



Vorstand

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Retirement Security in Germany: Living Standard Security or Basic Security?

Sophie Jänicke, „Managing Labour’s Capital“ Conference, April 18th, 2008

Structures of the German retirement system



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Lifetime security until Mid 70's via state pension program (1st pillar)

➔ **Tradition of German Social Law to prevent and compensate life-risks (Bismarck's Social Law 1884)**

➔ **After World War II:**

- Competition of the political Systems (socialist vs. capitalist) in Germany until 1989
- ➔ A pension system with some of the highest benefits in Europe
- ➔ Equally financed by employer and employee
- ➔ No great necessity for additional private or occupational schemes
- ➔ Occupational schemes more an instrument of H.R.-policy
- ➔ Pensions were no part of collective agreements – only in some small sectors

➔ **Priority of the first pillar, which allowed pensioners to maintain their standard of living**

Pressure on the System since 1974/75



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Less contribution to the retirement system because of:

- ➡ Thirty years of unsolved problems of unemployment**
- ➡ Financial burden on pensions caused by the German reunification**
- ➡ Less contributions as a result of „forced“ early retirement**
- ➡ Changes in the labour market towards precarious work**
- ➡ Demographic changes of the working population**

Financial gap between resources and expenditures in the retirement system



Reforms as a reaction to the pension crisis („Riester-Reform“)

- ➔ **Legal entitlement of every employee to a deferred compensation plan via collective agreements**
- ➔ **Introduction of a pension fund regulated by German insurance law**
- ➔ **Introduction of new type of obligation: Defined Contribution with minimum benefit guarantee („money-back-guarantee“)**
- ➔ **Introduction of state subsidies for individual contributions into 2nd and 3rd pillar arrangements**
 - „Riester-Rente“ for private and occupational schemes (direct annual subsidies: 154 euro per person + 185 for each child)
 - Tax exemption for contributions in occupational pension schemes to max. 2 544 euro (similar 401k plans)

Situation of the state pension system today



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- ➔ **Shift from a system of living standard security to a more basic security approach**
- ➔ **End of a retirement system paid equally by employer and employee**
- ➔ **i.e.: 35 years old person would get a state pension of 34% of his/her former income after 40 years of work**
- ➔ **A person with an income $\frac{3}{4}$ under the average income would get a pension below the basic social care level – after having paid contributions into the system for 40 years**
- ➔ **Consequence: great need for additional pension plans**
 - 30% of workers with occupational pension schemes
 - 23 % of employees have an additional private pension scheme
 - 70% of employees do not plan to have any additional pension plan – especially people with a netincome under 1 500 euro
- ➔ **Threat of pensioners´ poverty**

Challenge facing Trade Unions: retirement security under new conditions



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- ➔ **Need to use the new opportunities in the pension system to provide more retirement security for the members**
- ➔ **Use „economics of scale“ and purchasing power compared with individual solutions**
- ➔ **Collective agreement on deferred compensation (2001) 3,6 Mio employees with the employers association for the metal- and electro- industry (Gesamtmetall)**
 - General regulation of the conditions of occupational pension schemes
 - Foundation of MetallRente as an occupational multi-employers´ fund and joined institution of IG Metall and Gesamtmetall

MetallRente – Facts and Figures:

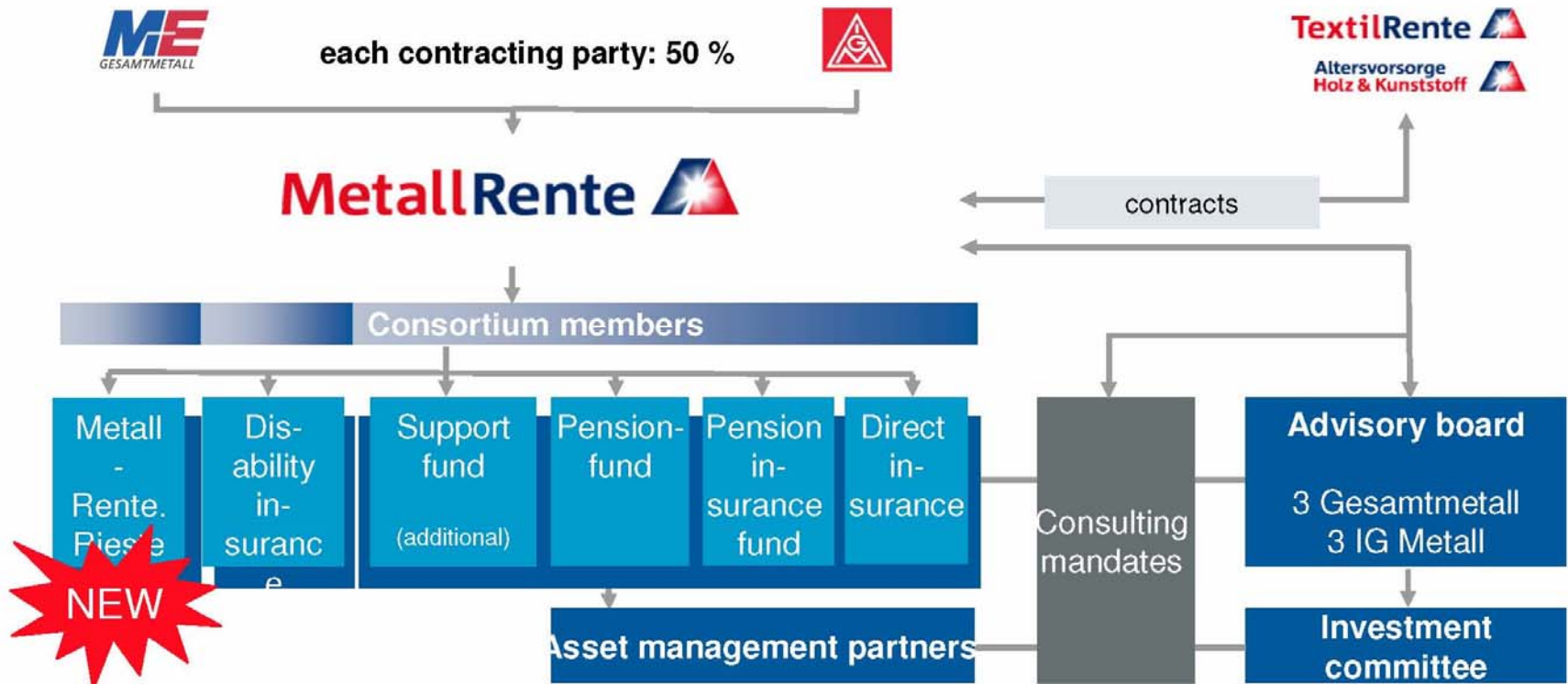
- ➔ **Participating companies 12/2007: 13 000**
- ➔ **Participating employees 12/2007: 250 000**
- ➔ **Assets 12/2007: > one billion euro**

MetallRente: occupational multi-employer fund



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MetallRente: Private Institutional Partnership



MetallRente: Differences to US-Pension Funds



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- ➔ Insurance orientated and capital market orientated products as an individual choice for each employee
- ➔ Stricter regulation of asset management to minimize the risks
- ➔ Double structure of executive board and supervisory board to divide management and control (<-> one board of trustees)
- ➔ Socially Responsible Investments (SRI)
- ➔ But: Less relevance for German Trade Union policy because of German system of codetermination -> different arenas of power

Conclusion: Changes in the German pension scheme



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Change from a

defined benefit system → defined contribution system

Change from

Living standard security → basic retirement security

IG Metall Perspective for the German Retirement System



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- ➔ **Rebuilding of a solidarity based retirement system for all employees -> also public sector employees and self-employed, who are not contributing yet**
- ➔ **Priority of the first pillar providing living standard security via broadening the basis of contributions**
- ➔ **(obligatory) pension plans of the second pillar also financed by the employers**
- ➔ **Supplementary pension plans with obligatory social responsibility investment (like MetallRente)**



Thank you for your attention!