

A new early pension scheme in Denmark since 1 January 2021

ESPN Flash Report 2021/01

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JANUARY 2021

Denmark pioneered longevity indexing of the statutory pension age and the phasing out of early retirement rights. Now, since 1 January 2021, it has reinstated a right to earlier pensions for workers with long work records and improved early retirement for workers with diminished work capacity.



Description

A limited scheme of rights to an early public pension for workers who, after many years of strenuous work, tend to feel worn-down, was emphasised by the Social Democrats in the parliamentary elections of June 2019 (as described in Kvist, 2019). In August 2020, one year after entering office, the Social Democratic minority government submitted a proposal, based on comprehensive technical evidence, that would give the narrow segment of workers with very long labour market records the right to retire on the public pension before reaching the statutory pension age (Regeringen, 2020). To the surprise of political pundits, the Minister of Employment managed to secure a parliamentary majority for an only slightly modified version of the proposal, as well as improvements to the *Seniorpension*, a specific early pension scheme for workers whose work ability has been severely eroded.

Under the new Early Pension (*Tidlig Pension*) scheme, persons who at the age of 61 (the age of assessment) have a work record of at least 42, 43 or 44 years can take out an early pension one, two or three years respectively before the statutory pension age. In addition to years in employment (including part-time and self-employment), periods of receiving unemployment, sickness and maternity benefits, as well as traineeships and later-life training and upskilling are also taken into account in the work record. The flat-rate, taxable benefit amounts to €1,815 a month, i.e. almost the same as the public pension for single people. In order to target the right primarily at blue collar workers who

obtained occupational pension rights later than other groups, the benefit is gradually reduced for persons with substantial private pension savings or income from work. Persons with private pension savings of more than €270,000 have their pension gradually reduced, until it becomes zero for such savings above €671,500. Similarly, persons earning more than €3,225 annually have their pension reduced by 64% of their income from work above this figure.

On 1 January 2021, when the statutory pension age is 66.5, the age of assessment is 61 and the youngest age of early eligibility for the public pension is 63.5 (three years before the statutory pension age, for people with a 44-year work record). Both the age of assessment and the length of previous work record follow the increases in the strictly longevity-linked statutory pension age. Thus, on 1 January 2030, when the statutory pension age will be 68 and the age of assessment 62.5, the earliest eligibility age will rise to 65.

The time-gap between the assessment of the qualifying work record and the right to an early pension ensures that people are informed about their retirement rights at least two years in advance.

The scheme started on 1 January 2021 and the first pensions will be paid out in 2022. Although 41,000 persons are expected to qualify in 2022, only 24,000 persons are expected to claim this right, with only 6,000 coming from employment and the remainder from other social security schemes (especially the voluntary early retirement benefit [*Efterløn*]).

The annual expenditure on Early Pensions (*Tidlig Pension*) is expected to grow from

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€309 million in 2022 to an average level of around €443 million in 2026-2035. The scheme will be financed from a mix of general taxation, productivity savings in active labour market policy at municipal level, a new levy on the financial sector and a new ceiling on corporate tax deductions for annual wages exceeding €940,000.

The agreement also includes an improvement to another early pension scheme, based on work ability: the so-called *Seniorpension*, which can be claimed up to 6 years before the statutory pension age. This scheme, proposed by the outgoing centre-right government, was adopted in 2019 with the support of the Social Democratic government. With the improvement of the scheme, more people will qualify for the benefit, as it can now be claimed by people with a larger remaining work capacity than before.

Outlook and commentary

The Social Democratic rhetoric and ideas about the scheme have changed over time. In the Spring 2019 election debate, the idea, as presented in seven principles, referred to a moderately costly, non-health tested right, some years before the statutory pension age, to claim the public pension for workers who, after many years of arduous and hazardous work, tend to feel worn-down. The scheme would aim to correct the 2011 centre-right government's decision to phase out the voluntary early retirement scheme (*Efterløn*) – a decision taken even though its continuance had been a precondition for Social democratic support for the 2006 decision on longevity-indexing of the statutory pension age.

The centre-right government attacked the ideas as far more costly than suggested, claiming

that they generated unrealistic expectations among workers. Pension experts doubted that the seven principles could be fully applied within the legal, administrative and economic framework envisioned.

The Minister of Employment overcame these challenges by suggesting a new separate scheme and targeting it at the narrow segment of workers who began working in their late teens and so far have accumulated only relatively moderate private (i.e. occupational) pension savings.

Though the benefit level is moderate, the scheme will be attractive to remaining members of the old voluntary early retirement scheme. These people can take up the Early Pension while being reimbursed for their insurance contributions to the old voluntary early retirement scheme. Moreover, they can combine this, without benefit reductions, with occupational pension benefits and even cumulate it with moderate income from work.

Despite the clever design, close attention will be paid to the actual numbers and breakdown of claimants in 2022. Historically, estimates of early exit rights have severely underestimated the actual (quite high) take up.

Moreover, many workers who feel worn out are simply not in a position where they can amass the long work record required, even if this includes periods of sickness and unemployment. Still, the improvement to the *Seniorpension* is expected to compensate somewhat for this.

The government sees the scheme as paving the way for wider public acceptance of the longevity-linking of the statutory pension age, which, with broad parliamentary support, was raised to 69 from 2035 on the same day when the Early Pension and the changes to the *Seniorpension* were adopted. Indeed, opposition from trade

unions, which had demonstrated against further increases, subsided with the improved options for early retirement and the promise that a Pension Commission will report on the consequences of, and possible alternatives to, longevity-indexing in 2022.

So far, the scheme has met with praise from most political commentators and with criticism from the centre-right opposition and employers' associations. Though centre-right parties are unlikely to try to roll back the scheme, a change of government at the next election may result in a new financing model.

Further reading

Beskæftigelsesministeriet (2020), Ny ret til tidlig pension – Hvem får retten? [*Who will be entitled to the new right to early pension?*], Copenhagen: Ministry of Employment.

Kvist, J. (2019), Early retirement for worn-out workers: A major election topic in Denmark, ESPN Flash Report 23:

<https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9363&furtherNews=yes>

Regeringen (2020), Ny ret til tidlig pension – værdig tilbagetrækning for alle [*A new right to early pension – a dignified retirement for all*]: <https://fm.dk/media/18137/ny-ret-til-tidlig-pension-vaerdig-tilbagetraekning-for-alle.pdf>

Regeringen (Socialdemokraterne), Dansk Folkeparti, Socialistisk Folkeparti og Enhedslisten (2020), Aftale om en ny ret til tidlig pension [*Agreement on a new right to early pension*], 10 October, accessed at <https://bm.dk/media/15057/aftale-tekst-tidlig-pension.pdf> on 15 October 2020.

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Quoting this report: Kvist, J. (2021). *A new early pension scheme in Denmark since 1 January 2021*, ESPN Flash Report 2021/01, European Social Policy Network (ESPN), Brussels: European Commission.