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A major election topic in Denmark

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Early retirement for worn-out workers: A major election topic in Denmark

ESPN Flash Report 2019/23

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In Denmark, a vastly popular early retirement option has been being phased out since 2011. The main opposition party has now caused a major upheaval in the run-up to the general election by campaigning on a promise to introduce a right for worn-out workers with long work records to claim the basic national pension 3 to 5 years before they reach the pensionable age



Description

In the 2006 cross-party agreed pension reforms, Denmark decided to raise eligibility ages for early and old-age pensions, link them to developments in life expectancy and reduce the average pension duration to 14.5 years. In follow-up reforms in 2011, a narrower coalition of centre-right parties furthermore agreed to a) phase out the rights-based early retirement option (VERPS), b) replace it with a need-based disability pension for older workers (allowing retirement up to 5 years before the pensionable age) and c) bring the planned two-year rise in the pensionable age five years forward, while d) maintaining the one-to-one link to life expectancy (i.e. one year extra life expectancy equals one year higher pensionable age). Presently the pensionable age is being raised by 6 months per year until it reaches 67 in 2022. It will then be increased further to 68 by 2030.

Though initially opposed to the ending of VERPS, the Social Democrats, when leading the 2011-2015 centre-left coalition government, continued to implement the reforms. The long-term pension reform has made Denmark a role model for international pension experts - including those in the European Commission, which since 2011 has recommended that Member States follow the example of linking pensionable ages to life expectancy and phasing out early retirement options.

It therefore caused a major political upheaval when the Social Democrats, in the run-up to this year's national election (which will take place before 17 June, with the timing to be determined by the Prime Minister), began campaigning for a right for worn-out workers with long work records to claim the basic national pension 3 to 5 years before the pensionable age.

The proposal (Ret til tidlig folkepension, Socialdemokraterne, 2019) sets out seven principles applicable to the right to retire early and receive the national old-age pension - before the steadily rising pensionable age. This right should be (1) targeted at workers whose mental or physical ability to work is significantly reduced after (2) a long working life, including for those who began to work at an early age (not specified in the proposal). Claiming an early old-age pension should be (3) a right based on objective criteria, with (4) similar access for men and women despite different working lives, e.g. by not allowing part-time work or maternity leave to become barriers to take-up. Also, (5) people who do not fully meet these criteria but are similarly worn-down by years of work should be able to claim the benefit after a medical test. Finally, the new pension should be (6) simple, transparent, as well as (7) affordable, within a budget of €400 million to be financed by a tax reform (€200 million) and a new "social levy" on the financial sector (€200 million). Yet decisions on the key details of the system, such as how the objective criteria should be defined to fit the principles, and the actual cost, are seen

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as best left until after the election, following expert advice and negotiations with the social partners.

Unsurprisingly, the proposal met with fierce criticism from employer organisations, who feared the impact on labour supply, and was welcomed by trade unions.

In Parliament, the proposal was welcomed by the Socialist People's Party, but was said by the Red-Green Alliance (Enhedslisten) to be not quite enough. Both the Social Liberals and the government parties – Liberals, Conservatives and Liberal Alliance – were vehemently against it, arguing that the senior disability pension scheme was already there to cater for the needs of worn-out workers, and that if it was not fit for purpose, it should be reformed.

The politically important Danish People's Party was first lukewarm towards the proposal, but, sensing the positive response among manual workers, then came out in support. Chairman Kim Thulesen Dahl declared the proposal a good starting point for a reform allowing people a more dignified exit from the labour market (Politiken 30 January 2019).

Immediately, Prime Minister Lars Løkke Rasmussen also changed position and said the government was willing to listen and negotiate, though primarily about how the flaws in the senior disability pension could be corrected.

Outlook and commentary

Eligibility for the basic national pension is based on residence and not employment. The proposal's use of years and start of work as key criteria, and the negotiation of these with the social partners, therefore constitute technical oddities. The

same goes for the idea that a rights-based scheme can be budgeted for within a predefined sum of money. These oddities, and the refusal of the Social Democrats to be more specific, led to the Prime Minister attacking the proposal as "the biggest bluff in Danish politics for generations".

The Social Democrats, nevertheless, appealed in this way to a large electoral group, and the Centre-Left parties are ahead in opinion polls. Still, if the current government (Liberals, Conservatives and Liberal Alliance) manages to defuse the pension debate, they may be better-placed to engineer a come-back in the course of the three week election campaign.

To that end the Minister of Employment engaged the Danish People's Party, the Social Liberals and the Social Democrats in lengthy negotiations about improving the workings of the senior disability pension scheme. However, as the Social Democrats insisted on maintaining their proposal, even after agreeing changes to the disability scheme, they were ousted from the negotiations on 12 April. The government is yet to reach an agreement with the remaining parties; it is, however, likely that some compromise will be found, although the Social Liberals and the Danish People's Party are likely to have opposing concerns.

It is difficult to envision what might happen in the course of the election campaign. On the one hand, even having agreed on improvements to the existing scheme, the government will be hard pressed to overcome the initial large lead of the Centre-Left parties. On the other hand, although the principles suggested by the Social Democrats appeal to significant parts of the electorate, they may end up coming across as

the Emperor parading his non-existent new clothes; due to the vagueness and oddities of their proposal.

Whatever happens, it will be difficult to establish a new right to a lower pensionable age for certain groups of workers without revisiting the linking of pensionable ages to longevity, with the target of 14.5 years in retirement.

Public support for an ever-increasing general pensionable age has never been tested in an election: now would seem to be an opportune time.

However, the macro-economic and financial implications of this are probably too significant, and the issues too technical, for either the government or the Social Democrats to dare go there before the election has been held.

Further reading

Finansministeriet (2019) Økonomisk Analyse: Lange arbejdsliv og risiko for nedslidning (*Economic Analysis: Long working lives and risk of being torn down*), last accessed on <https://www.fm.dk/nyheder/pressemeddelelser/2019/04/folk-med-et-langt-arbejdsliv-er-mindre-nedslidte> on 20 April 2019.

Socialdemokraterne (2019) Folkepension: Værdig tilbagetrækning fra arbejdsmarkedet (*National old-age pension: Respect full retirement from the labour market*), last accessed on <https://www.socialdemokratiet.dk/da/politik/folkepension/> on 20 April 2019.

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