Germany: Controversies around the recent report of the Pension Commission on a "Reliable Generational Contract"

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After two years of intensive discussions about the further development of the German pension system, the Pension Commission on a "Reliable Generational Contract" has presented its report on the sustainability of the pension system. The report was immediately heavily criticised. It contains some dissenting opinions and not one single political party or interest group fully supports the recommendations.

Description

In 2018, the German federal government set up a Pension Commission on a "Reliable Generational Contract" (*Rentenkommission "Verlässlicher Generationenvertrag"*), which is made up of representatives of the worlds of politics and academia and the social partners. On 23 March 2020, this Commission published a report on the guiding principles and options for action to ensure the sustainability of the social pension insurance scheme (SPI), the occupational pension schemes and the personal pension schemes from 2025 onwards (Kommission Verlässlicher Generationenvertrag 2020).

The Commission's main recommendations are as follows:

1) For the first seven years (2026–2032), the net pension level of the SPI before taxation should be set within a range between 44% and 49% of the average earnings of employees insured in the SPI (pension and average earnings reduced by the average of social contributions for health and long-term care insurance), and the contribution rate for the SPI would be set within a range between 20% and 24% of the insured income. At present, the net pension level of the SPI before taxation is about 48.1% and the contribution rate is 18.6%.

2) Binding thresholds for the net pension level before taxation, and the contribution rate, should be set based on a recommendation made by the Pension Council every seven years within the ranges given above (the Council is an advisory board which provides the Federal Government with yearly information and recommendations about all pension schemes).

3) The pensionable age of 67 should be maintained for the SPI until 2026.

4) System-compatible and equally effective measures should be applied to the civil servants' pension scheme.

5) In line with the coalition agreement, a mandatory insurance scheme should be introduced for all self-employed persons who are not otherwise covered. The self-employed should be able to choose between the SPI and other suitable types of provision (opt-out solution).

6) The occupational and personal pension schemes should be strengthened through:

- tax deductions of 4% of the contribution ceiling for tax-privileged private pensions;
- an increase in and annual uprating of public funding for employer-financed occupational pensions for low-paid workers;
- simplification and harmonisation of the promotion of personal pension schemes by merging tax-privileged systems and systems that are eligible for subsidies;
- relaxation of the guarantee of the nominal value of the sum of the premiums paid at the start of the

pay-out phase for state-aided occupational and private pension systems;

- development of a standard for state-aided occupational and personal pensions.

7) Two new indicators should be added to the annual pension insurance report to provide information on the adequacy of the pension system.

8) Cooperation, networking and interaction between social security institutions and other providers of rehabilitation and prevention should be strengthened.

9) A so-called gender check, i.e. a gender-specific impact assessment, should become part of the pension legislation.

Outlook and commentary

The Pension Commission has decided against opting for a major reform or even a (partial) departure from the existing pension system. Instead, it has stuck to the course of reforms that have been under way since 2001. Yet, the recommendations are vague and fail to give a clear signal as to the direction of future developments. It is, for instance, unclear whether the statutory pensionable age will change after 2025 or what the net pension level before taxation will be after 2025. Instead, the Pension Council is to regularly review the system and make recommendations on the system's further development every seven years. Consequently, the long-term outlook is still uncertain, which is problematic as provision for old age has to be planned over several decades and cannot be altered at short notice.

It remains to be seen how the government will react to the Pension Commission's recommendations. The report contains some dissenting opinions, especially regarding the net pension level before taxation, the pensionable age and the expansion of occupational and personal pension schemes. Not one single political party or interest group fully supports all the recommendations. All groups are dissatisfied with the Commission's compromise solution.

For advocates of capital-funded pension systems, the proposals do not go far enough in terms of further lowering the net pension level before taxation, promoting occupational and personal pension schemes and raising the pensionable age, which has long been a fundamental bone of contention. Therefore, it is not surprising that the Deutsche Bundesbank, for example, is still demanding that the pensionable age be raised by indexing the pensionable age to the increase in life expectancy (Deutsche Bundesbank 2019).

For the trade unions and welfare associations, conversely, the compromise goes too far in this direction. Given the current system, material deprivation and poverty in old age will most likely continue to increase in the coming years. One of the main criticisms from this side is the low net pension level of the SPI before taxation (IG Metall 2020; Katholi¬sche Verbände Deutschlands 2020). Another major point of disagreement is the recommendation to expand the promotion of supplementary pension schemes. This did not come as a big surprise given the financial crises and the heavy losses of, for example, the Norwegian sovereign fund.

In short, despite the Pension Commission's recommendations, the political debate on the further development of the old-age pension system in Germany will continue.

Further reading

Deutsche Bundesbank (2019): Langfristige Perspektiven der gesetzlichen Rentenversicherung [Long-term perspectives of the statutory pension insurance], in: Monatsbericht 71(10), p. 55-82.

IG Metall (2020): Bericht der Rentenkommission: Wenig Licht, viel Schatten [Report of the Pension Commission: Little light, much shadow], Pressemitteilung. 11/2020, Frankfurt.

Katholische Verbände Deutschlands (2020): Kommissionsbericht enttäuscht - innovative und zukunftsweisende Ergebnisse fehlen [Commission report disappoints - innovative and forward-looking results are lacking], Pressemitteilung. Berlin: Katholische Verbände Deutschlands.

Kommission Verlässlicher Generationenvertrag (2020): Bericht der Kommission Verlässlicher Generationenvertrag. Band I – Empfehlungen [Report of the Commission Reliable Intergenerational Contract. Volume I – Recommendations], Berlin.

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