

DANMARKS NATIONALBANK

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FINANCIAL ACCOUNTS, 3RD QUARTER 2018

The financial assets behind pensions grow

The financial assets managed by Danish insurance companies and pension funds reached kr. 4,182 billion at the end of the 3rd quarter of 2018. It corresponds to approximately two times Denmark's gross domestic product, GDP, and more than a doubling over the past ten years. The increase is among other things due to the Danish pension system still being in the build-up phase, i.e. pension contributions exceed pay-outs. In addition there have been large returns in recent years.

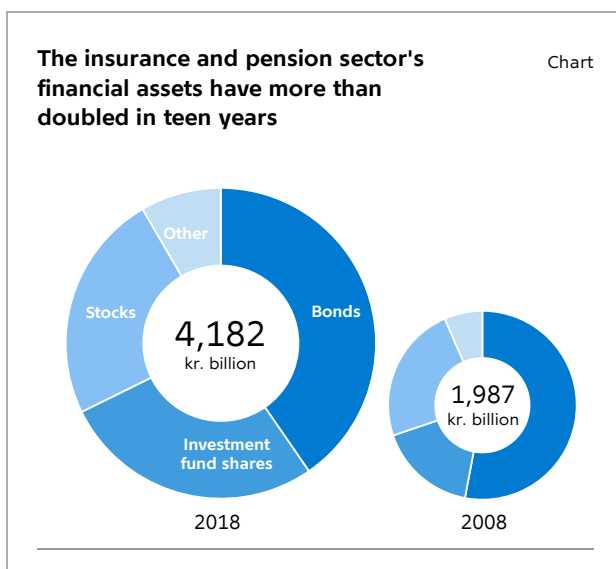
The vast majority of the financial assets are invested in bonds, investment fund shares and shares. The rest consists of loans, deposits and derivatives, etc. making up 1, 3, and 5 per cent respectively.

Bonds are the portfolio's largest asset class and amount to a total of kr. 1,689 billion or approximately 40 pct. However, the share has been decreasing for a long time. It is offset by gradually more investment funds shares which now have a value of kr. 1,143 billion and amount to 27 per cent. A majority of these are linked to stocks. The sector's direct stock holdings of kr. 998 billion have despite considerable increases in value had a relatively constant share of almost 24 per cent. The stock holdings are especially in foreign and unlisted shares.

The composition of the portfolio is among other things determined by the investment horizon as well as the balance between the risks and expected returns, so that the sector can fulfil its obligations to its pension customers.

An increasing number of their customers have market rate products – where returns are more reflective of developments in financial markets – rather than average interest rate products. For market rate products, the pension customer therefore takes a greater part of the risk, but also has the opportunity of a larger return. This is in contrast to average interest rate products where the return reflects that the customer is promised a minimum pension payment.

At the end of the 3rd quarter, the insurance and pension sector's obligations to Danish households, i.e. Danes' pension wealth, amount to kr. 3,535 billion, the majority of which are taxed when released. The pension wealth equals 52 per cent of the households' total financial assets.



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