

# Active Ageing Strategies to Strengthen Social Inclusion

Comparison between Denmark and Finland

**Lisbeth Ougaard**

The Labour Market Authority

**Torben Hede**

Ministry of Social Affairs

The Danish active ageing policy bears many similarities to the measures Finland has taken. There are also of course many differences due to our different welfare systems and traditions etc. Below the main points of the Danish policy is described and compared with the Finnish policy.

## 1. Welfare reform

In December 2006 the Danish Parliament passed a welfare reform. The main point of the reform was to secure a higher employment rate through a life-cycle approach. The measures comprised:

- Later retirement
- Strengthened efforts to reduce unemployment
- Higher employment among immigrants and descendants
- Earlier study completion
- Investments in the future
  - Secondary education (high school, vocational etc.) for all
  - More young people with tertiary education
  - Life-long learning
  - Research and development
  - Innovation and business entrepreneurship

Later retirement is achieved through:

- Adjustment of the pension schemes, including raising the legal retirement ages.
- Active labour market policies to improve the capacity and possibility of older worker to stay longer in the labour market.

As emphasized in the discussion paper concerning the Finnish experiences, improving the employability and employment opportunities of older workers must also be seen as a precondition for reaching a broad consensus about the necessity to tighten access to the retirement schemes. In Denmark such broad consensus was also reached by setting up a Welfare Commission with the task to analyze the challenges to our welfare system due to the demographic development etc., recommend proposals for reforms and to encourage a public debate and general acknowledgement of these challenges. The very favourable employment situation in recent years must also have contributed positively to reaching a consensus.

## 2. Adjustment of the pension schemes

### Comparing pension policies in Finland and Denmark

The demographic development is a challenge to the financial sustainability of the pension system in both Finland and Denmark. However, since our pensions systems are very different the demographic impact and the necessary and possible adjustments differ considerably. Our goals are nevertheless much the same, the fundamental objective being to maintain adequate, social and financial sustainable pensions by means of increasing labour market participation rates, not the least for older persons, and to tighten access to early retirement and disability schemes.

Two important differences between our pension systems seem to be: a) The Danish the public old-age pension (a universal, basic, residence based, tax financed, flat rated pension) is the most important source of income for the majority of old-age pensioners, while the Finnish national pension (guaranteed minimum pension) is of far less economic importance for most pensioners; b) The Danish supplementary and earnings-related pensions are fully funded and contribution-defined schemes, while the Finnish statutory earnings-related pension scheme is a partly funded and defined-benefit scheme. The main features of the Danish pension system and the latest reforms are outlined below.

Comparing the Finnish and Danish reforms of their respective pension systems with these differences in mind, the following is notable:

- a) Rules concerning calculating pension benefits, indexation of pension rights and payable pensions were not adjusted as part of the Danish welfare reform. The public old-age pension will as hitherto be indexed in line with wage rises. The role of the public old-age pension scheme in Denmark (securing a basic minimum income for all pensioners) means that changing the size of the pension was not really an option. There is thus no significant risk that the Danish reform should undermine trust in the retirement system or make worse the economic situation for pensioners as mentioned in the discussion paper. On the contrary, the longer working lives and continued contributions to the funded pension schemes will result in higher supplementary pension benefits after retiring.
- b) There is no equivalent in the Danish pension system to the flexible retirement possibility in the Finnish scheme. The Danish Welfare Commission rejected proposals giving access to an early, actuarial reduced, old-age pension. The Commission found that it for some pensioners could mean an undesirable low income in the long run. This could in turn lead to a demand for increasing public expenditures in the future. Furthermore, though much can be said in favour of flexible retirement possibilities the effects on the labour supply is often uncertain and the lower flexible pension age might have an undesirable signal effect as regard the appropriate age to retire. A partial pension scheme was abolished as part of the welfare reform for all persons born after a certain date. The scheme is thus being phased out.

- c) The Finnish 2005 reform introduced a mechanism to cut pension level in relation to increasing life expectancy. In Denmark a corresponding reduction in the expenditures to public old age pension was secured by indexing the retirement age with increasing longevity. For the supplementary pensions which are fully funded and contribution-defined increasing longevity will automatically result in a lower pension. The financial risk due to increasing longevity is thus born entirely by the members of these schemes.

### The current debate in Denmark

The legal retirement age was adjusted as part of the welfare reform, but it will not have effect until 2019 for the voluntary early retirement scheme and 2024 for the public old age pension scheme. As a result of this time lag and in light of an already experienced shortage of labour due to a booming economy, different measures have been considered to make it more attractive for older workers to stay on in the labour market and for pensioners to take up a part-time or full-time job. These measures include favourable tax-rules for older workers, raising the deduction-free amount of earnings in the public old age pension scheme and making the conditions more flexible as regards the possibility to defer the take up of public old age pension in return for a higher pension later on. Deferment is a way to avoid the income-testing of the old age pension.

### Key issues and main questions

The Danish pension system is undergoing a change towards a more individualized pension system where the supplementary, fully funded and contribution-defined schemes will have much greater weight as an income source for the pensioners. This raises a number of questions concerning the future distribution of income among pensioners (e.g. how to minimize a residual group with little or no pension savings), the individuals own responsibility for securing an adequate income after retirement etc. A main goal for the current pension policy is therefore to raise people awareness of the importance of pension savings for their future economic situation as pensioners and to give all persons easy access to information about pension matters in general and their own pension savings in particular. This may for some contribute to a lengthening of their working-lives as a means to improve their income as pensioners.

### The Danish pension system and reforms thereof

Danish pension system includes:

- A universal, residence based, flat rate public old age pension ("folkepension" or "the People's Pension"), which consists of a basis amount and an income-tested pension supplement. A full pension is dependent on 40 years of residence. The pension age is 65 with no possibility for an early retirement. The scheme is financed by taxes, PAYG.
- A mandatory, fully funded, labour market supplementary pension scheme, ATP, based on individuals' contribution records. The amount of contribution depends on the number of hours work, not the amount of earnings. The ATP scheme covers almost the whole population (a number of groups receiving public income transfers also

contribute to the scheme). A full pension amounts to about 20 percent of the public old-age pension. The pension age is the same as in the public old-age pension scheme.

- Compulsory, fully funded, occupational schemes negotiated as part of collective agreements. The schemes cover about 90 % of the full-time employed workforce. The contribution varies from approx 12 to 18 percent of the wage (2/3 paid by the employer). A retirement pension can be drawn at 60 years at the earliest.
- Private pensions.

There is also a voluntary early retirement programme (VERP) linked with unemployment insurance, which pays benefits between age of 60 and until the normal pension age of 65.

As part of the welfare reform the early retirement age in the VERP-scheme is gradually lifted from 60 to 62 years in ½ year increments from 2019 to 2022. In the public old-age pension scheme the pension age is gradually lifted from 65 to 67 years between 2024 and 2027. As of 2025 (/2030), the retirement age in the VERP (/ public old-age pension) scheme are indexed to the mean life expectancy of 60 years old. The principle of indexation implies that the total average period of early retirement benefit and public old-age pension will be around 19½ years over the longer term. That is the same as in 1995.

The Welfare reform is the latest of a number of significant changes of the Danish pension system during recent years:

- 1) The built up of a number of fully funded, contribution-defined, occupational pensions scheme from around 1990, which extended the coverage for those kind of schemes significantly.
- 2) Extending the ATP scheme to cover a number of different transfer income recipients and thus attaining an almost universal coverage.
- 3) Disability pension reform in 2003. After the reform a disability pension can only be awarded if the working capacity is permanently reduced, and the reduction being so severe that the applicant, notwithstanding the possibilities of support under the social security and other legislation, including employment in a flexible working arrangement, will be unable to provide for him or herself by means of a remunerated job.
- 4) From 1 of July 2004 it become possible to defer the take up of old age and in return receive a higher old age pensioner later.
- 5) Finally, the conditions for entitlement to benefits from the voluntary retirement scheme (VERP) have been tightened and economic incentives have been built into the scheme to postpone retirement.

The welfare-reform and the other mentioned changes of the pension system has made the pension system more robust in relation to the demographic development, and increased the economic incentives so stay longer in the labour market.

### 3. Active labour market policies

#### Comparing policies in Finland and Denmark

Finland and Denmark has one main common element: the widespread effort. The Danish starting point is that many factors influence the retirement age and employment of seniors, and thus a many-faceted effort is necessary to address the many-faceted task of improving the labour market participation of the elderly. Important elements of the Danish policy were introduced as part of the welfare reform, passed in 2006, while the rest mostly has been introduced successively one by one. In general it is not possible to isolate the measures in order to estimate the effect. The different measures might possibly strengthen each other, and at the same time the present workforce shortage has a great influence. It means that more jobs are available for seniors, and that the enterprises are more interested in trying to induce the seniors to remain in employment.

The main differences between Finland and Denmark possibly are between 1) the unemployment policies, 2) competence development, 3) how to make working life attractive and 4) Finland seems to base the initiatives on comprehensive research in a higher degree than Denmark.

The main similarities are the campaigns, the change of the early retirement possibilities and probably the effort to prevent attrition.

The main differences:

- 1) It is not quite clear what kind of differences there exists between the Finnish and the Danish legislation. An important development in Denmark is that unemployment policies are mainstreamed regarding age, and so a signal is sent: Persons close to 60 years are not automatically on their way out of the labour market.
- 2) Regarding competence development Denmark could possibly get inspiration from the Finnish activities concerning training activities for personnel managers.
- 3) How to make working life attractive: Denmark does not have specially formulated central activities in this field, but several activities point in this direction, e.g. the Prevention Fund. The main stress is laid upon the voluntary measures in the companies and the central measure is the campaigns to make them understand the need and what they can do.
- 4) Denmark could to some extent use the Finnish research directly and also pick up inspiration.

In Denmark trying to change the seniors' ways of thinking and the general thinking about seniors is addressed by amending legislation and retirement schemes and by campaigns.

Compared to the Finnish main themes Denmark is working in the same direction, but it is not seen from the ageing angle but as a part of the general labour market policy. An example is effective occupational health care and rehabilitation.

## The current debate in Denmark

In Denmark the question of 60+ persons in the labour market is on the agenda with two kinds of suggestions:

- 1) incentives to make people remain longer and
- 2) incentives to make retired persons (early retired persons or pensioners) return to the labour market. The instruments could be tax reduction or more attractive rules of set-off in the pension / early retirement benefit.

In Denmark a consensus is growing about later retirement. But still there is a need for enterprises to understand how to manage the fact that employees above 60 have a choice. And still seniors should be more aware of the advantages of remaining in the labour market. Also the question of flexibility and consideration of the individual needs is important, of course within the frames of the company.

Also relations between senior policy / practice and life cycle HR are debated. The frames of what we call senior-agreements should be part of the possibilities in a life cycle HR policy.

## Key issues and main questions

The Danish point of view is that age in itself does not tell anything. You have to look at the person, not the age. Individual differences widen during lifetime.

On the other hand we know that a great part of the present senior generation have low formal skills, and we also know there are differences between younger and older regarding how to learn. And especially differences regarding new technology.

Can we on one hand spread the image of seniors being persons like anybody else – and on the other make special initiatives and privileges aimed at seniors?

Can we make seniors and enterprises understand the need of continuing learning / training during the whole working life? Also after 55?

## The Danish active policies

The Danish measures fall in the group of 'active ageing strategies'.

The actual main themes of improving the Labour Market participation of older persons in Denmark are:

- 1) Raise the age of admission to receive pay from Voluntary Early Retirement Pay and Old Age Pension
- 2) Mainstream labour market legislation regarding older persons (activation and unemployment benefit), combined with rules of two special job subventions for 55+
- 3) Prevent attrition in the labour market
- 4) Create awareness and affecting attitudes concerning age and work (Campaigns, best practice, think tank, a homepage [www.seniorpraksis.dk](http://www.seniorpraksis.dk))
- 5) Enhance the senior practice in the public sector, primarily in the municipalities
- 6) Involve the social partners
- 7) Special measures: Self activation networks for unemployed seniors
- 8) Special measures: Consultancy assistance to companies about senior practice
- 9) Fight age discrimination.

1), 2) and 3) are elements in the welfare reform 2006.

Regarding competences Denmark has no particular active ageing policy initiatives. However, the public offer of adult education and training offers a good framework for re- and upskilling opportunities, including financial support, which are accessible to all, and which are widely used. Adult education and training was also boosted in the welfare reform.

Denmark has no specific education of personnel managers regarding how to manage an ageing workforce, but has two offers to help smaller companies and others, the Consultancy assistance and the homepage [seniorpraksis.dk](http://seniorpraksis.dk).

Cf. 1) See above

**Cf. 2a) Mainstreaming labour market legislation:**

- Removal of a rule formerly giving 58-59 year old unemployed the possibility of being excused from the general activation measures. From 1<sup>st</sup> of January 2007 all unemployed have the same duty to be activated
- The elderly persons on unemployment insurance aged 55 to 59 can no longer receive prolonged unemployment insurance until the age of 60 (the present age for possible early retirement via the VERPS). They can now as everybody else receive unemployment insurance for 4 years. Earlier it was possible to remain on unemployment insurance from the age of 51 and until the age 60 (9 years in total)
- The limited unemployment period of 2½ years for elderly persons on unemployment insurance aged 60 and above is abolished. They can now as everybody else receive unemployment insurance for 4 years if they fulfil the requirements.

**Cf. 2b) New special job subventions for 55+**

- 55+ will - after an unemployment-period of 12 months - get the right to get a subsidised job in a private company for 6 months. They are not guaranteed a job, but if they find one, the company has the right to get subsidy. This rule is planned to exist only in a transition period, because the higher unemployment for 55+ is expected to be reduced according to the change in attitudes and behaviour, following the mainstreaming of the employment legislation.
- 55-59 year old unemployed who lose their right to unemployment benefit because of the abolishing of the possibility of a prolonged period of unemployment benefit for 55-59 year old unemployed get the right to a job in the municipality. The municipality will be subsidised for a part of the wage and is obliged to procure the job. The person can keep the job until early retirement pay.

*Comment:* These two rules will become effective from January 1<sup>st</sup>, 2008. In 2007 the higher unemployment for 55-59 year old persons has been reduced, mainly because of a general reduction of unemployment. But the reduction for the older is greater than the general reduction, and the levels are close to each other now. So probably the attitudes towards senior workers are changing. And probably the mainstreaming of labour market legislation has played a role. It is expected that the need of these two rules will be temporary.

### **Ad 3) Prevent attrition in the labour market**

A special fund, the Prevention Fund, has been set up in order to prevent attrition.

The Fund has a capital of DKK 3 billion. The object of the Fund is to finance activities with a view to prevent the premature withdrawal from the labour market due to physical and mental attrition.

Financial support from the Fund may be granted within the following main fields:

1. prevent routines and work functions that lead to attrition.
2. develop new technologies for prevention of routines and work functions that lead to attrition.
3. better retraining and vocational rehabilitation of sick and disabled persons.
4. increase awareness about risks in connection with smoking, alcohol, physical inactivity and obesity.

### **Cf. 4) Raise awareness**

Awareness and attitudes: The Ministry of Employment has carried out a campaign, introducing the concept of 'senior practice' and using the slogan: 'A few more years make a difference' - that is for society, companies and seniors.

Also a senior practice award has been introduced, and the minister of employment has established a think tank concerning seniors in the labour market, as an initiative to produce new ideas and activities.

### **Cf. 5) Enhance the senior practice in the public sector, especially in the municipalities**

A fund of 900 million DKK will be used to projects, trying to make senior practice initiatives to promote the remaining of the senior workers in the public sector.

### **Cf. 6) Involve the social partners**

The social partners are involved in The Prevention Fund, and the fund of senior practice in the public sector is a result of a tripartite agreement, and the social partners are going to negotiate the coining of the fund. New tripartite negotiations will follow the welfare agreement.

### **Cf. 7) Special measures: Self activation networks for unemployed seniors**

The Ministry of employment finances 25 independent associations for unemployed seniors who assist each other in finding jobs

**Cf. 8) Special measures: Consultancy assistance to companies about senior practice**

A company can receive 5 hours consultancy assistance about how to use senior practice in order to make employees stay longer, financed by the Ministry of Employment.

**Cf. 9) Age discrimination:**

A complaint tribunal is suggested to be established in 2008. It will treat complaints of all kinds of discrimination in the labour market: sexual, ethnic, based on age etc. (The suggestion is temporarily repealed because of the general election, Nov. 07)