

External Associated Professor Mr. Bjarne Hastrup

## Indicative answers – correction guide

### Question no. 1.

*“Analyze the proposal from the Danish Government to rise the retirement age by ½ years extra, in addition to what was already decided in the retirement reform (2011) and in the welfare reform (2006), from 2015 onwards. Please provide an analysis of the impact on the economy including public finances. Please also provide an analysis of the social impact.”*

### Indicative answers

The point of origin must be that over the period 1999-11 there was produced several reforms aimed to adapt the Danish economy for the demographic challenges.

The Early retirement reform from the end of the last century created the first platform for increasing the early retirement age. It was through a tightening of both the targeted groups and the award criteria. Thus, alternative pensions for the first time involved calculating retirement benefit.

The message was clear, it is important to pull back after 62 years of age to avoid applying the labor market pensions. Although there was established a voluntary early retirement bonus for those who continued in the labor market was the retirement age not raised sufficiently.

Therefore the reforms continued in 2006 and 2011. The impact of these reforms was more direct. The early retirement age was increased over 4 years from 60 years to 62 years and pensionable age should begin to rise from 2013, but the reform in 2011 accelerated the trend, that the state pension age already in 2019 increased by half a year, rising to 67 in 2023. Hereafter the pension age with an index of trends in average life expectancy, so that by 2050 is expected to become over 70 years. At the time, Denmark will have EU sovereign highest retirement age.

The government's proposal thus lends itself to a further acceleration of the retirement system.

The effect would be that the state pension age in 2025, to 67 ½ years, and the order of age will continue. In Macroeconomic this means that the already positive sustainability in the Danish economy will be further improved (The Economic Counsel in Denmark have

calculated sustainability indicator to plus 0.3% of GDP, a percentage which will be further improved.)

The state finances will in the long term be strengthened. Unless the recovered proceeds used for other unknown public spending or tax savings. The effect will be marginal compared to the previous reforms. Most of the growth in the elderly population were likely to be in the labor market and the ratio between the number of pensioners and people on the labor market will fall.

Socially, the time you have to stay in the labor market is stretched further. It is conceivable that there will be large differences between population groups that will benefit from the several years in the labor market.

The growing number of people in the labor pensions will get the actuarial principle heavily impact. Since a growing share of pensions annuities, several years in the labor market will mean higher labor pensions.

However, there will be big differences. In the very long term, a typical white collars worker (academic) will expect to be in the labor market from 25 years to 75 years, or 50 years against 35-40 years today. An blue collar worker (unskilled or skilled), beginning in the labor market at age 18 have to work for 7 years longer and has significant risks for being "burned out". It will be crucial for their departure from labor on government establish effective social disengagement programs for this group.

## Question no. 2

*"The government has proposed to introduce a compulsory pension scheme for people that today have no social plan. Provide an analysis of the social impact of the introduction of this proposal."*

Today 750,000 people are without an occupational pension. It will typically be self-employed, free agents, people on welfare benefits or people who are "on and off" the labor market in parts of the labor market where pension plans are not penetrated.

The government plan is that introducing a mandatory funded scheme, where the pension must pay up to 2% of its income per year for a system. People will probably choose between existing schemes, and it is expected that over time - a boost in contributions may be up to 6% as the DK-Velfærdskommissionen (2003-05) recommended.

The macroeconomic impacts are significant. There will be an increased savings mixed with populations that will not normally save. It can mean a period of lower consumption and thus lower economic growth until the investment behind the pension savings from settling in the Danish economy. Sustainability in the Danish economy will be strengthened and public finances improved.

However, the savings program has significant consequences. It will be taken out of an already overstrained economy, which for many can mean poorer welfare. Unless the government implemented “together “ model as ATP, namely to let the state pay caused ATP (Danish pension Provider) contributions.

There is no government proposals set for solving “together” problems with along engaged. This means that a great many low-paid groups must anticipate that a portion of their savings will be forwarded to cover the winding down of additional services for retirement (“age check”, housing allowances, etc.)

We have to go up to a fair contribution of pension payment (of DKK 20,000 per. Years) before paying enough in occupational pensions for these groups to interact problem avoided. However, they may choose to halve phasing rate to avoid excessive interaction problems.

However, we must look at the advantage of a labor of solid size for these groups can allow them to retire earlier from the labor market than the state pension age indicates. Thus, one can now pull out five years before the age of 65 and draw on your occupational pension. It provides on the one hand, freedom of choice and a possibility of “run-down stop” earlier than the still increased retirement ages. On the other hand there is a strong actuarial result in lower annual annuities throughout the rest of their lives.