Report of the

German Social Advisory Council

on the Federal Government's 2008

Pension Insurance Report

and

on the 2008 Old Age Security Report

Contents

I. Introduction

1 In accordance with its statutory duty (section 155, Social Code, Part VI), the German Social Advisory Council (GSAC) comments on the Federal Government's 2008 Pension Insurance Report and also on the 2008 Old-Age Security Report. This statement addresses, firstly, current economic development as well as the implementation of the 2008 Pension Insurance Report that refers to future development, ie projections over the medium-term and the model calculations for the next 15-year period. Thereafter, the pension policy measures addressed in the pension insurance report are examined. Finally, the published 2008 Old-Age Security Report is also dealt with.

2 The GSAC had at its disposal the draft of the 2008 Pension Insurance Report and the draft 2008 Old-Age Security Report. The GSAC was also able to approach the Federal Ministry of Work and Social Affairs for additional information and explanation.

II. Economic development in 2008

3 The German economy experienced an upturn from the first quarter of 2005. This continued until the first quarter of 2008. In the first quarter, gross domestic product (GDP) grew at a seasonally adjusted rate of 1.4% above the previous quarter. However, in subsequent quarters it fell. According to the Federal Statistics Office data, GDP declined for the period from April to June by 0.4 percent and from July to September by 0.5 percent. In the fourth quarter, GDP was also expected to fall by a similar amount. The decrease can be primarily traced back to external economic influences. The crucial factor behind the fall in GDP is the

cyclical weakening of all economic development, which has been exacerbated by the financial crisis. While the Federal Government still expects real GDP to show a 0.2 percent increase in 2009, the German Council of Economic Experts (SVR) forecast no longer predicts an increase. More recent forecasts even predict a decrease.

4 Domestic demand offered, and continues to offer, no stimulating impulse for the development of GDP. Neither the cyclical recovery nor the strong growth in employment apparent since 2006 have made themselves felt in growing consumer demand until the second quarter of 2008. Once more, it is assumed that individual consumption will also decrease slightly in 2008.

5 The decline in development of GDP had no effect on the labour market until the third quarter. By the end of the year, stimulation in the labour market is expected to have ceased. In total, the number of registered jobless fell by about half a million from about 3.8 million to 3.3 million between 2007 and 2008. This corresponds to a 1.2 percent reduction in the unemployment rate to 7.8 percent. The SVR believes that in 2009 as a result of anticipated economic stagnation the previously positive development of the job market will end and this will lead to a rise in the jobless figure of about 35,000. In comparison, the Federal Government assumes that the average number of jobless will remain practically unchanged in 2009.

6 Cyclical weakening in 2008 has had until now no noticeable effect on the number of those employed. The number of employed persons rose by about 534,000 in comparison to 2007 to be now 40.3 million. The number of jobs liable for social insurance contributions rose by roughly the same level — about 536,000 — to 27.5 million. According to the SVR's assessment, difficult economic conditions will affect employment

in 2009. Therefore, the number of those in employment is likely to decline by about 80,000 and the number of jobs liable for social insurance contributions is likely to decline by about 50,000. In comparison, the Federal Government expects the number of those in employment to decline by about 42,000.

III. Statement on the medium-range projections until 2012

7 The assumptions made by the inter-ministerial “National Economic Projections” team from October 16, 2008, form the basis of the medium-range projections for the years 2008 to 2012 in this year’s pension insurance report. The basic economic assumptions in the medium variant of the long-term projections are based on the key points compiled in 2003 by the “Commission for Sustainable Financing of Social Security Systems” and have been developed further since then. The projection concerned with demographic development is geared to the assumptions made by the Federal Statistics Office’s 11th coordinated population projection in November 2006.

8 The projections of the 2008 Pension Insurance Report are made on the basis of the relevant law and they also take into account measures that have a financial bearing on the pension insurance scheme that are still in the legislative process. This means for the pension insurance report this year specifically taking into account the effects of deferring the “Riester Steps” on the adjustment of pensions in 2008 and 2009, which the 2008 Pension Adjustment Act brought into force. In addition, raising the universal contribution rate to the statutory health insurance scheme in accordance with the regulation that sets the contribution rate to the statutory health insurance scheme at 15.5 percent from January 1, 2009, will also be considered. Setting the contribution rate to the

employment promotion scheme at 2.8 percent from January 1, 2009 to June 30, 2010 and at 3 percent from July 1, 2010 respectively under the draft law on the reduction of the contribution rate to the employment promotion scheme and the 2009 contribution regulation were also included in the calculations.

9 In accordance with the assumptions made by the inter-ministerial working team, it is anticipated in the 2008 Pension Insurance Report that the financial crisis will begin to affect the real economy only in 2009. As a consequence, in 2008 employment will grow by about 1.5 percent on average. Only in 2009 it will fall by about 0.1 percent. For the remainder of the medium term it is assumed that employment will again show a small annual increase of 0.2 percent on average until 2012.

10 Because of continuing high employment — despite the predicted fall for 2009 — and this year's higher wage agreements, the effects of which are felt this year and next, the economic difficulties will not affect gross wages and salaries this year or next. It is assumed in the 2008 Pension Insurance Report that as regards employees' gross wages and salaries these will, in comparison with the previous year, currently rise by about 2.4 percent in 2008 and 2.8 percent in 2009. As regards the rest of the medium term, an annual increase of about 2.3 percent is assumed until 2012.

11 It is anticipated that the universal pension insurance scheme will end 2008 with a surplus (income minus expenditure) of about 3.8bn Euros. This is more than triple the surplus in the previous year. According to the model calculations of the 2008 Pension Insurance Report, despite difficult economic conditions, subsequent years will also show surpluses, albeit mostly smaller than in 2008. After a decrease in the

surplus to 2.7bn Euros in 2009 and to 2.5bn Euros in 2010 it will rise again to 4.8bn Euros in 2011; in 2012 it will stand at 0.2bn Euros.

12 Continued surpluses raise the sustainability reserve fund of the universal pension insurance system in coming years. The sustainability reserve fund is predicted to grow to 15.7bn Euros by the end of 2008. This amounts to almost one month's expenditure, a clear rise in comparison with 2007 when the sustainability reserve stood at 11.5bn Euros at the end of the year, amounting to just under three quarters of one month's expenditure. According to the projection's middle variant in the 2008 Pension Insurance Report, in the medium term the sustainability reserve fund will increase initially up to 26.7bn Euros or one and a half times one month's expenditure in 2011. If the sustainability reserve exceeds one and a half times monthly expenditure the contribution rate will be able to be lowered to 19.2 percent in 2012.

13 According to the results of the model calculations for the medium term, there will be an annual rise in the actual pension value in the years 2008 to 2012, albeit with large variations. This is due to, on the one hand, the time lag in accounting for the growth of employees' gross wages and salaries in the pension adjustment and, on the other hand, is caused by the pension adjustment catching up with the moderating effects omitted in 2005 and 2006, which from 2011 will be offset due to the pension adjustment being halved. According to model calculations based on set assumptions, in 2009 this will amount to the actual pension value being raised by about 2.75 percent and by about 1.8 percent in 2010. In 2011 and 2012 a rise of about 0.6 percent is expected each year.

14 The GSAC points out that the stated development of the actual pension value in the 2008 Pension Insurance Report is the result of model calculations. How the actual pension value will change up to June 2009

can only be definitely calculated in March 2009 at the earliest when the necessary database is available. In particular, actual economic development and the related development of wages and salaries could lead to a database that deviates from the model assumptions. The negative outlook for the whole economy contains the risk of a weaker development and with it financial consequences in the form of reduced growth in the statutory pension insurance scheme's reserve fund.

IV. Statement on the 15-year projections

15 The presentation of the long-term financial situation until 2022 uses the same methodology as in previous years. Three assumptions regarding wage development are linked to three assumptions regarding employment development, giving nine variants in total. These long-term projections serve as a means to test the influence of changes in the various assumptions made about future economic trends. In effect, they clarify how the projections concerning the finances of the pension insurance system react within these two particularly relevant economic parameters.

16 In the middle variant it is assumed for the old federal states that the annual wage growth rate increases from 2.3 percent in 2013 to 3.0 percent in 2020. This results in an average annual growth rate of 2.7 percent for this period. From 2020 onwards, a constant wage development of 3.0 percent is assumed. The lower variant of the wage development is one percentage point below and the higher variant of the wage development is one percentage point above the middle variant. For the new federal states, it is assumed that the wage level of the old federal states is achieved by 2030. This results in an average annual growth rate in wages of 4.1 percent in the middle variant, 3.1 percent in

the lower and 5.1 percent in the higher variant between 2013 and 2022. In addition, and for the first time, a calculation is shown for the middle variant that does not include a further wage adjustment in the new federal states in comparison with the old federal states.

17 If the contribution rate in the middle variant of the calculations in the pension insurance report exceeds the 20 percent limit in the years to 2020 and the 22 percent limit until 2030 respectively, the Federal Government would have to submit proposals to the legislative bodies to ensure that this situation is avoided.

18 According to the 2008 Pension Insurance Report, the model calculation's middle variant, crucial for the contribution rate limit to be met, shows that in 2020 the contribution rate limit of 20 percent – as shown previously in the pension insurance reports of 2006 and 2007 – is adhered to. However, in 2020 in three of the nine model variants the contribution rate target is not met. With the exception of the contribution rate development when least favourable assumptions are combined (lower wage variant and lower employment development), in all variants one can see a considerable reduction in the contribution rate when the sustainability reserve fund has been built up (this is also true when the least favourable assumptions are combined, but the reduction is much less pronounced). The following sharp increase in the contribution rate when the sustainability reserve fund has been used up is seen in all three variants. In the middle variant the contribution rate drops to 19.2 percent in 2012 and the following year falls further to 19.1 percent. Because of the adjustment rule[1] the contribution rate remains unchanged at this level until 2017. When the sustainability reserve fund

[1] Under the adjustment rule (*Verstetigungsregel*) set out in section 158, subsection 1, Social Code, Part VI, the given contribution rate has to be maintained so that the sustainability reserve fund does not fall below the minimum value

drops to its minimum value in 2017 the contribution rate increases again, initially to 19.7 percent in 2018, then adhering to the contribution rate limit of 20 percent in 2020 before it once again increases to 20.4 percent up until 2022.

19 If the gross pension in the statutory pension insurance scheme in the middle variant of the calculations in the pension insurance report falls short of the 46 percent level in the years to 2020 and the 43 percent level until 2030 respectively, the Federal Government would again have to submit proposals to the legislative bodies to ensure that this situation is avoided.

20 The middle variant has a particular significance as regards the question of whether the legally defined pension level target is met or not. In this scenario, the gross pension level declines from 50.5 percent in 2008 to 46.2 percent in 2022. According to the projections of the 2008 Pension Insurance Report, it remains above the legally defined gross pension level throughout the period. In regard to the total gross pension level (pensions from the Statutory Pension Insurance scheme and Riester pensions), the level remains mostly constant at about 50.5 percent, albeit with slight variations, over the whole period.

21 The GSAC points out that these long-term calculations in the pension insurance report are not prognoses for any future development but should be understood as model calculations. Incidentally, the GSAC advocates expanding the projection period in future pension insurance reports to the year 2050. This could be achieved by opting for a 40-year projection period instead of a 15-year one. The effect of political pension measures can only be adequately assessed if one considers their long-

of 0.2 of one month's expenditure or exceed the maximum value of 1.5 of one month's expenditure forecast for the end of the following year [Translator's explanatory note].

term influence on the contribution rate and pension level. At the same time the GSAC is conscious of the fact that such model calculations can only make limited allowances for the complexity of economic and demographic developments and cannot alone serve as the basis on which to take political decisions.

V. The Home Ownership and Pensions Act

22 It was specified in the CDU, CSU and SPD coalition agreement that promoting home ownership should be better integrated in the subsidised old-age pension provision scheme. Since the abolition of the home-buyer allowance (*Eigenheimzulage)* — after 2006 no new allowances have been granted — there was a growing demand to extend the opportunity of home ownership within the framework of the Riester pension system. The government addressed this demand; and through the Home Ownership and Pensions Act (*Eigenheimrentengesetz)* greatly extended the opportunity to finance home ownership within the context of the Riester pension system: costs incurred in the purchase of a home were put on the same footing as other forms of the Riester pension. Further to that decision, a bonus for career starters was introduced as part of the Home Ownership and Pension Act as an additional incentive for younger people eligible for the subsidy, to start contributing early in their working lives to an additional old-age pension provision scheme. Moreover, the scope of those eligible for the subsidy in the context of the Riester pension system was extended by the inclusion of those eligible for reduced earning capacity pensions.

a. The inclusion of home ownership in the Riester pension subsidy

23 Until the Home Ownership and Pensions Act came into effect, the framework of the Riester pension system only permitted one interim withdrawal to finance the cost of buying a home. While funds were being built up, a sum of between 10,000 and 50,000 Euros could be used from Riester assets towards building or buying a home. But this interest-free “loan“ had to be paid back by the start of the payout phase. If the loan that the contributor had given himself could not be paid back in full by the start of the payout phase, then it was regarded as a misuse of Riester assets. Therefore the remaining pro-rata subsidy had to be paid back.

24 With the Home Ownership and Pensions Act the financing of a house purchase is included in the Riester pension system in accordance with regulations on the accumulation of capital in pension insurance schemes, funds or bank savings plans. The purchase or building of a flat or a house or the mortgage repayments on it as well as the acquisition of shares in a building cooperative are now subsidised within the context of the Riester pension system as long as the property is owner occupied. The purchase of the right of permanent residence that is either equivalent to home ownership (open-ended and heritable) or means a life-long right of residence (limited and not heritable) is also included in the Riester subsidy. As a consequence those eligible for subsidies have, in particular, the opportunity to buy a lifetime tenancy in an old people’s home or care home.

25 The assets accumulated in a private pension plan that attract tax subsidies can be spent on a home purchase. In contrast to the earlier law, the amount used does not have to be paid back when the annuity comes into effect. This means that those eligible for subsidies face no

burden in as far as they do not have to raise the repayment sum as well as their additional private pension contributions.

26 The amount taken from the private pension fund and/or loan repayments are shown separately in a home subsidy account by providers of Riester pensions. This allows the amount of deferred taxation due during the pension payout phase on both the subsidised capital bound up in the property and the loan repayments to be determined. To achieve parity with other subsidised private pension products, the total amount in the home subsidy account earns interest during the accumulation period. A fixed interest rate of two percent was determined for this purpose. This functions as a flat-rate value that is not linked to the current interest rate development.

27 At the start of the payout phase the person eligible for subsidies has to pay tax on the amount in the home subsidy account according to his or her personal tax rate. The earliest possible start of the payout phase is at the age of 60 (as it is the case with all Riester pensions), the latest possible start date is at the age of 68. It is assumed that during the payout phase no further interest is earned on the rest of the remaining capital.

28 Regarding tax, the person eligible for a subsidy can choose from two options. The first assumes that the notional capital is used up in equal annual amounts each year until the age of 85. In this option the person eligible for a subsidy pays tax on the amount in the home subsidy account successively over a 17- to 25-year period – depending on the actual start of the payout phase. The home subsidy account is correspondingly reduced by the amount on which the deferred taxation is based. On reaching the age of 85 the home subsidy account is closed and the deferred taxation for the subsidised pension capital

bound up in the property comes to an end. The second option allows for tax to be paid only once, at the start of the payout phase. In this case only 70 percent of the notional capital is liable for tax in order to reduce the effect of tax progression.

29 There are a number of regulations intended to prevent tax evasion or cut down on tax avoidance schemes. Crucial for restricting other uses of the scheme was ensuring on fiscal grounds that deferred taxation payments can be met during the payout phase. If, for example, the person eligible for subsidies dies prematurely before having paid the tax due on the total amount in the home subsidy account, the balance remaining in the account is taxed according to the deceased's final income tax return. The person's estate would be reduced by the tax debt owed. The Riester subsidy would be misused if, after the one-off tax was paid, the property was sold and the Riester capital held in it was not transferred to another agreement in line with Riester pensions' regulations or was not used to purchase another home. In this case the subsidies would have to be paid back.

30 The GSAC is critical of the amalgamation of the home purchase subsidy and the subsidy for an additional capital-funded private pension plan. It acknowledges the desire for home ownership within the population. But if the state wishes to subsidise home ownership it should put this into effect mainly through direct subsidies rather than indirectly by way of an additional capital-funded pension plan.

31 In the opinion of the GSAC, difficulties arise if a home-ownership subsidy is accommodated within the deferred taxation system, which would further complicate tax law. The home subsidy account, which is associated with a very high administrative cost, cannot be regarded as

a silver bullet for deferred taxation since it is far from possible to ensure appropriate taxation.

32 In comparison with other subsidised pension plans an additional relative cost relief as regards home ownership occurs in as far as the home subsidy account’s interest yield, assumed for tax reasons to amount to two percent in the accumulation phase and zero percent in the period of pension receipt, is likely to fall considerably short of the yields that are usually achieved through pension insurance schemes, investment or bank savings plans.

33 In the GSAC’s opinion, a home-ownership subsidy that is intended for the purpose of old-age provision does not correspond with the original intention behind additional pension provision. No direct additional income to support one’s retirement in old age is generated through home ownership. The extent to which money that would have otherwise been spent on rent payments can be regarded as a notional old-age income is utterly dependent on the value of the actual property.

34 The GSAC is critical of the fact that the use of the home-ownership subsidy abandons the agreement to concentrate subsidies for asset accumulation in old-age pension provision alone. Moreover, under the agreed home-ownership subsidy the state is subsidising inheritance of the subsidised pension provision, and this will be reinforced through the upcoming reform of inheritance tax law. However, this cannot be the purpose of the subsidised additional old-age pension provision scheme. In the opinion of the GSAC, given the limited means for subsidies, such means should be essentially concentrated on those forms of old-age pension provision that permit pensioners to maintain the living standard they had achieved before retirement.

35 This also holds true for the intended expansion of eligibility for the tax subsidy for employees' share ownership under the draft law on employees' share ownership (*Mitarbeiterkapitalbeteiligungsgesetz*). And this encourages a form of asset accumulation that is in competition with the state-subsidised additional old-age pension provision scheme and does not necessarily guarantee an increase in pension level in old age.

b. A bonus for career starters

36 Private provision for old age should preferably begin at an early age. To this end, the government has extended existing subsidy schemes. From 2008 onwards every person who is eligible for a subsidy and has not yet reached the age of 25 will, on taking out an additional subsidised old-age pension provision plan, receive a bonus for career starters. The bonus is a one-off payment of 200 Euros that will be added to the basic allowance. Through this bonus the incentive for young people to start building up their capital-funded old-age pension provision at the beginning of their working life is increased. This allows them to use this particularly valuable period, due to the effect of compound interest, to build up additional provision.

37 The GSAC welcomes the introduction of the bonus for career starters as this not only increases the incentive to take out an additional capital-funded pension provision plan but also motivates young people to engage with the subject of old-age pension provision. The earlier employees engage with the subject of old-age pension provision the more likely it is that during their working lives they are able to fill in the pension gaps that exist because of the decreasing pension level.

c. Expanding the group of those eligible for the subsidy

38 The group of those eligible for the subsidy was expanded by the inclusion of recipients of pensions for reduced earning capacity and those in receipt of public servants disability benefit. It is not possible for such people to acquire further rights in the equivalent old-age pension system. Now they have the opportunity to increase their income in old-age through the state-subsidised old-age provision scheme.

39 The GSAC welcomes the expansion of the group of those eligible for the subsidy, particularly in view of the often limited opportunity for those who suffer a reduction in their earning capacity to provide for an additional income in old age themselves. However, not all of those on a reduced earning capacity pension are, despite the substantial state subsidy, in the position to save sufficient amounts as some receive just a small reduced earning capacity pension. Therefore, the GSAC would have wished for – as has already been requested in previous reports – a right to the subsidy that goes beyond this regulation, in particular for those in the labour force who are not covered by the Statutory Pension Insurance scheme.

VI. The 2008 Pension Adjustment Act

40 On July 1, 2008, gross pensions would have increased only slightly if the pension adjustment formula had been in effect. This was due, in particular, to the small increase in wages and salaries in 2007, by just 1.4 percent in the old federal states and by 0.54 percent in the new federal states. This growth would have generated a pension increase of 0.46 percent if the adjustment formula had been employed. The lower adjustment rate compared with the increase in wages and salaries is, on the one hand, based on consideration of increasing costs of

additional old-age pension provision for the insured (the so-called "Riester Steps") in the pension adjustment formula. This element of the formula, which ought to take into account the assumed increase in the cost of additional old-age pension provision in equal steps independent of wage development until 2011, would have lowered the 2008 pension adjustment by 0.64 percentage points. On the other hand, the 2008 pension adjustment does take into account the contribution rate increase from 19.5 percent to 19.9 percent effective from January 1, 2007 that caused a lowering of the pension adjustment by 0.51 percent.

41 In the opinion of the Federal Government a pension increase of 0.46 percent in 2008 was not sufficient to allow pensioners to participate in the economic upturn. Therefore, through the 2008 Pension Adjustment Act, the legislator has deferred the moderating effect on the adjustment that the share of gross wages paid into the additional old-age pension scheme *(Altersvorsorgeanteil*) generates for 2008 and 2009. Therefore, for 2008 the adjustment in gross pensions was 1.1 percent. From July 2008 this results in a monthly standard pension that is higher by 13.05 Euros (old federal states) and 11.25 Euros (new federal states) respectively.

42 The omitted adjustment curbs should be made up for in 2012 and 2013. From 2009 the share of gross wages paid into additional old-age pension provision again increases continuously by 0.5 percentage points each year, so that from 2010 onwards the moderating effect on the pension adjustment has to be taken into account. Due to the deferment, the maximum value of 0.4 percent is reached only in 2012, ie two years later than would have been the case without the deferment.

43 Given that the deferred increase in the share of gross wages paid into additional old-age provision is indeed made up for two years later, no

permanent burden on the financial position of the pension scheme is generated. The deferment of this share will have no influence in the long term, neither on the actual pension value nor on the statutory contribution rate limits of 20 percent until 2020 and 22 percent until 2030. Moreover, the corresponding minimum pension level of 46 percent and 43 percent respectively remains, through this measure, unchanged.

44 The higher pension adjustment on July 1, 2008 leads to higher pension expenditure and to higher expenditure in the pension insurance for pensioners’ health insurance of about 700m Euros in total in this year. Expenditure will increase to about 3bn Euros annually until 2010 – when for the first time both measures come into effect for the whole year. This additional expenditure — which is reduced due to the increase deferred by two years in the share of gross wages paid into additional old-age pension provision — can be financed through the sustainability reserve fund without an increase in the contribution rate. However, this results in a delay in building up the sustainability reserve. This, in turn, has an effect on the contribution rate since it can only be reduced on the condition that the sustainability reserve fund exceeds the value of one and half times one month’s expenditure.

45 From the explanations contained in the draft 2008 Pension Adjustment Act that deal with the fiscal effects on public finances it becomes clear that, due to the deferred increase of the share of gross wages paid into additional pension provision, the contribution rate will not decline in 2011 to 19.3 percent and in 2012 to 19.1 percent, but rather will fall to 19.5 percent in 2012 and to 19.1 percent in 2013 (compare table 1). Correspondingly, the burden is higher than would have been the case had this measure not been put in place. The assumptions for the further

development of pension finances have changed since then. In essence it remains the case that the expected contribution rate decline comes into effect only at a later date due to the 2008 Pension Adjustment Act.

	ohne Maßnahme[1)]			mit Maßnahme		
	Beitrags-satz in Prozent	Nachhaltig-keitsrücklage in Monats-ausgaben	aktueller Rentenwert in Euro am 1.7.	Beitrags-satz in Prozent	Nachhaltig-keitsrücklage in Monats-ausgaben	aktueller Rentenwert in Euro am 1.7.
2008	19,9	0,88	26,39	19,9	0,83	26,56
2009	19,9	1,12	26,76	19,9	0,92	27,10
2010	19,9	1,45	27,03	19,9	1,05	27,38
2011	19,3	1,52	27,10	19,9	1,35	27,45
2012	19,1	1,56	27,49	19,5	1,52	27,64
2013	19,1	1,52	28,11	19,1	1,50	27,94
2014	19,1	1,37	28,75	19,1	1,40	28,73
2015	19,1	1,14	29,34	19,1	1,15	29,31
2016	19,1	0,82	30,01	19,1	0,83	29,98
2017	19,1	0,41	30,72	19,1	0,43	30,69
2018	19,6	0,25	31,48	19,6	0,26	31,45
2019	19,9	0,21	32,07	19,9	0,23	32,04
2020	20,0	0,21	32,78	20,0	0,22	32,75
2025	21,0	0,25	36,90	20,9	0,23	36,82
2030	21,9	0,25	41,32	21,8	0,21	41,29

1) mit einer Rentenanpassung von 0,46 % zum 1. Juli 2008
Quelle BT-Drucksache 16/8744

Table1: Effecs on the universal statutory pension insurance

46 The GSAC can understand that the legislator wants pensioners to participate in the overall economic upturn. But one has to question whether this could have been better achieved through other more expedient ways.

47 The GSAC explicitly points out that there will be no permanent contribution rate increase if, and only if, the omitted curbs due to the share of the gross wage paid into the additional old-age provision

scheme are made up for at a later date. The legally determined contribution rate targets are put at risk if the curbs are not made up for.

VII. Reduction in earning capacity

48 Pension reforms enacted over recent years have led to the aim of ensuring a living standard in old age through the statutory pension insurance scheme being abandoned. In future only a combination of a statutory pension and a private and/or occupational pension can guarantee a pension level that secures standards of living. The reduction in the statutory pension insurance's benefit level does not only affect the old-age pension but also pensions for reduced earning capacity. Moreover, in the long term the benefit level of the pension for reduced earning capacity declines. In the event of a reduction in earning capacity, the standard of consumption that one is familiar with during one's working life can, under present conditions, only be maintained in retirement if, in addition to benefits payable from the statutory pension insurance scheme, additional income can be obtained.

49 In contrast to the old-age pension provision scheme, those insured have only limited opportunities to safeguard themselves against benefit losses in the event of a reduction in earning capacity via pension provision that stems from the second and third pillars of the pension system, which are able to guarantee benefits even in the event of reduced earning capacity. Also, a lack of knowledge about the issue on the part of those insured could also exist. Old-age pension products lose their attraction if they offer additional benefits in the case of reduced earning capacity since, because they are open to adverse selection, they are relatively expensive.

50 The GSAC sees a problem, arising from abandoning the principle of securing one’s living standard through old-age pensions, in the sphere of reduced earning capacity pensions. Moreover, reductions and the regulations concerning non-contributory supplementary periods systematically hinder the ability to secure living standards. Because of these factors, it is necessary to review the extent to which appropriate, affordable and mutual protection in case of reduced earning capacity can be secured and what role could be played by the other two pillars of the pension system. In this context it remains to be analysed whether, within the framework of occupational old-age provision subsidised via remuneration conversion, the Riester- or Rürup- Pension can include a stand-alone safeguard against the risk of reduced earning capacity. The government is asked to support this discussion with data on the income situation and the social position of those who suffer a reduced earning capacity.

VIII. Educating the public on old-age pension provision

51 The current developments at the financial markets have revealed for the capital funded old-age pension provision scheme not only the complexity of inter-relationships but also how important an awareness of them is. Here, on both regional and national levels, valuable approaches have been taken by social partners, the Pension Insurance Scheme and the Federal Government, which together with other project partners, have made important contributions to this subject. For example, the project “*Heute schon für morgen sorgen*“ (“There is no time like the present to take care of the future“) in North Rhine-Westfalia as well as the “*Altersvorsorge macht Schule*“ (“Back to school for looking after one’s old age“) initiative.

52 In line with the project “*Heute schon für morgen sorgen*“ the Union for the Mining, Chemical and Energy industries (IG BCE), the Employers’ Federation for the Chemical Industry (BAVC), the German Pension Insurance for Rhineland, Westphalia and the Railway and Seafarers Insurance are working jointly to inform employees about provision in old age. The parties are supported by the Ministry of Labour, Health and Social Affairs for North Rhine-Westphalia. Joint working has created a close connection with the companies involved both on the part of employers and employees. Concentrating on the chemical industry means, in particular, it has been possible to provide information about the subsidy mechanisms determined under the chemical industry’s industrial agreement regarding one-off payments and old-age provision. Up until now the geographical focus of these presentations was centred on the collective wage sector in the chemical industry of North Rhine-Westphalia. In 2009, following a decision by the German Pension Insurance Scheme, it will be expanded to the entire federal area.

53 "*Altersvorsorge macht Schule*" is a joint educational campaign supported by a variety of institutions (the German Trades Union Confederation, the German Federation of Employers, the German Adult Education Federation, the Institutions of the German Pension Insurance Scheme, the Federal Association of Consumers as well as the Federal Government). The target group is those aged between 30 and 45 who would like detailed information about old-age pension provision in order that they can take appropriate measures.

54 The GSAC welcomes activities that increase financial competence in the area of old-age pension provision.

IX. The 2008 Old-Age Security Report

55 The 2008 Old Age Security Report consists of five parts. Part A shows the benefits paid by old-age security systems that are partially or fully funded by the state as well as their methods of financing. Part B contains the same old-age security benefits seen from the point of view of their recipients. In part C other additional income types are considered, for example, capital gains, interest-generated income, income from rents and leases and pensions that come from private pensions and life insurance policies. The tax breaks and the uptake of occupational and personal pension schemes are documented in part D. Finally, in part E model calculations on the development of the value of the pension level as a whole can be found.

56 The most important old-age security systems described in part A are the statutory pension insurance scheme; the civil service pension scheme; the additional old-age pension scheme and surviving dependants' pension scheme for employees in the public sector; the pension scheme for farmers as well as the social security scheme for artists. In addition the pension schemes organised by professional associations are described in an excursus. These are not publicly funded schemes in the sense of the report since they do not receive subsidies from either the federal or state budget. Essentially, the time period covered by part A is the year 2007. The data is – as far as is possible – shown separately for men and women as well as for new and old federal states.

57 Part A of the old-age security report describes pension benefits from old-age security systems that are received by those aged 65 and above. The results given are based on a special evaluation of the representative census „Old-Age Security in Germany" (ASID) from 2007. According to this census roughly three quarters (77 percent) of pension benefits are paid by the statutory pension insurance scheme. The second largest proportion, 13 percent, comes from the civil service pension scheme; followed by six percent from occupational pension schemes; the additional pension scheme for the public sector is responsible for three percent while the farmer’s pension fund together with pension funds managed by professional associations each represent one percent of the total volume of benefits.

58 A considerable difference between the old and new federal states is apparent as regards pension benefits. Whereas in the new federal states almost all of the pension benefits (98 percent) are paid by the statutory pension insurance scheme, in the old federal states the proportion is less than three quarters (72 percent) as it is more common that benefits are received from a variety of pension schemes. Benefit payments for men are almost entirely based solely on their own contributions. In contrast, among women there is a lower percentage of those whose pension benefit claims are based on their own contributions. However, almost half (42 percent) of those women whose claim is based on their own contributions are also in receipt of a surviving dependent’s benefit from the statutory pension insurance scheme. For men this is true for only one in 20.

59 In the old federal states the average insured person’s pension in 2007 was about 820 Euros gross per month and is therefore lower than in the new federal states where the amount is about 940 Euros gross. Putting

together average gross benefits based on both their own contributions and secondary contributions gives a sum of about 1,250 Euros in old-age pension benefits in the old federal states, which is higher than in the new federal states where the average is about 1,110 Euros. Thus men in the old federal states find themselves in a better financial position (with benefits of on average 1,650 Euros) than their counterparts in the new federal states (who receive about 1,230 Euros). In contrast, women in the new federal states receive about 1,020 Euros and thus receive a higher total pension benefit than women in the old federal states whose pension averages about 940 Euros.

60 In part C “Total income in old-age”, the term “income” has been expanded to include all types of disposable income. This takes into account those types of income that insure against the biometric risk of longevity, such as, for example, payments from personal pension schemes or from life insurance schemes as long as these are paid in the form of an annuity. In addition, types of income that have no predetermined duration, such as income from employment, capital income/interest yield, income from rent and leases as well as means-tested state benefits (old-age basic income support and in case of reduced earning capacity, housing benefit) are also taken into account. Income that comes from money saved by homeowners through not paying rent is excluded.

61 Income that partially or fully derives from one-off payments is listed but not directly included in the calculation of income in old age. About one in 12 recipients of old-age income has previously received such a benefit. Here the proportion of those who have received such benefits is slightly lower in the new federal states (6 percent) than in the old federal states (8 percent). At the same time the amount received in the old

federal states (about 39,500 Euros) is on average more than three times higher than in the new federal states (about 12,300 Euros).

62 In the old and new federal states additional income is found in roughly similar proportions. About one in two has an additional income (52 percent in the old federal states; in the new federal states 46 percent). More than half of all married couples (in the old federal states 60 percent; in the new federal states 54 percent), but under half of single households (49 percent in the old federal states; in the new federal states 42 percent) receive additional income alongside pension benefits.

63 As regards the level of additional income, there are considerable differences. Married couples in the old federal states have, on average, have at their disposal a sum (about 1,140 Euros) that is twice as high as married couples in the new federal states (520 Euros). Among single-person households the difference between the old and new federal states is even more pronounced, albeit on a lower level (480 Euros in the old federal states; in the new federal states 170 Euros).

64 After tax and social security contributions, married couples receive an average total net monthly income of about 2,270 Euros when all types of old-age income are taken into account. In the old federal states married couples receive about 2,350 Euros, which is about a fifth more than married couples in the new federal states (about 1,940 Euros). Single men in the old federal states receive about 1,570 Euros, almost a third more than their counterparts in the new federal states (about 1,190 Euros). For single women the difference is smaller. In the old federal states they receive about 1,200 Euros and about 1,150 Euros in the new federal states.

65 In part D “Tax breaks and the uptake of occupational and personal pension schemes” are described. The continued growth of state-subsidised personal pension schemes has been maintained in recent years. The number of those employees liable for social insurance contributions who have acquired an entitlement to an occupational pension showed a continuous increase from about 14.5 million at the end of 2001 to about 17.5 million at the end of 2007. Here practically almost all the growth is within the private sector. The number of employees liable for social insurance contributions in the private sector with an acquired right to an occupational pension increased by just under 3 million from 9.4 million in December 2001 to 19.3 million in December 2007. In total by the end of 2007 just under two thirds (64 percent) of employees liable for social insurance contributions had built up an occupational pension provision based on their own contributions and/or contributions paid by their employer.

66 In regard to the private Riester pension, after a period of stagnation in 2004 the number of Riester pension contracts that have been taken out has shown a continuous increase. Since the previous old-age security report the number of Riester pension contracts being taken out has doubled from 5.6 million at the end of 2005 to just under 12 million in the third quarter of 2008.

67 In part E, “Development of the total pension level”, the model calculations, in accordance with the statutory guidelines, take into account the fact that alongside pension benefits from the statutory pension insurance scheme a Riester pension is also received. The assumption is made that four percent of income is contributed to a Riester pension, which yields interest at a rate of four percent. In addition, it is assumed the tax savings that result from the change to

deferred taxation on contributions and pensions is paid into a personal pension scheme up to the maximum allowance. The part of the pension that is liable for tax will grow year on year to reach 100 percent by 2040. At the same time, tax liability is gradually removed from pension insurance contributions until 2025 when they are entirely exempt from taxation.

68 The model calculations show that the reduction in pension level from the Statutory Pension Insurance Scheme can not only be compensated for by building up the state-subsidised old-age pension scheme but that the total pension level can even increase if all subsidies are fully utilised. According to the model calculation, for an average earner with 45 contribution years (the standard pensioner) the gross total pension level for each cohort entering retirement until 2030 increases continuously. When different employment histories are used the variant that includes a five-year period of unemployment and a corresponding five-year gap in contributions results in a similar development of the total pension level, albeit on a lower level. A similar trend is apparent for someone on a low-income amounting to two thirds of average income, however here the increase in total pension level has a slightly lower trend. And the total pension level of the representative high earner, whose income is one third above average earnings, also increases over time.

69 In addition in the combinations discussed the model calculations prove to be even more positive as regards the decline in pension level in the statutory pension insurance due to child-rearing periods and other relevant periods. Married couples, whether the wife has an interrupted career history or not, and working single parents can, in the cases

presented here, both achieve a considerably higher gross and net total pension level if they are part of the younger cohorts.

70 The GSAC points out that the calculations in part E are intended to illustrate the means by which the future pension level decline in the Statutory Pension Insurance are compensated for by an additional old-age pension scheme and the extent to which this can be achieved. Such calculations, however, cannot be interpreted as prognoses for future pension levels. The assumption made in the law that income generated through increased tax exemptions on pension insurance contributions will be spent entirely on building up old-age pension provision is open to question.

71 The GSAC recommends that the Federal Government improves the database on occupational and private capital-funded pension provision. Requests for remuneration conversion in the context of occupational pension schemes should be shown separately. In addition, not only should the number of contracts be shown but also how many people have taken out a supplementary pension and how the different supplementary forms of pension provision are distributed as regards the number of people involved. Furthermore, more detailed data on the level of coverage and on the amount saved and its distribution according to income brackets would be desirable. As regards information about the income level of those who have a Riester pension contract, there should be improved correlation between the data held by the Central Benefits Agency for Old-Age Affairs (*Zentrale Zulagenstelle für Altersvermögen*) and the data from income tax statistics. For a better socio-political classification the GSAC suggests that not just individual incomes but also the household income is used as a reference figure.

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