
EXTENDING COVERAGE IN THE GERMAN PENSION SYSTEM

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The German Pension System

- Multi Pillar System
- Focus on gainful occupation
- Coverage: Stratification along occupations and professions, at least in the first pillar
 - Employees: Workers, salaried employees, miners: Civil servants: special scheme
 - Self employed: different schemes
 - Farmers: Special scheme
 - Chambered professions: special schemes
 - Craftspeople
- Funding: Pay-as-you go: first pillar (mostly); Full funding: second and third pillar (mostly)

The German Pension System: Coverage

Third Pillar	Private Pension Insurance								
Second Pillar	Occupational Pensions							Chambered Professions	Civil Servants
First Pillar	Farmers' Pension Provision	Statutory Pension Insurance							
		Insurance of Craftspeople	Insurance of Artists and Publicists	Insurance of Vulnerable Groups of Self Employed	Voluntary Insurance	Miners	Employees	Chambered Professions	Civil Servants
Zero Pillar	Means tested Income Maintenance at Subsistence Level								

The German Pension System: Funding

Full funding: green, PAYG: yellow

Third Pillar	Private Pension Insurance								
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Coverage of Self Employed

- Chambered Professions
- Farmers
- Craftspeople
- Artists and publicists
- “Vulnerable” Occupations: in need of social protection
- Other self employed

Mandatory Coverage of Self Employed

Group of Self-Employed	Mandate	Schemes	Distribution %
Chambered Professions	Mandatory	Professional Pension Schemes of the Liberal Professions	8.0
Farmers	Mandatory	Farmers' Pension Scheme	7.2
Craftspeople	Mandatory for 18 years	Statutory Pension Insurance	6.3
Artists and Publicists	Mandatory		
Vulnerable Occupations	Mandatory		
Other self employed	No Mandatory Pension Insurance	NONE	78

“Vulnerable” Occupations

- In need of social protections
- No assets emerging from occupation
- No permanent customers

Changes in the Labour Market / Work life

1. More self-employed
2. More precarious employment
3. More fluctuations, frictions and breaks

Changes in the Labour Market / Work life

TYPE OF EMPLOYMENT	1993	2008
	In percent of total employment	
Self employed	9.66	11.09
Employees	90.34	88.91
... Employees liable for social insurance	76.17	68.20
... Employees liable for social insurance and in full time employment	67.80	55.74
... Employees liable for social insurance and in part time employment	8.37	12.43
... Employees in atypical employment	9.93	20.92
Total employment	100.0	100.0

Changes in the Labour Market / Work life

TYPE OF EMPLOYMENT	1993	2008
	Thousand persons	
Self employed	3'625	4'465
Employees	33'916	35'798
... Employees liable for social insurance	28'596	27'458
... Employees liable for social insurance and in full time employment	25'454	22'443
... Employees liable for social insurance and in part time employment	3'142	5'003
... Employees in atypical employment	3'034	8'425
Total employment	37'541	40'263

Changes in the Labour Market / Work life Uncovered Self Employment

	Number of periods of self employment	Average Duration of Self-Employment Spell (years)	Accumulated Duration of Self- Employment Spell (years)
Chambered	3.2	11.3	27.2
Other	2.3	10.5	17.8
Without mandatory coverage	1.8	7.2	11.2

Changes in the Labour Market / Work life: Younger age cohorts are more often self employed

Age Cohort	1942-1946	1947-1951	1952-1956	1957-1961	Total
No periods of self employment	89.1	87.2	85.0	83.5	85.9
Some periods of self employment					
Chambered professions	1.1	0.8	0.9	1.4	1.0
Other	3.2	3.6	4.2	3.6	3.7
Without mandatory coverage	6.7	8.4	10.0	11.6	9.4
Total	100.0	100.0	100.0	100.0	100.0

Distribution of Net Income in Germany

... of Groups of Employed



Net income classes from ... to below ... Euro

... of Self-Employed



Net income classes from ... to below ... Euro

Conclusions so far

- There is a significant coverage gap in the German pension insurance
- Gross income replacement rate after 45 years (constant gross earnings in relation to average gross income): 45.9 percent
- Gross income replacement rate per contributory year: 1.02
- Longer spells of uncovered self-employment increase the risk of old age poverty for the INDIVIDUAL
- Longer spells of uncovered self-employment increase the risk of granting transfer payments from the general budget for the COMMUNITY
- Impose mandate for pension coverage on self-employed

Proposal: Mandatory Insurance for Self-Employed

- Mandatory insurance for ALL self-employed in the Statutory Pension Insurance

if not mandatory members in any other scheme
(e.g. farmers, chambered professions)

Principles

- Mandatory insurance for ALL self-employed in the Statutory Pension Insurance if not a mandatory members in any other scheme (e.g. farmers, chambered professions)
- Opting out for older self employed and those who already made pension provisions at least similar those of the statutory pension insurance: disability, old age, survivors
- Equal treatment of dependent and self employed insured
- Provisions for the specifics of self employed occupation
- Option: Crafts' privilege – after 18 contributory years opting out could be possible, eventually restricted to particular groups of self-employed.

Technical Issues for Implementation of Employee Insurance

- Transitional provisions
- Design to account for special features of self-employment
- Contributory income, insured income
- Rate of contribution
- Burden of contribution
- Payment of contribution

Transitional Features – Phasing in

- Transitional features
- Protection for reliance on existing law and protection of confidence
- Opting out rules for those uninsured who have already arranged adequate protection of disability, old-age and surviving dependents
- Opting out rules for older self employed close to retirement

Contributory Income, Insured Income

- Standard: earned income
- Option: Average income
- No other income: income replacement function of pensions
- Special options for start-up phase: reduced statutory contribution
- ...

Rate of Contribution, Payment of Contributions, Burden of Contribution

- *Rate of Contribution*: Principle: Strong relation between size of pension and contributions made
- No deviations or differentiation of contribution rates
- *Payment*: Income of self-employed is more volatile than income of dependent employees.
- Falling due of contribution payments should be more flexible in order to allow flexible liquidity management.
- *Burden*: No special subsidies should be foreseen to support pension contribution payment of self employed.

Financial and Distributional Implications

1. Short-term perspectives
 - More contributors; with expenditure path unchanged “equilibrium” rate of contribution could be lower.
 - After the end of the transitional period: more pension rights must be honoured and the equilibrium rate would edge up again
2. Long-term perspective
 - ... depends on the differences between incumbent and additional groups of insured regarding age structure, average income, number of children, life expectancy and early retirement risk.
3. Inter- and intra-generational effects
 - ... impact on implicit tax

Alternative Policy Options (1)

1. Mandatory coverage in statutory pension insurance (proposal)
 - Among others: flexibility of the labour market, less distortions

2. Mandate to enrol in private scheme
 - Advantage: Incentive compatibility: no implicit tax, risk–return ratio according to individual's preferences
 - Problems: Failures of private insurance markets, affordability

Alternative Policy Options (2)

3. Mandate to enrol in statutory or private scheme according to the individual's choosing
 - Problems : as under 2
 - Plus: equity considerations, adverse selection bias

4. Complete integration of first pillar schemes
 - Many legal obstacles
 - Many political obstacles
 - Uncertain distributional implications
 - Implementation too time consuming

Conclusions

- Complete inclusion of self-employed in mandatory pension coverage is a MUST in view of the structural changes of labour markets and occupations.
- Several policy options are on the table; given the lead time needed to build up significant pension rights, time for debate is running out.

どうもありがとう。

Thank you very much

Vielen Dank

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