

DRV-Booklet

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Expert Conference on “Pensions policy facing decisions for the future: What does a sustainable intergenerational contract look like?” held from 12–14 February 2020 in Tutzing, Germany

Conference Contributions

Future scenarios: the development of pension financing under the current legislation

Author: Prof. Dr. Martin Werding

Location: Bochum

In the coming twenty years Germany will experience a rapid and pronounced demographic ageing process with no regression to follow as far as we can tell from today's point of view. This contribution depicts scenarios which portray the long-term development of the pension level and the contribution rate in the statutory pension scheme under the current legislation. Numerous variations are considered on the basis of different assumptions regarding the development of demographic factors, labour market participation, employment and wages. Ultimately, it becomes clear that all alternative scenarios have to be classified as more or less unfavourable. Nevertheless, we can point to indicators for improving the basic principles of pension financing and adapting the system of old-age security provision to the predictable demographic development.

Fundamental principles of pension insurance law

Author: Prof. Dr. Franz Ruland

Locations: Munich

“Against the background of the post-industrial labour market, it does not seem appropriate to strictly align the basic pension calculation with the principle of equivalence“. The German Federal Government puts it as simple as that in its statement of the grounds for introducing the “Basic Pension Law“, thus departing from a fundamental principle of the pension insurance system without giving a thought to the implications. This will (have to) be disputed in the present article.

Reforms of the past having effects on the future

Author: Dr. Reinhold Thiede

Location: Berlin

Pension reforms have effects which reach more or less far into the future. This becomes evident with regard to the development of the contribution rate, the pension amounts, the retirement age and many other parameters. This article looks at certain time periods and demonstrates how the results of long-term contribution rate projections were changed during the same time periods when pension reforms were passed. Then, two examples are given to demonstrate the effects pension reforms can have on behaviour and attitude. The impact that pension reforms had in the past gives rise to the expectation and hope that future reforms can succeed in adapting the pension insurance system in order to cope with the demographic changes ahead of us.

Constitutional scope of reforms of the statutory pension scheme to address the challenge of demographic change

Author: Prof. Dr. Frauke Brosius-Gersdorf, LL. M.

Location: Hannover

Up to the year 2030 the funding of the statutory pension scheme has been guaranteed. Beyond that time, further reforms will be necessary to ensure financing for the pension scheme in view of progressive demographic changes. The legislators have considerable scope for manoeuvre in the field of reforms. However, there are constitutional boundaries because intergenerational justice as well as proprietary requirements and principle-of-equality imperatives with regard to the relation between insured persons and the relation between insured and uninsured persons have to be taken into account. The planning horizon of the legislators will have to extend well beyond the year 2030.

Pension policy without alternatives: adapting to demographic changes

Author: Prof. Dr. h. c. Axel Börsch-Supan, Ph. D.

Location: Munich

There is hardly any other area of social policy where so many grossly incorrect ideas abound as in the area of pensions. And hardly any other issue fuels people's anxieties and concerns as much as the topic of pensions. It is also the subject that is most exploited during election campaigns as politicians make impossible promises. This is all the more disturbing because Germany in contrast to other countries actually has a strong public pension scheme that – apart from a few undesirable developments – is very well prepared to face imminent demographic changes. In comparison to other countries,

Germany's pension system is more focussed on maintaining the right balance by ensuring that the burden which results from demographic change is borne evenly by those who contribute to financing the pension system and expect to receive benefits from it.

**A plea for the pension adjustment formula and the pension level
– better than their reputation when correctly implemented**

Author: Prof. Dr. Eckart Bomsdorf

Location: Cologne

Again and again, the pension adjustment formula and the pension level are the focus of discussions about the statutory pension scheme. The following article critically examines both variables and addresses deficiencies not only in their application but also with regard to their definition. The constant changes to the pension adjustment formula did not help to soothe the debate regarding pensions. On the contrary, they caused more unrest. A critical assessment of the individual components of the pension adjustment formula points to the fact that the old-age provision factor does not reflect reality. This applies both to the inclusion of Riester pensions, and the consideration of the contribution rate. Applied correctly, this would result in showing a higher future pension level in comparison to the projections so far, i. e. increased by some percentage points. Notwithstanding the above, the pension level itself has not been adequately defined and is therefore understated. All in all, it must be concluded that the situation of the pensioners is better than is often assumed when the pension adjustment formula is implemented correctly and at the same time the pension level is measured adequately. Nevertheless, there are a lot of pensioners who cannot survive on the public pension alone. This is, however, to large extent due to their working lives and not the pension system. In this respect, it might be helpful to have degressively dynamic pensions.

Diversity and difference of pension schemes

Author: Prof. Dr. Dr. h. c. Eberhard Eichenhofer
Location: Berlin

Old-age provision can be made both in the public sector and the private sector– depending on who engages in it: persons or institutions. Its backbone is formed by the statutory pension insurance scheme – it pays benefits to insured customers that are determined by a person’s life circumstances. Is it an insurance based on “the principle of equivalence”? This means that insured customers bear the burden and receive benefits of the insurance – in proportion to their earnings – throughout their life cycle. Solidarity adjustment is another characteristic of the statutory pension scheme which aims at equality of treatment. There is the property guarantee which ensures pension rights and entitlements as economic rights. The intergenerational contract links pension property via social commitment to generational equity. People are voluntarily making provisions for their old-age by taking out occupational and private pensions. They are given incentives by public law to encourage such choices. The security of private investments is enforced by public-law supervision and legal requirements to make sure that products meet the needs of insured customers. The diversity of public and private pension funds does not really correspond to the image of “pillars” because the dimensions and proportions of the safety mechanisms differ considerably. The increasing inequality of income distribution is also demonstrated by growing differences in old-age provisions with regard to their structure and extent.

Poverty in old age: the areas of responsibility of pension insurance and social assistance

Author: Prof. Dr. Georg Cremer

Location: Freiburg im Breisgau

Pension insurance and social assistance adhere to the principles of equivalence and neediness, respectively, and are two clearly distinguishable notions of social justice. The debate about the demarcation of the areas of responsibility of the pension and social welfare systems concerns a group of people who have been employed and paying contributions for many years. However, their accumulated pension entitlements are not sufficient to prevent impoverishment. The Federal Cabinet has introduced the concept of a basic pension to the legislative process which aims at improving the economic situation of this group within the pension system but it lacks differentiation when it comes to the reasons why old-age provision does not succeed in preventing impoverishment. In any case, preventing impoverishment is just a side effect of the basic pension, so basic income support in old-age is still in need of reform. A tax exemption scheme could ensure that all beneficiaries of basic income support who have been in employment and liable to pay social insurance contributions will have higher retirement incomes than they would have without having paid contributions. Their contribution payments shall pay off in old age.

Germany's pension system in international comparison and models for reforms abroad

Author: Dr. Christian Geppert

Location: Paris, France

The economy is soaring but Germany's pension scheme faces major challenges in the future: an ageing population, a large gap between the pension levels of salaried employees and public officials, a growing low-wage sector, an inadequate old-age provision of self-employed persons and a lack of occupational pensions for a large proportion of the employees. At the same time, a lot of Riester pension plans have been put on hold. When, if not now, should politicians set the course for the future? But which reforms are reasonable and how should they be implemented? A glance across the border at our European neighbours shows that it is possible to have a pension scheme which covers the whole working population and strengthens labour mobility as well as social cohesion. A key criterion for ensuring the population's acceptance of a systemic reform could be its slow but progressive implementation. However, Germany needs to do more to strengthen its pension scheme. Linking the retirement age to life expectancy would halt the reduction of the level of pensions which is to be expected otherwise and would contribute to financial sustainability of the statutory pension scheme. In addition to this, a reform of Riester pensions following the Swedish model could give more resilience to the German pension system.

The need for action regarding private and occupational old-age provision

Author: Dr. Stephan Fasshauer

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In the field of old-age provision, demands for more sustainability and generational equity are usually limited to the public pay-as-you-go pension scheme whereas the fully funded private and occupational pensions are often left aside. However, the system of old-age provision is becoming increasingly complex and those elements which are classified as the second and third pillar of old-age provision must, of course, be taken into account in an appropriate analysis. Especially with regard to achieving more sustainability in old-age provision in view of demographic changes, the call for a much stronger role of the second and third pillar is often heard. Can occupational and private pensions live up to the challenge of greater relevance? Can they provide adequate benefits to compensate for the decreasing level of pensions paid by the statutory pension insurance scheme? If they do not succeed, the changes which have been implemented in the system of old-age provision will fail to have an overall long-term social impact. Against this background, the present contribution first analyses the position of occupational and private pensions in the overall system of old-age provision and then deals with the challenges they face, existing approaches to change and the evaluation of these approaches.