pensioner and spouse) in excess of DKK 98,800 (Euro 13,282) per year for each married person and DKK 49,200 (Euro 6,614) for singles. If the spouse is not pensioned, his/her earnings are not taken into account up to DKK 154,100 (Euro 20,716).

To give an idea about the living conditions of pensioners depending upon the peoples pension including supplement and the *ATP* the compensation rate for a single pensioner has been calculated to 62 per cent in 2001. This is at par with Finland and Norway but less than was received in Sweden (68 per cent). For a couple the compensation is only 42 per cent which is a lot less than in the other Scandinavian countries (NOSOSCO 2003).

When the peoples pension was inaugurated there was still some stigma attached to receiving public benefits; but by granting the pension to everyone stigmatisation disappeared and the idea of seeing it as a right was firmly developed. This has now become a problem for contemporary governments that face an increasing elderly population and with time fewer in working ages. Therefore more recent reforms have gone in the direction of reducing the basic amount relatively and make it more difficult to obtain the additional amount. This development should, of course, be reflected on the background of a dramatic change in longevity: in 1960 a European male worker in average lived two years after retirement; in 2000 he lives in average 15 longer than retirement age (Gården 2002). Obviously, the peoples pension was not geared to pay pensions to people for many, many years which is, nevertheless the prevailing condition.

2. The Basic Supplementary Pension: the ATP

The reform of the peoples pension in 1956 did not put an end to the question of the future Danish pension system. Supplementary occupational pension schemes for white-collar employees had already existed for a long time, mainly for employees in the public sector. Though the benefits of the peoples pension had been adjusted upwardly a number of times, also the blue-collar employees faced the prospects of income reduction after retirement. In connection with the collective agreements in 1961, the social partners agreed to settle a commission to investigate a supplementary pension schemes on top of the peoples pension could possibly be made. In 1963 the *ATP* was introduced as part of the so-

called ‘Overall Solution’ (*Helbedsløsningen*), a political initiative taken in relation to the collective bargaining round, and the scheme came into force in 1964 (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming).

The intention of introducing an income related element was pursued by making contributions as well as benefits to be based on number of hours worked, not earnings. In this way, the scheme actually did not have any re-distributive effect. The scheme was a combination of a funded scheme and a PAYGO scheme, though as the years went by the funded element has become more prevalent.

In 2002 Supplementary pension (*arbejdsmarkedets tillægspension, ATP*) amounted to: DKK 21,024 (Euro 2,826) per year.

Both benefits and contributions of the *ATP* scheme were and still is quite modest, and the social partners never regarded the *ATP* as any more than a temporary solution that would need further development to fulfil its goal as an occupational supplementary pension. However, this was and has never been the case, and as the following part will show, the settlement of the Danish pension system was also far from solved with the *ATP*.

3. The Occupational Supplementary Pensions

Though other Scandinavian countries such as Sweden and Norway managed to settle their pension systems with income related elements during the 1960s, the Danes had to wait another 20 years to complete their pension package. In the meanwhile, the number of occupational pensions for higher level groups of white-collar employees had expanded from just around 10 in 1960 to 22 in 1980, covering about one third of the employed (Due & Madsen 2003; LO 1985).

In this way, a ‘dual pensions system’ in which the majority of the wage earners were left with the peoples pension and the *ATP*, whereas a minority had funded occupational pension supplements on top of the peoples pension and the *ATP*, had occurred. Together with a number of other factors this was part of paving the way for the establishment of occupational pensions for the remaining parts of the labour market.

Up through the 1970s economic democracy had been on top of the agenda in the labour movement and in the Social Democratic Party and especially in the peak organisation, the *LO*. Several attempts were made to introduce economic democracy by law, but even in periods where the Social Democrats were in power no political solution could be found, and economic democracy never became reality in its original form. In the beginning of the 1980s, for some of the members of the labour movement occupational pensions became a new opportunity for realising the ideals behind economic democracy if they were created as one big central fund, controlled by the labour movement. Unsurprisingly, the employers and the government did not support this approach, and one of the reasons why it took years to establish the occupational pensions was that the employers – and the government as well – regarded the models suggested by the labour movements as ‘economic democracy through the back door’ (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming)

For instance, in 1985 a committee settled by the *LO*, The *LO*’s pension reform committee, who was supposed to make recommendations for a reform of the existing pension system, concluded that a three tier pension system where adjusted versions of the peoples pension and the *ATP* should make the foundation and central fund based occupational pensions the supplement would be the way to do it. Occupational pensions was a new element in Danish pension policy and the committee further concluded that an extension of the PAYGO financed peoples pension did not constitute a realistic solution to the problem of occupational pensions. In 1986, the *LO* proposal with a few changes was

endorsed by the Social Democrats, who suggested a pension scheme introduced by law covering all wage earners who did not already have occupational pension savings in one of the existing schemes (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming).

The bourgeois government was clearly interested in having occupational pension not least because of the beneficial macro economic consequences such arrangements would have. However, it could neither support the central fund nor the introduction by law. The government wanted occupational pensions to be part of the collective agreements as this would ensure that part of the expected wage-increase would be given in the form of pension savings, thereby impeding the immediate consumption and, furthermore, if the occupational pensions would be imposed by law they would be regarded as tax increases which would make it very hard to persuade the wage-earners not to claim further wage increases in return for pension savings (Green-Pedersen & Lindblom forthcoming).

In 1987, the government and the social partners signed the so-called *Common Announcement* (*Falleserklæringen*). The announcement was intended to be a long-range structural initiative, which should solve the severe macro economic problems by a wage restraining policy that also via the occupational pensions should increase savings. First of all, the announcement stated that *the government and the social partners agreed and recognised the importance of that the development of costs in Denmark should not exceed the development in other countries*, and that one way to enlarge private savings would be by extending the occupational pension schemes to those groups who did not have any supplementary pensions to the peoples pension and the *ATP* (Due & Madsen 2003: 137).

In addition to this, the Common Announcement stated at least two other important elements that we will deal with here: the establishment of a *tripartite commission* that by autumn 1988 should have investigated different models of occupational pensions. However, what may seem even more important

today the announcement also stated that *the government would be willing to introduce legislation that would be necessary*. What exactly should be understood by this statement is not clear. Some of the representatives in the *LO* did interpret it as follow-up legislation in relation to the pension schemes so that those with unstable or interrupted attachment to the labour market also would be covered, whereas the vague formulation on legislation in the announcement might be a rather good illustration of the position of the government: no clear position due to internal disagreements. Nevertheless, a follow-up legislation to cover people outside or at the periphery of the labour market was not and has never been introduced.

The tripartite commission, the Occupational Pension Reform Commission, that apart from representatives from the social partners also included civil servants from a number of relevant ministries and was headed by the permanent under-secretary (*departementschef*) of the Ministry of Labour, was settled in February 1988. The commission investigated the technical aspects of four different models of occupational pensions: 1) the individual model, 2) the firm based model, 3) the decentral model, and 4) the central model, but none of these were recommended as the way to do it, partly due to disagreements between the social partners, and partly due to internal disagreements within the bourgeois government.

However, according to Due & Madsen (2003), the investigations and discussions in the commission nevertheless clarified the realistic solutions for the participants involved in the work. At the beginning, the employers were stiff on the individual model whereas the *LO* – as we have touched on earlier – were very keen on the central model, but as the work in the commission proceeded it became clear to both parts that none of these ‘extreme’ models could become reality. The commission finished the work just before Christmas 1988 and the realisation of introducing occupational pensions was left to a political tripartite forum (Due & Madsen 2003: 155-165).

As we have indicated earlier, also the bourgeois government suffered from disagreements between the two major parties, the Liberals and the Conservatives, and this was one of reasons why the position of the government with regard to labour market pensions was not clear. The Liberals were strongly in favour of individual schemes, whereas the Conservatives had a more relaxed attitude towards the pensions and at least some of the ministers were willing to introduce follow-up legislation. One illustration of the internal disagreements in the government was the Conservative prime minister Schlüter's New Years speech in 1989. In this speech he proposed - without mentioning the newly written report of the Occupational Pension Reform Commission with a word - that one way to strengthen the Danish competitive position would be by at the same time reducing the wages and the taxes, thereby maintaining the purchasing power. This rather controversial statement, which clashes with the complex structure of the Danish wage bargaining system and the traditional autonomy of the social partners, and which very few - if any - representatives from the government and the social partners welcomed as a plausible solution, marked the new orientation of the government concerning the occupational pensions and the willingness to introduce follow-up legislation (Due & Madsen 2003).

The New Years speech made the *LO* feel less sure about the governments initiatives with regard to the realisation of the labour market pensions, whereas the employers appreciated that the idea of introducing follow-up legislation seemed to have been abandoned by the government. However, later in 1989 the *LO* gained hope. During the round of central bargaining the government, represented by the Minister of Finance Palle Simonsen, reached an agreement with the trade unions for the public employees to extend the occupational pensions to cover the employees in the municipal sector, who previously had not been covered.

In this way, for the first time ever the central bargaining in the public sector sat the agenda for the private sector, though the relation normally go the other way around. The way for introducing occupational pensions via collective bargaining was paved and the powerful trade union, the Metal Worker's Union, announced that it would demand a pension scheme in the round of collective bargaining in the private sector in 1991. The goal of getting occupational pensions for the remaining part of the private sector was then achieved - though as mentioned earlier, without follow-up legislation. The solution to the Danish pension problem became different occupational schemes for the different trade unions – a much more decentralised solution than the one initially put forward by the LO, and the fear of the employers of facing the 'ghost of economic democracy through the back door' was effectively dismantled.

4. Private Savings

The fourth pillar in the Danish pension system consists of private pension savings of which there exist two kinds: so-called capital pension (*kapitalpension*) and rate pension (*ratepension*). Both forms are treated preferentially by the tax authorities. Hence, payments are tax deductible when made, and moderately taxed when they are paid out again. The first kind gives the pensioner a one off lump sum at the beginning of retirement which will be taxed 40 per cent, while the other gives monthly payments which will be taxed according to future prevailing tax regulation as any other income.

Yearly payments into private pension savings accounts are estimated to DKK 81 billions in 2003.

Because of the privileged tax treatment the Danish state is estimated to loose tax revenue equivalent to DKK 41 billion (Sørensen 2003: 2). Before the tax reform of 1998, called the Whitsuntide package (*Pinsepakken*), tax rebates were even more advantageous. At the same time the Voluntary Early Retirement Pension Scheme (*Efterløn*) was made less attractive, meaning that in order to receive a reasonable coverage one would have to wait till 62 before retiring.

In a survey the association of financial institutions (*Finansrådet*) asked a representative sample of Danes under 65 years of age whether the reforms have affected their interest for pension savings. 44 per cent replied that they had not changed savings behaviour, only four per cent answered that the reforms have encouraged them to save more, while 29 per cent felt that the reforms had reduced their inclination for saving. Among a number of reasons for being less interested in saving about one in five said that it was because of increased taxation; 18 per cent said that it was because they did not trust politicians and another 18 per cent said it was because 'the state takes the money anyway'. Nielsen (1998: 5) estimated that in 1995 only 10-12 per cent of the current pensioners actually had private pension savings, while in 2015 he expected 25-35 percent of pensioners to have private savings. The survey mentioned above found that only 18 per cent did not have any 'pension plan' (*pensionsordning*). This has probably been interpreted as having neither an occupational pension nor private pension savings, but it does indicate that in the future most Danes will involve the third and fourth tiers in financing their retirement.

Most political parties and interest organisations maintain the four pillar system as the structure for future pensions in Denmark. However, some radical movements advocate differently. Hence, the youth wing of the liberal party (Venstres Ungdom 2001) recommends that the first tier, i.e. the Peoples Pension, will be phased out over a 30 year period, so that people currently 35 and younger will not benefit from it. So far, they are alone with the standpoint of abolishing the peoples pension, but the other suggestion they have regarding the future of pensions is the abolishing of the Voluntary Early retirement Pensions Scheme and that is supported by many observers, especially by 'independent' economists. We shall return to this while discussing the future at the end of this paper

In addition to the four pillars presented above a *fifth*, but very small, pillar actually exists. This fifth pillar, the Special Pension Saving (*SP*), is often grouped together with the *ATP* (as it is also regarded as

a tax) and is a compulsory pension saving of 1 percent contributions of the earnings of wage earners, self employed and some groups of social benefit claimants. The *SP* was introduced in 1997 by the then Social Democratic government and the intention was to benefit the low-paid groups by making similar benefits for all contributors (Albret 2002).

In that way, the *SP* - in contrast to the *ATP* – but in line with the peoples pension contained a re-distributive element. However, in the spring of 2002 the newly elected bourgeois government transformed the tax financed pension supplement to an individual compulsory pension with earmarked contributions and benefits. That is, the re-distributive element of the *SP* has now been rejected, which according to Albret (2002) means that the one million richest Danes gain a higher annual pension saving whereas the 1.6 million poor loose on their pension savings. Consequently, the *SP* has been transformed from a PAYGO model to an individual, funded scheme. Summing up, the four-pillar Danish pension system is a top-up system, where the four pillars work as cumulative elements. The figure below summarises the main characteristics of the different elements.

Characteristics of the four pillars

	Peoples Pension	ATP Pensions	Occupational	Private Pensions
Legal basis	Legislation	Legislation	Collective agreements	Private contract
Financing	General taxes	Flat-rate contributions	Earnings-related contributions	Flexible Contributions
Accrual of Rights	Years of residence	Number of contributions	Number & size of contributions	Number & size of contributions
Benefits	Flat-rate + income tested supplements	Based on reserves reflecting working hours & duration of work life	Based on reserves reflecting earnings and employment	Based on reserves reflecting contributions

Source: Nielsen 1998

The constitution of the Danish pension system means that in relative terms the low-paid gain the most from the peoples pension due to means testing and as different income groups get similar *ATP* benefits, the share of the *ATP* benefit of the total pension is higher for the low paid. In contrast to this, the occupational pensions and the private pension savings in general are of most importance to the well-paid groups (Nielsen 1998).

In the following part we will turn to whether the introduction of the occupational pensions has caused a qualitative shift in the Danish pension system.

Path Dependency or a Path Breaking Tendency?

We have earlier stated that the recent reforms of the Danish pension system have caused a shift from a purely public to a partly private pension system. This indicates a shift from a PAYGO financed system to a partly funded system where each generation saves money to pay for its own future pensions.

According to the path dependency framework developed by Myles & Pierson (2001) such shifts are not easily undertaken. When moving from a PAYGO financed systems to a funded system a politically difficult situation of *double-payment* occurs, as the working generation has to pay for contemporary pensioners via the taxes and furthermore has to make savings for their own funded pensions. Due to this, countries that years ago chose a PAYGO pension systems have entered a route of path dependency and cannot shift to a funded model (Green-Pedersen & Lindblom forthcoming).

According to Green-Pedersen (forthcoming), not even a Social Democratic Government (instead of the bourgeois government) could have expanded the PAYGO logic to supplementary pensions, as this in reality - due to severe macro economic problems - was not an option. Supplementary pensions following the PAYGO logic would have caused too high tax increases that neither economically nor

politically would have made the solution. This were the conclusions of as well the report of the *LO* made in 1986 and the Occupational Pension Reform Commission in 1988, and as we have touched on earlier, the *LO*'s proposal was actually later endorsed by the Social Democrats.

Furthermore, as illustrated above, the reluctance in the 1960s and 1970s to introduce an income related element in the pension package gave the well-paid groups of employees an incentive to establish occupational pension schemes and these could not be abandoned in order to secure a PAYGO financed model. Once significant groups in society have established funded schemes, a PAYGO solution becomes politically very difficult to introduce even for the rest of society, as inducing people who have already saved for their own pension to pay taxes or social contributions to a scheme offering earnings-related benefits at a high level to people who have not saved for their pensions seems politically very dangerous (Green-Pedersen & Lindblom forthcoming).

In this quite strange way, the Danes ended up in a situation where the PAYGO path with regard to income related pension supplements suddenly ended at a crossroad, forcing the supplementary pensions to become either occupational or totally individual (private savings). In that sense, neither path dependency nor a path breaking tendency seem to have much explaining power: the new road points in the direction of path breaking tendency, but on the other hand not much of a choice was offered since expanding the PAYGO logic to supplementary pensions or simply increasing the rates of the peoples pension did not make a realistic option.

Nevertheless, if the fact that increasing numbers of occupational pensions were established for certain well-paid groups of employees from the 1960s and onwards is regarded as a path in itself (see for instance Green-Pedersen & Lindblom forthcoming), then the development in the end of the 1990s can be regarded as path dependency, as the majority followed the path pointed to by the minority: the

occupational pensions. However, this somehow blurs the meaning of path dependency, since several paths pointing in different directions then can exist at the same time. As pointed out earlier, in the middle of the 1980s two thirds of the employees were left with the peoples pension and the *ATP* – both of them being (primarily) PAYGO financed elements. That is, the main characteristic of the Danish pension system then was the peoples pension, not the occupational pensions, and from our point of view, the introduction of the labour market pensions represents a shift of paths, though the initial step in this direction was taken many years ahead of the reform.

Future challenges

Though from a general perspective - when comparing the Danish pension system with other European systems - the Danish case seems to be quite well equipped to meet the future challenge of an increased demographic burden, some elements of the system still concerns politicians. The most remarkable one of these is the voluntary early retirement scheme, the '*efterløn*'. The voluntary early retirement scheme was introduced in 1979 and was targeted at workers with health problems needing an early exit from the labour market. However, the scheme quickly gained popularity – not least among other groups than the one it initially was targeted at.

Today, the early retirement scheme is one of the very hot topics in the welfare debate in Denmark, and also one of the most expensive schemes, since it apart of the benefits paid in fact lowers the retirement age of workers: the official age of retirement is age 65 (since 2004), but in reality the average age of retirement is around 61. The issue is that in fact the scheme allows all/most employees (and self-employed?) to take retirement at age 60 instead of at age 65 which is the official retirement age in Denmark. Given that Danes having reached the age of 60 can expect to live to 79 and 82 for men and women respectively (Statistics Denmark 2003) 60 or 61 seems a very early (read: expensive) retirement age. The conflict is, thus between the large majority of the people, and, of course an overwhelming

majority of people 50 and older on the one hand side who consider the scheme a social right, and, on the other hand government officials, independent experts and the like who point to the difficulties of sustaining the scheme financially.

However, reforming the voluntary early retirement pension scheme has become a sort of ‘political trauma’ as the most recent attempt in 1998 made by the then Social Democratic government turned out to have severe political consequences for the involved politicians, who were punished for it in the 2001 general election, and the current bourgeois government shows little interest in reforming the scheme though especially economic experts are much in favour of it (Due & Madsen 2003: 411). In line with the solution of the ‘pension bomb’, one could argue that one possible way to solve the problem of the voluntary early retirement scheme would be to leave it to the social partners and the collective agreements.

Conclusion

In this paper we have briefly outlined the general features and reforms of the Danish pension system. The order of the four pillars in the pension system, the peoples pension, the *ATP*, the occupational supplementary pensions, and private savings can be regarded as an indication of their relative importance for today’s pensioners, who top-up their pensions according to how long they have lived in Denmark, their labour market affiliation, their previous earnings, and their private savings.

However, the most recent major reform – the introduction of occupational pensions to the remaining two-thirds of the labour market in the beginning of the 1990s – indicates a qualitative shift towards a more privatised pension system with greater emphasis on especially the third tier. In addition to this, the move from a purely public to a partly private system needs elaboration; a more proper formulation

may be from a purely public to a predominantly private pension system. Following the new path, a privatisation of the Voluntary Early Retirement Scheme may occur in the years to come.

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