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Pension reforms – finding a balance between conflicting priorities of adequate old-age provision and financial sustainability

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In its annual report of 2023/24, the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung – SVR) dealt extensively with the topic of old-age provision. This article discusses SVR's proposals which are particularly relevant from the perspective of statutory pension insurance schemes. Amongst others, there are proposals to expand the group of persons insured, raise the standard retirement age), modify pension adjustment and introduce a progressive pension calculation. In addition to that, the article looks at the definition of sustainability on which SVR's report is based. It also addresses the question of how future funding will be split up among the parties involved, i. e. contributors, pensioners and the state. It becomes evident that it is very challenging to achieve a good balance between adequate pension provision and sustainable financing.

A new approach to supplementary capital-funded provision for old age? The German Council of Economic Experts' proposal for a publicly managed equity fund

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The German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung – SVR) intends to reform the existing supplementary pension scheme with its proposal to establish a publicly managed equity fund. The purpose of this proposal – presented in the latest annual report of SVR – is to establish an efficient and high-yielding supplementary pension scheme which is particularly aimed at low earners. This article raises the question whether socio-political objectives associated with the fund can be achieved. Which steps need to be taken for practical implementation? How does this proposal fit into the existing old-age provision landscape in Germany? The article addresses these specific questions and integrates the analysis into the overall discourse on further development of old-age provision.

Fundamental principles of statutory pension insurance should not be challenged: A critical look at the reform proposals by the German Council of Economic Experts

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This article discusses the reform proposals submitted by the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung – SVR) regarding the statutory pension insurance which are featured in its annual report of 2023/24. It also examines the consistency of its forecast in comparison with previous SVR forecasts. From the point of view of regulatory policy, it provides an analysis of the solution approach of private capital funding and the proposed right to choose for the self-employed. The proposals are marked by a lack of consistency with the elementary principles of the statutory pension insurance: the principle of equivalence through redistribution within the system would be watered down and insurance cover for longevity thereby reduced. An alternative solution requiring the same amount of public funds as SVR's concept would be to use the funds earmarked for the capital-based funding as a federal subsidy and integrate the self-employed into the system. In doing so, a stop line at 48 percent could be secured until the 2060s.

Distribution aspects of pension adjustment mechanisms

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Annual pension adjustment is important for pensioners as it ensures their participation in the development of prosperity for the public. It is also of significance for contributors because they are largely responsible for financing pensions with their contributions in the pay-as-you-go system. The regulations underlying the annual pension adjustment do not only determine how the pension amounts change in absolute figures but also how financial burdens – for instance due to demographic changes – are distributed among the participants in the pension system. The Act on Stabilisation of Pension Level and Capital of Generations presented by Labour Minister Heil and Finance Minister Lindner on 5 March 2024 provides for the modification of regulations underlying pension adjustment by establishing a stop line of 48 percent for the net pension level before tax which will be applicable until 2039. The new plans for modifying pension adjustments are seized as an opportunity to analyse the distributional aspects of various pension adjustment mechanisms. A comparative static analysis is used to assess the distribution of burden between contributors and pension recipients when different pension adjustment mechanisms are applied. Contribution to and benefit from the statutory pension insurance scheme are analysed by looking at changes in the contribution rate and the gross pension rate.