
Notes and Brief Reports

Social Security Reform in Denmark*

Recent social security reforms in Denmark have had the effect of simplifying program administration and expanding the means-testing of benefits, thereby presumably reducing future program costs.¹ At the beginning of 1984, the three old-age, survivor, and disability insurance (OASDI) groups were reduced to only two groups—old-age pensioners in one, and all other potential social security recipients in the other. The use of means-testing was expanded, particularly in the latter, catchall category, where certain disability supplements previously were exempt from means-testing. In addition, an income test for old-age pensioners aged 67-69 was instituted in 1984. The overall result was an expansion of means-testing provisions in Danish social security.

The implementation of this new policy was facilitated by the 1973 administrative social security reform that transferred social service resources, including personnel, from the national to the county and municipal levels. By establishing a single point of contact at the local level for the entire range of social services, it became easier to evaluate the total need of individuals and families and to make these services more accessible to all.

The 1984 legislation affected only the basic universal pension within the OASDI program—the first tier of the two-tiered social security program in Denmark. Paid on the basis of birthright and/or residency, this universal pension constitutes the main portion of the OASDI benefit program. The employment-related program—the second tier—which provides a relatively modest benefit that is adjusted according to length of employment, without taking into consideration the level of earnings of the recipient, remains unchanged and is not discussed in this note.

Under the 1984 reform, the kinds of pensions provided under the basic universal program were reduced from three types of pensions to only two—namely, an old-age pension for those aged 67 or older, and a means-tested “early” pension (“fortids-pension”) for those aged 18-66. Thus, disability pensions and survivors’ (widows’) pensions no longer appear in Danish social security as distinct and separate pension programs. Persons previously covered under these programs now qualify for a means-tested early pension by meeting certain residency and earnings-reduction requirements.

The new Danish pension program not only streamlined social security, but blurred the distinction between social insurance and social assistance by making an early pension available to everyone on the basis of need in the group aged 18-66. The basic eligibility requirement is a prolonged need for support presumed to last until the transition to an old-age pension.

This need for a pension may be based on medical as well as on “social” factors beyond the control of the individual (such as a widow who has never worked and, at her husband’s death, is judged too old to receive training for employment purposes; or workers in declining industries, having been laid off late in their working careers, who are now unable to find other employment).

The reform of the OASDI program had an immediate impact, as the number of new early pensioners increased by more than one-third from 1983 to 1984. Two of the programs eliminated by the new law affected women—the widow’s pension and the pension for single women aged 62-66. All told, a 60-percent increase occurred in the number of women receiving early pensions, compared with a 9-percent increase during each of the previous 2 years.

This note highlights the major features of the recent Danish pension reform.

Program Details

The first tier of the Danish social security program is universal and, therefore, a person is not dependent on his or her earnings record to qualify for a benefit.

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¹Effective January 1, 1984, two laws in the Danish social security program—the Law on Disability and the Law on Widows—were combined into the Law on Disability and Early Pension etc. Subsequently, this law and the Law on National Pension (old-age) were merged into the Law on Social Pension, effective October 1, 1984, and fully implemented January 1, 1985.

Instead, residency is the basic qualifying factor. The minimum requirement is 3 years of permanent residency during ages 15-66 (with the earliest pension payable at age 18), increasing to 40 years of residency for a full old-age pension at age 67.

When the permanent residency period is less than 40 years, the old-age pension amount is based on the relationship between the actual residency period and 40 years. Thus, 35 years of residence qualifies the individual for a basic benefit equal to 35/40ths (or 87.5 percent) of a full pension. A full early pension requires residency in Denmark during 80 percent of the time from the person's 15th birthday until the pension is granted. If these requirements are not fulfilled, a partial pension is computed in accordance with the relationship between the actual residency period and 80 percent of the time elapsed from age 15 until pension award.

When an early pensioner becomes an old-age pensioner at age 67, the identical number of 40ths used to compute the early pension will be applied in the old-age pension program.

Residency as Basic Qualifying Condition

With some exceptions, the changes introduced in the 1984 law regarding residency requirements made the program more restrictive. In 1984, the minimum residency requirement was increased to 3 years from 1 year. At the same time, however, the law eased these requirements as they relate to foreign nationals.²

The reform waives residency requirements for Danish citizens aged 67 or older who have had permanent residence in Denmark for at least 30 years between ages 15 and 66, inclusive. In addition, old-age as well as early pensions may be paid to Danish citizens who take up residence abroad, if they have been residents of Denmark for at least 10 years after having attained age 15 and immediately before the pension becomes payable. In the first instance, a Danish citizen would be eligible for a **full** old-age pension, regardless of current residence. In the second instance, a **partial** old-age or early pension would be payable, whereby the size of the benefit is determined on the basis of the number of years of residency, as explained in the following section.

²Foreign nationals may now qualify for a partial pension if they have been residents for at least 10 years. Previously, they acquired pension rights in Denmark only on the basis of bilateral or multilateral social security agreements. In addition, some foreigners (refugees, for example) with residency permits can now count the time spent in their countries of origin, as well as in Denmark, when computing the pension. Before the reform, only periods of residence in Denmark counted toward a Danish social security pension.

Benefit Structure

After the reform, the Danish OASDI program retained, for the most part, the old-age pension program in its previous form and combined the disability and survivor pension programs into a means-tested early pension program for those aged 18-66. In the process, the basic flat-rate old-age pension, for all practical purposes, became a minimum pension for the early pensioner, to which supplements may be added, also on a needs basis. The new benefit structures are highlighted in table 1.

Before Denmark's entry into the European Economic Community (EEC) in the early 1970's, no specific minimum residency requirements were necessary for a person to receive a "full" old-age social security pension. (At that time, the basic pension requirements were citizenship and 1 year of residence after age 15.)

Under legislation introduced in 1972, which coincided with EEC membership, an individual needed 40 years of residency during ages 15-66 to receive a full old-age pension or 10 years of residency at ages 15-66 with at least 5 years immediately preceding age 67.

The 1984 reform gradually phases out the 10-year provision, which now no longer qualifies anyone for a maximum pension but may qualify foreign nationals to receive a partial pension. Thus, under the recent legislation, a **full** old-age pension now requires 40 years of residency.

Residency requirements in the **partial** old-age pension program, on the other hand, range from 3 years to 39 years. Again, the pension amount is determined by the relationship between the number of years of residency (measured to the nearest whole number of years) and the 40 years needed for a full pension. Thus, for example, 12 years of residency qualifies a person for a pension amounting to 12/40ths (or 30 percent) of a full pension at age 67.

Residency requirements in cases of early retirement (for the disabled and survivors) have changed markedly. Before the 1984 reform, to establish a residency period one counted not only the actual residency period up to the time of disablement or survivorship, but the number of years remaining to age 67. As a result of the 1984 law, a maximum (full) pension is now based on residence during at least 80 percent of the time elapsed from age 15 until the time of the initial pension payment. In this case also, as in the partial old-age pension program, the benefit amount will be reduced by 1/40th (2.5 percent) for each year the residency period does not qualify a person for a full pension—that is, falls short of adding up to 80 percent.

Before the 1984 reform, the disability pension program had three levels of benefits: (1) a **maximum** pen-

Table 1.—Danish universal OASDI program provisions

Type of pension and residency requirements	Before 1984 reform (OASDI programs)	After 1984 reform (Separate old-age and "early" pension programs)
Old-age pension.....	<p>At age 67: Men, married women At age 62: Single women At age 55: Adverse social and employment-related circumstances</p> <p>Wife's supplement (income-tested)</p> <p>Marriage supplement (income-tested)</p>	<p>At age 67: All men and women At ages 62 and 55: Benefit converted to "early" pension (no change in pension amount for current retirees).</p> <p>Women aged 62-66: Wife's supplement converted to "early" pension if full supplement currently received. Otherwise, current supplement continues until pensionable age 67.</p> <p>Marriage supplement converted to "early" pension; however, those already receiving marriage supplement continue to receive that benefit until pensionable age.</p>
Disability pension.....	<p>Loss of at least 50% of earnings capacity in suitable work, aged 16-66.</p> <p>If disabled— 100%—Full basic pension + full disability supplement + full unemployability supplement 66⅔%—Full basic pension + full disability supplement 50%—One-half of basic pension + 50% of full disability supplement</p>	<p>Disability pension converted to "early" pension except that those aged 15-17 receive assistance under the Social Security Act.</p>
Residency requirements for— Full pension.....	<p>40 years of permanent residence at ages 15-66 or 10 years starting at age 15, with at least 5 years immediately prior to age 67 (this portion to be phased out)</p>	<p>40 years of permanent residence at ages 15-66</p>
Partial pension.....	<p>If unable to qualify according to above, pension computed on 40ths of full pension based on number of whole years of permanent residence accumulated.</p>	<p>If less than 40 years, pension computed in terms of 40ths of a full pension based on number of whole years of permanent residence accumulated.</p>
Minimum pension.....	<p>1 year of permanent residence at ages 15-66</p>	<p>3 years of permanent residence at ages 15-66</p>
Early retirement.....	<p>Counted is the period of residence completed by the time the pension is payable, plus period of residence projected to age 67. If less than 40 years, computed in terms of 40ths of a full pension.</p>	<p>Period of residence in Denmark must represent at least 4/5 of time from age 15 until pension becomes payable. For shorter residence periods, the pension amount is computed in terms of 40ths of a full pension corresponding to the number of years of coverage.</p>
Danish citizens residing abroad.....	<p>Payable abroad, provided 10 or more years of residency prior to age 67.</p>	<p>Permanent residency requirements may be waived for old-age pensioners having resided in Denmark for 30 years or more at ages 15-66. Citizens who take up residency abroad after receiving "early" or old-age pension may have pension paid abroad after having resided in Denmark for at least 10 years after age 15 and immediately prior to payment of pension.</p>
Foreign nationals.....	<p>May acquire pension rights only through bilateral social security agreements, or through international agreements.</p>	<p>May qualify for a pension based on permanent residence in Denmark for a minimum 10 years at ages 15-66, of which at least 5 years is immediately prior to payment of pension.</p>
Refugees.....	<p>Only periods of residence in Denmark are included in benefit computation.</p>	<p>Periods of residence in Denmark, as well in former home country, are included in benefit computation.</p>

sion, if 100 percent disabled, consisting of a basic amount plus disability and unemployability supplements; (2) a **medium** pension made up of the basic amount plus a disability supplement, if at least 66⅔ percent disabled; and (3) a **minimum** pension equal to half the basic amount plus half the disability supplement, if at least 50 percent disabled.

With the 1984 reform, "disability pensions" were converted to early pensions. The lowest of three previous benefit levels was improved by adding a supplement to the basic pension amount, thereby increasing the recipient's benefit in most instances. The first and second benefit levels, on the other hand, were basically retained in their old form, with a pension supplement added for those in particularly severe financial circumstances. These programs are no longer referred to as "disability pensions," but have become part of the early pension program.

As table 2 indicates, the new early pension program has four benefit levels (as opposed to the three levels before the reform)—maximum pension, medium pension, enhanced regular pension, and regular pension. A maximum or medium pension is granted on the basis of a person's inability to work due to physical or psychological disablement, taking into consideration the person's age, the overall employment picture (including employment rate and employment outlook), and the possibility of a subsequent change in the medical condition of the individual. Those with no, or only a slight, ability to work receive the maximum pension, made up of a basic amount (equal to the basic old-age pension), disability and unemployability supplements, and a modest pension supplement.

It is interesting to note that, for a given condition, persons in the younger age groups receive the higher benefits. Presumably, younger persons have greater needs and, generally speaking, as one nears retirement age a tapering-off in consumption occurs. Consequently, when a given condition exists over a number of years, there is a gradual decrease in the size of the benefit as one approaches age 67—the point at which the old-age pension becomes payable.³

Thus, in cases of severe inability to work, recipients aged 18-59 receive a monthly pension of about 7,000 kroner (compared with an average wage of about 12,000 kroner in manufacturing) and those aged 60-66 receive about 5,000 kroner.⁴ Similarly, if the ability to work is reduced by half for health or other reasons, the monthly benefit approximates 4,300 kroner for those aged 59 or younger, but 3,600 kroner for those aged 60-66.

³The same tapering-off pattern is found in the Danish voluntary early retirement ("efterlon") program. There, a person's benefits decrease over a 7-year period (during ages 60-66), gradually tapering off from former earning levels as one approaches eligibility for an old-age pension at age 67.

⁴One U.S. dollar equaled 7.01 kroner as of September 22, 1987.

The Means Test

The means test in effect under the former disability and survivor pension programs was carried over to the new early pension program. In addition, a means test was introduced in the old-age pension program as of January 1, 1984, for those in the group aged 67-69, who had not been means-tested previously. The kinds of income to be considered for these purposes are codified in the 1980 Law on Social Income.⁵

Besides regular taxable income (minus expenses incurred in attaining this income), certain cash benefits payable under the Social Assistance Act⁶ are included, as well as some types of income that may be determined by the Minister of Social Affairs on an ad hoc basis.

Denmark taxes wealth for income tax purposes (usually at lower rates than regular income), and a proportion of the wealth tax is applied for social income purposes in determining income for early pensioners, but not for old-age pensioners aged 67-69. In 1985, for example, income was not imputed on the first 499,100 kroner of assessed wealth (approximately four times the average wage in manufacturing) in the early pension program; however, wealth was added to annual income at the rate of 10 percent of the next 499,100 kroner, 20 percent of the following 665,300 kroner, and 50 percent of any higher amount. These assessed wealth limits are adjusted annually, based on the index level as of January following the year in which the income test is applied.

Excluded from the means test are expenses and deductions that are not taxable under the income tax code, such as standard wage-earner deductions, interest expenses connected with banking and loan transactions, alimony, child support, and real estate taxes. If a person owns several properties, only the property with the highest assessed value is counted. If cohabitation has ceased, in the case of a married couple, each spouse is considered as a single person for social security benefit purposes.

Administrative Details

Administration of the new programs was facilitated by the 1973 reform, which effectively transferred social service resources (including personnel) from the

⁵The purpose of this law is to identify the need for public support payments, based on a person's economic resources—that is, income and wealth.

⁶Temporary as well as permanent support is paid under this provision. The need for **temporary** support payments may result from illness, pregnancy, deteriorating employment markets, or divorce. **Permanent** support under the Social Assistance Act may be made available to supplement benefits provided under social security when the total needs of an individual or family are not being covered under the latter program. A basic requirement in the permanent support program is the absence of suitable work.

Table 2.—Benefit structure of Danish social security program after 1984 reform

Type of pension and benefit	Benefit amount ¹	Age	Comments
Old-age pension ²	3,781	67 or older	Income-tested for group aged 67-69.
Basic amount.....	3,216		
Pension supplement.....	565		
Early pension ²	18-66	Ability to work reduced due to physical/mental disability. Age, unemployment situation/outlook, current/future disability diagnosis considered.
Maximum	7,352	18-59	Ability to work insignificant.
Basic amount.....	3,216		
Pension supplement.....	565		
Disability supplement.....	1,497		
Unemployability supplement ³	2,047		
Medium	5,278	18-66	Ability to work insignificant (ages 60-66) or has been decreased by 2/3 (ages 18-59).
Basic amount.....	3,216		
Pension supplement.....	565		
Disability supplement.....	1,497		
Enhanced regular	4,529	18-59	Ability to work reduced by at least 1/2 (but less than 2/3) for health and other reasons, or when dictated by social and health conditions (ages 50-59).
Basic amount.....	3,216		
Pension supplement.....	565		
Early pension supplement.....	748		
Regular	3,781	60-66	Ability to work reduced by at least 1/2 for health and other reasons, or when dictated by social and health conditions.
Basic amount.....	3,216		
Pension supplement.....	565		

¹As of January 1, 1987; Danish kroner per month.

²Recipients may also qualify for an assistance allowance (if blind, for example) or a constant attendance allowance, equal

to one-half of base amount or a full base amount, respectively.

³Not income-tested.

national to the 14 regional (county) and 275 local (municipal) levels. The intent was not only to create administrative authorities at the local and regional levels that were capable of performing a wider range of public functions than before, both in social security and in the entire social services area, but also to facilitate access to diagnostic and service facilities for a broad spectrum of social and medical needs. To some extent, this shift was prompted by the realization that a considerable proportion of the population was unaware of the many available social programs. By providing a single focal point locally for information and services, the new Danish program reflects an innovative approach to social security, in line with the pragmatism that has characterized its pattern since the early 1960's.

Application for Benefits

Initial applications for old-age or early pensions are submitted to the local Social Committee (Det sociale udvalg) in the claimant's municipality. The Committee serves as the focal point for all activities related to social security and social assistance. In addition to its clearinghouse function, the Committee is required to notify prospective old-age pensioners of their pension rights before they attain age 67.

The individual is generally responsible for making

the application for an early pension. (The Committee may, however, initiate an application for an early pension if the individual is unable to do so.) In evaluating an early pension claim, the Committee may (1) request that the applicant obtain a physician's certificate, at the Committee's expense; (2) obtain information from other sources (such as medical records) that may have a bearing on the case; and (3) petition the court for additional information.

The Social Committee forwards the application to the county Rehabilitation and Pension Board (Revaliderings-og pensionsnaevnet). The Board may accept the Committee's evaluation or review the case. All expenses incurred in connection with the review (medical, legal, travel, and so forth) are paid by the county government.

The recipient must notify the Social Committee of all address changes. If he or she is moving to another municipality, the recipient must reapply to the new local Social Committee to have the benefit payment continue. Records are readily transferred between Committees.

Pension Payments

The pension is payable monthly, in advance, starting the first day of the month following the applica-

tion. In specified circumstances, pension advances are possible, pending an anticipated favorable decision. If the claim is subsequently denied, the amount already paid is not recovered but is reclassified as "aid without an obligation to repay" according to the Law on Social Assistance. Overpayments, however, are not excused if the recipient collected the money under false pretenses.

If the pensioner has been determined to be physically or mentally unable to manage the benefits, the local Social Committee decides how or to whom the pension should be paid. The Committee, under these circumstances, may go to court to have the pensioner declared incompetent and a representative payee appointed.

Early pensioners transfer automatically to the old-age pension program at age 67. Those receiving assistance or attendance allowances at the time (that is, supplements for those needing attendance on a part-time or full-time basis under the former disability program) retain these supplements in the transfer.

Financing

Most of the costs of the universal and early pension programs are funded from national government revenues. In the former case, however, a 3.5-percent contribution by the insured, based on taxable income, makes up a relatively small part of program income, and some of the cost of the early pension program is recovered through employer contributions, based on an annual flat-rate amount per employee. Pension payments are initially made by the municipal governments, which are subsequently reimbursed from national government funds.

The Review Process

The initial pension amount for a person under age 70 is determined on the basis of the recipient's expected future income and is subject to review on January 1 of each year. The pensioner must notify the local Social Committee of changes in his or her income status that may affect pension payments. The Committee may consider whether to discontinue payments or move the recipient into another program if (1) the ability for self-support (based on working ability) has changed considerably, (2) the recipient's income from work exceeds an amount equal to twice the basic amount for single pensioners, or (3) conditions for an early pension are no longer met.

In addition, certain rules apply for withholding the pension while the beneficiary is hospitalized or institutionalized on a frequent or long-term basis, based on a minimum of 6 months of cumulative confinement during the 18 months preceding current confine-

ment. If of pensionable age, the spouse of the hospitalized person would receive a social security pension in his or her own right. If not a pensioner at the time of the other spouse's confinement, the individual may then qualify for support under the early pension program.

When one of two cohabiting pensioners dies, the remaining spouse receives the combined pension for an additional 3 months, excluding the month of death. After that, the pension is adjusted to reflect the amount that the surviving pensioner normally would receive.

Appeals Procedure

Decisions made by the local Social Committee may be appealed to the County Appeals Board (Amtsankenaevnet). All appeals must be filed within 4 weeks of the decision, except that both the County Appeals Board and the national Social Appeals Directorate (Den sociale ankestyrelse) may waive the time limit. Decisions made by the county Rehabilitation and Pension Board, on the other hand, or by the National Social Insurance Board (Sikringsstyrelsen) in instances concerning the responsibilities of Danish municipalities regarding Danes (employees and the self-employed, and their families) working within the EEC, are appealed to the national Social Appeals Directorate. Decisions made by the County Appeals Board usually may not be appealed to other authorities. However, the national Social Appeals Directorate, at its discretion, may decide to hear a case if it is deemed to be of fundamental importance.

Disagreements between municipalities, which may arise in residency disputes, for example, are decided by the County Appeals Board of the municipality against which the grievance has been filed. Again, the Board's decision may be appealed to the national Social Appeals Directorate, under the same 4-week limit referred to above. In cases involving the Capital area (Copenhagen and surrounding area), the Directorate—rather than the Board—makes the initial decision.

Administration

As indicated earlier, programs under the Law on Social Pension are administered by the Social Committee in the municipality in which the applicant resides. That municipality remains responsible for pensioners who have been hospitalized or institutionalized in other municipalities. The county Rehabilitation and Pension Board, on the other hand, has broad powers in determining pension rights under the law—that is, allowing, disallowing, withdrawing, or

reinstating pension benefits. In addition, the National Social Insurance Board plays a major role in the administration of the program by providing assistance to the Ministry of Social Affairs, the Social Appeals Directorate, the County Appeals Board, the Rehabilitation and Pension Board, and the municipalities.

Municipal authorities as well as Rehabilitation and Pension Boards provide the National Social Insurance Board with statistical information on request.

Although cases may be initiated by the municipality, the greater number, by far, originates with the applicants. As a case is processed through municipal and county authorities, a statistical profile of the case eventually emerges. Subsequently, the case is forwarded to the National Social Insurance Board where, after a preliminary review, the data are sent to Statistics Denmark (Danmarks Statistik) for incorporation into the official statistics.

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