

DANMARKS NATIONALBANK

3 MARCH 2021

INSURANCE AND PENSION, 4TH QUARTER 2020

Spring pension-thriller turned into success

The total return on Danish pension savings ended at kr. 251 billion for 2020 – equivalent to an annual return of approximately 6.1 per cent. The positive return was not given in the spring, when the corona crisis led to large declines in the financial markets and thus also in the return on Danish pension savings. In March, when it looked the worst, the Danes expected a total loss on their pension savings of kr. 255 billion.

Around 40 per cent of Danish pension savings are invested in shares, primarily foreign. Shares detracted the most from returns in March. Since then, the market has turned around, and with a final sprint in the last two months of the year, the total return on shares for 2020 ended at 4.6 per cent or kr. 85 billion.

Foreign government bonds and Danish mortgage bonds also contributed to positive returns of kr. 14.9 billion and kr. 12.9 billion, respectively.

The pension companies recorded particularly large returns on their derivatives in 2020. They use derivatives to hedge risks. Their interest rate derivatives ensure that they can maintain a return when interest rates fall. The large interest rate falls at the beginning of 2020 thus yielded positive returns on interest rate derivatives. Pension companies' currency derivatives protect returns against exchange rate losses on foreign assets. At the end of the year, the falling exchange rate of the dollar generated particularly high returns on currency derivatives.

Differences in returns across pension companies

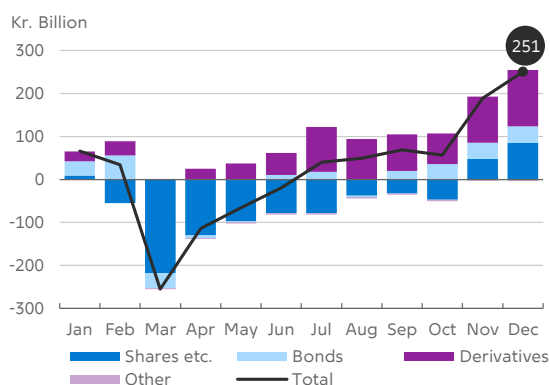
Not all pension companies generated the same return in 2020. The ten pension companies with the highest return had an average return of 7.8 per cent in 2020, while the return for the lowest ten was -1.4 per cent. The differences in returns are largely due to the composition of pension products offered by the different companies: different products have different risks and return guarantees.

Pension returns have an impact on the Treasury

Part of the annual return on Danish pension savings is paid to the state in the form of PAL tax. The PAL tax rate is 15.3 per cent and is settled on the basis of the pension return at the end of the year. Thus, the size of the PAL tax is determined by the annual return, and not the development in the return during the year.

[CLICK HERE FOR FURTHER INFORMATION](#)

The total return on Danish pension savings ended at kr. 251 billion in 2020



Note: Accumulated (year-to-date) return for Danish pension and life insurance companies in 2020 by type of investment. Shares, etc. include investment fund certificates. The return includes the securities in which the pension companies' own investment funds have invested in.