Post Reform Pension Entitlements in Germany - The Need for Another Reform

Jens Gruetz
Eurostat

All European countries are facing severe demographic challenges. Costs resulting from foreseeable demographic changes (e.g. increase in life expectancy, decrease in the birth rate) are the keywords. Concerning the German statutory pension insurance contribution rates from 36% to 44% for the year 2030 have been forecasted already in 1987. After several reforms and the introduction of a sustainability factor, the system is more independent from the labour market and demographic changes but the discussion regarding the sustainability of pay-as-you-go (payg) pension schemes is ongoing. One popular proposal is the transition towards a (partly) funded pension scheme. The likely consequences of this proposal focussing low income earners are analysed in this article. Starting point is the analysis of the distribution of pension entitlements by age and sex of the statutory pension insurance in Germany. The calculations will show that the additional burden of financing two pension schemes, the old payg pension scheme and the new funded scheme, would affect different generations to a different extent. While the young generation can profit from a long contribution period the older generations will face large additional contributions into the new funded scheme. Moreover: The positive result for the young generation is true only if the assumption of a larger rate of return of funded systems really holds. Taking into account the different capacities of different social groups to bear the intrinsic risks of funded pension schemes the intention to give more room to funded schemes should be reached by other means. The lowering of the contribution ceiling and the widening of the contribution base via inclusion of civil servants and self employed into the statutory pension insurance is one promising approach.