

## IOPS COUNTRY PROFILE: DENMARK



### DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	59,134.57
Population (000s)	5 819
Labour force (000s)	3 018.1
Employment rate	95
Population over 65 (%)	19.5
Dependency ratio <sup>1</sup>	30

Data from 2019 or latest available year.

1. Old age dependency ratio (65 and over/15-64), 2018.

Source: OECD.

## DENMARK: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- Tax financed state pension with income-tested supplements

#### Occupational pensions: mandatory

- Mandatory pension saving in the ATP pension fund

#### Occupational pensions: quasi-mandatory

- Multi-employer pension funds
- Life assurance companies (commercial and non-commercial)
- Single employer company pension funds (all closed for new members)

#### Private pensions: voluntary for employees and self-employed

- Multi-employer pension funds
- Life assurance companies
- Banks
- Optional saving in ATP for self-employed

Source: OECD Global Pension Statistic

## DENMARK: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### PUBLIC PENSION

The public tax financed Danish state pension ensures a minimum standard of living for all residents. The basic pension is DKK 77000/year (in 2020). In addition to this various mean-tested and marital status dependent supplements (up to DKK 103000/year) and housing support (up to DKK 50000) can be obtained. The pension and supplements are income taxed. The housing support is not taxed.

Conditions to obtain full state pension coverage are (with a few exceptions) Danish citizenship and residing in Denmark 40 years from age 15-66.

### OCCUPATIONAL MANDATORY PENSIONS (ATP)

#### *Institutional Framework*

ATP is an independent pension fund managing the mandatory pension saving. ATP is established by law. The act on ATP is a mix of private and social law. The Danish Ministry of Employment is responsible for ATP. The fund has its own regulation, however on some specific topics related to core life insurance activities the ATP regulation is similar to the Danish regulation of life insurance companies and pension funds. ATP has its own board of directors.

#### *Coverage*

Very broad but not full coverage:

- Participation in ATP is mandatory for all employees over age 16.
- Since 2020 also citizens receiving Danish benefits such as unemployment benefits.
- Self-employed can optionally participate in the ATP-pension scheme.

#### *Contributions*

Contributions to ATP varies slightly depending of sector. The typical contribution is around DKK 3400/year (in 2020). Two third of the contribution is paid by the employer and one-third by the employee. ATP is a partly guaranteed defined contribution plan. For 80% of the contribution the investment return is guaranteed in nominal terms for rolling periods of 15 years.

#### *Benefits*

Benefits from the ATP plan are paid in annuities. In case of a very small saving, the benefit can however be paid as a lump sum.

### OCCUPATIONAL QUASI-MANDATORY PENSIONS

#### *Institutional Framework*

The occupational quasi-mandatory saving is generally handled by multi-employer occupational pension funds, life assurance companies and a single employer company pension funds.

**Multi-employer pension funds.** Multi-employer pension funds are non-profit organisations mutually owned by the members. The board is elected by the members. The multi-employer pension funds are in Denmark regulated as life assurance companies by the EU Solvency II Directive. The pension product offered by the occupational pension funds used to be defined contribution with investment return guarantees and smoothening. In recent years this has changed. New members are now primarily being offered unguaranteed defined contribution saving product.

**Life assurance companies.** Life assurance companies are organised as limited companies regulated by the EU Solvency II Directive. Many, but not all, life assurance companies in Denmark are owned by members or by trade unions and employers' organisations and does not pay dividend to shareholders. The life assurance companies are generally offering the same product as the occupational pension funds. The products offered to new clients are generally unguaranteed defined contribution pension schemes.

**Single employer company pension funds.** The funds are regulated by the IORP II-Directive and are only allowed to offer pension plans to employers in one specific company. The funds are all closed to new members and the funds represent less than 1% of the funded pension assets in Denmark.

### Coverage

The quasi-mandatory occupational pension plans are a result of

- Industry wide defined contribution pension plans collectively agreed between trade unions and employers organisation.
- Company level defined contribution pension plans established voluntary by the employer but often quasi-mandatory for the employee as participation in the pension plan is often a condition for employment

The coverage is high, but not full. It is estimated that more than 80% of all employees in Denmark are covered by the quasi-mandatory occupational pension plans.

### Contributions

Total contribution varies but is normally 12-18% of the salary. Two third of the contribution is often paid by the employer and one third is paid by the employee.

### Benefits

Benefits are either annuities, instalments or lump sum. The pension plans offered have over the recent decades gradually changed from guaranteed defined contribution to unguaranteed defined contribution pension plans. Furthermore some pension funds offer products with "conditional" guarantees which means that the benefits can be reduced under certain conditions.

## PRIVATE PENSIONS – VOLUNTARY

Examples of voluntary private pension saving:

- Voluntary individual pension saving by employees or self-employed in multi-employer pensions funds (typically supplementary voluntary contributions) and in life assurance companies.
- Voluntary individual pension saving by employees or self-employed in banks. Pension saving plans in banks is always unguaranteed. The benefit from pension saving plans in banks can be paid out as a lump sum or as instalments.
- Self-employed can voluntarily participate in the ATP pension plan.
- Furthermore self-employed can at the end of business transfer up DKK 2,800,000 (in 2020) to a pension plan paying instalments or annuities and thereby avoid high taxation at the end of business.

## TAXATION – ALL PENSION PLANS.

With a few exemptions, Denmark applies “ETT taxation” of the pension saving meaning that contributions are tax exempt (deductible) while pension investment return and pension benefit are taxed.

### Contributions:

Pension schemes paying annuities: Contributions are tax-deductible and benefits are taxed as personal income when paid out. No limits for deduction.

Pension schemes paying instalments: Contributions are tax-deductible and benefits are taxed as personal income when paid out. The tax deduction is limited to DKK 57200 per year (in 2020).

The last 15 years before retirement age an extra tax deduction of 32% /max DKK 23392/year (in 2020) is granted for pension saving in annuity schemes and in instalment schemes.

Age saving (aldersopsparing): No tax deduction of saving and no taxation of lump sum benefit. Maximum saving per year DKK 53000 (in 2020) until 5 years before retirement and DKK 50200 (in 2020) the last 5 years before retirement.

### Taxation of investment income

For all types of pension saving both realised and unrealised investment return is taxed annually at rate of 15.3 %.

### Taxation of benefits:

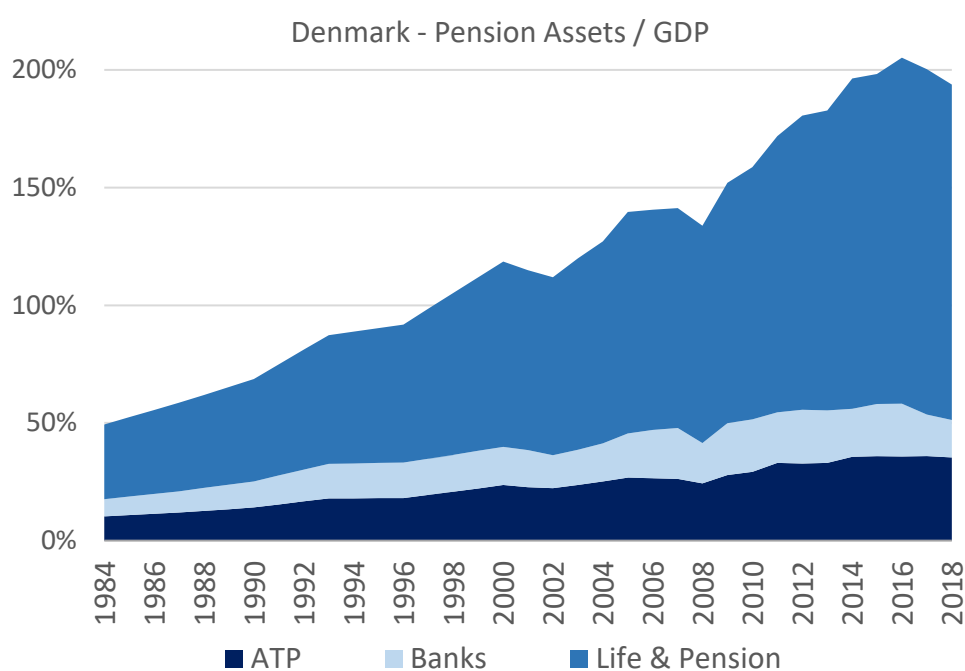
- Annuities and pensions received as instalments are taxed as personal income.
- Lump-sum benefits from old capital pension schemes (kapitalpension) are taxed at a flat rate of 40 %.

- Lump sum benefits from age saving (alderspension) is not taxed.
- Some agreements allow for withdrawal before retirement age. Tax privileged pension saving withdrawn before the age of 60, is taxed by 60%. In case of early withdrawals due to death or life threatening illness the tax is 40 %.

## MARKET INFORMATION

The funded pension assets in Denmark at the end of 2018 were DKK 4,403 billion. Of this amount, DKK 354 billion were in bank pension plans, DKK 907 billion in ATP and DKK 3,169 billion in life assurance companies and other pension funds.

**Chart:** Danish funded pension assets in % of GDP 1984-2018



Source: Danish FSA

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## REFERENCE INFORMATION

### KEY LEGISLATION

#### **General regulation on the Danish financial sector (including pension providers):**

Consolidated Financial Business Act, no. 937 of 6 September 2019 (Implements parts of the Directive 2009/138/EF (Solvency II)), regulates the establishment, operation and supervision of insurance companies and industry-wide pension funds and includes rules concerning investment, minimum funding, annual reporting and accounting.

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=209982>

#### **Specific regulation of the various pension providers:**

**Life assurers and occupational pension funds** are in Denmark regulated by the EU Solvency II Directive.

Link SII Directive : <https://eur-lex.europa.eu/eli/dir/2009/138/oj>

Link SII Delegated Regulation: [https://eur-lex.europa.eu/eli/reg\\_del/2015/35/oj](https://eur-lex.europa.eu/eli/reg_del/2015/35/oj)

**ATP:** Act on Arbejdsmarkedet Tillægspension (Atp), no. 1110 of 10 October 2014.

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=164210>

**LD:** Act on 'Lønmodtagernes Dyrtidsfond', no. 1109 of 9 October 2014.

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=164383>

**Company related pension funds:** Company Pensions Funds Act, no. 1703 of 27 December 2018 (implements the Directive 2016/2341/EU (IORP II))

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=206180>

#### **Taxation:**

##### **Tax treatment of investment income from pension assets:**

Taxation of Pension Investment Returns Act, no 185 of 6 March 2020

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=213234>

##### **Regulation of retirement age and tax treatment of contributions and benefits.**

Taxation of Pension Plans Act, no. 238 of 12 March 2020

Link: <https://www.retsinformation.dk/Forms/R0710.aspx?id=213224>

In addition to the above acts, several executive orders are giving more detailed guidelines.

## KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Danish Financial Supervisory Authority : [www.dfsa.dk](http://www.dfsa.dk)

Ministry of Industry, Business and Financial Affairs: <https://eng.em.dk/>

Ministry of Employment: <https://bm.dk/the-ministry-of-employment/>

## OTHER:

ATP: [www.atp.dk/en](http://www.atp.dk/en)

Insurance & Pension Denmark: [www.forsikringogpension.dk/en/](http://www.forsikringogpension.dk/en/)