National report - Germany

Etuc SociAll Project

Author: Prof. Dr. Gerhard Bäcker - Institute for Work, Skills and Training (IAQ), University Duisburg-Essen

Participating National Trade unions: DGB

Section 1: The National Context

Pensions in Germany stem from different sources and are organised according to employment status. The pension system comprises three pillars or tiers (figure 1):

- First pillar: mandatory state pension insurance schemes, which form part of the basic social security system;
- Second pillar: occupational pension schemes;
- Third pillar: private voluntary arrangements for old-age provision.

Germany has no general minimum pension, but it does have a basic provision for the elderly and for persons with reduced earning capacity. This basic provision is means-tested (including income and property of partners even if not married) and can be roughly described as the fourth pillar of old-age provision.

There is also a right to housing benefit if housing costs are too high in relation to income.

Statutory pension insurance (SPI)

Coverage

The most important element of the first tier is Statutory Pension Insurance (SPI). The SPI covers nearly all employees, regardless of their employment relationship, except for so-called 'mini-jobbers' (see below).

Another exception concerns the pension scheme for civil servants, which can be described as a privileged system. Unlike the pension scheme, the civil servants' pension is financed by tax (since no contributions have to be paid, the net income is higher) and provides for much better pension rights (in terms of amount and method of calculation).

The coverage of the SPI also extends to, among others, claimants of income-replacement benefits (sickness benefit, injury benefit, unemployment benefit I[1]), mothers and

[1] Unemployment benefit I is one of the two existing unemployment benefit schemes in Germany. Claims depend on the amount and level of previously paid contributions.

With the financial support of the European Union

fathers during the initial child-raising period (the first three years) and carers (during periods in which unpaid home care is provided for a relative, recognised by the long-term care insurance).

Not covered are recipients of the basic provision for jobseekers. This also applies to refugees, insofar as they have not (yet) taken up or have not been allowed to take up employment that is subject to compulsory insurance.

Also employees whose earnings do not exceed €450 per month (so called mini-jobbers or marginally employed) are subject to statutory pension insurance (but not health insurance, long-term care insurance and unemployment insurance). However, mini-jobbers have the right to opt out. Over 80 per cent of those concerned make use of this right.

In principle, self-employed persons are not subject to the SPI. However, this simple rule is complicated by a multitude of derogations, which have evolved historically and unsystematically. Included are self-employed teachers, lecturers, child-minders, nurses and carers, midwives and craft workers (who may opt out after 18 years). Self-employed artists and members of the publishing professions are liable for compulsory insurance under the Artists' Social Welfare Act. Farmers are not required to be insured under the SPI, but are covered by a separate farmers' pension fund. This special system provides farmers with partial cover, which they can supplement in other ways – often by selling the farm.

The vast majority of the self-employed are not subject to compulsory insurance. This applies not least to the growing number of solo self-employed persons. These include many bogus self-employed persons, who struggle to obtain pension coverage, but are then subject to compulsory insurance. Self-employed people who are not required to pay compulsory pension contributions can apply for voluntary pension insurance cover within five years of becoming self-employed. They then have the same rights and obligations as compulsory contributors.

SPI is by far the predominant element of the German pension system. Figures from 2015 indicate that about 90 per cent of the population aged 65 and over receives a SPI pension (including survivor's pension). Second-pillar pensions are received by 31 per cent (men)/8 per cent (women) in West Germany and by 5 per cent (men)/1 per cent (women) in East Germany (figures 2 and 3).

Types of pensions

SPI benefits comprise old-age pensions, survivors' pensions (widows, widowers and orphans), reduced earning-capacity pensions and rehabilitation measures. The particular conditions for entitlements are qualifying (contribution) periods. The general 5-year qualifying period can be made up with contribution periods and substitute qualifying periods, including periods of pregnancy, motherhood protection, receiving unemployment benefit II[2], and is a basic condition for claiming a standard old-age pension, a reduced earning-capacity pension or a surviving dependant's pension.

[2] Unemployment benefit II is the second existing unemployment benefit scheme in Germany. Claims exist for each and every citizen, since it works as a tax-based, standardised minimum pension.

With the financial support of the European Union

Widows and widowers are entitled to a statutory widow's or widower's pension. The maximum widow's or widower's pension is paid at 55% of the deceased spouse's full statutory pension if the widow or widower has reached the age of 47 (in line with the rise in the statutory retirement age, this age limit has been increased from 45 to 47 since 2012), or has reduced earning capacity, or is rearing a child under 18.

There are no special regulations or benefits for employees who have performed particularly heavy work/arduous jobs.

Reduced earning-capacity pensions can be claimed at any age and are paid until the persons concerned reach pensionable age. A precondition for receiving this pension is that a person is no longer able to work due to health reasons. The cause of the illness is not crucial for these pensions. Pensions payable because of reduced earning capacity are generally paid on a fixed-term basis. According to the fundamental "rehabilitation before pension" principle, optimum medical care as well as vocational integration measures are provided in order to improve or to restore earning capacity. Insured persons who are prevented by a reduction in earning capacity from doing at least six hours of paid work a day are considered to suffer a partial reduced earning capacity. Insured persons who are prevented by a reduction in earning capacity from doing at least three hours of paid work a day are considered to have full reduced earning capacity. Insured persons who can work at least three but not more than six hours a day have a partially reduced earning capacity.

Calculation of pensions

The amounts of the SPI pensions are income-based, i.e., contribution-based, and are mainly calculated on the duration of the contribution payment over the whole course of a person's working life. How much each contribution period counts towards the pension depends on the ratio of the individual gross annual earnings to the average earnings of all insured persons. The level of the last income or the income of the final years before retirement is <u>not</u> decisive.

The insured income each year is converted into "earning points". Under this system, an individual receives one earning point for one year when contributions were paid on an average income. If the individual has paid contributions for one half of the average salary, he/she will receive 0.5 earning points.

Deductions (0.3 per cent for every month) in the pension amount offset the advantage of earlier retirement and the resulting longer period of claiming a pension. Additions to the pension (0.5 per cent for every month) amount compensate for the disadvantage of later retirement and the resulting shorter period of claiming a pension.

The "personal earning points" calculated in this way are multiplied by the "current pension value". The current pension value is the monthly pension that an average earner would receive after paying contributions for one year. In 2020, the gross amount is €34.19 in West Germany and €33.23 in East Germany (these differences between East and West will level out in 2024 after a long transition period).The "current pension value" is valid both for newly retired and already retired pensioners.

With the financial support of the European Union

The gross pensions are reduced by contributions to the Long-Term Care Insurance (LTCI) and the Statutory Health Insurance (SHI), and are subject to income tax. The amount of the tax burden (above allowances) depends on the year of retirement. Full taxation of pensions will be reached in 2040.

Irrespective of the year of retirement, all pensions are adjusted on 1 July each year in line with changes in the “current pension value”. Pension adjustments are based on the development of earnings (change in gross wages and salaries per worker according to the national accounts compiled by the Federal Statistics Office), taking into account the development of pay components that are subject to statutory pension insurance contributions.

Reduction of the pension level

The "new" pension strategy, implemented mainly in 2001 and 2004, has fundamentally changed this pension adjustment formula. Since then, the annual pension adjustments are reduced by a so-called contribution factor, the “*Riester”* factor (changes in workers’ expenditure on building private pension provision) and a so-called sustainability factor (ratio of the number of pensioners to the number of contributors). As a result, the annual increase in the current pension value (affecting both newly granted pensions and those already in effect) no longer corresponds to the trends in the earnings of the active workforce. The pension level is declining - gradually but steadily. The pension level (net pension before tax) has been reduced - from 52.9% (in 2000) of the average net income before taxes to 48.3% (in 2019) and is predicted to fall to 41.6% (in 2045) (see below).

As a result, the definition of the SPI shifted from primarily a benefit system to nearer a contribution system: The contribution rate should be kept as stable as possible, which in view of demographic burdens will lead to a reduction in the level of benefits. To compensate, occupational and private pension schemes are to be expanded, flanked by the promotion of these capital-funded schemes through tax allowances and direct subsidies.

The term "sustainability-factor" does not make itself immediately clear. The aim of the restricted adjustment process is not to provide sustainable and adequate security in old age, but to limit the contribution rates. The law stipulates that the contribution rate may not exceed 20 per cent until 2025 and 22 per cent until 2030. This has the inevitable consequence that the benefit level drops accordingly.

Retirement age

The standard retirement age (without deductions) in Germany is being gradually increased from 65 to 67 years between 2012 and 2029. In 2020, the standard old-age pension (without deductions) was paid at age 65 and nine months. The (so-called) long-term insurance can be applied for after the age of 63 and on completion of a 35-year qualifying period - but at a reduced amount: the pension will be reduced by 0.3%

With the financial support of the European Union

for every month of early retirement. Persons with an exceptionally long insurance period can claim this pension upon reaching the age of 65 without deductions if they have paid contributions for a minimum of 45 years. The retirement age to qualify for this pension is temporarily set at 63 for claimants born before 1953. For persons born after December 1952 the age limit gradually increases again to the current retirement age of 65. The age limit increases by two months for each birth cohort and will again be 65 for persons born in 1964. People with severe disabilities can claim a full early retirement pension. Until 2012 the age required was 63. However, the age will be gradually raised from 63 to 65 between 2012 and 2029.

Financing

The SPI is financed on a pay-as-you-earn basis, with only a very small reserve fund. Its financing is derived mainly from earnings in the form of social insurance contributions (paid in equal parts by employees and employers). Some funding also comes from general tax revenue; this money is intended to pay for interpersonal redistribution of income within the pension scheme. Tax-funded government subsidies account for about 23 per cent of total receipts (figure 4). In 2020, insured employees and their employers each contributed 9.3 per cent of the employees' gross wage to the SPI (figure 5).

Occupational and private pension schemes

Occupational pension schemes constitute the second tier/pillar of the German pension system. In general, they are voluntary in the private sector. These schemes are very diverse in the way they are designed. Traditionally, these pensions were mainly defined-benefit and employer-financed. However, a shift is taking place towards other types of occupational pension arrangements that are linked to the capital market, as well as towards arrangements financed mainly (directly) by employees (and no longer employers) and based on defined contributions rather than defined benefits. This is taking place, in particular, because of the current opportunity for employees to use their earnings up to a certain limit to accumulate an occupational pension fund ("earnings conversion"). Employers must comply with this wish. How they organise company pensions for employees is a matter for agreement, often at company level or through collective bargaining. In Germany there are five ways to implement a system of occupational pension provision: employers' pension commitments, provident funds, direct insurances, retirement funds, pension funds. The last two are still of minor importance but are gaining in frequency (see figure 6).

The state promotes the use of company pension plans by making earnings paid into them exempt from tax and social security contributions (up to 4 per cent of the contribution assessment ceiling for the SPI).

Since occupational pensions are usually voluntary schemes (full cover for all employees exists only in the civil service and the construction industry, with both schemes based on collective agreements), only a proportion of employees acquire entitlements to occupational pensions. The share was about 57 per cent in 2015 (last data) (figure 7). The beneficiaries are predominantly male workers employed in large companies on standard contracts and with average-to-higher incomes. Women are clearly under-represented, as they work predominantly in small and medium-sized enterprises in the service sector, are employed on a part-time basis and the duration of their employment with a company is limited because of typical female employment patterns.

The third pillar comprises a great variety of voluntary capital-funded old-age savings schemes, some with risk pooling (life insurance) and others without such insurance elements. Some types of scheme attract tax relief. At the centre of the public debate are those private pensions that fulfil certain requirements (and will then be certified) as preconditions for either subsidies (supplements) or extra tax relief (known as the *Riester-Rente*). The direct subsidies are especially attractive for low-income earners and for employees with children. The main requirement for a subsidised "*Riester*-contract" is that at least the amounts paid in (amounts saved plus supplements paid by the state) will be available at the beginning of the disbursement phase. There is therefore no risk of losing the nominal amount. The supplementary pension must guarantee life-long benefits. Promoted private pensions ("*Riester-Rente*") are aimed at employees. The so-called "basic pension" is important for the private old-age provision for the self-employed. This attracts tax relief and is especially appealing for self-employed individuals with high taxable incomes.

The number of private pension contracts, government-sponsored by tax relief supplements, rose sharply between 2001 (1.4 million) and 2013 (16.0 million). The number of contracts does not yet give any indication of the number of people who have signed a contract and are receiving a grant. One reason for this is that one person can conclude several contracts. According to the Federal Government's 2013 figures, the number of persons receiving funding was only about 10.6 million. However, the development has stagnated since 2013 (figure 8), and since about 2019 there has even been a decline. The main reason for this stagnation is the ongoing trend towards low interest rates in the capital markets and the high cost of private life insurance. Moreover, the government reports that nearly 20% of insurance policies are dormant (i.e., premiums are not being paid).

In the case of occupational and private old-age provision, the coverage ratio is also low because certain phases of life and social risks are not covered at all. The additional provision does not include solidarity-based compensation. This applies in particular to persons who are (temporarily or long-term) inactive and do not receive income from work due to unemployment, illness, disability, child-rearing, or private care. Contributions paid by the federal government or other insurance providers for periods of, among other things, receiving sickness benefit, parenthood, unemployment and care are as non-existent as compensatory elements in the pension calculation for periods of low earnings (higher valuation, allocation periods, credit periods). A social component of the additional provision can only be seen in state support in the form of allowances or tax concessions. The direct subsidies are especially attractive for low-income earners and for employees with children. The main requirement for a subsidised "*Riester*-Contract" with a life insurance or with a bank is that at least the nominal value of payments must be guaranteed.

In addition, there is usually no coverage in the event of disability or death of the spouse in the case of private provision. Although this is possible with occupational pension schemes, it is rarely found.

It is not possible to say in advance how high company pensions and private pensions (both capital-based) will be. In contrast to the SPI, there is no calculation formula and no formula for adjusting pensions to income and price developments during the retirement phase. Central determining factors are above all the duration and amount of the payment, the type of capital investment and developments on the (global) financial markets. Capital returns cannot be guaranteed and they vary according to the year in which the deposit is made and the year in which it is paid out. For this reason, it is not systemically possible to set a defined performance target of "closing the pension gap" in the case of old-age pensions that are funded and thus dependent on the capital market (see above).

Section 2: The Challenges

The pension system in Germany (as in other European countries) is facing major challenges. It is not possible at this point to list all the problems facing Germany. Rather, we will outline the central challenges that arise from the perspective of the German trade unions.

The main issues at stake are as follows:

- How can we avoid increasing poverty in old age?
- How can the pension scheme at least roughly guarantee the standard of living obtained after a long working life? What can the three-pillar system achieve?
- How can we succeed in covering the entire population, filling gaps and integrating special pension schemes?
- How must the age limits in pension insurance (retirement age) be designed; how can we avoid a situation in which workers are no longer able to continue working as the retirement age rises and have to accept high pension deductions instead?
- How can old-age provision be financed in a sound and socially just manner, despite the impending demographic upheaval and without benefit cuts?

Risk of poverty income in old age

The rate of at-risk-of-poverty (65 +) is (2019) 15.7% (men: 13.5%, women: 17.4%) (see figure 9). It is below the average for the total population (15.9%), but a significant increase (of 4.7 percentage points) should be noted compared with 2005 (men: 4.8, women: 4.1).

The number of recipients of social assistance (old-age basic income support and in case of reduced earning capacity) has grown markedly over the last few years. The number more than doubled between 2003 and 2019 (2003: 438,831; 2019: 1,039,000) (figure 10). The risk of having to apply for basic income in old age is concentrated on singles: couples have a higher old-age income, due to the higher pensions received by men - even though the pensions of spouses (and mothers) are low.

However, data on the current level of old age poverty do not yet indicate future trends. Perhaps the roughly average level of concern masks the fact that a trend has begun that will lead to a further increase in poverty risks in the medium and long term. The extent to which this happens depends essentially on two different factors. It depends on how the employment biographies and thus the individual pension entitlements of future cohorts will develop, and what the consequences will be if pensions only follow the general wage trend to a limited extent and the pension level falls continuously (see below).

The development of employment is therefore central to the amount of an individual pension, as the German SPI system is directly linked to labour market participation. This means that the upheavals on the labour market that have occurred in recent years are reflected in low earning points. Low wages, precarious employment relationships, unemployment (and here especially long-term unemployment) and unsteady employment patterns increase the risk of receiving only low pensions in old age. There is only limited social equalisation in the SPI (see below). Not only women but also men are affected.

Among the recipients of social assistance are many formerly self-employed persons who have not built up a (sufficient) pension provision. As long as old-age provision is voluntary for the self-employed, this trend will increase in the future.

Amount of SPI pensions

In 2019, 40.8 per cent (men) and 46.2 per cent (women) of the new SPI old-age pensions were standard old-age pensions; 59.2 per cent men/53.8 per cent women early-retirement pensions (figure 11 and 12). About 83 per cent of the new pensions are old-age pensions and 17 per cent reduced earning capacity pensions (figure 13). The average age at first receipt of an old-age pension is 64/64.5 years in 2019 (women/men) (figure 14). A slight, continuous increase has been observed here since around 2000. The increase in the pensionable age therefore has a significant impact.

In 2019 the average SPI old-age pension (after deduction of contributions (see below), before taxes) was €954 per month. However, this average amount reveals little about the differentiation of SPI pensions. First of all, distinctions are to be made between men and women. In West Germany, the average amounts are €1,169 (men) and €700 (women) (figure 15). These findings, especially the big differences between men and women (gender pay gap), show that the amount of a SPI pension is heavily dependent on the duration of contribution payments and the individual earnings during the entire employment and insurance period (gender pay gap, see figure 16 and 14b).

Men who have worked continuously for at least 45 years receive a pension amounting to an average of €1,578 (West). Women in West Germany who are unable to meet the conditions of full-time indefinite-term employment (so-called "normal employment"), therefore receive a noticeably lower SPI pension. However, in the case of widowhood, women receive an additional widow's pension (with moderate reductions in income, applied through income-testing). The average amount of a widow's pension is €665.

In 2019 (West Germany), 46.3 per cent of women and 22.4 per cent of men received a pension below €600 (figure 17). In a pension system in which the principles of equivalence predominate, the causes of these differences can be quickly identified: women have shorter periods of employment and periods of insurance, they are often affected by interruptions in employment, many women work in part-time or in marginal employment, women very often work in the low-pay sector.

Nonetheless there is a clear tendency among women to increase their (continuous) participation in the labour market (figure 18). As a consequence, the upcoming cohorts of women who are reaching retirement age will have more contribution years than the previous cohorts. In addition, the pension entitlements for child-rearing periods will lead to higher pensions for the future cohorts. On the other hand, the empirical findings on the structure of women's employment indicate that a steadily increasing number of women are working part-time and with low incomes (see figures 19 and 20).

It can be said that these differences in old-age income between men and women are not only a mirror image of labour market participation, but also a mirror image of the decision of couples about a specific division of domestic labour, especially in periods of child-rearing. Women work on a part-time basis and the household income stems predominantly from the husband's income. This so-called "modified male breadwinner model" continues in the phase of retirement. This model is based on the one hand on voluntary decisions. On the other hand, in Germany there are many incentives in social security and tax law that influence these couples' decisions.

Among men, the high proportion of low pensions is surprising. This is a consequence of the structure of old-age provision in Germany as a whole. This is because this group includes self-employed persons who were only insured for a short time in the SPI but are essentially privately insured. This also applies to civil servants who were compulsorily insured at the beginning of their employment but are then covered by the civil servant pension scheme. Migrants also often have only a few years of SPI insurance.

The average amounts of reduced earning-capacity pensions are significantly lower than regular old-age pensions. In 2019 they were €836 for men/€818 for women in West Germany (see figure 15). There are two main reasons for this disadvantage. First, the recipients of reduced earning-capacity pensions include many employees with precarious and discontinuous histories of paid employment – resulting in fewer earning points, which has a decisive impact on the pension calculation. Secondly, about 95 per cent of the reduced earning-capacity pensions are reduced by deductions. New recipients of a reduced earning-capacity pension receive a higher pension because the entitlements are better calculated/valued.

Health insurance and long-term care insurance

In the data given here, the deductions due to contributions to pensioners' health insurance (SHI) and pensioners' long-term care insurance (LTCI) are already taken into account. The SHI contribution rate to be paid by pensioners is equal to the general contribution rate (14.6 per cent plus 1.1 per cent (additional contribution)). Half of this

15.7 per cent is paid by the SPI. Pensioners, on the other hand, have to pay the contribution to long-term care insurance (3.1 per cent) on their own.

The statutory health insurance covers all medically necessary services, co-payments are limited. Long-term care insurance, on the other hand, only covers part of the costs of outpatient and inpatient care. Those in need of care must therefore make their own payments. If they are not able to do so, they must apply for social assistance. There is no longer any recourse to the children's income (with exceptions).

Securing Living Standards/Adequacy of old-age income

As mentioned above, the net pension level before taxes of the SPI (net pensions after 45 years of insurance contributions and an average wage - this corresponds to 45 “earning-points”) compared to average net earnings has been reduced from 52,9 per cent (2000) to 48,3 per cent (2019) (figure 21). Official calculations beyond 2033 are not available. Until now the only legal requirement is that the net pension level must not fall below 48 per cent in 2025 and 43 per cent in 2030. Moreover, taxation of pensions of the upcoming cohorts of pensioners will gradually rise.

These figures are not identical to the replacement rates calculated by the EU or OECD. Nor does the indicator refer to the last earned income before retirement. It is rather a statistical model calculation that shows the income relation between the active and the retired generation. A model pension (net pension with 45 earning points, before taxes) is compared with the current average income of employees. If the pension level falls, this means that for all pensioners the annual pension adjustment no longer follows wage trends and pensioners no longer participate fully in the general increase in prosperity and income.

In detail, the German indicator has an extremely complex design. It is related to some non-statistical value of average wage taking account of gross wage increase of all employees and reduced by an average contribution rate to the statutory insurance systems (including people who do not contribute at all). Irrespective of this calculation method the replacement rate has fallen and will continue to fall after 2025.

Under these conditions, insured persons have to contribute more and more years of insurance in order to receive a high pension. The declining pension level thus increases the risk of poverty. For the legitimacy and acceptance of pension insurance, the number of insurance years that have to be reached so that the pension is higher than the basic old-age provision is of decisive importance. Why pay contributions for years when at the end of the day the pension is only at the level of the basic provision, which is granted independently of advance payments?

The politically decisive question here is whether this decline in the level of SPI provision will be compensated by supplementary occupational and/or private provision. This assumption of compensation corresponds to the basic idea of the three pillar model. The benefits of the pay-as-you-go SPI are to be gradually replaced by the capital-funded occupational and private pension schemes. But all the empirical findings indicate that this is precisely what is not being achieved. Even the model calculations of the federal government, up to 2032, do not lead to this conclusion. It is assumed that all (!) employees are saving at least 4 per cent of their income for an additional provision constantly, over their entire working lives, and that the interest rates of the private and/or occupational pensions reach on average 4.0 per cent. But in fact, interest rates are decreasing and the coverage of supplementary schemes is stagnating, in some cases even declining.

Especially those pensioners who receive low SPI pensions – on the basis of their professional biographies -- cannot expect additional entitlements / benefits from the second and third pillar. Low-wage earners, persons in marginal employment and persons with short and interrupted periods of employment are particularly disadvantaged. All of these factors mean that most women have not built up occupational pension entitlements.

Until now, no empirically substantiated data are available to indicate the expected amount of private or occupational pensions on reaching retirement age. Finally, it should be noted that no information is available as to whether or to what extent the private and occupational pensions are reliably adjusted in keeping with the development of prices and incomes.

Pension replacement rates must not confine themselves to what is payable at retirement age. Questions must also be asked about the value of the pension in relation to the average income when a pensioner reaches - for example - the age of 85 (about 20 years after the initial calculation of private or occupational pensions). It should be noted that with increasing age, pensioners' expenditure rises (cost of long-term care). Without "dynamisation", occupational and private pensions fall considerably in value.

In summary, it can be emphasised that voluntary private and occupational pensions can in no way ensure comprehensive and universal provision. Occupational pensions have the task of supplementing statutory pensions. However, they cannot perform the task of gradually replacing the statutory pension.

Lacking coverage, insufficient social compensation, privileged special schemes

The contribution-based SPI, which combines principles of equivalence and social equity, cannot solve all the problems of the labour market. People who have only worked for a short time and/or have earned very little cannot expect to receive a high pension. But certain undue social risks and stages of life must be taken into account when calculating pensions. This is already ensured in the case of illness, accidents at work, periods spent bringing up children and periods of long-term care.

However, large gaps arise in the case of (long-term) unemployment. This is because contributions are only paid for the minority of the unemployed (around one third), i.e., those who receive benefits from unemployment insurance. Employees on short-time work, whose wages are topped up by the short-time work allowance, are also covered by the unemployment insurance. By contrast, unemployed people who are dependent on the means-tested basic provision (basic provision for jobseekers) do not acquire any entitlements.

Mini-jobbers who opt out of compulsory insurance are also uninsured (but even if they earn up to a maximum of €450 a month and are insured, their pension rights are very low).

There are also gaps in security for those employees who have been working for years in the low-wage sector (see figure 22) and whose earning points are correspondingly low. In order to provide better protection for these people (the vast majority of them are women), there will be an income-tested increase in earning points for long-term contributors from 2021 onwards (see below).

As described above, it is no longer acceptable that self-employed persons are not subject to compulsory insurance. While there are self-employed people who are very well covered in special schemes (notably in schemes for liberal professions), many "small" self-employed people are neither willing nor able to provide for themselves. Moreover, developments on the labour market show that the boundaries between self-employment and dependent employment are becoming blurred. It is not uncommon to be both employed by a company (possibly on a part-time basis) and self-employed. This can take place in parallel or in multiple rotations during the course of one's working life.

In this respect there is a great need to introduce a general SPI, of which membership is compulsory for the entire economically active population including self-employed and civil servants. There are no security loopholes for civil servants. On the contrary, their level of provision is very good. But it goes against the principle of solidarity to give clear priority to a particular group of employees. As the trade unions in Germany also organise civil servants (e.g., police officers, teachers), it is extremely difficult to reach a consensus on this issue.

Pensionable Age

The pension amounts shown above are also low in many circumstances because the early retirement pensions are reduced by deductions. Those with 35 years of insurance and drawing an old-age pension at the age of 63 will have to accept reductions of 9.9 per cent today (2020) (33 months x 0.3 per cent). When the standard age limit of 67 years is reached, the deductions add up to 14.4 per cent. The individual pension is reduced by these amounts - for the entire term.

The increase in the retirement age therefore primarily "punishes" those who can no longer work for health reasons or who are no longer "needed" on the labour market. Empirical studies on age transitions show that these are often people with low income and low pensions who can cope least with the reductions. Workers in good health, with a high level of occupational and skill performance, can and will work longer, although their income makes them more likely to accept deductions.

In this respect, generalised statements are easily misleading. Not all older people have experienced the positive development in life expectancy to the same extent and will not do so in the future. And the idea that working conditions will continue to improve as a result of structural changes in the economy proves to be questionable. Differentiated analyses show that the focus of burdens is shifting and that there are also shifts between different groups of employees. What is particularly striking is the clear increase in psychological demands and stresses.

Life expectancy (including that of those who have already reached retirement age) has also been rising in Germany for many years - however now at a slower pace. Both data and trends in life expectancy and mortality are average values that do not differentiate further. From the multitude of international and also German-specific studies, it can be seen that both the state of health and the mortality risk are closely related to the social status of people. The lower the status - measured by characteristics such as income, qualifications, living conditions and type of occupation - the greater the risks of falling ill and also of dying early.

The favourable labour market situation in Germany has enabled the labour force participation of older people (men and especially women) to increase significantly in recent years (see figures 23 and 24).

However, older people (50 years and older) are still particularly affected by unemployment. The risk of not being able to find new employment after losing a job and of remaining unemployed for a longer period increases significantly with age. Unemployment of older people can be equated with long-term unemployment (see figures 25 and 26).

It is quite uncertain how the labour market will develop in the coming years as a result of the corona crisis. If unemployment rises permanently, older people will be particularly affected. There is increasing evidence that many companies in industry (such as automotive) and tourism are reducing their staff and laying off older workers.

All predictions and proposals to further increase the retirement age after 2030 are therefore very problematic. Surveys confirm that a large majority rejects such a strategy. However, this does not exclude leaving employment later on a voluntary basis. There is an increasing need to improve the conditions for voluntary continued work, as regards working conditions, health protection, duration and location of working time, etc. Even now, continued work beyond the standard retirement age attracts pension bonuses (0.5 per cent per month). However, companies and employees hardly ever make use of this.

A fundamental change in the regulation of age transitions would occur if the process of raising age limits were linked to the increase in life expectancy. If it were to be linked, raising the retirement age would no longer be the result of a concrete political decision-making process. However, policy-makers need to keep close track of developments on the labour market and react accordingly. A predetermined automatic adjustment would no longer be able to take account of the special features of old-age provision and the respective demographic and economic developments. Such a disempowerment of politics and parliament leads to regulations which are fundamental to the living conditions of the majority of the population being regarded as obligatory, regardless of the real consequences.

“Sustainable” financing and the future of the three pillar system

The medium and long-term financing of old-age provision under the conditions of demographic upheaval is undoubtedly a central issue in the political and academic debate. If "sustainability" is called for, however, this may not only concern the financing, but also the benefits side. It is about the living and income conditions of the older generation - now and in the future.

It of course affects expenditure if, as a result of the ageing of society, more older people are faced with a diminishing number of middle-aged people. This applies to every old-age security system - whether pay-as-you-go or capital-funded.

However, the financing of SPIs is not determined purely by the numerical ratio between older people (over 65 years) and the working age population (20 to 65 years) (figure 27). Such calculations of a rapidly rising old-age dependency ratio are rather misleading. Instead, what matters for the pension insurance system is how the ratio of contributing employees and pensioners develops.

The future number of pensioners (depending on the retirement age, the length of life expectancy or receipt of a pension and the demographic structure) and the number of people in employment are therefore crucial. In this respect, the situation on the labour market is fundamental for a pay-as-you-go system. If it is possible to increase labour force participation (particularly among women and older people), to reduce unemployment further and to reduce the number of people unable to work, the burden will be different and less onerous than in the purely demographic calculation.

The financial situation of SPI in recent years has shown how fundamental the positive situation on the German labour market was for revenue. The contribution rate has been reduced to 18.6 per cent, in 2011 it was still 19.9 per cent. This was possible although a number of benefit improvements have been implemented since around 2014 (see below). Despite all the fears, the corona pandemic has not yet significantly jeopardised the financial situation. The contribution rate of 18.6 per cent can also be maintained in 2021 and 2022. This is because the number of unemployed is not yet showing a steep rise. Although short-time work is at a very high level, (only slightly reduced) contributions to the pension insurance scheme are paid for the period of short-time work. The unemployment insurance system, on the other hand, is running into a massive deficit.

On the whole, the pay-as-you-financing of the SPI has proved resistant to the financial and economic crisis and has functioned as an automatic economic stabilizer. By contrast, the situation of the capital-funded pension systems has deteriorated over recent years. It remains to be seen what the impact of the corona crisis will be.

The present projections assume that the SPI contribution rates will exceed the 20 per cent limit set by law from 2025 onwards. The baby boomer generation will then successively reach retirement age. By 2030, the pension level may then fall to 43 per cent set by law and the contribution rate may rise up to 22 per cent. From 2030 onwards, there will then no longer be any legal limits.

There is controversial discussion about whether the pension level should actually be further reduced after 2025 or whether the "stop line" of 48% should be extended. This was also a bone of contention in the Federal Government's Pension Commission, which presented its report in spring 2020. As a compromise, it was suggested that the pension level should range between 49 per cent and 44 per cent in the medium term. In addition, the Commission recommended a contribution rate corridor between 20 and 24 per cent.

However, this does not represent a general reversal of pension policy in Germany. It remains the case that the additional capital-funded provision is intended to compensate for the gaps in the SPI. The data indicate that this goal has by no means been achieved so far. In order to increase the degree of coverage of private and occupational pension provision, there are increasing calls to make the second and/or third pillar compulsory.

But even if this were to be achieved across the board, it remains completely uncertain how high private or occupational pensions will be, what returns can be expected on the capital and stock markets, and what risks may be involved. It is even more difficult to assess whether and to what extent capital-market dependent pensions will be adjusted to general income and price developments during retirement.

Private and occupational pension schemes are not available "free of charge". The problem of an additional burden on the working generation cannot be avoided by another form of financing. For example, premiums for life insurance policies, payments into pension funds or occupational pension schemes in the context of deferred conversion (earnings conversion) are subject to income deductions of at least four per cent. Why are higher contribution rates in the SPI "unaffordable" and must not exceed holding lines if this does not apply to income deductions in the context of voluntary or even mandatory private provision? The difference for companies is that here no employer's contributions have to be paid, i.e., only the employees are charged.

It remains to be seen whether the macroeconomic problem of demographic change - more older people have to be financed by fewer younger ones - cannot be circumvented by choosing a different form of financing. It is a matter of political honesty to make this clear, rather than hiding the higher burden that would result from the expansion of private and occupational provision.

Section 3: (Possible) Reforms

Recent/current reforms

As already indicated in the "Challenges" chapter, the phase of multiple cuts and reductions in SPIs was replaced by benefit improvements from around 2014. The background to this change of direction was the favourable economic development in Germany, the decline in unemployment and the surpluses in both public budgets and social security budgets. But the growing political pressure from the trade unions and the social and welfare associations, especially on the SPD and the Grand Coalition, have also created the ground for improvements in benefits. However, the Grand Coalition has failed to present a longer-term reform concept as the ideas of the Christian Democrats and the Social Democrats cannot be reconciled. So only specific reforms have been launched.

These improvements in benefits and corrections of cuts cannot be traced in detail at this point. The following reforms (date of adoption of the law) should be briefly mentioned here:

- Extended recognition of child-raising periods (2014 and 2018).
  Extension of the recognition of the initial child-raising period for children born before 1992 from one to two-and-a-half years.

- Improvements in benefits for recipients of a reduced earning-capacity pension (2014, 2017 and 2018).
  The non-contributory supplementary periods are gradually extended from 62 to 65 years up to the respective retirement age limit.

- Introduction of an early retirement age of 63 without deductions (2014).
  Employees with an exceptionally long insurance period (45 years) can claim an old-age pension upon reaching age 63. This regulation applies for a limited period of time (born between 07/1951 and 12/1952. For the later cohorts (1953-1963) the qualifying age is gradually increased to 65 years.

- Alignment of pension law in East Germany with that of West Germany (2017).
  The current value of East German pensions will increase up to the West German level in seven stages from July 2018 to 2024. In return, the higher valuation of the earning points will be reduced in seven stages.

- Reinforcing occupational pensions (2017).
  Extension of occupational pension schemes within the framework of collective agreements:
  - Option schemes for earnings conversion with opt-out possibilities;
  - Pure defined contribution schemes ("pay and forget") without any warranty obligation imposed on the company;
  - Immediate non-forfeiture of the entitlements of the pure contribution scheme;
  - A compulsory employer's allowance in so far as the employer saves on SPI contributions as a result of the earnings conversion;
  - Tax incentives for employers to pay contributions for occupational pensions for low-income earners (up to €2,200 per month).

- Introduction of a double stop line for pension level and contribution rate (2018).
  The net pension level before taxes must not fall below 48% by 2025. At the same time, the contribution rate may not exceed 20% until that year. In addition to the regular federal subsidies, the Federal Government pays (if necessary) €500 million each in special payments to the pension insurance scheme between 2022 and 2025.

- Introduction of a basic pension (*Grundrente*).
  From 2021 the SPI pays a supplement to old-age pensions or reduced earning-capacity pensions if 33 waiting periods have been completed. Earning points are topped up if the personal salary is more than 30% but less than 80% of the average income. The income of the insured person and his or her spouse is credited against this supplement on a sliding scale (above an allowance). Introduction of allowances for basic provision and housing benefit.

- Mandatory pension provision for self-employed persons.
  In the coalition agreement between the CD/CSU and SPD, it was agreed that in the current legislative period a mandatory old-age provision for all self-employed

persons would be regulated by law. However, no draft legislation has yet been presented.

Reform concepts and demands of the trade unions

In principle these reforms are in line with the trade unions' ideas. However, criticism has been and continues to be levelled at the fact that the regulations are too hesitant and inadequate, and therefore get stuck halfway through implementation.

The trade union reform agenda is more comprehensive and fundamental. Summarising the central trade union demands and positions, the following priorities emerge. This overview is based on the results of the survey and on the report on pension reform presented by the DGB in spring this year (“New security for all generations - change of course: strengthening the statutory pension”).

- Labour market reforms as a prerequisite for adequate pension entitlements.
  Sufficiently high statutory minimum wages, strengthening of collective bargaining coverage, eliminating the gender pay gap, pushing back the low-wage sector and precarious employment conditions (with regard to temporary work, fixed-term contracts, work contracts, mini-jobs and bogus self-employment), restriction of involuntary part-time work, better reconciliation of working life and bringing up children as well as private care for elderly relatives.
- Active labour market and employment policy, strengthening and increasing labour-force participation.
  Further reduction of unemployment, integration of the long-term unemployed into employment, integration of refugees into the labour market, Expansion of qualification measures to cope with the transformation, securing a broader SHI contribution base.
- Promoting the employment of older people instead of raising the statutory retirement age.
  Ensuring age-appropriate working conditions, promoting the employability of older workers, flexible working-time arrangements and age transitions.
  Firm opposition to any further increase in statutory age limits and/or any automatic link between life expectancy and retirement age.
- Comprehensive understanding of “sustainability”.
  Adequacy of provisions and equal participation of employees and pensioners in economic growth and prosperity, adequate funding, fair burden-sharing.
- Stop the declining replacement rate of the SPI, securing and increasing the pension level.
  Strengthening the statutory system, reducing the need for private provision, keeping up the replacement rate of at least 48 per cent, preservation/defence of a defined benefit system instead of a defined contribution system.
- Expansion of occupational pension provision as a supplement to but not as a replacement for the statutory pension.

Promotion of collective agreements, better protection of employees in small and medium-sized enterprises, full employer participation in the costs of occupational pensions. Rejection of obligatory rules.

- Sufficient and socially just financing of the SPI.
  No dogma regarding rising contribution rates, maintenance of equal participation of employers, higher federal subsidies, financing of extraneous benefits solely through taxes.

- Inclusion of all self-employed persons in the SPI.
  Compulsory insurance for all self-employed persons in the SPI, combined with transitional arrangements for older self-employed persons who have already made voluntary provisions and for those who become self-employed and earn little in the first few years. No option to choose between private or statutory insurance.

- Raise valuation of long-term contributors with low wages.
  Raise valuation of earning points of long -term contributors with low wages, in contrast to the new law (see above) without any kind of income or means testing.

- Coverage of the long-term unemployed and basic income recipients in the SPI.
  Contribution payments for this group of people who are not building up pension entitlements.
- Sufficient level of basic income support, “ageing in dignity”.
  Social-cultural minimum subsistence level including participation in regular social life, regardless of contribution or lifetime, regular adjustment to general income trends, reform of the LTCI (long-term care insurance), limitation of own payments in case of long-term care.

With the financial support of the European Union

Section 4: Guidelines und Recommendations

The question of the future development of old-age provision in Germany will shape the political and academic debate in the coming years. A consensus between positions is not likely, as the compromise formulations in the Pension Commission have already shown. At the moment (autumn 2020), a temporary calm has been restored, as no new laws are expected before the federal elections in autumn 2021. But already in the election campaign and in the programmes of the parties it will be clear that the trade union positions are facing strong "headwinds".

The well-known neo-liberal policies are vehemently presented by the Liberals (FDP), the Conservatives (CDU/CSU) and partly also by the Greens.

- Further reduction of the pension level beyond the year 2030;
- Expansion of occupational and private pensions and gradual transition to mandatory schemes (with opt-out possibilities);
- Given the low level of interest rates worldwide, expanding these schemes' investment in shares;
- Waiver of defined benefits;
- Fixing the contribution rates to the SPI;
- No increase in tax subsidies to the SPI;
- Further increase in the standard age limits from 2030 and their dynamization.

  A controversial issue in this package will be whether occupational and private pension provision should be flanked by the offer of so-called standard products (based on the Swedish model).

The Social Democrats (SPD), on the other hand, have come much closer to trade union demands, while the Left Party is closer still.

Effects of the corona crisis

The economic, fiscal and social consequences of the corona crisis make it more difficult to enforce the claims. Although it is still unclear how the pandemic will develop in the coming months (and years?) in Germany, Europe and worldwide, a number of effects (in Germany) are already evident:

- GDP will only return to pre-corona levels after a considerable time lag. Large areas of industry and the service sector are strongly affected by the decline in orders and turnover.
- This is having an extremely negative impact on the labour market. Although the exceptionally high number of short-time workers (the maximum period of entitlement has been extended to two years) limits the number of (registered) unemployed, a further increase in unemployment is probable. The sustained growth in employment that has characterised recent years has come to a halt.
- As a result, public revenues from taxes and contributions will decline, resulting in gaps in federal, state and local budgets. Social security budgets will be equally

affected. However, the payment of short-time work benefits (subject to contributions) will cushion these declines - with correspondingly massive increases in unemployment insurance expenditure. There will be an increase in contribution rates for Unemployment Insurance. Contribution increases are also planned in the SHI.

- The generously dimensioned measures adopted very quickly by the Federal Government to stabilise the economy and to offset the social consequences of the pandemic have significantly slowed down the economic slump in Germany.
- Combined with the shortfall of revenue, this additional expenditure in the public budgets has led to a significant increase in new public debt.

There are already growing numbers of voices calling for a rapid reversal of this extremely sensible and even alternative fiscal policy. The neoliberal paradigm is to reduce debt and limit government spending. This is to be achieved above all through cuts in social spending. Tax increases for high earners and the reintroduction of wealth tax are rejected. In other words: the costs of the corona crisis should be paid for by the workers and the most vulnerable.

These are anything but favourable conditions for the medium-term development of SPIs (up to 2025). There is a risk that political decisions will be taken during this period which will set the course in the wrong direction from a trade union perspective. With the argument that higher contribution rates and higher tax subsidies are not possible, the ground is being prepared for further privatisation of old-age provision. What is concealed is that an extended private pension scheme also generates costs and at the same time has a socially selective effect. Above all, it fails to take into account that the economic slump in the wake of the corona crisis can be overcome by a consistent employment and growth policy.

It will therefore be the task of the trade unions to stabilise and improve the employment situation, ensure sufficiently high wages and reduce precarious employment. This is essential to strengthen the SPI, to secure the level of pensions and to ensure that the SPI is affordable even under difficult demographic conditions. And it is a matter of distributing the current and future burdens fairly.

However, an equitable distribution in pension systems can only be achieved if all employees are treated equally. To this end, "holy cows" must be slaughtered, especially the special conditions in the pension scheme for civil servants. At least for new and younger civil servants, the same rules must apply as in the SPI.

Appendix 1

Figure 1

The German pension system at a glance

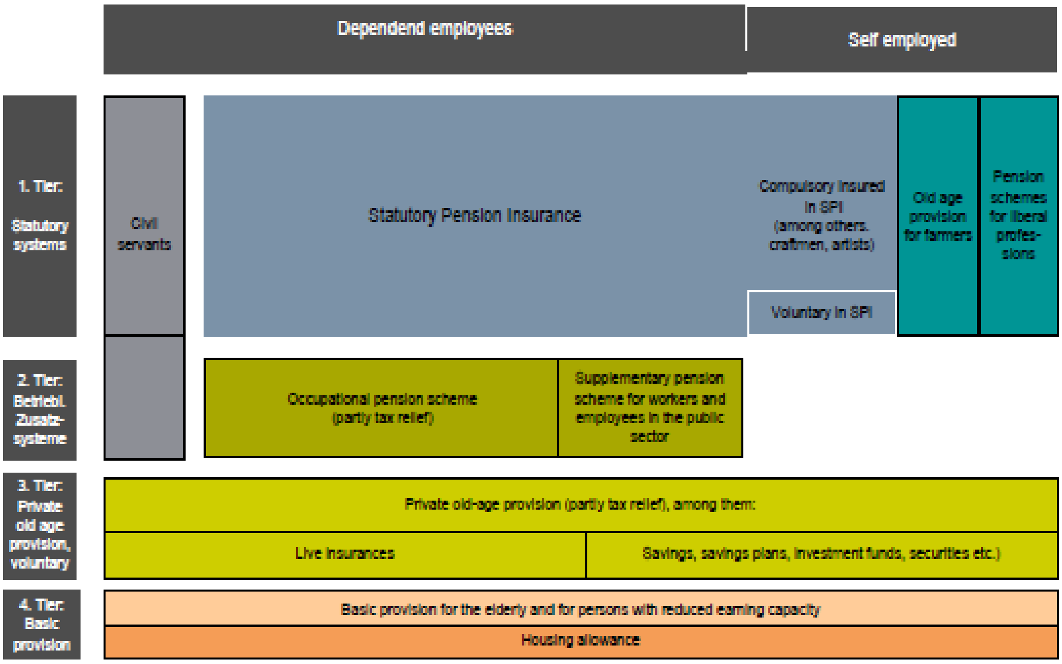


Figure 2

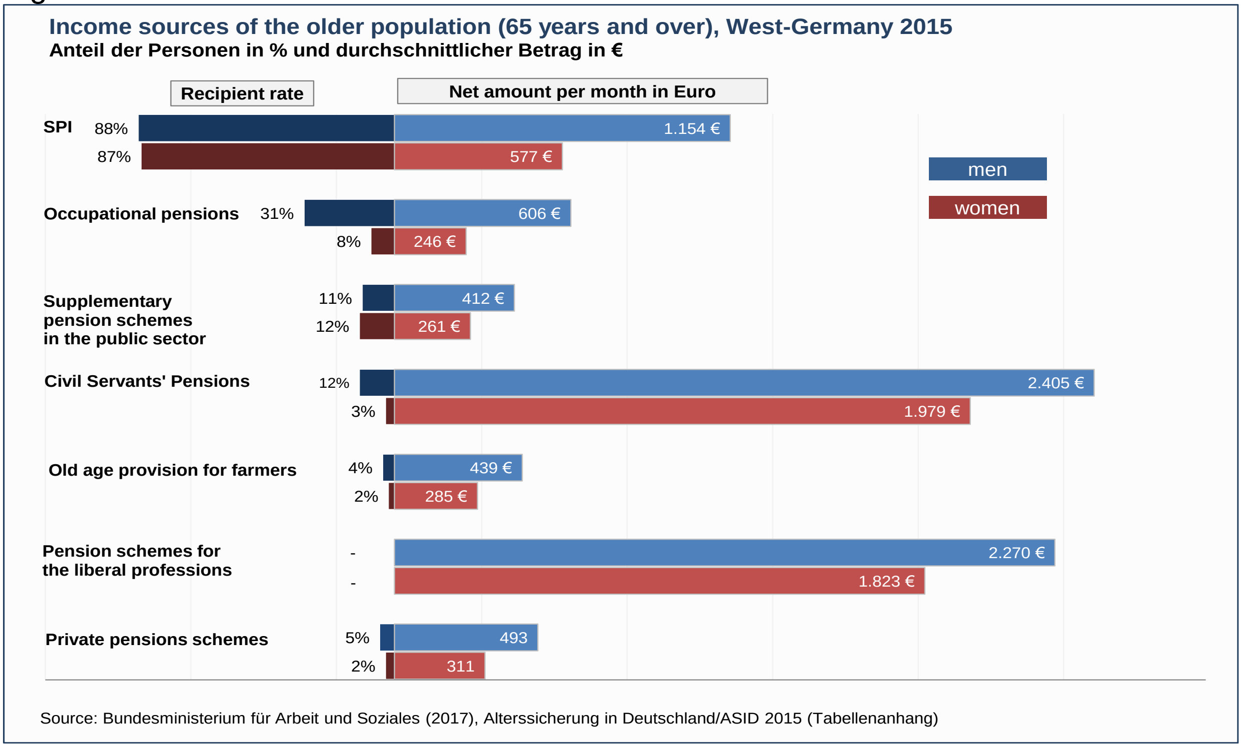
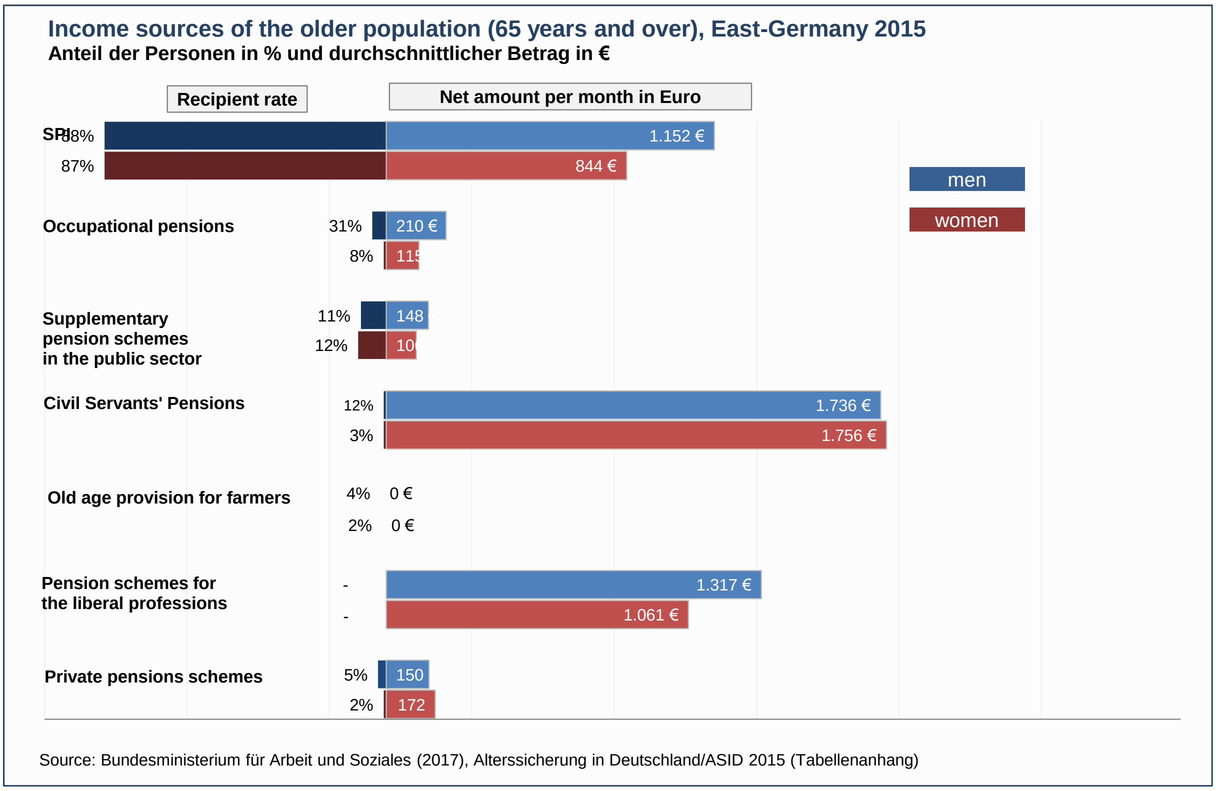


Figure 3



With the financial support of the European Union

Figure 4

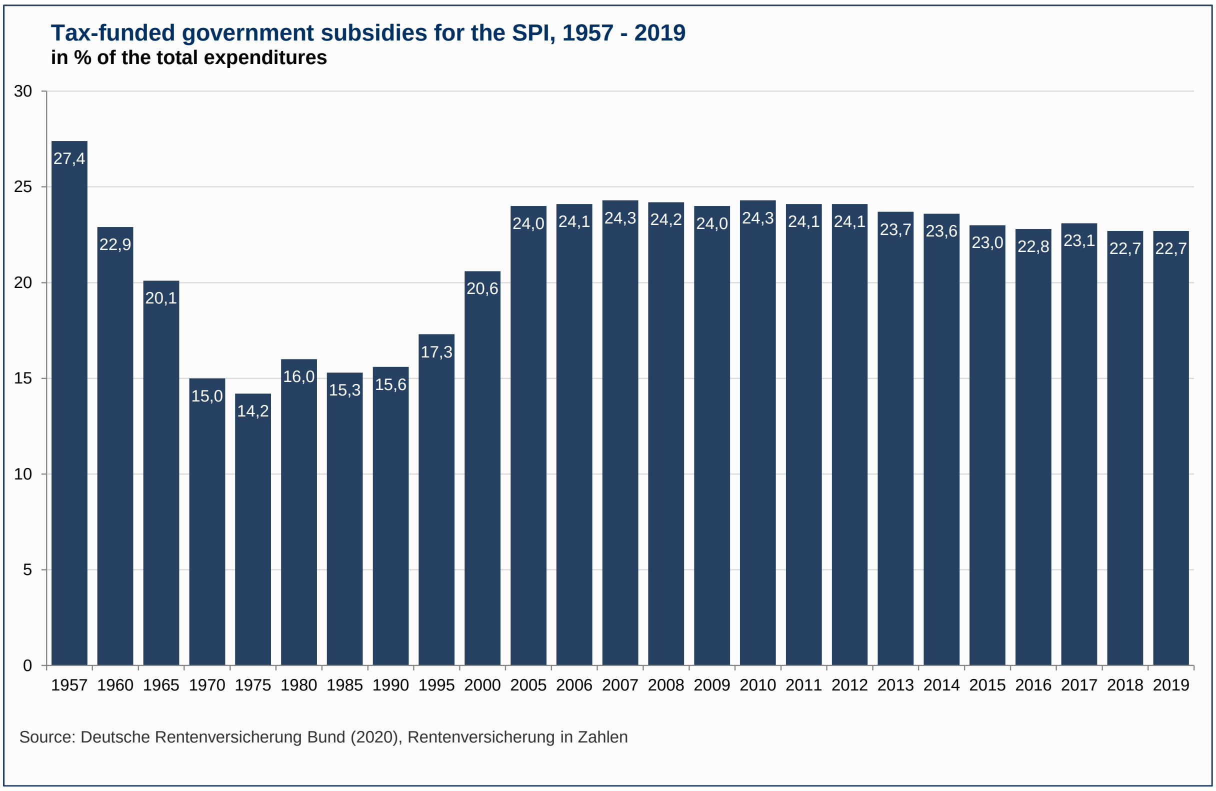


Figure 5

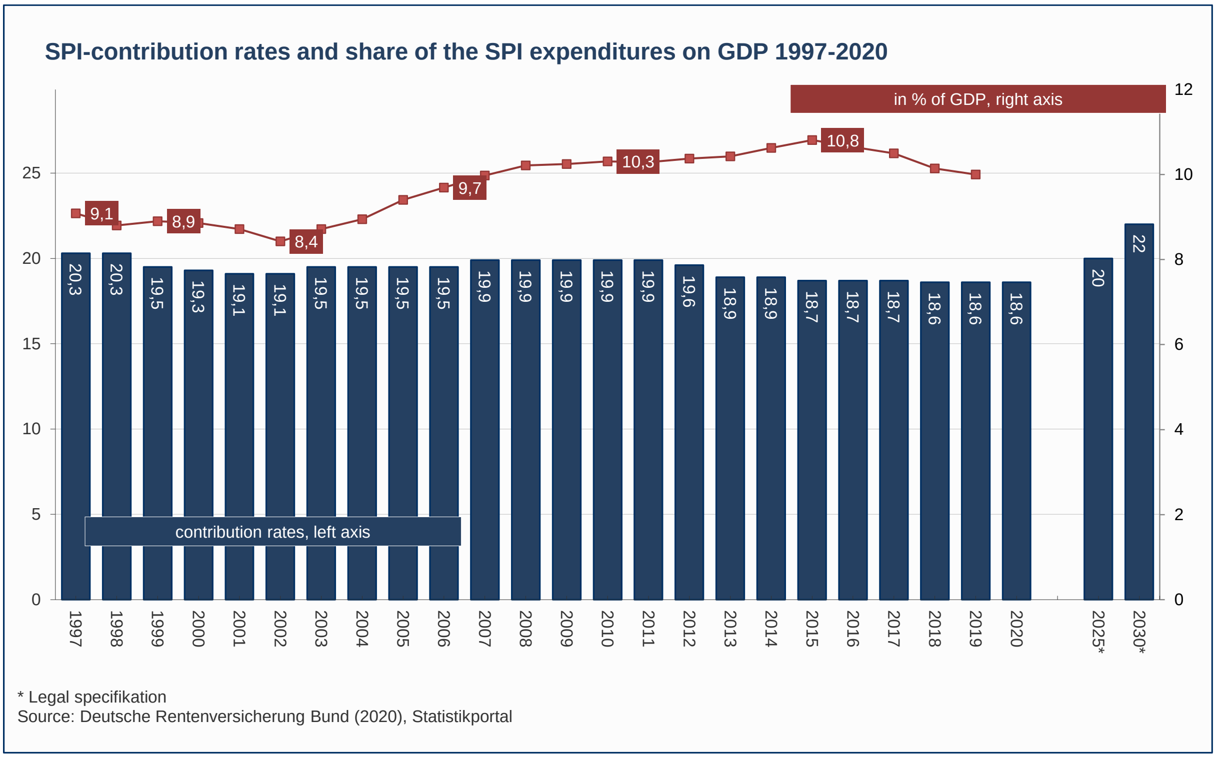
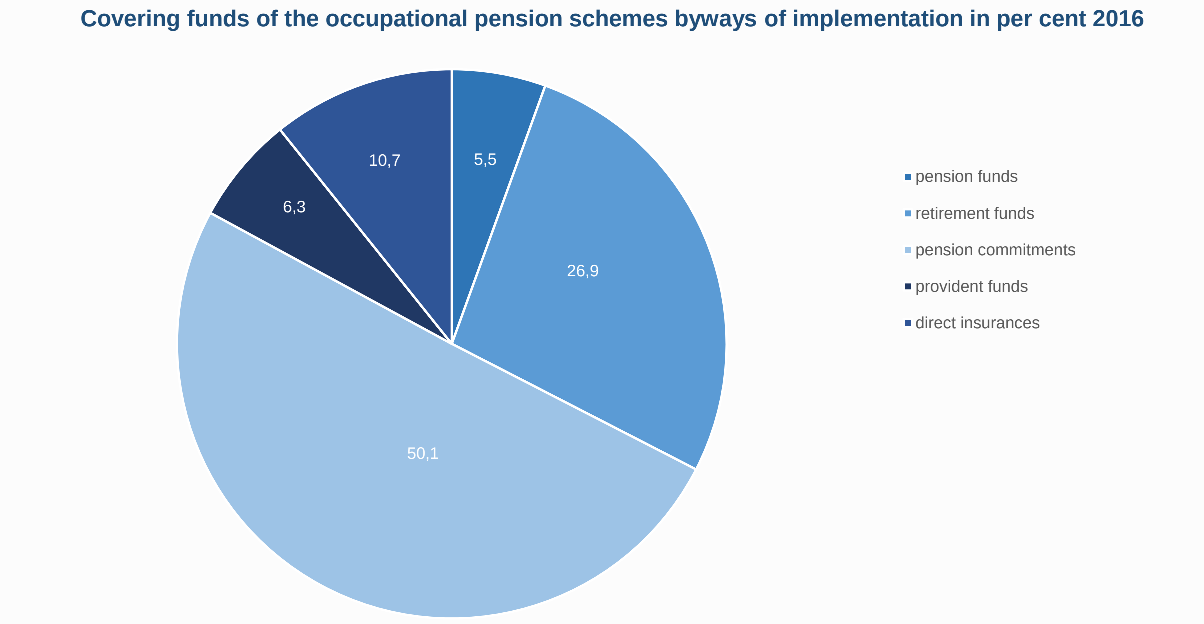
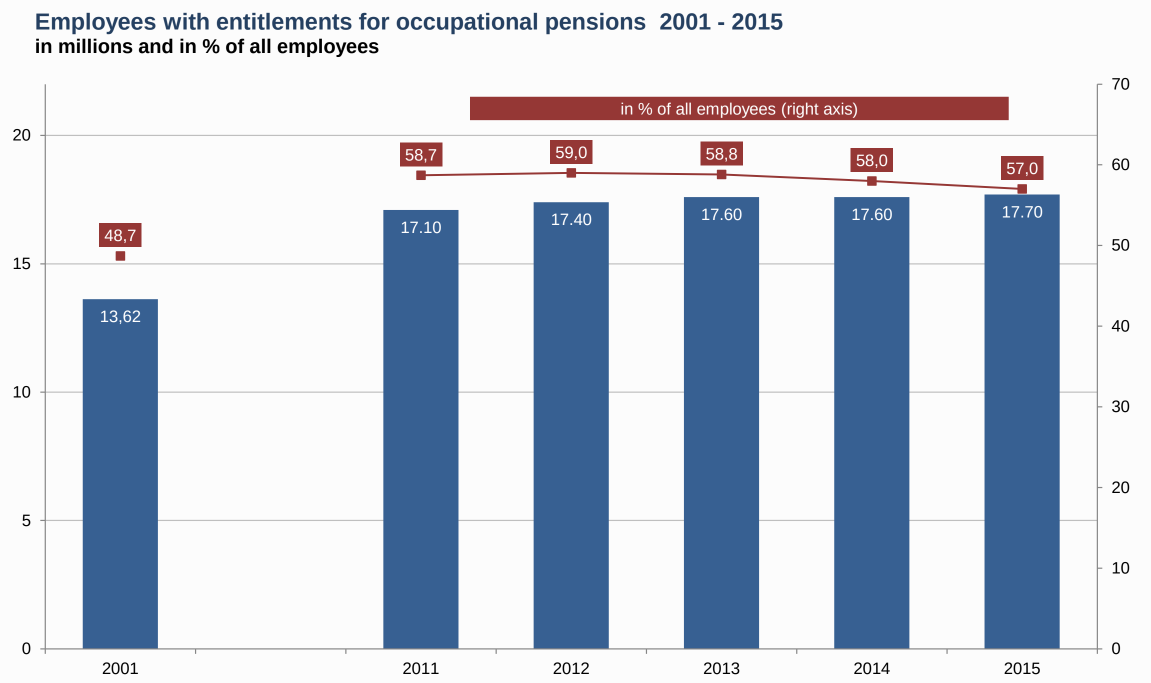


Figure 6



Source: Schwind, J. (2018), Die Deckungsmittel der betrieblichen Altersversorgung, in: Betriebliche Altersversorung 04/2018, S. 309 f.

Figure 7



Source; Bundesministerium für Arbeit und Soziales (2016), Alterssicherungsbericht.

Figure 8

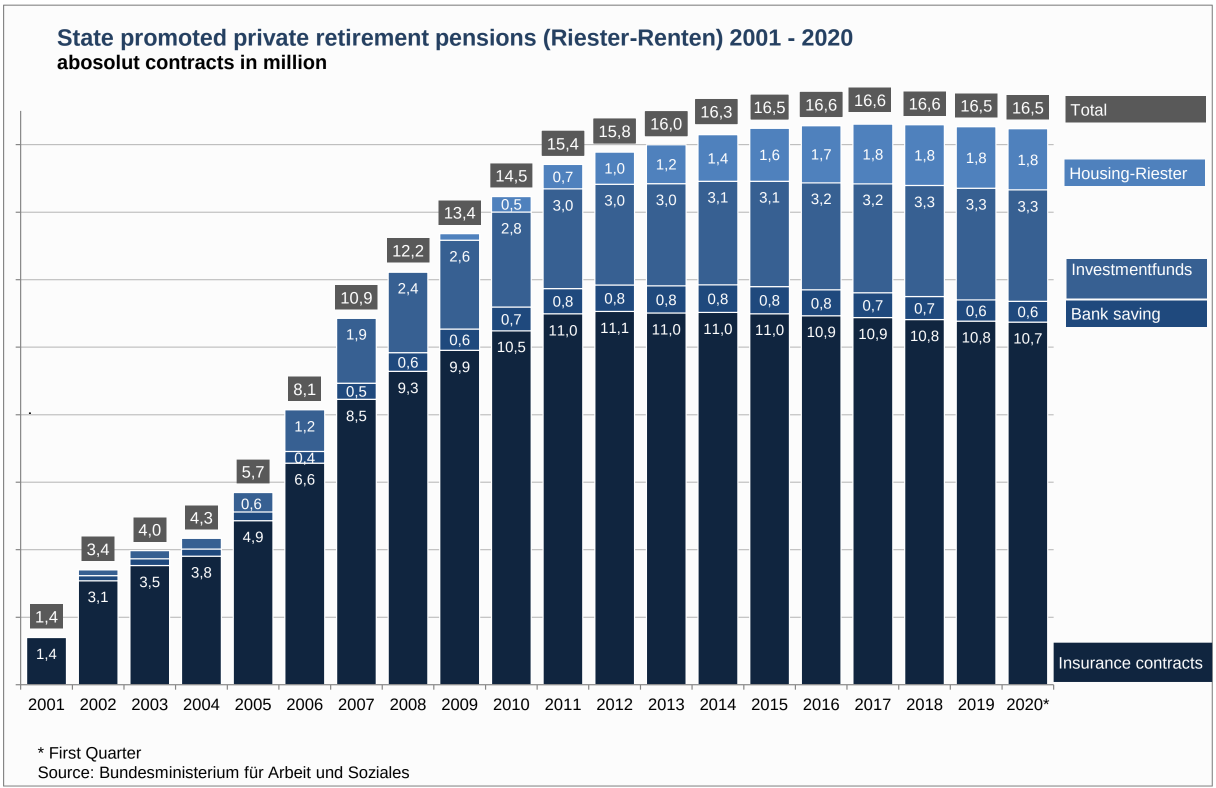


Figure 9

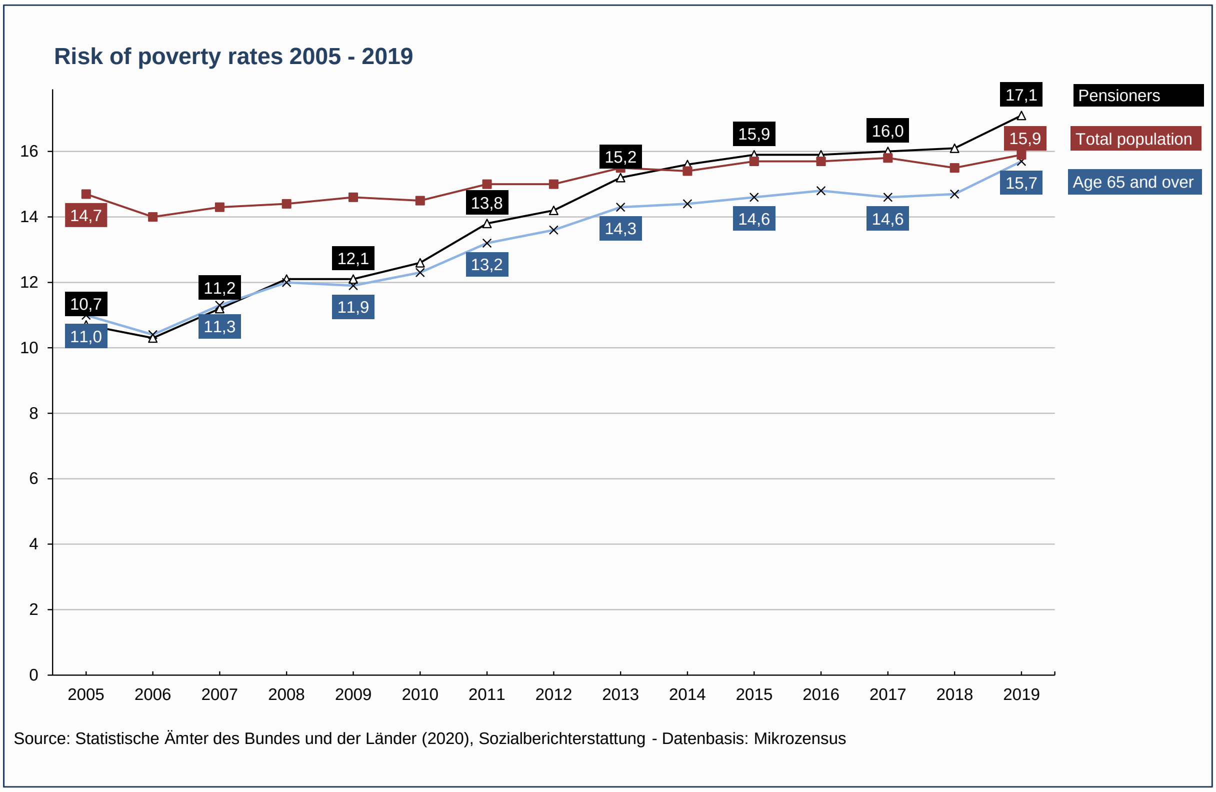


Figure 10

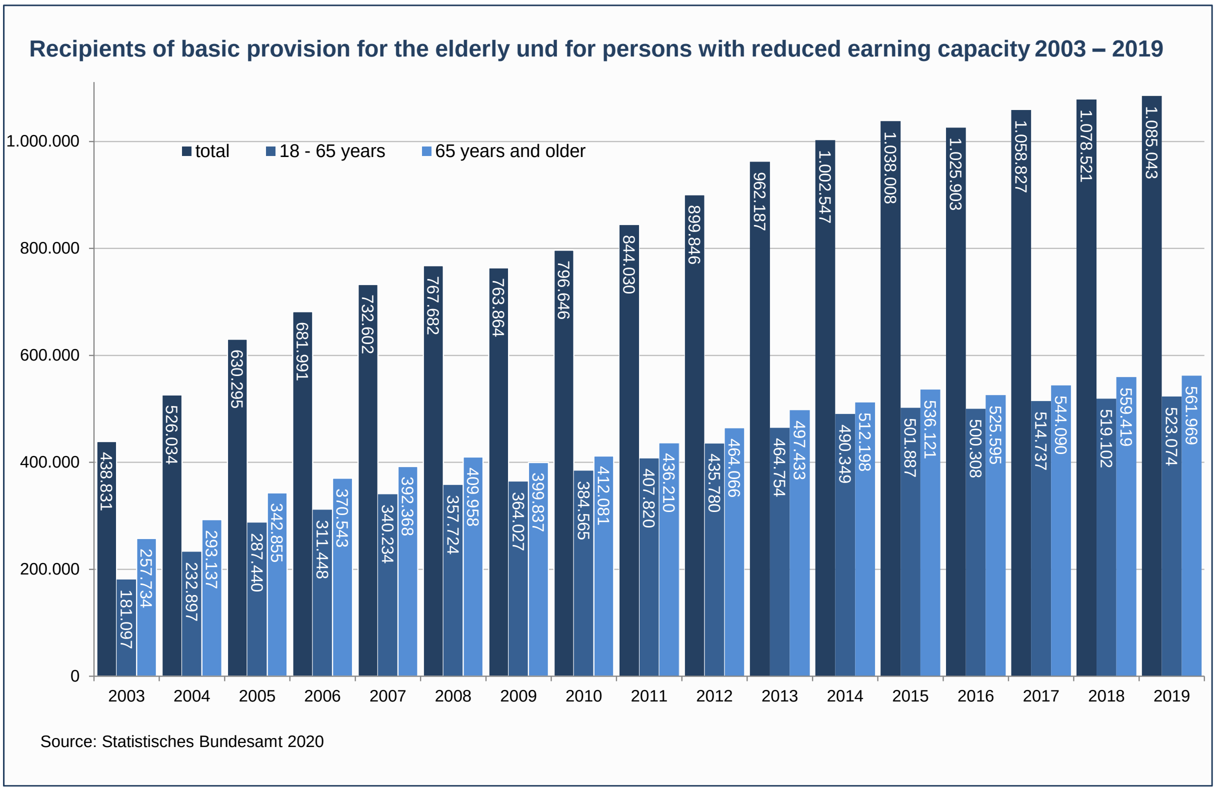


Figure 11

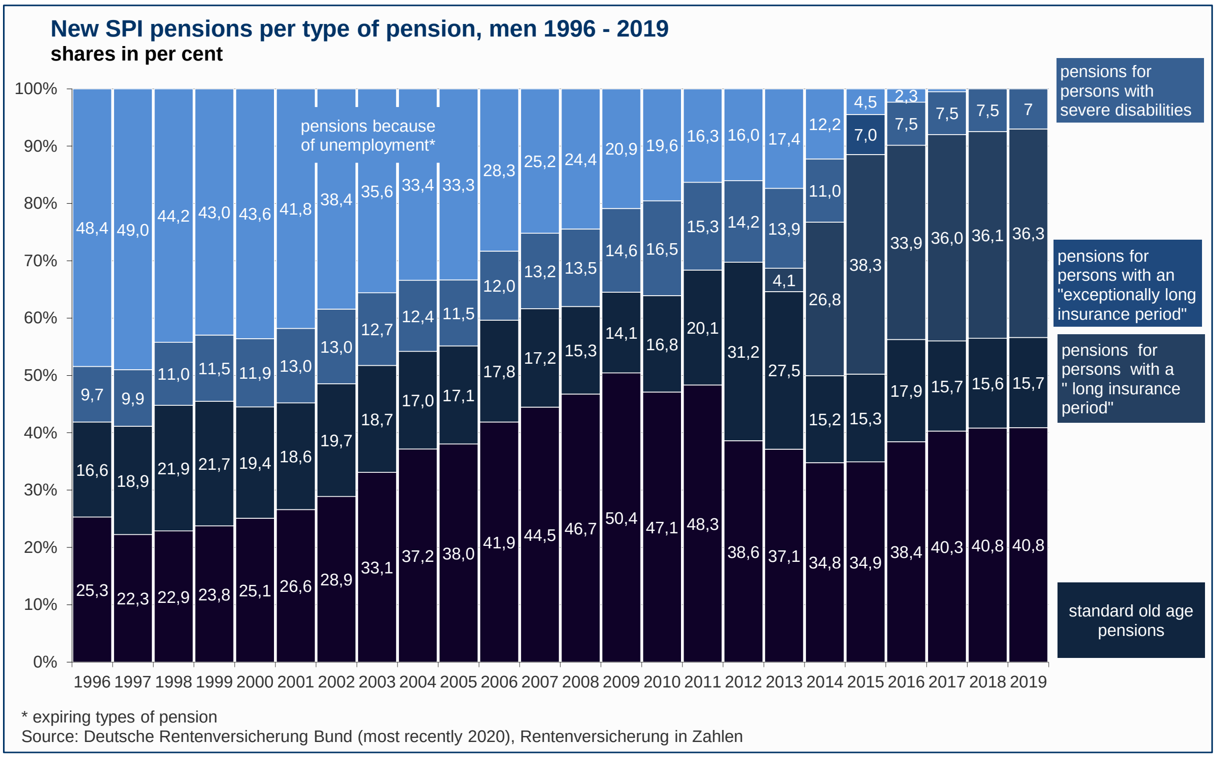


Figure 12

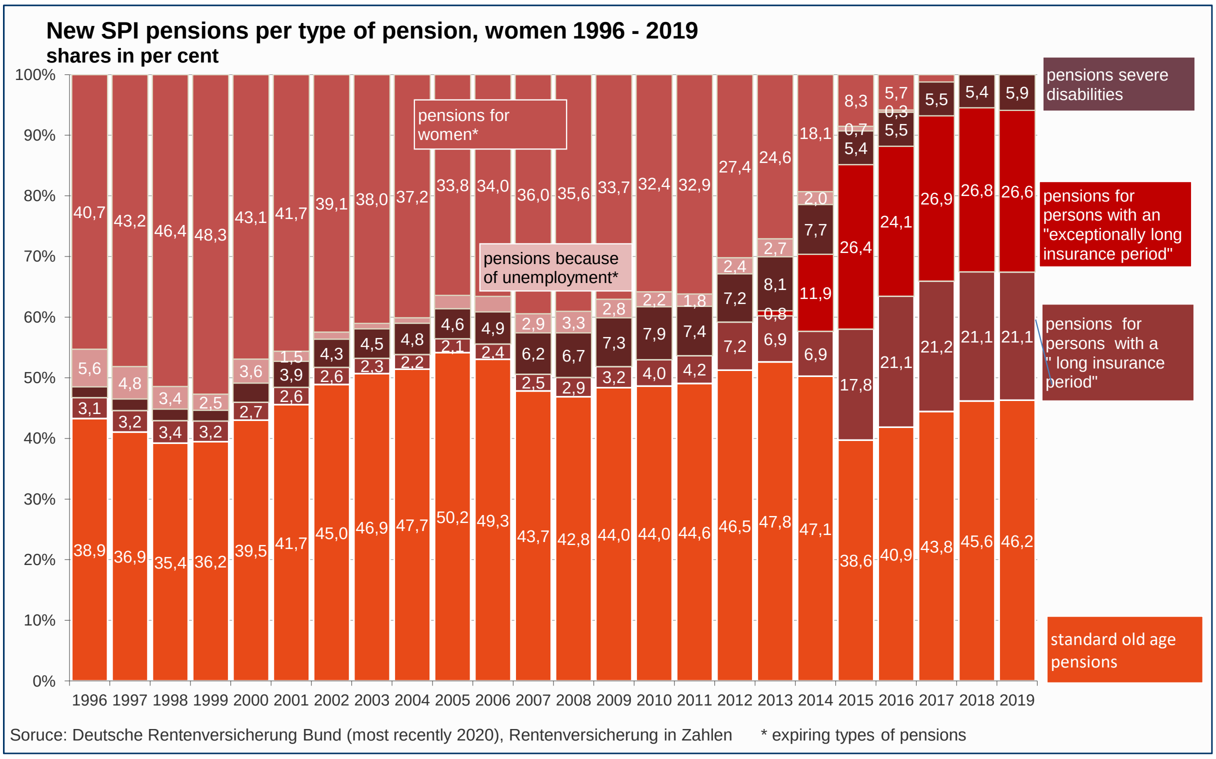
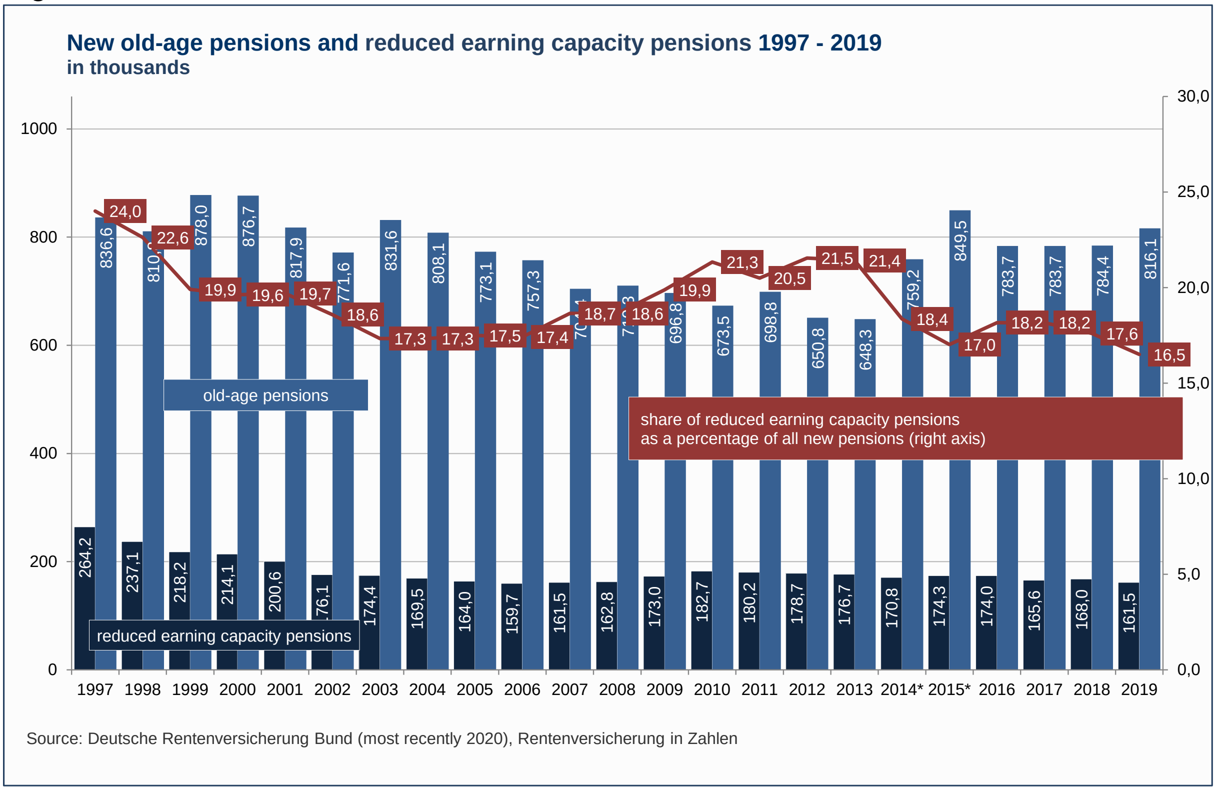


Figure 13



With the financial support of the European Union

Figure 14

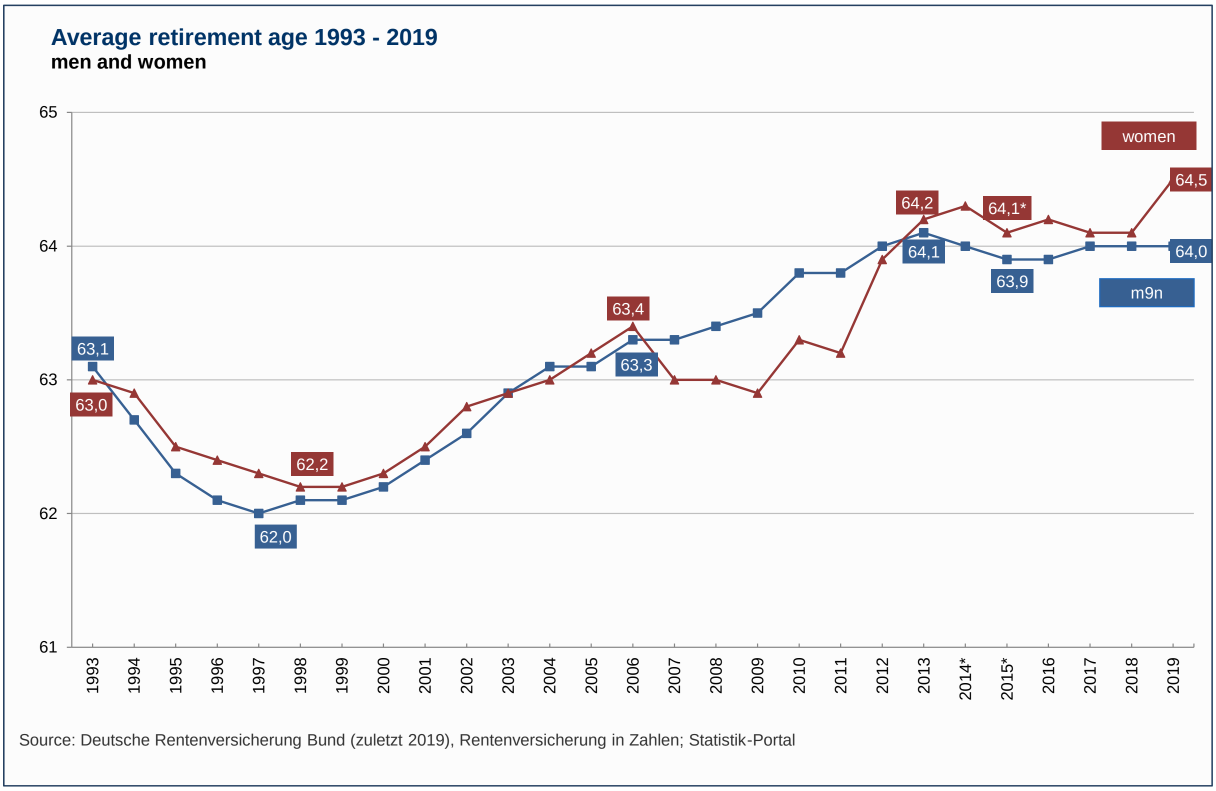
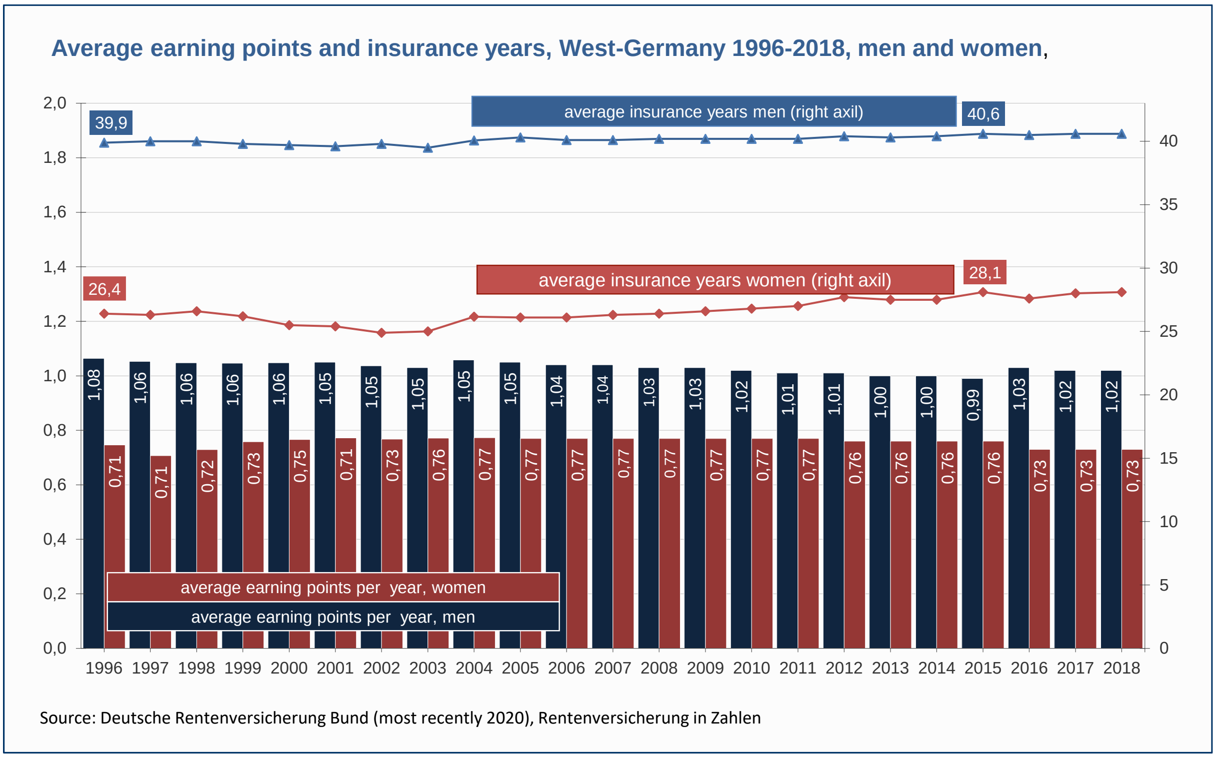


Figure 14b



With the financial support of the European Union

Figure 15

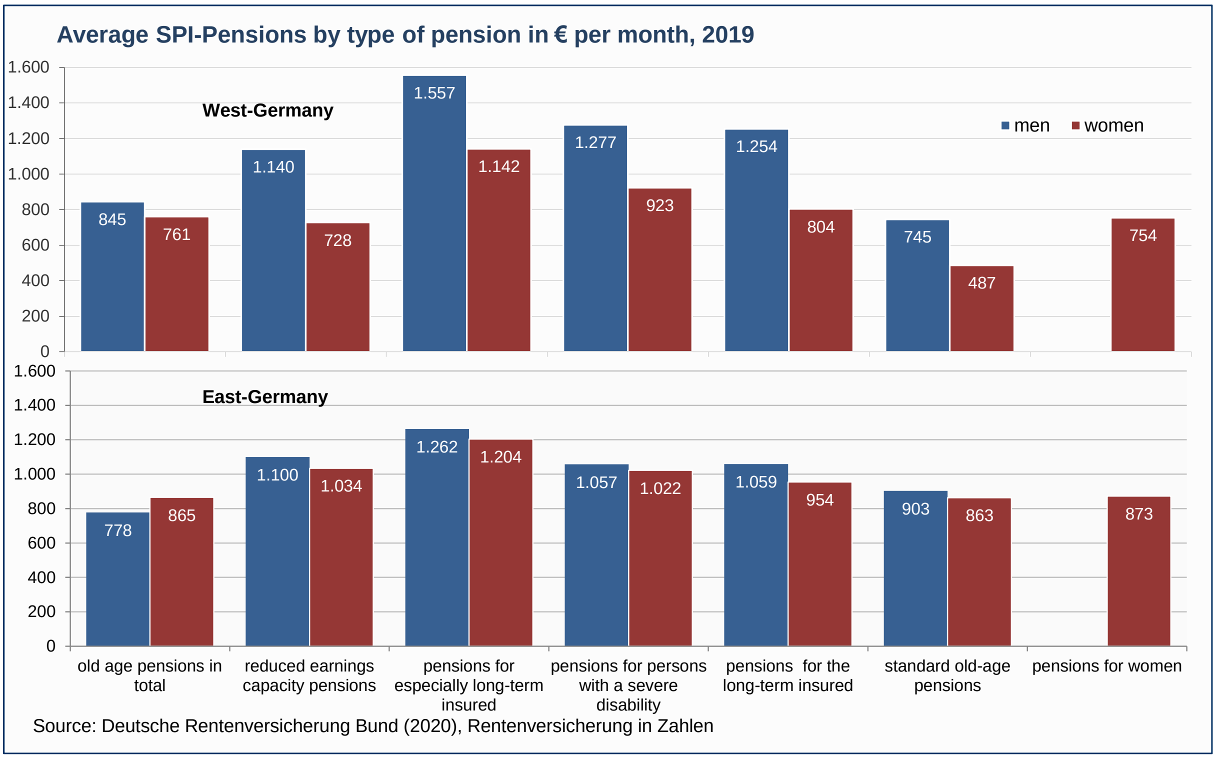


Figure 16

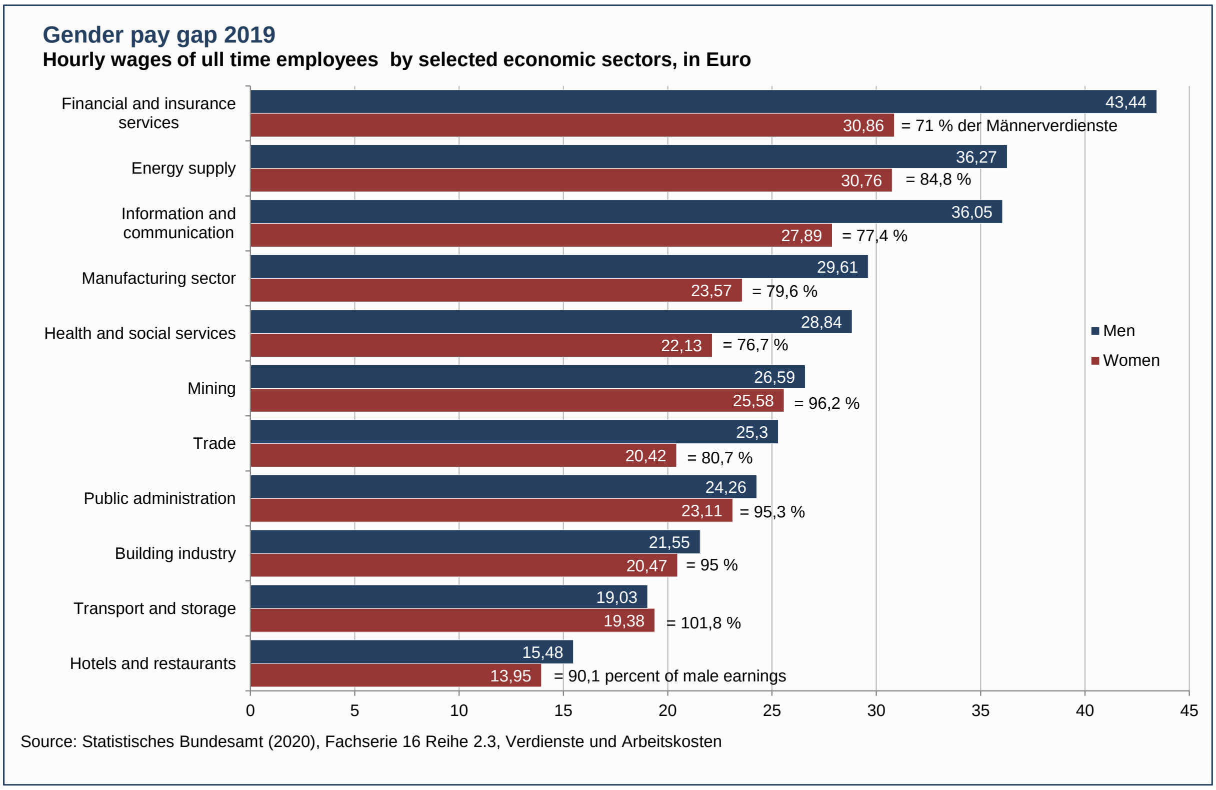


Figure 17

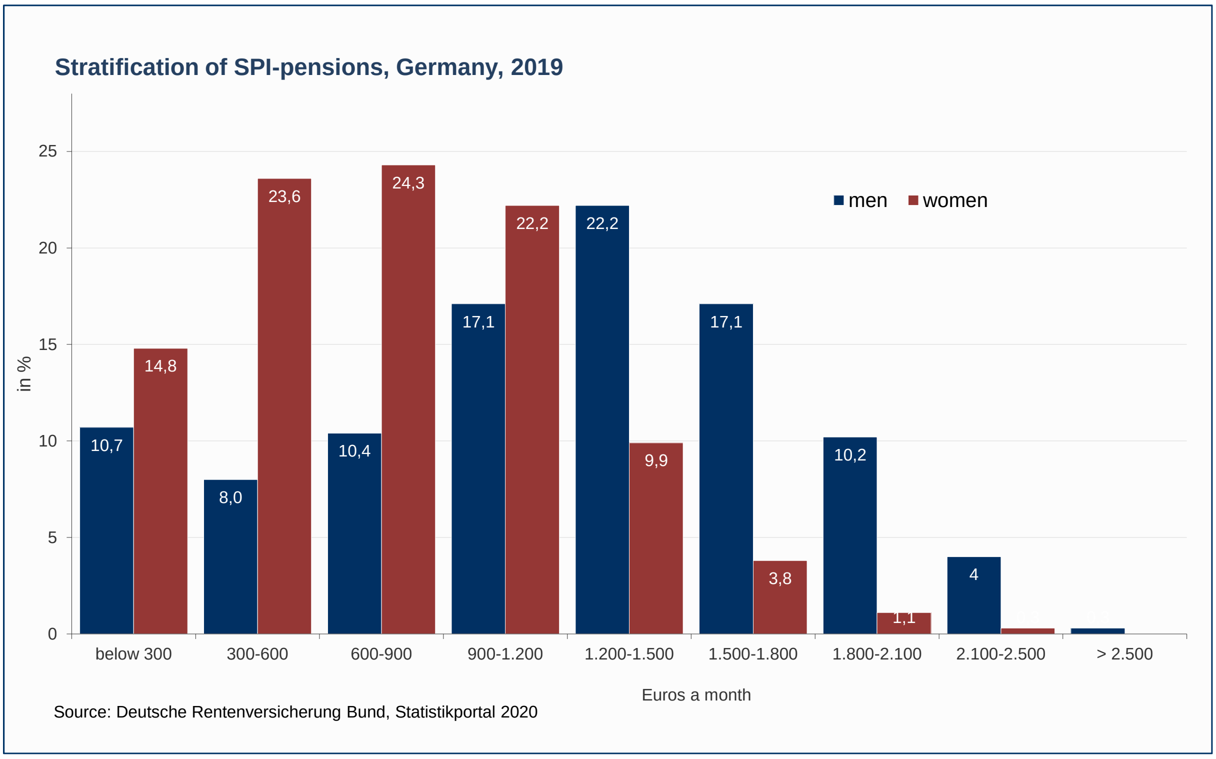
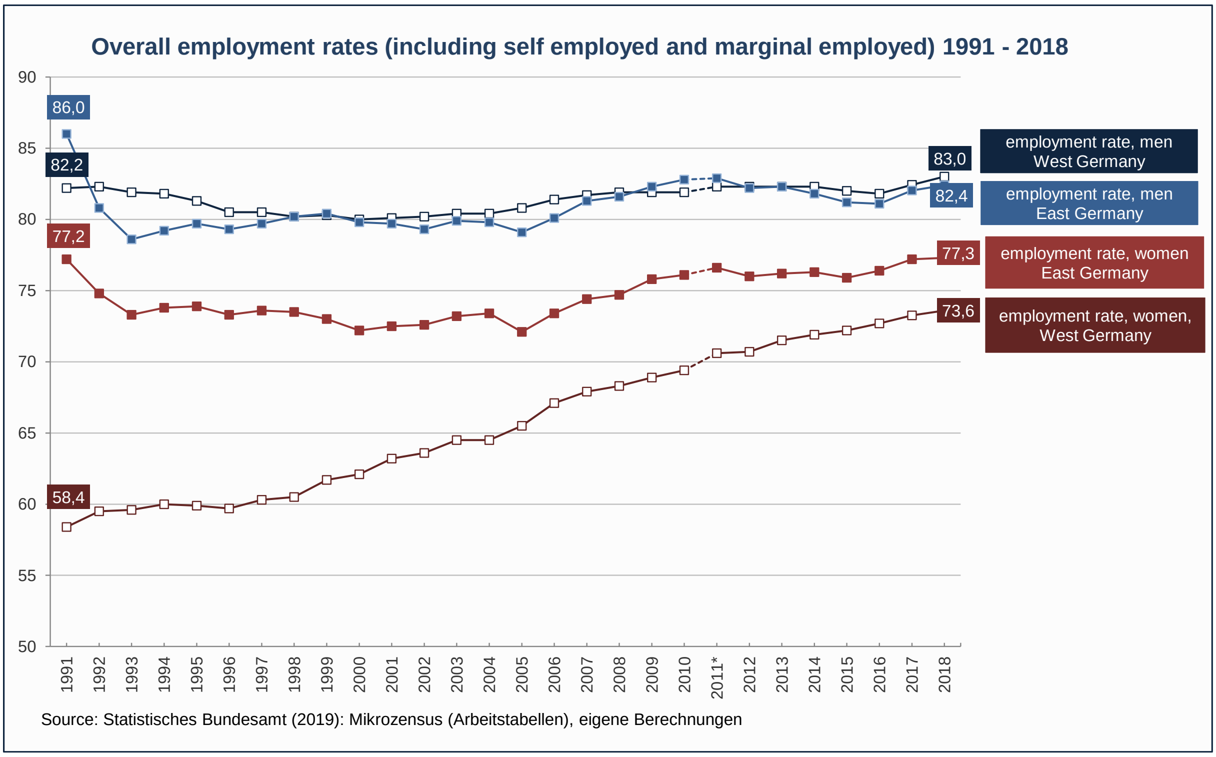


Figure 18



With the financial support of the European Union

Figure 19

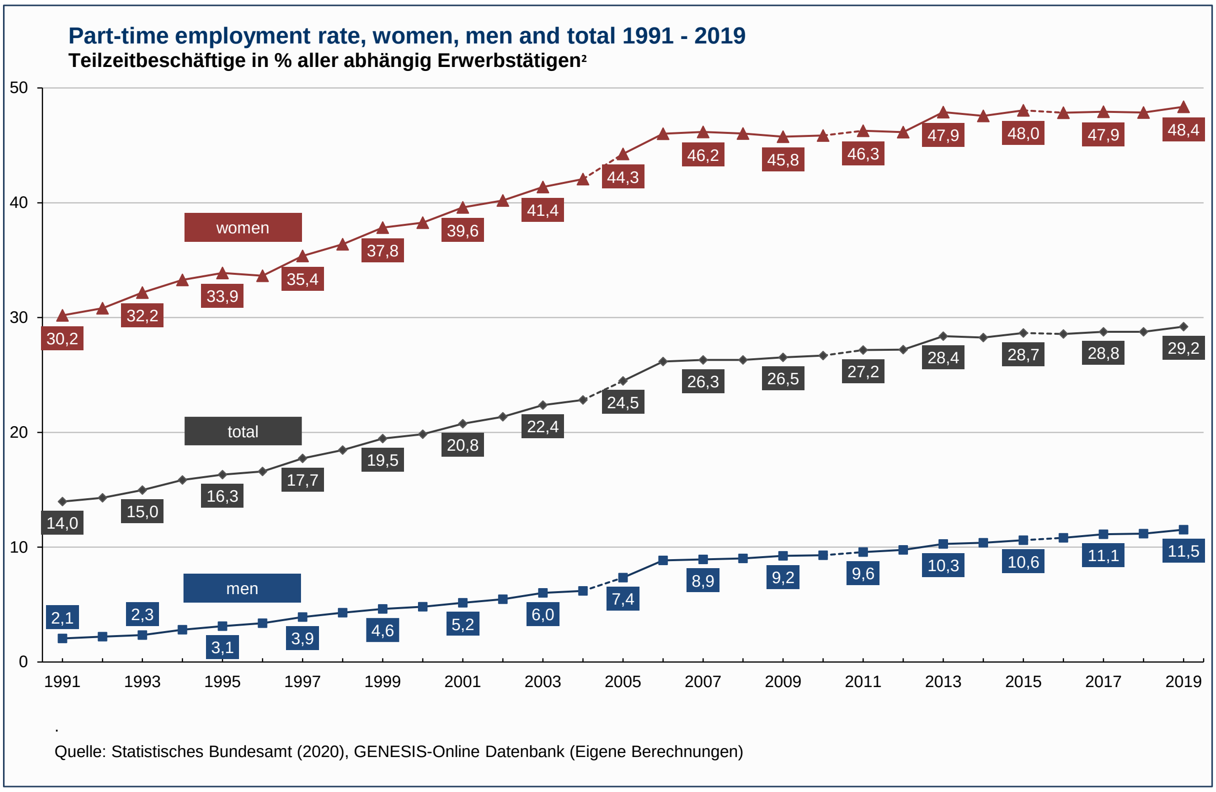


Figure 20

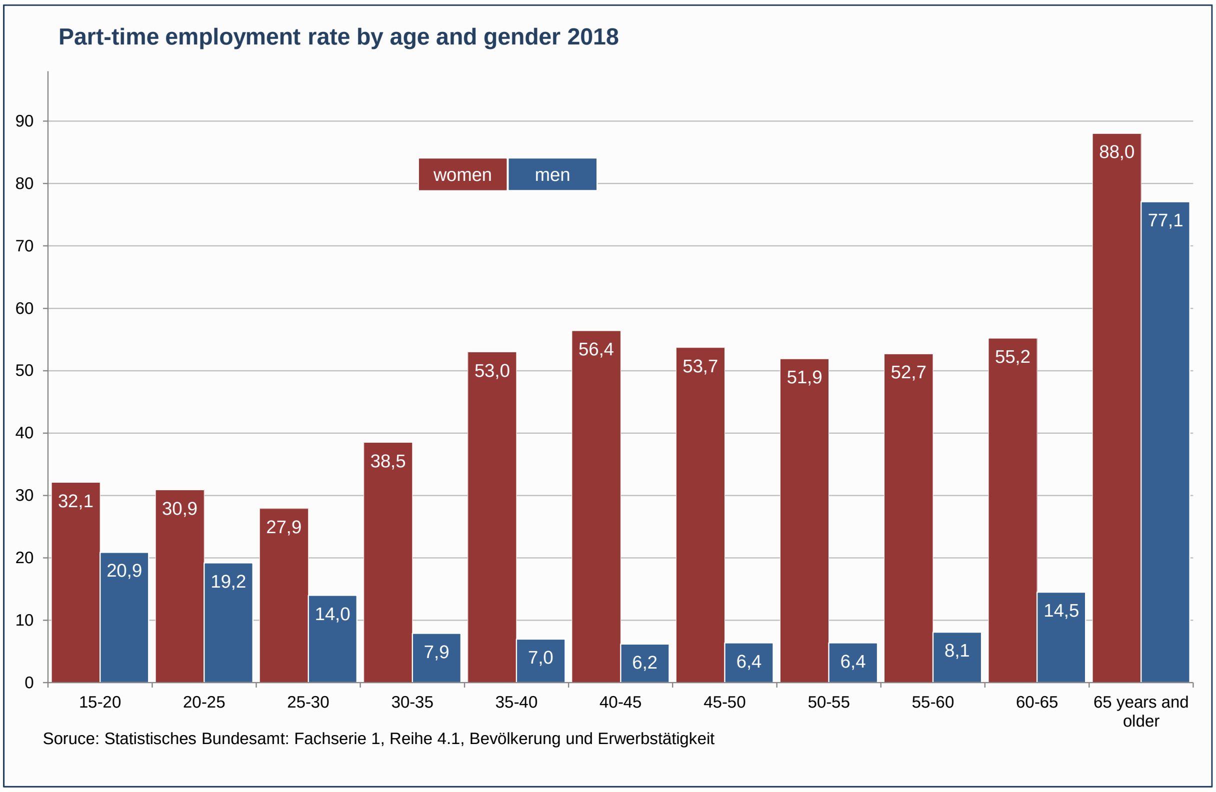
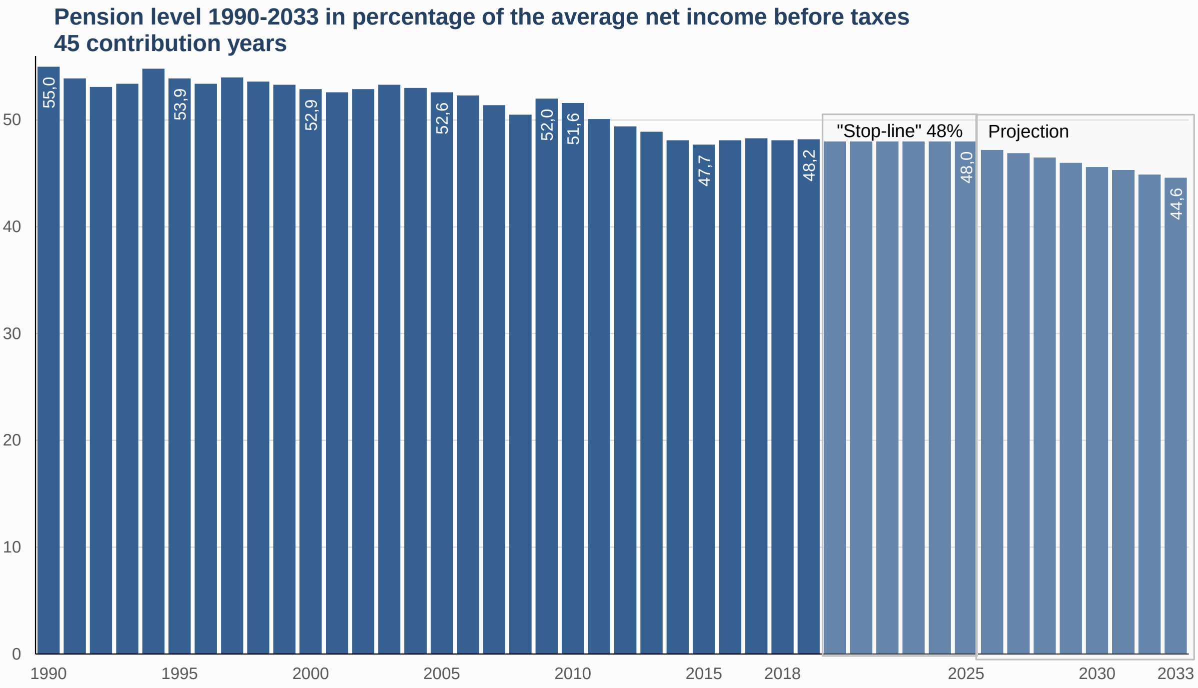
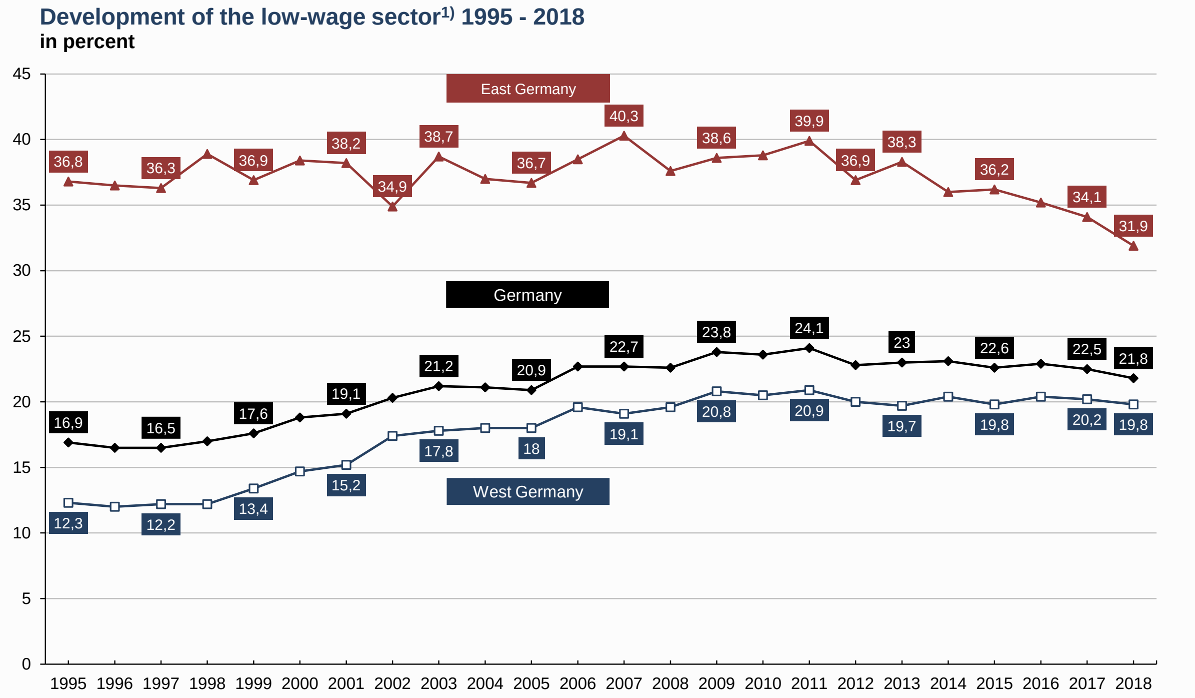


Figure 21



Source: Deutsche Rentenversicherung Bund (zuletzt 2019), Rentenversicherung in Zeitreihen; Bundesregierung (2019) Rentenversicherungbericht 2019

Figure 22



1) Low wage threshold: Two thirds of the average hourly wage Median

Source: Kalina, T., Weinkopf, C. (2020), Niedriglohnbeschäftigung 2018, IAQ-Report 2020-05. Datenbasis SOEP

With the financial support of the European Union

Figure 23

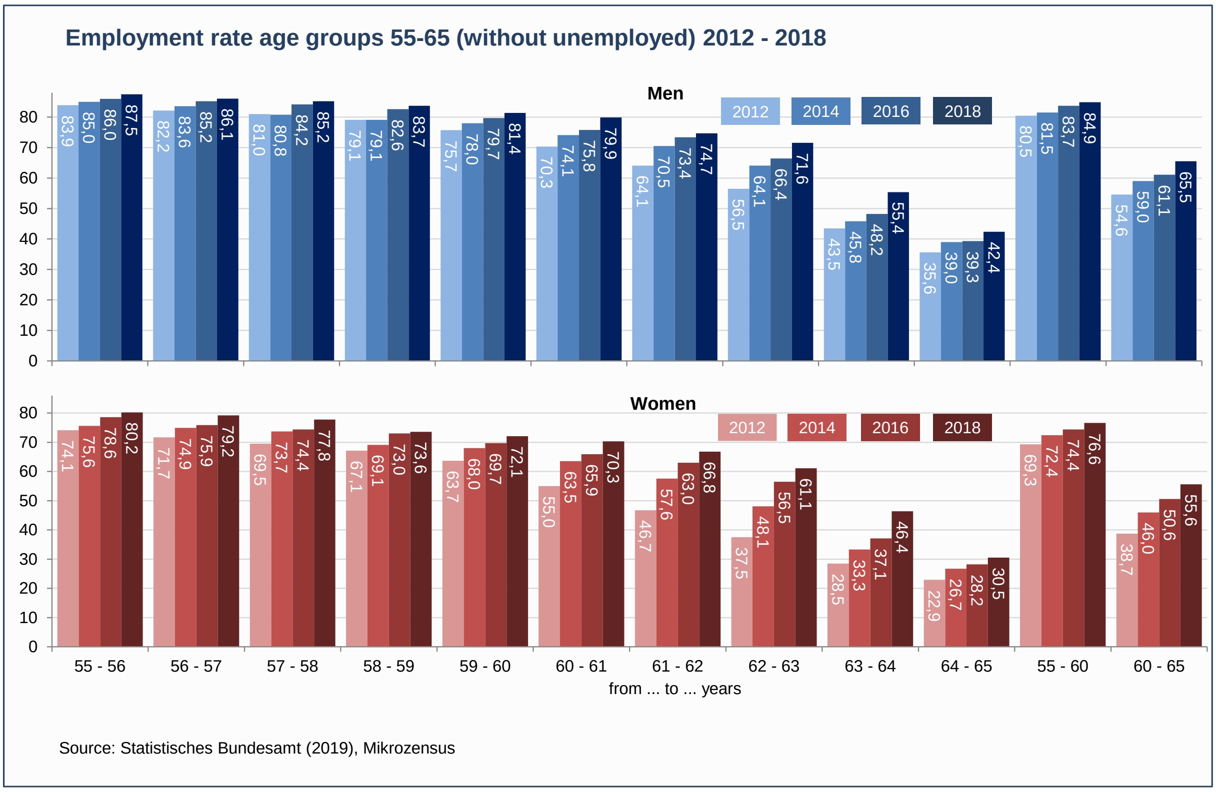


Figure 24

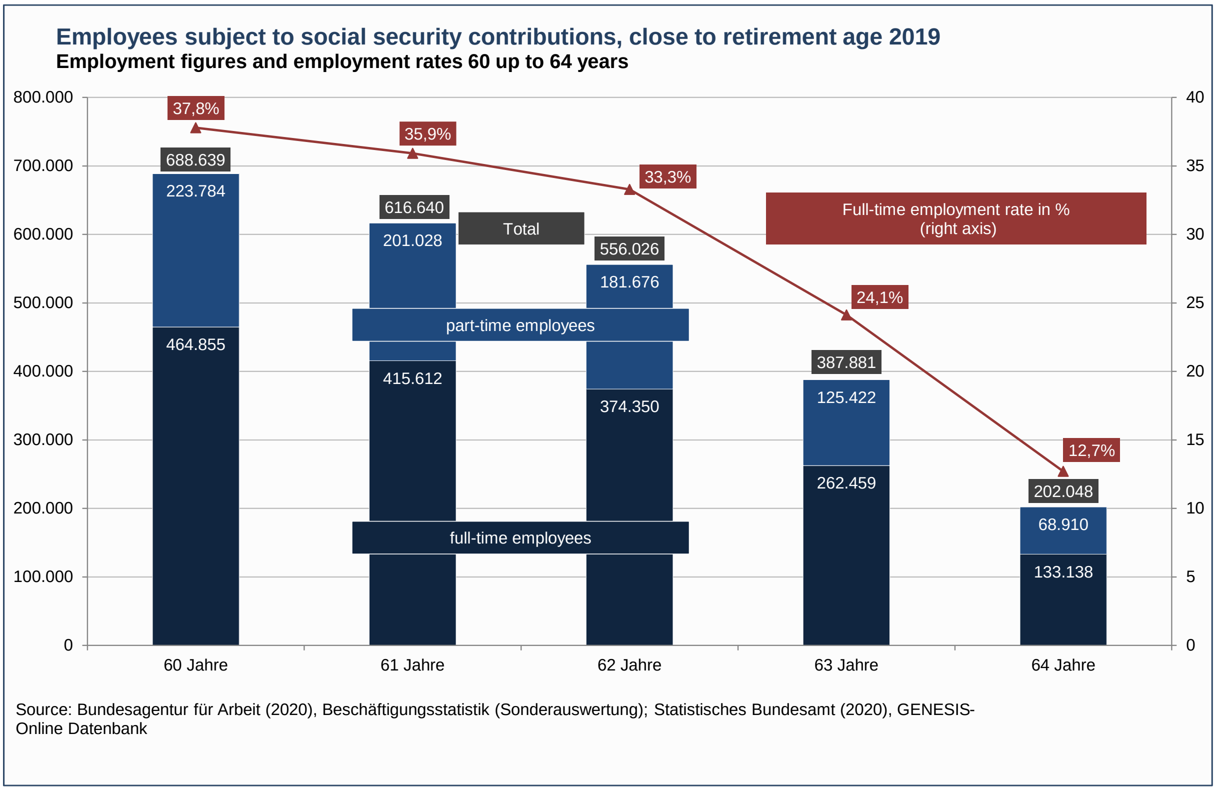
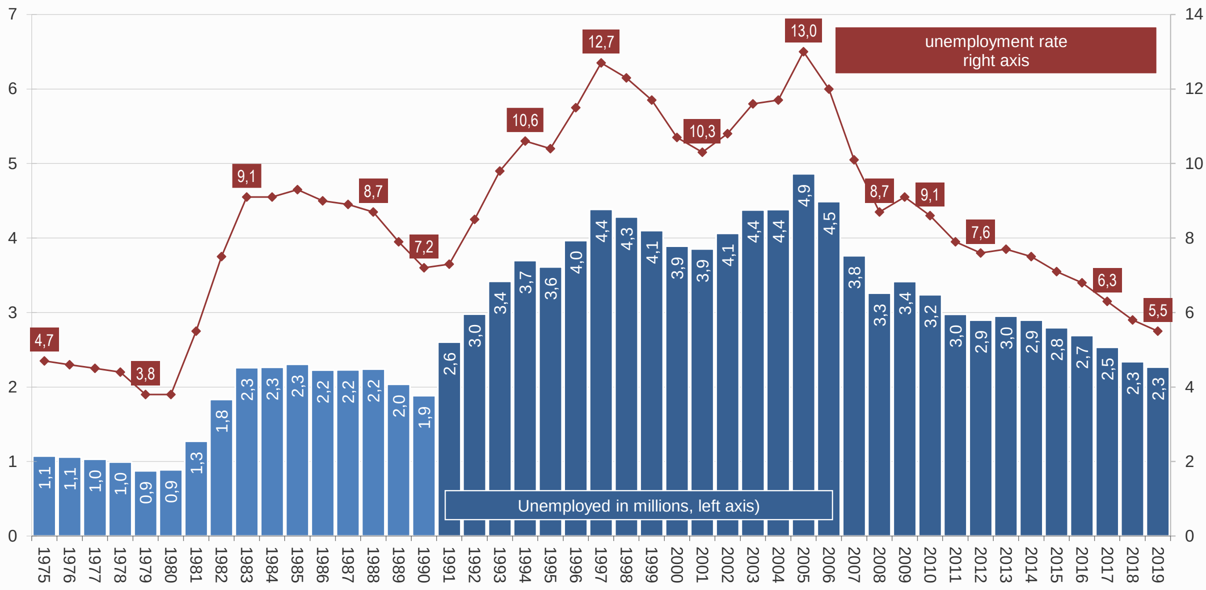


Figure 25

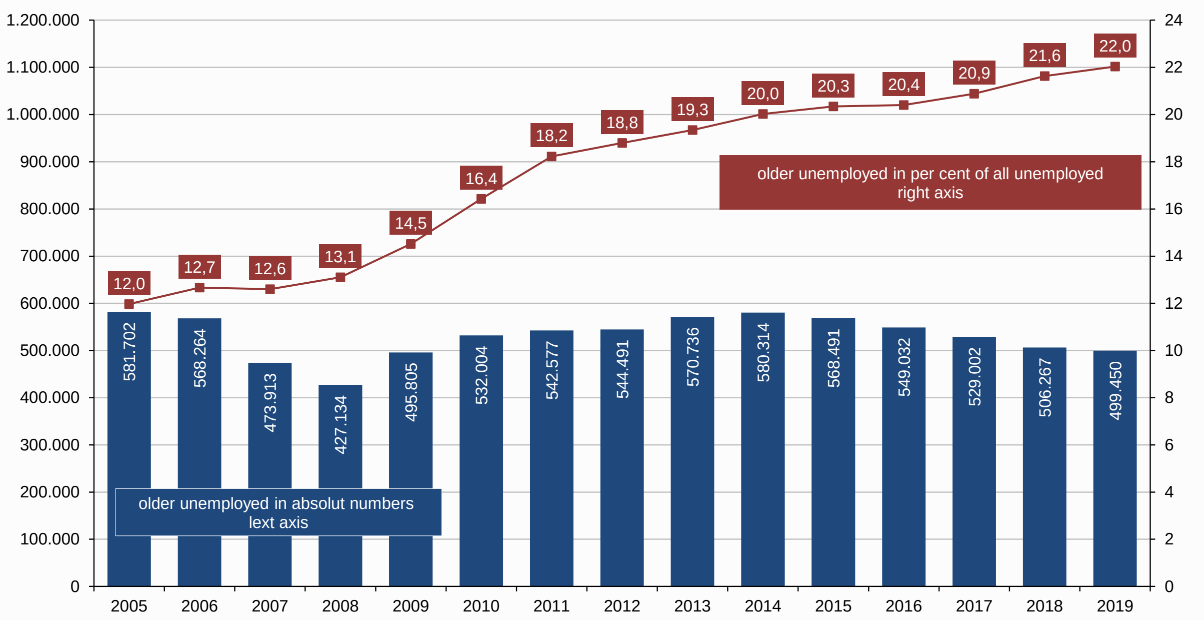
Unemployed and unemployment rates 1975 - 2019*



* unemployment, defined by law
Source: Statistik der Bundesagentur für Arbeit (2020): Arbeitslosigkeit im Zeitverlauf

Figure 26

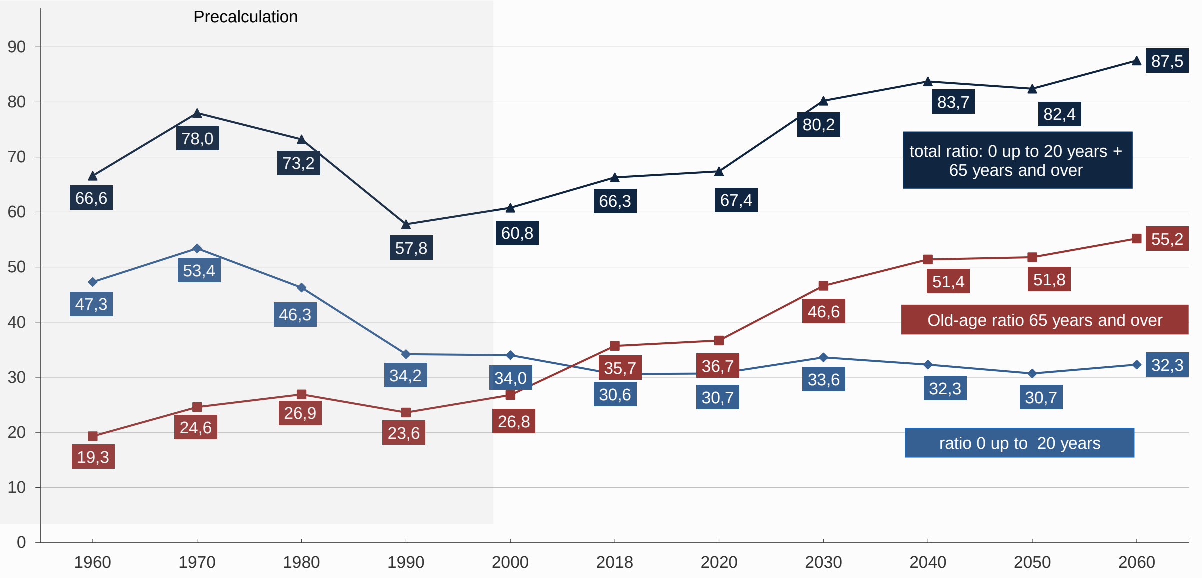
Older unemployed* (55 up to 65 Jahre) 2005 - 2019



*defined per law
Quelle: Statistik der Bundesagentur für Arbeit (2020), Berichte: Analyse Arbeitsmarkt, Arbeitsmarkt für Ältere

Figure 27

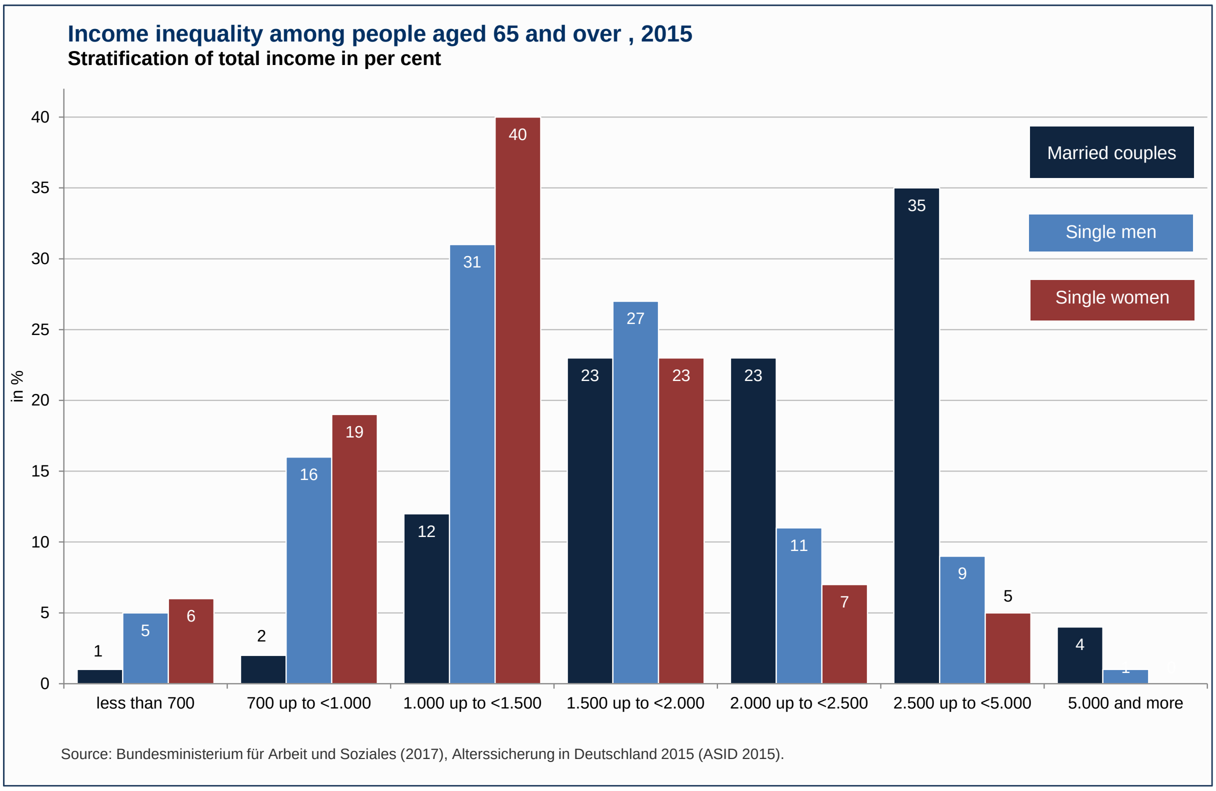
Demographic age dependency ratios: 1960 - 2060
65 and over and 0-20 years vis-à-vis 20-64 age group



Source: Statistisches Bundesamt (2013), Bevölkerungsfortschreibung, Fachserie 1, Reihe 1.3; Statistisches Bundesamt (2019), Bevölkerung Deutschlands bis 2060. Ergebnisse der 14. koordinierten Bevölkerungsvorausberechnung.
Annahmen der Vorausberechnung: Variante 15 - siehe Kommentierung

With the financial support of the European Union

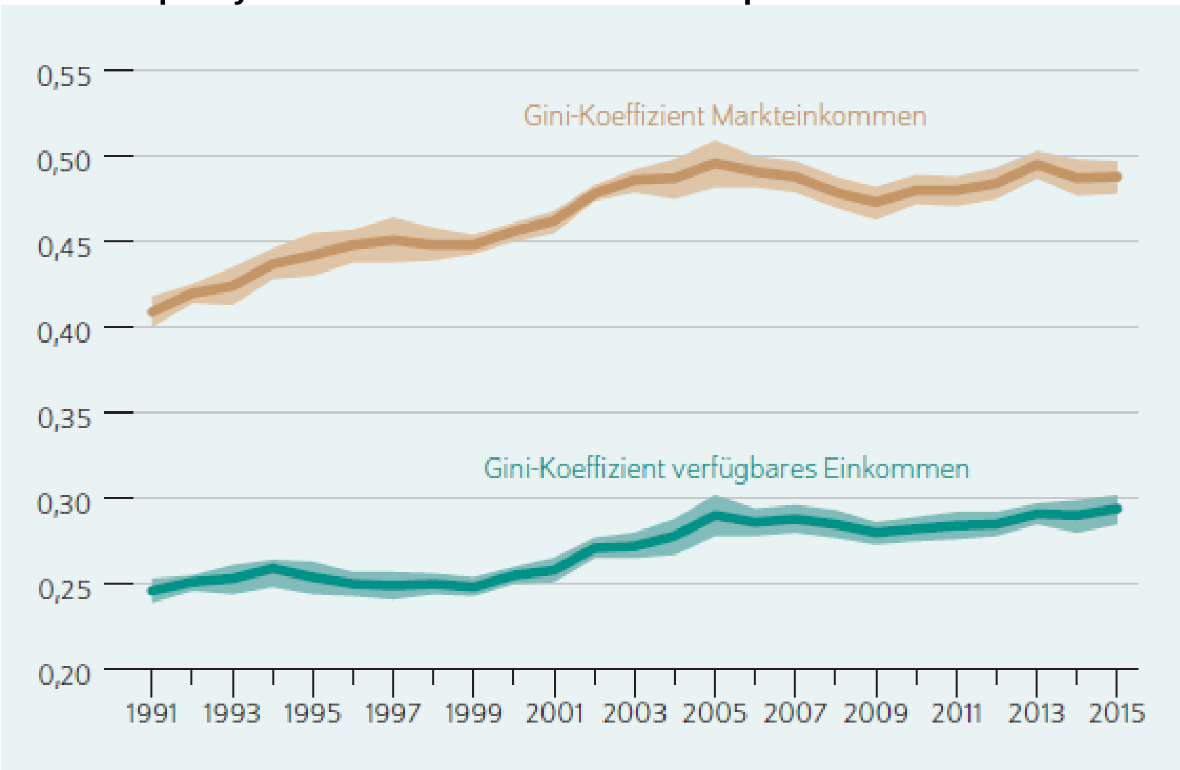
Appendix 2 (Additional figures and tables)



Income inequality among people aged 65 and over , 2015
Stratification of total income in per cent

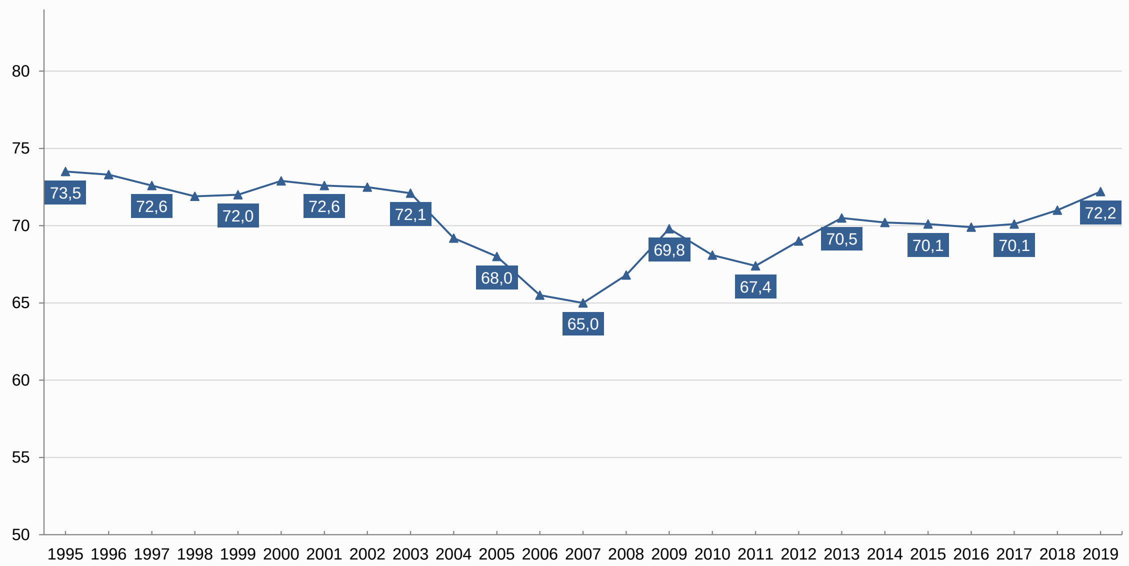
Source: Bundesministerium für Arbeit und Soziales (2017), Alterssicherung in Deutschland 2015 (ASID 2015).

Income inequality between market income and disposable income



Source: Grabka, M./Goebel, J. (2018), Einkommensverteilung in Deutschland: Realeinkommen sind seit 1991 gestiegen, aber mehr Menschen beziehen Niedrigeinkommen, DIW-Wochenbericht 21/2018.

Wage share* of GDP 1995 - 2019



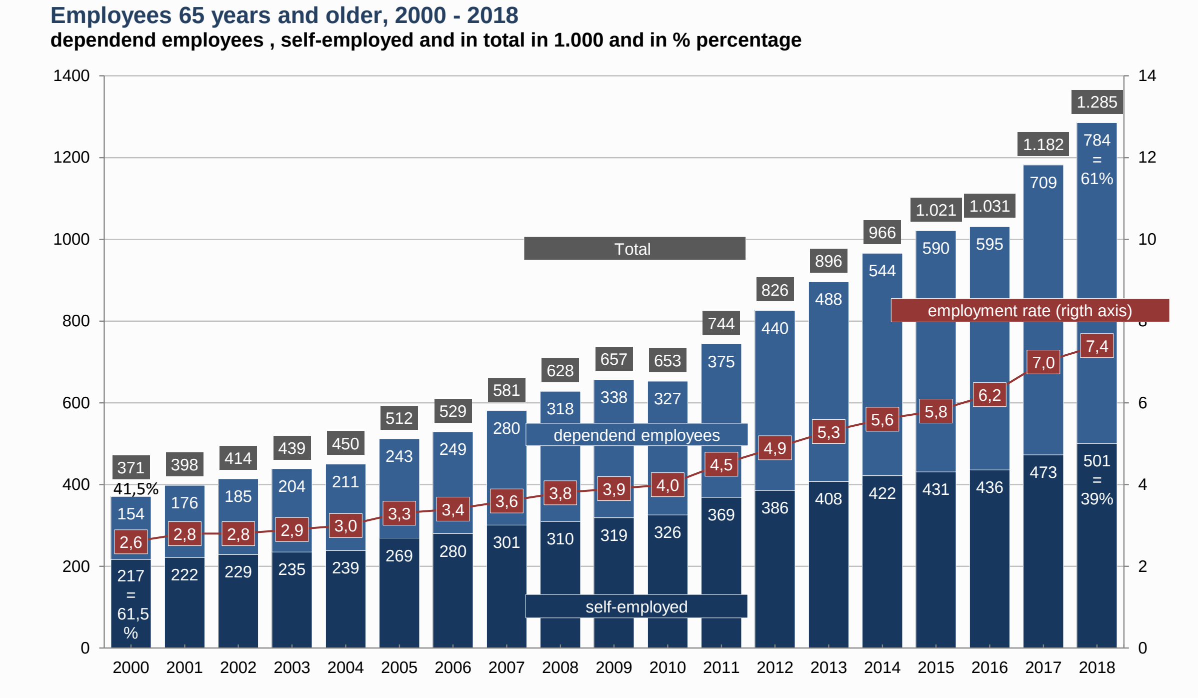
[1)] Structurally adjusted
Source: Statistisches Bundesamt (2020), Volkswirtschaftliche Gesamtrechnungen, Fachserie 18, Reihe 1.4

With the financial support of the European Union

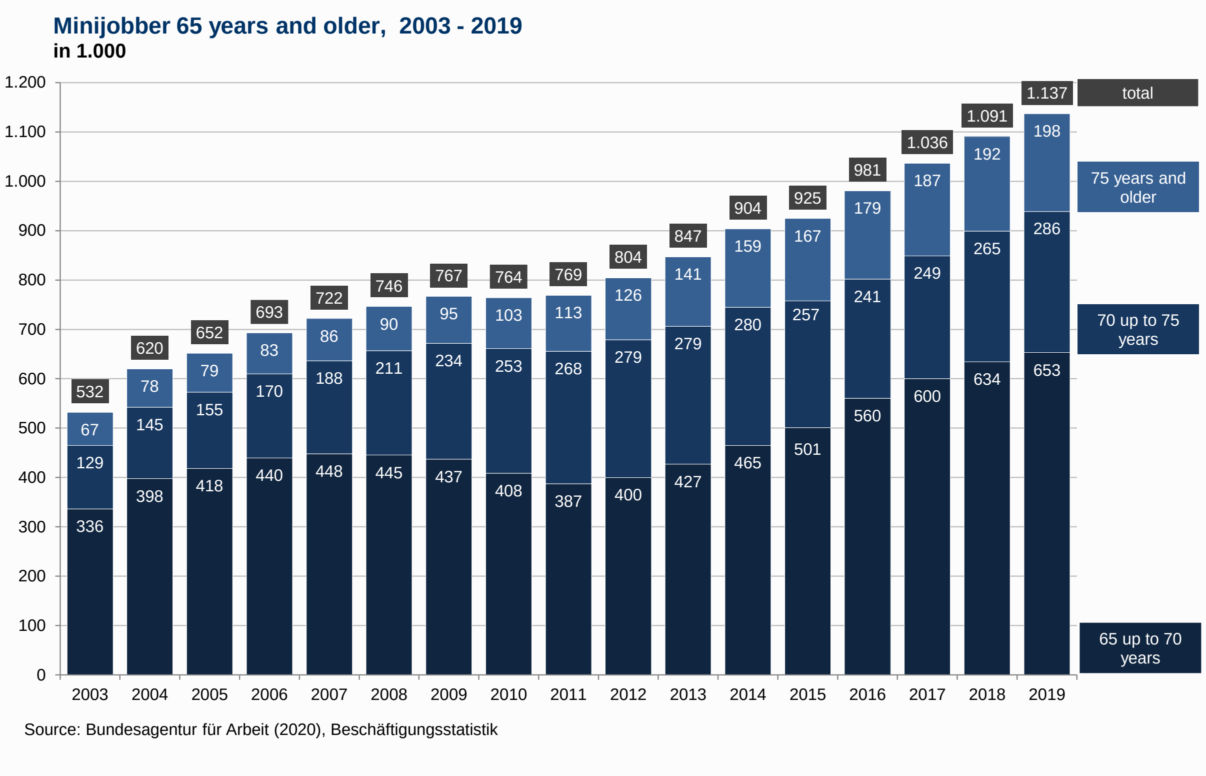
Pension expenditures as a share of GDP and financing structure 2019

	Share of GDP in per cent	Structure of financing in per cent			
		Contribu-tions	Govern-ment (taxes)	Employ-ers	Employ-ees
SPI	9,6	70,1	29,9		
Civil servants pension	1,8		92,2		
Occupational pensions	0,8			76,3	23,7
Farmers pen-sion	0,1	7,2	81,5		
Supplemen-tary pensions in the public service	0,4			67,5	12,4

Source: Bundesministerium für Arbeit und Soziales (2020), Sozialbudget



Source: Statistisches Bundesamt (2019), Mikrozensus (Destatis Datenbank)


Minijobber 65 years and older, 2003 - 2019
in 1.000
1.200
1.100
1.000
900
800
700
600
500
400
300
200
100
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
532
620
652
693
722
746
767
764
769
804
847
904
925
981
1.036
1.091
1.137
67
78
79
83
86
90
95
103
113
126
141
159
167
179
187
192
198
129
145
155
170
188
211
234
253
268
279
279
280
257
241
249
265
286
336
398
418
440
448
445
437
408
387
400
427
465
501
560
600
634
653
total
75 years and older
70 up to 75 years
65 up to 70 years
Source: Bundesagentur für Arbeit (2020), Beschäftigungsstatistik