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## **Old-Age Provisions in Germany**

Changes in the Retirement System since the 1980s\*

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discussion paper

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## Abstract

Pensions absorb the largest share of the welfare state in financial terms. This is true not only in the aggregate but also for individuals. Financial security in old age is of key importance.

The provision of financial security, however, is contingent upon the institutional arrangement of social security systems. This paper describes key features of Statutory Pension Insurance (SPI), the most important provision for financial security in old age from which most senior citizens derive the largest part of their retirement income. It focuses next on core SPI features: How benefits are calculated; important changes since the 1980s; and, how these changes affect average pensions. With various routes into retirement – particularly in Germany – the following chapter then discusses these different paths and how they were reformed over time. Following that, occupational and private pensions are examined as alternative means to old-age financial security other than SPI. Here we do so with empirical data showing the evolution of different, old-age income sources since the 1990s. This institutional description shows that SPI became less generous between 1980 and 2007: First, the pension formula has been modified several times resulting in shrinking benefits. The introduction of actuarial reductions, in 1997, for early enrolment of benefits amplified this, since a considerable number of people retire before the statutory retirement age and, therefore, receive lower pensions. Moreover, in several steps, university education has been completely disregarded in the valuation of pensions. At the same time, credits were given for child-raising and child-care services. Whereas the former is already in force, the latter will only benefit future generations of pensioners. Thus, those most affected by welfare state changes in relation to old-age pensions are pensioners who retire early and have higher education.



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## 1 Introduction

In financial terms, pensions absorb the largest proportion of the welfare state. In 2007, expenditure for Statutory Pension Insurance (SPI) accounted for over 32% of the German social budget. Other key life risks discussed in the project (see footnote 1, below) – such as unemployment, illness, family break-up, etc. – involve relatively few people. But that is not the case with old age. As regards the financial risks of old age, the question is not *will* it happen, but *when* and *under what circumstances* the transition into this phase of life will take place?

This report<sup>1</sup> first describes key features of SPI, the most important provision for financial security in old age from which most senior citizens derive the largest part of their retirement income (see chapter 4). It focuses next on core SPI features: How benefits are calculated; important changes since the 1980s; and, how these changes impact average pensions. With various ways into retirement – particularly in Germany – the following chapter then discusses the different paths and how they were reformed over time. Next, occupational and private pensions are examined as alternative means to old-age financial security other than SPI, with empirical data showing the evolution of different, old-age income sources since the 1990s. The final section offers a summary and hypotheses about how these institutional changes affect the economic situation of individuals.

## 2 Statutory Pension Insurance

Statutory Pension Insurance has its roots in the Disability and Old-Age Insurance Law (Gesetz über die Invaliditäts- und Altersversicherung) passed in 1889. Old-age pensions were paid out at age 70, or frequently granted earlier due to disability (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 266). All employees, regardless of income,<sup>2</sup> are now compulsorily insured in the statutory pension fund. Additionally, recipients of social benefits, such as sick pay or unemployment, are also compulsorily insured. Table 1 shows that while coverage by SPI is roughly 80%

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<sup>1</sup> As part of a series of working papers produced for the research project “The economic consequences of key life risks in Germany and the US and their evolution since the 1980s” at the Social Science Research Center Berlin (research unit: Inequality and Social Integration), 2009-2011.

<sup>2</sup> There is, however, an income threshold for contributions, so that paid-out pensions have an upper limit. In 2007 the income threshold amounted to €5,250 (which is about twice of the average gross earnings in West Germany Table 1).

and tended to increase over time, it does not attain the 90% coverage rate achieved by the statutory pension scheme in the USA. Primarily, this is due to important exceptions to compulsory insurance in Germany that apply mainly to civil servants and the self-employed. Since 1972, however, the self-employed and housewives can voluntarily join SPI (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 274ff; Schulin & Igl, 2002: 540). SPI is based on a pay-as-you-go mechanism, financed by contributions which are divided equally between employer and employee. Furthermore, there is a substantial federal government grant which amounted, in 2007, to 27.4% of the total SPI expenditure. Overall, SPI provides three types of pensions: Old-Age, Disability, and Surviving Dependants' pensions.<sup>3</sup>

#### *Calculation of statutory pensions*

The pension level depends on the amount of insured income during one's working life. Since a reform law in 1992, four factors are decisive for calculating the pension (for this and what follows, see: Bäcker et al., 2008: 411; Börsch-Supan, 2000; Börsch-Supan & Wilke, 2003; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 325ff.). The monthly pension results from the product of these four factors:

1. earned-income points, age,
3. pension type, and
4. current
2. pension value.

*Earned-income points* mirror the amount of insured money. If annual earned-income corresponds to average earnings, then the insured receives one earning's point for the year (0.5 point, if income is half the average; 2 points, if twice the average, etc.). The *age* factor reflects the entry-point for drawing benefits. Early retirement leads to reductions and later retirement to increases in pension benefits. The *pension type* factor adjusts for the kind of pension (e.g., old-age, disability or survivors' pension). *Current pension value* transforms this relative measure into an absolute money amount, reflecting the current wage level of those insured in SPI. From the first half of 2006 through the first half of 2007, for example, it amounted to €26.13 in the western - and €22.97 in eastern - German states. The *current pension value* is indexed annually to the development of net earnings. The indexation procedure, however, has been changed several times since the 1990s with the result that pension

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<sup>3</sup> In regards to surviving dependant pensions, there are widow/widower and orphan pensions. If certain requirements are met, the maximum widow/widower pension is paid out amounting to 55% of the deceased spouse's, full statutory pension. An orphan pension is paid until age 18 to dependant children of a deceased, insured individual (for more details, see Federal Ministry of Labour and Social Affairs, 2008: 119f).



increases have been disconnected from gains in employee wages (see this section below for the development of benefits).

Additional *earned-income* points can be obtained for periods of unemployment. Here, emphasis has shifted from recognizing time required for educational needs towards that required for child-raising. Credits for education have been reduced considerably from a maximum of 13 to 3 years.<sup>4</sup> The opposite trend, however, can be seen as regards parenting: Mothers or fathers born as of 1921 in West Germany – or 1927, in East Germany – get a credit for child-raising periods. Appendix Table 2 shows how child-raising benefits have been extended since the mid-1980s. Child-raising periods are credited in addition to running contributions that might occur simultaneously.<sup>5</sup> (Alber, 2003: 36; Bäcker et al., 2008: 418). Due to an income threshold, statutory pensions have an upper limit, so that an employee pensioned at age 65 and earning an income equal to or higher than the threshold would receive a maximum gross pension of about €2,700 (status 2008, Bäcker et al., 2008: 423).

Important to note is that the described method of calculation leads only to the gross pension. Contributions to statutory health and long-term care must also be deducted. Pensioners contribute half of the rate for statutory health insurance; the other half is paid by statutory pension insurance. For everyone statutorily insured, there is a special contribution rate of 0.9% since 1<sup>st</sup> January, 2005. Since 2004, pensioners contribute the full-rate for statutory, long-term care insurance; before 2004, it was half (Bäcker et al., 2008: 429). Until 2005, up to 27% of the pension withdrawn from SPI was also subject to taxation.<sup>6</sup> Deferred taxation (i.e. the taxation of pension benefits instead of social insurance contributions) was introduced in that year, and the pension share subject to taxation rose to 50% (for both current and new pensioners). The taxable share will gradually increase to 100% by 2040. In return, the employer's contribution to statutory pension insurance will gradually become tax free by 2025 (Bäcker et al., 2008: 429; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 379).

### *Minimum security*

A systematic, minimum financial security system has never been part of the statutory pension system since social welfare assistance was seen as fulfilling this goal (Blome et al., 2009). Since 1972, the so-called “*Minimum Income Pension*” („Rente nach

<sup>4</sup> Since 2009, only enrolment in vocational schools and training is given credit so that education at universities or universities of applied science no longer increase pensions (Blome et al., 2009: 77).

<sup>5</sup> In 2008, the pension value acquired due to child-raising amounted to €26.27 monthly in West Germany (€23.09 East Germany) for children born on or before 31. 12. 1991 for a one-year period of child-raising, and to €78.39 in West Germany (€66.91 East Germany) for children born as of 1.1. 1992 for a three-year period (Bundesministerium für Familie, 2008).

<sup>6</sup> It is important to note that these tax rulings only applied to pensions from SPI, pension insurance for farmers and pension schemes for the liberal professions (berufsständische Versorgungswerke) but not for civil service and occupational pensions.

Mindesteinkommen") topped up low contributions, which had been paid for 35 years or longer, to 50% - or a maximum 75% - of average earnings. Since it only applied to contributions made prior to 1992, however, this system has been phased out (Bäcker et al., 2008: 419). In 2003, a separate scheme was introduced to provide minimum financial security in old age and in case of employment disability. The main goal of this reform was to counteract underutilization of means tested benefits by elderly people afraid of financially burdening their children. Under this new scheme, the children are obliged to pay only if their annual income is higher than €100,000 per year. The benefit amount is the same as the standard rate for social welfare assistance, which, in 2007, amounted to €347 (*excluding* the cost for accommodation and heating) (Baron von Maydell, 2007: 88; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 700-705).

#### *Age limits*

Since 1916, 65 has been the legal retirement age for drawing a pension. A basic pension reform in 1957, however, introduced several ways to receive a pension before age 65. Three, separate pension types allow retirement at 60:

- old-age pensions for women,
- old-age pensions due to unemployment or post-retirement, part-time work; and,
- old-age pensions for people with severe disabilities.

The *pension for long-term insured* (those with a contribution record of 35 years and more), set retirement at 63 (Kaldybajewa & Kruse, 2006: 434). In 1997, a policy shift initiated a stepwise increase in the retirement age of these pensions to 65. Actuarial reductions were also introduced at that time and applied to cases of early retirement. Since 2005, old-age pensions *without* actuarial reductions can be drawn only at age 65 - the exception being *old-age pensions for persons with disabilities*, which still can be drawn at age 63. Beginning 2012, the retirement age will gradually rise to 67 years. Those born in 1964 and after will be the first generations for which 67 will be the official retirement age. For those born in 1952 and before, there will no longer be separate *pensions for women* or *pensions due to unemployment or post-retirement part-time work* (Bäcker et al., 2008: 412; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 301).

#### *The development of the statutory pension benefit since the 1980s*

Normally, certain model cases are employed to compare the value of pensions. The usual model in Germany is the *standard pensioner* ("Eckrentner) and assumes that someone worked for 45 years and always earned the average income. The *standard*

*pension level*, then, describes the relative position of this pension as a percentage of average earnings. As shown earlier, the transition to the deferred taxation of pensions began in 2005. Since deferred taxation will be gradually implemented until 2040, the share of the taxed pension depends on the year that the pension starts. This means that a uniform, net pension level cannot be reported. Therefore, a new model – the *pre-tax security level* – is used (Sicherungsniveau vor Steuern) to describe the *standard pension* (a pension following 45 years of continuous contributions and average earnings), minus average contributions for statutory health and long-term care insurance, in relation to average earnings (*without* deduction of taxes, but *with* deduction of average social insurance contributions). Since taxes are not taken into account – either for earnings or pension – this measure is not as meaningful as the *net replacement rate* (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 359). Table 1 shows that both replacement rates declined since 1981. This decline is due to several cuts. If no cuts were passed, then the net replacement rate would have increased to more than 90% (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 347). Table 2 documents the decline of average pension indexation since the 1980s in West Germany. The *standard pensioner* model mirrors a stylized biography which reflects reality only to a certain degree. More illuminating, therefore, is an empirical investigation of pension claims according to administrative data of the statutory pension insurance.

Table 3 shows the average amount of earned-income points at the start of pension drawing in 1993, 2003 and 2007. The table shows, once again, that men have more stable occupational careers than women. The increase in earning points for women, since 1993, is due to their increase in the labour force. At the same time, the average amount of earning points for men declined, especially in East Germany. The most important reason for this appears to be the introduction of actuarial reductions. In 2007, 60% of men and 70% of women had pension reductions. Administrative data for the German statutory pension insurance also show an increase in reductions: When actuarial reductions were first introduced, the average reduction for a new pension was €17.96, increasing to €102.71 in 2007 (Deutsche Rentenversicherung Bund (Hg.), 2009: 57, Himmelreicher & Stuchlik, 2008).

Obviously the value of statutory pension benefits declined over time as statutory rules became less generous (with the major exception of increased recognition of time needed for child-raising). It is difficult to summarise this decline, however, given the many different possibilities to retire. Borgmann & Heidler (2007) reduce the complexity of this problem by constructing a *relative generosity* indicator for the statutory pension scheme and applying it to three scenarios (the underlying assumption for each being a single male without children): (1) The standard pensioner working for 45 years with an average income; (2) the same standard pensioner using the early retirement option; and, (3) the same standard pensioner spending seven years in education after age 16 and also using the early retirement option.

The scenarios are applied to three birth cohorts (1930, 1940 and 1950). The regulative state in the year 1970 (i.e. people retiring in the year 1972) is set to unity and compared with other years. The main aim is to show how statutory rule changes affected the wealth generated by the public pension scheme. According to this analysis, the year 1972 offers maximal statutory pension generosity. Compared to the maximum year 1972, all three cohorts face losses of between 32% and 60% (the latter applying to the 1950 cohort and scenario 3, above – i.e. people retiring as early as possible and having spent seven years in education after age 16) (Borgmann & Heidler, 2007: 98f.). Important to note is that these results also depend on the chosen scenarios. As the authors concede (Borgmann & Heidler, 2007: 102), they would have arrived at somewhat different results if they included a scenario containing entitlements for child-raising.

Nevertheless, Table 1 shows that the net replacement rate decreased by more than 10 percentage points between 1981 and 2004, and that the analysis of Borgmann & Heidler adds to this aggregate perspective by taking into account different types of pensioners. Not only did the value of benefits diminish in the past, they will decrease even further in the future. The net replacement rate reduces to 58.5% in 2030 (from a value of about 70% in the 1980s and 90s, Berner, 2008: 150; Hain et al., 2004: 344). The 58.5% does not include deferred taxation, which will further lower the net benefit amount for pensioners. Additionally, the tendency in health insurance to shift the burden of contributions to private premiums and private, out-of-pocket payments contributes to the shrinking net benefit of pensions.

Table 1: Core Dimensions of the Statutory Pension Insurance 1981 – 2007

	1981	1991	2000	2007
<b>Coverage</b> Number of Insured (% share of total working population)	22 m. (78)	24 m. (77) <sup>7</sup>	34 m. (84)	35 m. (84)
<b>Compulsory Insurance</b>	All workers and employees			
<b>Benefits</b>	Standard Retirement Pension per month (€, West Germany) <sup>8</sup> After 45 years of work			
Standard Pension	655	874	1,030	1,071
Replacement rates (in %)				
net	70.8	68.4	70.4	67.9 (in 2004)
security level before taxes	57.4	53.9	52.9	51.4 (53.0% in 2004)
<b>Average Pension Contribution.</b> <b>1981, 1991 and 2000:</b> Pension Insurance Workers and Employees, 2007: Statutory Pension Insurance, share of average net earnings (%)	Average Retirement Pension per month (€)			
	GER: 420	West: 551 East: 485 GER: -	West: 709 East: 780 GER: 723	West: 723 East: 819 GER: 742
	(44.4)		(53.5)	(50.3)
<b>Contributions</b> as share of Gross Earnings (%)	18.5	17.7	19.3	19.9
<b>Source of finance</b> share of insurants, of employer + share of state (if necessary)	50% each + State: 16.3% of costs	50% each + State: 17.8% of costs	50% each + State: 23.9% of costs	50% each + State: 27.4% of costs
<b>Contribution Assessment Ceiling</b> (before 2007 in DM) (multiple of gross average pay)	4,400 (1.7 )	West: 6,500 (1.8) East: 3,000 (1.4)	West: 8,600 (1.9) East: 7,100 (1.9)	West: 5,250€ (2.1) East: 4,550€ (2.2)

Source: 1981: Alber, 2000: p. 263 (except Standard Retirement Pension and pension replacement rates, Source same for remaining years), remaining years: Coverage: 1991, 2000: *Deutsche Rentenversicherung Bund (Hg.)*, 2008: p. 14, 2007: <http://tinyurl.com/bf6hkd> [last access: 03/12/2009], p. 14, Bundesministerium für Arbeit und Soziales (Hg.), 2008a: chart 2.3 and own calculations. Benefits Standard pension and replacement rates: Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 351; Deutsche Rentenversicherung Bund, 2009a: 232, Benefits, Average retirement pension: Deutscher Bundestag (Hg.), 1993: p. 20, *Bericht der Bundesregierung*, 2008: Scheme A4, *Bundesministerium für Arbeit und Soziales*, 2008b: Scheme 5, *Bundesministerium für Arbeit und Soziales (Hg.)*, 2008a: chart. 1.14 and own calculations, Contributions: Bundesministerium für Arbeit und Soziales (Hg.), 2008b: p. 389 Source of finance: Bundesministerium für Arbeit und Soziales (Hg.), 2008b: p. 399, Contribution Assessment Ceiling: Bundesministerium für Arbeit und Soziales (Hg.), 2008a; Bundesministerium für Arbeit und Sozialordnung (Hg.), 1997: chart 7.8, Average pay: Bundesministerium für Arbeit und Soziales (Hg.), 2008b: p. 428 (et seq.) and own calculations.

<sup>7</sup> Refers to West Germany.

<sup>8</sup> General Old-Age Pensions of the Statutory Pension Insurance with 45 earning points without taxes, reduced by the general share of contributions to Statutory Health Insurance and the contributions to disability insurance (§154 para. 3 SGB VI).

Table 2: Average Pension Indexation Increases of 1980 – 2009 (geometric mean)

	<i>West Germany</i>
1980 – 1989	3.84
1990 – 1999	2.32
2000 – 2009	0.97
	<i>East Germany</i>
1990 – 1999	9.74
2000 – 2009	1.17

Source: Deutsche Rentenversicherung Bund Hg.), 2009: 238, and own calculations

Table 3: Development of Personal Earning Points 1993, 2003 and 2007 in East and West Germany (arithmetic mean)

	1993	2003	2007
<i>West Germany</i>			
Men	43.2	40.5	40.1
Women	15.6	16.8	17.6
<i>East Germany</i>			
Men	52.0	44.6	42.8
Women	30.2	32.2	31.1

Source: Himmelreicher & Stuchlik, 2008: p. 547

### *Pension right adjustment*

Since 1977 (for divorces in East Germany since 1992), there is a so-called *pension right adjustment* following divorce. This means that pension claims acquired during marriage are distributed equally between the spouses. The spouse with the higher claim must give half of the difference between claims to the former partner (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 373).

### 3 Changing Pathways into Retirement

A study published in 1991, analysing the transition from the labour market to retirement from an international comparison perspective, headed the chapter on Germany: *The diversity of pathways* (Kohli et al., 1991). The chapter shows that there are a variety of institutional paths leading to retirement. Following the work of Kohli et al., Ebbinghaus, (2006: 116ff.), distinguishes six ways to early retirement: *early statutory pensions* (for certain occupational groups), *flexible/partial pensions*, *long-term unemployment benefits for older workers*, *disability pathways*, *special early retirement schemes* and finally, *company-sponsored policies*. According to Ebbinghaus, Germany is the only country where all paths played a role at least temporarily.<sup>9</sup> Four of these six paths are briefly described in the following paragraphs. The path *early statutory pension* is considered too special and, therefore, not described here. *Flexible/partial pensions* relate to various old-age pensions which allow retirement before age 65, (see Sec. 2, above).

#### *Long-term unemployment benefits for older workers*

Since 1957, the unemployed are allowed to draw an old-age pension at age 60 if they have been unemployed for the entire previous year (the so-called „59 regulation“). Moreover, since 1986, the unemployed, aged 58 and older, must no longer be available for work to receive unemployment benefits. The sole requirement is that they apply for an old-age pension as soon as possible (Bräuninger, 2005: 5; Eichhorst & Sproß, 2005).<sup>10</sup> These were, in fact, de facto, early-retirement regulations. Although they expired in 2008, they are nevertheless quite relevant to the period of interest.

#### *Special early retirement schemes / firm-sponsored policies*

In 1984, the *Early Retirement Law* (Vorruhestandsgesetz) went into effect, regulating state-assisted retirement for employees 58 and older. The law required employers to pay at least 65% of the employee's last gross-income prior to early-retirement. If the position left vacant by the retiree is staffed with an unemployed person, the

<sup>9</sup> In addition to Germany, the countries studied are Denmark, France, Italy, the Netherlands, Japan, Sweden and the United States of America.

<sup>10</sup> Until the “Hartz-Reforms” in 2005 (for more on these, see the working paper on the risk unemployment), elderly unemployed could get unemployment benefits for 32 months at age 54. It was not an uncommon, early-retirement measure for businesses to dismiss workers at age 57 so that they could draw an old age pension for the unemployed after receiving unemployment benefits for 32 months (the so called 57 regulation), (Arnds & Bonin, 2003: 83; Jacobs et al., 1991: 203; Müller et al., 2006: 5).

employer then receives a subsidy equal to 35% of the position's wage value from the Federal Agency for Employment. The *Early Retirement Law* expired in 1988 and replaced a year later by a new law – the Old-Age Part-Time Work Law (*Altersteilzeitgesetz*). Since 1996, the following rules apply in relation to this law: Old-age, part-time work starting 21. Dec. 2009 can be financially supported by the Federal Agency of Employment. Although the law establishes the framework, the details are determined by labour relations. Allowable working hours are reduced by 50%. There must be a straight transition into retirement following old-age, part-time work. There are two models for this: the *part-time* and the *block model*. In the *part-time model*, working hours are reduced by 50% over the entire period of part-time work. In the *block model*, the employee works full-time in the first half of the period, and then released in the second half. Working old-age part-time became popular among employees to an increasing degree. While, in the beginning, only a few thousand made use of this possibility, there were 500,000 people in old-age, part-time work towards the end of 2000 (Bräuninger, 2005: 6; Kaldybajewa & Kruse, 2007: 244; Wanger, 2009).

### *Disability pathways*

In institutional terms, the risk of becoming occupationally disabled is covered predominantly<sup>11</sup> by SPI. Pensions are paid out if someone is fully or partially incapacitated for work (Bundesministerium für Arbeit und Sozialordnung (Hg.), 1998: 285). An important reform took effect in 2001, and the situation – before and after – is described here (if not otherwise stated, the following is based upon: Bundesministerium für Arbeit und Sozialordnung (Hg.), (1998: 285ff), Bundesministerium für Arbeit und Soziales (Hg.), (2008b: 305ff.), Ebbinghaus; Viebrok, (2004).

### *Disability pension until 2001*

Until 2001, there were two kinds of disability pensions: *occupational* and *general disability*. *Occupational disability* applied to workers earning less than half the normal earnings of a healthy person with similar training and equivalent skills due to infirmity or disability. The *general disability pension* was for people no longer able to work or unable to earn more than a minimum income ([http://ec.europa.eu/employment\\_social/missoc/2000/d\\_part5\\_en.htm](http://ec.europa.eu/employment_social/missoc/2000/d_part5_en.htm), accessed on 01.07.2010). Initially, both pensions were given strictly on medical grounds; however, court decisions granted a partial pension to those not fully fit for work so that, de facto, labour market considerations also played a role. The amount of the *general disability*

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<sup>11</sup> There are other minor systems for this risk, e.g. pensions out of the statutory accident insurance, or special pensions for civil servants, that are not described here (Rehfeld, 2006: 7).



*pension* was conceptualized to fully replace wage with a pension type factor of 1,<sup>12</sup> while the *occupational disability pension* was considered a partial pension with a pension type factor of 2/3. In both cases, contributions by the insured were supplemented as if the insured had worked until their 60<sup>th</sup> birthday, but with the time between 55 and 60 counted as only 2/3 rather than a full five years. Until 1996, pensions could be accumulated with other earnings without limit and not uncommon that a pensioner's total earnings were higher than during working life. After 1996, upper limits were introduced – e.g. in 2000, the limit was €322 per month ([http://ec.europa.eu/employment\\_social/missoc/2000/d\\_part5\\_en.htm](http://ec.europa.eu/employment_social/missoc/2000/d_part5_en.htm), accessed 01.07.2010), (Bundesministerium für Arbeit und Sozialordnung (Hg.), 1998: 285/288).

In 1985, qualifying requirements tightened considerably. Since then, three years of employment within the last five years prior to retirement must be shown (before that it was five years of contributions). The reform primarily affected women because of their significantly lower contribution records and led to a strong drop in females entering disability pension (Jacobs et al., 1991: 188f., Kaltenbach, 1986: 359, Appendix Table 4.)

#### *Disability pension after 2001*

Two aspects of the dual pension system for *occupational* and *general disability* were criticized: First, that SPI must bear the labour market risk along with the disability risk; and, second, that *occupational disability insurance* is a pension only for people who are very privileged anyway (Deutscher Bundestag (Hg.), 2000).

In 2001, a different kind of two-tiered disability pension (*partial* and *total disability pension*) was introduced. A *total disability pension* is granted people unable to work three hours a day; a *partial pension* to those unable to work longer than six (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 305ff.; Wollschläger, 2001: 277f.).<sup>13</sup> The benefit amount was also cut since actuarial reductions (as found in the *general old-age pension scheme*) were introduced along with the reform. The reductions amount to 0.3% (up to a maximum of 10.8%) for every month prior to age 63. Also since the reform, supplemented contributions between 55 and 60 are now considered at full value, unlike prior to 2001 (see above). Because of that, the actual benefit reduction of the *total disability pension* compared to the former pension type lies between 3.3% und 10.8% (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 310f.; Wollschläger, 2001: 282f.). In addition, the *partial disability pension* amounts to only 50% of the full pension (compared to the 2/3 of the former *occupational pension*).

<sup>13</sup> Owing to the concept known as “protection of legitimate expectations”, those 40 years old and insured prior to January, 2001, receive a partial-disability pension if able to work in the general labour market but unable to work more than six hours in a position corresponding to their qualifications (Wollschläger, 2001: 283).

To sum up: Two pathways leading to retirement can be distinguished. Particularly during the 1980s and 90s, there were many institutional ways into retirement, with early entry actively promoted by government policies. Beginning with the 1990s, things changed, however. Clearly, the retirement pathways have narrowed, with the earliest entry age (in combination with unemployment, or old-age, part-time work) currently increased from 57/58 years to 65, and 67 years in the future (there are minor exceptions to these retirement ages, the most important being disability pensions where retirement earlier than 65/67 is possible). Table 4 summarizes the different retirement pathways. Since the change from old to new pathways is more gradual than abrupt, the distinction made in the table is simplified and ideal-typical. Not all regulations valid at given times are displayed in the table, e.g. before unemployment or old-age, part-time work pensions and pensions for women were completely abolished, the entry age was increased to 65 years.

Table 4: Old and New Pathway Regimes to Pensions and Preconditions for Take Up

Table 11: Old and New Pathway Regimes to Pensions and Recommendations for Take-up											
The old pathways to pensions											
	57	58	59	60	61	62	63	64	65	66	67
3 years within last 5 years of employment before pension up-take <sup>1</sup>	Disability Pension (predominantly until 2001: <i>occupational</i> and <i>general disability</i> pensions )								Old-Age Pension		
8 years of employment within 10 years, 15 years waiting times	At least 52 weeks of unemployment before pensions		Old-Age Pension because of unemployment or after old-age part-time work								
8 years employed during the last 10 years, 15 years of qualifying period	Old-age part-time work										
After the age of 40: 10 years of contributions and 15 years waiting time				Old-Age Pension for women							
35 years waiting time and degree of disability of at least 50%				Old-Age Pension for people with severe disabilities							
35 years waiting time							Old-Age Pensions for long-term insured				
5 years waiting time									Old-Age Pension		
The new pathways to pensions											
							63	64	65	66	67
3 years within last 5 years of employment before pension uptake	Disability Pension (predominantly since 2001: <i>total</i> and <i>partial-disability</i> pensions)								Old-Age Pension		
35 years waiting times and degree of disability of at least 50%							Old-Age Pension for people with severe disabilities				
45 years waiting time									Old-Age Pension for particularly long-term insured		
35 years waiting time									Old-Age Pensions for long-term insured (early take up of pension not possible)		
5 years waiting time									Old-Age Pension (early take up of pension not possible)		

Gradual increase of entry age to  
67 until 2029

Gradual increase of entry age to 65 until 2029

<sup>1</sup> Since 1985, Source: Clemens et al., 2003, 44, translated, modified and update

## 4 Occupational and Private Pension Schemes and the Composition of Income Packages in Old Age

The classical “three pillar system” of financial security in old age consists of the *SPI* (first pillar), *occupational pensions* (second pillar), and *private provisions for old age* (third pillar). As described earlier, the standard pension has been reduced by policy reform. In return, since 2002, the government has promoted the build-up of occupational and private pensions by tax subsidies and tax breaks (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 262).

The second pillar), *occupational pensions*, has two main components: *supplementary pensions* for public sector employees (Zusatzversorgung für Arbeitnehmerinnen und Arbeitnehmer des öffentlichen Dienstes – ZÖD), and *occupational pensions* for the private sector. An important reason for offering supplementary pensions in the public sector was to put public employees on a par with civil servants, the latter having their own social security system. Until 2001, public employees were eligible for social security benefits at a level similar to that of civil servants. Therefore, SPI pensions were supplemented up to 91.75% (depending on length of contributions) of the last net-income. The general qualifying period for receiving a supplementary pension is five years (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 773ff.).<sup>14</sup>

An important source concerning old-age income is the study *Retirement Pension Provision Schemes in Germany* (Alterssicherung in Deutschland – ASID), which has been conducted seven times to date. Its central aim is to gather information on the types and amount of income available to people as of age 55 (both single and couples). 26 income sources are considered. The study investigates gross- and net-income, as well as the composition of incomes. According to the latest 2007 survey, 80% of all men – but only 55% of women – formerly working in the public sector drew a supplementary pension at age 65, with women in particular not meeting the necessary requirements, mostly the qualifying period of five years (Frommert & Heien, 2006; TNS Infratest Sozialforschung, 2008).

In the private sector, the prevalence of occupational pensions very much depends on the branch. In 2007, in the credit and insurance branch, 90% had an occupational pension (increased from 76% in 2001). In the hotel and restaurant branch, on the other hand, the frequency was only 28% (up from 10% in 2001). In general, there is a correlation between organizational size and the prevalence of occupational pensions – e.g., in businesses with five employees or less, only about a third had an occupational pension, while coverage is virtually 100% in organisations with 50 employees

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<sup>14</sup> There has been an encompassing reform of supplementary pensions in the public sector in 2001 which is not described here (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 773ff.).

or more. (Bundesministerium für Arbeit und Soziales, 2008a: 18f./127f.; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 365). Based on ASID data, Table 5 shows the development of pensioners with public sector *supplementary* or *occupational pensions* since 1986. The table indicates that men are better covered with additional pensions than women. In the private sector, coverage for men increased considerably by eight percentage points. Not only are a larger proportion of men covered by additional pensions, but if they receive one, their claims are also much higher than that of women.

The introduction of the so-called “Riester-Pension” (named after the former Minister of Social Affairs, Walter Riester) in 2000/2001 led to an increase in tax-advantaged, private pensions. By late 2001, only about 1.4 million contracts had been concluded; this figure rose to 11.9 million by the end of 2008, however.

Still: “A pension is not a person” (Rose, 2007). Already prior to the introduction of the Riester- Pension, income sources other than public transfers did play a role. In 1993, in West Germany, 66% of overall income for pensioners was from public transfers (East Germany 85%), while other sources (e.g. capital) amounted to 18% (Alber & Schölkopf, 1999: 25/285).

Table 6 (following) shows income packages for German households, since 1983, where the main income provider is over 65. Derived from the sample Survey of Income and Expenditure (Einkommens- und Verbrauchsstichprobe – EVS) that is conducted every five years, the Table illustrates the importance of public pensions for the incomes of older persons. It also indicates that the share of public transfer payments (i.e. predominantly pensions) in household income remained fairly stable since 1983, e.g. between 64.3% (in 1988) and 60.1% (in 2003) of those where the main earner is between 65 and 70 years. Other sources confirm the importance of public transfers as the main income source for elderly people, although the shares of public transfers in total household income displayed are somewhat higher (e.g., see Blome et al. 2009: 98ff.; Schommer (2008: 203ff.).

Surprisingly, property income did not rise steadily, despite the general notion that such income rises continuously. In fact, the proportion decreases in 2003 and 2008, (see table), primarily because the table combines West and East Germany as of 2003, but also because shares in West German dropped, as well. In 2003, it amounts to 18.8% (figure not included in Table 6) for those 65–70 (for 2008 there are no separate values for West and East Germany).

Table 5: The Development of Pensions (Occupational Pensions and Supplementary Pensions in the Public Sector) 1986 – 2007, persons as of 65 years, West Germany

	Occupational pensions		Supplementary pensions in the public sector	
	Men	Women	Men	Women
<b>Share (% of all men or women)</b>				
1986	23	4	10	5
1992	28	6	12	6
1995	29	6	12	6
1999	28	6	11	7
2003	31	6	11	8
2007	31	7	11	9
<b>Amount per pensioner (€)</b>				
1986	270	103	300	238
1992	300	160	381	284
1995	309	162	388	282
1999	401	160	352	283
2003	464	184	456	307
2007	490	214	432	264
<b>Amount per pensioner (1992 = 100)</b>				
1986	90	65	79	84
1992	100	100	100	100
1995	103	101	102	99
1999	134	100	92	99
2003	155	115	120	108
2007	163	134	113	93

Source: Alterssicherung in Deutschland 2007, TNS Infratest Sozialforschung, 2008: 98ff.

Table 6: Structure of Income in Old Age<sup>15</sup> 1983 – 2008

Year	1983*				1988*				1993*				1998*				2003				2008			
	€	%	€	%	€	%	€	%	€	%	€	%	€	%	€	%	€	%	€	%	€	%	€	%
Age of the main earner	65-70		70 ≤		65-70		70 ≤		65-70		70 ≤		65-70		70 ≤		65-70		70-80		65-70		70-80	
Household Gross Income	1,552	100	1,140	100	1,820	100	1,290	100	2,348	100	1,773	100	2,561	100	1,985	100	2,742	100	2,304	100	2,820	100	2,707	100
thereof:																								
<i>Income from salaried work</i>	153	9.9	34	3.0	153	8.4	42	3.3	193	8.2	65	3.7	119	4.6	22	1.1	134	4.9	42	1.8	242	8.6	51	1.9
<i>Income from self-employment</i>	96	6.2	30	2.6	112	6.2	26	2.0	137	5.8	45	2.5	98	3.8	24	1.2	94	3.4	28	1.2	129	4.6	33	1.2
<i>Revenue from property</i>	228	14.7	164	14.4	278	15.3	176	13.6	460	19.6	330	18.6	551	21.5	355	17.9	478	17.4	376	16.3	499	17.7	452	16.7
<i>Income from public transfer payments</i>	990	63.8	838	73.5	1,170	64.3	964	74.7	1,415	60.3	1,228	69.3	1,595	62.3	1,443	72.7	1,647	60.1	1,674	72.7	1,711	60.7	1,927	71.2
<i>Income from non-public transfer payments</i>	67	4.3	61	5.4	87	4.8	70	5.4	119	5.1	93	5.2	198	7.7	141	7.1	203	7.4	183	7.9	238	8.4	242	8.9
<i>Other</i>																								
Household Net Income	1,432		1,082		1,658		1,195		2,135		1,643		2,382		1,872		2,536		2,146		2,551		2,484	

\* Recording until 1998 only West Germany

\* Recording 1993: "Retirees", 1983, 1988, 1998, 2003 and 2008: "Income and Revenue of private households by age of main income earner"

Sources: Alber & Schölkopf, 1999, *Statistisches Bundesamt, 2010 and other volumes of this series and own calculations*

<sup>15</sup> Households in which the main income provider is 65 years old or older.

## 5 Major Statutory Changes since the 1980s

What distinguishes pension policies from other social policies is that some measures – such as promoting early retirement – have long-lasting effects so that charting a new course takes time. Passed reforms often concern the future rather than the present. As regards the regulation of life risks, this means that such events are to a larger degree shaped by past reforms so that current reforms do not impact current risk events as much as they pre-structure future events.

### 1980s

Consolidation policies towards pensions started in the late 1970s. With the federal government and SPI facing budget constraints in the early 1980s, there was a second round of cuts. However, increases in contribution rates at this time played a comparatively large role in overcoming financial problems (Clasen, 2005: 106; Heidler, 2008: 25f.). In the mid-1980s, the policy of recognising child-raising in pension insurance began with crediting one year of child-raising with 75% of average earnings. In 1984, tightening the qualifying requirements for disability pensions led to a considerable drop in pension enrolments, mainly among women (see above section on disability pension). On November 9, 1989, the day the Berlin Wall came down, a far reaching reform – the Pension Reform Act – was finally passed indicating that further reforms were to come.

Effective as of 1992, the 1989 Pension Reform Act phased out several pension types and introduced reductions for early pension enrolment so that the standard, legal retirement age of 65 became much more central. Moreover, the policy of crediting time for child-raising was extended while time for education was partially reduced for pension benefits.

### 1990s

In the late 1990s, unification posed the most important problems for SPI financing. When the unification boom ended in 1992, the labor market declined, and the number of people accepting early retirement surged. Increasing pension expenditures and increasing contribution rates followed. In addition, the convergence criteria of the European Monetary Union and increasing labor costs contributed to a climate where reforms and cutting benefits seemed unavoidable (Clasen, 2005: 110; Hinrichs, 1998: 12; 2005: 54). Two savings laws, passed in 1996 and 1997, either made use of commonly applied retrenchment methods or accelerated them. Thus an increase in the retirement age for the unemployed and women was moved forward



along with further cuts in pension benefits related to education (for a more detailed listing of passed measures see: Table 7). The *demographic factor*, which introduced increased life expectancy into the pension formula, was the main instrument of the 1997 Pension Reform Act. It was estimated that the *demographic factor* reduced the standard net replacement rate in the long run from 70% to 64%. However, there were notable benefit expansions in the 1990s, especially the recognition that working parents could generate benefit claims for both employment *and* child-raising simultaneously (Appendix Table 2).

## 2000

At a certain point, pension policy became controversial among major political parties to an unprecedented degree. The Red-Green government, which took office in 1998, first revoked two measures of the former government (the *demographic factor* and disability pension reforms) and replaced them, in 2000, with a new reform. For the first time, it was legally determined that SPI contribution rates must not exceed 20% until 2020, and 22% until 2030. Contribution rate stability was a main policy goal. The most important measure for achieving the stable contribution rates was the *sustainability factor* – a major reform of the pension formula, reflecting changes in the relation between pensioners and contributors, which also leads to benefit reduction in the long run. To compensate for losses induced by the *sustainability factor*, the government began a voluntary, separate, state-aided, old-age provision scheme known as the “Riester-Pension” (see Pg 16). This plan is based on the funding principle “capital cover” as opposed to a pay-as-you-go system. Until 2003, Germany had no special, minimum protection plan for the elderly. The government’s rationale for the new plan was the prevention of poverty in old age due to lower benefits and more unstable employment careers (Hinrichs, 2005: 58ff.).

As previously described, deferred taxation was introduced in 2005. This was a reaction to a Constitutional Court ruling that pensions for civil servants and other employees must be treated equally. Previously, only civil service pensions were fully taxed (a civil servant filed a suit against this unequal treatment and won).

Table 7: The Important Legislative Measures with Consequences for Old-Age Provisions (1980–2008)

	SPI	Public Assistance and Private Pensions / other schemes
1980s	<p><b>Pension Adjustment Law 1981</b> (Gesetz über die Anpassung der Renten der gesetzlichen Rentenversicherung im Jahr 1982) Re-introduction of pension adjustment which follows gross wages.</p> <p><b>Supplementary Budget Law 1982</b> (Haushaltsbegleitgesetz 1983) Stepwise introduction of a contribution rate for pensioners' health insurance for; postponed annual pension adjustment by half a year.</p> <p><b>Supplementary Budget Law 1983</b> (Haushaltsbegleitgesetz 1984) Reduction of pension adjustment by linking the adjustment mechanism to wage increases in the previous year; reduction of waiting period for regular old-age pensions from 15 to 5 years; stricter qualifying conditions for disability pensions introduced (three years of insurance within the five years preceding the claim).</p> <p><b>Law to Reform Surviving Dependant's Pension and for the Recognition of Child Raising times in Statutory Pension Insurance 1986</b> (Gesetz zur Neuordnung der Hinterbliebenenrenten sowie zur Anerkennung von Kindererziehungszeiten in der gesetzlichen Rentenversicherung) Introduction of child-raising credit (one year per child) credited at 75% of average earnings; reform of Surviving Dependents' Pensions; introduction of means tests by including own income when granting a surviving pension</p> <p><b>Pension Reform Act 1989</b> (Gesetz zur Reform der gesetzlichen Rentenversicherung – RRG 1992, passed in 1989 and effective as of 1992 and subsequent years) Re-introduction of pension adjustment linked to net wage increase (instead of gross wages) in the preceding year; stepwise phasing out of some possibilities to pre-retire (old-age pensions for women; old-age pensions due to unemployment or old-age part-time work); as of 2005 introduction of actuarial discounts for early retirement benefits; extension of child-raising credit at 75% of average earnings for the child's first <i>three</i> years (previously one year), at 90% of average earnings for the first 4 years for babies born after 1991 (previously 5 years); credits for periods of schooling and tertiary education decreased from max. 13 to max. 7 years (at max. 75% of average earnings); Introduction of part-time pensions before reaching statutory retirement age.</p>	<p><b>Supplementary Budget Law 1982</b> (Haushaltsbegleitgesetz 1983) In case unemployment benefit received: made amount of benefits the basis instead of former gross earnings; in case social assistance benefit received: supplement for special needs cut (Mehrbedarfzuschlag) from 30% to 20% of the standard rate for people 65 and older</p> <p><b>Fourth law to modify Social Assistance 1985</b> (Viertes Gesetz zur Änderung des BSHG)  In case social assistance received: Eligibility for special needs supplement decreased to elderly as of 60 years (instead of 65 years) at 20% of standard rate.</p> <p><b>Pension Reform Act 1989</b> (Gesetz zur Reform der gesetzlichen Rentenversicherung – RRG 1992) In case of receipt of unemployment benefit: employment agency pays of 80 percent of former pension insurance benefit (as of 1995), instead of using the amount of the unemployment benefit as a basis</p>

Table 7 continued

	SPI	Public Assistance and Private Pensions / other schemes
1990s	<p><b>Growth and Employment Promotion Act 1996</b> (Wachstums- und Beschäftigungsförderungsgesetz – WFG) and <b>Contribution Rate Exoneration Act</b> (Beitragsentlastungsgesetz – BeitrEntlG) Reduction of credits for schooling and tertiary education after age 17 (previously age 16) from maximum 7 to 3 years; age limit increase to 65 years passed with the Pension Reform Act is phased in more quickly; cuts in foreign pensions (i.e. pension credits in particular for recognised displaced persons and repatriated individuals of German ancestry); first 3 years of insured employment (previously 4 years) credited at 75% of average earnings (previously 90%), years prior to age of 16 are not considered (previously 17 years).</p> <p><b>Pension Reform Act 1997</b> (Rentenreformgesetz 1999 – RRG 1999) Retirement age for disability pensions increased from 60 to 63 (for people born 1940 and after). Introduction of actuarial discounts also for disability pensions; more restrictive eligibility criteria for drawing disability pensions; valuation of child-rearing for pensions is gradually increased from 70% to 100% of average income; introduction of “demographic factor” into pension formula, i.e. increases of life expectancy at age 65 are taken into account (however, the “demographic factor” was never implemented); credits from simultaneous insured employment can be added to child care credit; child care credit increased to 100% (from 75%) of average earnings at the same time.</p>	<p><b>Law for the implementation of the federal consolidation program 1993</b> (Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms) In case social assistance received: Eligibility for special needs supplement of 20% of standard rate increased to age 65 (instead of 60 years).</p> <p><b>Pension Reform Act 1997</b> (Rentenreformgesetz 1999 – RRG 1999) In case unemployment assistance received: If unemployment assistance is reduced due to other income sources of the unemployed (e.g. income of a partner), the pension insurance contributions are reduced accordingly</p>

Table 7 continued

	SPI	Public Assistance and Private Pensions / other schemes
2000 - 2008	<p><b>Law to Reform Disability Pensions 2000</b> (Gesetz zur Reform der Renten wegen verminderter Erwerbsfähigkeit) Pensions for occupation and general disability replaced by a two-tiered disability pension (partial and total disability pension), as a general rule, pensions are paid out only on a temporary basis.</p> <p><b>Supplementary Retirement Savings Act 2001</b> (Altersvermögensergänzungsgesetz) Reduction of pension adjustment linking the adjustment mechanism to gross wage increases in the previous year; suspension of indexation for 2001; cuts in surviving dependant's pensions; increased valuation for child raising (also in relation to surviving dependant's pension if deceased spouse cared for children); introduction of pension-splitting between spouses</p> <p><b>Retirement Savings Act 2001</b> (Altersvermögensergänzungsgesetz) Gradual introduction of deferred taxation of SPI pensions; in 2005, taxable share of the pension raised to 50% (both for current and for new pensioners); increased taxable share to 100% by 2040; ; in return, employer contributions to statutory pension insurance tax free until 2025</p> <p><b>Pension Insurance Sustainability Act 2004</b> (RV-Nachhaltigkeitgesetz) Further cuts in education credits: As of 2009, credits (maximum for three years) given only for vocational schools and training, no longer for education at liberal arts universities or universities of applied science; the "sustainability factor" introduced into the pension formula reflects changes in the relation between pensioners and contributors leading to long run benefit reduction.</p>	<p><b>Retirement Savings Act 2001</b> (Altersvermögensgesetz) Introduction of new, voluntary - but subsidized - retirement provisions based on capital cover.</p> <p><b>Law on Old-Age Need-Based Pension Supplement in the Event of Reduced Earnings Capacity 2001</b> (Gesetz über eine bedarfsorientierte Grundsicherung im Alter) Introduction of means tested benefits for elderly people and those incapacitated to work with relaxed recourse liability of relatives; amount of benefit: standard rate of social assistance plus 15% of standard rate plus special needs supplement of 20% of standard rate for people with walking disabilities owning a severely handicapped person's identity card marked G.</p> <p><b>Law for the Integration of Social Assistance Law into the Social Code Book 2003</b> (Gesetz zur Einordnung des Sozialhilferechts in das Sozialgesetzbuch) Social assistance for the elderly: deletion of additional 15% of standard rate; special needs supplement of 17% of standard rate for people with walking disabilities holding a severely handicapped person's identity card marked G.</p>

Sources: Alber, 1986: 254ff.; Baron von Maydell, 2007; Deutsche Rentenversicherung Bund, 2009b: 279ff.; Federal Ministry of Labour and Social Affairs, 2008; Hinrichs, 2003; Steffen, 2008b

## 6 Summary and Hypotheses

The institutional description showed that SPI became less generous between 1980 and 2007 in several respects. First, the pension formula has been modified several times resulting in shrinking benefits. The introduction of actuarial reductions, in 1997, for early enrolment of benefits amplified this, since a considerable number of people retire before the statutory retirement age and, therefore, receive lower pensions. Moreover, in several steps, university education has been completely disregarded in the valuation of pensions.<sup>16</sup> At the same time, as shown, credits were given for child-raising and child-care services. Whereas the former is already in force, the latter will only benefit future generations of pensioners. Thus, those most affected by welfare state changes in relation to old-age pensions are pensioners who retire early and have a higher education (see above, as well as Borgmann & Heidler, 2007).

In many ways, however, future pensioners are more affected by changes already made. It is estimated that the sustainability factor, passed in 2004, will reduce pensions by 7.7% in 2030 compared to the status quo ante (on average this corresponds to a yearly decline of 0.7 percentage points in relation to gross wages – Bundesministerium für Arbeit und Soziales (Hg.), 2007: 343).<sup>17</sup> Next, owing to changes in indexation rules, several retirement pathways were also closed; this being, once again, much more relevant for future generations and their retirement plans. In retrospect, the period from 1972 to the end of 1989 might be seen as the Golden Age for public pensioners (both in respect to early retirement possibilities and benefit values).

Many expert observers of pension policy (see e.g. Hinrichs, 2005: 68f.; 2008:30 Schulze & Jochem, 2007: 696f.) see the overall development as a departure from a policy of protecting an acquired economic status (Lebensstandardsicherung). The same holds for disability pensions so that there are three areas of life risks (old-age financial security, disability and concomitant incapacity to work, and long-term unemployment<sup>18</sup>) where there is a shift from protection of acquired economic status to a minimal system of security.

Minimum standards in old age have also been cut. *The Minimum Income Pension* („Rente nach Mindesteinkommen“) is phased out (only contributions paid up to 1992

<sup>16</sup> The devaluation of higher education becomes even more obvious if one knows that it was credited for pension benefits with 200% (!) of average earnings before 1978 (Steffen, 2008b: 37).

<sup>17</sup> This assumes, however, that the government abstains from intervening, which might not be the case, e.g. in 2009, applying the pension formula would have meant a reduction in nominal terms. For this reason, the government guaranteed that there will be no reductions, so that future increases must be even lower, to compensate for the unmade nominal cut (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, 2010: 249ff.).

<sup>18</sup> See for long term unemployment the working paper on unemployment insurance.

are counted). Although the 2003 reform could have reached more elderly people in need by relaxing the recourse liability of relatives, the social assistance benefit amount was reduced. Whereas social assistance recipients in the 1980s received a supplement of 20% of the standard rate (from 1985–1993 seniority was set at 60 years!), it was cut in 2005. Since then, only seniors officially recognised as handicapped with walking disabilities receive a supplement of 17% of the standard rate.

In line with the aforementioned departure from the security of economic status are divergent rules for short- and long-term unemployed in relation to contributions for pension insurance. Since 1995, Unemployment Benefit I (Arbeitslosengeld I) includes pension insurance contributions amounting to 80% of such contributions made during previous employment (the same applied to unemployment assistance benefits Arbeitslosenhilfe!<sup>19</sup>). Since the Hartz Reforms, pension insurance contributions for Unemployment Benefit II (Arbeitslosengeld II) recipients was cut considerably to about €20, thereby creating almost negligible, pension benefit increases of about €2.17 (West) or €2.26 (East) per year. Together with the increased instability of employment patterns, this will very likely contribute to increasing poverty levels in old-age in the future (Hinrichs, 2008; Steffen, 2008a).

## Hypotheses for the Micro-Analyses

### Group-specific:

1. People with higher education face losses of statutory pension benefit value, particularly as of 2002.
2. After 1997, early retirees face losses in statutory pension benefit value compared to retirees who become pensioned at the normal retirement age.
3. Former long-term, social assistance recipients receive much lower statutory pension benefits than former long-term recipients of unemployment benefits.

### Over time:

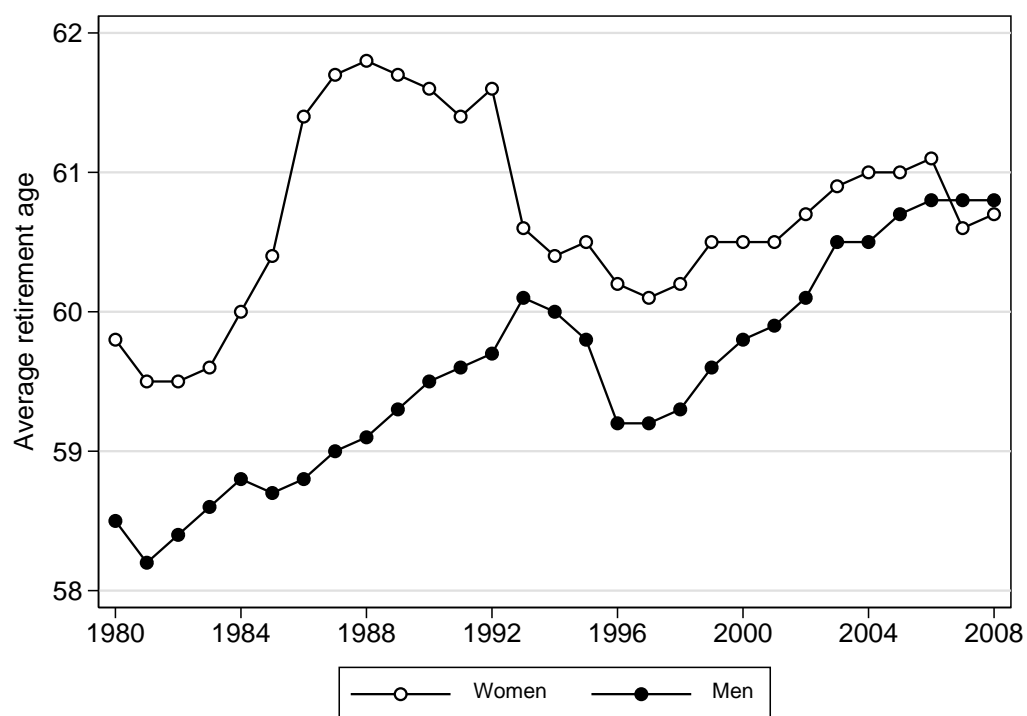
1. Benefit value derived from statutory pension declines over time (i.e. younger age cohorts benefit less from their statutory pension than older ones).
2. Elderly recipients of social assistance were comparatively better off during the 1980s than during the 2000s.

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<sup>19</sup> In contrast, recipients of regular social assistance could only get “reasonable” (“angemessene”) payments for old age provisions, which are subject to the discretion of street level bureaucrats and allegedly clearly below that received by recipients of Arbeitslosenhilfe.

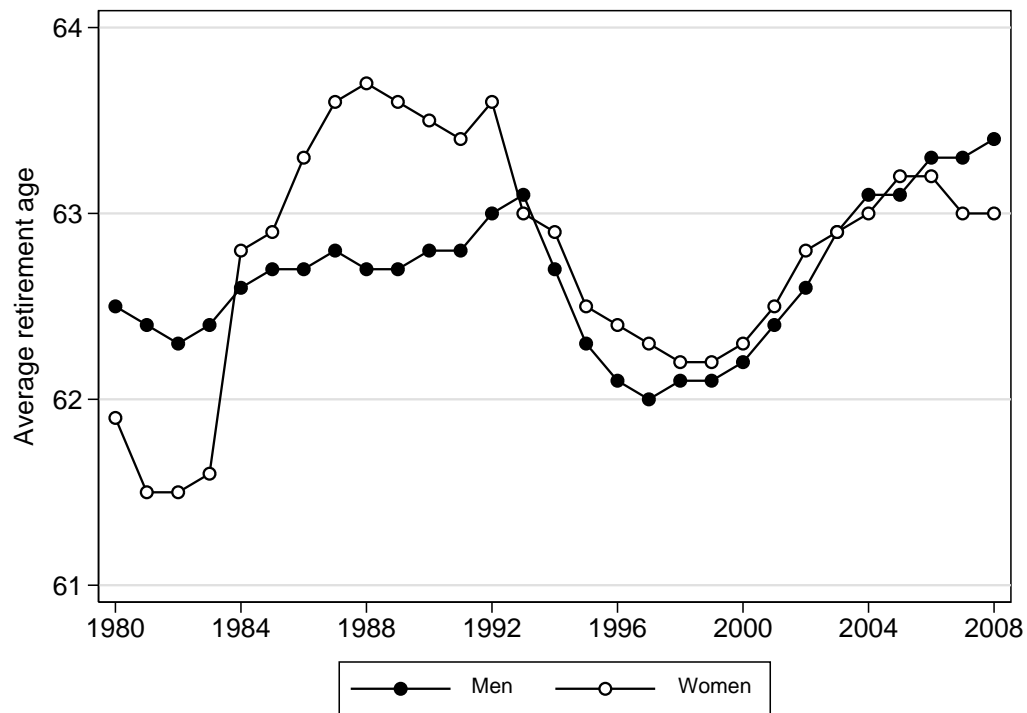
## Appendix

Appendix Figure 1: Average Entry Age into Pensions – All Pensions



Source: Deutsche Rentenversicherung Bund (Hg.), 2008

Appendix Figure 2: Average Entry Age into Pensions – Old-Age Pensions Only



Source: Deutsche Rentenversicherung Bund (Hg.), 2008



Appendix Table 1: Increase of Age Limit for Various Age Groups in Various Pension Schemes  
(each without protection of confidence)

Year of Birth (Month of Birth)	Increase of ... Months	To Age Limit		Premature Claim Possible by the Age of		Deduction
		Year	Month	Year	Month	%
Old-Age Pensions after unemployment or partial retirement						
1937 (January)	1	60	1	60	0	00.3
1941 (December)	60	65	0	60	0	18
1942 until 1951	60	65	0	60	0	18
Old-Age Pensions for women						
1940 (January)	1	60	1	60	0	00.3
1947 (December)	60	65	0	60	0	18
1945 until 1951	60	65	0	60	0	18
Old-Age Pensions for long-term insurants						
1937 (January)	1	63	1	63	0	00.3
1949(December)	37	65	0	62	0	10.8
Old-Age Pensions for (severely) disabled						
1941 (January)	1	60	1	60	0	00.3
1943 (December)	36	63	0	60	0	10.8

Source: Bundesministerium für Gesundheit und Soziale Sicherheit (Hg.), 2004: 241ff.

Appendix Table 2: Consideration of Child-Raising in the Statutory Pension System

1986	Introduction of child-raising credit (one year per child) credited at 75% of average earnings
1992	Extension of child-raising credit for the child's first three years (for babies born after 1991), these measures passed in 1989.
1998	Added recognition of child-raising and contributions (up to the income threshold)
1998-2000	Gradual increase in the assessment of parenting terms from 75% to 100% of average earnings
1999	Payment of contributions for child-raising by the federal government (Bund) (e.g. for 2003: approx. € 12 bn. ) with simultaneous decrease of the federal grant by containing flat compensation for parenting expenditures (1998: 7.1 bn. DM)
2002	Appreciation of contribution terms during parenting until the completion of child's 10 <sup>th</sup> year (with disability until completion of the 18th year) for after 1991
2002	Earning-points credit (up to 1/3 earning point per year) for parenting or care of several children in the aforementioned time periods
2002	Introduction of children's component in the dependent's pension system (additional earning-points for parenting)
2002	Specific state subsidy for children for the setup of supplemental Old-Age Pensions (for e.g. <i>Riester-Pension</i> )

Source: Kommission für die Nachhaltigkeit in der Finanzierung der Sozialen Sicherungssysteme, 2003

Appendix Table 3: Average Duration of Benefits (Years)

Year	Total	Men	Women
		<b>West Germany</b>	
1980	12.1	11.0	13.8
1985	13.1	11.9	14.9
1990	15.4	13.9	17.2
1995	15.7	14.0	17.7
2001	16.2	14.3	18.3
2005	17.2	15.2	19.3
2007	17.3	15.3	19.4
		<b>East Germany</b>	
1995	16.0	11.6	19.6
2001	16.7	12.0	20.8
2005	17.5	12.9	21.6
2007	18.4	13.9	22.1
		<b>Germany</b>	
1995	15.8	13.6	18.2
2001	16.3	13.8	18.9
2005	17.2	14.7	19.8
2007	17.4	15.0	19.9

Source: Deutsche Rentenversicherung Bund (Hg.), 2009: 137

Appendix Table 4: Entries into Disability Pensions

<b>New disability pensioners in % of all new statutory pensioners</b>		
West Germany	Men	Women
1975	36.9	46.0
1980	49.4	50.0
1985	43.9	30.2
1990	36.0	17.2
1995	32.7	18.3
2000	24.2	14.8
2005	18.7	14.9
2008	19.1	16.5
East Germany		
1995	13.1	21.5
2000	23.6	16.2
2005	21.7	19.7
2008	25.0	20.4
<b>Average age when entering the pension (in years)</b>		
West Germany	Men	Women
1990	53.8	52.6
1995	53.4	51.5
2000	52.6	50.5
2005	50.6	49.3
2008	50.7	49.5
East Germany		
1995	49.7	49.7
2000	50.3	49.3
2005	49.9	48.9
2008	50.4	49.3

Source: Deutsche Rentenversicherung, 2009: 62-64, 68

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