

Fiscal sustainability - Denmark

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DREAM - model

- **Danish Rational Economic Agent Model**
 - Full-blown overlapping generation model
 - Detailed account of demographics
 - Detailed account of various rules (transfers, taxes)
- **Economic structure**
 - Small and Open economy (fixed exchange rate)
 - Households life-cycle behaviour (17-101 years)
 - Specialized production structure
 - Unionized labour market

DREAM group

- **Independent model-institution**
- **Financed by contributions from ministries and the central bank**
- **Organisations can buy specific analyses**
- **The model is defining the playing field**

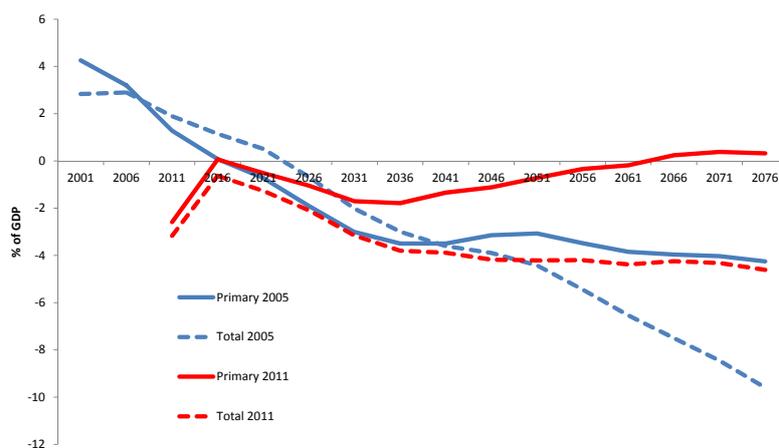
Fiscal sustainability analyses

- **DREAM-GROUP: Annual sustainability report**
- **Ministry of Finance – make their own independent assesement of fiscal sustainability**
- **Economic Council – frequent analyses of the issue (use the DREAM model)**
- **Various organisations**

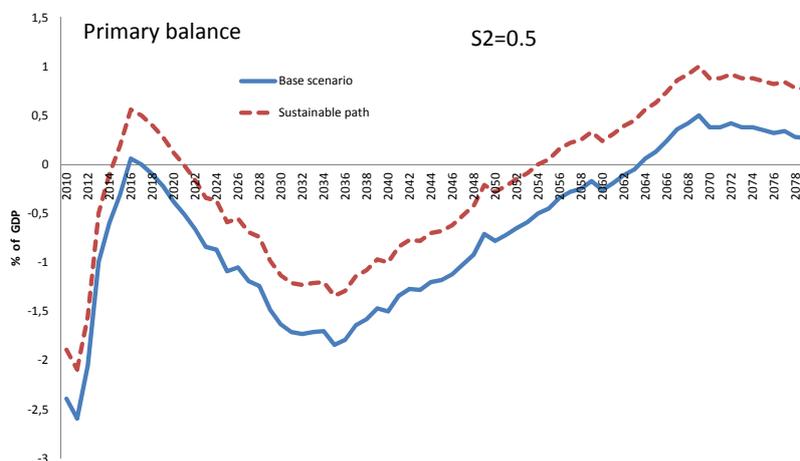
Recent debates and reforms

- Identification of problem
 - Orders of magnitude
 - Sensitivity analyses
- Policy reforms
 - Strengthening labour supply and employment
 - Retirement reforms
 - Shortening early retirement period (5 to 3 years)
 - Higher statutory retirement ages (+ 2 years)
 - Linking statutory retirement ages to longevity (at age 60; retirement period = 20 years)

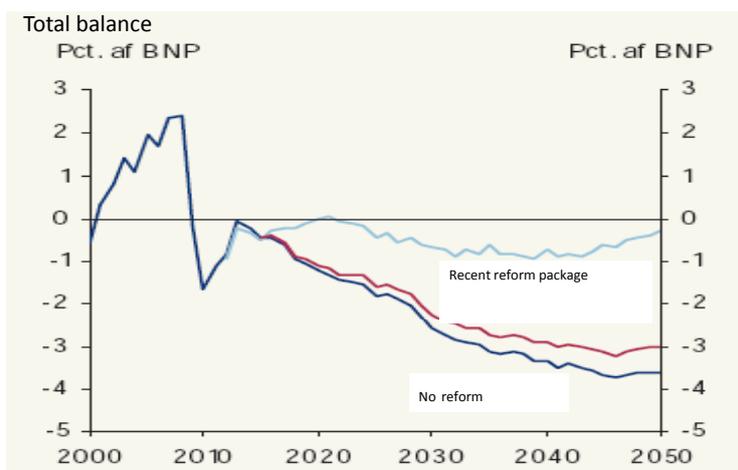
Sustainability – the effects of reforms



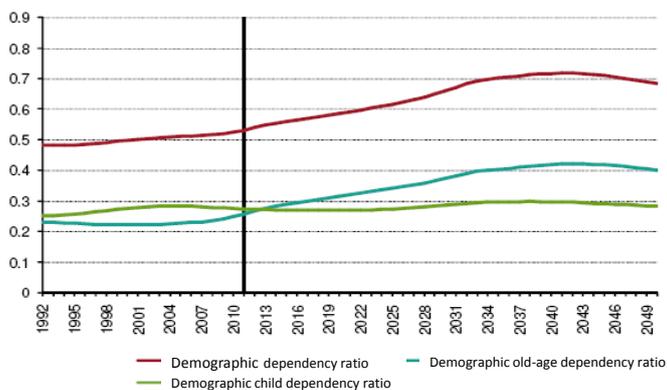
Close to fiscal sustainability – but problematic path



Total budget – without and with latest reform package

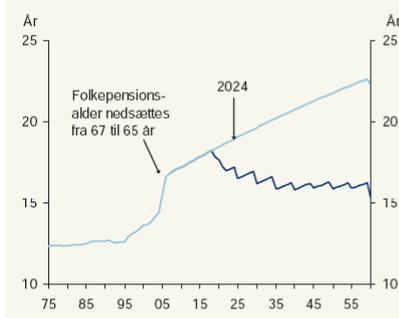


Demographics

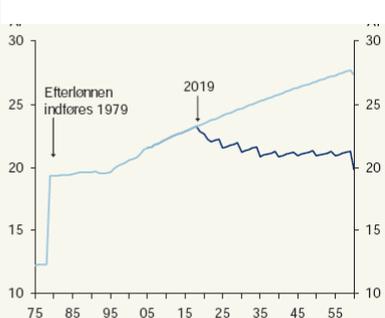


Reforms – later retirement Targeting the retirement period

Expected number of years receiving public pension at age 60

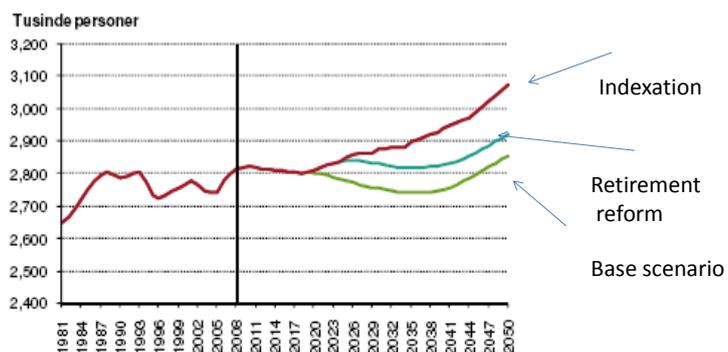


Expected number of years receiving early retirement and public pension At age 60



Latest reform shifts the introduction to 2014 and 2019 respectively

Labour supply

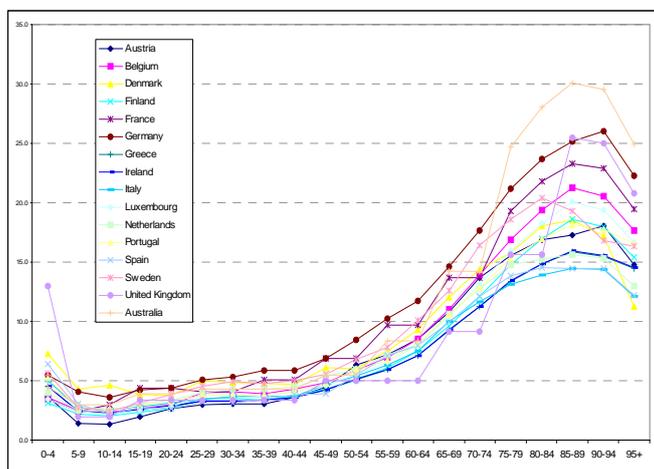


Health

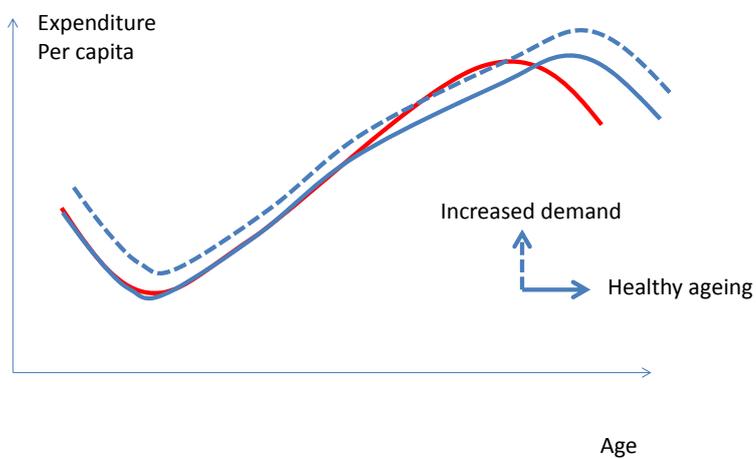
- **Healthy ageing**
 - Unreasonable to use historic age specific frequencies

- **Improved treatments and new demands**
 - Net effect is an expenditure drive

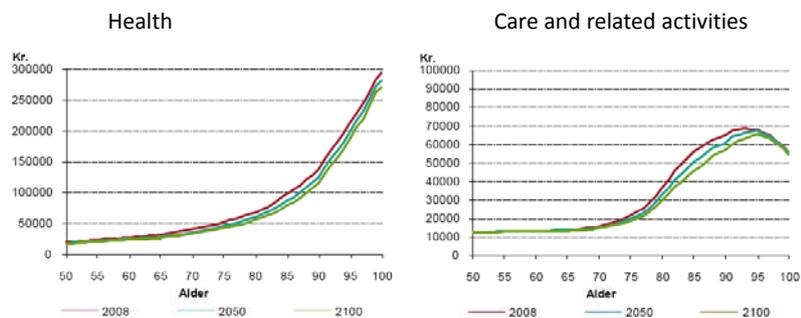
Age dependent health expenditures



Healthy Ageing and Increased Demand for Health Services



Age related health and care spending



Age dependent net contributions

Age dependent net-contributions to the public sector

