
The Wealth and Debt of Danish Families

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INTRODUCTION AND SUMMARY

Compared with other countries, Danish households have a very high debt-to-income ratio. This has attracted considerable attention from the International Monetary Fund, IMF, and the credit rating agencies, among others. The European Commission (2012) recently pointed out the households' high gross debt as a danger signal, while also acknowledging that it partly reflects very substantial pension savings and an extensive social safety net.

At the aggregate level, these issues have recently been discussed in the Monetary Review by Isaksen et al. (2011) and Kramp et al. (2012). Overall, the high gross debt is offset by large assets, e.g. via the widespread use of labour-market pensions, but whether this also holds at the level of the individual family cannot be determined using aggregate data for the whole economy. If this is the case, the development is less of a concern than if debt and assets are held by different persons.

In this article, we summarise the main findings from a study – at family level – of the composition of gross debt for families in different income and age groups and the degree to which debt is offset by various types of assets. Relative to other studies, e.g. Danish Economic Councils (2008) and the Ministry of Economic and Business Affairs (2010), we focus more on the distribution of debt. The findings are documented in an article in Part 2 of this Monetary Review.

The large gross debt of Danish families indicates that, for many reasons, they are frequent users of the financial system, since gross debt is generally offset by even more substantial assets. The balance between gross debt and assets can be explained especially in terms of family income, age, house prices and the structure of the pension system.

Families predominantly use the financial system, they do not abuse it. However, the general picture cannot hide the fact that some families are so heavily indebted that they are assessed to find it difficult to manage their debt using their own income. The debt problems of families with net debt have grown in the period under review, but the

drop in the general level of interest rates and the increased popularity of adjustable-rate loans have reduced the interest burden. Given the current economic outlook, the extent of the indebted families cannot, however, be assumed to pose a threat to the household sector or the financial sector.

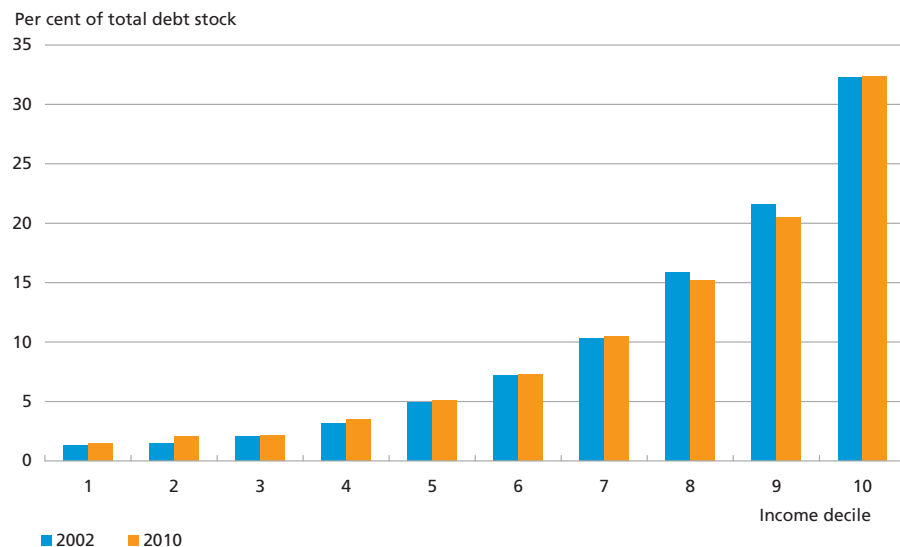
As regards the soundness of the financial sector, the results support the conclusion that the most pronounced threats to financial stability do not come from family debt-to-income ratios. So far, the financial sector's losses on household exposures have been modest despite rising gross debt and some years of rising unemployment. But, as expected, it is also clear that families who experience prolonged periods of unemployment are more vulnerable than other families. Should unemployment become more widespread than the current level, losses on private customers should therefore be expected to increase.

DISTRIBUTION OF GROSS DEBT BY INCOME AND AGE GROUPS

The high gross debt of Danish families, viewed in an international perspective, is concentrated in families with the highest incomes. Ranking of families by income after tax shows that the 20 per cent of the families with the highest incomes after tax in 2010 accounted for around 53 per cent of total family gross debt. The half with the lowest incomes accounted for 14 per cent in total of the gross debt, cf. Chart 1.

GROSS DEBT STOCK BY INCOME DECILE

Chart 1



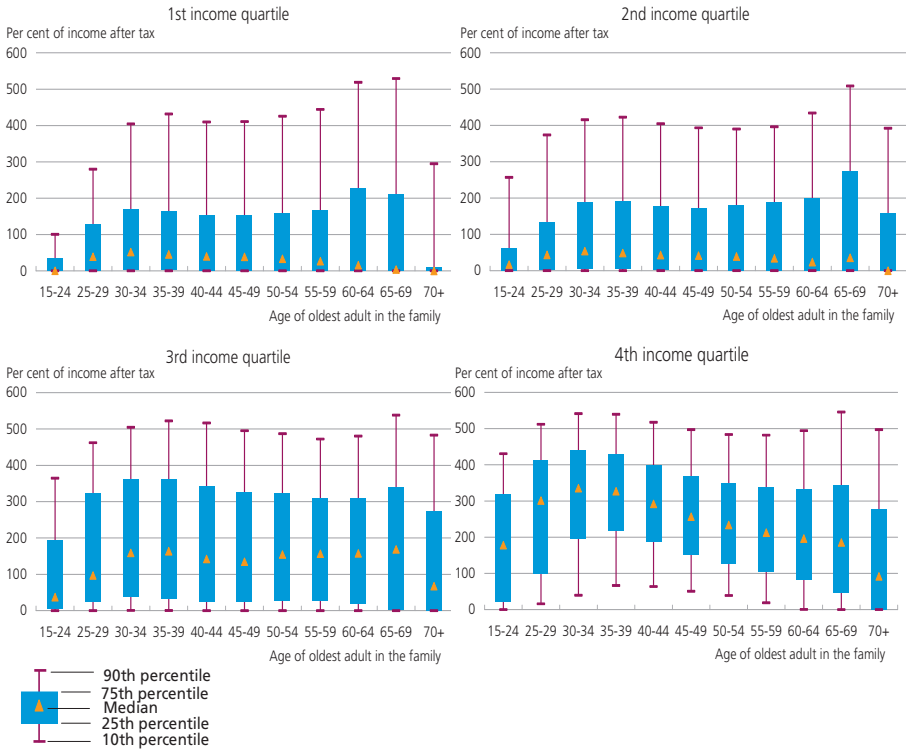
Source: Own calculations on the basis of register data from Statistics Denmark.

DISTRIBUTION OF FAMILY GROSS DEBT RATIO ACROSS INCOME DECILES, 2010 Chart 2



Note: The grouping of families into income deciles is based on income after tax.
 Source: Own calculations on the basis of register data from Statistics Denmark.

GROSS DEBT RATIO BY AGE AND INCOME QUARTILE, 2010 Chart 3



Source: Own calculations on the basis of register data from Statistics Denmark.

The ratio of gross debt to income after tax, the gross debt ratio, rises with increasing income, cf. Chart 2. A characteristic feature of the data set, irrespective of supplementary grouping, is that families with the highest income have the largest gross debt.

Among the families with the highest incomes, the gross debt ratio is highest in families whose oldest member is in his or her thirties. The gross debt ratio then generally decreases with age, cf. Chart 3.

In each age group, the gross debt ratio is usually higher, the higher the family income. This indicates that debt is often raised in order to finance purchases of a larger home or actual luxury goods.

The overall impression is that families with debt also have the income required to service the debt.

The percentage increase in gross debt from 2002 to 2010 is strongest for the oldest age groups in the study, but to some extent also for families in the lowest income groups. Measured in kroner, high-income families and families in the middle of the age distribution interval have clearly accounted for the strongest increases.

ASSETS AND NET DEBT EXCLUDING PENSION WEALTH

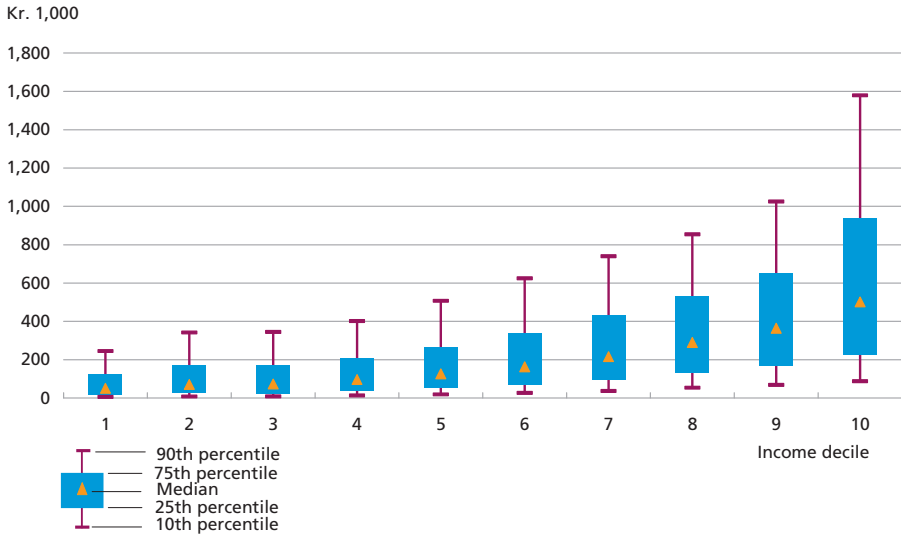
At end-2010, the assets of the more than 2.5 million families included in the analysis totalled almost kr. 3,400 billion, excluding family pension wealth. This value is around twice the value of the gross debt, and real property in Denmark worth around kr. 2,600 billion is the dominant asset type. Besides pension wealth, the analysis also excludes a number of other assets due to insufficient data. Such assets are, *inter alia*, cash holdings and the value of the family's durable consumer goods, e.g. cars, boats, household effects, etc. The value of private cooperative housing has not been stated either.

Like the distribution of gross debt, the distribution of assets is very uneven. Substantial assets are predominantly held by families with substantial gross debt. However, the group of families with no gross debt at all also includes a number of families with considerable assets.

Although the value of the assets is almost twice as high as the gross debt, more than one out of three families still had net debt in 2010.

Among families with net debt, the families with the highest income account for the largest net debt, cf. Chart 4.

Net debt is not prevalent in the oldest age groups. But more than half of the families in the 25-34 age group have net debt, irrespective of the size of their income, which should be attributed to education-related debt, among other factors.

DISTRIBUTION OF FAMILY NET DEBT, ONLY FAMILIES WITH NET DEBT, 2010 Chart 4

Source: Own calculations on the basis of register data from Statistics Denmark.

GROSS AND NET DEBT INCLUDING PENSION WEALTH

Most families with current or previous affiliation with the labour market will have assets in the form of pension savings. The savings-based pension system is still under expansion, entailing considerably stronger growth in pension wealth than in incomes over the last decades.

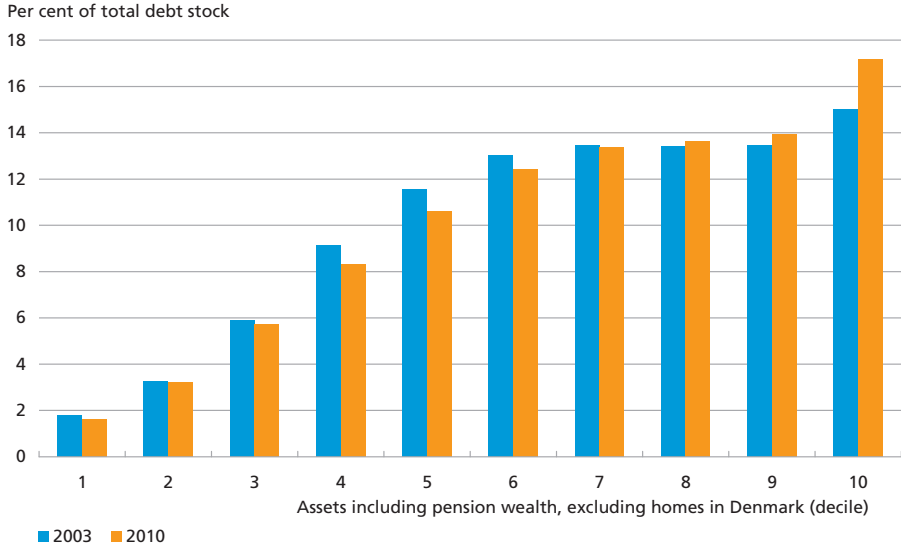
A family's pension wealth is generally less liquid than its other assets, but knowledge of active pension saving should be expected to enter into the family's other decisions. Families of retirement age will thus increasingly be able to service their debt without compromising on lifestyle. Consequently, gross debt of a certain size will be less of a problem than previously for persons reaching retirement age.

As opposed to most other assets, pension wealth is taxed when released. After estimated taxation, family pension wealth, excluding the value of civil servants' public service pensions, amounted to approximately kr. 1,500 billion at end-2010. For one third of the families, pension wealth after tax exceeded kr. 1 million.

Chart 5 shows that gross debt is primarily found among the families with most financial assets, including pension wealth after tax. The trend was somewhat more pronounced in 2010 than in 2003. This confirms the picture that debt is generally concentrated in families who have the funds to meet the related obligations.

GROSS DEBT STOCK BY SIZE OF FAMILY ASSETS, INCLUDING PENSION WEALTH AFTER TAX, EXCLUDING HOMES IN DENMARK

Chart 5

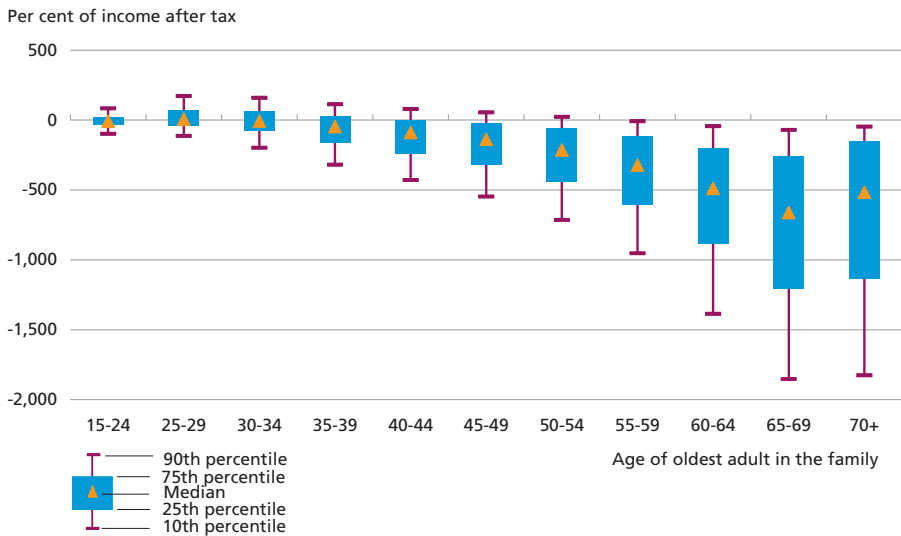


Note: Pension wealth has been calculated after tax, i.e. with deduction of estimated future income tax on disbursements. The value of family pension wealth thus becomes comparable with other financial savings, which are not deductible and thus not taxable.

Source: Register data from Statistics Denmark and own calculations.

NET DEBT RATIO INCLUDING PENSION WEALTH, BY AGE, 2010

Chart 6



Note: Pension wealth has been calculated after tax, i.e. with deduction of estimated future income tax on disbursements. The value of family pension wealth thus becomes comparable with other financial savings, which are not deductible and thus not taxable.

Source: Register data from Statistics Denmark and own calculations.

Taking pension wealth into account, less than one out of four families has net debt. Net wealth grows strongly with age, cf. Chart 6. Half of the families in the 60-64 age group have net wealth of more than five times their annual income after tax, and for one out of four of the families in this age group net wealth is more than eight times the family's annual income.

LITERATURE

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