



Plans for a basic pension in Germany

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The new German federal government's coalition agreement foresees the introduction of a "basic pension" (Grundrente). However, both the level of the pension and the number of persons covered by it are rather low. As such, the plan is neither a sustainable solution to the general decline in income in old age nor, in particular, a solution to the increase in old-age poverty.

Description

For years now, the level of the statutory pension insurance (SPI) has been steadily declining in Germany. The "net pension level", which compares the average SPI with the average earnings (both excluding social security contributions), stood at 52.9% in 2000 and decreased to 48.0% in 2016 (Deutsche Bundesregierung 2017). This development has increased the risk that more and more pensioners will fall below the poverty risk line.

Currently, elderly people in need can apply for the basic security benefit in old age (*Grundsicherung im Alter*), which is part of the German minimum income benefit system. This benefit should ensure that people receive the socio-cultural minimum subsistence level (which is defined by law). It therefore covers accommodation and heating costs, and includes a basic cash needs allowance that currently stands at €416 for single adults. The main eligibility criterion is neediness. Other incomes (of the pension recipient as well as his/her spouse or partner) are credited against the benefit, so the entire basic provision is rarely paid out. In 2016, 525,595 people above the statutory age limit of the SPI (65 years and 4/5 month) received this benefit – i.e. 3.1% of the resident population of that age group. 77% of recipients (404,836) received a pension at the same time (see Steffen 2018).

The increasing number of recipients of this basic security benefit represents a growing cost burden for the Federal Government, which bears the costs of basic security. But most importantly, the increasing number of recipients threatens to call into question the legitimacy of SPI. Why should employees pay social contributions over a long period of time if their pension in old age is either lower or only marginally higher than the basic security benefit level?

In response to this development, the new governing coalition announced the introduction of a "basic pension" (*Grundrente*) in its coalition agreement (CDU et al 2018, p. 90), which is to be introduced by law by the middle of the current legislative period. The plan consists of the following key points:

- The basic pension would be paid to recipients of basic security benefits in old age who have accrued 35 years of contributions earned through employment, child-rearing or long-term care periods.
- The basic pension is aimed at people who "have worked for decades, raised children and cared for relatives". These people should receive an old-age benefit ten percent above the basic security benefit level.

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- The prerequisite for receiving a basic pension is passing a means test applied in accordance with the basic security benefit scheme.
- The basic pension is to be administered by the German SPI body.

Outlook & commentary

The idea of a basic pension is not new. It was already discussed during previous legislative periods, in terms of a “life benefit pension” (*Lebensleistungsrente*) (2012) or “solidarity pension” (*Solidarrente*) (2016), but the governing parties could not agree on either concept. The current initiative seems to be a minimum consensus of limited scope. The term “basic pension” is misleading: it is not a fixed basic amount paid to all retirees, but, rather a (small) supplementary benefit granted subject to very strict conditions. A large proportion of those receiving the basic security benefit (estimated at around 80%) will not meet the hurdle of 35 contribution years, even if child-raising and care periods are taken into account (whether and to what extent this also applies to phases of unemployment is still unclear). For this reason, the proposal is not a far-reaching or sustainable response to the challenge of constantly increasing poverty among the elderly, and it will not contribute to improving the legitimacy of SPI. An important consequence of the proposal is that people on a (very) low income would only receive the ten percent top up if they have 35 contribution years – there would thus be “deserving” and “non-deserving” elderly poor.

In addition, two essential organisational aspects still remain unclear. The first issue concerns the final authority: Who decides on the approval - the SPI body or the bodies which administer the basic social security benefit scheme? This question is a significant one, as all of these institutions have to provide important information. The SPI body holds the data on contribution years and can check which pension recipients would generally be eligible. However, the means test must take place in a household context and relates to all incomes. To date, only the basic social security benefit authorities have carried out this type of examination. As a result, both institutions would have to work closely together. Which authority would then take legal responsibility in case of doubt?

The second issue concerns the cost. Cost estimates for the basic pension cannot currently be computed due to a lack of data on the possible number of beneficiaries. Depending on which variant is used to model it, current cost estimates range from several hundred million to around 4 billion Euro. So far it has not been decided who has to bear these costs, i.e. taxpayers or contributors. In fact, it is neither an insurance benefit nor a pure welfare benefit. As a “welfare service with additional requirements”, the costs should be paid from general tax resources. But if the SPI body pays the basic pension, it could also make use of its access to the contributions received from all insured persons and pay the benefit from this receipts. This would place an additional burden on contributors that would be difficult to justify.

Further reading

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Hoenig, R., Kerschbaumer, J., Schmid, S. (2018). Grundrente & Co. – Konzepte für eine bessere Alterssicherung bei Niedriglohn im Vergleich. WISO-Direkt 08/2018 [Basic pension and others - Concepts for a better old-age provision compared with low wages].

Steffen, J./Portal Sozialpolitik (2018). Die “Grundrente” im Koalitionsvertrag. Ein Interpretationsversuch [The “basic pension” in the coalition agreement. An attempt at interpretation]: www.portal-sozialpolitik.de/uploads/sopo/pdf/2018/2018-02-08_Hintergrund_Grundrente_PS.pdf [22.05.2018].

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