

**MUTUAL LEARNING PROGRAMME:  
PEER COUNTRY COMMENTS PAPER - DENMARK**

**Activation of Elderly – The Danish Experiences**

Peer Review on “Activation of elderly: increasing participation, enforcing employability  
and working age until the age of 67”

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# 1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Denmark's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.*

The crisis in the Danish macro-economy and on the labour market that began in 2008 has deepened during recent months, but there are also indications that the worst is over in the sense that the macroeconomic forecasts are pointing to a slow recovery in 2010 and the following years. This will not, however, prevent employment from declining and unemployment from rising. That would call for a significantly stronger revival of economic growth than expected at present.

The most recent unemployment figures support the negative assessment of Danish macro-economic performance.<sup>1</sup> The registered unemployment rate for February 2010 was 4.1 percent, more than a doubling from its lowest level of 1.6 percent in June 2008 (seasonally adjusted). The unemployment rate according to the LFS was 7.6 percent in February 2010 compared to 2.6 percent in June 2008.

Older workers in general benefitted from the economic upswing before 2008, and have on the other hand been hit by the recent rise in unemployment. However, the registered rate of unemployment of 4.3 percent for the age group 50-59 years in February 2010 is not exceptional. For the age group aged 60 years and more, registered unemployment is down to 2.6 percent probably due to the Voluntary Early Retirement Pay (VERP), which allows workers aged 60 years and above to retire with a benefit similar to unemployment benefits, cf. below. Among the long-term unemployed, older workers aged 55-59 years are somewhat overrepresented compared to middle-aged workers, but not compared to the youngest age groups.<sup>2</sup>

Denmark has the highest overall activity rate in the European Union. This is also reflected in a high activity rate for older workers aged 55-64 years of 58.7 percent in 2008, compared to the average for EU-27 of 48.1.<sup>3</sup> This figure however covers a large difference between older workers aged less or more than 60 years. As shown by numerous studies, the activity rate for older workers in Denmark takes a sharp decline, when workers enter their early sixties, again probably caused by the influence of the VERP.<sup>4</sup>

Finally, one should stress that the economic crisis has changed the Danish policy agenda in the short run and has given job creation – and not labour supply – the top priority. However, there is still a strong awareness of the longer run challenges from the ageing population, which will potentially have a negative effect on labour supply, employment and the sustainability of public finances. The need for labour market reforms that increase the quantity and the quality of the supply of labour from the older age groups (and other groups outside or at the margin of the labour market) was in the focus of several of the commissions that have been active in recent years (including the Welfare Commission, The Tax Commission and the Labour Market Commission). Until the shift of the business cycle, the work of these Commissions had a strong influence on policy-formation. While the crisis

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<sup>1</sup> The unemployment figures below are for registered unemployment from the databanks of Statistics Denmark ([www.statistikbank.dk](http://www.statistikbank.dk))

<sup>2</sup> Arbejdsmarkedsstyrelsen: Rundt Om, March 2010, p. 15.

<sup>3</sup> Employment in Europe 2009, statistical appendix

<sup>4</sup> For the latest documentation, see Arbejdsmarkedskommissionen: Velfærd kræver arbejde [Welfare demands work], 2009, p. 261

has to a large degree set such large scale reforms on hold, there is little doubt that the reform agenda will be revitalized once the economy has recovered. In this respect, there are strong parallels to the policy-debates in The Netherlands.

## 2 ASSESSMENT OF THE POLICY MEASURE

Turning to the specific policy measures discussed in the Host Country Discussion Paper, the following observations and assessments can be made.

With respect to debates on *early retirement schemes*, there are striking similarities between the Dutch and the Danish situation. Denmark, in 1979, introduced the VERP aimed at both providing access to early retirement to older workers and job openings for young unemployed. The VERP implies that members of an unemployment insurance fund, that have also paid a special contribution the scheme, can retire from the age of 60 years and receive a benefit similar to unemployment benefits, until they qualify for a retirement pension. The exact conditions have changed over the years and space does not permit going into details.

After the decline in unemployment during the 1990s and the increasing awareness of the demographic challenges, the VERP and its assumed negative effects on the labour supply of older workers came to play a very important role in the debates on welfare reform. A reform in 1999 aimed at restricting the inflow to the scheme. The eligibility criteria were tightened making it necessary to have been a member of an unemployment insurance fund for at least 25 years within the last 30 years. A separate voluntary contribution to the scheme was introduced in addition to the normal contribution to cover basic unemployment insurance. A tax-free premium should be paid to those who postponed entering the scheme until two years after becoming eligible to do so. The deduction for other pension incomes was also changed. Evaluations of the reform have concluded that the reform has succeeded in increasing the actual retirement age significantly. The reform however, was also very unpopular and probably led to the fall of the Social Democratic Government in the subsequent election.

Following the final report from the Welfare Commission, a prominent political agreement was made in June 2006. This "Welfare Agreement" has since been the cornerstone of Danish policy with respect to age-related retirement. An important element in the agreement was that the age limit for receiving the VERP will from 2019 gradually be raised from the present 60 years to 62 years in 2022. Furthermore, the age limit for the public old age pension will from 2024 gradually be increased to 67 years in 2027. From 2025 and onwards, further changes in the age limits for the VERP and old age pensions will be implemented, if life expectancy increases. The size of the VERP was unchanged, while the contribution period was increased from 25 years to 30 years and must start no later than at age 30 years; a special right to enter the scheme at a later age was introduced for people with a long attachment to the labour market.

Since then, the Labour Market Commission has advocated an earlier phasing-in of the increase in the above-mentioned age-limits, but without positive reactions from the major political parties.

There is thus a strong parallel to the Dutch situation, except for the fact that the Welfare Agreement already is in place as having set the pace for long-term increases in formal retirement age-limits, and also having introduced indexation with respect to life expectancy as a fundamental principle.

Also when it comes to *life-long learning (LLL) and continued vocational education and training (VET)* one finds interesting parallels between the Dutch and the Danish discourse. In Denmark a paid educational leave was introduced already in 1993 as part of the series of labour market reforms that were initiated that year. The scheme was later replaced by a

State Adult Educational Grant (SVU) for persons taking part in general education at secondary and higher levels. Furthermore, there is a public scheme for support to adult vocational education (VEU). Both schemes pay a benefit equal to unemployment benefits, but are not limited to the unemployed. The exact rules for eligibility differ between the schemes. The SVU has about 15,000 participants per year (less than 1 percent of the workforce), while the VEU-scheme includes a much larger group of about 15 percent of the workforce every year.

As part of the collective agreements between the social partners in the private sector in 2008, new funds for VET were established at the industry level, which will finance the wage for those workers that take advantage of the two weeks of VET that they are entitled to according to the collective agreements. These funds will be financed through employer contributions. Furthermore, most sector-level agreements introduced a personal account for each worker, which can be used for time off, pension or VET purposes according to the individual decision of the worker. The yearly payment into the account amounts to 1 percent of the wage.

Finally, concerning reforms of VET, one should mention that a new system for adult VET-guidance has been established from January 1, 2010. The system consists of 13 regional centres that will act as “one-stop shops” for both individuals and firms, who search for information and guidance about VET.

While a number of schemes promote LLL/VET, there are no programmes, which like the Dutch ILA take an explicit life-course perspective. In 2007, a special Government commission on issues of work-life balance (“Familie- og Arbejdslivskommissionen”) actually put forward a detailed proposal for a so-called “individual flex-account”. It was to a large degree inspired by the Dutch system and implied that tax-deductible personal savings accounts could be set up, where the amount could later be withdrawn for various forms of leave, including leave for educational purposes and for taking care of children or family members. The scheme should also imply certain rights to take leave from the present job. The political reactions to the proposal were however rather negative at the time, partly due to worries about adverse effects on labour supply and partly because the proposal was seen as an individualisation of welfare rights, which would mainly benefit individuals with higher incomes. But perhaps the debate about such schemes can be revitalised by emphasising the benefits from the Dutch scheme.

Concerning *campaigns and other activities* aimed at raising the awareness of both employers and employees of the potential of older workers, Denmark has a rather long tradition.

Under the auspices of the Ministry of Employment several activities and campaigns have been launched in order to stimulate the employment of persons with various forms of handicaps as far as their employability is concerned. This development has been supported by the social partners. In the collective agreements since 1995, so-called “social chapters” were included in most agreements implying that almost 90 percent of wage-earners are covered. These chapters recommend employment on special conditions (working time, wage etc.) for persons with disabilities, including older workers.

Under the heading of “senior policy”, a number of special initiatives by the Ministry of Employment have been targeted at achieving a better integration of older workers on the labour market. These initiatives include funding of initiatives that support the integration of unemployed older workers. It may be in the form of influencing the hiring practices of firms, highlighting the qualifications of senior employees or general information campaigns disseminating examples of best practices. Financial assistance is given to the self-activation of unemployed older workers in their creation of networks and activities to develop new areas of employment. A special web-site has been established by the Ministry of Employment with information and advice about senior policies at the firm level ([www.seniorpraksis.dk](http://www.seniorpraksis.dk)). Also here one sees a strong parallel to the Dutch case.

Concerning the targeting of older workers in *active labour market policy*, they in principle have the same rights and obligations as other unemployed individuals. Thus they have the right to unemployment benefits or social assistance and to receive job-training and other offers according to the active labour market policy. A notable exception is that unemployed members of an unemployment insurance fund aged 60 years and more have the right and duty to activation already after six months of unemployment. For other unemployed over 30 years this will be after nine months of unemployment. Furthermore long-term unemployed over 55 years of age have the right to become employed with a particularly high wage subsidy. The duration can be up to six months.

Finally, we will examine the *Work Ability Index* as a general tool, which companies can use to assess the employability/work ability of their employees; this is a concept that is novel in a Danish context. The focus on assessment of work ability, instead of concentrating on the *disability* to work, has been increased both in social policy (e.g. with respect to applicants for disability pensions) and in the job-centres, where unemployed routinely are classified according to their readiness to return to an ordinary job. But in both cases the assessment is mainly based on qualitative evaluations of work ability, and not on formal questionnaires, although some experiments with statistical tools for classification of unemployed have been tested. Secondly, such evaluations are targeted at special groups by public authorities and not at the whole workforce as in the Dutch case.

### 3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

Given the broad range of the policies discussed in the Host Country Discussion Paper a simple assessment of the success factors behind the Dutch performance and the transferability of the respective policies is difficult.

The first thing to emphasise is that Denmark and The Netherlands share a number of common traits, when it comes to the tradition for policy-making and also the culture in general. In both countries tri-partite relations and negotiations play an important role. The social partners are routinely consulted in matters not only regarding labour market policy, but also for instance social policy, educational policy and industrial policy. At the same time there is - maybe more pronounced in the Danish case – a tradition for leaving the governance of many aspects of the labour market to the social partners themselves by way of collective agreements. This situation also opens up for parallels, when it comes to debates about the financing of employability measures.

This picture of rather similar societal models is also supported in most of the comparative academic literature, where Denmark and The Netherlands are typically placed in the same cluster of “welfare states” or “flexicurity models” – often together with Finland and Norway. Also, when it comes to practical policy-making in Denmark, The Netherlands are often referred to as a source of inspiration, for instance when it comes to the introduction of private service providers in the implementation of active labour market policy.

These similarities are also reflected, when it comes to specific policy areas like retirement schemes and campaigns to raise the awareness about the potential for “senior policies” at the company level.

On this background two sets of policy measures stand out for further discussion of potential transferability.

The first is the measures related to LLL. Here it seems that both the Dutch policy discourse in sustainable employment stressing a life-course perspective and the measures applied, could act as a source of inspiration for Denmark, when it comes to the attempts to introduce personal learning budgets and to support participation in VET by establishing some form of

collective funds. This calls for further analysis of the design and effects of such schemes both in the Dutch and the Danish case. Also, the idea of individual learning accounts (ILA) has parallels to the Danish discourse, although, as mentioned above, the proposal for such accounts has until now had limited success in the Danish context. Here further information about the take-up and use of such schemes could be useful in bringing forwards the Danish debates on the financing of LLL.

The other Dutch measure that could deserve consideration with respect to transferability is the Work Ability Index. As already mentioned, such an instrument is not used regularly in Danish workplaces. Here the issues of the situation of the individual employee with respect to career plans, health problems or plans for retirement will typically be discussed during the yearly or bi-annual “employee development interviews”, where an employee will meet with his or hers manager for a face-to-face discussion. While these interviews may take some sort of questionnaire as a point of departure, no standardised format exists. The same goes for the interviews, which will take place with employees that are absent due to long-term illness. However, the assessment is that the introduction of a WAI in the Danish case could only take place with the active support of the social partners.

## 4 QUESTIONS

Following the discussion in section 3, a number of questions can be raised in order to make further assessments of the transferability of the Dutch measures for promoting LLL and the Work Ability Index.

Concerning measures to promote LLL:

- What are the exact rules for the Individual Learning Accounts with respect to the element of public subsidies, the kind of education and other activities that can be pursued and the rights to leave from the present job?
- Can some more specific information be provided concerning the take-up and effects of the ILA and the participation in firm-related VET?
- What is the attitude of the social partners and the political parties to the ILA and what is the present status of the political priorities between the ILA and the development of firm-related VET-activities through collective agreements?

Concerning the Work Ability Index:

- It seems that the WAI is right now being implemented. Can more data about this process be provided, including information about how the WAI is introduced at the workplace level and for which initial target groups?
- Have any barriers been detected in the implementation?
- What is the attitude of the social partners to the WAI?

Finally, questions can be raised concerning reforms of early retirement schemes:

- What has been the political debate in Holland about the elimination of all types of government financial support for early retirement schemes? And what has been the consequence of it?
- Are there experiences, which indicate that some groups have been negatively affected, for example by losing the right to unemployment benefits, etc.?

## ANNEX 1: SUMMARY TABLE

<b>Labour market situation in the Peer Country</b>
<ul style="list-style-type: none"> <li>• Since the summer of 2008, Denmark has been severely hit by the economic crisis.</li> <li>• Some recent indication of a slow recovery</li> <li>• Unemployment has more than doubled</li> <li>• Older workers are not exceptionally hard hit by the crisis</li> <li>• A shift of the policy agenda away from focusing on labour supply</li> </ul>
<b>Assessment of the policy measure</b>
<ul style="list-style-type: none"> <li>• Striking similarities between DK and NL with respect to the policies on early retirement</li> <li>• The Danish “welfare reform” from June 2006 provided a road-map for long-term reforms of early retirement</li> <li>• The Dutch policies on VET takes a more explicit life-course perspective that in the case of DK</li> <li>• Both countries have a long tradition for campaigns to raise the awareness of the potential of older workers</li> <li>• The Work Ability Index has no direct parallel in Denmark</li> </ul>
<b>Assessment of success factors and transferability</b>
<ul style="list-style-type: none"> <li>• DK and NL share a number of common traits with respect to policy-making and culture in general</li> <li>• There seems to be a potential for learning with respect to the life-course perspective on VET, where Dutch experiences could act as inspiration</li> <li>• Potential for learning could also exist with respect to the Work Ability Index, although this is harder to assess given the fact that the index is still being implemented in the NL</li> </ul>
<b>Questions</b>
<ul style="list-style-type: none"> <li>• Further experiences with respect to the ILA, including the attitudes of the social partners</li> <li>• More detailed information about the implementation of the Work Ability Index at the workplace level, including the issue of barriers and the attitudes of the social partners</li> <li>• What has been the political debate in Holland about the elimination of all types of government financial support for early retirement schemes? And what has been the consequence of it?</li> </ul>