

DANMARKS NATIONALBANK

8 JUNE 2020 — NO. 5

Steep increase in pension savings, but also in debt

Large savings go hand-in-hand with high debt

Pension savings in Denmark have increased sharply since the 1990s. Over the same period, Danish household debt has also risen strongly. On average, a kr. 100 increase in pension wealth leads to a kr. 26 increase in total debt.

This is one of the conclusions of a working paper in which economists Andreas Kuchler and Henrik Yde Andersen, Danmarks Nationalbank, and Niels Lynggård Hansen, the European Stability Mechanism (ESM), have analysed extensive data on pension savings and household debt.

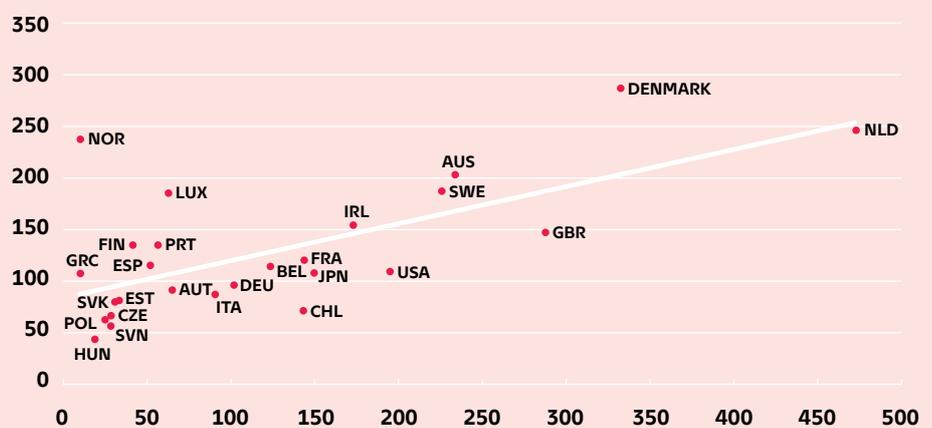
There could be several explanations why higher pension savings and higher debt tend to go hand-

in-hand. One such explanation could be that pension funds invest in real estate and mortgage bonds. In itself, this could cause housing market prices to go up and homebuyers to become more indebted. Another explanation could be that household behaviour changes when households are forced to save for retirement. The economists have looked into the latter impact.

The Danish pension system consists of three pillars: tax-funded pensions (e.g. old-age state pension), mandatory pensions (e.g. occupational pensions) and voluntary, savings-based pensions. Occupational pensions have been part of the collective agreements system since the 1960s. They became prevalent in the

High debt and large pension wealth in Denmark

Household debt, per cent of disposable income



Source: OECD, 2017

Household's pension wealth, per cent of disposable income

private labour market in the early 1990s following the conclusion of pension agreements under collective agreements between the social partners (LO, Danish Trade Union Confederation, and DA, Confederation of Danish Employers).

The analysis considers the mandatory occupational pension plans, that were introduced at different times in the public and private sectors. In particular, the calculations are based on comparisons of the debt level of people with identical job titles who have been employed in the public and private sectors at different times. The gradual introduction of mandatory pension schemes means that some people have saved more for retirement than others. The analysis shows that people with higher pension savings also tend to have higher debt.

The analysis also takes into account that the increase in Danish pension savings may be due to both man-

datory occupational pension schemes and higher contributions to private pension schemes. When they need to save more, especially people with low liquidity increase their debt. The analysis also shows that some of the impact can be attributed to an increased propensity to opt for deferred amortisation mortgage loans.

The relationship between mandatory household pension savings and debt has previously been examined by other economists, but they either did not have access to the large volume of statistical data used in this working paper, or they used other approaches that were unable to capture long-term changes in debt.

Read the working paper on household pension savings and debt ([link](#)).

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