Ambitious retirement age indexation ensures sustainable public finances in Denmark

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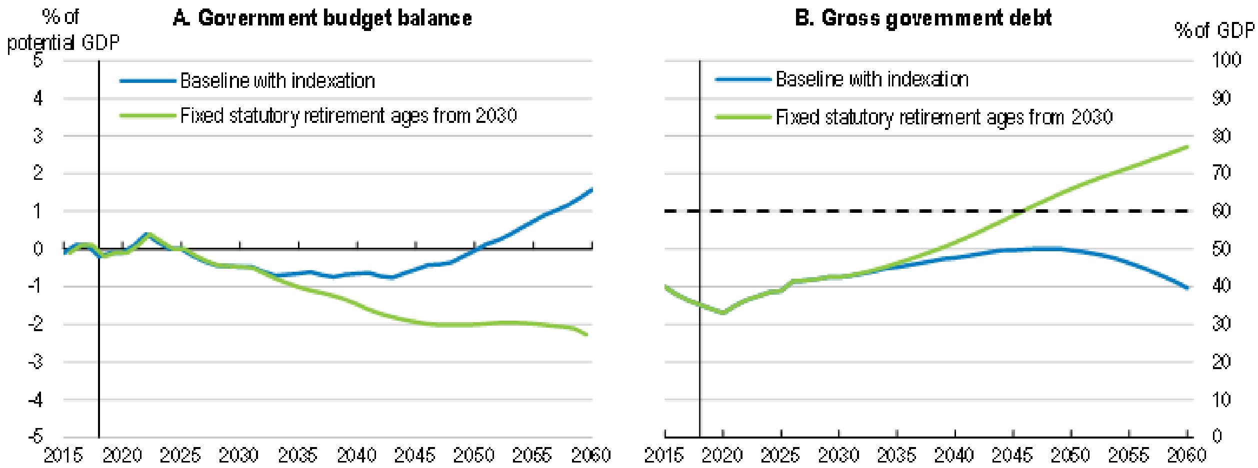
Denmark has a long tradition of reforms delivering sound public finances and strengthening economic growth. One foundation of long-term fiscal sustainability was the decision taken in 2006 to index statutory and early retirement ages to life expectancy. Projections of public finances suggest that in this case (the baseline scenario) the government budget will remain close to balance and debt stay well below 60% of GDP (Figure 1). However, if indexation where to be stopped from 2030, persistent deficits and fast rising debt are projected.

Figure 1. Retirement age indexation will ensure sustainable public finances

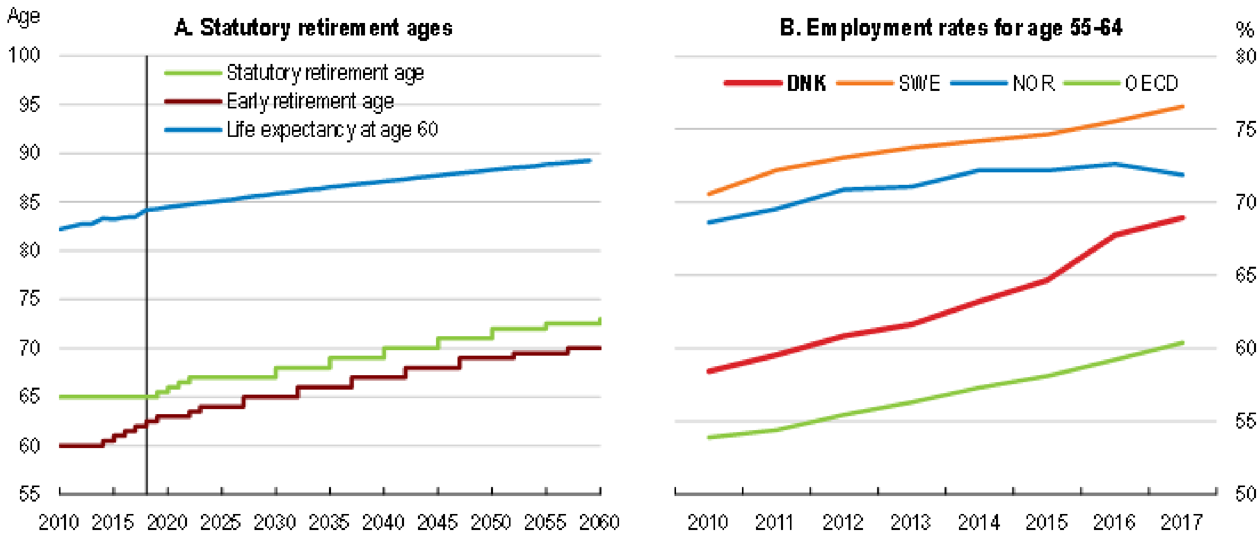


Source: OECD calculations based on Danish Ministry of Finance (2018).

The indexation mechanism works by raising the statutory

retirement
age by up to one year every five years to keep the expected number of years in
retirement constant (Figure 2, Panel A). Experience from the first adjustment
of the early retirement age starting in 2014 has been encouraging. Many seniors
have chosen to stay in their job, which has supported a significant rise in the
employment rate among 55-64 year olds (Figure 2, Panel B). There is still scope
for improvement as the senior employment rate in Denmark remains below those of
Norway and Sweden.

Figure 2. The statutory retirement age is set to increase to 73 by 2060



Source: Danish Government (2018); OECD Labour Force Statistics.

In the coming years the statutory retirement age will be
increased from 65 to 67 years. Assessing whether the affected workers remain
active will provide another indication of whether the long-term fiscal strategy
is on track. Current projections indicate that the statutory retirement age

will reach 73 by 2060. This is an ambitious path and the highest planned retirement age across OECD countries. Still, since additional years lived are generally in good health such a rise is achievable, but requires policies to retain seniors in the labour market.

The recent *OECD Economic Survey of Denmark* commends Denmark for its impressive reform track record and sound public finances. The indexation of retirement ages to life expectancy should become a pillar of the economic policy framework and useful guide for other countries undertaking their own reforms. Nonetheless, successful reform requires full implementation and more could be done to ensure the functioning of the labour market does not discriminate against seniors as well as helping those with reduced work capacities to remain in employment (OECD, 2015).

References

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