Report of the German Social Advisory Council on the Federal Government's 2001 Pension Insurance Report

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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 2001 Pension Insurance Report. This statement addresses firstly those parts of the report that refer to the future development i.e. projections over the medium-term and the model calculations for the next 15-year period. The GSAC makes its comments based on its access to the calculation results and to information on underlying assumptions as well as to the text of the 2001 draft report on pension insurance.

2. In spring the GSAC commented in detail in a special report on the Federal Government's reform intentions. On May 11th, 2001 the third, innovative part of the pension reform, the Retirement Assets Act ("Altersvermögensgesetz") was passed by the legislative bodies. The other parts had already been passed before. Economic development, which came under increased pressure in the aftermath of September 11th, 2001, has led to further legislative measures being needed to be taken as regards the Statutory Pension Insurance Scheme. The GSAC therefore comments on the proposed measures to lower the target value of the statutory pension insurance's fluctuation reserve.

3. The 2001 Pension Insurance Report describes – as every year – the current and future financial position of the Statutory Pension Insurance Scheme. It includes an outline of predicted financial trends for the next four calendar years on the basis of the Federal Government's current assessment of medium-term economic trends as well as long-term model calculations. The latter comprise

financial development to the year 2015 using nine model calculations generated through taking three assumptions regarding wage trends combined with three employment scenarios. This shows not only the income and expenditure of the Pension Insurance Scheme but also each of the necessary contribution rates (in each year) and – a first in this year – the development of the standard pension level in the states of the former Federal Republic of Germany[1].

These projections are made on the basis of the law. They take into account measures having a financial bearing on the Pension Insurance Scheme that have either already been passed in cabinet or are still in the legislative process and are about to come into force. Thus, this applies also to the draft bill to determine the fluctuation reserve fund in the Statutory Pension Insurance Scheme.

4. Because of the financial integration of the German Statutory Pension Scheme for both former East and West Germany the results are described jointly for the pension insurance scheme in both parts of the Federal Republic of Germany. However, the medium-term calculations regarding the income and expenditure for east and west federal states are described – as in the report of the previous year – separately.

II. Statement on the medium-range projections until 2005 of the 2001 Pension Insurance Report

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[1] Here the federal states of the former Federal Republic of Germany are referred to as "former West Germany"; the federal states of the former German Democratic Rebublic are referred to as "former East Germany".

5. The assumptions of the interministerial "National Economic Projections" team made from end of October 2001 for the years 2001 and 2002 as well as of those of participating federal ministries also made from end of October 2002 for the years 2003 to 2005 form the basis of these projections. On the basis of these assumptions and the aforementioned statutory duty, the contribution rate in 2002 remains at 19.1 per cent. Leaving the target value of the fluctuation reserve of one month's expenditure unmodified would have led to a contribution rate for 2002 of 19.4 per cent based on these assumptions. For the following period it is calculated at 19.1 per cent (2003), 19.0 per cent (2004) and 19.0 per cent (2005). The obvious deterioration in comparison with the corresponding values in the Pension Insurance Report of the previous year (2002 = 19.0 per cent, 2003 = 18.8 per cent, 2004 = 18.9 per cent) is due to lower expectations regarding basic economic assumptions as well as higher pension expenditure.

In particular, a cyclical reduction in sales tax volume, the lower increase in the number of insured and an increase in the number of unemployed have led to a reduction in the income of the Pension Insurance Scheme. Therefore, given a fixed benefit level, lowering the contribution rate in 2002 was not possible. The GSAC is critical of the assumptions made about wage development (+2.7 per cent). This value exceeds the one estimated by the German Council of Economic Experts and by the German institutes for economic research.

The planned reduction of the target value for the fluctuation reserve as well as uncertainties about the development of the Statutory Health Insurance Scheme and about further wage development when set against

the background of the new right to remuneration conversion as part of occupational pension provision add to the financial risks faced by the Statutory Pension Insurance Scheme. If the German Council of Economic Experts' projections for economic development in the next year prove true the reduction of the fluctuation reserve to 73 per cent of one month's expenditure is unavoidable for the end of the year 2002. This would mean a short-fall of about 10 per cent by 2003, a gap that would have to be filled by an increase in the contribution rate of 0.1 percentage points in 2003. Leaving the target value of one month's expenditure unmodified would have led to a contribution rate for 2002 of 19.5 per cent based on the assumptions made by the German Council of Economic Experts.

6. In regard to the development of current pension values in former East and West Germany, the report takes as its premise a greater, albeit incremental convergence in the mid-term period until 2005. Therefore, the ratio of the current pension values converges further towards 100 per cent. At present it is not possible to set a time frame within which both current pension values are identical because the pensions reflect different wage developments in former East and West Germany.

7. This is also indicated by the fact that average pension payments for those with a reduced earning capacity and old-age pensions in former East Germany are 103.5 per cent for men and 128.8 per cent for women as against the reference value in former West Germany. However, when evaluating a particular income position one must allow for the fact that until recently occupational pensions have played only a minor role in former East Germany, thus levels of

private wealth – in as far as data is available – are lower in the East than in the West.

8. Regarding the assumptions in the Pension Insurance Report on employment trends it is noticeable that the assumptions are more optimistic for the states of former West Germany than for the states of former East Germany. This is due not only to a more pessimistic estimation of the employment trend in former East Germany but also the assumption that the number of civil servants will increase and thus the number of insured persons paying contributions will decrease in the near future. Therefore there will be some convergence of the situation in former East Germany to the situation in former West Germany.

9. The report states that the financial situation of the Pension Insurance Scheme is in effect determined by trends in former East Germany. There, the yearly expenditure is set to exceed income by between 12.4 and 14.1 billion Euros in the years 2001 to 2005. The ratio contribution income/ pension expenditure in former East Germany is 60.2 per cent whereas in former West Germany it is 97.2 per cent.

10. The projections allow for the fact that in 2002 the fluctuation reserve will be cut to 0.8 of one month's expenditure. This reduction ought to be possible according to a bill passing through the legislative process. The GSAC comments on this later in its report.

III.   Statement on the 15-year projections of the 2001 Pension Insurance Report

11. The presentation of the long-term financial trends until the year 2015 uses the same methodology as in previous years. Again, nine variants taking wage rises of two, three and four per cent are computed, whereby one scenario with a lower and a higher employment trend is calculated. The calculations show how the pension system reacts to different wage and employment assumptions in the medium and long term.

12. In this report as well as in the previous report – different from the earlier years – the middle variant of the long-term calculation corresponds to the medium term calculation until the year 2005. This modification simplifies the handling of the long-term calculations considerably.

    In the variant with the lower employment trend it is assumed that for former West Germany the number of workers and employees rises by 1.4 million until 2015 (compare Overview B 13 of the 2001 Pension Insurance Report). The corresponding figures for the middle and higher employment trend are 2.1 and 2.7 million respectively. In comparison with the Pension Insurance Report of the previous year, in all versions the assumed values are higher. But these assumptions are based on a lower absorption of the "undisclosed reserve" into the labour market. A further reason is that higher migration numbers are assumed.

13. For the states of former East Germany – as in the Pension Insurance Report of the previous year – three employment trends are also determined. In the lower variant a long-term increase in employment until 2015 of about 0.3 million is used for calculations, in the middle variant an increase of about 0.4 million and in the higher variant 0.6

million. These figures are somewhat higher than in the Pension Insurance Report of the previous year. The model variants for former West Germany are linked to the corresponding variants for former East Germany.

14. Here it must be pointed out that only limited comparisons can be made between the previous year's calculations and the calculations of the current report. This is not only due to different assumptions about the economy being used. In this year's projections the financial consequences of the Retirement Assets Act ("Altersvermögensgesetz") and the Retirement Assets Extension Act ("Altersvermögensergänzungsgesetz") are taken into account whereas in the previous year's report only the financial consequences of the drafts of those two bills were allowed for. Those drafts were modified during the legislative process – with corresponding consequences for the financial situation of the statutory pension insurance.

15. To keep the contribution rate below 20 per cent until 2020 was and remains the stated aim of the Federal government. Irrespective of all uncertainties with regards to the projections one can act on the assumption that it is possible to reach this aim.

16. The assumed employment trend presumes that the current trend for the participation of women in the labour market will continue to rise. For the financial status of the pension insurance, this growth in employment due to increased participation rates in the labour market has a strong beneficial effect. (This is because the Federal Employment Office pays lower contributions for the unemployed. Growth in employment due to increased participation rates means that full contributions are paid into the system by workers who before entering the labour market did not pay contributions at all).

These assumptions are possible real scenarios, though one must take into account the usual uncertainties that go with any long-term calculation.

IV.   Principles regarding the long-term projections

17. The Federal Government points out rightly that the long-term calculations in particular are model calculations. The GSAC has underlined this on several occasions and has pointed out that the model calculations in the Pension Insurance Report by the Federal Government for the 15-year-period are not prognoses. Within limits the five-year projections, which also form the basis for determining the contribution rate in the coming year, could serve this function. Long-term model calculations can only assess the effect of different measures and/or possible economic trends. And therefore it is inadvisable to take a particular result from the nine variants of the 15-year-model calculations as the relevant one or the "most likely" outcome.

18. Although the results of the long-term model calculations can only be illustrations, it is none the less important to demonstrate how sensitive the results are in regard to changes in the contribution rates against changes in the underlying assumptions. In the 2001 Pension Insurance Report it is shown how the contribution rates, necessary to maintain the target value of the fluctuation reserve at 0.8 of one month's expenditure, change according to which assumption is made for growth rates of employment and wages.

19. A change in the wage trend - as well as an increase or a decrease about one percentage point - causes a "base effect" on the contribution rate of no more than 0.1 of contribution rate points. The

effect of a deviation in the underlying wage trend on the projections made concerning the cycle of the contribution rate would therefore be insignificant. Deviations in the assumed employment growth rate have a slightly stronger influence on the contribution rate. Here the base effect is up to 0.2 percentage points. In total the difference between the most and least favourable combination of assumptions accounts for 0.6 percentage points.

20. For the statutory health insurance contribution rate, the federal government assumes a constant 13.9 per cent both for former East and West Germany. Because of the modified wage adjustment for pensions, changes in the contribution rates of long-term care- and health-insurance do not have a direct effect on pension adjustments. Pensioners' contributions to both these classes of social security insurance come from their gross pensions. But a change in the contribution rates for long-term care- and health-insurance affects the subsidy paid by the Pension Insurance Institutes to these classes of insurance. This subsidy corresponds to the share of contribution paid by the employer. A rise in the contribution rates in this area means that the amount paid out as pension decreases while the subsidy paid by the pension insurance to the health- and care insurance increases. As a result, an increase in the contribution rates to the health- and long-term care-insurance of about one percentage point through a rise in subsidies leads to an increase in the contribution rate to the statutory pension insurance scheme of about 0.1 contribution rate points. A marked rise in the contribution rates of the statutory health insurance scheme could affect the federal government's targets for the contribution rate to the statutory pension insurance.

21. The quantitative targets for the development of the contribution rate and the pension level in the pension reform in this year are beset by considerable uncertainty due to the time horizon of 30 years. Because of the current economic situation the planned decrease in the contribution rate of about 0.1 percentage points did not happen in the year 2002, the first year after the pension reform. The economic decline and the associated worsening employment trend in 2002 were not forecasted in the first half of 2001 when the economic assumptions for the reform were determined.

V. Intergenerational distribution effects of the 2001 pension reform

22. Generational justice implies neither preferential treatment nor discrimination of one generation at the expense of or for the benefit of another. This means for the Statutory Pension Insurance that generational justice exists when the ratio of contributions to pension entitlements across the generations does not change. But such a change is generally the case in an ageing society because as population ages fewer and fewer employees' contributions must finance the pension payments for ever more retired people. This means in a pay-as-you-go system that, given a steady pension level, the young must pay higher contributions to provide for the elderly. Any reform of the old-age security system that is intended to counteract intergenerational discrimination caused by decreasing birth rates and increasing average life expectancy has to introduce a relief element for the younger generation and thus entail a burden for the older generation. This year's pension reform makes a significant

contribution to generational justice.[2] The reform's winners are in principle those born after 1970 whose contribution's rate of return – calculated by comparing contribution payments and pension entitlements of a particular cohort – will show a lasting increase. Taking the continuation of the situation of the pension insurance in 2000 as a measure for comparison, the older age groups are the reform's losers insofar as the increase in pension entitlement was reduced without them having the opportunity to compensate for their reduced benefits by taking out personal provision for old-age which attracts state subsidies. This and the moderation of the trend of the contribution rate (also measured by pre-reform contributions) increase the old-age security system's intergenerational justice due to the clear attenuation of the decrease in the implicit rate of return in the Statutory Pension Insurance Scheme resulting from demographic trends (see appendix, figure 1).

23. It is inevitable that each pension reform affects intergenerational distribution. There are three methods to demonstrate this effect: generational accounting, implicit income tax and the internal rate of return. The starting point for generational accounting is the criticism that traditional national accounting does not adequately record implicit claims and unsecured debts against the state, for example, accrued claims for future pension payments. Therefore, inevitable increases in the cost of old-age security are set too low in the national budget. Against this background, the starting point for generational accounting is the state's intertemporal budget restriction, i.e. all future state expenses have to be covered by future

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[2] The GSAC has commented on the pension reform's intergenerational distribution effects already in a special report (see BT-Drucksache 14/5394, p.17-18)

revenues or available assets. In other words, the present value of the state's revenues plus the present value of its assets must equal the present value of its expenditure. As a first step, an analysis is made of how in one base year the state's specific income and expenditure categories are distributed between the age groups. For example, how much income tax an average 40 year old pays or how much unemployment benefit an average 55 year old person receives is established.

24. The second step is to carry these values forward into the future. Thus it is assumed that the age specific values established in the base year are also valid in the future for people of the same age. On the one hand, these values increase each year by the productivity growth rate to factor in technological progress. On the other hand, they must be related to the base year of the analysis and must be discounted accordingly. Combining this fiscal status-quo-projection with a population prognosis allows the present value of future public revenue and expenditure to be calculated. If these revenues (and the assets) are not sufficient for financing expenditure, there is a need for consolidation ("sustainability gap") which in future has to be covered by revenue increases or expenditure cuts. The gap gives – as a percentage of the gross domestic product – the expenditure cuts and revenue increases respectively that are required every year compared with the status-quo projection. Since both taxes already paid and benefits already received are discounted when the generational accounts are established, the generational accounts of various living age cohorts cannot be compared. For example, a 70-year old has a higher net present value than a 30-year old because for the latter taxes and contributions yet to be paid play a much more important

role. Even though the generational accounts cannot be compared between different age cohorts it is nevertheless possible to carry out an analysis of intergenerational distribution using generational accounting as a method. For this, the generational accounts of each age cohort are calculated before and after any reform and are then compared. In addition, with this concept the sustainability of alternative policy options can be analysed. For this the generational accounts of living and future generations – weighted with the respective actual or predicted size of the age cohort – are added. For future as yet unborn age cohorts, this is done by assuming that the policy in the base year is continued unmodified and that future generations show an income increase only via a higher productivity growth.

25. Analyses within the scope of generational accounting generally cover a 200-year time period. With this assumption, it appears that the choice of the base year is decisive for the actual results and also that because a constant policy is assumed demographic changes are more noticeable. Calculating the present value of the generational accounts over the whole period under consideration gives a measure of the implicit national debt. This like any outstanding explicit public debt must be met at some unspecified date. If the public net wealth in the base year is not sufficient to cover the sum of explicit and implicit public debt, a "sustainability gap" appears. Using this method of generational accounting, it can be shown that the combination of lower pension adjustments and subsidising the private supplementary old-age provision worsens the generational accounts of pensioners and age cohorts close to retirement age and improves the generational accounts of younger age cohorts and

therefore partially evens out the demographic trend resulting in an increasing old-age dependency ratio.

26. A second method of calculating the effect of intergenerational distribution is to calculate the implicit income tax. It gives the percentage of life income that has to be paid into the pension scheme to achieve a certain level of benefits in comparison with investing these contributions in a capital-funded old-age provision product to achieve the same level of benefits. The implicit income tax is therefore the difference between the contributions' internal rate of return and the market interest rate. According to prevailing economic theory this leads to a distortion in decisions over work-life balance and consequently to a welfare loss. The higher the growth in wage bills and the smaller the difference between the internal rate of return of the unfunded social pension and the market interest rate the lower the welfare loss. To calculate the implicit income tax rate, the difference between the present value of contributions and the present value of a pension for a typical work and pension history is set into a ratio with the present value of the gross life income. A smaller present value of future pension contributions following lower pension adjustments leads to a reduction of the implicit income tax for younger age cohorts.

27. On calculating the respective internal and implicit rate of returns, incoming payments into the Statutory Pension Insurance and payouts from the Statutory Pension Insurance are also determined using a representative working life and a typical pension history. The implicit rate of return for the pension insurance scheme for one cohort is the interest rate by which the present values of

contributions and pension payments are equal.[3] The younger the birth cohort under consideration the lower (necessarily due to the demographic trend) the implicit rate of return is. The 2001 pension reform reduces in particular the real rate of return for older cohorts as expressed in higher differences in yields in comparison with younger cohorts (see appendix, figure 2). This is because the older cohorts cannot enjoy the lower contribution rates – compared with what would be the case without the reform – but are hit fully by the lower pension adjustment made as a consequence of the reform. The extent to which younger groups are less burdened by the reform than older ones means that the reform produces intergenerational justice. It is not fully achieved as long as the older cohorts get higher rates of return than the younger birth cohorts.

28. The decrease in the contribution rate in the pay-as-you-go system means that it is both possible and expedient to set up supplementary capital-funded provision. This produces a continuation of the cohort's specific implicit rates of return of all expenditures for old-age security.[4] In comparison with the situation that would exist without reform, the older cohorts experience a lower rate of return. They can hardly take advantage of the expected higher rate of return of the capital funding, but they are hit fully by the pension cuts. For younger cohorts, the capital funding and its higher rate of return gains ever greater importance so that those born from the mid 1970s onwards show gains as regards the rate of return in comparison to the

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[3] See in detail in: S. Ohsmann and U. Stolz, Beitragszahlungen haben sich gelohnt – Betrachtungen der Rendite der Altersrenten der Gestzlichen Renetnversicherung, in: Die Angestelltenversicherung 3/97, 119-124.

[4] Following calculations by the German Federal Bank the difference in the implicit rates of return between those born in 1940 and those born in 2001 with comparable work- and pension history is without reform 1.07 percentage points; the reform reduces this difference to 0.84 percentage points.

situation without a reform. The reform, by its innovative element, i.e. the organisation of the capital-funded old-age provision, produces a more equal distribution of the burden between the generations. An excess in capital-funded provisions will always increase the pension's rate of return if the rate of return that a capital-funded product (a product which can be compared in terms of contribution and benefit rules to the statutory pension insurance) can achieve on the capital markets is higher than the implicit rate of return offered by the statutory pension insurance. Nevertheless, any extension of capital funding is associated with an additional burden in the transition period. Therefore the size of the transition to more capital funding always presents a process of trade-off. This is also true for the current pension reform, where the additional burden is put mostly on the older generation. The actual point when the reform will come to be seen as advantageous changes according to assumptions made regarding the capital market trend. The fundamental question of the extent to which the increased cost in the pension system caused by the demographic trends is to be distributed among the generations is ultimately a normative question that – beyond the calculation methods presented – will demand a great deal of political ingenuity in the future.

VI. On lowering the target value of the minimum fluctuation reserve

29. The statutory pension insurance in Germany – although originally designed by Bismarck as a capital-funded system – has always been a pay-as-you-go system, i.e. current expenditure is covered by current revenues. This fact, i.e. the pay-as-you-go system, is

enshrined in law, most recently in the 1992 Pension Reform Act decided on November 9th, 1989 in a parliamentary consensus (section 153, Social Code, Part VI). To balance short term income fluctuations, an unavoidable feature in the yearly cycle, and to counteract possible estimation mistakes while fixing the contribution rate, is the role of the financial reserve fund of the pension system – the so-called "fluctuation reserve" – . The financial reserves in the pension system are the highest at the end of the year due to one-off payments (Christmas bonuses) then decrease continuously during the following year to reach a low point in October. The 20th Pension Adjustment Act of June 27, 1977, stipulated that the reserve fund must be invested in liquid form in instruments whose maturity, remaining period to maturity, or notice period do not exceed 12 months.

30. As the table shows (see appendix, table 1) to some extent in the 1980s and particularly in the 1990s, the financial reserves of the pension system fell far below one month's expenditure by the end of the year without putting the liquidity of the pension insurance institutes at risk. The decisive factor was the available liquidity, which – measured by the size of the reserve fund – increased considerably after 1977 when long-term capital investments were no longer permitted and revenue from long-term investments had to be invested in liquid form. Thus, the situation has been reached – as seen in the table – whereby about 90 per cent of the pension systems' financial assets are invested in liquid form. Even in the years since 1992, when the fluctuation reserve fell considerably below the equivalent of one month's expenditure there were no problems of liquidity.

31. As far back as the 1957 pension reform it was decided that the Federal Government should provide the required funds to cover the pension insurance's expenditures in case contributions and other revenues seem likely to fall short. In November 1984, there was one instance when the pension insurance had to take out a loan for a few days in order to overcome a tight liquidity position. In 1985, the federal government provided one-off liquidity support.

32. The 1992 Pension Reform Act enshrined the Federal Government's "guarantee function" in law requiring it to provide funds as a loan if the liquid means of the fluctuation reserve are insufficient to cover payment obligations. This guarantee function can be activated without further parliamentary involvement. Any loan advanced has to be paid back by the statutory pension insurance.

33. Although the Federal Government's guarantee provides further effective resources to secure liquidity, the fluctuation reserve must retain its primary importance as a guarantee of the independence of the self-administered pension systems. The proposed measure of creating a corridor of between 0.8 and 1.2 of one month's expenditure for the fluctuation reserve allows flexibility in fixing the contribution rate regarding the desired continuation.

34. Before resorting to the Federal Government's guarantee function it is possible, in deviation from regular payments of the federal subsidy in twelve equal monthly instalments, to make further funds available to the statutory pension insurance on a short-term basis in order to stabilise its financial position. This possibility, set out in the federal

budget plan since 1985 acts to secure liquidity. In practice, this option precedes any recourse to the federal government's guarantee.

35. By law (Budget Consolidation Act 1999 – "Haushaltssanierungsgesetz 1999"), the contribution rate is fixed each year in a way that balancing expected expenditure against expected revenue leaves a fluctuation reserve equal to one month's expenditure at the end of the year. With a decrease to 0.8 of one month's expenditure and a correctly determined contribution rate, the liquidity of the pension insurance during the fiscal year is still guaranteed. If the estimated calculations for the contribution rate are incorrect by more than 0.5 percentage points, it is possible – without claiming the federal government's guarantee – to advance a part of the following month's instalment of the pension insurance scheme's federal subsidy. In general, following the lowering of the minimum fluctuation reserve's target value, it has become ever more important that assumptions and forecasts are accurate.

36. With the lowering of the minimum target of the fluctuation reserve from its current level of one month's expenditure to 0.8 of one month's expenditure financial means equal to 6bn German Marks are made available to finance benefit payments. The required contribution rate for 2002 can therefore be lowered by 0.3 percentage points and fixed at 19.1. In comparison with the situation that would exist without the lowering to 0.8 of one month's expenditure, employers and employees contribute 4.7 bn German Marks less. The federal government saves 1.3 bn German Marks in the federal subsidy and in contribution for child-raising periods. In the face of the current difficult federal budget situation this is a beneficial side-effect.

37. Of course, doubts about this measure can be raised. It is possible to interpret such ad-hoc interventions as suggesting that the target stability of the contribution rates can only be secured through discretionary measures – a view that could affect trust in the long-term sustainability of the pension system's funding. As a rule, the pension system should be able to ensure its liquidity without outside intervention. Moreover, it must be considered that current relief on the contribution rate is met with a – albeit very short term and considerably lower – burden on the contribution rate because in accordance with the adjustment formula the contribution rate's development also influences the pension adjustments.

38. Overall one has to balance the alternatives of maintaining the pension system's fluctuation reserve and raising the contribution rate and with this the non-wage labour costs in a problematical cyclical situation, particularly with regard to the employment situation. The GSAC takes the view that in the current precarious economic situation a decrease in the target value for the minimum fluctuation reserve is the lesser evil in comparison to raising the contribution rate, thereby increasing labour costs.

VII. Appointment of a commission on implementing the German Federal Constitutional Courts' judgments from April 3rd, 2001 on long-term care insurance

39. On April 3rd, 2001, the Federal Constitutional Court has made four judgments about long-term care insurance. One of these judgments deals with the contribution rate to long-term care insurance. The

claim was based on the fact that child care and education are excluded when assessing the contribution rate to the social care insurance. The Courts conceded this point, deciding that it is not compatible with the constitutional law to impose on those who raise and educate children the same contribution rate to the long-term care insurance as on those without children.

In this context the Court decided that the "relevance of the decision for other branches of Social Security have to be reviewed".

40. The GSAC has commented on the Federal Courts' judgments regarding long-term care insurance.[5] However, the GSAC considers a further review of the Federal Courts' judgments necessary. Therefore it encourages the Federal Ministry of Labour and Social Affairs to appoint a commission to review the judgments and to assess their relevance for the pension insurance. Such a commission should be based mainly on juridical competence.

Berlin, November 22nd, 2001

University Professor Bert Rürup

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[5] See the GSAC's statement on the Federal Court's judgments concerning long-term care insurance from April 3rd, 2001 with regard to its relevance to the statutory pension insurance, BT-Drucksache 14/6099

Appendix

Figure 1: *Consequences of the 2001 pension reform – Differences in the rate of return for different birth cohorts*

Schaubild 36

Auswirkung der Rentenreform 2001:
Jahrgangsspezifische Renditedifferenzen aufgrund der Rentenreform für die Altersvorsorge[1]

Renditedifferenz[2]
(Basispunkte)

Geburtsjahrgang

1) Berechnungen der Deutschen Bundesbank für einen typisierten Rentenversicherten: 45 Beitragsjahre mit dem Durchschnittsverdienst; Renteneintritt mit 65 Jahren, Rentenbezugsdauer entspricht der ferneren Lebenserwartung, beginnend mit 16,4 Jahren für den Geburtsjahrgang 1940, ohne Anspruch auf Hinterbliebenenrente.– 2) Differenzen der realen Renditen gemessen an der Fortschreibung des rentenpolitischen Status vor der Reform.

SR 2001 - 12 - 0664

Source: German Council of Economic Experts Report 2001/2002, no 248

Figure 2: *Consequences of the 2001 pension reform – Decrease of the rate of return for different birth cohorts*

Auswirkung der Rentenreform 2001:
Absenkung der jahrgangsspezifischen Renditen in der Gesetzlichen Rentenversicherung[1]

1) Berechnungen der Deutschen Bundesbank für einen typisierten Rentenversicherten: 45 Beitragsjahre mit dem Durchschnittsverdienst; Renteneintritt mit 65 Jahren, Rentenbezugsdauer entspricht der ferneren Lebense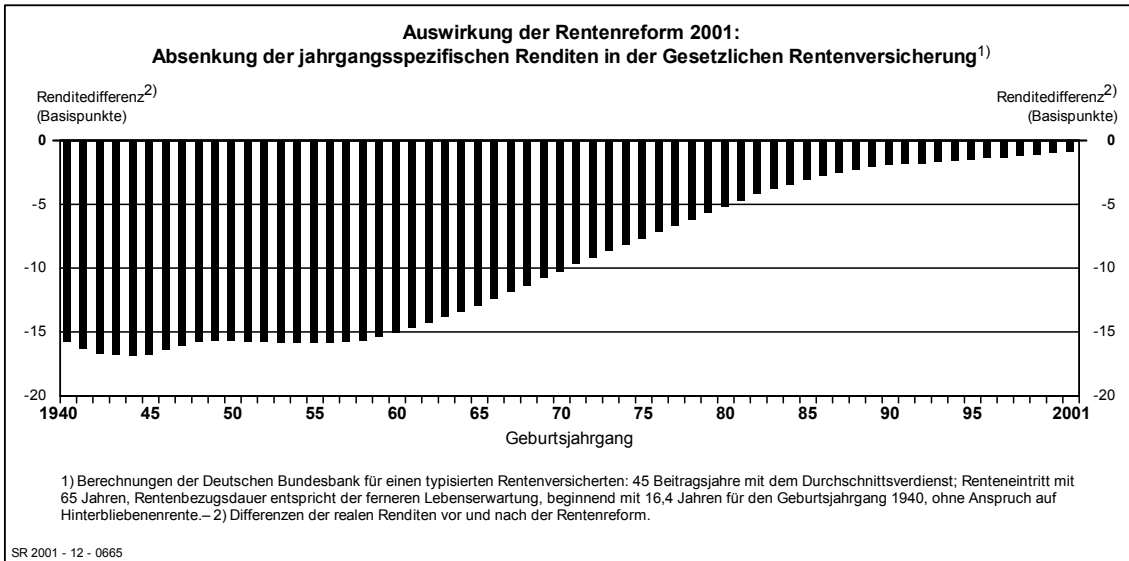rwartung, beginnend mit 16,4 Jahren für den Geburtsjahrgang 1940, ohne Anspruch auf Hinterbliebenenrente.– 2) Differenzen der realen Renditen vor und nach der Rentenreform.

SR 2001 - 12 - 0665

Source: German Council of Economic Experts Report 2001/2002, no 244

Table 1: *Fluctuation reserve (1) and available liquid funds (2) in the pension insurance scheme for white-collar and blue-collar employees 1974 to 1999*

a = in million German Mark
b = in one month's expenditure

Jahr	1	2
1974 a	44342	14703
b	8,6	2,9
1975 a	42979	9536
b	7,4	1,6
1976 a	35786	9728
b	5,4	1,5
1977 a	25329	6718
b	3,3	0,9
1978 a	18159	5965
b	2,2	0,7
1979 a	16371	7199
b	1,9	0,8
1980 a	18739	10279
b	2,1	1,2
1981 a	21739	13808
b	2,4	1,5
1982 a	20545	12912

b	2,1	1,3
1983 a	15028	7890
b	1,5	0,8
1984 a	9773	3141
b	0,9	0,3
1985 a	11197	5516
b	1,0	0,5
1986 a	17781	12193
b	1,6	1,1
1987 a	21026	16034
b	1,8	1,4
1988 a	23339	18863
b	1,9	1,6
1989 a	25831	21918
b	2,0	1,7
1990 a	3 4948	31484
b	2,6	2,4
1991 a	42 895	39 648
b	2,7	2,5
1992 a	49 056	46 380
b	2,6	2,5
1993 a	38 697	36 577
b	1,9	1,8
1994 a	33 455	30 650
b	1,5	1,4
1995 a	21 962	19 158
b	0,9	0,8
1996 a	14 205	10 888
b	0,6	0,5
1997 a	14 267	11 446
b	0,6	0,5
1998 a	17 936	15 465
b	0,7	0,6
1999 a	26 555	24 251
b . ..	1,0	0,9
2000 a......	27 765	24 878
b......	1,0	0,9
2001*a..	26 746	23 088
b......	0,9	0,8

*2001: estimated