

Is the 2006 Welfare Agreement falling apart?

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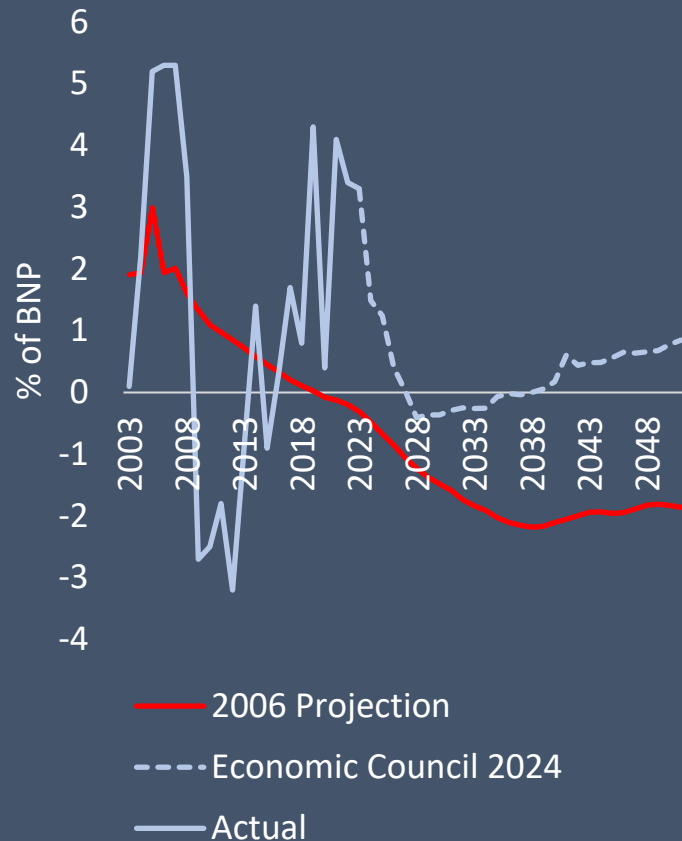
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The Welfare Agreement and later reforms

Retrospective view

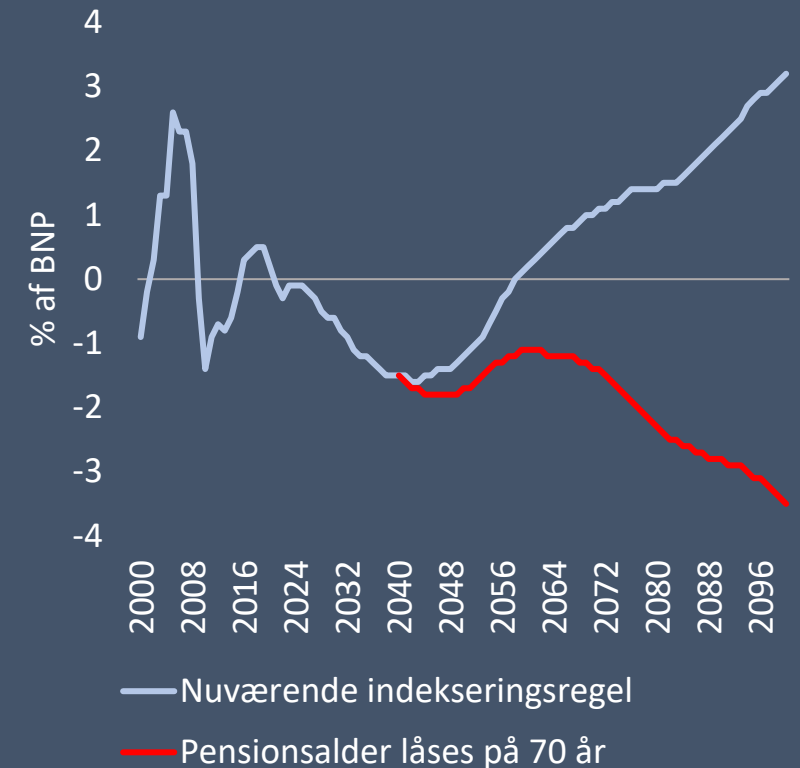


Sustainability indicator:

Economic Council: 1.5% of GDP
Ministry of Finance: 1.3% of GDP

- Medium-/long-run perspective in economic policy
- Fiscal framework – fiscal sustainability
 - Stability
 - Policy space in times of crisis
- Specific solution: Increasing the retirement age alongside increases in longevity – important for
 - Public finances
 - Labour markets
 - Pension adequacy – one year later retirement = 6% increase in net income

Projection – maintaining indexing rule or stopping at 70 years in 2040

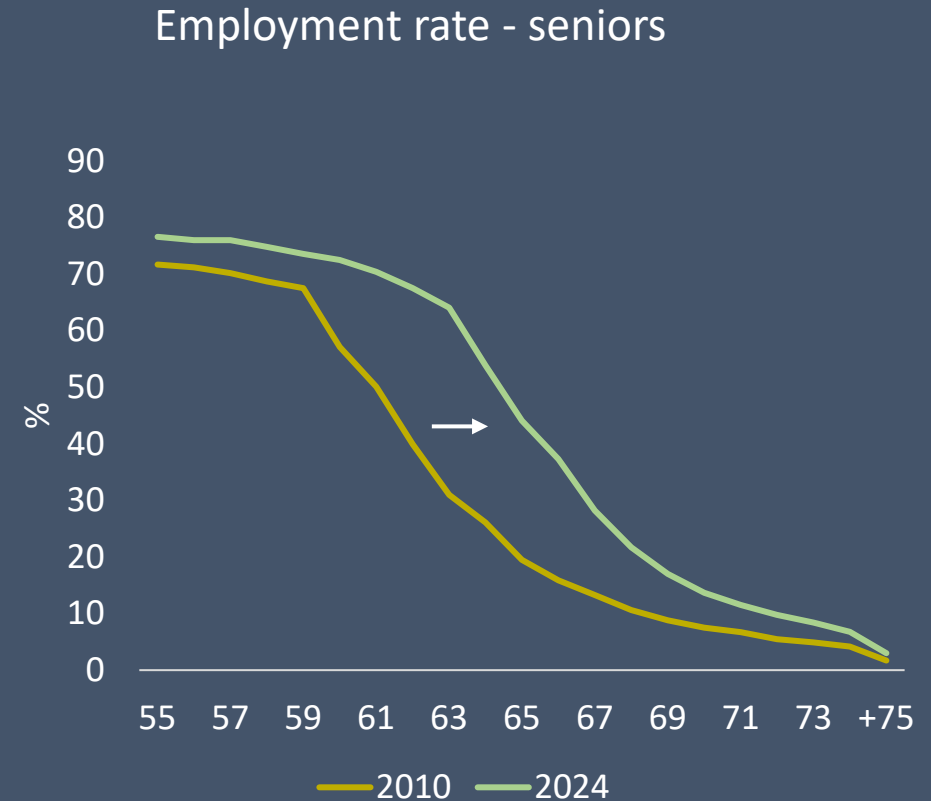


Sustainability indicator:

Economic Council: -0.6% of GDP
Ministry of Finance: -1.5% of GDP

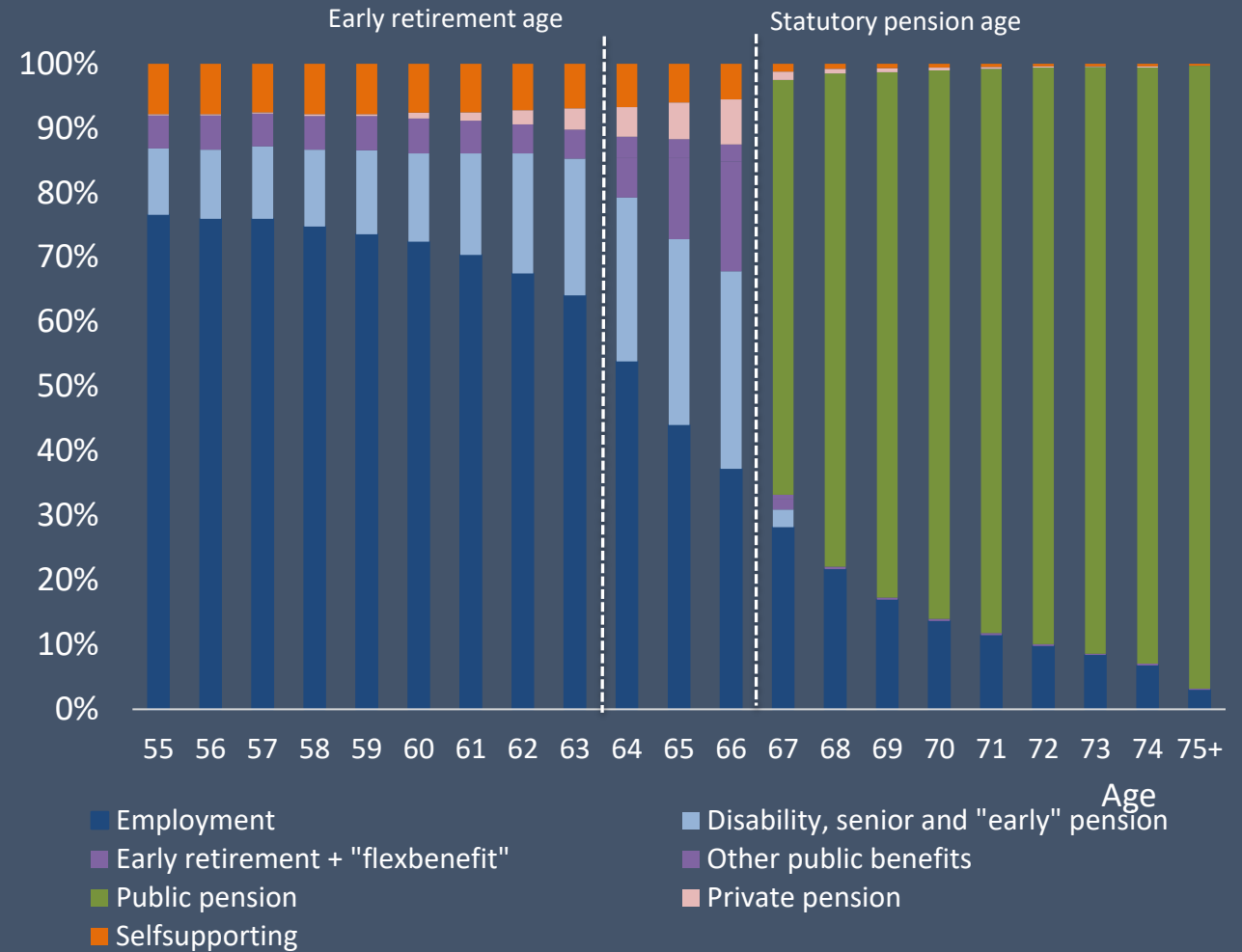
Labour market status – employment for seniors

- Concern that there is no labour market for seniors has not been vindicated
- Clear effect of the higher retirement ages
 - Also other drivers: Increasing educational level, business cycle effects...
- Increasing the statutory retirement age is an option – do we want to use it?



Retirement paths – and the statutory pension age

- Reaching the statutory pension age: Entitlement effect - public pension
- Not a predictor of actual retirement
 - Many exit before reaching the statutory pension age – the public pension replaces some other transfer
 - Some continue past the statutory pension age



The indexation rule

	Current rule	Comment
Target	Expected pension period = 14.5 years	Absolute 1-1 model Relative model more "fair"?
Reference point	Life expectancy at 60 years	Should it be adjusted with longevity?
Frequency	Every fifth years	Too slow/fast?
Lead time	15 years	Forces current generations to make decisions for future generations
Speed limit	Max increase = 1 year	Make public finances sensitive to increases in longevity

The indexation rule

	Current rule	Retirement Commission 2022
Target	Expected pension period = 14.5 years	80% - 20% model
Reference point	Life expectancy at 60 years	Life expectancy at the statutory retirement age
Frequency	Every fifth years	
Lead time	15 years	
Speed limit	Max increase = 1 year	Backlog eliminated

What are other countries doing and can we compare?

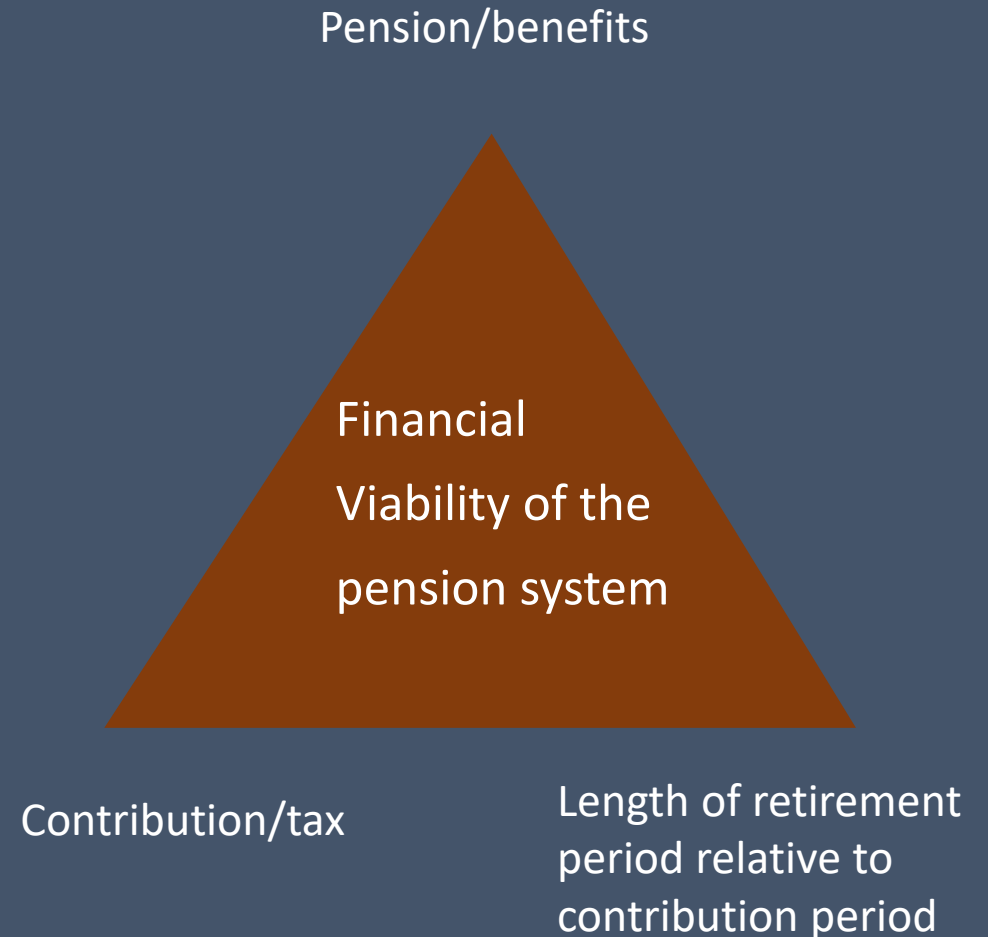
- A number of countries have adopted an indexation rule
- Some have an absolute model – others a relative model (2/3-model)
- Shorter lead time (1-5 years), and less binding speed limit

International comparisons

- Retirement ages cannot be compared separately – should be seen in perspective of design of pension and welfare systems
- Other countries have chosen other adjustment mechanisms, e.g. adjusting benefits to longevity
- Many countries do not have financially viable public finances and pension schemes – adjustments eventually have to be made!

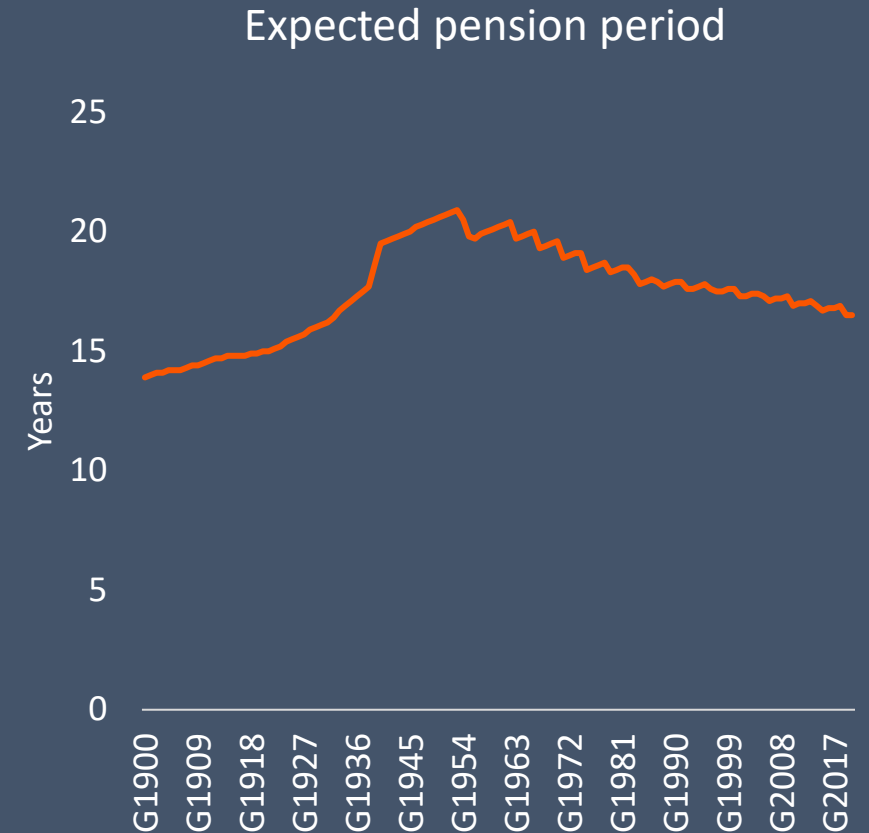
“Fair” retirement - intergenerational

- “Generations benefitting from longer longevity should also carry the larger part of the financing burden”
- Driver: Longevity – targeting
- In principle other adjustment avenues:
Hard to find a single instrument with such a large impact – alternatives also have inter- and intragenerational implications!



Intergenerational distribution II

- Increases in retirement ages have been implemented with a moratorium for (current) generations close to retirement
- Redistribution from future generations to current generations (implicit in the fiscal sustainability indicator)
- An absolute indexation rule is not required for fiscal sustainability – it is all about priorities under the constraint of having sustainable finances!



”Fair” retirement - intragenerational

Work capability

- Insurance:
 - Exit options in case of loss/reduction in work capability
 - Allowing those with reduced work capabilities to retire earlier requires others to retire later
- Implementation:
 - Screening (disability+”senior” pension) – criteria
 - Self-selection (Efterløn) – contribution-based, option
 - Length of worklife, occupations – imprecise targeting

3rd life-phase – retirement period

- Part of ”welfare package” - ”all should be able to enjoy a retirement period”
- How to define this?
 - Absolute or relative to longevity?
 - Ex ante expected or ex post realized longevity?
 - Well-defined groups?
 - Only targeted those employed? -What about all the variations in working careers?
 - Tax-financed or self-financing

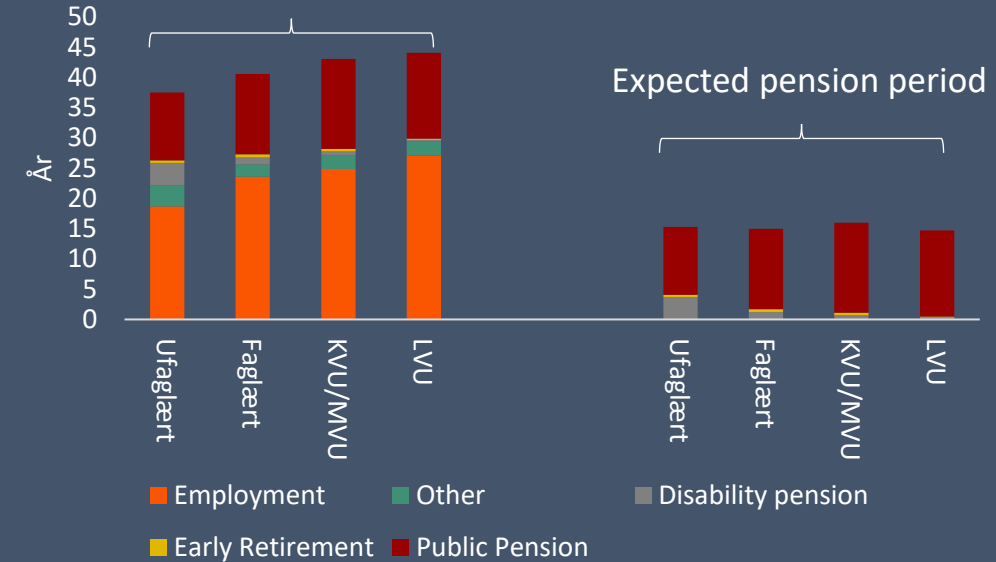
Socio-economic differences in longevity

- Should/can such differences be targeted with the general statutory pension age?
 - Exit options play an important role in reducing differences in expected pension period

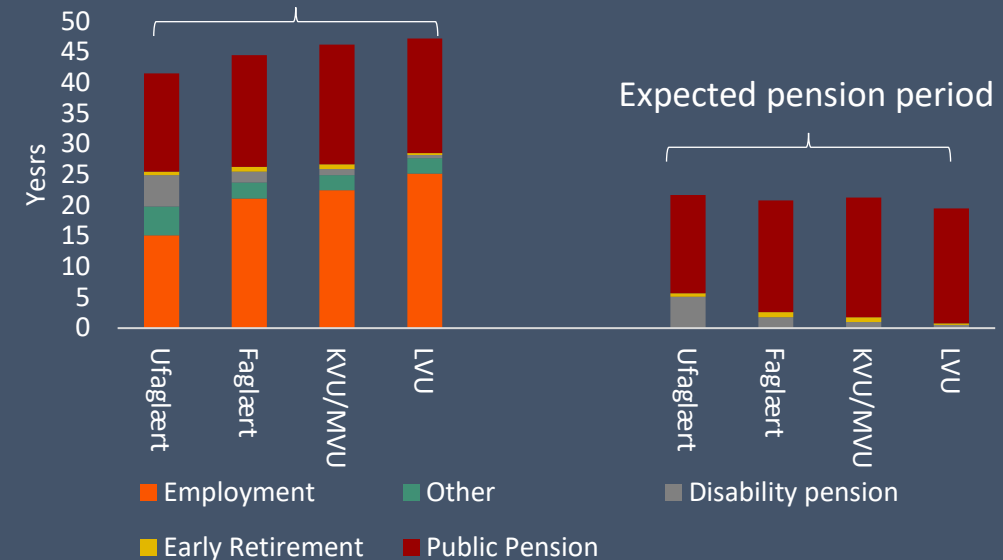
Observed retirement ages are a mixture of voluntary and non-voluntary retirement

- Differentiated retirement ages – e.g. educational groups
 - How closely is education correlated with longevity?
 - Reasons for differences in longevity
 - Educational incentives
 - Implications for income distribution
 - Administrative challenges

Expected remaining longevity - men aged 40

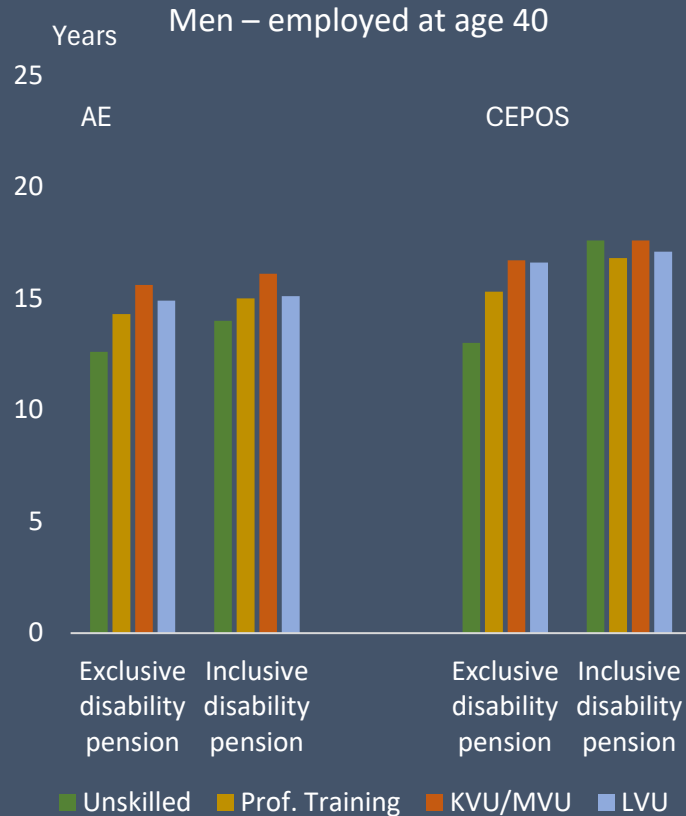


Expected remaining longevity - women aged 40



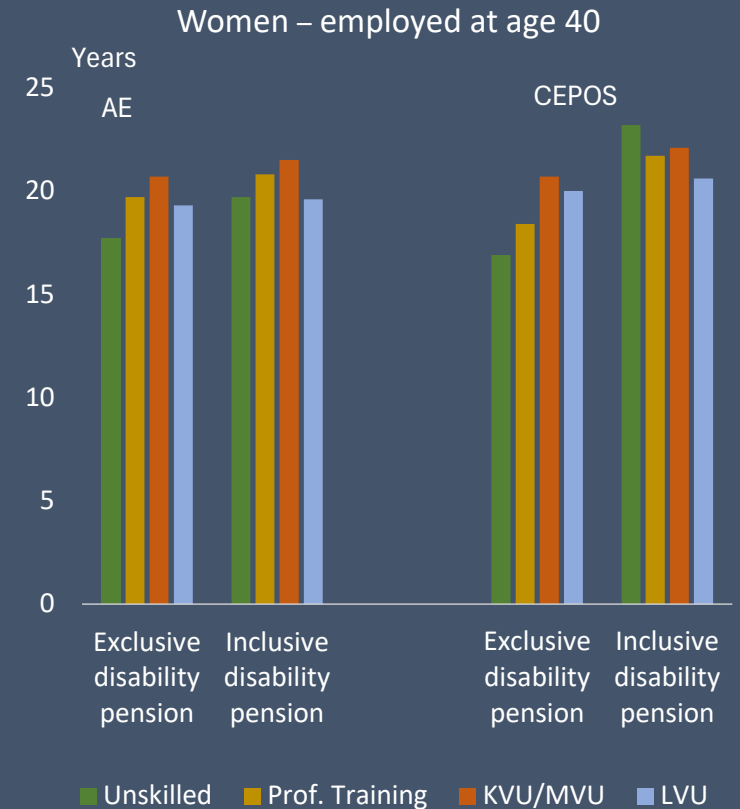
Socio-economic differences II

Expected number of years in retirement

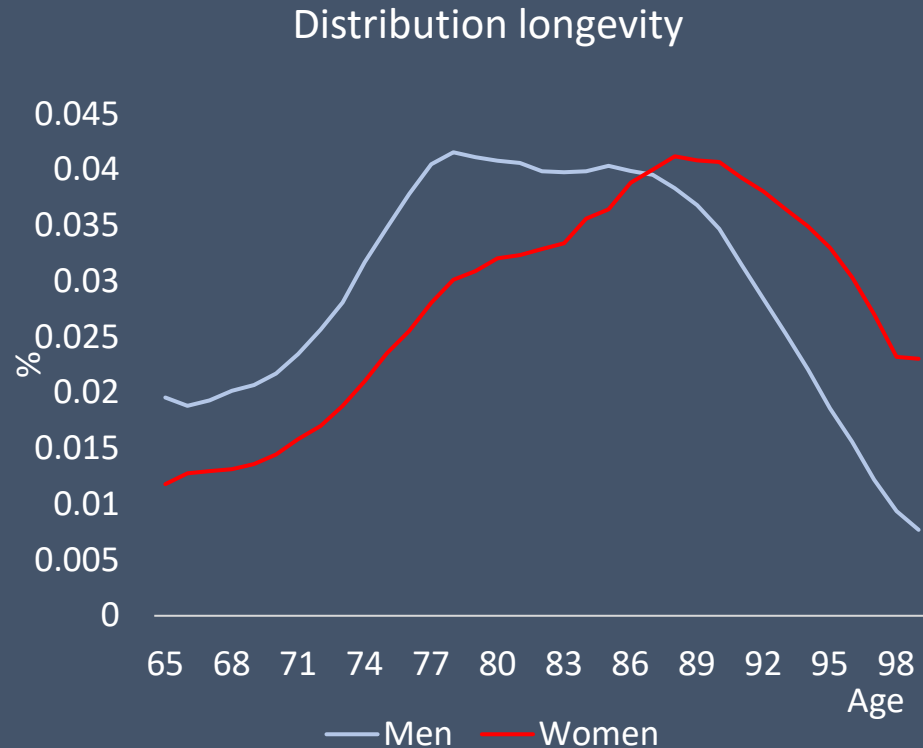


- What is the reference point?
 - Absolute or relative similar to criteria for intergenerational distribution?
- Exclusive or inclusive disability pension?
- Differences in methods
 - Employment
 - Main income source

Expected number of years in retirement



Can we base policies on averages?



- Comparison at age 50 – random selected man and woman: 40% probability that the man lives longer than the women
- At age 60: about 35-40% of unskilled live longer than highly educated

Summing up

- The welfare arrangement is an outcome of a medium-/long-run focus in economic policy – an overall policy framework
- Satisfying the criteria of fiscal sustainability is crucial
 - Stability-oriented economic policy
 - Citizens' trust in what the welfare state can deliver
- How to attain fiscal sustainability – a political prioritization
- Credible policies satisfy the fiscal sustainability criterion