

Academic Workshop  
“Active Ageing Policy and Pension Reforms:  
Russian and International Experience” at the Institute for Social Policy  
(Higher School of Economics/National Research University, Moscow)

## The German pension system: reforms and challenges from an inequality perspective

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# Overview

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- 1. The German pension system**
- 2. Recent reforms**
- 3. Central challenges from an inequality perspective**
  - 3.1 Overlap between pensions and means-tested benefits
  - 3.2 Women's pensions
  - 3.3 Demographic ageing
- 4. Conclusions**

- What are central problems of the German pension system – especially from an inequality perspective? Which solutions are proposed and how are they debated?
- dominating perspective: sociological, focus on questions of inequality

# 1. The German pension system

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- Bismarckian pension system with a **strong first pillar of public pensions** (origins dating back to the 1880s)

## **German pension insurance (Deutsche Rentenversicherung)**

- branch of social insurance (together with health, unemployment, accident, long-term care insurance)
- **coverage:** mainly dependent employees (excluded: most self-employed, civil servants) and their spouses/children  
→ 90 % of population aged 65+ get some kind of benefits from pension insurance, ~57 % of population aged 15-65 are actively insured, many more passively
- **risks covered:** old age, incapacity, loss of main earner

## **Financing**

- contributions by dependent employees and their employers (2019: 9,3% each → 18,6 %), up to contribution assessment ceiling
- pay-as-you-go
- additionally (~1/3) tax-financed federal subsidy – mainly for ‘solidarity’ benefits

# 1. The German pension system

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## **Pension benefits and their calculation in pension insurance**

- **old age pensions**, incapacity pensions, survivors' pensions
- **meritocratic 'equivalence' principle**: pension depends on
  - **duration** of contributions
  - **amount** of contributions (i. e. income)  
→ 1 earning point for each year of average income, up to ~2,1 points/year
  - **type of pension** (regular old age, disabled, long-time insured)
  - **deductions/supplements** for early/late pension claims
- $\text{earning points} * \text{current pension value (in €)} = \text{pension amount}$
- **current pension value**: own, complicated formula with several adaptation- and dampening factors
- **qualifying conditions**: qualifying period and pension age, varying according to pension type
- **general pension age in 2019**: 65 and 8 months (increase 65→67), 63 for long-time contributors and disabled people

# 1. The German pension system

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(Pension benefits and their calculation in pension insurance)

- additional **benefits based on solidarity** (selection)
  - times of receipt of **unemployment** benefits
  - **care work**: 3 earning points per **child** born after 1992, revaluation for low earnings with young children, points for **private long-term care** under certain conditions
  - revaluation for **incapacity pensions, survivors' pensions**
- **adjustment of pensions** (via pension value) according to wages, but dampened by 'sustainability' factor
- not part of pension insurance: **means-tested benefits in old age**

# 1. The German pension system

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## Occupational pensions

- **5 different forms**
- financing mostly **funded**
- subsidies: if income is directly invested in an occupational pension (certain forms), it is subsidised through **exemption from income tax and social insurance contributions** (up to 8/4% of income)
- recent legal regulation to **further strengthen** occupational pensions through 'social partner model'
- **important for some branches/industries** – high coverage in West German core industries, among men and employees in public service
  - **~57 %** of all regular employees have occupational pension rights (2015), increase in last 15 years (BMAS 2016)
  - **current pensioners**: overall coverage **~26 %** (unequally distributed), only 9 % of all pension benefits from occupational pensions (including public sector pensions, but not civil servants) (BMAS 2016)

# 1. The German pension system

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## Private (individual) pensions

- not important up to 2000s
- **‘Riester’ pension**: since 2001, public **subsidies** for private pensions under certain conditions
  - guaranteed payout of (at least) own contributions and subsidies
  - lifelong pension (under certain conditions parts of capital can be used for owner-occupied property)
  - pension only from 60<sup>th</sup> (62<sup>nd</sup>) birthday
  - limited forms of products, transparency about fees etc.
  - mainly for those insured in public pension insurance and civil servants
- higher subsidies for parents and low-income earners
- strong **critique** of intransparent markets, high costs and uncertain outcomes
- **stagnating numbers of participation** on a medium level (coverage 40-50 %), ~20 % inactive contracts (Börsch-Supan et al. 2016, Kruse & Scherbarth 2019)

## 2. Recent reforms

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Many **reforms** in the last ~30 years, **driven amongst others by**

- increasing and increasingly problematized **costs**
- high **unemployment**
- high prevalence of **early retirement**
- **reunification** (incorporation of East Germany in pension system)
- **demographic ageing** (rather prospectively)
- **changed discourses** around old age (activation etc.) and around the welfare state



## 2. Recent reforms

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### **Main reform areas** (roughly chronological)

- **closure of early retirement paths**, introduction of deductions for early pension receipt
- **reduction/abolition of some re-distributing elements** (exception: children and long-term care – increase)
  - stricter and reductions rules for incapacity pensions (but recently expansion)
- **decrease in pension level** through dampening factors in pension value (among others: ‘sustainability factor’)
- **expansion of occupational/private pensions** through subsidies
- **increase of statutory pension age** from 65 to 67 (until 2031)
- **re-expansion from 2014**: pension at 63, incapacity pensions, extended credits for parenthood and private long-term care, double ‘stop line’ (for contribution rate and level of benefits)
- currently: debate around **basic pension** (‘Grundrente’) – upward revaluation of pensions of long-time contributors with low incomes

## 2. Recent reforms

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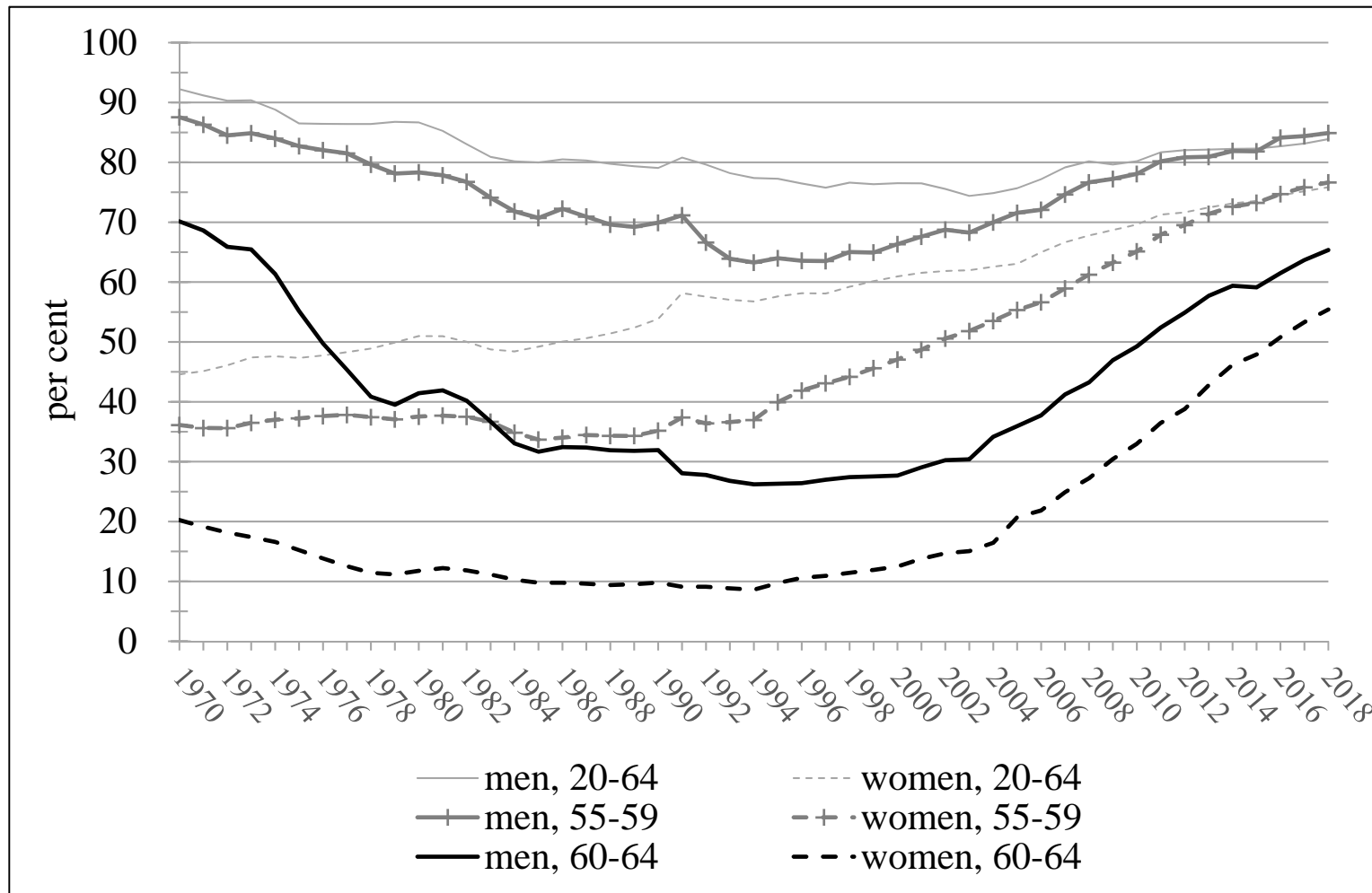
### Consequences

- **increase of employment rates of people aged 55-65**
  - but not only because of reforms, improving labour market situation and (perhaps) deregulation played a role as well
  - rather due to retention of older workers than re-employment of older unemployed (Sieglén 2016, Brussig & Eggers 2014)
- **increase actual age of employment exit/first pension receipt**
  - but wide and very unequal distribution of age
  - still considerable gap between actual employment exit/first pension receipt and regular pension age
- **relative loss of value of pensions** (relative to wages)
- **individual level: increase in relative income losses around retirement**
- **increase of poverty rates among retired people**
  - but not only because of reforms – unemployment and interrupted employment biographies, especially in East Germany

→ **increasing inequalities**

## 2. Recent reforms

### Employment/population ratio (1970-2018)

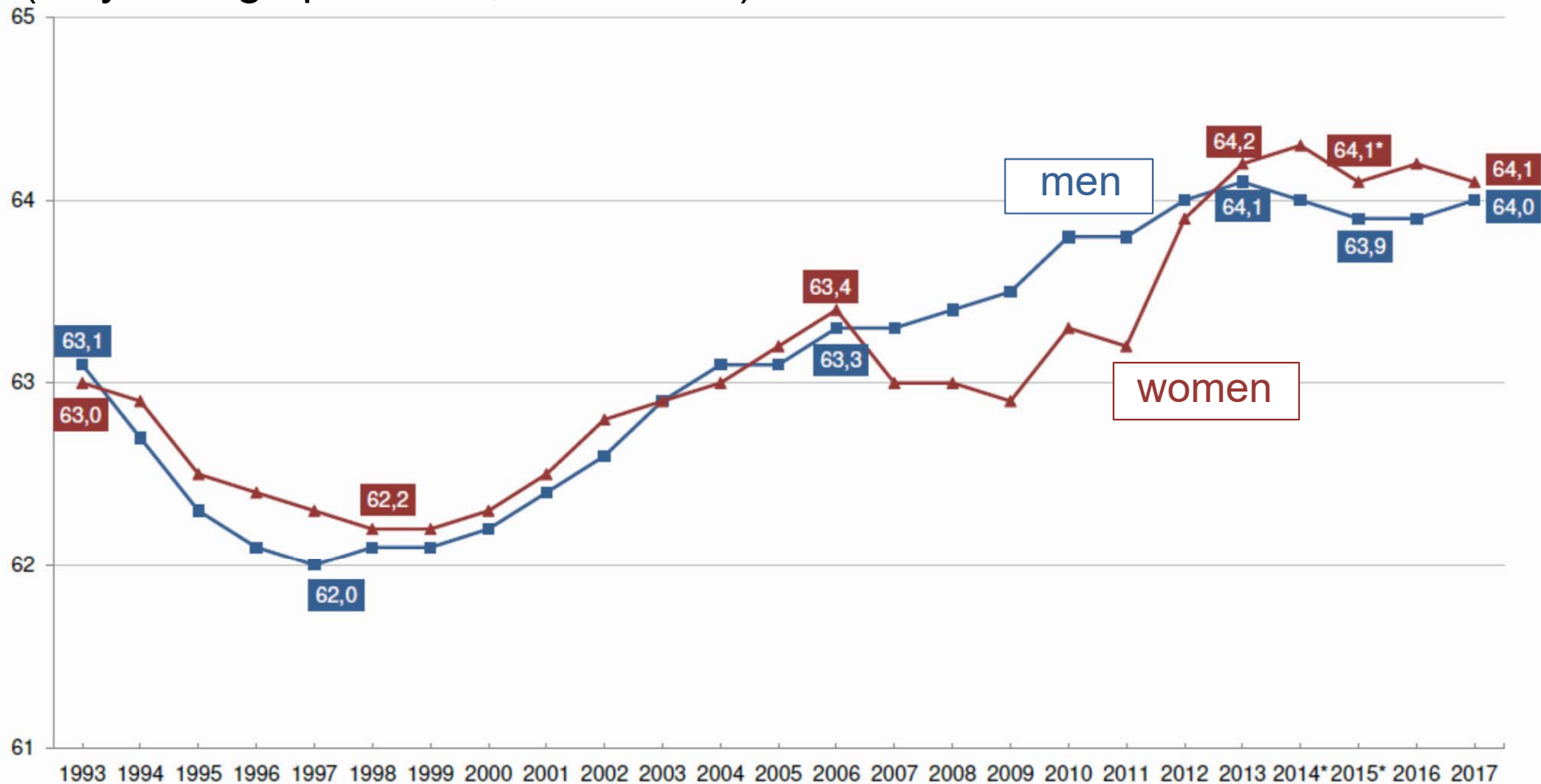


Source: OECD data, from 1991 united Germany (before: West Germany)

## 2. Recent reforms

Average age of first pension receipt, by gender  
(only old age pensions, 1993-2017)

IAQ

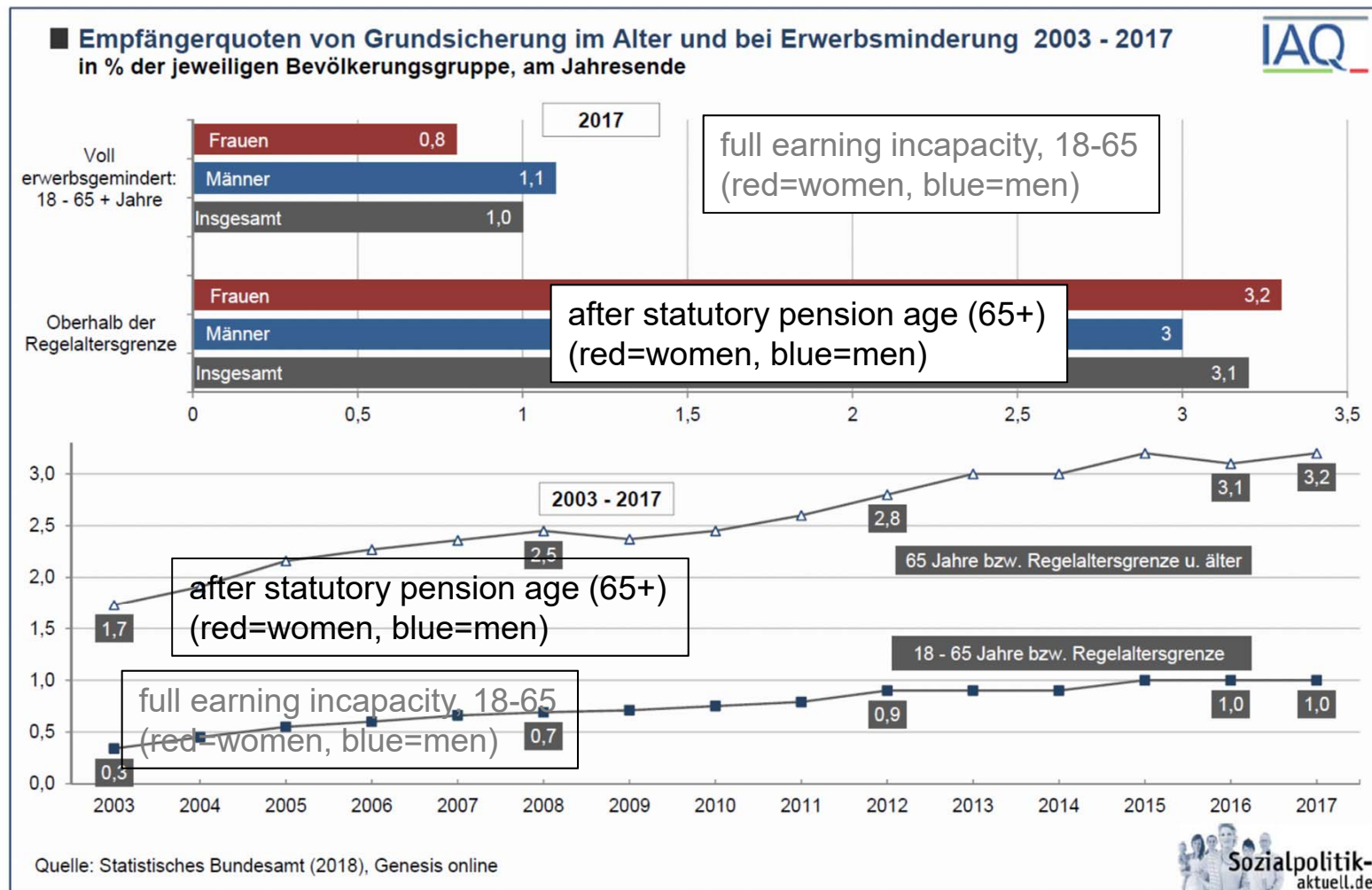


\* Unter Herausrechnung des Sondereffektes "Mütterrente"

Quelle: Deutsche Rentenversicherung Bund (zuletzt 2018), Rentenversicherung in Zahlen

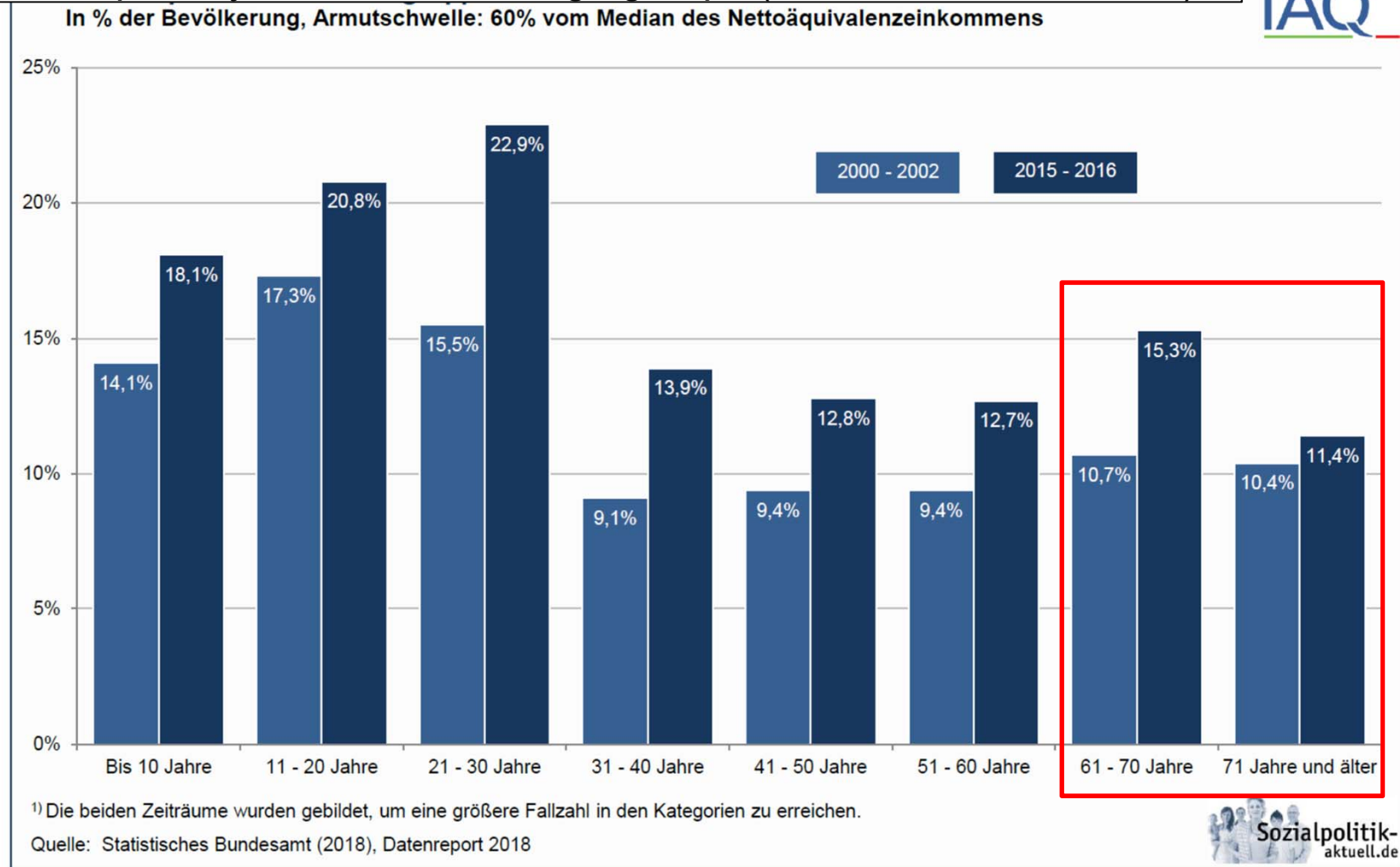
## 2. Recent reforms

Share of recipients of means-tested benefits in old age  
(2017/2003-2017, by gender)



## 2. Recent reforms

### At-risk-of-poverty rate in different age groups (2000-2002, 2015-2016)



### 3. Central challenges

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- (1) Overlap between pension benefits and means-tested benefits/old age poverty
- (2) Women's pensions
- (3) Demographic ageing

Further problems:

- low pensions in East Germany, low pensions of migrants, low-educated persons, some self-employed
- working until or beyond pension age
- increasing expenses in other branches of social insurance

### 3. Central challenges

#### 3.1 Overlap between pensions and means-tested benefits

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- **relative loss of value of pensions** (relative to wages)
  - due to dampening factors in pension value formula
  - would currently stopped by double 'stop line'  
(not below standard pension level of 48% until 2025)
- relative loss of value of pensions **reinforced** by more career interruptions (unemployment), reduction of re-distributive elements

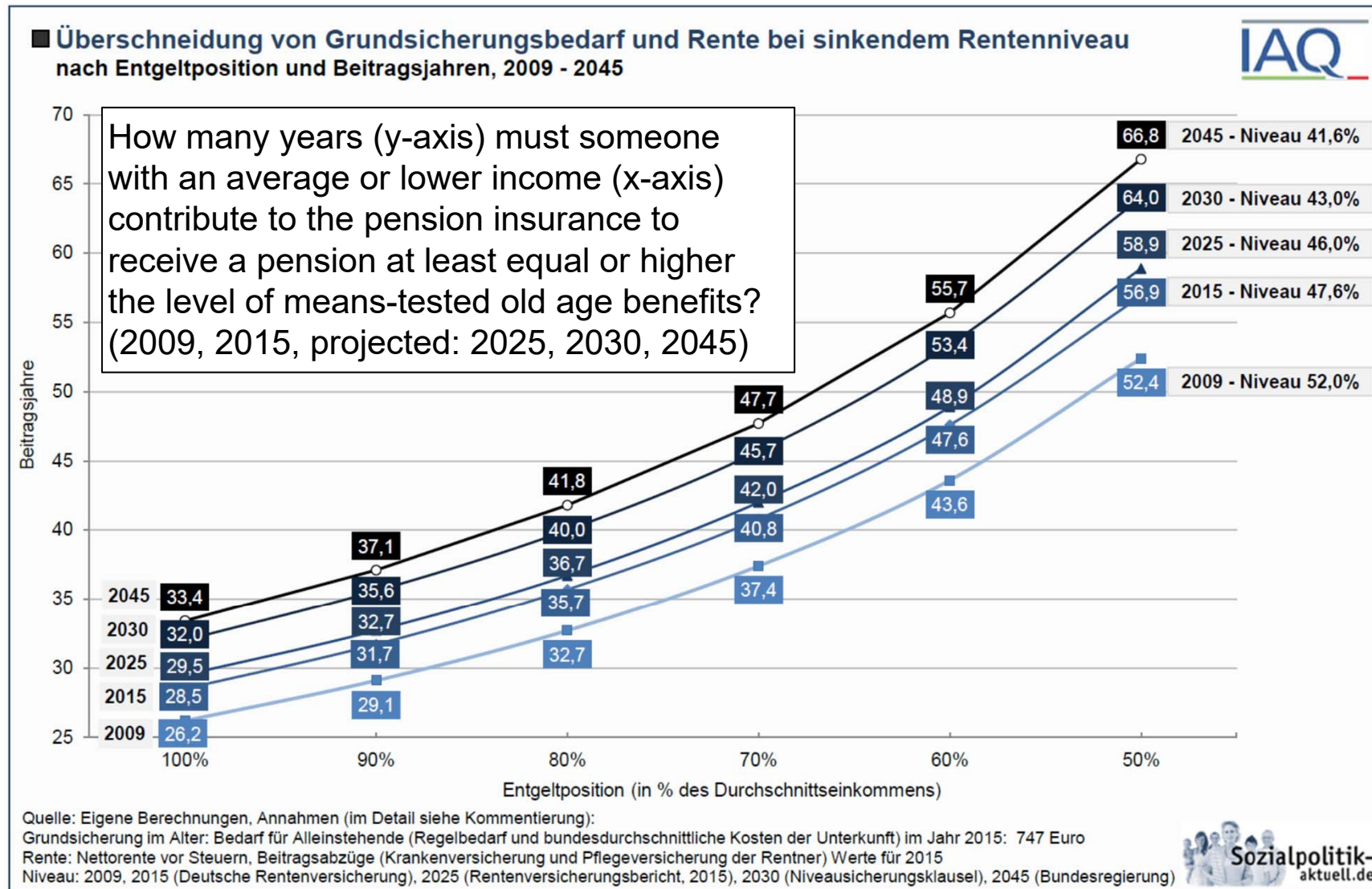
#### Consequences

- standard pension level potentially **below level of means-tested benefits**, even after long-time contributions
- risk of increasing rates of **poverty** – underlined by almost all projections for the future (for example: Buslei et al 2019, Kaltenborn 2019)
- risk of rising numbers of older people who are not poor but who **cannot** (at all) **afford their former lifestyle** (middle classes)
- problem of **legitimacy** for pension insurance which used to secure the former standard of living



### 3. Central challenges

#### 3.1 Overlap between pensions and means-tested benefits



### 3. Central challenges

## 3.1 Overlap between pensions and means-tested benefits

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### Potential solutions

- keep high(er) **level of pension** in pension insurance
  - but how to finance this? (higher contributions, higher tax-financed subsidy for pension insurance → higher/special taxes)
- institutionalize **top-up/revaluation for low pensions** of long-time contributors – currently discussed ('Grundrente')
  - conditions?
  - means-tested or not? (acknowledge 'lifetime achievement' – or not?)
- further **extend coverage** and improve **occupational/private pensions**
  - obligatory? regulation and governance?
  - risk of incapacity and loss of main earner not covered
  - difficulties for low income earners
- **labour market**: combat low wages, marginal employment and employment interruptions; include excluded groups into social insurance etc.

### 3. Central challenges

#### 3.2 Women's pensions

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- **(West) German gender pension gap high**  
→ between 40% and 50%, depending on data and definition (much higher in West than in East Germany)
- **reasons**
  - focus of pension insurance on **(full-time, continuous) employment**
  - **traditional (main) breadwinner model** has dominated for a long time in Germany, with women doing the bulk of care work
  - high gender segregation in the labour market, high gender pay gap
- **recent changes**
  - (increased) credits for care work: children, private long-term care  
→ now relatively generous, compared internationally (Frommert & Lizon 2017)
  - employment rate of (West) German women increasing, but mothers often work part-time for many years

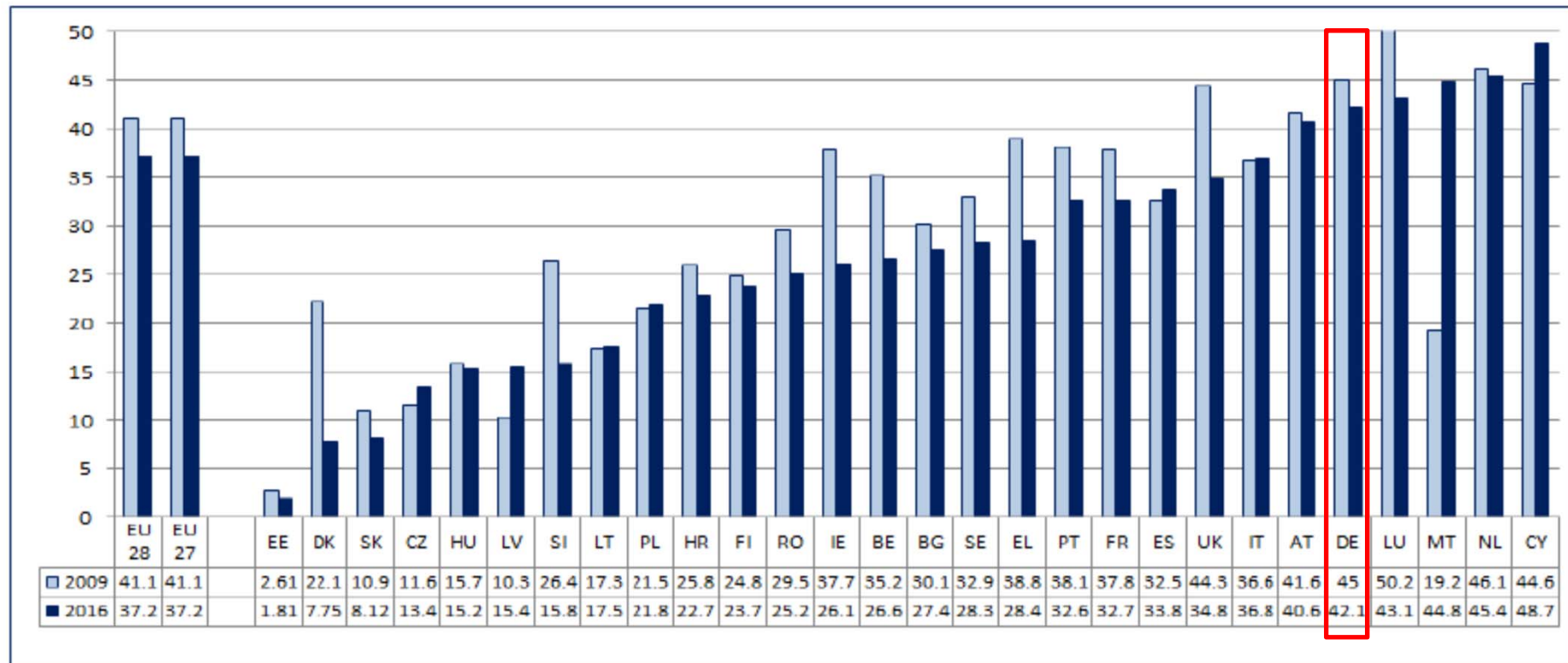
#### **Consequences**

- risk of **poverty**, especially after divorce or death of husband
- **dependence** on husband

### 3. Central challenges

#### 3.2 Women's pensions

Figure 37: Gender gap in pensions, pensioners aged 65-79, 2009 and 2016, %



Source: Eurostat, EU-SILC. Notes: 2010 data for HR; data sorted by data for 2016.

European Commission/Directorate-General for Employment, Social Affairs and Inclusion (2018): Pension adequacy report, Vol. 1: Current and future income adequacy in old age in the EU (p. 69)

### 3. Central challenges

#### 3.2 Women's pensions

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##### **Potential solutions**

- **pension insurance:** (more) compensation for care work (children, long-term care)?
  - credits for care work now relatively high in international comparison
  - international comparison shows: employment careers are more important than credits for care work (exception: systems with residency-based basic pensions) (for example Möhring 2014, 2018; Hammerschmid & Rowold 2019)
  - increasing role of occupational and private pensions rather increases gender pension gap (but: additional subsidies for mothers in Riester-pension)

### 3. Central challenges

#### 3.2 Women's pensions

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##### Potential solutions

- **education and employment system:** reduce gender segregation and unequal wages
- **employment system:** help mothers to participate in employment (on equal terms), ideally at least in 'good' part-time
  - with 'good' part-time, credits for care work would be quite effective (Frommert & Lizon 2017)
  - recent improvements
    - extension of infrastructure for day care of children (and long-term care)
    - legal rights to return to full-time employment ('bridge part-time')
    - paid parental leave is now shorter but with high replacement rates  
→ disadvantages for low-earning mothers
- support **more equal distribution of care work** between men and women (Fraser 1996: dual earner/dual carer model)
  - small attempts and incentives present in family policy (two 'father months' in parental leave, incentives for shared part-time parental leave)

### 3. Central challenges

## 3.3 Demographic ageing

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- German population is **ageing rapidly**
  - low birth rates since the 1970s
  - increasing longevity
  - demographic ageing particularly quick in East Germany (low fertility after reunification)
- **baby boomers** (born ~1955-1969) start to retire
  - unfavourable development of old age dependency ratio

### Consequences

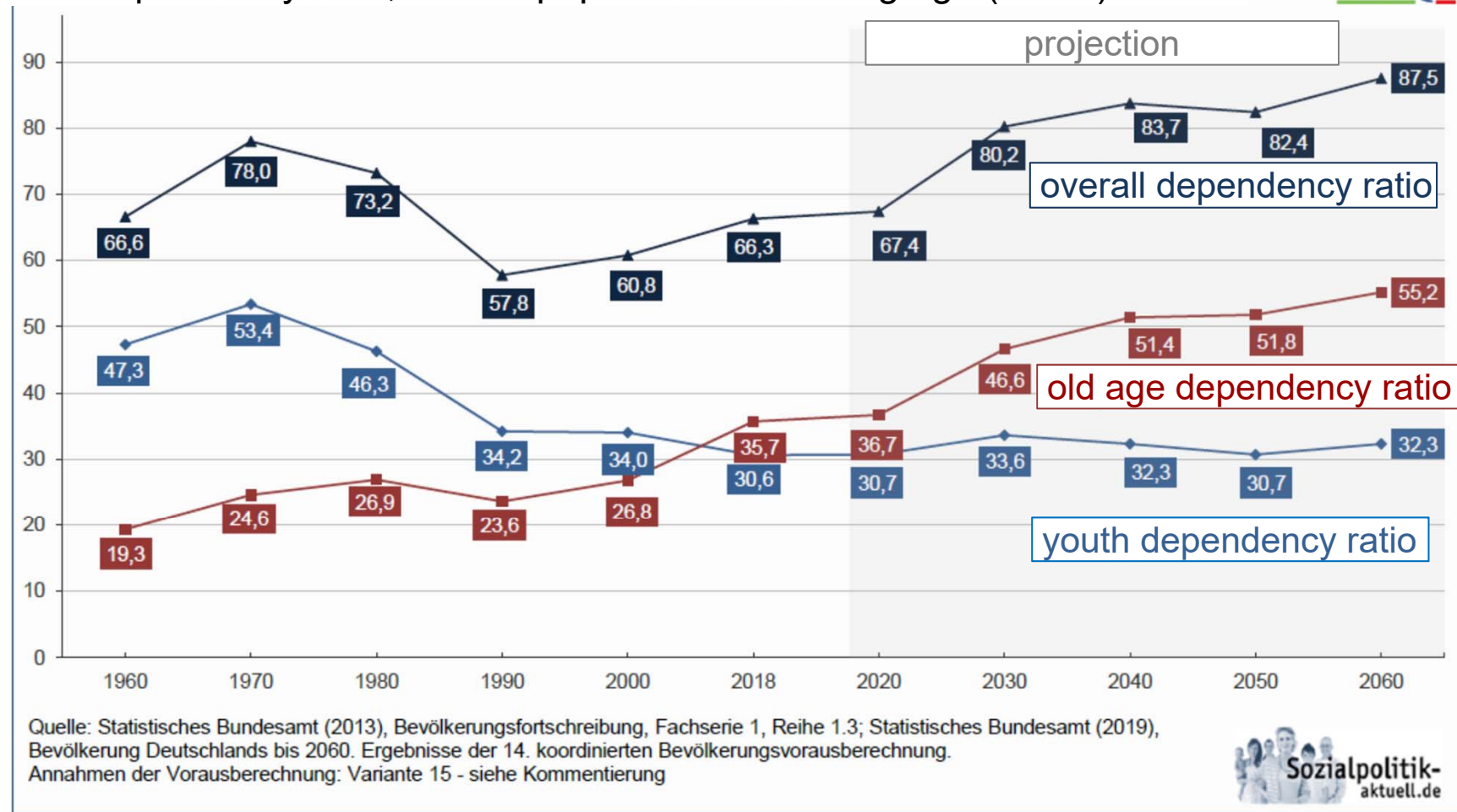
- increasing **costs** for the pay-as-you-go financed pension insurance
- additional burden for public finances: **health** and **long-term care costs** (but: extent of future cost increases uncertain)



### 3. Central challenges

#### 3.3 Demographic ageing

**Demographic Ratios:** Old age dependency ratio, youth dependency ratio, overall dependency ratio, in % of population of working age (20-65)



Source: Federal Statistical Office (2013, 2019), 14<sup>th</sup> coordinated population projection (2019), model 14



### 3. Central challenges

## 3.3 Demographic ageing

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### Potential solutions

- **keep pension level stable**
  - **higher social insurance contributions**
    - idea to reduce social insurance contributions for low income earners
    - aggravated by potentially rising contributions for health, long-term care
    - loss of jobs, loss of consumer demand...
  - **financing: more tax financing** (at the moment: 1/3)
    - which taxes? Special demography tax?
    - may also affect economy
    - would change nature of pension insurance
  - **question of intergenerational justice**
    - overburdening the younger population?
    - but: inequality among single birth cohorts much higher than between
    - they would also benefit from a stable pension level
    - at the same time, increasing costs are hard to avoid completely (!)

### 3. Central challenges

## 3.3 Demographic ageing

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### Potential solutions

- **reduce benefit level in pension insurance** (thus limit contributions)
  - problem of overlap between pension insurance and means-tested benefits
  - increase of old age poverty
  - (completely) giving up the aim of security of living standard would imply potential loss of legitimacy of pension insurance
- **conversion of pension insurance** to system with main aim of poverty avoidance – requirement: more redistribution at the bottom
- financing: **more funding instead of pay-as-you-go**, i. e. further (subsidised) extension of **occupational and private pensions**
  - **overall contributions not lower (rather higher)** than with stable pension level, shift of burden to employees → consumer demand?
  - so far very **unequal coverage** of private/occupational pensions and very **uncertain outcomes**, potentially risky → increasing inequalities and poverty
  - problem of ‘**double payment**’, problems of **regulation and governance**
  - **elements of redistribution not included** (incapacity p., survivors’ pensions)
  - funding **not completely insensitive to demographic ageing** (returns, interest)
  - currently favoured: offer **standard occupational pension organised by governmental agency** (with **obligation or automatic enrolment**)

### 3. Central challenges

#### 3.3 Demographic ageing

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##### Potential solutions

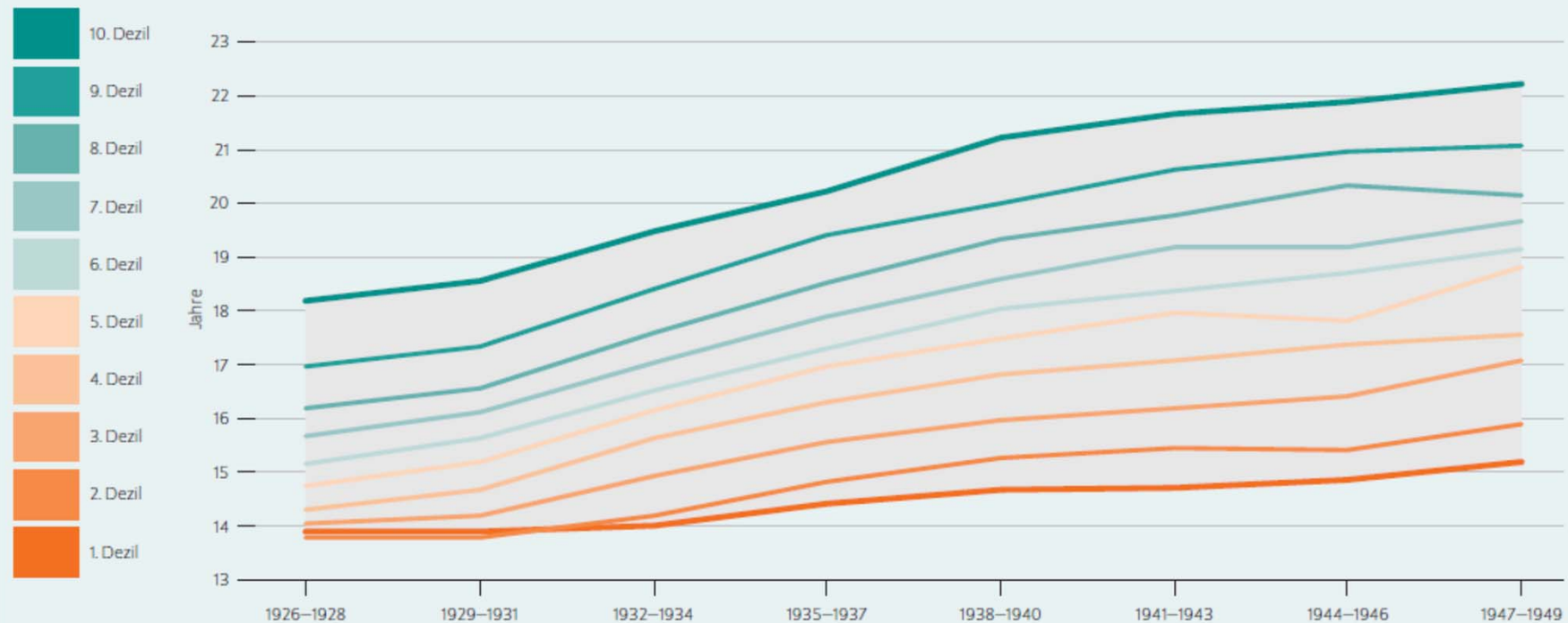
- **working longer: shift old age dependency ratio by prolonging working life – especially by increasing pension age**
  - as older people today are – on average – of better health and live longer than earlier cohorts
  - automatic increase following increase in life expectancy?
  - but currently majority of people does not even work up to pension age
    - bad health/incapacity
    - old age discrimination (especially once unemployed)
    - strong inequalities according to education, health, income
    - working beyond pension age has been facilitated and rate is increasing but very unequally distributed
  - strong and growing social inequalities in life expectancy: increasing pension age corresponds to re-distribution towards better-off (Haan et al. 2017, 2019)
- to start with: more efforts to prolong careers up to pension age
- measures to prolong working life must take inequalities into account

### 3. Central challenges

#### 3.3 Demographic ageing

Abbildung 1

Life expectancy of West German employees at 65 (years, by cohort and income deciles)



Anmerkung: Aus Gründen der Übersichtlichkeit enthält die Abbildung keine Konfidenzintervalle, die die Schätzunsicherheit anzeigen. Wegen des großen Datensatzes ist die Schätzunsicherheit aber ohnehin sehr klein.

Quelle: Eigene Berechnungen auf Basis von Administrativdaten der Deutschen Rentenversicherung (SK90, 1992–2015); Haan, Kempfner und Lüthen (2019), a. a. O.

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Die Lebenserwartung steigt im Zeitverlauf in allen Dezilen, im obersten aber deutlich stärker als im untersten.

Source: Haan et al. 2017, 2019. Data from the German pension insurance (i. e. selective sample not including lifelong civil servants and self-employed, also excluding East Germany and women).

### 3. Central challenges

## 3.3 Demographic ageing

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### Potential solutions

- **further increase employment rate** (women, low educated, older people, immigrants, partly incapacitated)
  - increase number of contributors to pension insurance
  - more 'heads' contributing could dampen increasing costs (Türk et al. 2018)
  - also: more 'heads' and more hours worked help to avoid poverty on an individual level
- **further supporting measures**, but clearly not solutions:
  - immigration
  - higher inclusivity of pension insurance (self-employed, civil servants), inclusion of every form of employment (marginal employment)
    - help to avoid poverty and increase legitimacy and acceptance of pension system

## 4. Conclusions

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- conflicts of different aims and different normative principles
  - **security of living standard** versus **poverty avoidance**
  - **meritocratic justice** versus **needs-based justice**  
(versus cost orientation/intergenerational justice (?))
  - surveys: people would often like to realize all aims at the same time
  - different norms and aims must be **balanced**
  - means: **political negotiation**
- at the same time: question of '**system logic**' of pension insurance
  - a high degree of redistribution and integrating means-testing would not correspond to logic of pension insurance
- probably rather **incremental change** than large, systemic reform...
  - but transparency about consequences still important
- **improvements in labour market** (for older workers and other disadvantaged groups) would support any cost-cutting reform and potentially attenuate (some) inequality-related consequences

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Thank you! Спасибо большое!

Questions? Objections? Suggestions?

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