

## Factsheet on Denmark: Future Prosperity and Welfare

### The Danish government's welfare reform proposals<sup>1</sup>

Denmark faces two main challenges for the future: preparing the economy for the ageing of the population and reaping the full benefits of globalisation and new technology.

One key element in meeting these challenges is the government's welfare reform proposals presented on 4 April 2006. Along with the government's Globalisation Strategy and a range of recent reforms, including of the local government structure and the governance of several central government institutions (e.g. universities), the welfare reform proposals form a comprehensive and consistent approach towards population ageing and globalisation.

Building mainly on the work of the government appointed Welfare Commission, the welfare reform proposals focus primarily on handling the challenges from the demographic changes. The ageing of the population is to a large extent a result of increases in longevity. While that in itself is a positive development it involves nevertheless a significant pressure on public expenditures for early retirement, public old-age pensions, health and elderly care. At the same time there will be fewer in the working age population to pay taxes. That combination would – without measures to make the welfare systems more robust – lead to an unsustainable deterioration of public finances.

The government's welfare reform package has three main elements: 1) investments in research and development, education, innovation and entrepreneurship; 2) more active years through faster completion of education, later retirement and a strengthened labour market policy; 3) better integration of immigrants through greater labour market participation and more immigrants with higher qualifications.

This reform package is estimated to raise employment by 125,000 (4½ per cent) in 2025, two thirds of which comes from later retirement and one third from faster study completion, labour market reform and integration of immigrants. That translates into an improvement of long-run fiscal sustainability by 1½ per cent of GDP. Two fifths of this will be reserved for investments in education and research.

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<sup>1</sup> The proposals – in Danish – can be found on the Ministry of Finance website, [www.fm.dk](http://www.fm.dk).

Beyond 2025 the proposed indexation of age thresholds for voluntary early retirement and public old-age pensions will make public finances more robust to the – uncertain – changes in longevity. Compared to a situation with constant age thresholds and assuming longevity increases of ½ year for every 10 years – in line with current demographic projections – the indexation would improve public finances by another ½ per cent of GDP. The exact implementation of indexation mechanisms is envisaged to take place in 2015.

Overall, the general government budget position would stay in the range from balance to a surplus of 1 per cent of GDP in the period 2010-2040 (based on the Welfare Commission's assumptions on demographic developments etc.). Thereby, the *demographic* challenge to fiscal sustainability is taken care of for many years into the future.

The proposals are now being negotiated with parties in parliament with a view to form the majority needed for changing legislation. A number of key elements of the reform package are listed below.

### ***Investments for the future***

- A globalisation fund is gradually built up providing additional funding of 0.6 per cent of GDP. It is to be used to reach the government's goal of publicly financed R&D expenditures of 1 per cent of GDP by 2010, to get at least 85 per cent of a youth cohort through secondary education by 2010 and 95 per cent by 2015, to get at least half a youth cohort through tertiary education by 2015, and to strengthen adult training, innovation and entrepreneurship. The central government will increase its number of training places by one quarter by ultimo 2007.
- To strengthen incentives to take education or work, the special benefit rules and activation requirements for 18-24 year olds will be extended to cover also the 25-29 year olds. For a person below 30 years without professional education, unemployment benefits will be cut to half after six months, while a person receiving social assistance will have only two thirds of the adult rate. Those with children will continue to receive the adult benefits and supplements. Benefit eligibility will be conditional on accepting education offers and on not dropping out without acceptable reason. Moreover, municipalities will not have passive benefit spending reimbursed by the central government for those below 30 who have received social assistance for more than three months, and there will be a grant bonus for each additional 18-year old that a municipality brings into education compared to the year before; a similar sanction applies if this number falls

### ***More active years on the labour market***

#### *Completing education more quickly*

- Those starting tertiary education more than two years after completing the secondary education needed for entry will have their monthly study grant for living costs reduced by DKK 1,000 (around 1/5 of the basic rate for youth not living with their parents) but will in turn be eligible for larger student loans. For all students DKK 1,000 of the monthly study grant will be retained and paid out as a bonus at the end of each semester provided there has been sufficient progress in studies. There will no longer be 12 months of extra study grants in excess of stipulated programme duration. In turn the access to student loans will be extended. Furthermore, it will no longer be possible to save study grant payments for use after the stipulated programme duration. However, students will be allowed to earn more income before study grants are withdrawn.
- Dissertations for the Master's/MSc degree must be handed in after half a year. Universities will have a duty to actively coach students at risk of becoming delayed and dropping out. University funding, which is already based on completed exams rather than enrolment, will only be paid for exams passed within stipulated programme duration plus one year, and part of it will be released only once the student completes the full degree.

#### *Later retirement from the labour market*

- The age threshold for the public old-age pension will be raised by one year in 2023 and 2025, thereby going up from 65 to 67. The age threshold from when voluntary early retirement pension is available will be raised by one year in 2017, 2019 and 2021, thereby going up from 60 to 63 and in effect shortening the maximum duration from 5 to 4 years. From 2025, these age thresholds will be raised in line with life expectancy for 60 year olds, meaning that the number of years in retirement would remain constant. In effect, these changes will not affect those aged 50 or above today.
- Eligibility for the voluntary early retirement pension will be conditioned on contribution payments for 30 years, up from 25 today, and contribution payments must start no later than at the age of 30. Moreover, the annual contribution will be raised slightly by DKK 667 (1/7 of the current rate for full-time insured), with a similar reduction in the contribution paid by members of unemployment insurance funds. Those who no longer wish to contribute following this reform will have the possibility to leave with all their contributions being transferred to their individual pension savings plan with an additional bonus of 65½ per cent. The tax-free bonus rewarding those who continue working during at least two years when eligible for the voluntary early retirement pension

will be raised by 50 per cent. All of these changes will only concern those younger than 50 years today.

- The age threshold for when private pension savings can be paid out on tax-favoured conditions will be raised in line with that of the voluntary early retirement pension, but not for savings plans established already today. Other age thresholds in the benefit system and civil servant pensions move in tandem with those of the voluntary early retirement and public old-age pensions. The little used part-time early retirement pension will be phased out.
- Exemptions in unemployment benefit rules and activation for people in their 50s and 60s will be phased out from January 2007. Early activation for unemployed aged above the threshold for voluntary early retirement pension will remain in place. Legislation hindering age discrimination in the labour market will apply for all below 70, up from 65 currently. Collective agreements for police and defence employees, which stipulate mandatory retirement before the age threshold for public old-age pension, will be renegotiated. Public funding will support changes in work practices that prevent workers from becoming worn out.

#### *Strengthening efforts to reduce unemployment*

- Very intensive job-search and wage-subsidy activation is introduced when having received unemployment benefits for 2½ years. Meanwhile, the period of work needed to regain eligibility of unemployment benefits when they expire after four years is raised from half a year to one year. Availability requirements and sanctions if working on the black market are intensified. Unemployed are activated immediately if availability requirements are not met.

#### ***Better integration***

##### *Increasing employment of immigrants and their descendants*

- The government will call on social partners to participate in negotiations about special terms for migrants starting a job, including wages that differ from the standard collective agreements. This will be coupled with temporary wage subsidies and counselling. Large companies will be offered partnerships. Activation of at least one month will be available every six months for social assistance recipients with other problems besides unemployment. Municipalities will be sanctioned financially if not providing timely activation. The ten municipalities with most unemployed immigrants will get financial support for hiring more job consultants.

##### *Getting immigrants with better skills*

- The coverage of the expert scheme, providing residence permission to immigrants with job offers in certain sectors, will be expanded to more sectors and to anyone with a job offer paying

more than DKK 375,000 (around EUR 50,300) annually. Green cards with six months residence permission will be given to foreigners without a specific job offer, but with a good chance of finding one, including those completing a tertiary degree in Denmark.

- To get *time-unlimited* residence permission, immigrants will need to pass a Danish language exam and have had regular work for at least two years, in addition to the current requirement of having been in Denmark for seven years. As a prelude to family reunification, migrants will need to pass a test in their home country, documenting a basic knowledge of Danish society and language.

**Further information:**

Contact person: Martin Jørgensen, Senior Adviser, Ministry of Finance  
tlf.: +45 33 95 15 38