

The Price of Social Security or Social Security at all Costs?

Current Trends in Pension Provision – The Case of Germany

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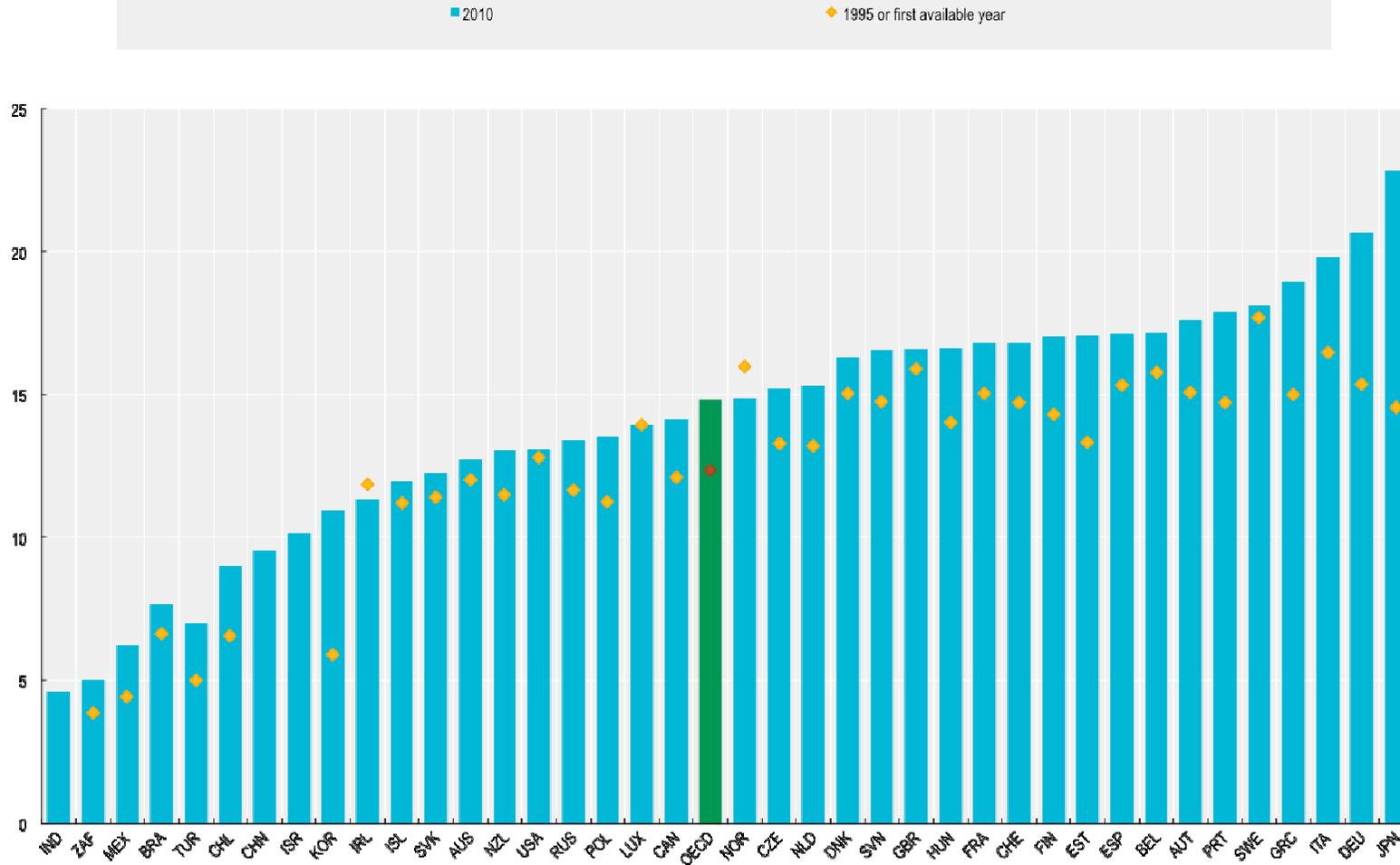


Agenda

- 1. German Situation: Facts and Figures**
- 2. Reforms since 2000**
- 3. Evaluation of the Reforms**

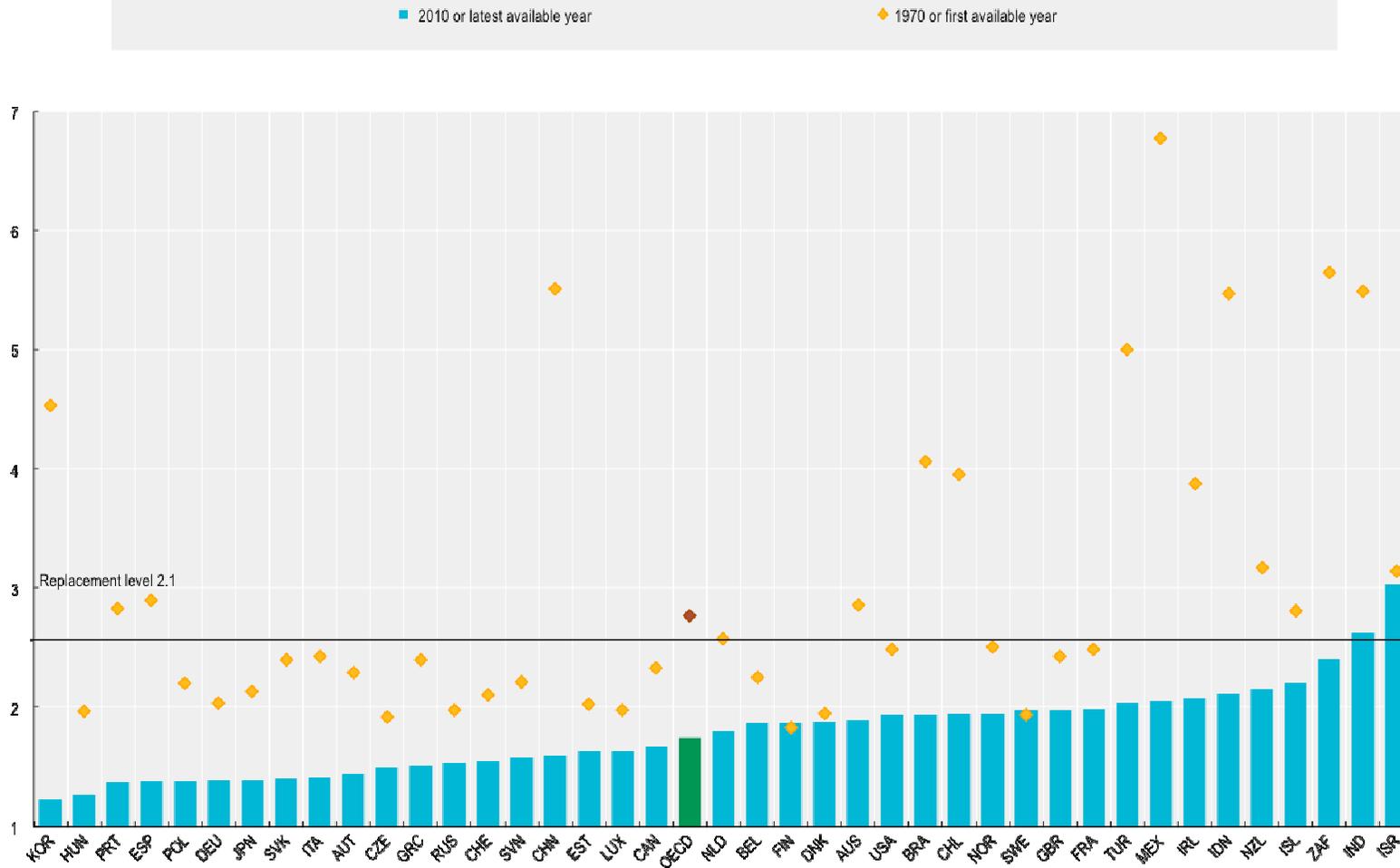


1. Elderly Population as a percentage of total population (OECD)





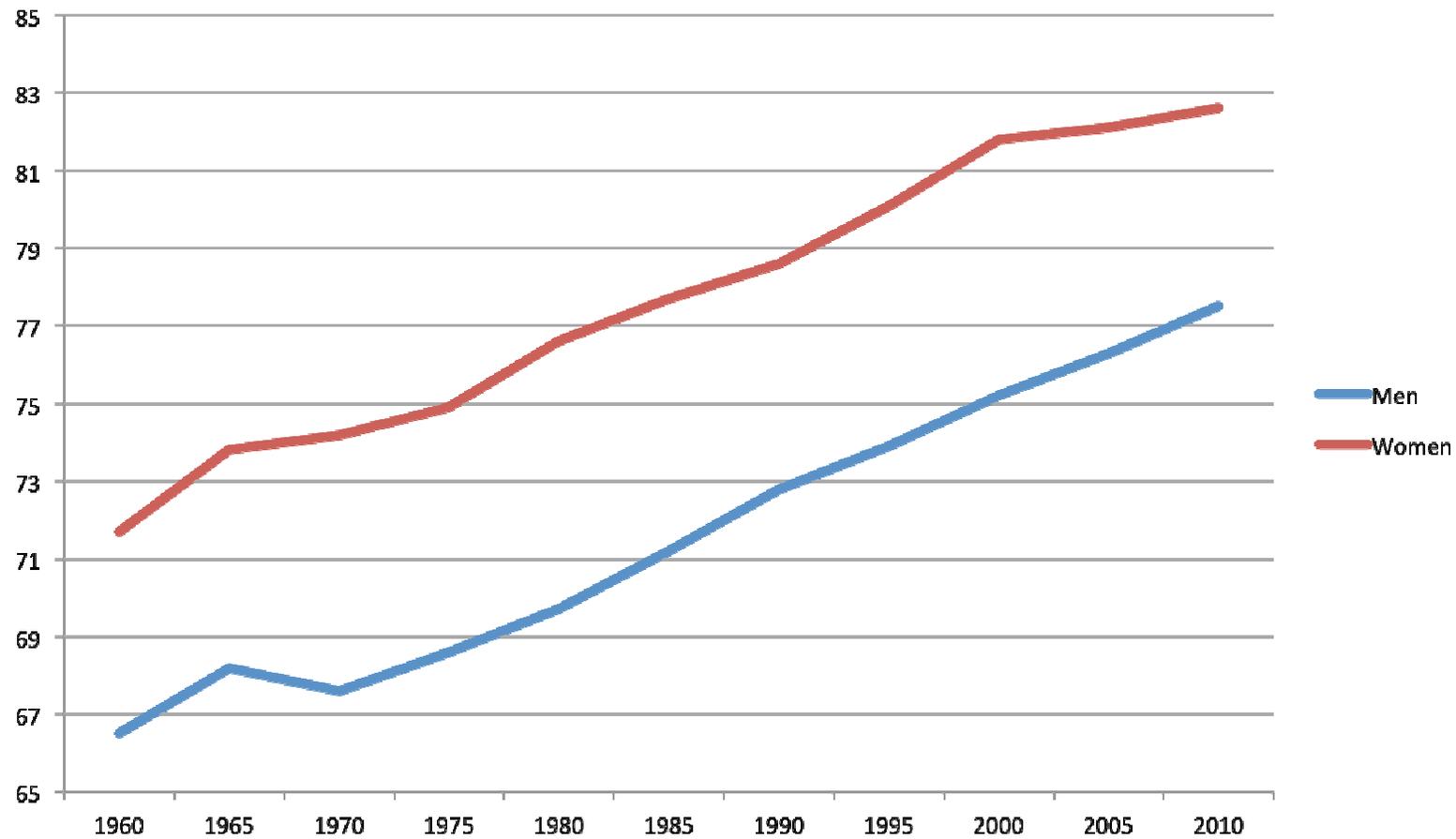
1. Total fertility rates (OECD)





1. Life Expectancy

Life Expectancy Germany 1960-2010





1. Germany – Facts and Figures

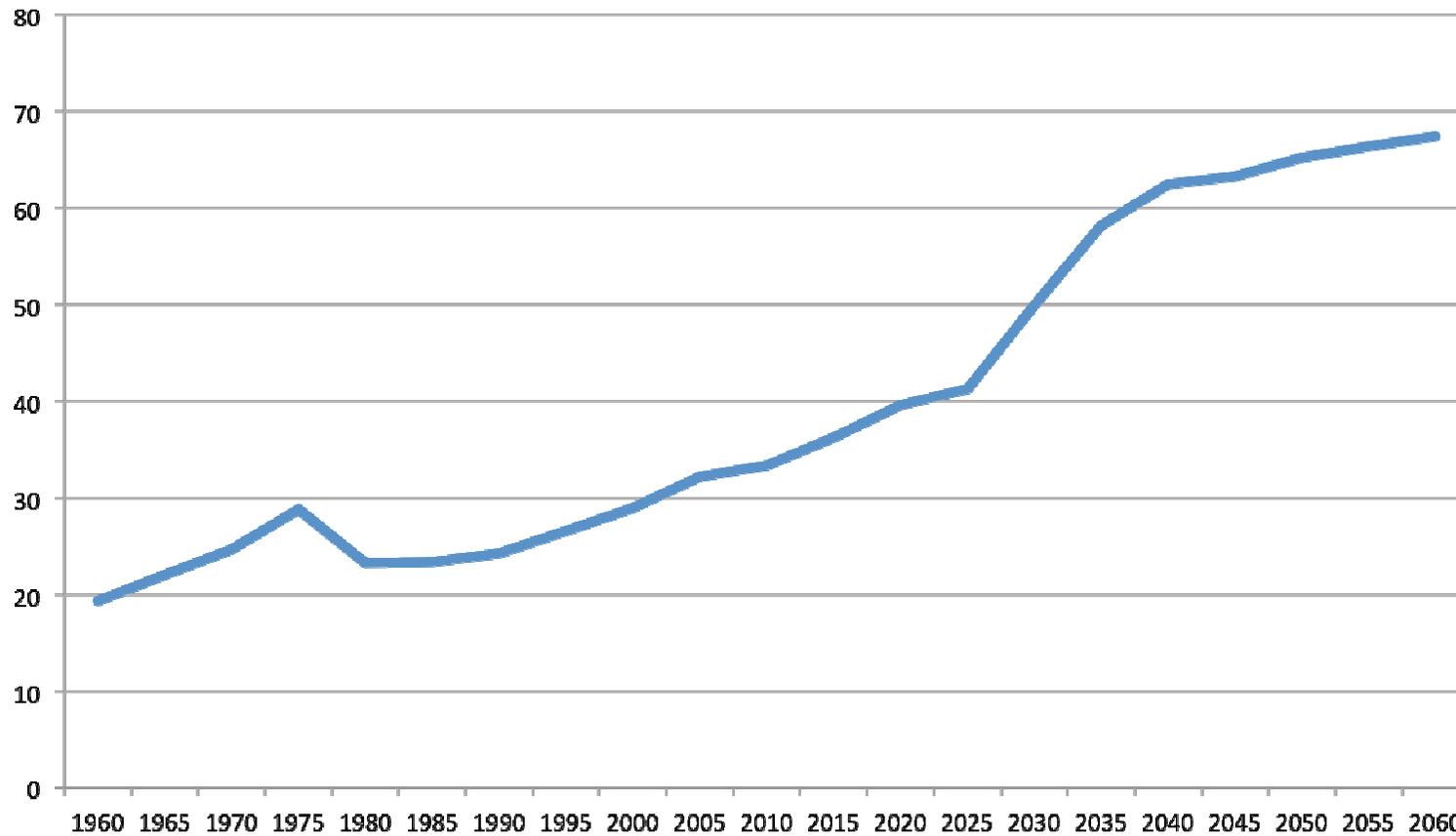
The key-characteristics of the German pension system

- ◆ **Dominated by a statutory pension insurance**
- ◆ **Pay as you go (ongoing payments of the employees are directly used for the benefits of the retirees)**
- ◆ **Demographic change will cause the system to the limits of affordability**



1. Germany – Facts and Figures

Elderly Dependency Rate Germany



Source: Federal Statistical Office 2013



2. Reforms since 2000

- ▶ **Objective: Balance the pension budget**
 - **Increasing the contribution rates**
 - **Lowering the pension payments per capita**
 - **Mixed Strategies**



2. Reforms since 2000

Reform in 2001:

- Lowering the pension level by the adjustment of the pension on the modified net wage level
- Introduction of an additional funded pension (promoting supplementary private pension contracts “*Riester-Rente*”)



2. Reforms since 2000

Reform in 2004:

- Pension adjustment based on the development of the elderly dependency rate in order to limit the contribution rate on maximal 22 per cent



2. Reforms since 2000

Reform in 2007:

- **Gradual increase in the retirement age from 65 to 67 from 2012 to 2029.**

Reform in 2009:

- **Pension protection clause: wage reductions do not lead to pension cuts**



2. Reforms since 2000

Reform in 2014 (planned):

- **Employees who have contributed to the pension insurance for at least for 45 years will be able already to retire at the age of 63.**
- **higher pensions for mothers whose children were borne before 1992 (at the average 27 Euro per child per month)**



3. Evaluation of the reforms

- ▶ **Stop and go policy**
- ▶ **Problems of inconsistency**
- ▶ **Dominated by redistributive aspects between contributors and pensioners**
- ▶ **However, all these reforms cannot solve the fundamental problems of an aging society**
- ▶ **Especially the current planned reform in 2014 is a backward step**



3. Evaluation of the reforms

- ▶ **Most important step was the increase of the retirement age from 65 to 67 years in 2007**
 - **Average increase of the life expectancy of 2.6 months per year**
 - **Average increase of the retirement age from 2012-2029 amounts 1.3 months per year**
 - **Increase of the working life by a half and the pension time by a half**



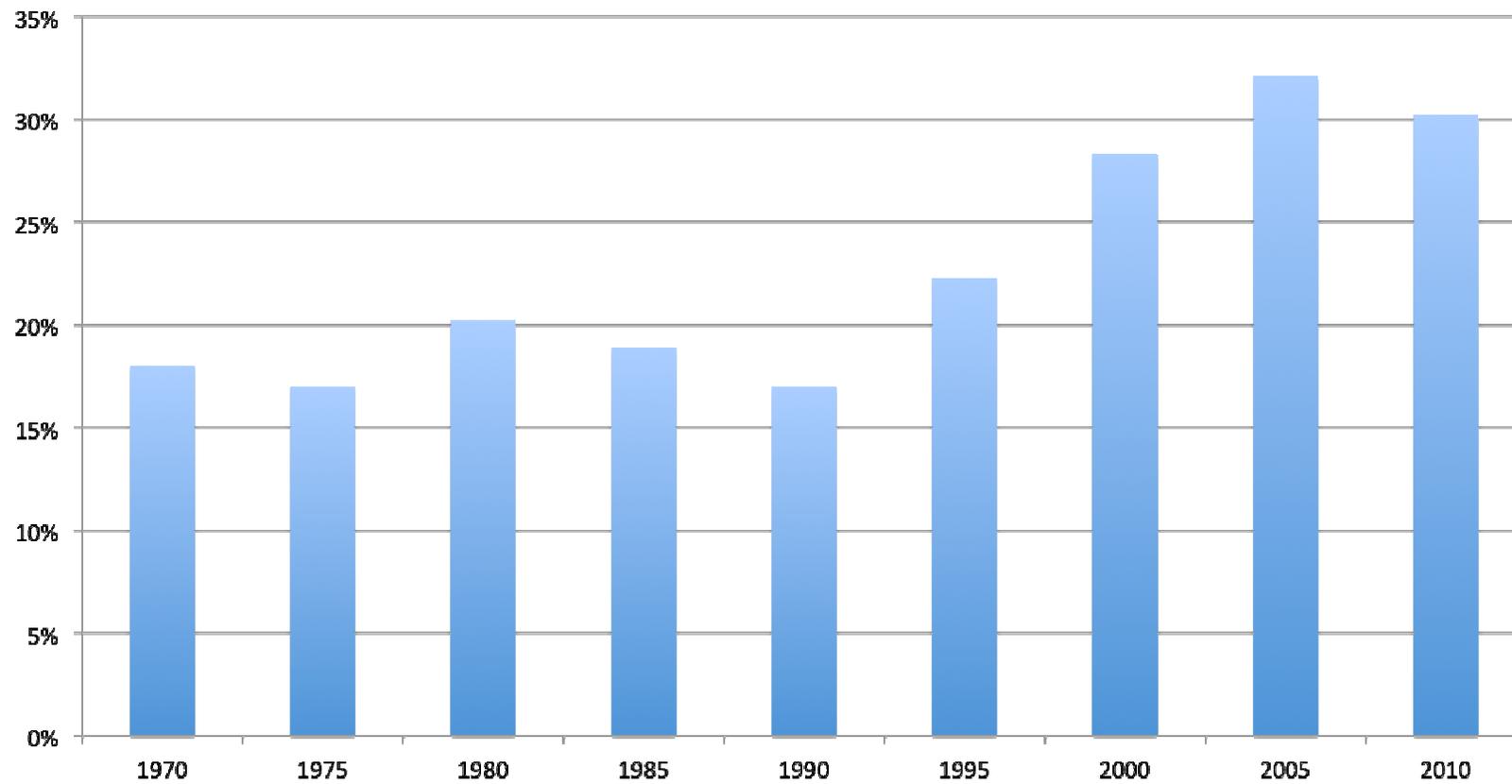
3. Evaluation of the reforms

- ▶ **The introduction of the funded pension in 2001 penalizes the generation who must financed the transition from the PAYG to the funded schemes**
- ▶ **Generation has to pay twice**
- ▶ **Growing importance of the tax founded grants of pensions**
- ▶ **Tax financed pension reduces performance incentives and distorts allocative efficiency**



3. Evaluation of the reforms

Share of the tax financed subsidies





3. Evaluation of the reforms

▶ Reform of 2014

- pension with 63 destroyed the previous success
- Redistribution from young to old
- Bad signal
- Explained by public choice theory
- Higher pensions for mothers lead only to intra-family redistribution

High costs and low benefits



3. Evaluation of the reforms

- ▶ **Not aging is the problem, but the low birth rates are the problem**

- ▶ **Reform policy should be embedded in:**
 - **Family policy**

 - **Education Policy**

 - **Labor Market Policy**