Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

BETTER FINANCE

The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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The Real Return of Long-term and Pension Savings

2024 Edition — Denmark

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the “fairer deal” that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently “aggressive” to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

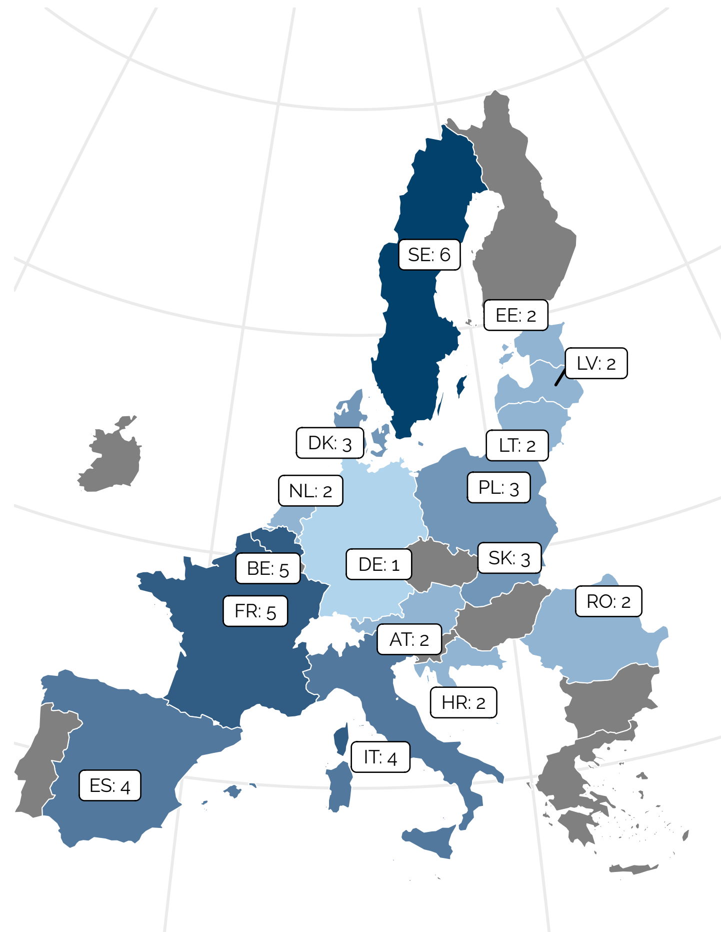
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

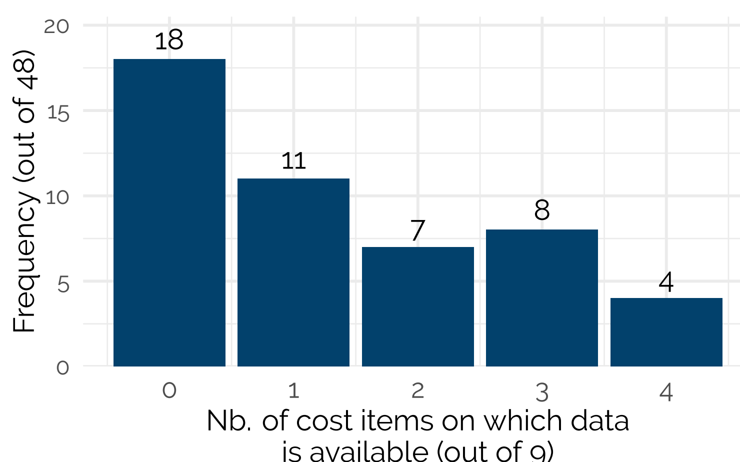


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

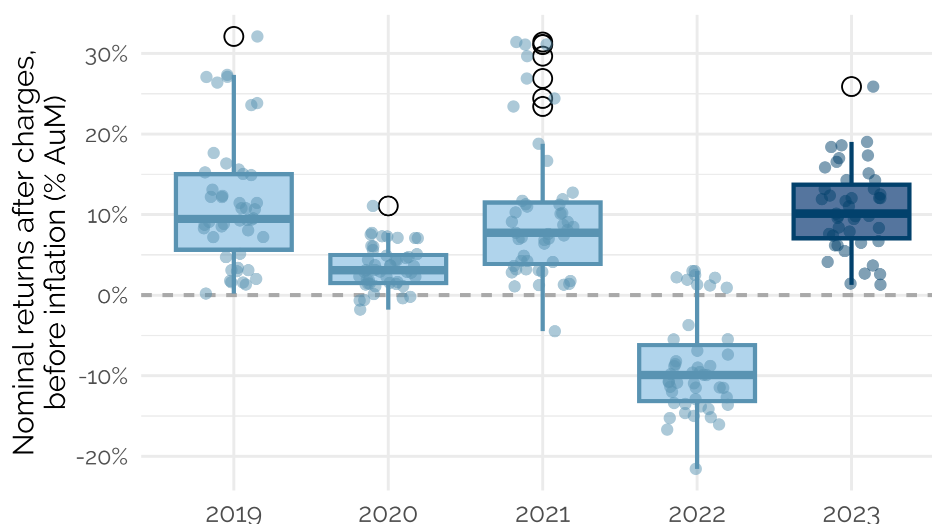
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – Average 1-year return rates of analysed product categories (2019–2023)



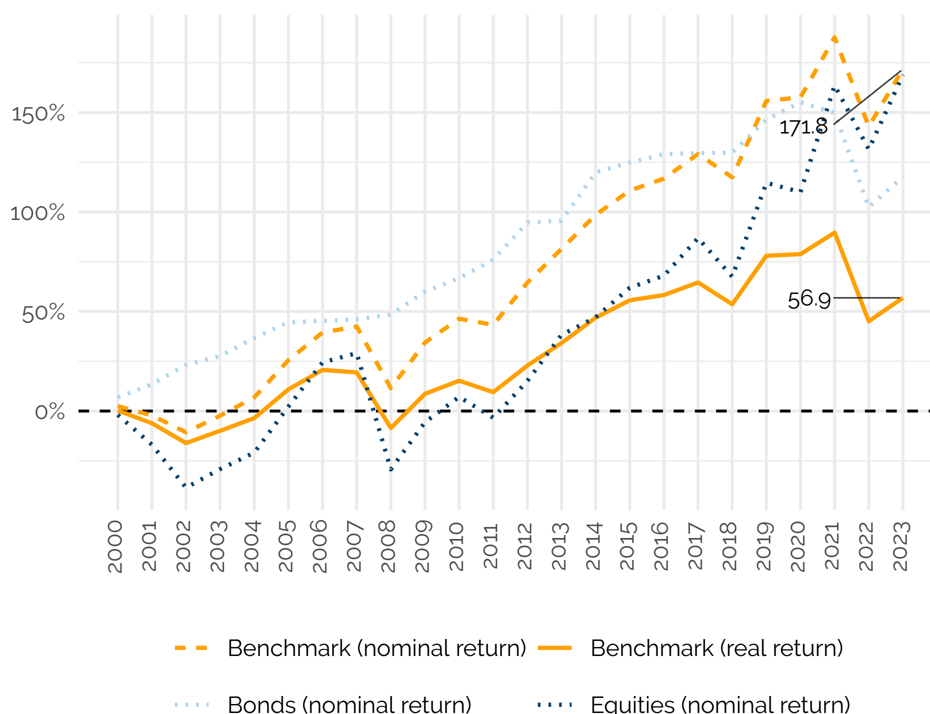
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

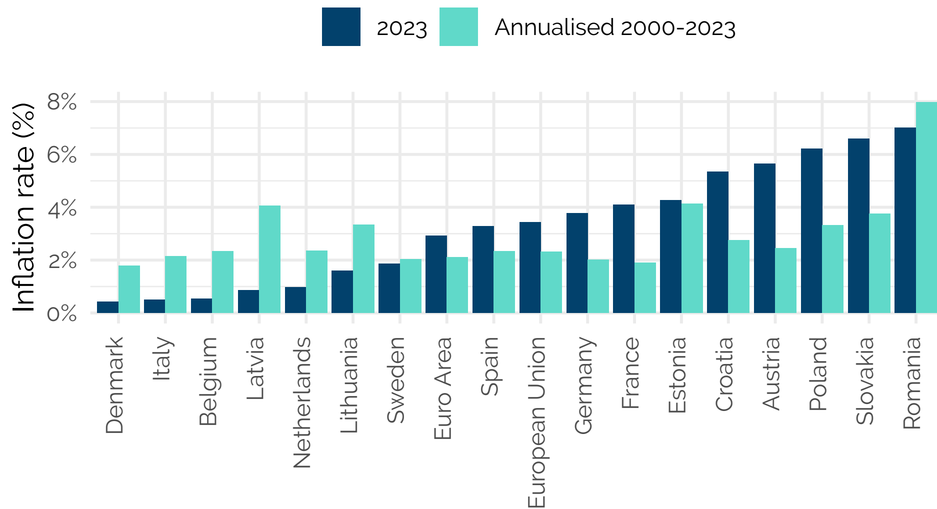
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

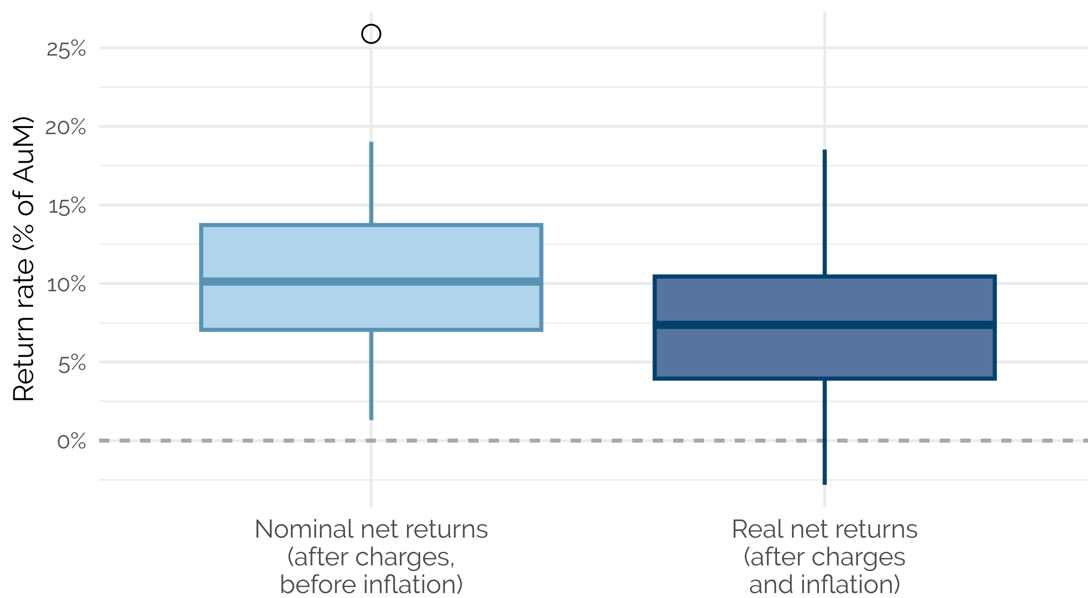
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

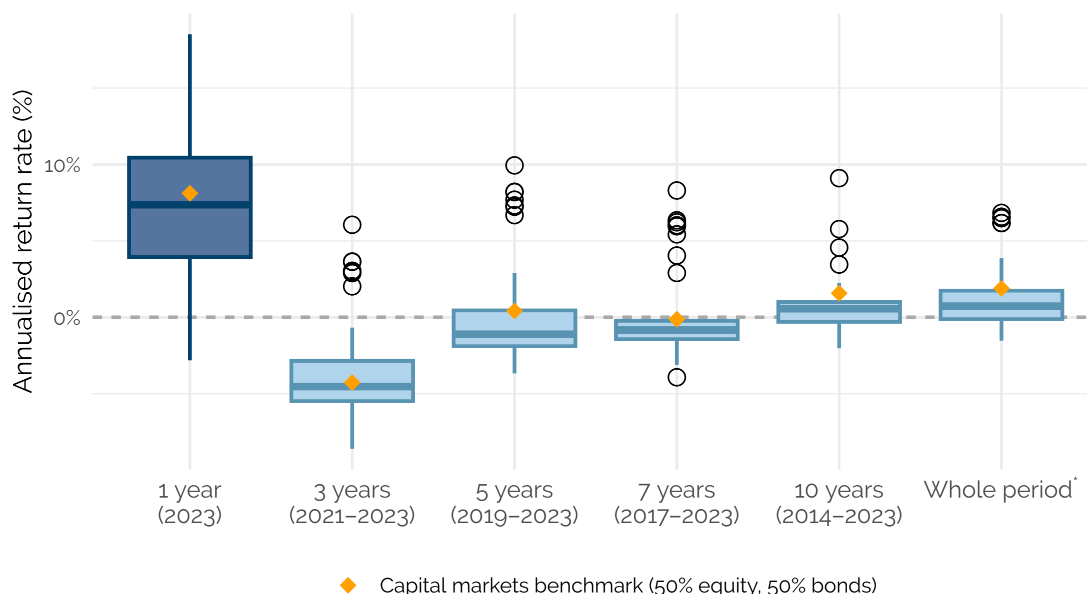


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the

upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Devia-tion	Best perfor-mance	Worst perfor-mance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

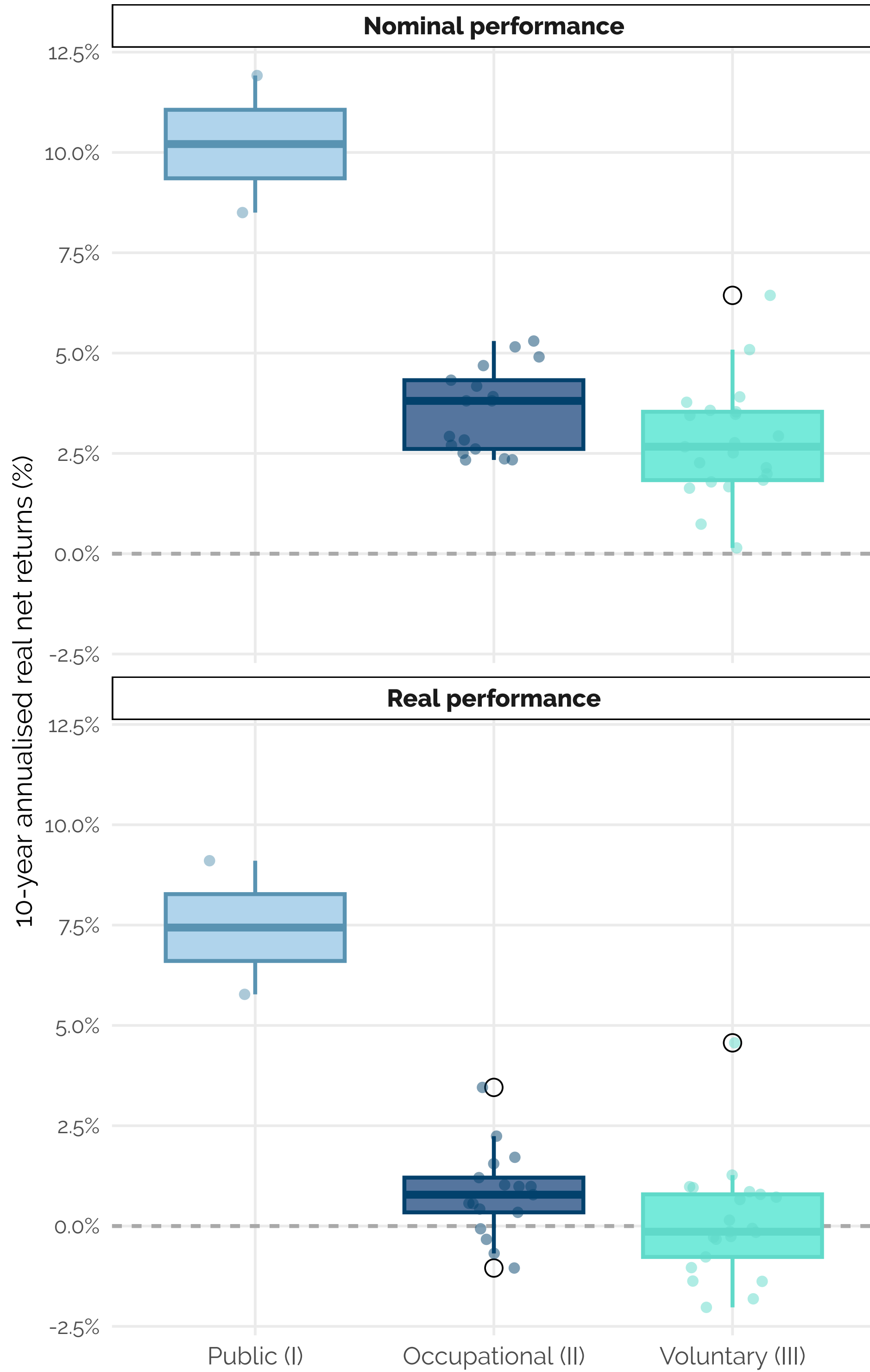
Calculations: BETTER FINANCE
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – Average 10-year annualised performance per Pillar



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with

the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete

the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 4

Denmark

Resumé

Danmark har et stærkt og anerkendt pensionssystem. Formålet med pensionssystemet er først og fremmest at sikre et minimumskrav til og en fastholdelse af levestandarden for ældre medborgere. Systemet består af 3 søjler: de offentlige pensioner (folkepensionen—PAYG), de bidragsbaserede arbejdsmarkedspensioner samt øvrige private pensionsordninger. De 3 søjlers betydning har gradvist ændret sig gennem de seneste 30 år, hvor søjle 2 og 3 det vil sige arbejdsmarkedspensionerne og de private pensionsordninger har fået en stadig større betydning. I dag har ni ud af ti danskere en arbejdsmarkedspension, og hovedparten af arbejdsgiverne har enten via overenskomster eller firmaaftaler forpligtet sig til at indbetale til medarbejdernes pensionsordninger. Det danske system sikrer således den enkelte en rimelig pension på såvel kort som langt sigt, der er meget få økonomisk fattige pensionister og pensionernes dækningsgrader er høj. Danmark står dermed relativt godt nu, hvor de rigtigt store årgange når pensionsalderen. Der er dog igangsat en debat om, hvorvidt man skal bibeholde den gældende aftale om, at pensionsalderen stiger i takt med levetidsalderen. Det kan give problemer, hvis den debat resulterer i større afvigelser. Den samlede danske pensionsopsparing er vokset over årtier, og udgør i dag ca. 200 pct. af landets BNP grundet den omfattende udbredelse af pensionsordninger i Danmark, kombineret med en stabil økonomisk udvikling. Tallene ændrer sig dog hvert år afhængigt af de økonomiske forhold, herunder BNP-vækst og udviklingen på de finansielle markeder. Efter et mærkbart fald i den samlede pensionsopsparing i 2022, der var præget af inflation, stigende renter og økonomisk usikkerhed, som påvirkede pensionsopsparingerne negativt til trods for høje pensionsindbetalinger, steg pensionsformuen igen i 2023 og er ved at komme stærkt tilbage på sporet. I 2023 satte danskerne således 152 mia. kr. ind på en pensionsopsparing. Det er næsten 5 mia. kr. mere end året før, svarende til en fremgang på 3,3 pct., og det højeste beløb i statistikkens historie, som går tilbage til 2002. Samtidig hentede Forsikring- og pensionssektoren et afkast på 337 mia. kr. De stigende pensionsindbetalinger kan forklares med, at der i løbet af 2023 kom mere end 30.000 i arbejde, mens lønningerne steg med højeste hast i årevis. Begge dele bidrager til at løfte de samlede pensionsindbetalinger betydeligt. Når en stor del af pensionsindbetalingerne udregnes som en procentdel af lønnen, stiger pensionsindbetalingerne, når lønningerne stiger og der er kommet flere i beskæftigelse.

Summary

Denmark has a strong and well-established 3-pillar pension system. The main aim is to ensure a minimum requirement for and maintenance of the standard of living for older citizens. The first pillar—pay-as-you-go (PAYG)—still provides the basic income for most elderly, but occupational pensions (pillar II) and other private pension schemes (pillar III) have become increasingly important over the past 30 years. Today, nine out of ten Danes have an occupational pension, and the majority of employers have, either via collective agreements or company agreements, undertaken to pay into the employees' pension schemes. The Danish system thus ensures individuals a reasonable pension in both the short and long term: there are very few economically poor pensioners, replacement rates are high, and the system is financially viable, with public finances meeting sustainability criteria taking into account an ageing population. Denmark is therefore in a good position. However, a debate has begun on whether to maintain the current agreement that ties the retirement age to life expectancy. This can lead to some problems if the debate results in significant deviations from the existing plan.

The total Danish pension savings have grown over decades and now amount to approximately 200% of the country's GDP, due to the extensive adoption of pension schemes in Denmark, combined with stable economic development. However, these figures fluctuate each year depending on economic conditions, including GDP growth and developments in the financial markets. After a challenging year in the financial markets in 2022 (inflation, rising interest rates and economic uncertainty that negatively impacted pension savings) and a noticeable decline in total pension savings in 2022, despite high pension contributions. The trend reversed in 2023 with relatively large increases in the value of pension savings. In 2023, Danes contributed EUR 21,3 billion to pension savings. This is an increase of 3.3%, and marks the highest amount recorded in the history of these statistics, which go back to 2002. At the same time, the insurance and pension sector generated a return of EUR 45 billion. The increase in pension contributions can be attributed to over 30 000 more people joining the workforce in 2023, along with the highest wage increases in years. Both factors contribute to lifting total pension contributions to new heights. Since a large portion of pension contributions is calculated as a percentage of wages, contributions rise as wages increase and more people enter employment.

Introduction: The Danish pension system

The Danish pension funds administer investments worth more than EUR 530 billion. The main aim of these investments is to give the pension savers the best possible rate of return. 2022 was challenging and the worst year since the 2008 financial crisis. The insurance and pension sector lost a total of 92-93 billion euro—primarily due to losses on bonds and interest rate derivatives from rising interest rates. In 2023 the trend reversed with large increases and is now back on track. The average real net return of industry-wide pensions funds was 9.7% in 2023, 3.7% for company pension funds, and 5.0% for life insurance, compared to -31.1% in 2022 for pensions funds (industry- and company-wide) and -20.33% for life insurance (in 2022 the real return was weaker than the nominal return as inflation pushed the losses further into negative territory. Despite the huge losses in 2022, the annual real net returns since 2017 until now have been 2.9% for industry-wide pension funds, -0.7% in company pension funds and -1.3% in life insurance funds. The Danish ATP, in particular, suffered and experienced large investment losses in especially the first half of 2022. The real return of ATP, whose investment portfolio consisted mainly of long-term interest-bearing securities, was nearly -38% (EUR -8,6 billion). The crash of ATP stands out and and generated significant debate, given that it is a mandatory pension saving scheme. Even though all of the country's pension companies had to report significant losses on their investments in 2022 the situation in ATP was called catastrophic due to the fact that the loss in ATP's case was several times larger than that of the others. In 2023, many pension companies regained what they lost the previous year, but for ATP, with a loss of EUR 8.6 billion in 2022 and a result of EUR 0.76 billion, this was certainly not the case. However, in the first half of 2024, ATP achieved a 3% return in its investment portfolio which rose to 9,7% after the third quarter. Thus, the third quarter delivered a very solid return (ATP, 2024, 31. Oct: Financial statement, Q1-Q3 2024) but they are still lagging, with a result of EUR 1,4 billion for the first 3 quarters in 2024.

Table DK.1 – **Long-term and pension savings vehicles analysed in Denmark**

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Industry-wide pension funds	Occupational (II)	2000	2023
Company pensions funds	Occupational (II)	2016	2023
Life Insurance funds	Voluntary (III)	2000	2023

Historically, the returns have been high, on average close to a real return of 5% after tax over the past 10-15 years (if we disregard 2022). The pension sector has been able to weather major crises such as the financial crisis, the period with low interest rates and the corona crisis. Although we have periodically seen declines, for example in connection with the corona crisis, the political situation with the trade war between the USA and China, Brexit (and currently with the war in Ukraine, where we do not yet know the effects), even significant losses have proven to be more than com-

Table DK.2 – Annualised real net returns of Danish long-term and pension savings vehicles (before tax, % of AuM)

	Industry-wide pension funds	Company pensions funds	Life Insurance funds
1 year (2023)	9.7%	3.7%	5.0%
3 years (2021–2023)	-0.7%	-5.5%	-7.3%
5 years (2019–2023)	2.9%	-1.4%	-2.0%
7 years (2017–2023)	2.9%	-0.7%	-1.3%
10 years (2014–2023)	3.5%	—	0.9%
Whole period	2.6%	0.2%	2.2%

Data: Danmarks Nationalbank, Finanstilsynet, Eurostat, Eurostat; *Calculations:* BETTER FINANCE.

pensated. The largest investment losses are typically observed within the market interest-based pension schemes, while the guaranteed pension schemes typically achieved a result of just below zero. This illustrates a more cautious investment policy for the guaranteed products.

Pension system in Denmark: An overview

The Danish pension system is a three-pillar system:

- The aim of the first pillar (Pillar I) is to prevent poverty in old age. Pillar I provides all Danish pensioners with a minimum pension throughout life, and the size of the pension depends on the individual pensioner's income and assets. In addition to the national pension, pillar I consists of ATP (labour market supplementary pension). ATP is legally binding for all wage earners. The contribution is the same for everyone and therefore not dependent on salary but dependent on one's working hours. The employer pays 2/3 and the employee 1/3. The pension benefit is a guaranteed annuity.

- The second pillar (Pillar II) is based on collective agreements in the labour market or employment contracts ensuring that the individual contributes to a defined contribution, funded pension scheme. Collective agreements determine the contribution rates, and the pension therefore depends on income earned throughout the working career. Pillar II aims to secure a standard of living reflecting the level of income before retirement.

- The third pillar (Pillar III) provides individuals with opportunities for supplementary saving based on their needs, both in explicit pension saving schemes with special tax treatment and in general voluntary savings.

Statutory ages in the pension system (for public pensions, for early retirement, and age limits for payment of funds from pension schemes) are established by law and thus regulated at the political level. The effective retirement age has been gradually increasing over the years, and it is currently set at 67 years old (2024). A sequence of reforms has tightened the possibilities for early retirement and increased the statu-

tory pension age (and early retirement age). The statutory pension age has increased in steps from 65 years old to reach 67 years old in 2022. Thereafter the statutory retirement age is indexed to the evolution of life expectancy. There is a "speed limit" stipulating that the statutory retirement age can be increased by more than one year every fifth year. In accordance with the indexation rules, parliament decided in 2015 to raise the statutory retirement to 68 years old in 2030, and in 2020 it was increased to 69 years old in 2035. The next decision will be made in 2025, and according to the evolution of life expectancy, the statutory retirement age will increase to 70 years. This might not happen. In August 2024 the debate reignited as the leading party in the government indicated that it may not necessarily continue to follow the current agreement on retirement ages increasing alongside increased life expectancy. They announced that 2025 will be the last time they vote for the automatic increase. Politically, this could lead to an intense debate leading up to the next parliamentary election, as the ongoing debate regarding work versus leisure requires attention.

The sustainability of the system depends critically on this development in retirement ages (increasing alongside increases in life expectancy). For the time being, the indexation scheme is being debated, and it is questioned whether it is too harsh, especially when implying a statutory pension age above 70 years. This can be a challenge, as many want to retire much earlier as they become wealthier due to the occupational pensions, and debates have arisen about more flexible exit routes from the labour market in order to encourage people to work longer.

The higher statutory pension age has also prompted a discussion of early exit options from the labour market for those who have reduced work capability, but not to the extent that they are eligible for a disability pension. In 2020, the so-called senior pension was introduced, giving the option to retire six years prior to reaching the statutory retirement age, provided work capability is reduced (unable to work at least 15 hours per week) and there is a sufficiently strong work record. A new scheme "early pension" (*tidlig* pension) was introduced in January 2022, available to individuals who, at the age of 61, have worked at least 42 years in the labour market.

For the moment it is unclear whether the government still wants to keep the senior and the early pension or make a new "early pension plus".

Finally, early retirement (*efterløn*) remains an option to retire within a window (reduced from five to three years after reforms) before reaching the statutory pension age for individuals who have contributed to the scheme for at least 30 years. The number of individuals eligible for early retirement is decreasing.

Pillar I

Pillar I essentially consists of two pension plans: the tax-financed public pension (*Folkepension*) and the ATP, a mandatory pension scheme that covers the majority of the population. Both schemes are regulated by law. The state pension (*Folkepension*) includes a basic amount (flat-rate pension) and means-tested supplements — I: supplementary pension (*pensionstillægget*) and II: supplementary pension benefit (*ældrecheck*). In addition, there are needs-based supplement, e.g., housing, medical expenses. The supplements are means-tested on a family basis.

Everyone is entitled to the public pension upon reaching the statutory retirement age, provided they meet the residence requirement and their earned income is below a certain threshold. Public pensions are indexed to wages. The state pension consists of a basic pension and a personal supplementary pension. For 2024 the base pension is DKK 83 136 per year (EUR 11 129), and the maximum supplement (for a single person) is DKK 96 192 per year (EUR 12 877). The means-testing is relatively complicated, depending on family circumstances and other sources of income.

ATP (The Labour Market Supplementary Pension Scheme)

ATP (*Arbejdsmarkedets Tillægspension*) is Denmark's largest pension fund and one of the largest pension funds in Europe. ATP manages assets of approximately EUR 147 billion, placing it among the top funds in Europe, alongside major players like ABP in the Netherlands and Alecta in Sweden. ATP is part of the Danish welfare system for old-age pensioners (introduced in 1964). By law, all wage earners and recipients of transfer income contribute to the supplementary labour market pension. It is a contribution-funded scheme, to which all contribute the same monthly amount (depending on working hours), in 2024 this is DKK 3 564 (EUR 475) The contribution has remained unchanged nominally since 2016. Employers pay 2/3 of the contribution, and employees pay 1/3 via their salary. The pension benefit is a guaranteed life-annuity. For a person in full-time employment, the pension benefit corresponds to about 1/3 of the base pension in the public pension system.

As of 2020, a mandatory pension scheme has been introduced for recipients of public transfers. The contribution rate, paid by the state, starts at 0.3% and increases in steps to 3.3% in 2030. The contributions are part of the ATP-pension.

Pillar II

Occupational pensions are the result of collective bargaining. Before 1990, Pillar II schemes were almost exclusively for civil servants and white-collar workers in the private sector. A tripartite agreement between the government and the social partners in the late 1980s resulted in occupational pension schemes being available to the larger part of the labour market.

Pillar II defined benefit (DB) schemes: Previously, it was common for civil servants in both the state and local governments to be entitled to a tax-financed DB pension (*Tjenestemandspension*). These schemes are being phased out.

Pillar III

In principle, Pillar III pension schemes provide the same opportunities for the individual citizen as occupational schemes. The products available and tax rules are approximately identical. Individual schemes are offered by banks, insurance companies, and most pension funds, but only if the saver is already enrolled through their job. The strong growth of Pillar II schemes has, to some extent, diminished interest in individual savings in explicit pension schemes. Also, changes in tax regulation have negatively affected the demand for Pillar III schemes. Moreover, many households hold assets outside the pension scheme, primarily in the form of real estate

and shares.

Transition from Pillar I to Pillars II and III

The Danish pension system is transitioning from being largely based on defined-benefit, tax-financed pensions to a greater role for defined-contribution, funded occupational pensions. The latter were expanded to most of the labour market in the 1990s and will mature over the two decades. It is expected that by 2040, pension payments will correspond to contributions and we will see the first large cohorts of pensioners who have saved for their pension throughout their working lives. However, payments from the labour market pension are expected to overtake the national pension as early as 2030.

The arrangement serves both to ensure decent pensions for all pensioners, and to maintain pension adequacy in terms of high replacement rates. It is essential to have a robust pension system to ensure the confidence of the financial markets in the long-term sustainability of the economy.

The system is financially robust and prepared for an ageing population, which is absolutely essential to maintain confidence of financial markets in the long-term sustainability of the economy. In international comparisons, the Danish pension system stands out for its low poverty rates among the elderly and high replacement rates. Financial viability, against the backdrop of large demographic shifts, is ensured. This position is reflected by its consistent ranking in the top A-tier, after the Netherlands and Iceland, in the Melbourne Mercer Global Pension Index 2024 (Mercer et al., 2024).

The challenges for the system include how to ensure an incentive structure that supports saving and later retirement. The sustainability of the system depends critically on retirement ages increasing in line with rising life expectancy. The heterogeneity in work career and health has prompted debates on introducing more flexible exit routes from the labour market to encourage people to work for longer. In August 2024, the debate reignited as the leading party in the government indicated that it may not necessarily continue to follow the current agreement linking retirement ages with increasing life expectancy. Politically, this could lead to an intense debate in the lead-up to the next parliamentary election, as part of the ongoing debate about balancing work and leisure.. Moreover, it remains a challenge that not all groups are yet covered by occupational pension arrangements.

Long-term and pension savings vehicles in Denmark

Private pension schemes are administered by pension funds, insurance companies, or , banks. This applies to both Pillar II and Pillar III.

A Danish industry-wide pension fund (*pensionskasse*) is a legal entity owned and governed by its members. A *pensionskasse* can offer the same kind of products as a life insurance company and is subject to the same regulations as a life insurance company - specifically, the Solvency II Directive.

The first occupational schemes for civil servants were established in *pensionskasser*,

which provided pension schemes for specific professions, e.g. nurses, whereas occupational pension schemes in the private sector originally covered employees with different professional backgrounds working within the same company. Such schemes used a life insurance company as a vehicle.

Today, the differences between the legal forms have lost importance. Many occupational pension schemes in the private sector are now industry-wide and administered by life insurance companies. But still, a distinction is often made between industry-wide schemes and company schemes.

Industry-wide schemes are typically more standardised, offering limited freedom of choice to individual members, as all decisions are made collectively. The pension provider is only indirectly exposed to competition since customer mobility is low. These characteristics generally make these schemes relatively affordable.

Insurance companies administering company schemes are more exposed to competition, as company schemes more frequently switch pension providers. In general, company schemes offer more individual options, e.g., regarding insurance coverage and the choice between a guaranteed or non-guaranteed scheme. Therefore — overall — the insurance companies have higher costs, particularly related to acquisition and individual counselling.

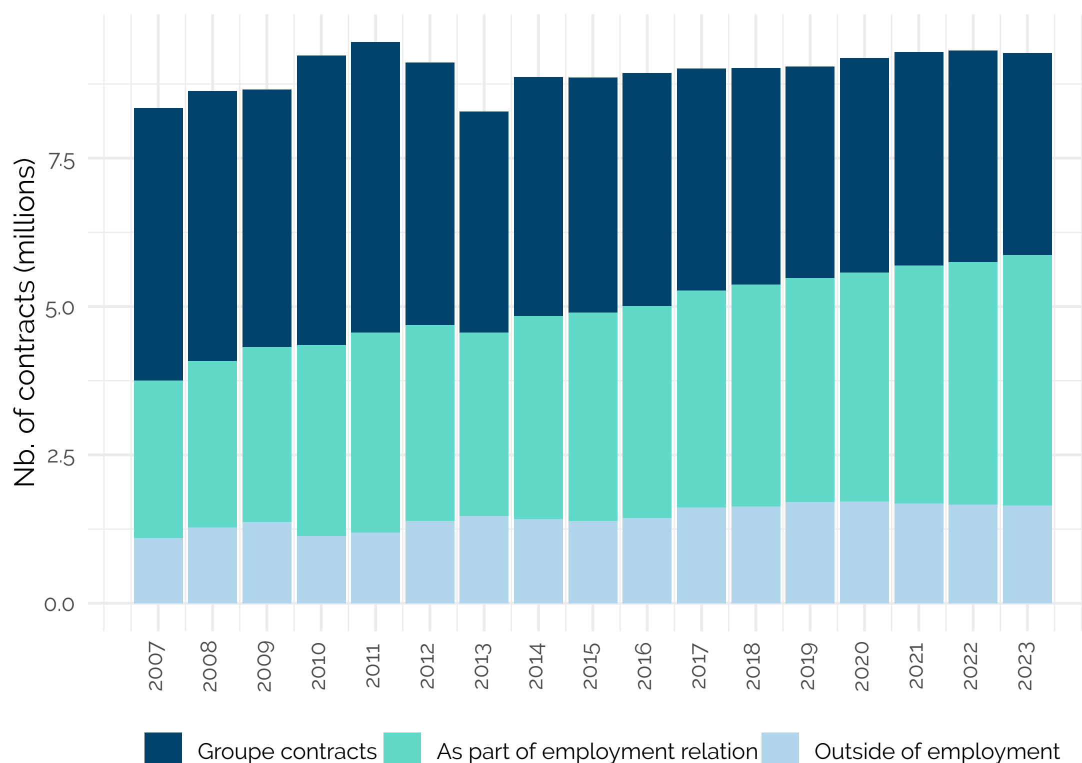
An occupational pension scheme typically provides coverage for old age, disability, and early death. Coverage for critical illness and even healthcare are other insurance benefits that have become common. Typically, 15%-25% of contributions are allocated to cover social risks other than old age, a trend that appears to be increasing.

The supply of pension products is regulated partly by tax law and partly by general regulations for insurance and banking. The regulation is the same for both Pillar II and Pillar III. This means that insurance companies and pension funds, on the one hand, and banks, on the other, provide competing products to the market. Products offered by life insurance companies and pension funds may accumulate savings but must also cover some kind of insurance risk — such as longevity, death, or disability — whereas banks can only act as intermediaries of insurance coverage supplementary to a saving product.

The number of contracts outside employment relationships has risen from around 15% to 22% of all contracts from 2007 to the present. Meanwhile, employment-based contracts have gained ground, increasing from about one-third of total contracts 15 years ago to nearly half today. Group contracts, however, have moved in the opposite direction: once comprising 50-60% of all contracts, they have now dropped to less than 40%.

As shown in Figure DK.3, life insurance has grown quite significantly over the past 20 years and today holds by far the largest assets under management, largely because many occupational pension schemes are administered by life insurance companies. Banks are managing a progressively smaller share, though they have maintained their position in the past two years, with only a marginal decrease of 0.1% from 2021

Figure DK.1 – **Nb. of life insurance contracts by type of contract**

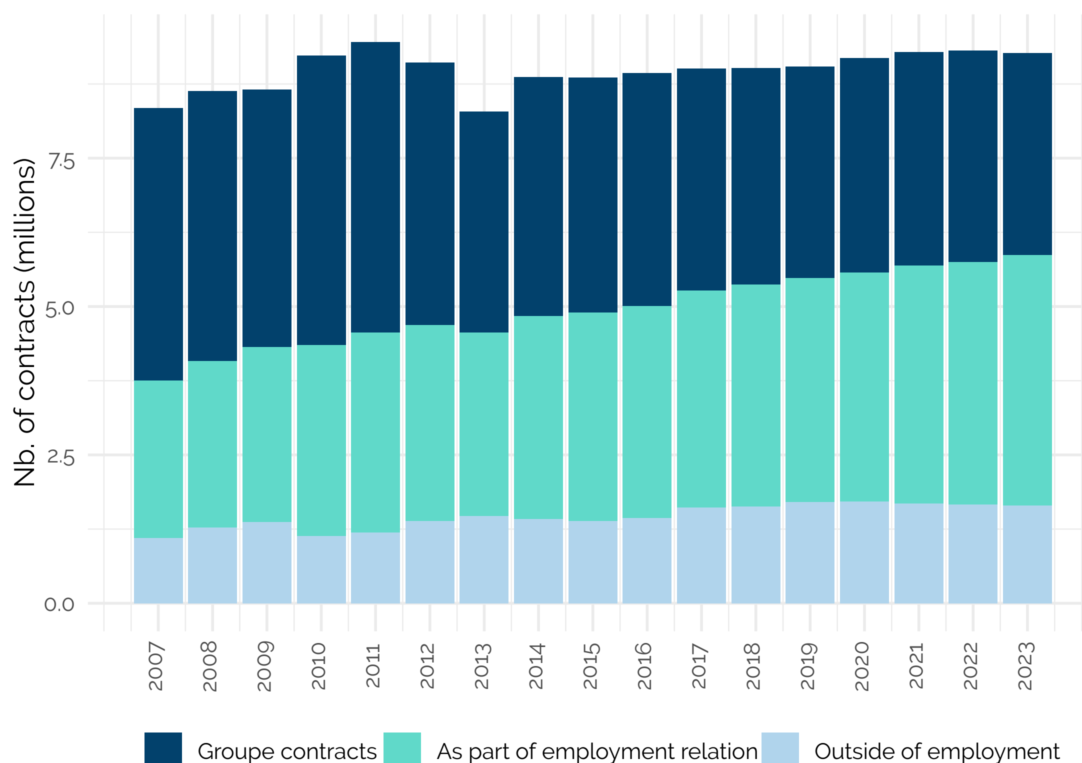


Data: Finanstilsynet.

to 2022, followed by a slight increase to 8.1% in 2023. Industry-wide pensions remain more or less stable. Pension companies have consistently held the smallest share, and today only manage around 1%. ATP is not included in the figure due to its special role, as it was established by law with statutory pensions and is considered a Pillar I pension. However, ATP is currently the largest pension and administration company. It has grown steadily and now has almost as many asset under management as all the industry-wide pension companies combined.

Figure DK.5 and **??** display the breakdown of AuM by type of products in life insurance and industry-wide pension funds. As we can see, unit-linked contracts ("market rate products"), which were non-existent until 2001, now represent two thirds of all AuM in life insurance (EUR 230.3 billion). By contrast, capital-guaranteed life insurance ("average interest rate products") seems to have reached a ceiling slightly above EUR 100 billion since 2006-2007 (EUR 106.5 billion in 2023). Conversely, in industry-wide pension funds, capital-guaranteed products still by far constitute the largest share of AuM (83% in 2023), with a much more limited growth of unit-linked products.

Figure DK.2 – **Nb. of industry-wide pension fund contracts by type of contract**



Data: Finanstilsynet.

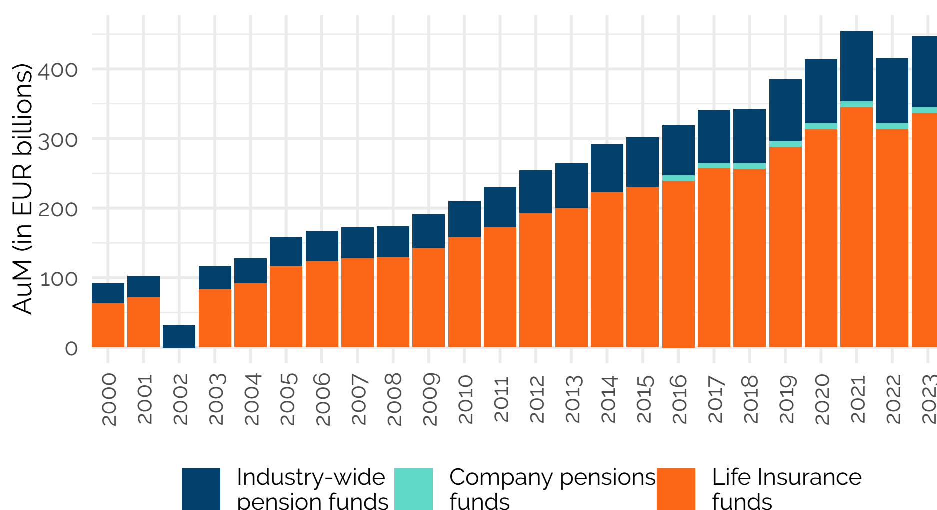
Pillar II: Occupational pension funds

Occupational pensions are an outcome of collective bargaining.[1] Before 1990, Pillar II schemes were almost exclusively for civil servants and white-collar workers in the private sector. A tripartite agreement between the government and social partners in the late 1980s resulted in occupational pension schemes for the larger part of the labour market.

Contribution rates were increased over a sequence of years and have remained constant at their current level since 2010. Contribution rates differ across groups and are 12% for blue-collar workers and 15-18% for white-collar workers (reflecting their longer longevity). Normally, 2/3 is paid by the employer and 1/3 by the employee. As a result of the phasing in of the occupational pension scheme, most pension funds are still in a building-up phase, with contributions exceeding pay-outs.

[1]Collective agreements cover a large part of the labour market. There is a tradition of tripartite consultations between the government, unions and employers' organisations, with labour market issues generally settled by collective agreement rather than law. The establishment of occupational pensions is an example of this. An agreement of the three parties was made in 1989, marking the start of the introduction of occupational pension schemes to more of the private labour market (most public employees were already covered)

Figure DK.3 – AuM of Danish long-term and pension savings vehicles



Data: Danmarks Nationalbank; *Calculations:* BETTER FINANCE.

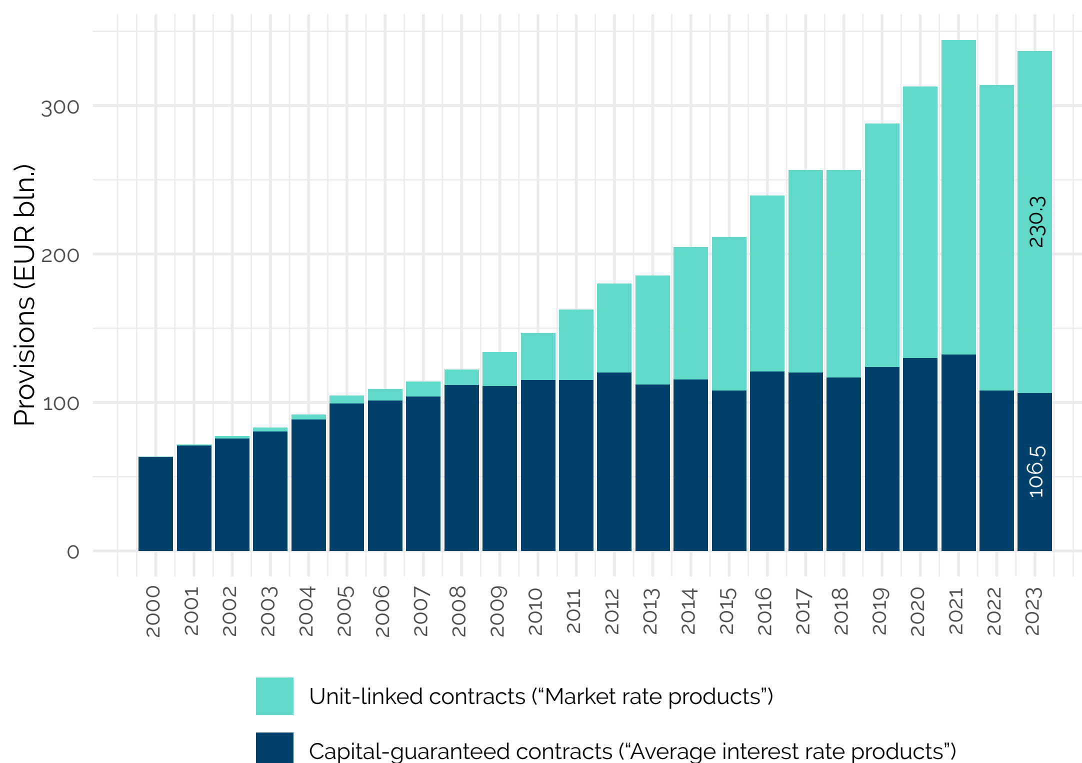
Total contributions to occupational pension schemes amounted to DKK 134 billion (EUR 18 billion) in 2023, setting a new record, and more than doubling the amount contributed 20 years ago (Forsikrig & Pension, 2024). The increase in 2023 is linked to employment growth, which has driven up occupational pension contributions. Payments to privately subscribed pension schemes have remained almost unchanged, with only a marginal increase from 17.1 to 17.2.

In 2023, Danes contributed DKK152 billion (EUR 20,3 billion) to pension savings, marking an increase of 3.3% and the highest recorded amount in the history of these statistics, which date back to 2002. At the same time, the insurance and pension sector generated a return of EUR 45 billion. The increase in pension contributions can be attributed to over 30,000 additional people joining the workforce in 2023, along with wages rising at their highest rate in years. Both factors have contributed to driving total pension contributions to new heights. Since a large portion of pension contributions is calculated as a percentage of wages, contributions rise as wages increase and more people enter employment.

All private pension schemes are fully funded, with the vast majority being defined contribution (DC) schemes. Even in the very few DB schemes, where the employer guarantees a pension proportional to the salary, the guarantee must be funded in a pension fund or a life insurance company.

Between 80% and 90% of all working people contribute to a Pillar II scheme within a year. However, there is a so-called residual group comprising (i) persons not covered by an occupational pension, (ii) persons with interrupted working careers (e.g., due to unemployment, sickness, or parental leave), who may not contribute consistently throughout their working years, and iii) self-employed individuals. Ongoing discussions aim to address this issue, with the recently introduced mandatory pension (see

Figure DK.4 – **Life insurance provisions by type of management (EUR bln.)**



Data: Danske Finanstilsynet; *Calculations:* BETTER FINANCE;

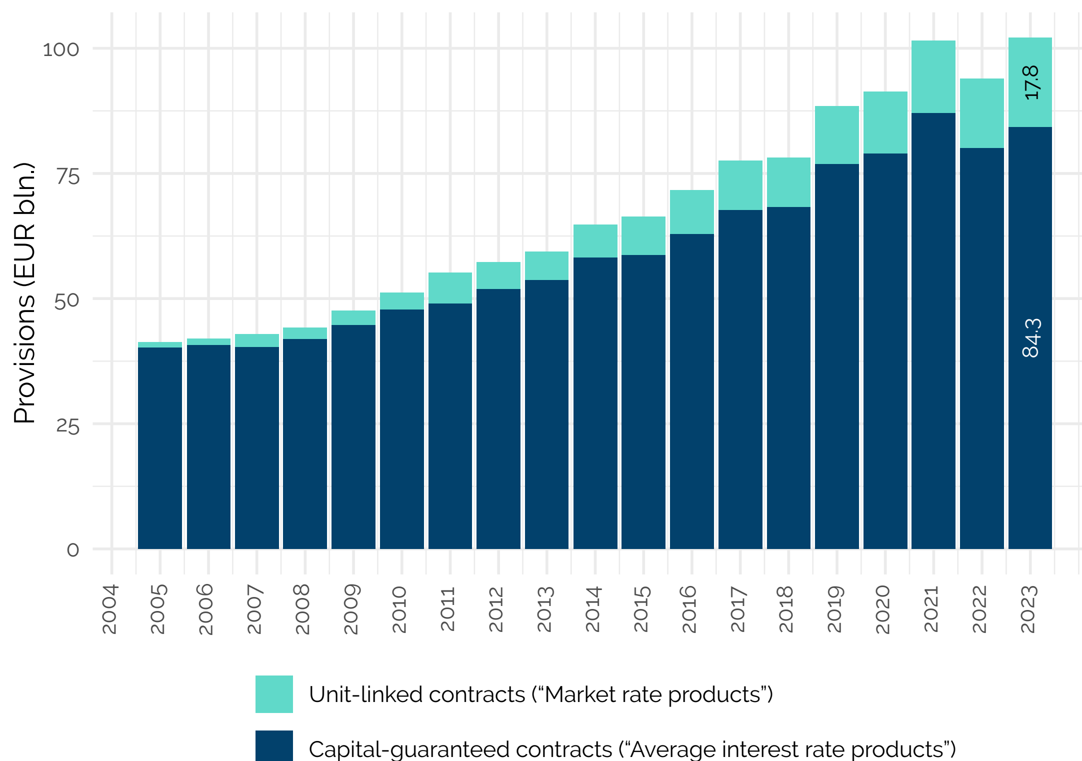
above) representing a partial solution. Pillar II schemes are typically established in life insurance companies, pension funds (*pensionskasser*) or - less commonly - in banks (around 3.5-4%).

Pillar DC: Today, only about 30 000 civil servants in the state are still entitled to this type of pension upon retirement. Civil servants in local governments now enrol in DC schemes, and the very few remaining DB schemes are typically funded through insurance companies. A small number of private companies still offer DB schemes for some of their employees. These schemes are funded in dedicated pension funds—Pensions company funds *firmapensionskasser*. Their importance has been decreasing for many years, along with their total assets and the number of people insured. Today, only four *firmapensionskasser* hold assets exceeding DKK 1000 million (EUR 134 million), constituting around 1% of the total market, and most of these funds no longer enrol new members.

Pillar III

In principle, Pillar III pension schemes offer the same opportunities for individual citizen as occupational schemes. The products available and tax rules are approximately identical. Individual schemes are provided by banks, insurance companies and most pension funds.

Figure DK.5 – **Life insurance provisions by type of management (EUR bln.)**



Data: Danske Finanstilsynet; *Calculations:* BETTER FINANCE;

As mentioned earlier, the strong growth of Pillar II schemes has reduced the interest in individual savings in specific pension schemes. While the number of occupational schemes increased by 34% from 2000 till 2022 individual schemes fell by 36%.

In 2000, 1064 million people contributed to an individual scheme, but this number steadily declined until 2013 (571 thousand people), and since then it increased somewhat to about 676 thousand people in 2021. The significant drop in 2013 is due to a shift in the lump sum pension from *kapitalpension* to *alderopsparing*. It may have taken time for people to get acquainted with the new scheme, and on top of that, a cap on contributions to periodic instalments or fixed-term annuities (*ratepension*) was introduced in 2012, which also explains the decline. In 2000, contributions to individual schemes amounted to DKK 16 209 million. (EUR 2 177 million), or around 30% of total contributions for pension schemes. This figure decreased until 2013 and has grown slowly since then.

In 2023, contributions to individual schemes were nominally DKK 17 201 million. (EUR 2 302 million). As already mentioned, tax rules have changed, especially for periodic instalments and lump sum pensions , which may have had an impact on the demand for Pillar III schemes. In Pillar II schemes, regulatory changes have led to growing contributions to lifelong annuities, but the same substitution has not been observed

in Pillar III. Savings in banks used to play a more important role for individual schemes than for occupational schemes. Until 2013, when the tax regulation for lump sum pensions was changed, individual pension saving schemes were predominantly held in banks rather than in insurance companies or pension funds. Today, around half of contributions are held in insurance companies or pension funds, and 30-35% are in banks. The remainder is uncategorised in the given statistics.

Charges

The level of costs has received increasing attention in recent years, partly due to the low rate of interest in the market until mid-2022.

The Money and Pension Panel—a Council under the Ministry of Industry, Business and Financial Affairs—has calculated that, under realistic assumptions, an increase in costs of 50% of total savings/provisions reduces lifetime consumption by 1.2% for low-income groups and 2.3% for high-income groups. The same increase would make it necessary to postpone retirement by two years for lifetime consumption to remain unchanged.

The Danish FSA has analysed the development of administration costs, including costs related to acquisitions and sales, but excluding investment costs. Administration costs have declined over the last 10 years to 0.19% of total provisions in 2017, before rising slightly again. The FSA distinguishes between market-oriented insurance companies (mainly running company pension schemes) and non-market-oriented insurance companies/pension funds (mainly running industry-wide pension schemes). Since industry-wide pension schemes are typically governed by customer representatives, and since their schemes are often very standardised, they are generally cheaper to administer than company schemes.

Transparency of costs has increased. Since 2011, life insurance companies and pension funds have agreed to inform all their customers of their total charges in DKK (åOK) and their total charges as a percentage of the value of their pension (åOP) on a yearly basis.

These key figures include direct and indirect administration costs, direct and indirect investment costs, charges to the company for any guarantees and other kinds of risks, as well as any charges paid by the life insurance company to intermediaries. How total costs are allocated to individual customers is decided by each insurance company or pension fund, but the key for distribution is controlled by the external auditor to ensure consistency between the figures in the annual report and total distributed charges (åOK/åOP).

For market comparisons between life-insurance companies and pension funds, key figures for several standardised examples are published on the website www.faktaompension.dk . While higher administration costs always lead to lower pension benefits, it is difficult to evaluate investment costs. Investing in government bonds is very cheap, but it may not be the most profitable investment. On the other hand, investing in foreign equities is more expensive, but may offer a higher expected return. Therefore, the

Table DK.3 – Comparative examples of charges between different pension products and types

	Pension Danmark			Danica Pension			PFA		
	I	II	III	I	II	III	I	II	III
Total costs %	2	0	0	4	1	1	2	1	1
Total costs €	68	528	1 683	180	1 046	2 147	77	700	3 195
Total costs DKK	506	3 937	12 544	1 343	7 797	15 999	577	5 217	23 810
Of which Administration	320	320	320	973	972	920	345	575	1 108
Of which Investment	186	3 617	12 224	371	6 825	15 079	232	4 642	22 702

Data: faktaompension.dk, 2024.

relationship between investment costs, investment risks, and expected investment return is not straightforward. Furthermore, pension companies' investment management must take their liabilities into consideration. Some investments are made to hedge risks against, for example, changes in interest rates. When comparing investment costs, one must also consider the existence of guarantees.

The website www.faktaompension.dk offers the possibility to compare total charges of various pension companies for various types of customers. All figures are calculated and reported by the pension companies, and the website is run by the Danish Insurance Association. Additionally,the website www.pensionsinfo.dk provides individuals with access to information on all pension entitlements—public and private—and thus essential information to assess the adequacy of pension savings. The website also includes tools to assess the impact of retirement age on pension benefits. To increase transparency and facilitate comparisons, projections of future pension levels are also presented using common return expectations determined by the Council for Return Expectations.[2]

Table DK.3 illustrates cost levels and costs structures for three typical different persons at different positions in the life-cycle (average for the 5 biggest companies).[3] Costs in % (åOP) are relative higher for young than older contributors, reflecting their lower level of accumulated assets. Administrative costs are relatively constant across types and hence matter relatively less - although purely occupational pension providers, such as PensionDanmark (which has included coverage for loss of earning capacity and critical illness in some of its plans) have lower administration costs than others. Investment costs, on the other hand, are higher for older contributors with larger accumulated assets. In general, charges are lower in the industry-wide schemes (Pillar II companies) which have the highest degree of standardisation and no acquisition costs. Charges in Life-Insurance (Pillar III) are about double those in Pension companies; see **????**.

[2]https://www.afkastforventninger.dk/en/

[3]Type I: Age below 40, annual contribution DKK 30 000, assets= 0, Type II: Age 40-55, annual contribution DKK 30-80 000, assets DKK 500 000, Type III: Age above 55, annual contribution at least DKK 80 000, Assets DKK 2. mio.

Table DK.4 – Costs and charges of Danish industry-wide pension funds (% of assets)

Year	Entry fees*	Admin. and mgt. fees	Contract mgt. fees	Total Expense Ratio
2000	—	—	—	0.40%
2001	—	—	—	0.35%
2002	—	—	—	0.34%
2003	—	—	—	0.33%
2004	—	—	—	0.35%
2005	—	—	—	0.17%
2006	—	—	—	0.16%
2007	0.00%	0.06%	EUR 49.92	0.14%
2008	0.00%	0.07%	EUR 51.96	0.13%
2009	0.00%	0.06%	EUR 53.82	0.13%
2010	0.00%	0.05%	EUR 46.89	0.13%
2011	0.00%	0.05%	EUR 51.96	0.14%
2012	0.00%	0.05%	EUR 53.71	0.12%
2013	0.00%	0.04%	EUR 56.37	0.11%
2014	0.00%	0.04%	EUR 54.16	0.10%
2015	0.00%	0.05%	EUR 48.04	0.10%
2016	0.00%	0.05%	EUR 52.32	0.10%
2017	0.00%	0.03%	EUR 53.67	0.10%
2018	0.00%	0.04%	EUR 54.17	0.11%
2019	0.00%	0.04%	EUR 61.31	0.10%
2020	0.00%	0.04%	EUR 61.92	0.11%
2021	0.00%	0.04%	EUR 61.18	0.12%
2022	0.00%	0.05%	EUR 57.66	0.22%
2023	0.00%	0.06%	EUR 64.13	0.16%

Data: Finanstilsynet; *Calculations:* BF.

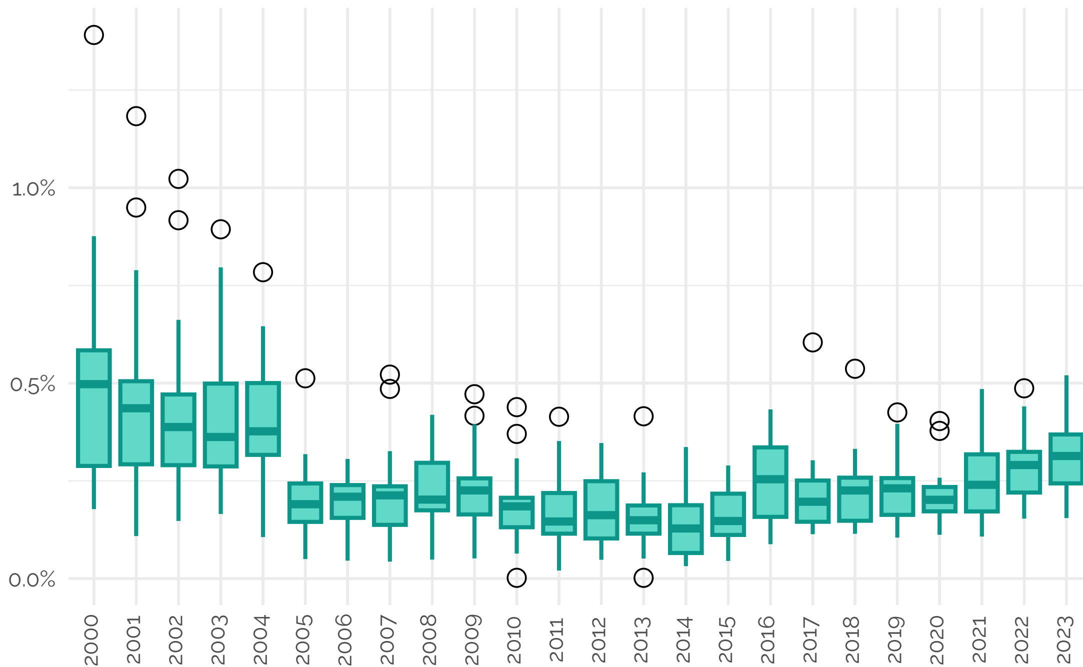
As seen in Tables DK.4 and DK.5, charges in life insurance (Pillar III) are about double those in pension companies. There are several reasons for this. Generally, costs in life insurance companies and pension funds differ in terms of investment and administration expenses, influenced by factors such as the size of the institution, regulatory requirements, and the types of investment products offered. Life insurance companies often use complex financial products to support their guaranteed benefits, which typically require conservative investments and can be costly to administer. In contrast, pension funds without guaranteed returns may use lower-cost structures with higher exposure to equities and other more volatile assets, which can reduce expenses. Also, larger pension funds, such as PensionDanmark, may benefit from economies of scale, allowing them to maintain lower costs per member compared to smaller life insurance companies. For example, PensionDanmark has relatively low costs per member due to their substantial capital base, which enables them to negotiate better terms on investment products. It is worth mentioning, however, that these differences have been significantly reduced, likely due to increased focus on charges.

Table DK.5 – Costs and charges of Danish life insurance funds (% of assets)

Year	Total ongoing charges	Acquisition fees*	Admin. and mgt. fees	Contract mgt. fees	Total Expense Ratio
2000	0.68%	—	—	—	0.68%
2001	0.65%	—	—	—	0.65%
2002	0.71%	—	—	—	10.86%
2003	0.77%	—	—	—	0.77%
2004	0.64%	—	—	—	0.64%
2005	0.60%	—	—	—	0.60%
2006	0.56%	—	—	—	0.56%
2007	0.72%	1.88%	0.17%	EUR 49.92	0.55%
2008	0.72%	1.73%	0.18%	EUR 51.96	0.55%
2009	0.67%	1.87%	0.17%	EUR 53.82	0.54%
2010	0.57%	1.34%	0.17%	EUR 46.89	0.41%
2011	0.56%	1.24%	0.16%	EUR 51.96	0.43%
2012	0.51%	1.15%	0.15%	EUR 53.71	0.40%
2013	0.49%	1.08%	0.16%	EUR 56.37	0.35%
2014	0.47%	0.99%	0.16%	EUR 54.16	0.34%
2015	0.47%	0.95%	0.20%	EUR 48.04	0.31%
2016	0.45%	0.81%	0.20%	EUR 52.32	0.25%
2017	0.45%	0.80%	0.20%	EUR 53.67	0.27%
2018	0.46%	0.84%	0.21%	EUR 54.17	0.27%
2019	0.46%	0.74%	0.21%	EUR 61.31	0.26%
2020	0.42%	0.61%	0.20%	EUR 61.92	0.23%
2021	0.43%	0.71%	0.21%	EUR 61.18	0.22%
2022	0.49%	0.91%	0.24%	EUR 57.66	0.23%
2023	0.48%	0.86%	0.23%	EUR 64.13	0.25%

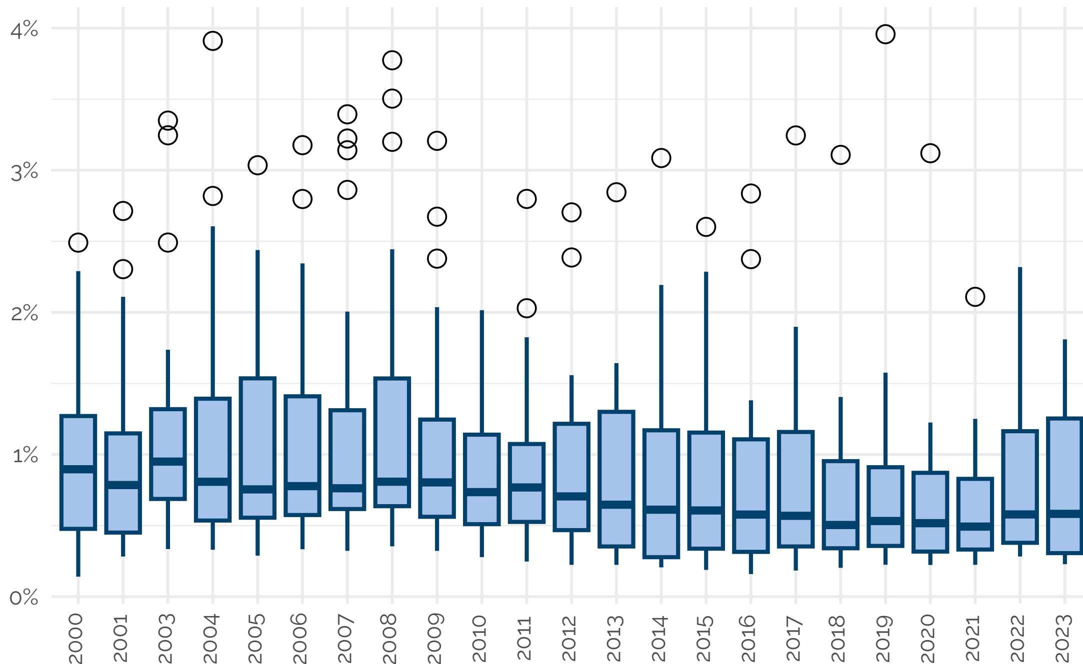
Data: Finanstilsynet; *Calculations:* BF; *Note:* Total ongoing charges are calculated as the ratio of the sum of asset management costs, acquisition costs and administrative costs to total provisions; we note that this calculation is significantly higher than the TER figures disclosed in Finanstilsynet statistics..

Figure DK.6 – **Distribution of costs of industry-wide pension funds (% of provisions)**



Data: Finanstilsynet; *Calculations:* BETTER FINANCE; 5 outliers with total ongoing costs above 2% are not displayed.

Figure DK.7 – **Distribution of costs of life insurance funds (% of provisions)**



Data: Finanstilsynet; *Calculations:* BETTER FINANCE; 46 outliers with total ongoing costs above 4% are not displayed, as well as data for the year 2002.

Taxation

Numerous changes in taxation have affected pension savings. The general trend has been to decrease marginal income taxes and broaden tax bases. Under the ETT scheme, the tax value of the deduction for a marginal increase in contributions depends on the marginal tax rate when contributions are made, while the taxation of the resulting pension depends on the marginal tax rate in retirement. In a progressive tax system, this marginal tax rate in retirement tends to be lower than during the contribution period (especially for middle-income groups), effectively creating an implicit tax subsidy for pension savings. Tax reforms that have reduced the progressivity of the tax system have therefore reduced this subsidy.

Taxation of returns was introduced as early as 1984. From that year, all interest earnings in pension schemes were taxed at a variable tax rate aimed at taxing all real interest above 3.5%. In 1998, this real interest rate tax was replaced by a proportional tax rate on all yields from pension assets. The tax rate is currently 15.3%, which is lower than the general taxation of capital income. For example, personal income tax rates on dividends and capital gains are 42% for income above EUR 8 166 (2024) and 27% for income up to EUR 8 166. The Danish Parliament has agreed to raise this limit to EUR 10704 from 2025. Looking at the top rate of 42%, Denmark has the third-highest rate among Organisation for Economic Co-operation and Development (OECD) countries for dividend taxation, significantly higher than, for example, Norway (37.8%), Sweden (30%), and Germany (26.4%).

Even the 27% rate is well above the OECD average of around 24%, although there are substantial differences between member countries.

A challenging design issue is how to align public and private pensions. The former are means-tested to target the least well-off pensioners. This distributional approach creates a disincentive for individuals affected by means-testing, as increasing private pension savings may reduce public pensions through means-testing. . This acts as an implicit tax, which increases the effective tax beyond those applying under the ETT scheme, especially for contributions made close to retirement. Hence, higher savings or later retirement (resulting in larger contributions via occupational schemes) can lead to high effective tax rates - in some cases even exceeding 100%. This is counter-productive to the objectives of strengthening savings incentives and encouraging later retirement, a dilemma that has prompted several reforms.

There have been numerous changes to the tax rules for contributions to lump-sum and periodic instalment schemes, especially in terms of caps on contributions. For individuals - such as the self-employed - with variable incomes and the capacity to make pension contributions, there is a case for allowing large contributions in a single year. However, this can also enable high-income groups to lower effective taxation. These two concerns have influenced policies in this area.

As discussed above, the lump-sum pension scheme was closed to new contributions in 2013 and was replaced by the *aldersopsparing*. This scheme follows a TTE principle, and pension payments are excluded from means-testing of public pen-

sion. This scheme was introduced primarily to reduce high effective tax rates on pension savings made close to retirement. Contribution caps depend on an individual's age in relation to the statutory retirement age (see above), with a low cap for contributions made between 15 and 10 years prior to reaching the statutory retirement age, and a higher cap for contribution made 5 years or less prior to reaching the statutory retirement age. In addition, age-based tax reliefs for pension contributions have been introduced to reduce the effective taxation of pension savings. These reliefs involve a two-step, age-dependent tax rebate for pension contributions : 12% for contributions made between 15 and 5 years before reaching the statutory retirement age, and 32% for contributions made within 5 years of the statutory retirement age.

All these changes have added extra layers of complexity to an already complex system, meaning that taxation principles now involve a hybrid approach that combines both ETT and TTE schemes.

Table DK.6 – Taxation of pension savings in Denmark

Product	Phase			Regime
	Contributions	*Investment returns*	*Payouts*	
Industry-wide pension funds	Exempted	Taxed	Taxed	ETT
Company pensions funds	Exempted	Taxed	Taxed	ETT
Life Insurance funds	Exempted	Taxed	Taxed	ETT

Source: Danish tax authority.

Performance of Danish long-term and pension savings

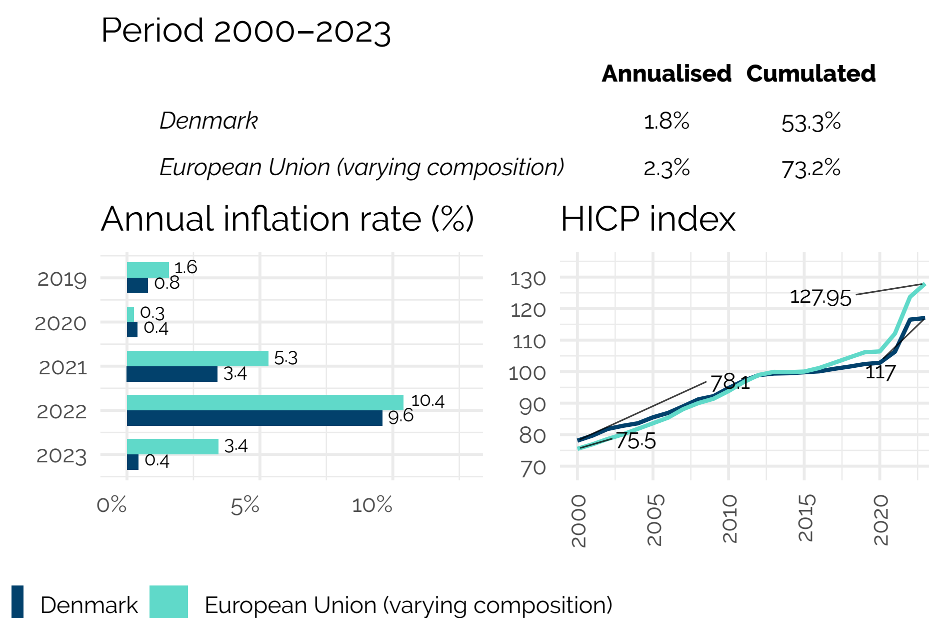
Real net returns of Danish long-term and pension savings

In this section, we analyse the returns obtained by the members and policyholders of Danish industry-wide pension funds (since 2005) and life insurance (since 2003). Using firm-level nominal gross return data and costs from the Danish FSA, we first calculate nominal net returns, that is, annual returns after deducting the average annual costs and charges. Returns are aggregated for each year at the level of the product category by computing the simple average of returns reported by individual firms for the year. While an asset-weighted average would, of course, better reflect the aggregate performance, firm-level data on AuM is unfortunately not available. For industry-wide pension funds, we deduct the average value of costs as a percentage of AuM reported by individual pension funds for each year . For life insurance companies, extreme outliers make the average an unreliable measure, so we instead use the median value of costs reported by life insurance companies.

Second, we adjust these nominal net returns for inflation, thereby obtaining real net returns. The inflation rates we use for this are based on Eurostat's HICP index for

Denmark, as per the methodology explained in the introductory chapter. As can be observed in Figure DK.8, Denmark ranks below the EU average in terms of inflation, with an annualised inflation rate of 1.8% over the period 2000-2023, which amounts to a cumulative inflation of 53.34% over the same period, compared to 73.23% for the EU.

Figure DK.8 – Inflation in Denmark



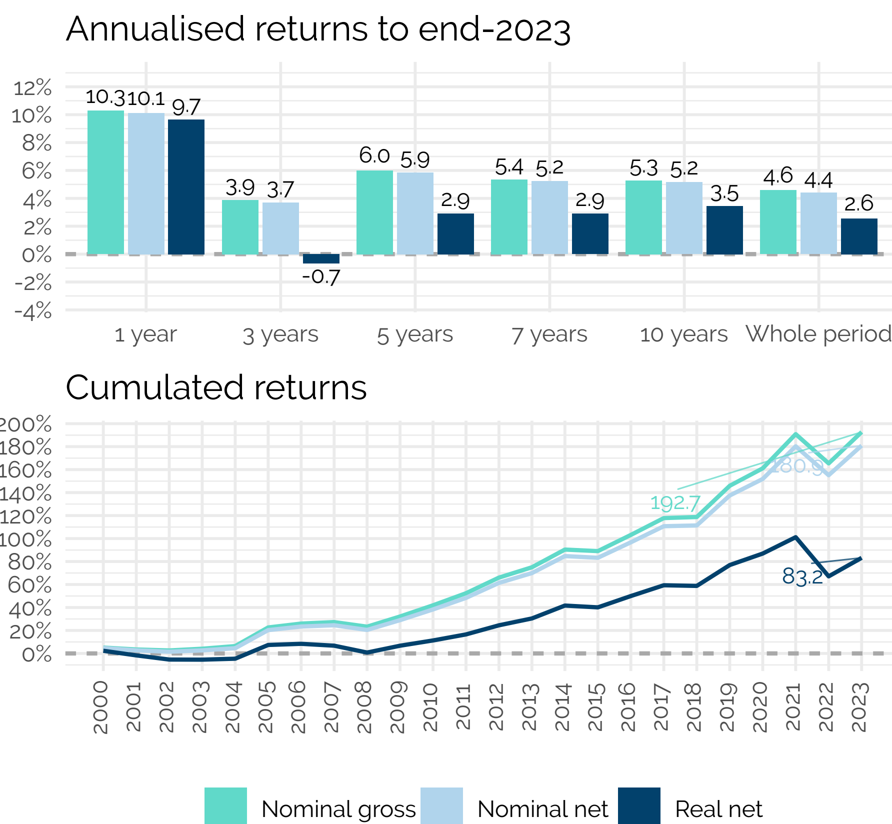
Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Figure DK.9 displays the returns of industry-wide pension funds over the period 2000–2023. As we can see, despite the market downturn in 2022, which resulted in losses in nominal terms (-7.6%), the recovery in 2023 (+10.3%) and the strong results of the previous years mean that for a holding period as short as 3 years, nominal annualised results are positive (+3.9%). The generally low fees levied by pension funds translate into nominal net returns that are very close to the nominal gross returns: As we can see, fees only reduce the annualised performance over 24 years by 0.2 p.p., and the cumulated performance over the same period by only 11.8 p.p..

Inflation is the factor that most affect pension funds' performance, as we can see in the annualised returns over all holding periods as well as in the cumulated returns in the lower pane of **??**. Inflation alone reduces the cumulated 24-year returns by 97.7 p.p., more than half of the cumulated nominal net returns.

As shown in Figure DK.11, which compares the performance of capital-guaranteed ("average interest rate") and unit-linked ("market rate") products, capital-guaranteed industry-wide pension funds have shown slightly superior performance over the whole period, although the performance patterns are very similar. The better perfor-

Figure DK.9 – Returns of Danish industry-wide pension funds (before tax, % of AuM)



Data: Danske Finanstilsynet, FaktaOmPension.dk, Danske Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

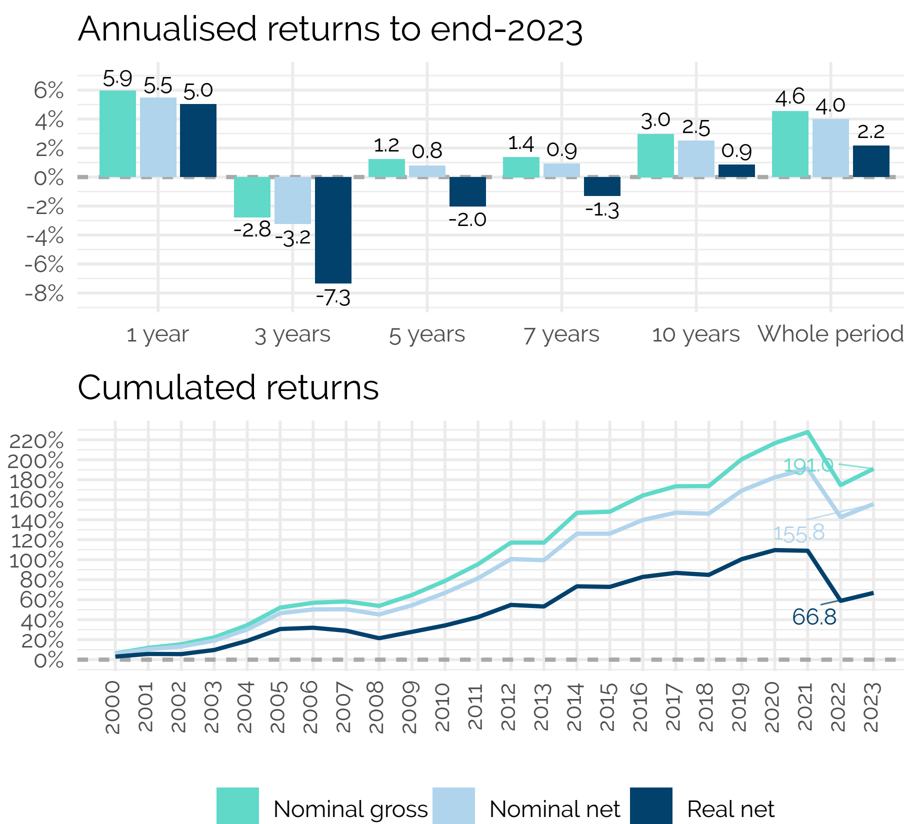
mance of guaranteed products is likely due to the historically poor market results of 2022, which had a more significant impact on unit-linked products. Investors in these products — unlike in guaranteed pension schemes — bear the risk of market fluctuations and do not have a minimum return guarantee. As expected, the unit-linked product performed best in 2023.

Figure DK.10 illustrates the returns obtained by life insurance policyholders over the period 2000-2023. The generally higher fees of life insurance policies translate into a slightly larger disparity between nominal returns before and after charges. Over the 24-year reporting period, charges reduce average annual performance by 0.6 p.p., which, in cumulative terms amounts to a 35.2 p.p. reduction in returns.

Once again, inflation is the main factor that depresses long-term returns: over the 24-year holding period, it reduces the nominal net annual average of 4% to just 2.2%, resulting in a 89 p.p. reduction in performance over the period.

Since 2016, Finanstilsynet's data include nominal gross returns of industry-wide pen-

Figure DK.10 – Returns of Danish life insurance funds (before tax, % of AuM)



Data: Finanstilsynet, Eurostat, Eurostat; *Calculations:* BETTER FINANCE, holding periods end-2023.

sion funds and life insurance by type of product, i.e., capital-guaranteed vs. unit-linked. In Figure DK.11 we then compute the respective annualised returns of capital-guaranteed and unit-linked products over holding periods of 1 to 7 years. We can see that, while unit-linked pension fund products are slightly underperforming their capital-guaranteed counterparts, the situation is reversed in the life insurance sector, with returns of unit-linked life insurance over 5 and 7 years (+3% and +2.5%, respectively) being markedly higher than capital-guaranteed contracts, which return a loss in real net terms (-1.4% and -0.7%). Considering that unit-linked is the fastest-growing segment of Danish supplementary pensions (see Figures DK.3 and DK.5), this superior performance is a good omen for Danish pension savings.

Finally, and although they represent a mere 1% of total Danish pension savings, we compute the returns of company pension funds, displayed in Figure DK.12. Even though more data is available, for this edition, we could only compile the data for the years 2016-2023, which show a pattern similar to those of industry-wide pension funds and life insurance: over the eight years, costs have a limited impact on performance (-0.2 p.p. annually, -2.1 p.p.), while inflation virtually wipes away all per-

formance (-2 p.p. annually, -17.5 p.p. cumulated), leaving members of those funds with a meagre +1.7% real net return.

Figures DK.13 and DK.14 compare the annualised and cumulated returns of the three product categories. The comparison shows how similar the performance of industry-wide funds and life insurance, with very close annualised real net returns over 24 years (+2.6% and +2.2%, respectively), and generally similar evolution of cumulated returns from 2004 to 2021. The losses of industry-wide funds in the early 2000s left them behind life insurance for most of the period, until 2022, when the greater exposure of life insurance to capital markets (see Figure DK.5) led to greater losses that wiped away the superior returns of those contracts.

The various pension and life insurance companies generally employ slightly different investment strategies and asset compositions, as shown in Figures DK.15 to DK.17.

Industry-based pension funds typically focus on achieving "high returns with the lowest possible risk" and they have succeeded in this approach. This group includes PensionDanmark and "IndustriensPension", both ranked in the top 10 by market share. "IndustriensPension" has, for many years, achieved some of the industry's highest long-term returns. Many of these funds (notably the largest, PensionDanmark) have direct investments in green energy. PensionDanmark adopts a relatively low-risk strategy that creates stability and is well-suited to the broader labour market. They typically hold a very high proportion of "related undertakings" and only around 18-20% of their assets are in bonds.

The Company pensions funds, which represent a very small share of the total pension market (approximately 0.9%) have steadily declined over many years. They are often closed to new members, and existing members are typically transferred to other corporate schemes. As a result, many company pension funds now primarily consist of members receiving pension benefits, which naturally influences their asset allocation. As shown in the figure, they typically hold the majority of their assets in secure bonds and investment funds.

Life insurance companies also hold a significant amount of bonds to meet their insurance obligations, with listed equities playing an important role. Their investment strategy strongly prioritises safeguarding customers' best interests. Notably, most life insurance companies also offer standard pension schemes, a category that includes the four largest pension companies in Denmark.

Figure DK.11 – Performance of Danish industry-wide pension funds and life insurance over warying holding periods by type of product (% of AuM)

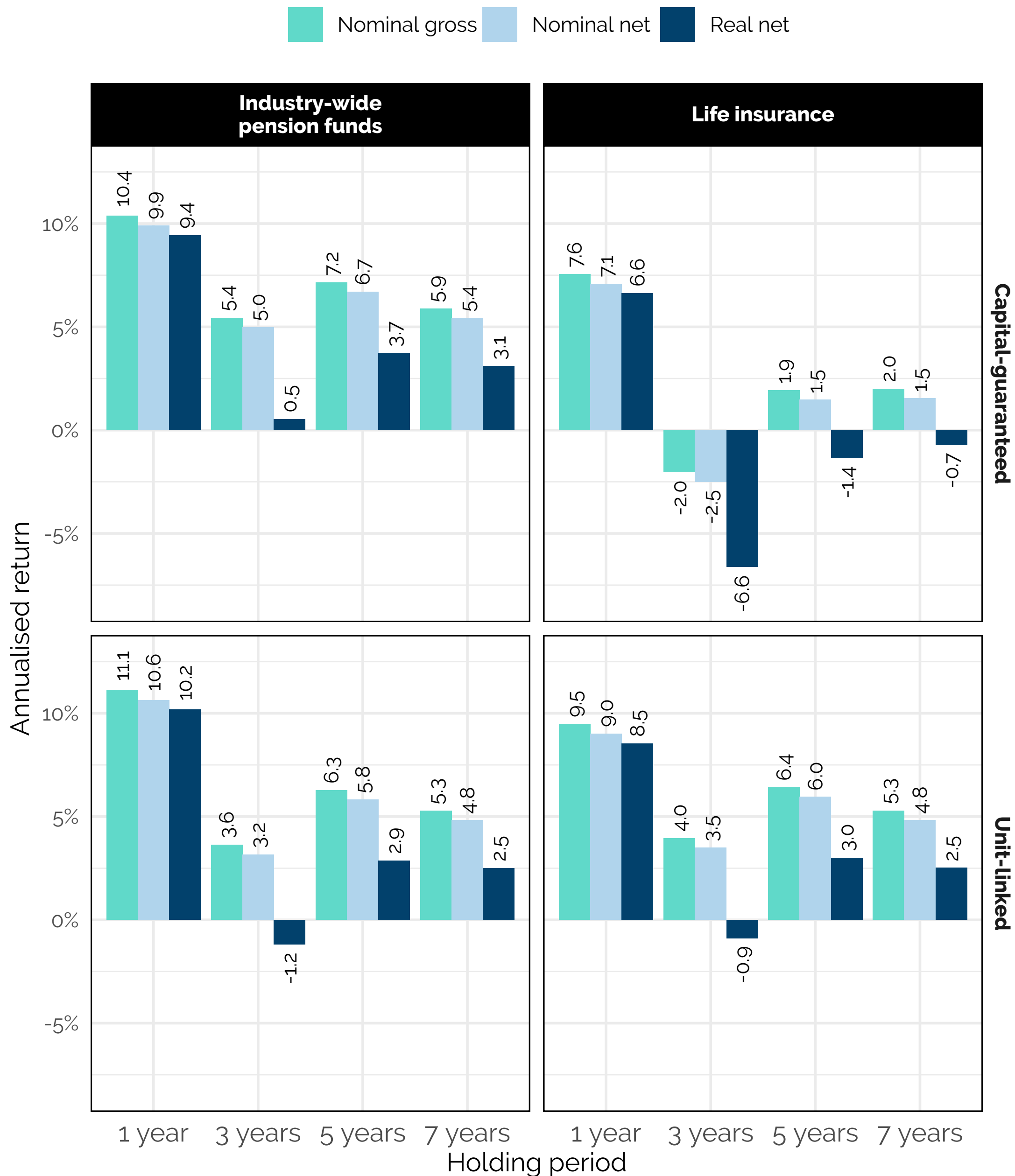
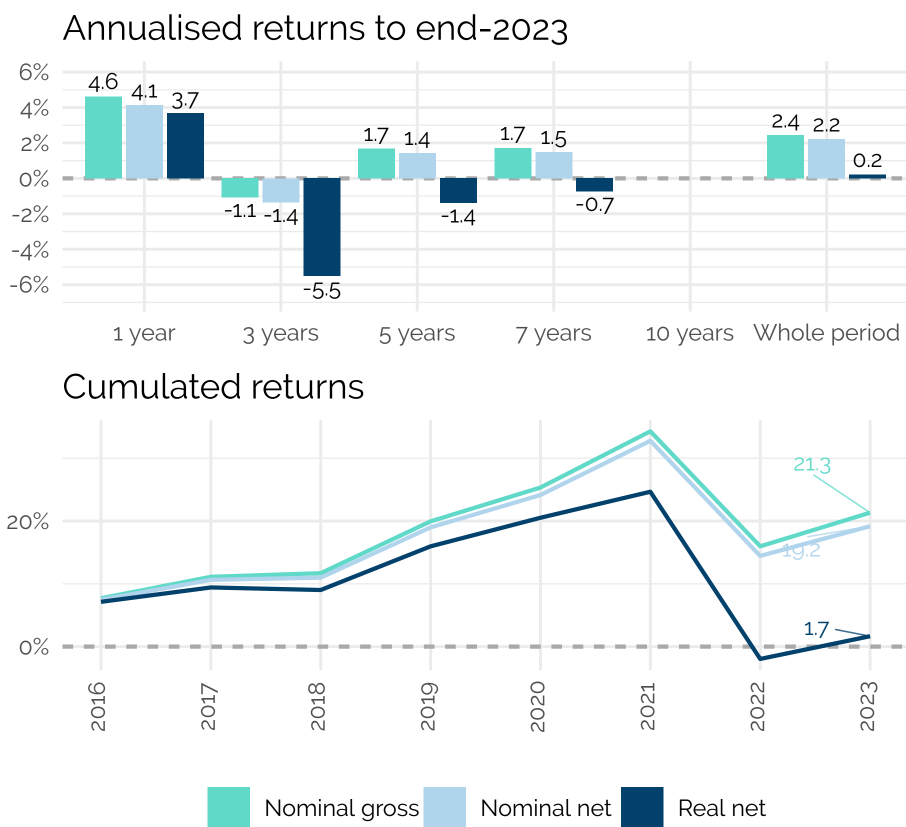
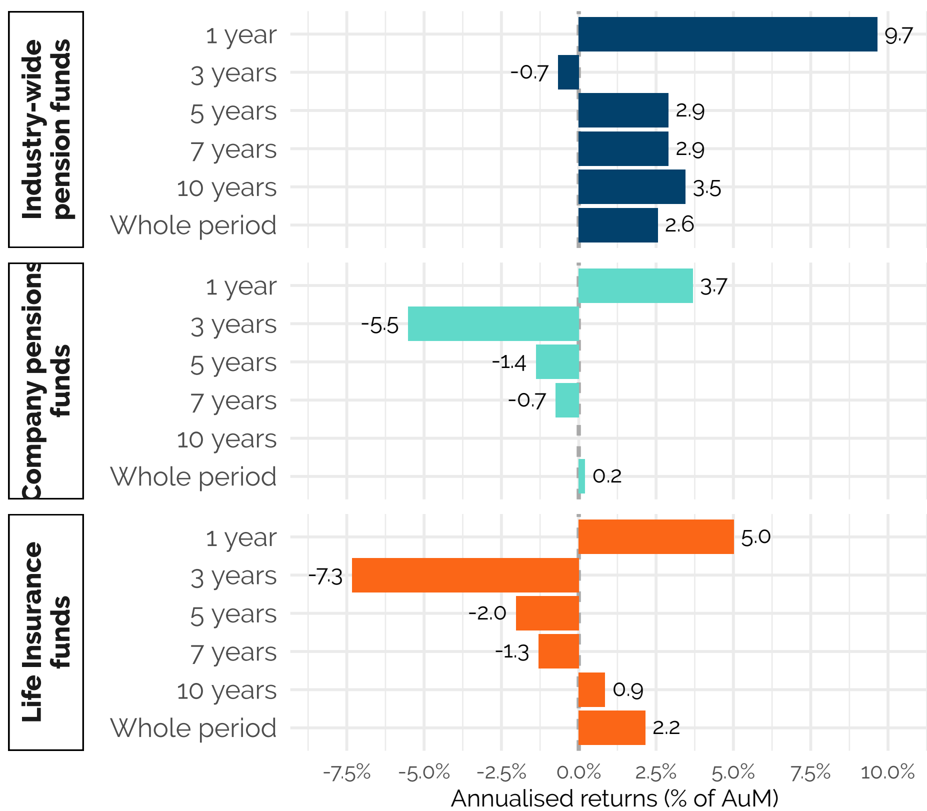


Figure DK.12 – Returns of Danish company pension funds (before tax, % of AuM)



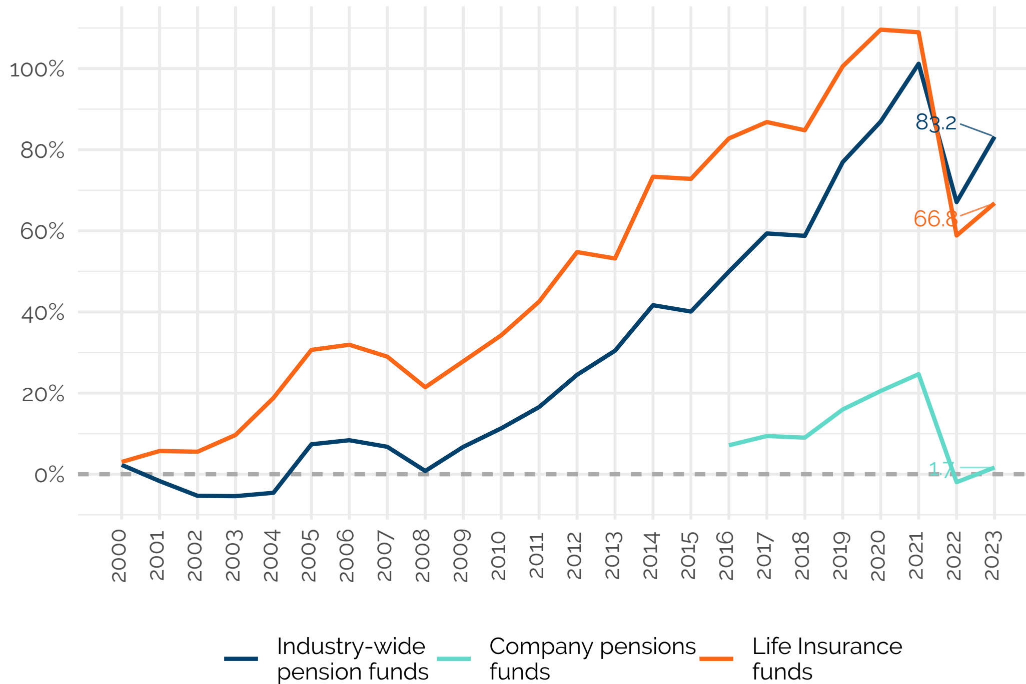
Data: Finanstilsynet, Eurostat, Eurostat; *Calculations:* BETTER FINANCE, holding periods end-2023.

Figure DK.13 – **Annualised returns of Danish long-term and pension vehicles over varying holding periods (before tax, % of AuM)**



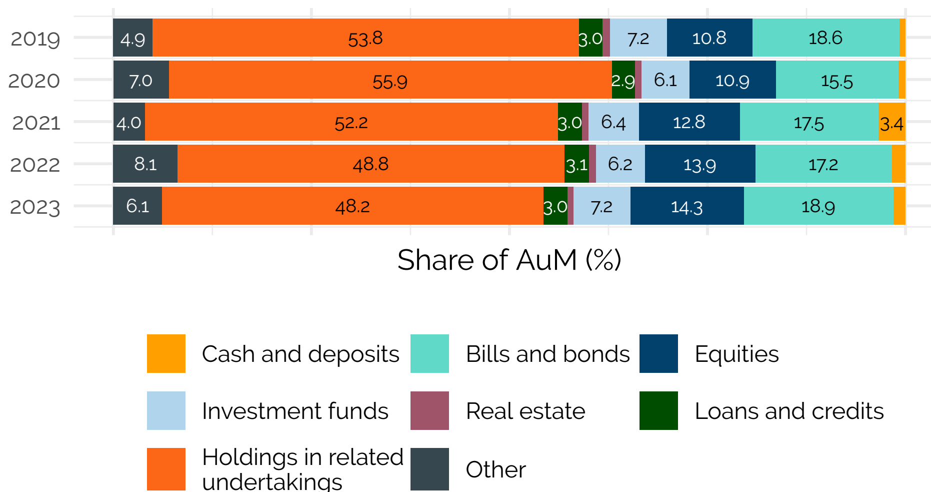
Data: Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2c

Figure DK.14 – Cumulated returns of Danish long-term and pension savings vehicles (2002–2023, before tax, % of AuM)



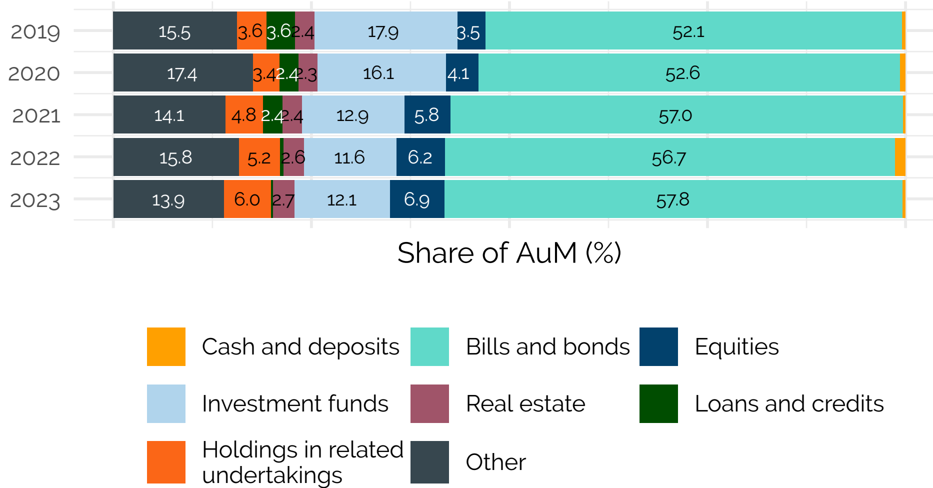
Data: Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE.

Figure DK.15 – Allocation of assets invested in Danish industry-wide pension funds



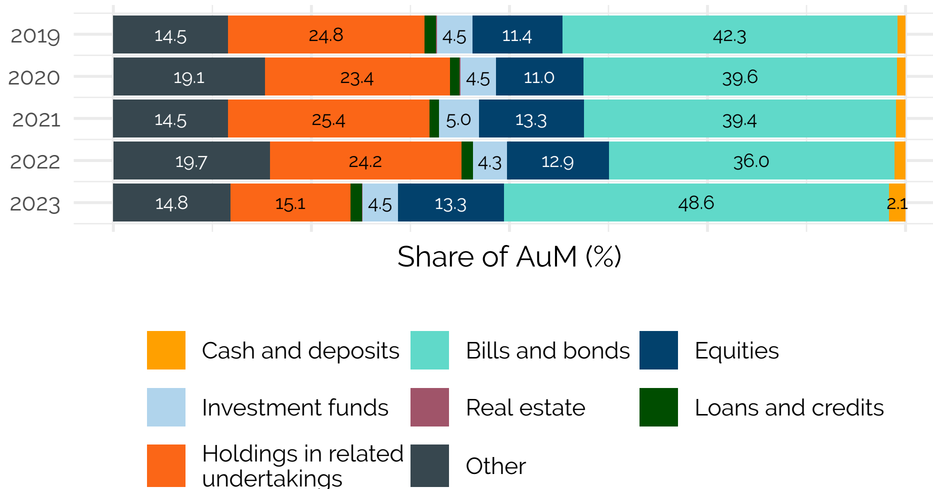
Data: Danske Finanstilsynet; *Calculations:* BETTER FINANCE.

Figure DK.16 – **Allocation of assets invested in Danish company pension funds**



Data: Danske Finanstilsynet; *Calculations:* BETTER FINANCE.

Figure DK.17 – **Allocation of assets invested in Danish life insurance funds**



Data: Danske Finanstilsynet; *Calculations:* BETTER FINANCE.

Do Danish savings products beat capital markets?

In this last section, we compare the computed returns to the "default" 50% equity–50% bond benchmark portfolio presented in the introductory chapter of the report.

Table DK.7 – Capital market benchmarks to assess the performance of Danish pension vehicles

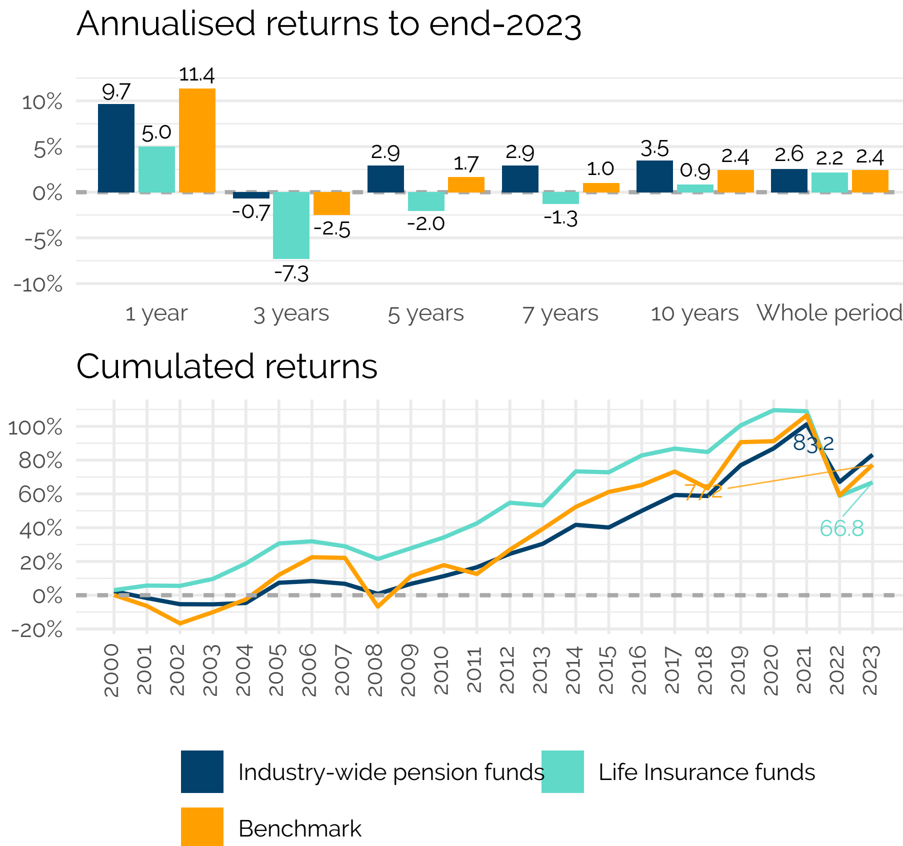
Product	Equity index	Bonds index	Allocation
Industry-wide pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Company pensions funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Life Insurance funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%

Note: Benchmark porfolios are rebalanced annually.

The comparison is favourable for industry wide pension funds (Figure DK.18): With the exception of the 1-year period, these funds consistently outperform the benchmark. Over 24 years, they deliver a cumulative real net terms that exceeds the capital market benchmark by 6 p.p..

The comparison is slightly less flattering for life insurance funds, that fail to beat the benchmark over all holding periods, although by a short margin: -0.2 p.p. in average annual real net performance over 24 years, amounting to a 10.4 p.p. difference in cumulated terms.

Figure DK.18 – **Performance of Danish industry-wide pension and life insurance funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2

Conclusions

The Danish pension system has been strong and well-established for many years, consistently ranking in the top A-tier in the Melbourne Mercer Global Pension Index 2024.

The system comprises three pillars and combines tax-financed public pensions with funded occupational pensions, designed to prevent poverty among pensioners and to provide high replacement rates for most of the population. The first pillar —PAYG— still provides a basic income for most elderly, but occupational pensions (Pillar II) and other private pension schemes (Pillar III) have grown increasingly important over the past 30 years. Today, nine out of ten Danes have an occupational pension, and most employers, through either collective or company agreements, contribute to employees' pension schemes. By as early as 2030-2040, payments from labour market pensions are expected to exceed those from the national pension.

The system is financially viable, with public finances meeting sustainability criteria that consider an ageing population. Denmark is thus in a strong position, and no urgent reforms are required. However, despite its attractive track record, the system faces several challenges.

Combining public and private pensions meets distributional objectives but also presents significant incentive issues. The goal of minimising public pension spending results in high effective tax rates, to the detriment of savings incentives and later retirement. Several reforms - especially tax reforms - have mitigated this issue but have also added layers of complexity to an already complex system. Another challenge (or disadvantage) is the *remaining* (small) groups of individuals who do not contribute (or only minimally) to an occupational pension scheme. This group is heterogeneous, but it is essential to address the issue. The recently introduced compulsory pension scheme for recipients of transfer income is a step in this direction, though it is not sufficient to fully resolve the problem.

However, perhaps the biggest challenge is that increased life expectancy requires a higher retirement age, not only to ensure public finance sustainability but also to maintain high replacement rates. The formal statutory retirement age is indexed to life expectancy, a key factor in the financial viability of the system. However, there is ongoing debate about earlier retirement, as not everyone is able to extend their working life in line with longevity.

In August 2024 this debate intensified as the leading party in government (and the biggest party in the Folketing) indicated that it may not necessarily adhere to the current agreement after 2025. Although there are no concrete proposals yet, the debate now centres on whether the retirement age should even reach 70 years, as previously planned.

The sustainability of the system critically depends on increases in the retirement age alongside rising life expectancy. This issue could lead to a heated political debate ahead of the next parliamentary election.

Even though only a small minority currently opts for self-retirement, many may want to retire much earlier as occupational pensions increase personal wealth, and there is rising interest in more flexible exit routes from the labour market to encourage longer working lives. . Recently introduced schemes —*seniorpension* (senior pension) and *tidlig pension* (early retirement)— address these issues, but it is too early to assess their effectiveness.

Certain parts of the government are now calling fora comprehensive analysis of the retirement system, including both senior pension and early retirement, before the next election. It remains uncertain what the outcome will be or whether this analysis will be completed before the election.

Total Danish pension savings are substantial, accounting for over 200% of gross domestic product (GDP). However, pension assets fell noticeably in 2022, despite increased contributions marking the worst performance since the 2008 financial crisis, with a total loss of EUR 92–93 billion. . This trend reversed in 2023 due to an improved

financial market, lower interest rates, and better economic conditions. Pension savings saw relatively large increases in value in 2023, with Danes contributing EUR 21.3 billion, a 3.3% increase, marking the highest level since records began in 2002. At the same time, the insurance and pension sector generated EUR 45 billion in returns, with positive trends continuing into 2024.

The pension system's high degree of funding is an attractive part of the system, and in the past, returns on pension savings have been high, adding to support for the scheme. Looking ahead to a new normal with lower real returns, pension funds may not deliver the same high returns as in the past, unless they accept greater risk. However, it is unclear whether this aligns with the interests of pension savers, especially since they now more directly bear the risk. In a system with mandatory pension contributions, governance structures are particularly important to ensure that pension funds are administered in the interest of their members. This also applies to charges, which have been steadily decreasing. It is essential to maintain this focus.

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