

Germany

Evidence about people's understanding of issues related to old-age provision is limited and often stems from mission-oriented research. The most frequently cited studies' outcome is being presented below though not all questions posted by the questionnaire can be answered in a concise manner simply because of lacking (recent) evidence. That is, for the questions concerned, their focus has not yet been perfectly served by sufficiently recent and/or independent surveys. Therefore, questions had to be re-organised or merged where necessary. In addition, as of independence, a right-away warning appears appropriate that mission-oriented work always brings up evidence which - to a certain extent - contains elements committed to the sponsor's interest (most surveys were carried out for banks and insurance companies or their associations). As a consequence, the **results have to be interpreted with appropriate care.**

1. Session one: Informing on change

1.1 (formerly 1.2) What do individuals know of the different types of financial risks to which individuals are exposed and on which they can make choices (longevity, rates of returns guarantees...)?

The empirical picture is somewhat ambiguous. There seems to be a distinct awareness about the characteristics underlying the major driving forces of Germany's pension systems (having) to change, i.e., the forthcoming demographic development. Mainly due to media coverage, people well associate ageing and longevity to challenges to the statutory pension scheme's long-term sustainability - although knowledge about the extent of 'ageing' is blurred to some extent as is the magnitude of its impact on pensions.

According to a 2005-study by **Bundesinstitut für Bevölkerungsforschung** (Federal Institute for Population Research - BIB) on policy acceptance in Germany almost 84% of people interviewed evaluate the decline in the share of people below 20 years of age either 'bad' or 'very bad'.¹ People are seemingly sensitised by media discussion focussing on the consequences of ageing, mainly on the social security schemes' future financing. The attitude seems to be well distinguished and problem-focussed:

- There is little evidence to a generally negative attitude towards older people. Positive statements about the older peoples' role in our society (take into account older people's problems, rights; take stock of their experience; 'precious part of society' etc) receive a very high level of agreement in sharp contrast to negative ones (impede change; 'burden to society').
- The share of people evaluating negatively the declining share of the young in total population is higher among people with higher education. For those, the study concludes there is a

¹ Bundesinstitut für Bevölkerungsforschung beim Statistischen Bundesamt (J. Dorbitz, A. Lengerer, K. Ruckdeschel), Einstellungen zu demographischen Trends und zu bevölkerungsrelevanten Politiken, Ergebnisse der Population Policy Acceptance Study in Deutschland, 2005.

different information behaviour and hence a higher degree of awareness concerning the issue of ageing the impact it unfolds on society.

When it comes to estimate the extent of demographic change, it also proves true that people tend to underestimate certain characteristics. According to **BIB**, average life expectancy, for example, is being (slightly) underestimated by men (-1.9%) as well as women (-3.2%) in 2002/2003. False estimation is of much more significance when it comes to the level of migration (underestimated by about one third). This pattern - albeit not the magnitudes - has been confirmed by a study carried out on behalf on **Allianz Lebensversicherungs-AG** (2005)².

According to the **Allianz** study, changing demographic parameters clearly translate into a certain degree of scepticism when it comes to whether or not the statutory pension will continue to be sufficient to maintain living standard. 95% believe that the statutory pension "is not sufficient any more, one will have to make up for private provision". The question appears highly suggestive so that the level of scepticism expressed by its results will certainly not reflect the 'true' attitudes. However, what it reveals is that German people are generally aware of the challenges ahead and have understood that it is necessary to have additional savings for old-age besides statutory provision - a conclusion clearly confirmed by recent figures on Riester and other supplementary provision coverage, see section 2.2 below. Already in 2001 (when the 2002 introduction of Riester-pension was debated intensively), according to **Eurobarometer**,³ more than half of non-pensioners indicated that by the time they retire they will get by "with great difficulty" or "with difficulty".

On the other hand, even in the light of this perception, the 2005 **Allianz** study concludes a certain underestimation as concerns the necessity to adapt individual provision to the challenges imposed by demographic change: According to the study, two thirds believe that the fact of people living longer has already been sufficiently taken account for within the individual private old-age provision. However, facts don't speak in favour of a general reluctance thesis - as the recent boom in private and occupational contract conclusions clearly reveals (see section 2.2). A broad majority of the population seems to have understood that own initiative is necessary in order to maintain the living standard in retirement. As a consequence, according to a recent study tendered by the European Commission⁴, "retirement saving" is the predominant savings motive in Germany.⁵

² Untersuchung der psychonomics AG im Auftrag der Allianz Lebensversicherungs-AG (Feldinstitut: Forsa), 2005

³ Eurobarometer, The future of pension systems, January 2004.

⁴ BME Consulting: The EU Market for Consumer Longterm Retail Savings - Comparative Analysis of products, market structure, costs, distribution systems and consumer saving patterns, November 2007 (final report).

⁵ BME Consulting: The EU Market for Consumer Long Term Retail Savings Vehicles, November 2007, p. 193.

1.2 (formerly 1.1) What do individuals know about main aspects of the pension systems that are changing (parameters, financing, retirement age, indexation)

Although people have understood that demographics will have an impact on the pension provision, there is certainly room to improve knowledge about central technical parameters of the pension scheme. There are two ways by which the available studies try to provide an indicator for knowledge about old-age provision: Asking concrete questions (and reporting about the share of correct answers) and asking people to self-assess their level of knowledge in certain questions.

According to 2004 a study for 'Deutsches Institut für Altersvorsorge' (German Institute for Retirement Provision - DIA), only one third of people asked in 2003 could give a direct numerical answer to the question what would be the statutory pension insurance contribution rate being paid by employers and employees - half of these answers being wrong (not within a generously defined range).⁶ Of the two thirds not being able to give a direct answer, only 22% were able to indicate at least a range in which the actual contribution rate truly lies. A 2004 study for **Postbank** confirms these findings.⁷ Other **DIA** questions focus on the statutory pension scheme's general financing principles (a PAYG scheme) where the results are ambiguous. At least 41% of those asked in 2003 knew that today's contributions are not retained or saved but poured out to today's pensioners (albeit the share fell from 47% in 2000).

On the other hand, however, people seem to be better informed about the fact that contributions paid to the general pension scheme are not sufficient to cover expenses: In 2003, 62% knew that the state has to support the pension scheme by adding 'tax resources' (i.e., paying a subsidy). This is all the more respectable as the interviewers obviously failed to give an indication to the interviewee that state subsidies are necessary because the public pension system has to fund revenues not covered by contributions amounting to roughly one third of total expenditure. Redistributive elements within the pension scheme therefore go (and should go) to the expense of tax-payer rather than the insured community.

These results are frequently cited. However, given their narrow focus, there is some doubt on whether studies of this type can deliver a credible indicator for general literacy in the area of old-age provision. Much of interest could be how people self-assess their grasp on selected issues related to old-age provision - particularly when those issues concern the pension scheme's central parameters frequently discussed by the media.

One of the most crucial parameters that people tend to feel directly affected by is the official retirement age. In 2007, Germany has enacted the Rentenversicherung-Altersgrenzenanpassungsgesetz (Pension Insurance Retirement Age Adaptation Act). The standard retirement will be gradually raised from 65 to 67 years starting in 2012 with a phasing-in until 2029. The measure was strongly campaigned by the government for years. Public discussion about "Rente mit 67" started back in 2002 when a well-considered expert commission

⁶ A. Börsch-Supan, F. Heiss, J. Winter, Akzeptanzprobleme bei Rentenreformen - Wie die Bevölkerung überzeugt werden kann, Köln 2004, p. 27 – 31.

⁷ Institut für Demoskopie Allensbach for Postbank, 2004: see INFES, Internationales Institut für Empirische Sozialforschung, gGmbH (E. Kistler, P. Heinecker), Wie hat sich die Akzeptanz der Gesetzlichen Rentenversicherung in den letzten Jahre entwickelt?, Bericht an die Deutsche Rentenversicherung Bund, Forschungsnetzwerk Alterssicherung, Stadtbergen, Januar 2007, fn 1.

first made a corresponding proposal.⁸ Public and political debate was intense ever since. As a consequence, public and political sensitivity on that issue is high. A 2007 study commissioned by **Postbank**⁹ found that almost four fifth (79%) of working population stated they knew that people born in 1964 or after will have to work until age 67 instead of 65 in order to receive an unreduced pension (and 79% plan to supplement their pension provision arrangements). For people in prime working age groups (30 years and older) the share is even 84%, but also the youngest cohorts (aged 16 - 29 years) seem to be fairly well informed: Almost two thirds know about retirement age to be raised. These results are all the more remarkable as the question could potentially have misled respondents given the way it was posed: The process of shifting the retirement by two years (from 65 to 67) will be very gradual and already starts for the 1947 cohort in 2012, for which retirement age will be shifted by one month.

...and (3.2) what do people know of the impact of different decisions on retirement age and transition from work to retirement on their potential future benefits?

So there is a general awareness of actuarial deductions applied as one decides to retire before having reached official retirement age. This result does not come as a surprise: public debate on the issue of increasing retirement ages began almost 20 years ago when a gradual increase of retirement ages for certain pre-drawn pension categories (from age 60 to 65) was first adopted - a process having actually begun already in 1997 for early pensions due to unemployment. Evidence for people to understand the individual consequences of early retirement is not only coming from surveys: Meanwhile, average ages on first accrual an old-age pension clearly shift due to official retirement ages to be increased (see section 2.2). People do actively react - supported by a set of labour-market programmes specifically aiming at bringing older people (back) to employment.

1.3 Tools and their assessment:

See section 4

⁸ "Rürup-Kommission": Nachhaltigkeit in der Finanzierung der Sozialen Sicherungssysteme, Bericht der Kommission (final report), Section 3, Berlin 2003.

⁹ Institut für Demoskopie Allensbach for Postbank, Altersvorsorge in Deutschland, Allensbacher Repräsentativumfrage vom September 2007 im Auftrag der Postbank, p. 58.

2. Session two: Informing on choices

- 2.1 What are the actual main choices available to individuals (including portfolio profiles, etc...)? What are the choices of financial products individuals have: in the mandatory system (i.e. opt-out to the employers' scheme), in the second and third pillars?

The first Pillar – Statutory Pension Insurance

The main statutory pension insurance (Gesetzliche Rentenversicherung, GRV) is organised as PAYG. Revenue coming from the statutory pension insurance is by far the most important source of old-age income (two thirds of total income on average). In principal, employees are compulsory insured in GRV. People aged 16 years and older who are not obliged to make compulsory contributions are entitled to make voluntary contributions if they reside in Germany.

The second Pillar - occupational retirement provision

Occupational retirement provision is a voluntary system. Since the 2001 pensions reform, employees have had a fundamental right to remuneration conversion ("Entgeltumwandlung", an employee funded occupational retirement provision). It is nevertheless up to the employers to decide by what pension vehicle occupational retirement provision is to be implemented. There are collective agreements in many areas providing for obligatory occupational retirement provision or financial incentives for employees to participate in deferred compensation schemes. Occupational retirement provision in the private sector is mostly funded.

In Germany the "Act to Improve Occupational Retirement Provision" (Gesetz zur Verbesserung der betrieblichen Altersversorgung - BetrAVG) provides five implementation types (book reserves, "Unterstützungskasse", direct insurance, "Pensionskasse" or pension fund), within which employers can organise occupational retirement provision.

Of these five implementation types, direct insurance, "Pensionskassen" and pension funds are under the supervision of the Federal Financial Services Supervisory Institute (BaFin). Pension funds were approved for the first time in 2002.

In principle, employers select the pension vehicle. However, there are restrictions in the selection of the type and the selection of the institution for occupational retirement provision may also be imposed by collective agreement arrangements if these apply to employers and employees alike.

Book reserves

In the case of book reserves, the employer provides employees with occupational retirement provision benefits directly without using a pension facility to secure the promise. Employers may form pension reserves to fund their promise, thus reducing profit. This must be revealed in the balance sheet.

"Unterstützungskasse"

A "Unterstützungskasse" is a legally-independent institution which grants occupational retirement provision without providing a legal right to its benefits. The obligation to pay benefits to employees remains with the employers, who must avail themselves of the "Unterstützungskasse" to meet their pension obligations. Employees themselves do not receive a statutory benefit claim against the "Unterstützungskasse". The "Unterstützungskasse" is not subject to insurance supervision. It may dispose freely of the collected capital, and may for instance loan it to the employer.

Direct insurance

If the employer as the insured party concludes life insurance for the lives of its employees, and if the employees or their surviving dependants are entitled to draw on it, this is referred to as direct insurance. It should be taken into account that – in the case of voluntary employer-sponsored schemes - employers can not withdraw the right to draw benefits once the requirements for vesting are met. In the case of deferred compensation schemes there is no vesting period.

"Pensionskasse"

"Pensionskassen" are pension facilities with legal capacity which implement occupational retirement provision and grant to employees or their surviving dependants a legal right to this provision. They are supported by one or several enterprises, and are subject to insurance supervision.

Pension fund (Pensionsfonds)

Pension funds are pension facilities with legal capacity which implement occupational retirement provision and grant to employees or their surviving dependants a legal right to this provision. They are supported by one or several enterprises, and are subject to insurance supervision.

Pension funds were introduced in 2002, and are intended to combine the advantages of the security offered by a "Pensionskasse" with the yield hoped for of an investment fund. They differ from "Pensionskassen" above all through their more liberal investment conditions and the concomitant obligation to have insurance cover against insolvency.

The third pillar - private old-age pension provision

Since the 2001 pensions reform, there has been a new form of state-promoted additional private capital-covered old-age pension provision in Germany which has been promoted in four incremental steps since 2002, ending in 2008 (**Riester-Rente**). Subsidies consist of two components. All beneficiaries can receive a bonus independent of progression, plus an additional deduction of special expenses can be claimed as a tax advantage up to an annual limit of 2100 €.

So the contribution to old-age pension provision consists of individual contributions and allowances. To relieve the burden on citizens, the policy holders pay only their individual contributions; on request by the policy holder, the state allowance is credited directly to the contract by the Pension Insurance (Deutsche Rentenversicherung) as the central agency. Over and above this, the total old-age pension provision cost can be claimed in the framework of an additional deduction of special expenses. If the tax saved by the deduction of special expenses is greater than the allowance, the difference is additionally credited to the taxpayer. In doing so, the right to the allowance is offset to that extent. It is therefore not sufficient to apply for the subsidy solely by tax declaration, even if the fiscal advantage is evidently more favourable than the allowance. Instead, it is necessary to apply for the allowances.

As from 2008 the basic allowance is 154 Euro per person and year. The child allowance is 185 Euro per child (for children born from 2008: child allowance has recently been increased to 300 Euro per child).

Forms of investment eligible for support

Private old-age pensions insurance, fund and bank saving schemes are eligible for support in the framework of private capital-covered old-age pension provision under the necessary condition that they guarantee at least capital maintenance and provide life long benefits. Fund and bank saving schemes must be linked to payment plans and a residual pension for the highest age stage. Furthermore, occupational old-age provision can be promoted in the shape of direct insurance, "Pensionskassen" and pension funds. A new law is in the planning to facilitate inclusion of real estate into the scope of Riester-subsidized products.

2.2 What are the actual choices people take regarding their pensions (deferred pension, partial pension, different types of annuities, share of lump-sum...)?

Life insurance contracts are still the predominant remedy to old-age provision in Germany. According to the German insurance association, at present, there is a total of around 94 m life insurance contracts (including subsidized and non-subsidized annuity contracts). State-supported supplementary old-age provision has seen a virtual renaissance as major reforms were carried out since 2001 including the introduction of the Riester-pension. Irrespective of some level of scepticism and lacking knowledge still echoed by surveys, the right action is being taken: People have understood the message that private provision will be necessary in order to maintain living standard in old-age. That is, various initiatives (see section 4) by the Federal Government and the stakeholders involved (including the insurance industry itself) prove successful.

According to the international AXA retirement survey 2007 - 2008 German employees and pensioners have a strong preference for pension products providing guarantees.¹⁰

¹⁰ AXA Ruhestand-Barometer 2007 - 2008. Ergebnisse für Deutschland im internationalen Vergleich, p. 52.

Occupational Provision

The strong rebound to the occupational pension provision came just after long-lasting stagnation before 2002. Indeed, it is on a strong growth path ever since. By end of 2001, roughly half of the active population compulsorily subject to social contribution had acquired claims within an occupational pension scheme. According to a recent study,¹¹ coverage has increased considerably ever since: to some 65% by end of 2006. That is, there are 17.3m active people working subject to social contribution who have an entitlement to a company pension over their current employer - among which (including double counting): 5.3m persons entitled within the public service supplementary scheme, 4.3m to "Pensionskassen", some 0.3m to pension funds, 4.3m to direct insurance, and 4.9m to book reserves/"Unterstützungskasse".

Private Provision (Riester-Rente)

Expansion of private old-age provision is particularly fast. Since the German pension reform in 2001 Germany has its "Riester-Rente" - a strongly state-subsidised supplementary pension scheme with its phasing-in completed in 2008 (see section 2.1). According to the latest reporting, by the end of 2007, almost 11m Riester contracts have been effected. Coverage of Riester-pension has accelerated with some 5.1m contracts effected in 2006 and 2007 alone. More than 1m citizens have decided to build up this type of old-age provision only in the last quarter of 2007.

The reason for Riester-Rente's fast expansion lies in its support design to be particularly attractive especially to low-income earners and people with children. Increasing the level of state support once more in 2008 (the last step) will further boost attractiveness - as will a new legislation brought on its way by the Federal Government aiming at strengthening the integration of self-used real estate into the Riester support.

Deferral of pension accrual

The number of people opting for early retirement went back significantly in recent years. Most importantly, this is due to the retirement age shift to 65 (to a statutory pension) combined with the introduction of pension reductions in case of earlier retirement. The average age of persons drawing an old-age pension for the first time has risen by approximately one year over the last ten years and was 63.2 years in 2006. It will continue to rise because raising the retirement age to 65 is still in progress. The statutory retirement age will be further increased to 67 years over the period 2012 to 2029 - so the share of new early retirees will continue to decline.

Correspondingly, older workers' labour force participation has increased significantly over the last years (to currently 52% from below 40% in 1998). According to Eurostat data, the German average age of exit from the labour force has risen from 60.6 in 2001 to 61.3 in 2004. More recent figures are not available for the moment but this trend has certainly continued - given the increased older workers' labour force participation.

¹¹ Source: Situation und Entwicklung der betrieblichen Altersvorsorge in der Privatwirtschaft und im öffentlichen Dienst 2001 - 2006; Study on behalf the Federal Ministry for Labour and Social Affairs by TNS Infratest Sozialforschung; Final Report, June 2007

2.3 What is the population's ability to understand financial notions related to pensions? (for instance compound interests, ...): Financial Literacy

The understanding of financial notations is hard to measure and little focussed evidence is available. One of the most frequently cited studies is a 2003 survey for **Bertelsmann Stiftung**¹² where people aged 30 to 50 years were interviewed and asked for their mindset to old-age provision and their financial literacy.

One question focussed explicitly on the potential impact of inflation on financial wealth.¹³ As a consequence of its design, the question covers various aspects of financial understanding - including knowledge of current (recent) inflation rates, a certain feeling for magnitudes to purchasing power being lost over time as well as a certain mathematical grasp. Due to its complexity, the question can probably not be considered a suitable 'true' index for financial literacy. The outcome is interesting anyway:

People across all socio-demographic groups considered seem to over-estimate the impact of inflation on financial wealth. Asked for the value of 1.000 DM in 30 years time at recent inflation rates (just below 1.7% at that time, 2% was tolerated) an averaged value of 486 DM was estimated with a standard deviation almost half that value. The correct answer was 608 DM (552 DM tolerated). That is, on average people underestimated the 'true' real value by 12% relative to the tolerated value - a fair result despite of high variance. The study concludes that people tend to underestimate the compound-effect attenuating to some extent the negative impact of inflation on the real value of money (wrongly calculating: 2% times 30 years would make a 60% loss, 40% remaining). Most interestingly, however, the extent to which people overestimate the impact of inflation seems to be lower for low- than for high-income earners. The study concludes a certain 'productive' purpose-led pessimism to the higher-income strata reinforcing additional savings.

But financial literacy has a lot more dimensions - one of which is available information about the basic attributes to the most important financial products. So people were asked about typical financial products' basic characteristics concerning risk, return and the cost of early termination. A set of financial product types was given: Capital Life Insurance, Equity/Equity Fonds, Bank Savings Book, Fixed-Interest-Securities and Real Estate Funds.

A majority of respondents (two thirds) knew that cost of termination during the first three years were highest for Capital Lives Insurance.¹⁴ Also, the largest share of respondents in relative terms (some 45%) rightly stated that appreciation of value during the (by then) last 20 years was highest for Equity/Equity Fonds.¹⁵ Evidence coming from the question for highest value protection is somewhat ambiguous: Capital Life Insurances and Bank Savings Books were the correct answers and were chosen by some (considerable) 48% and 27%, respectively (multiple selections were possible).

¹² Bertelsmann Stiftung (Hrsg.), Vorsorgereport Private Alterssicherung in Deutschland, erstellt von U. Reifner, A. Tiffle, A. Turner, iff Hamburg, Gütersloh 2003.

¹³ Bertelsmann Stiftung (Hrsg.), Vorsorgereport ..., Q112.

¹⁴ Bertelsmann Stiftung (Hrsg.), Vorsorgereport ..., Q116.

¹⁵ Bertelsmann Stiftung (Hrsg.), Vorsorgereport ..., Q115.

However, there is plenty of evidence that financial literacy has certainly been improving since 2002 as the stepwise introduction of Germany's popular Riester began in 2002. Also, the occupational pension scheme has been largely reformed and made more attractive ever since. So during the last five years the Federal Government and all stakeholders involved make a strong effort to steadily improve people's knowledge particularly on the issue of supplementary private and occupational provision.

This was clearly reflected by a series of more recent studies:

- In a 2007 survey for neue leben Versicherung (nIV)¹⁶ people were asked what products they feel sufficiently well informed about. More than half of respondents indicated Riester pension (55%) and Capital Live Insurance (53%). Also, knowledge about Occupational Pensions (46%) seems to be fair. Most interestingly, level of knowledge is better the higher is the respondent's household income, but there seems to be no such correlation concerning other essential socio-economic dimensions (i.e., age and the number of children). Almost two thirds of employees feel well informed about Riester pension. More than two thirds of self-employed and civil servants state to be well informed on Capital Life Insurance or related products.

The most crucial issue about private pension provision is knowledge about the conditions for state support and the extent to which people can expect subsidisation. According to the nIV survey, the availability of a state support is an "important" issue when concluding a contract to some 70% of the population. Understandably, the issue of state support gets the more important the lower is the individual's income (albeit there is also evidence suggesting that people to some extent underestimate the amount of state support available to them, see section 3).

- These results are confirmed by a very recent TNS-Emnid survey¹⁷ where people aged 25 to 55 years were asked how well informed they were about old-age provision beyond statutory (pension insurance) provision. More than half (55%) replied at least 'rather well' (among which: 17% 'very well'). Again, no clear link seems to appear between the level of self-perceived information and age. Youngest cohorts' (below 30) information level, however, seems to be lowest (45%). There also seems to be no positive link to household size. Moreover, unlike nIV, the Emnid study does not reveal evidence for a positive link between income and information level.
- Another confirmation for German's improving level of information on old-age provision comes from a series of Postbank surveys¹⁸ concluding that by end of 2005 some 54% of total population feels "sufficiently informed" about old-age provision. Also, government and private company measures to inform people about new choices (since Riester) do clearly work: In 2003 the share was still below half (47%). The study also observed the

¹⁶ B. Raffelhüschen, O. Ehrentraut, Vorsorgementalität der Deutschen, study carried out for neue leben Versicherungen, 2007.

¹⁷ Survey for Deutsche Rentenversicherung Bund carried out by TNS Emnid, 2007

¹⁸ Institut für Demoskopie Allensbach for Postbank, IfD-Umfragen 7064, 7082, November/December 2004/2005, see INFES, Internationales Institut für Empirische Sozialforschung, gGmbH (E. Kistler, P. Heinecker), Wie hat sich die Akzeptanz der Gesetzlichen Rentenversicherung in den letzten Jahre entwickelt?, Bericht an die Deutsche Rentenversicherung Bund, Forschungsnetzwerk Alterssicherung, Stadtbergen, January 2007, p. 5

share of respondents feeling sufficiently informed is positively correlated with their educational attainment level as well as their age on the other hand.

- A 2005 survey for MLP¹⁹ reported that 71% of respondents feel at least "partly" sufficiently well informed about the most important forms of supported provision such as Riester pension or (as of the occupational pillar) Direct Insurance and "Pensionskassen".

It can be concluded that the situation in Germany is fairly favourable. It appears that the German people consider the issue of old-age provision an important issue. Almost two thirds of people aged 25 to 60 years agree that 'one should deal with it on a regular basis', according to a 2005 survey for GDV - **Geamtverband der Deutschen Versicherungswirtschaft** (the German insurance company association)²⁰. More than half indicate they have 'already dealt with their own old-age provision situation more thoroughly' - albeit a number of surveys confirm that only a minority has actually made precise calculations.

However, other more technical (but crucial) specificities to state support seem to be less popular according to a recent **Postbank** survey²¹. A minority of people (42%) stated to be aware of the fact that the own contribution to a Riester pension could also be paid off by the end of the year (instead of monthly) in order to receive a full state-support to the Riester pension. Half that share (20%) reported to know that as from 2012, by the time of payout one has to be at least 62 years of age in order to qualify for Riester pension state subsidy.

2.4 Tools:

See section 4

3. Session three: Informing on rights

3.1 What do individuals know of their pension rights including statutory pensions (unfunded and funded tiers)?

Evidence is limited. There is evidence that people tend to underestimate their rights concerning the level of state-support to occupational and private provision. Within a recent survey for **Neue leben Versicherungen (nIV)**²² people were asked about what level of state-support they can expect for their old-age provision. The study concludes that far more than half of Germans highly underestimate potential resources available to them. Though this hints to a certain level of underestimation indeed, the question might give a wrong picture as the individual deviation from the reference is measured relative to a (self-calculated) potential support as it would average across the nation. The authors themselves conclude a certain limitation in the explanatory power of such average consideration. However, due to the complexity of the issue, there is certainly room to further improve people's knowledge about the support conditions. According to the **Bertelsmann Vorsorgereport 2003** not much more than half (55%) of people asked (all eligible to Riester

¹⁹ Institut für Demoskopie Allensbach for MLP, 2005.

²⁰ Institut für Demoskopie Allensbach for GDV-Eigenvorsorge-Report (IfD-Umfrage 9624), 2006.

²¹ Institut für Demoskopie Allensbach for Postbank, Altersvorsorge in Deutschland, Allensbacher Repräsentativumfrage vom September 2007 im Auftrag der Postbank, p. 64.

²² B. Raffelhüschen, O. Ehrentraut, Vorsorgementalität der Deutschen, study carried out for neue leben Versicherungen, 2007.

support) assume to be among those eligible to draw Riester support for their supplementary pension provision.²³

As of the statutory pension insurance, still the most important source of income at old-age (two thirds on average), people tend to overestimate the revenue to be expected from that first-pillar pension scheme. In a 2003 survey by **Bertelsmann Stiftung** people aged 30 to 50 years were asked to estimate the level of a pension from the main pension insurance after working on average income for a given contribution period (30 years).²⁴ Three out of four respondents overestimated the resulting revenue at that time. However, since 2005, pension information sent annually by the pension insurance (Deutsche Rentenversicherung) including a projection on the basis of the past biography will certainly have substantially improved knowledge about expected statutory pension outcome (see section 4).

This type of service adds to other tools initiated or supported by Deutsche Rentenversicherung as the main pension scheme insurer. It proves an essential tool to inform people about their pension rights. It is anyway true that Deutsche Rentenversicherung enjoys people's particular confidence in all issues related to old-age provision. This was confirmed by a series of consecutive surveys (2003 - 2005) carried out for **Postbank**.²⁵ Asked about where people expect to get 'good reliable information' about old-age provision, by far the largest share (53 to 64%) indicated the bodies of Rentenversicherung. Seemingly, people trust Deutsche Rentenversicherung to a much larger extent than, for example, consumer protection organisations (32 - 37%), relevant magazines (35 - 37%) or banks (22 - 28%). However, the interpretation of this result is difficult: In Germany the PAYG pillar still is the predominant source of retirement income and the question asked did not differentiate for the pillars of old age provision. Therefore, people may be inclined to associate 'old-age provision' just to the statutory pension insurance.

3.2: Knowledge about retirement age and transition: Incorporated into 1.2 (new)

3.3 Tools: See section 4

²³ Bertelsmann Stiftung (Hrsg.), Vorsorgereport ..., Q108.

²⁴ Bertelsmann Stiftung (Hrsg.), Vorsorgereport ..., Q113.

²⁵ Institut für Demoskopie Allensbach for Postbank, IfD-Umfragen 7049, 7064, 7082, Oct./Nov. 2003, Nov./Dec. 2004/2005, see INFES, Internationales Institut für Empirische Sozialforschung, gGmbH (E. Kistler, P. Heinecker), Wie hat sich die Akzeptanz der Gesetzlichen Rentenversicherung in den letzten Jahre entwickelt?, Bericht an die Deutsche Rentenversicherung Bund, Forschungsnetzwerk Alterssicherung, Stadtbergen, January 2007, p. 12.

4. What are the main tools to provide information to individuals? How can the efficiency of this information be assessed?

Transparency is a major prerequisite to an appropriate standard of information about individual entitlement to revenues in old-age, to private and occupational provision in particular. Lacking knowledge and financial literacy not only increases uncertainty but also jeopardizes adequate levels of old-age income. Due to retirement provision's increasing complexity it becomes more and more crucial that people are aware of the most essential issues relevant to old-age provision. Many people obviously realize the imperative of supplementary provision but - due to the issue's complexity - are still hesitant when it comes to take concrete action. To provide transparency to one's own situation is therefore most crucial as is the capacity to correctly reflect this information letting it feed into a focussed strategy to one's own old-age savings behaviour. As for policy makers, in order to strengthen people's self-responsibility to old-age provision it is necessary to get across focussed awareness and method competency for target-oriented action to the people.

Public information

Therefore, the Federal Government and Deutsche Rentenversicherung (the main statutory pension insurance) broadly inform people about both their individual entitlement as well as about available options to make up for supplementary provision.

A major initiative deserves particular mention: "Altersvorsorge macht Schule" (AmS, freely transl.: "old-age provision comes to school", internet: www.altersvorsorge-macht-schule.de). The Federal Government has launched this initiative in 2007 together with Deutsche Rentenversicherung (the pension insurers), the Federal Consumer Organisations and the German social partners in cooperation with German Adult Education institutions (Volkshochschulen). Given its dimension, AmS is a so-far unprecedented push towards focussed education.

Experts of Deutsche Rentenversicherung come to Germany's education centres to teach people all relevant essentials in the field of financial provision to old-age - providing independent and product-neutral information. In particular, the education campaign is to consider the following questions: What will be my financial situation in old age? Should I take out an additional private or occupational old-age pension, or both? The course participants are enabled to estimate their financial requirements in old-age and on the basis of this knowledge to structure their pension provision in line with their individual possibilities. The course also covers the legal basis, pension information, state promotion possibilities and further topics.

Participants acquire a broad base competence to correctly assess their own situation as well as to evaluate available options to old-age provision. In the course of the start year 2007 more than 5.000 participants took part in more than 500 courses and - as an outcome of the **initiative's first assessment** - very positively testimonialised this unique offer: Almost all participants (97%) felt "well" or at least "partly well" informed after the course. 96% consider the course an appropriate instrument for their own old-age planning (almost half a very good help).

It is also worthwhile mentioning "Der Rentenblicker" (colloquial expression: 'pension-focusser'). This initiative is focussed on young people's grasp on the topic of old-age provision. It aims at sensitising them for the issue and improving transparency. On an internet website

(www.rentenblicker.de) information about all issues related to old-age provision is being conditioned for this specific target audience. Education material for schools was developed subject to exemplification through Deutsche Rentenversicherung experts on demand.

Financial information and education on pension related issues is also provided by the private sector. The German insurance industry has established the consumer information center "Klipp + Klar" which

- provides a service and information hotline for consumers;
- engages in the publication of regularly updated, group-specific consumer information on insurance product types (www.klipp-und-klar.de);
- provides in cooperation with the foundation Jugend & Bildung teaching material on insurance related topics for secondary schools.

Individual Information

In general terms, anyone can avail themselves of the information and advice of the old-age pensions insurers, which is prescribed by statute. To this end, old-age pensions insurance has a broad network of regional advice facilities and makes a strong effort to consult people in terms of their old-age provision. In 2007, there were some 4.7m personal consultations and some 2.2m consultations by telephone.

Introduced in 2005, all people aged 27 and older receive an annual pension information (**Renteninformation**) from Deutsche Rentenversicherung provided they have paid contributions to the pension insurance for at least five years. An annual 42m pension information letters are being sent by Deutsche Rentenversicherung. The letters inform about the pension account's current state. Generally, there is also a projection of the expected (potential) future pension entitlement on the basis of the past insurance career and underlying assumptions on potential indexation rates (1 and 2%). Also, a simple sample calculation is being presented as to illustrate the potential loss of purchasing power due to inflation up to the point in time the respective person reaches official retirement age.

A broad questionnaire of insured parties during the pilot phase confirmed the acceptance of this pension information by the insured parties, as well as its significance for planning individual additional pension requirements. Indeed, it is an essential element to old-age provision planning enabling people to early identify the extent to which they will have to make up for supplementary provision. In addition, as from age 55, people have the right to claim information (**Rentenauskunft**) about their pension entitlement so far acquired. The insurance resume lists all data recorded in the insured's account. Albeit before age 55 there is no right to claim 'Rentenauskunft', the pension insurance may as well inform younger people on request.

Information by providers

Legal foundations for an annual pension information (Renteninformation) exist also for private providers. Clients of occupational and private pension providers receive annual surplus statements informing them about the guaranteed benefits and their surplus benefits they can expect after the contract has expired.

A high level of adjustability is also guaranteed in the subsidized Riester products by the fact that the insurance providers can be changed at any time, taking the accrued capital on to the new provider. The statutory requirements are governed by the Pension Contracts Certification Act (Altersvorsorgeverträge-Zertifizierungsgesetz). Prior to conclusion of contracts, providers must also provide information on possible investments, the structure of the portfolio and the risk potential. Furthermore, standard calculations by the providers should enable consumers to compare products better. These calculations should show the respective credit after a term of ten years before and after deduction of the change costs (cost of changing to another pension contract) based on alternative interest rates.

After conclusion of contract, the providers must inform annually about the use to which the contributions paid have been put, on the capital formed to date, on the proportional conclusion and sales costs withheld, on the cost of the management of the accrued capital and the return achieved. Employers are also subject to several informational obligations as refers to their employee's occupational retirement entitlements.

In addition to legal requirements, the German insurance industry has started introducing the so called "Eigenvorsorge-Report" (transl.: report on own provision) in 2006 as a complement to the annual surplus statements issued by providers of occupational and private pensions. The Eigenvorsorge-Report is a simple scheme that allows users to get a quick and comprehensive overview of their projected monthly retirement and disability benefits from the statutory pension system, occupational pension entitlements and private pension contracts. Recipients are enabled to compare their total benefits with an individually chosen benchmark for their old age and disability income. In order to provide the insured with an idea of their projected benefits's purchasing power the impact of inflation is taken into account. On this base, pension gaps can be recognised and closed. The Eigenvorsorge-Report is supported by an electronic pension calculator www.eigenvorsorge-report.de, which is available also to persons who have not yet effected a private or an occupational pension contract.