

DRV-Booklet

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Development of revenue and expenditure of the statutory pension insurance during the COVID-19 Pandemic

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This article deals with the impact of the COVID-19 pandemic on the development of revenue and expenditure of the statutory pension insurance in the current year. The main focus is on the development of income from contributions which follows the developments of the labor market. In particular, it looks at the significance of labor market effects during the COVID-19 pandemic with regard to the development of income from contributions and gauges the overall impact in the current year. According to results available now, the COVID-19 pandemic caused a growth loss of 2.5 percentage points for all compulsory contributions from work in 2020. Almost two thirds (65 percent) of the lost contributions are attributable to the effects of the pandemic regarding the number of employees who are subject to contribution payments and just over one third (35 percent) is due to personnel taking advantage of the government-subsidized reduction in working hours (so-called "Kurzarbeit").

Replacement rate – an essential index for performance-orientated pension policy

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Besides the contribution rate, the replacement rate is a well-heeded indicator frequently used by politicians and experts in the field. It is of particular importance in political and scientific debates, but unlike many other technical terms and indicators, it cannot necessarily be grasped intuitively. However, this does not lessen its importance as an index for assessing the level of benefits of the statutory pension insurance. On the other hand, one may be inclined to wonder if there are better alternatives or how misunderstandings can be avoided. This contribution pleads for using the replacement rate as a structural measuring instrument for benefit levels which is indispensable for a performance-orientated, earnings-related and dynamic pension system. Based on the current definition of the net replacement rate since 2019 and the structural questions this entails, it is demonstrated which criteria should be used for measuring the replacement rate and why it is a useful index. At the same time, the article contains a critical appraisal of the contribution by Rürup and Huchzermeier (DRV 3/2020, p. 347–357) and the proposals presented therein.

“Pension replacement rate“ – a plea for using supplementary indicators

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Whenever social policy is discussed in Germany, there is hardly any other term that comes up as often as ‘pension replacement rate’. At the same time, there is hardly any other technical term about which there are so many misconceptions. As a consequence, it is liable to a lot of intentional and unintentional misinformation, especially when it comes to old-age poverty. In the first part of their essay, the authors elaborate on the term’s core concept and the ways to misinterpret its meaning. The second part of the essay presents indicators from Austria, Switzerland and the United States. On the basis of these parameters, the authors go on to draft a proposal regarding an official amendment to the rather traditional conception of the term ‘pension replacement rate’.

Not enough to live on and yet undemanding?

Living conditions of persons who refrain from claiming basic pension benefits

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The basic pension in old-age covers the socio-cultural minimum subsistence level of people in need of support who have passed the retirement age. This article takes a closer look at households that would qualify for basic pension benefits but do not claim them. By means of a micro-simulations model developed by the German Institute for Economic Research (DIW), an analysis is performed

which takes into account the scope and structure of non-utilization of benefits for the period from 2010 to 2015 on the basis of the German Socio-Economic Panel. Six out of ten people who would be eligible for this type of benefit do not receive it. An analysis of the living conditions reveals systematic differences between people who receive basic pension benefits and those who do not. Possible reasons may be deducted why people do not claim the benefits they would be entitled to. Both groups are in similarly difficult positions from a financial and material point of view. This state of deprivation, however, is not quite as much perceived as a personal restriction by people who do not claim benefits as by those in the other group. Furthermore, the groups are considerably different with regard to their pension entitlements acquired during their working lives. Analyses comparing the groups on the basis of how long benefits are received or if they are not claimed at all, point to a significant temporal dynamic. Consequently, it cannot be concluded that people who have an entitlement to basic pension benefits at a given point in time are permanently in “need for help” as defined by social law.

How long is the working population in Germany willing to work for and capable of working?

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Politics in this country is counting on a significant extension of working life. This article is based on representative data of the German population to evaluate how long employees aged between 20 and 64 years are willing to work for or, respectively, for how long they think they will be capable of working (N = 13 590). In Germany, the desire to go on working up to normal retirement age or even beyond, is still relatively weak, and the younger the people are, the less pronounced this desire is. However, many people stated that

they would be capable to go on working. There were striking differences between the groups to be noted. The results of this study do not enable us to assess how labor market participation will evolve in the future, but they do raise the question of what the significance of the predominant “culture of early exit from the workforce“ across all age groups is. It should be mapped out what “being in employment” means for the population. This is particularly important at a point in time where society and employment are evolving faster and faster and, on top of that, where we are experiencing a pandemic which makes people realize the meaning of their work in a different way altogether.

Minimum wage and earnings subject to contributions

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Location: Berlin

The impact of the minimum wage on earnings which are subject to contributions in the statutory pension insurance scheme is comparatively unexplored. Earnings which are subject to pension insurance contributions are only indirectly linked to possible effects of the minimum wage because minimum wages are defined as gross hourly earnings in Germany while the amount of pension entitlements of employees is determined by the monthly earnings subject to contributions as opposed to hourly wages. However, both target figures are closely linked by monthly working time which is remunerated. This article’s aim is to depict the development of hourly and monthly earnings over the course of time and to present potential effects of minimum wages in detail. The following two surveys are used for this purpose: the Structure of Earnings Survey (VSE) of the German Federal Statistical Office (Statistisches Bundesamt) and the German Socio-Economic Panel (SOEP) of the German Institute for Economic Research (DIW) for the years 2014 and 2018. The

outcome shows that hourly wages which had been particularly low beforehand have increased dramatically since the introduction of the minimum wage since 2015. As far as monthly salaries are concerned, the minor employment threshold of 450 Euro often hampers the development of monthly wages by way of reduced working hours. In the “midi-job“ zone, monthly salaries have been increased since the introduction of the minimum wage and as a consequence social insurance contributions have risen as well.

Development of the transition into retirement for the birth cohorts from 1936 to 1952

Authors: Tatjana Mika and Tino Krickl
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The legal requirements for retirement have repeatedly been changed for the birth cohorts born during the period from 1936 to 1952. In particular the possibility of early retirement has been affected because the age limit has been gradually raised due to reforms. The retirement age was linked to the amount of the old-age pension since an early retirement meant accepting differing levels of pension deductions. Thus, the insured customer had to perform a differentiated calculation regarding their entitlement: retiring as early as possible meant that later birth cohorts had to accept deductions of higher percentages than the birth cohorts before them. By now, it is no longer possible to take out early retirement at the age of 60 which only those born in 1951 or earlier had been entitled to. Consequently, the highest possible deductions of pensions have decreased as well. The transition into retirement of the birth cohort 1952 marks a final point to the reforms, at least for the time being. The subsequent analyses demonstrate to what extent the birth cohorts from 1936 to 1952 have taken advantage of different types of old-age pension at varying starting points and what pension

amounts they received on average. The analyses are based on process-related data of the statutory pension insurance scheme in relation to the retirement process.

**Between individual risk and governmental responsibility:
20 years of Swedish premium pension**

Author: Dr. Anika Seemann

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The Swedish pension reform in 1998 entailed the introduction of a capital-funded old-age pension supplement with individual accounts in the first pillar of the pension system in 2000 called premium pension. On the occasion of the 20th anniversary of the Swedish premium pension, this article takes the opportunity to conduct a thorough appraisal of this type of pension. It points out which guiding principles were behind the introduction of a premium pension system, which problems have occurred since its introduction, how the system has been modified over the course of the years and which reform debates it currently faces. In particular, it demonstrates how political debates have changed in the past 20 years with regard to the opposing poles of governmental responsibility and individual risk-taking. In doing so, the article elaborates on the effect of the debates on institutional elements and the legal principles of the premium pension system and how this shapes the imminent fundamental reform of the system.