

# Pensions in Denmark: Who is at Risk of Falling into the *Restgruppe*?

Nationaløkonomisk Forenings Konference 2020, Koldingfjord  
January 10<sup>th</sup>, 2020.





# Agenda

- > Background on the Restgruppen issue.
- > Interesting patterns and findings from Restgruppen analysis
- > Where to go from here

# Why is the Restgruppe discussion important?

## > Restgrupper

- Several definitions but in principle people with not "enough" savings ear-marked for retirement (and dependent of Pillar 1 in the future).

## > Is it a problem?

- The Danish pension system is one of the best in the world.
  - Pension reforms successful (retirement savings 200% of GDP)

## > Why care about it then? It is a balancing act...

- If benefits in Pillar 1 very low: Risk for individuals and society
- If benefits too high: Risk of fiscal pressure to society

# Definitions of Restgrupper

## > People at working age

- **Actuarial approach:** Enough savings to "pay" for an annuity of a given amount X.
  - E.g.  $X = \text{folkepensionstillæg}$  (ca. 77.000 kr)
    - Pension contributions: ca. 25.000 kr.
    - Pension wealth at retirement: ca. 1.2 mio

## > People at retirement

- Getting 100% of the folkepensionstillæg
- Means-tested: Income before retirement < threshold
  - Singles: ca. 70.000kr.
  - Couples: ca. 110.000kr. – 140.000kr.

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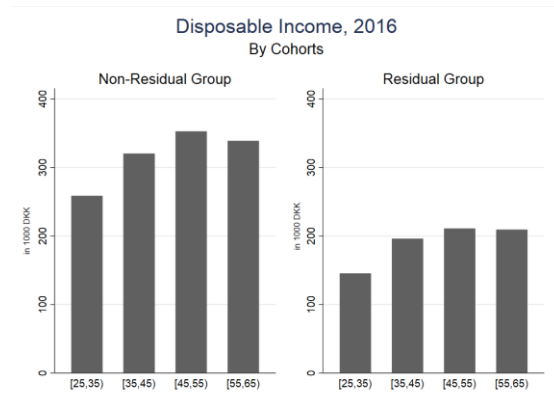
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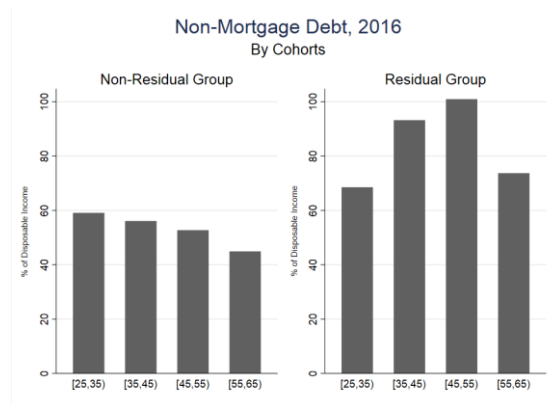
Study	Pension		Population Age (Year)	Restgrupper # People (% of population)
	Contributions (Annual)	Wealth		
SFI (2014)		< 1.088.500 kr.	64 (2012)	<b>34.557</b> (46%)
	< 20.000 kr. (Avg. 5 years)		30-59 (2011)	<b>720.746</b> (32%)
ATP (2015)	< 23.240 kr. (Avg. 10 years)		30-59 (2012)	<b>788.316</b> (35%)
CEPOS (2018)	< 30.000 kr. (= 1.5 mio at 65)		25-64 (2017)	<b>1.144.000</b> (42%)
Ours (2019) DST registers	< 25.000 kr (= 1.2 mio at 65)		25-64 (2016)	<b>1.225.654</b> (43%)
		< Threshold (Age dependent)	25-64 (2016)	<b>1.118.466</b> (40%)

# Not in Restgruppen vs. In Restgruppen (Pension contribution-based)

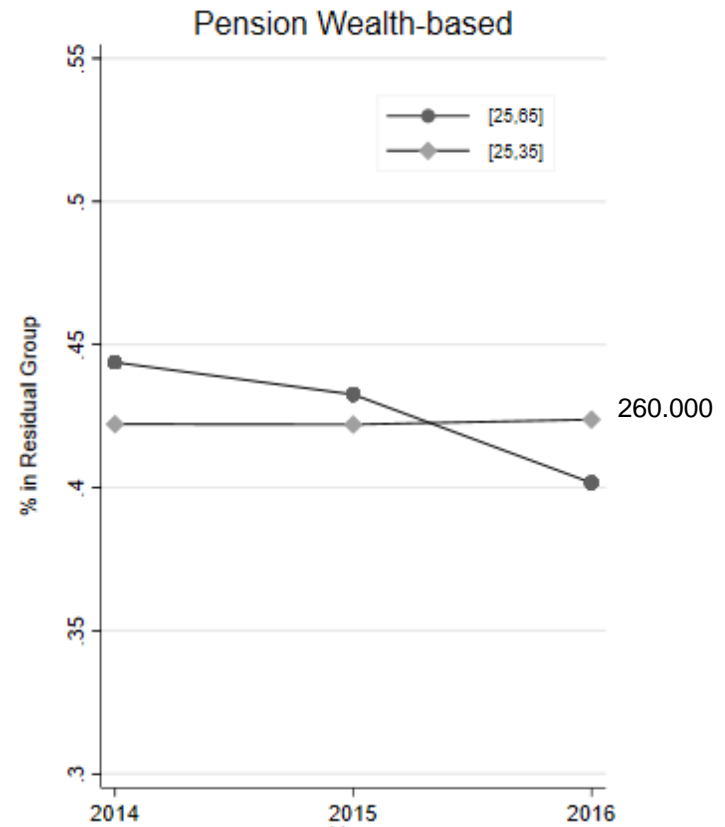
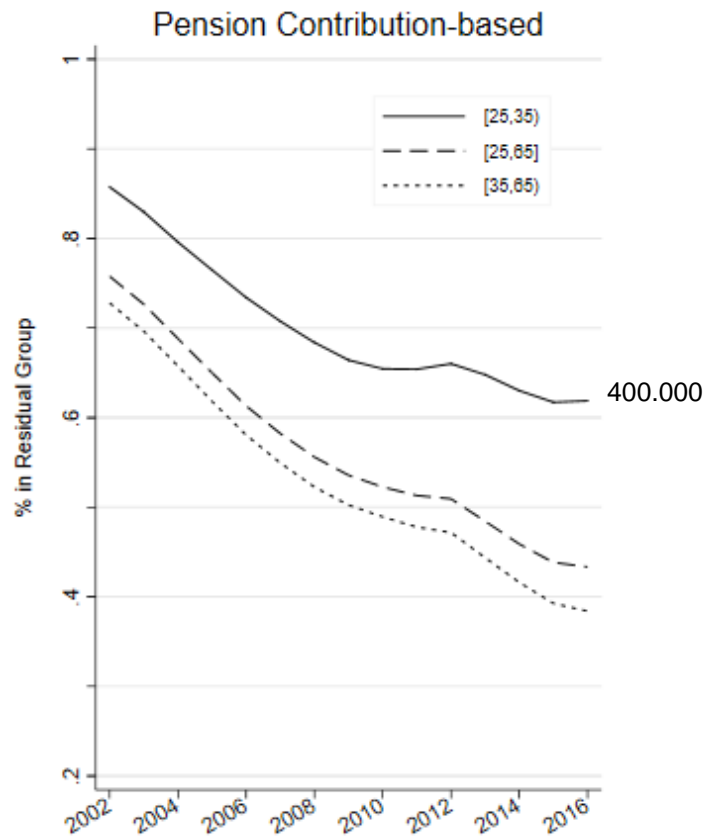
Lower income (and pensions too)



Higher indebtedness



# Restgruppen size has dropped over time...



Pension contributions and stock of pension wealth have stagnated in young generations



# Different saving patterns in youngsters?

## *The Journal of* FINANCE

*The Journal of* THE AMERICAN FINANCE ASSOCIATION

THE JOURNAL OF FINANCE • VOL. LXXIV, NO. 6 • DECEMBER 2019

## **YOLO: Mortality Beliefs and Household Finance Puzzles**

RAWLEY Z. HEIMER, KRISTIAN OVE R. MYRSETH,  
and RAPHAEL S. SCHOENLE\*

### **ABSTRACT**

We study the effect of subjective mortality beliefs on life-cycle behavior. With new survey evidence, we document that **survival is underestimated** (overestimated) **by the young** (old). We calibrate a canonical life-cycle model to elicited beliefs. Relative to calibrations using actuarial probabilities, **the young undersave by 26%**, and retirees draw down their assets 27% slower, while the model's fit to consumption data improves by 88%. Cross-sectional regressions support the model's predictions: Distorted mortality beliefs correlate with savings behavior while controlling for risk preferences, cognitive, and socioeconomic factors. Overweighting the likelihood of rare events contributes to mortality belief distortions.





# Message 1: Something going on with young generations?

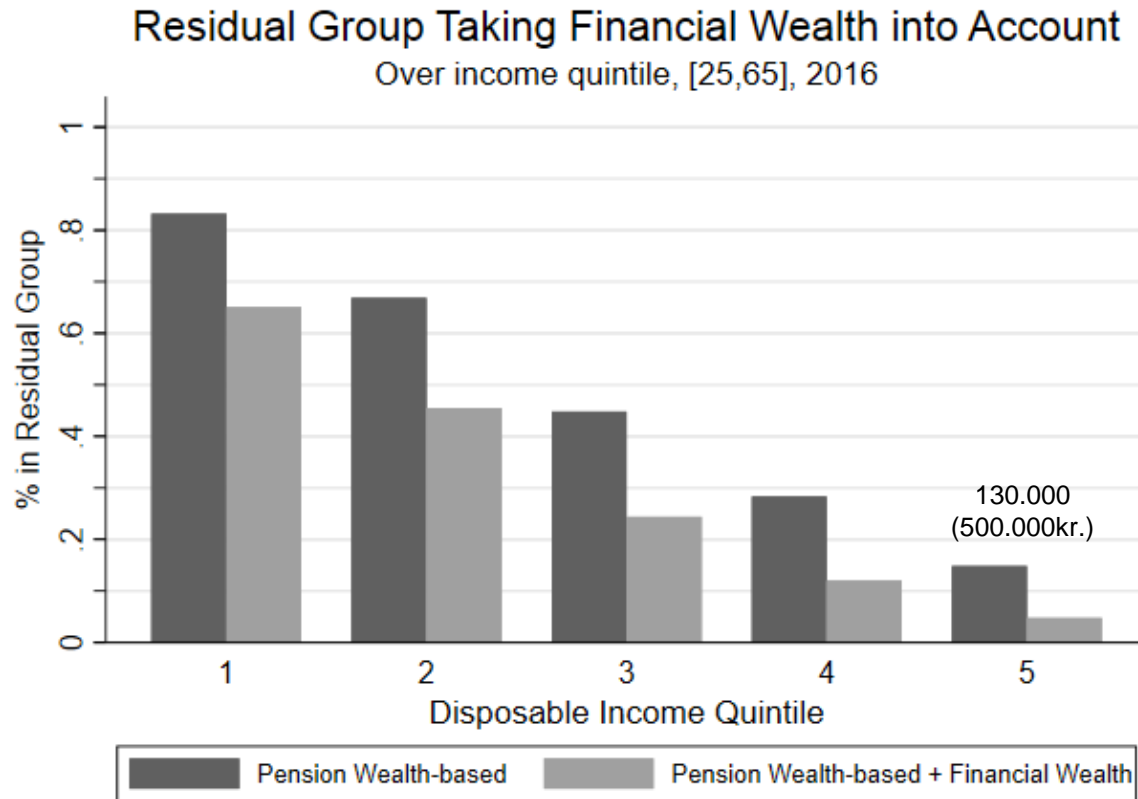
## > Saving less?

- YOLO?

## > New labor market structure?

- Gig economy / future of work
- Is the Danish pension system prepared for this?

# Restgrupper by income quintile

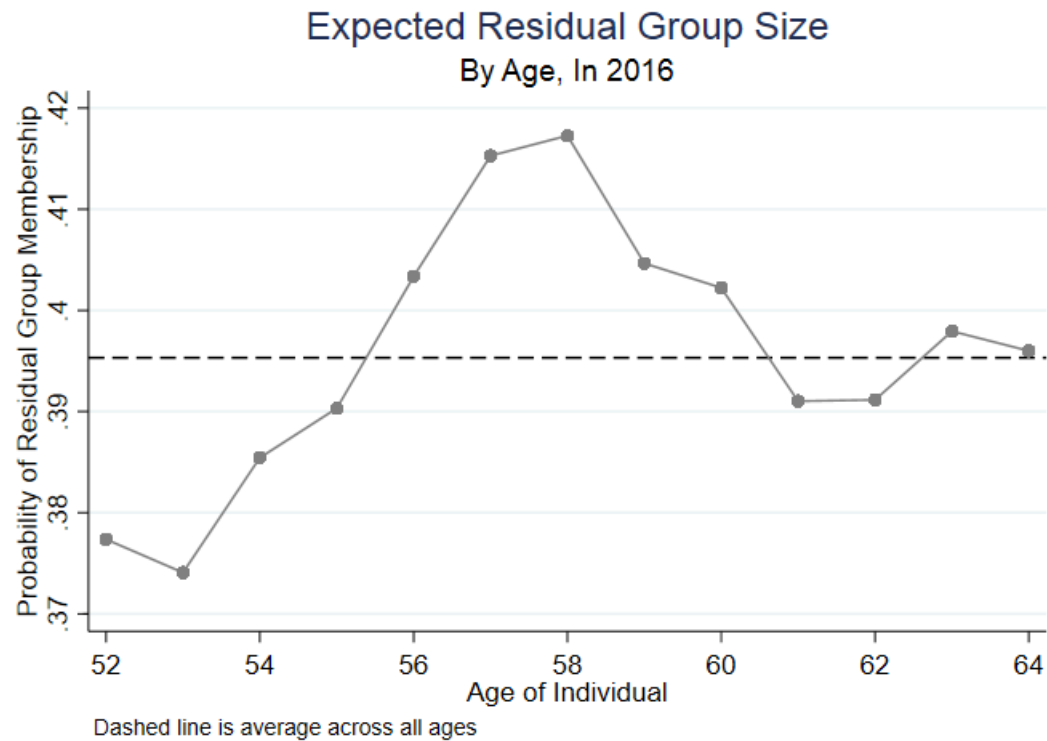


**Message 2:** Should high income earners with low "ear-marked" pension savings be *labeled* as part of the restgrupper?

# Understanding the Restgruppen

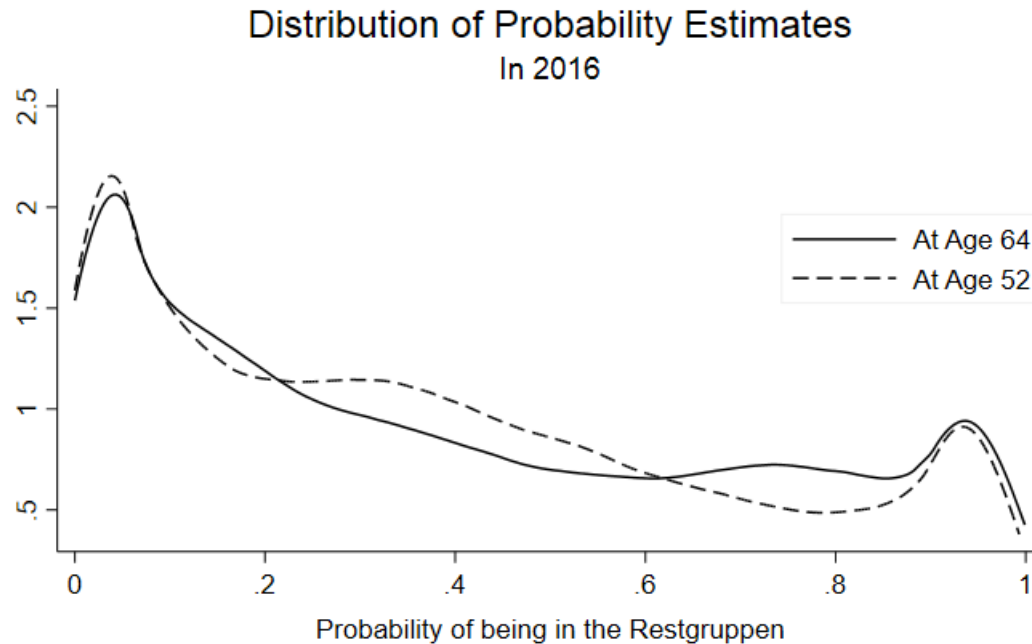
- > Start with new retirees in 2016 (ca. 60.000 people)
  - Identify individuals eligible for full folkepensionstillæg (restgruppen)
  - Model the probability of being in the restgruppen controlling for
    - Basic characteristics (gender, single,...)
    - Work Sector
    - Labor Status
    - Wealth items
    - Income
    - Pension contributions
  - Estimate a model with variables measured at age 52, 53, ..., 64
- > Use each model to predict the probability of being in the restgruppen in the future for people 52, 53, ..., 64 in 2016.

# Lagged effect of the crisis...



People that were around 50 years old during the crisis are at higher risk of falling into the Restgruppen

# Types of risk by cohort: Low-mid-high



Characteristics of individuals with higher risk of falling into the restgruppen:

- Basic
- Middle education

# Message #3: Focus on people at higher risk of falling into the restgruppe

## > Cohorts affected by the crisis

- People hit by crisis at their peak-earning years are at higher risk
- Policy-making: Put in place programs to help people that will be affected by the crisis with a lag.

## > Early warning system (Low-mid-high risk)

- Middle risk:
  - Nudging and behavioral economics and finance can help
- High risk:
  - Need structural reforms?
  - Or "Nordic" Welfare State Promise
    - Mutual insurance against the "Veil of Ignorance"





# Takeaway

## > Message 1:

- Young generations saving less?
  - 260.000-400.000 people

## > Message 2:

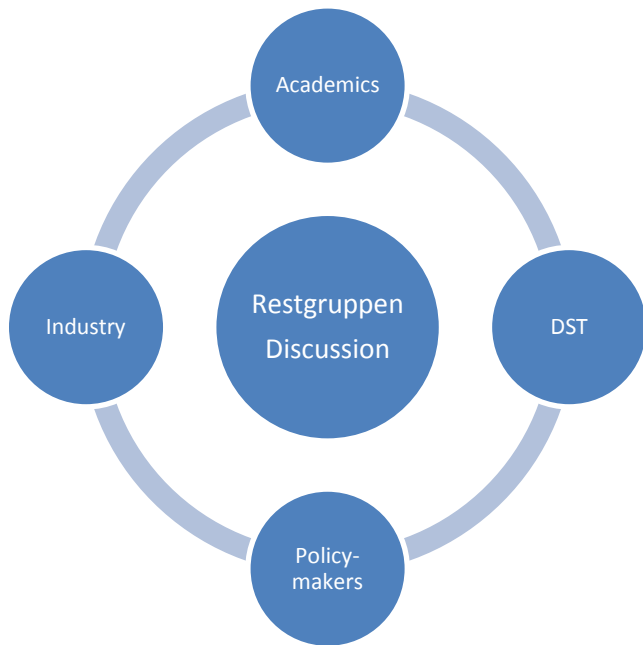
- Should high income earners should be in the Restgruppen?
  - 130.000 people

## > Message 3:

- Focus on people at higher risk of falling into *restgruppen*
  - *Unlucky older generations hit by the crisis*
  - *Basic to middle educated at high risk*



# Where do we go from here?



## > Academic output

- Understanding lagged effects of crisis at retirement
- Understanding youngsters

## > Policy-making output

- Early warning systems
  - Low-mid-high risks

## > Using frontier knowledge

- Behavioral Econ and Finance
- Experimental Econ & RCTs
- Machine Learning techniques