European Foundation for the Improvement of Living and Working Conditions

Employment and labour market policies for an ageing workforce and initiatives at the workplace

National overview report: Denmark

Wyattville Road, Loughlinstown, Dublin 18, Ireland. - Tel: (+353 1) 204 31 00 - Fax: 282 42 09 / 282 64 56
email: postmaster@eurofound.europa.eu - website: www.eurofound.europa.eu

Situation of older workers in Denmark

In the European context, Denmark is considered to be a low early-exit country. Both the labour force participation rates among older wage earners and the average age of exit are relatively high. The average age of exit in 2005 was 63.2 years for males and 62.8 years for females, while labour force participation was 59.5 percent.

The attachment of older wage earners to the labour market is quite remarkable, since older workers represent a vulnerable group in the Danish labour market. As such, the Danish labour market is relatively brutal vis-à-vis older wage earners. Denmark is marked by relatively weak employment protection and fairly liberal hiring and firing practices. This has helped create a highly flexible labour market. In 2002, the labour force numbered 2.8 million persons. The same year, 800,000 persons changed jobs in the course of the year; 300,000 jobs disappeared; and 300,000 new jobs were created. The older wage earners suffer disproportionately from the high rate of personnel turnover. The percentage of retired males (55-64 years), whose main reason for leaving their last job – or the labour market entirely – due to dismissal or redundancy is much higher in Denmark than in other European countries.

Role of public actors in fostering active ageing in Denmark

The discussion about older wage earners and exit patterns from the labour market has been centred on the early retirement scheme established in 1979. It has been argued that this scheme is the main cause of early retirement. Criticism of the scheme also undoubtedly has symbolic overtones; for decades, the scheme has been considered the crown jewel of the trade union movement.

From the outset, the bourgeois parties have been very sceptical of the scheme. This has been especially true of the Conservative Party, but it was not until 1996-97 that all of the bourgeois parties openly declared their interest in abolishing the scheme. The critique of the scheme has been supported by several OECD reports. These reports have helped frame the political discourse in Denmark. The OECD has repeatedly pointed out that the scheme is very expensive and reduces the labour supply. By contrast, EU policies and programmes have played a minor role in the Danish political debate. This is most likely because it is very difficult to identify future dangers in Denmark if the Danish situation is compared to the situation in other EU countries. Rather, the contrary is the case. From the perspective of the EU, the Danish situation is extremely favourable, both in terms of demographic challenges and with regard to the labour market participation of older wage earners.

The pressure on the Social Democratic government to reform the early retirement scheme increased in the mid-1990s. Liberal and right-wing professors in the social sciences, newspaper editors, the Employers Association and the Economic Council (in 1998) all argued that the scheme ought to be abolished. The Minister of Finance accused the critics of the scheme of being reactionary, and the Ministry of Finance published a report in 1995 arguing that the demographic challenges were rather modest. Instead, the Social Democratic government argued that the focus ought to be on creating an all-inclusive labour market. In 1997, the government effectively decided to establish a so-called Senior-Policy Committee, which was to function for two years. The major objective of the Senior-Policy Committee was to improve the opportunities available to older wage earners by influencing the attitudes and age management practices of key players in the labour market.

Five days prior to the election in 1998, the Prime Minister promised that a Social Democratic government would never weaken the early retirement scheme, which was likely a major factor in the Social Democrats' reacquisition of power. Later the same year, however, the newly formed Social Democratic government made a number of minor changes in the early retirement scheme in order to reduce the costs of the scheme. Additionally, the government reformed the disability pension scheme in 2000.

The 1998 reform was interpreted as a broken promise in the media. The Prime Minister had to apologise to the public that he had made remarks prior to the election that could be interpreted as meaning the government had no intentions of reforming the early retirement scheme. But the damage was done. The reform cast the government in a bad light, leading to a dramatic decline in public support. This was a contributing factor in the victory of the centre-right parties in the November 2001 elections and the subsequent change of government. The centre-right parties gained power by promising to make the welfare state sustainable.

The government established a Welfare Commission for this purpose. The commission (primarily) consisted of supply-side economists, most of whom (and their viewpoints) were well known in the public debate. The commission was responsible for studying the challenges facing the welfare society and coming up with political proposals for making the welfare state sustainable.

Between 2004-2006, the commission published a wide range of publications and political proposals. Some of these suggestions were rather radical and far-reaching. For instance, the commission suggested phasing out the early retirement scheme.

In June 2006, all of the major parties supported an agreement about the long-term sustainability of the welfare state. The reform was extremely moderate as compared to the measures suggested by the Welfare Commission. The early retirement scheme was only changed moderately. Still, the Welfare Commission played a central role in the reform process. The commission confirmed that reform was necessary. The commission was highly visible in the media. The commission got its message out, i.e. that reforms were necessary if the welfare state was to be preserved. All political parties and the public accepted the definition of the problem, but not (fully) the solution. A few NGOs and small factions in the trade union movement defended the existing early retirement scheme, but these NGOs became relatively isolated.

Public initiatives for fostering active ageing

The duration of unemployment benefits in Denmark is generally four years, 2½ years for those aged 60-64. The special conditions for people aged 60-64 have functioned as a 'push' factor into the early retirement scheme, i.e. for those who become unemployed at age 61. In such cases, the older wage earner has no option but to retire at the age of 63½. Nevertheless, various regulations have guaranteed that no unemployment benefit recipients between 55-59 years of age would lose their rights to unemployment benefits, i.e. in principle the duration of unemployment benefits is unlimited for those aged 55-59. For instance, a person who becomes unemployed at age 52 is eligible for unemployment benefits until he/she reaches 60 years of age. In turn, this category of people is obliged to opt for early retirement when reaching 60 years of age. People between 60-64 can freely choose to take early retirement if they have paid into the scheme for 25 years.

According to the June 2006 agreement, all special or discriminatory arrangements vis-à-vis older unemployed wage earners were abolished as of 1 January 2007, i.e. the duration of unemployment benefits is four years for all age groups. As a compensatory mechanism, the following measures have been established:

- Unemployed persons 60-64 years of age will receive an offer of activation after nine months of unemployment.
- A special wage subsidy (up to six months) will be granted to firms if they employ older persons over 55 years of age.
- Employees 55 years of age (or older) who have forfeited their rights to unemployment benefits will be offered a so-called Senior Job. The municipality in which the older wage earner resides is obliged to provide the Senior Job to the older wage earner. Senior Jobs must be in accordance with conditions set up in the collective agreements.

Simultaneously, the eligibility criteria for early retirement benefits was tightened and made more flexible. Contributions to the scheme were raised from 25 to 30 years. Deductions in benefits for beneficiaries of early retirement who assumes a part time job were softened. This is expected to support gradual retirement, especially for employees in the lower income brackets.

Historically, the pensionable age in Denmark has been relatively high, i.e. 67 years of age, and all citizens above the pensionable age are entitled to a universal tax-financed state pension. As of 2004, the pensionable age was reduced to 65. According to the June 2006 agreement, however, the pensionable age was further raised to 67 as of 2027. Each year between 2024-2007, the pensionable age will be raised by ½ a year. Similarly, as of 2019, the age of eligibility for early retirement benefits will be raised annually by ½ a year until 2022. Thus, the age of eligibility for early retirement benefits will be 62 years of age as of 2022.

The government aims to negotiate with private insurance companies about the age of eligibility for private pension savings supported by fiscal welfare policies, i.e. for new and future private insurance takers, the age of eligibility will be synchronised with that of the early retirement scheme.

As of 2025, retirement will be synchronised with life expectancy. 1995 will be used as the base year. In 1995, the life expectancy for a person aged 60 was 19½ years. If life expectancy in the future does not change for those 60 years of age, the age of eligibility for early retirement as well as the pensionable age will remain unchanged. However, if e.g. the life expectancy for people 60 years of age is raised by one year (i.e. to 20½ years), eligibility for early retirement and the pensionable age will be raised accordingly. The age of eligibility and the pensionable age will undoubtedly increase in the future. Already between 1996-2005, life expectancy for those 60 years of age rose by 1.8 years.

The June 2006 agreement did not affect the level and structure of early retirement benefits. The economic incentives built into the early retirement scheme thus remain essentially unchanged, even though the age brackets will change in the future. Today, people taking early retirement at age 60-61 will receive 90% of the unemployment benefit, while those opting for early retirement at age 62-64 will receive a benefit equal to unemployment benefits (in 2003 unemployment benefits amounted to about 64% of the wage income of an average (male) production wage earner). Additionally, those who are entitled to early retirement benefits but postpone retirement will be entitled to a tax exemption at the age of 65. Thus, people aged 65 are entitled to a tax exemption of DKK 8,600 for each period of 481 hours s/he has worked between the ages of 60-64. In effect, those choosing not to make use of the scheme at all will receive a post-tax premium of EURO 6,500 (taxes in Denmark are high) upon reaching the pensionable age.

Until 2003, those between 50 and 66 years of age could be awarded a disability pension for non-medical reasons, e.g. if their prospects in the labour market looked bad. This was changed as of 1 January 2003. The reform stressed active efforts to integrate disability claimants into the labour market rather than supporting them passively. A new eligibility criterion was introduced to the disability scheme. A new concept, i.e. the 'working capacity' of the individual, replaces the old criterion of 'loss of employability'. The underlying idea is that by focusing on the capacity to work, the focus will be directed toward the resources and development potentials of citizens rather than on their problems and limitations.

The disability pension scheme is connected to two employment promoting schemes, i.e. the Soft and Flex Job schemes introduced in 1998. While Soft Jobs help (re-)integrate disability pensioners into the labour market, Flex Jobs are an alternative to the route into the disability pension scheme. The jobs are tailored to the abilities of the individual wage earner and are publicly subsidised. Nevertheless, wages and working conditions are in accordance with collective agreements. As of 1995, most collective agreements have included so-called 'social chapters' facilitating the local creation of new types of jobs in terms of wages and working conditions for those with a reduced working capacity. In Denmark, there are roughly 260,000 disability pensioners. Prior to 2006, 6,000 soft and 40,000 flex jobs had been created.

The June 2006 agreement aims at reducing the number of disability pensioners in the future. To counteract physical and mental disabilities, a so-called Preventive Fund with a capital of 3 billion DKK has been established as of 1 January 2007. This fund provides financial backing to (1) changes in exhaustive routines and manufacturing process in the public and private sectors; (2) the retraining and rehabilitation of the sick and handicapped; and (3) unconventional workplaces and organisations which increase awareness about social risks such as smoking, drinking, obesity etc. Moreover, the Danish Working Environment Service has been ordered to be attentive to branches in industry in which employees are worn out above the average. Nonetheless, such fatigue can hardly fully be eliminated. It will therefore be considered whether access to the disability scheme should be softened for worn-out wage earners over 59 years of age, when the age of eligibility to the early retirement scheme is raised as of 2019.

The June 2006 agreement emphasised the need to strengthen further initiatives to support age management. New information and attitude campaigns vis-à-vis firms and older employees will be launched in order to keep a greater number of senior employees in the labour market longer. New campaigns will include follow-up on previous campaigns, e.g. the 1997-1998 campaign orchestrated by the Senior Policy Committee and the 2006-2007 campaign entitled ‘A couple of years will make a difference’. New state-supported instruments in age management have been developed. For instance, the Senior Policy Committee took an initiative to establish a consultancy arrangement providing advice to companies interested in developing age management. Companies interested in developing age management are thus offered five hours consultancy free of charge, to be provided by consultancy companies with a proven track record. Thus far, the age management campaigns have focussed on how to retain older employees. In the future, however, a special campaign will focus on the recruitment of unemployed older wage earners. In general, the state has committed itself to become the forerunner in age management.

Conclusions

Since the late 1980s, three early exit/retirement discourses have been overlapping. First, a discourse about future expenditures, which has occasionally been somewhat hysterical, as the demographic challenges in Denmark are relatively modest. Second, a discourse about the future lack of labour power due to demographic changes. Third, an all-inclusive (full citizen) discourse, as early retirement has been perceived to lead to economic, social and political marginalisation. Thus, the campaign entitled ‘It concerns us all – an initiative on the social responsibility of companies’, sponsored by the Ministry of Social Affairs in 1994 had a spill-over effect on the early exit/retirement discourse and gave rise to ideas and discourses about age management.

The three discourses have paved the way for a reorganisation from different angles of the Danish regime for senior employees. A multidimensional strategy to retain senior employees in the labour market has developed, including initiatives to disseminate age management. The firms inclined to make use of age management in the highly flexible Danish labour market are larger companies, knowledge intensive firms, and firms practicing value-based management. One of the major challenges is to expand age-management to all segments in the labour market.

Nevertheless, major changes in the Danish welfare system can hardly be expected in the near future. The June 2006 agreement states that the decisions made in 2006 will secure the financing of the Danish welfare system for many decades to come.

Author: Per H. Jensen, Centre for Comparative Welfare Studies, Aalborg University

Project coordination: Institute of Gerontology at the University of Dortmund

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