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# Riester Pensions: the Matching Defined Contribution Savings Scheme in Germany

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## Outline

1. How are Riester pensions **designed**?
2. How have Riester pensions **developed** since 2001?
3. Does the **targeting** to families with children and low-income individuals work?
4. **Crowding in/out** w.r.t. other savings
  - (a) other private pension schemes
  - (b) financial wealth, housing, bequests

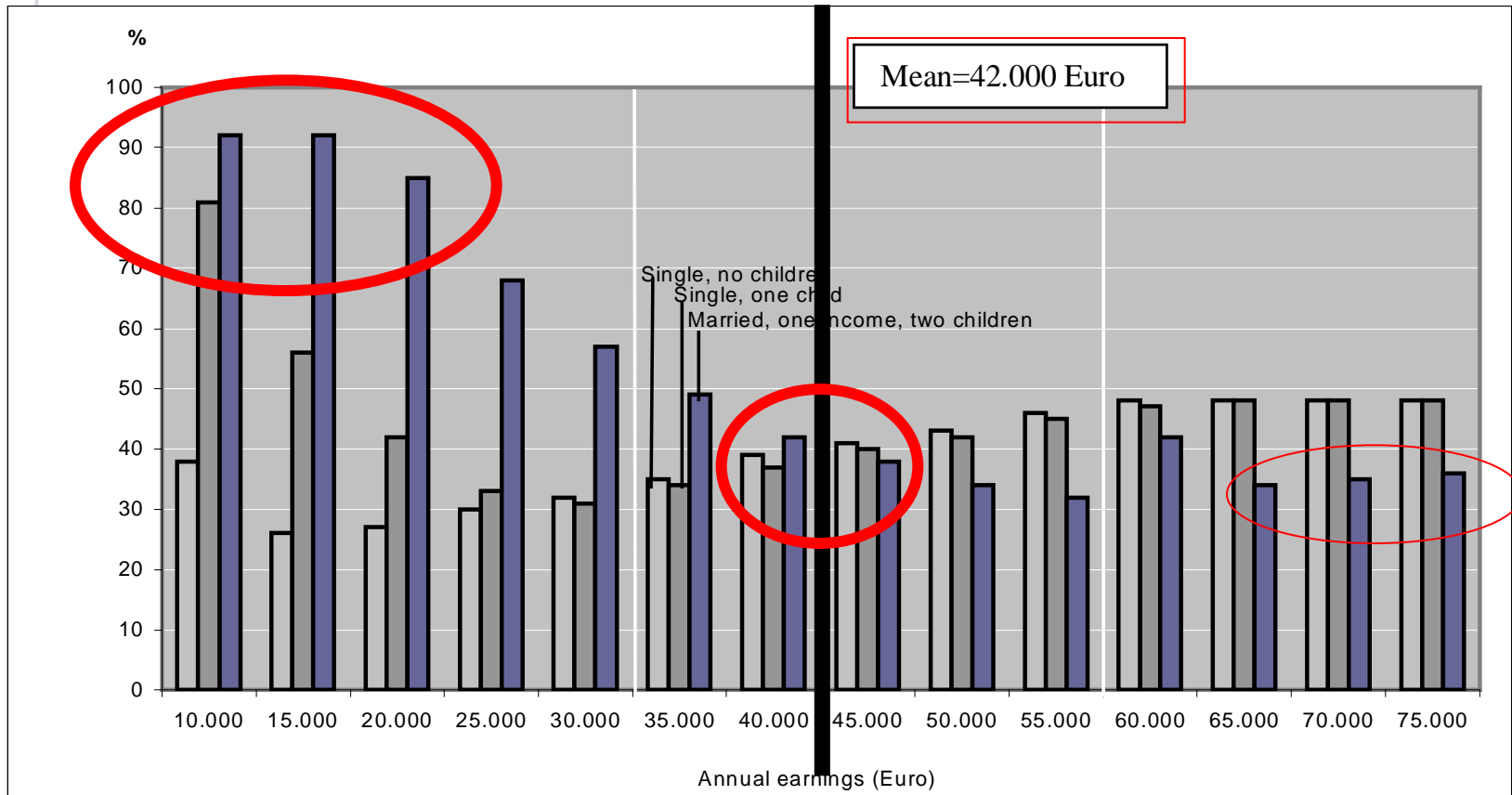
# 1. Design of Riester pensions: Tax credits and deductions

**Table 1:** State incentives for supplementary pension provision.

	<i>Maximum contribution</i> <i>[percentage of gross earnings]</i>	<i>Basic benefit</i> <i>[€ p. a.]</i>	<i>Child benefit</i> <i>[€ p. a.]</i>	<i>Maximum tax deduction</i> <i>[€ p. a.]</i>
2002	1%	38	46	525
2004/05	2%	76	92	1050
2006	3%	114	138	1575
2008	4%	154	300	2100

# 1. Design of Riester pensions: Extent of matching

Subsidy as percent of total (!) contribution

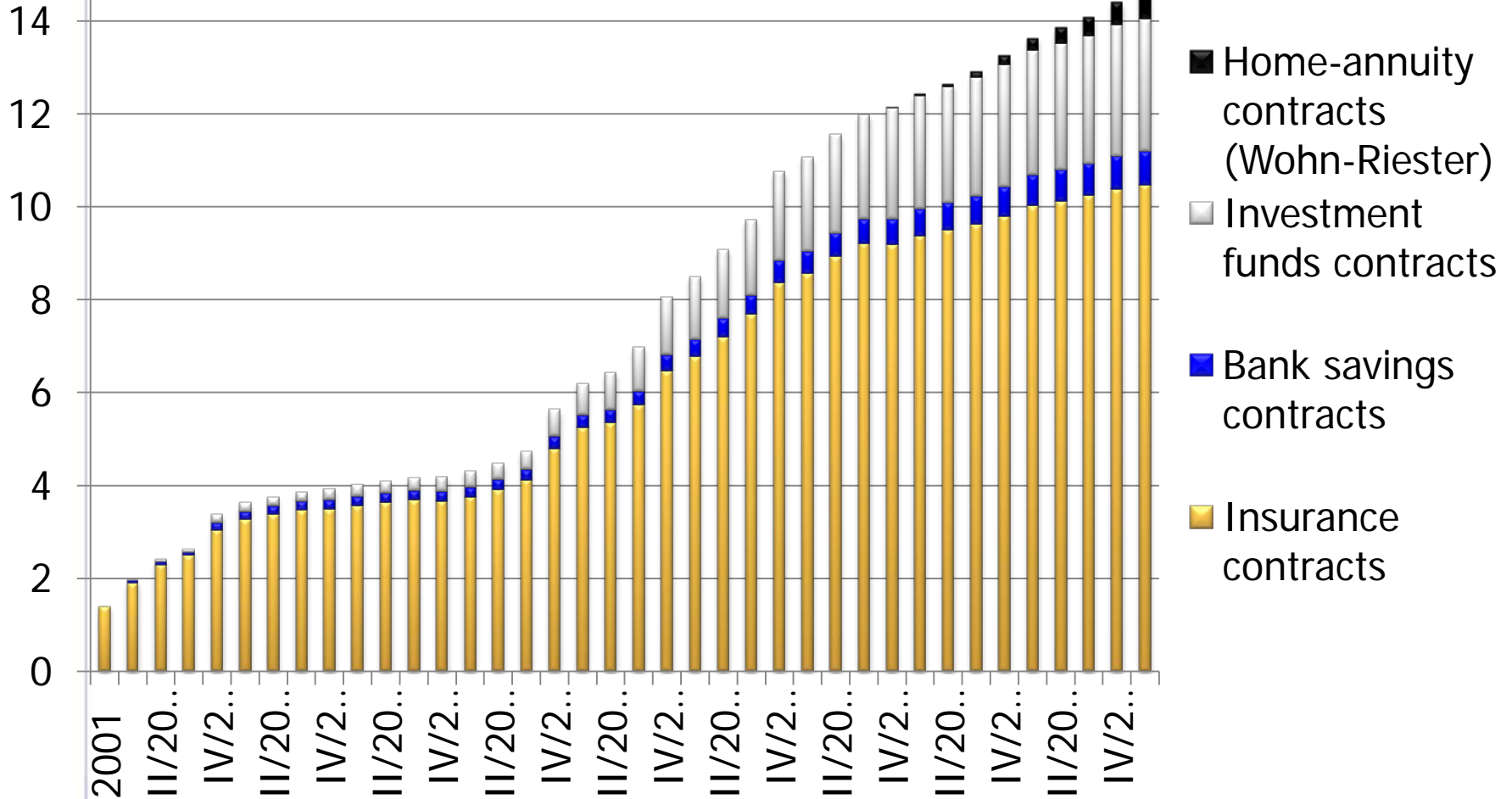


Note: Direct subsidy/the tax advantage as a percentage of savings in form of the new supplementary pensions.

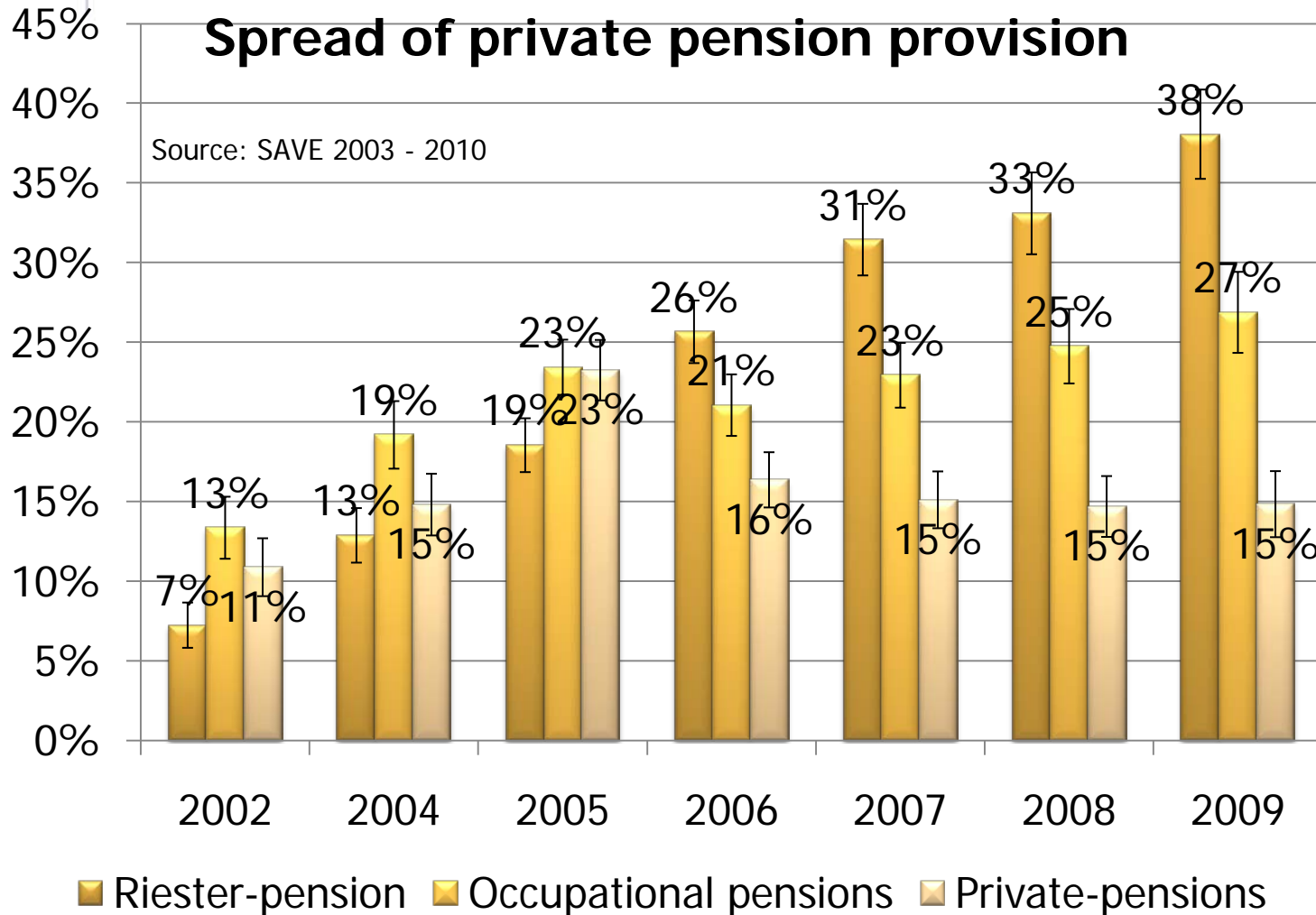
Source: Deutsche Bundesbank (2002).

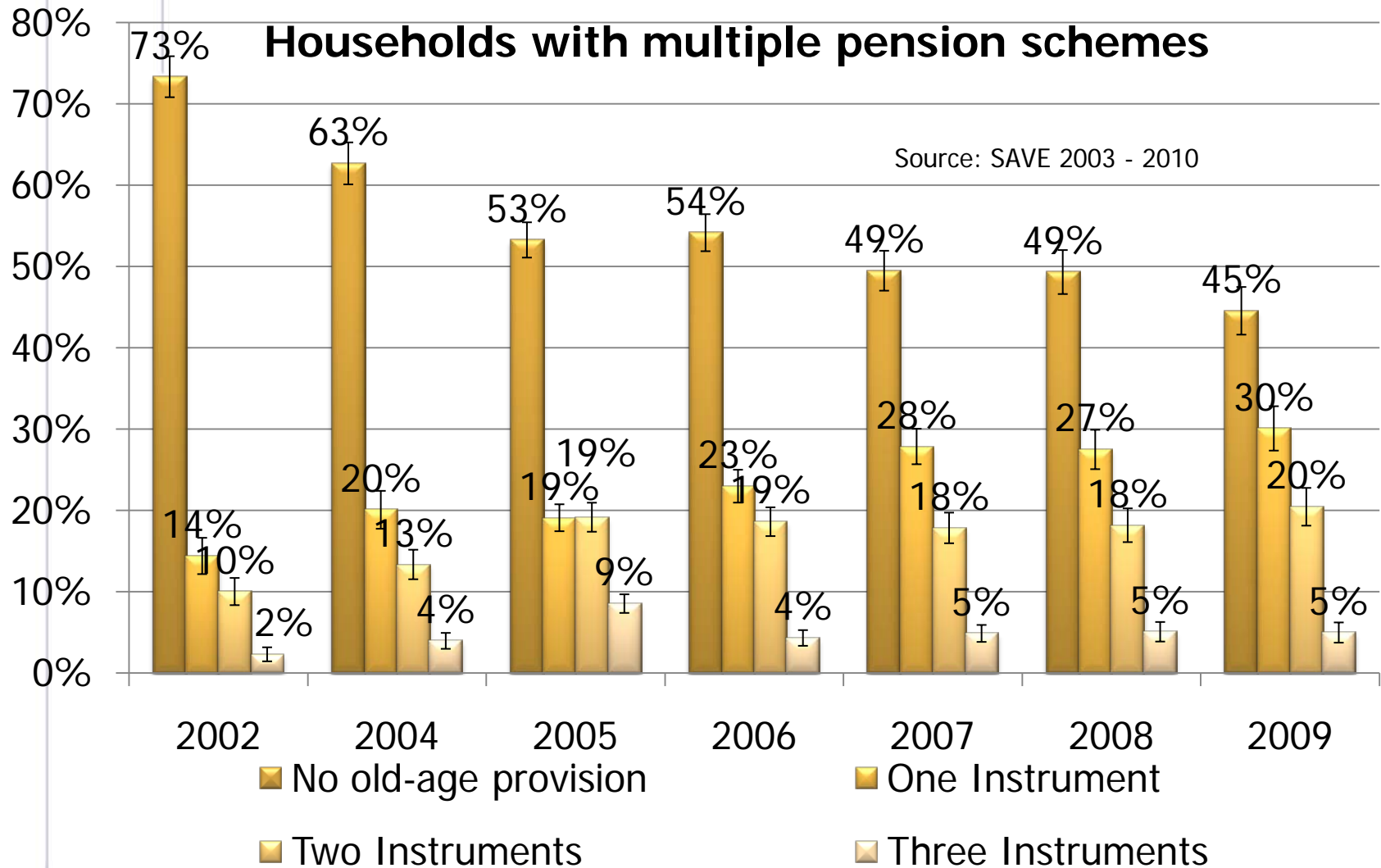
# 2. Riester pensions: Uptake

16 mio contracts

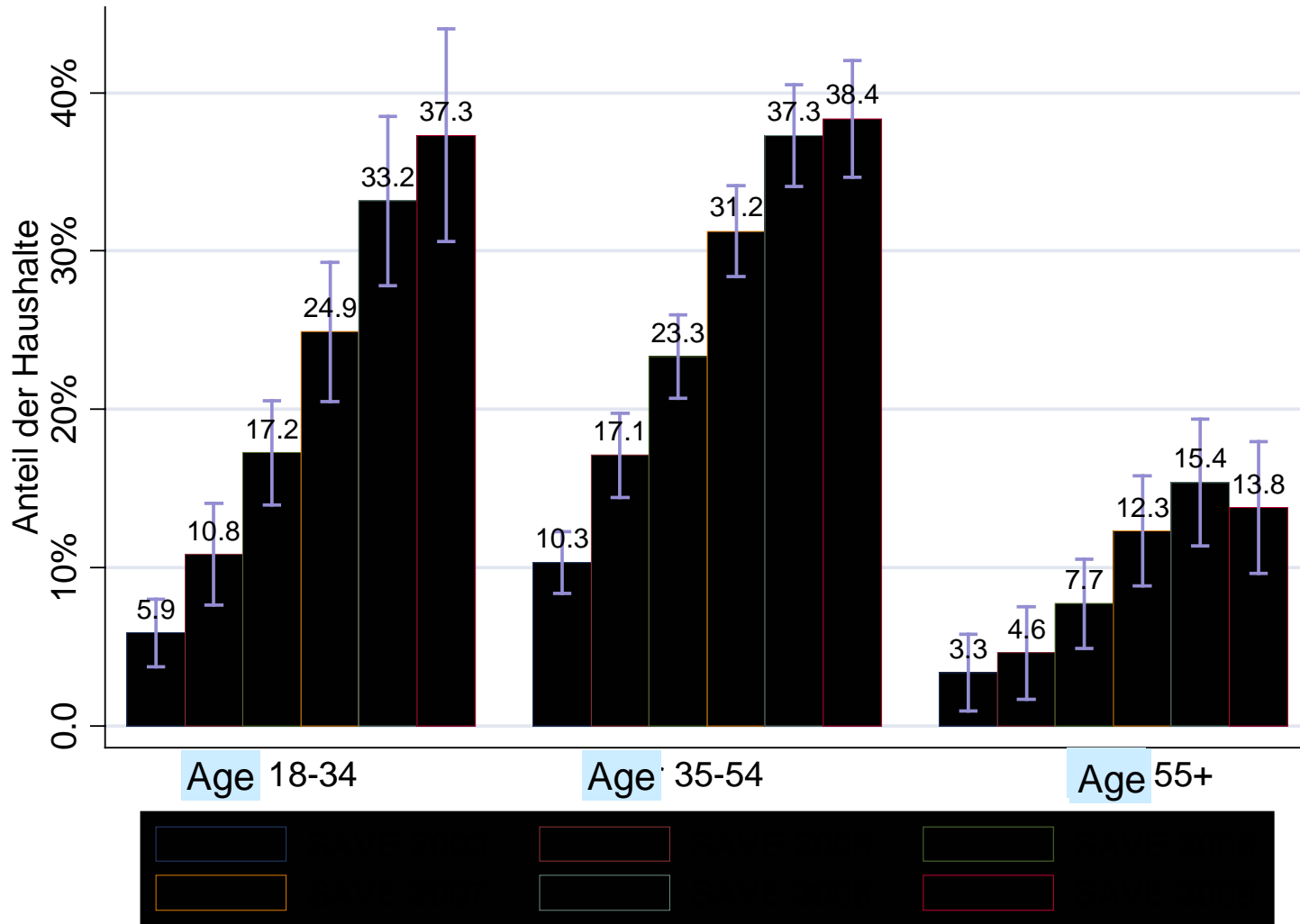


## 2. Uptake relative to other private pension instruments



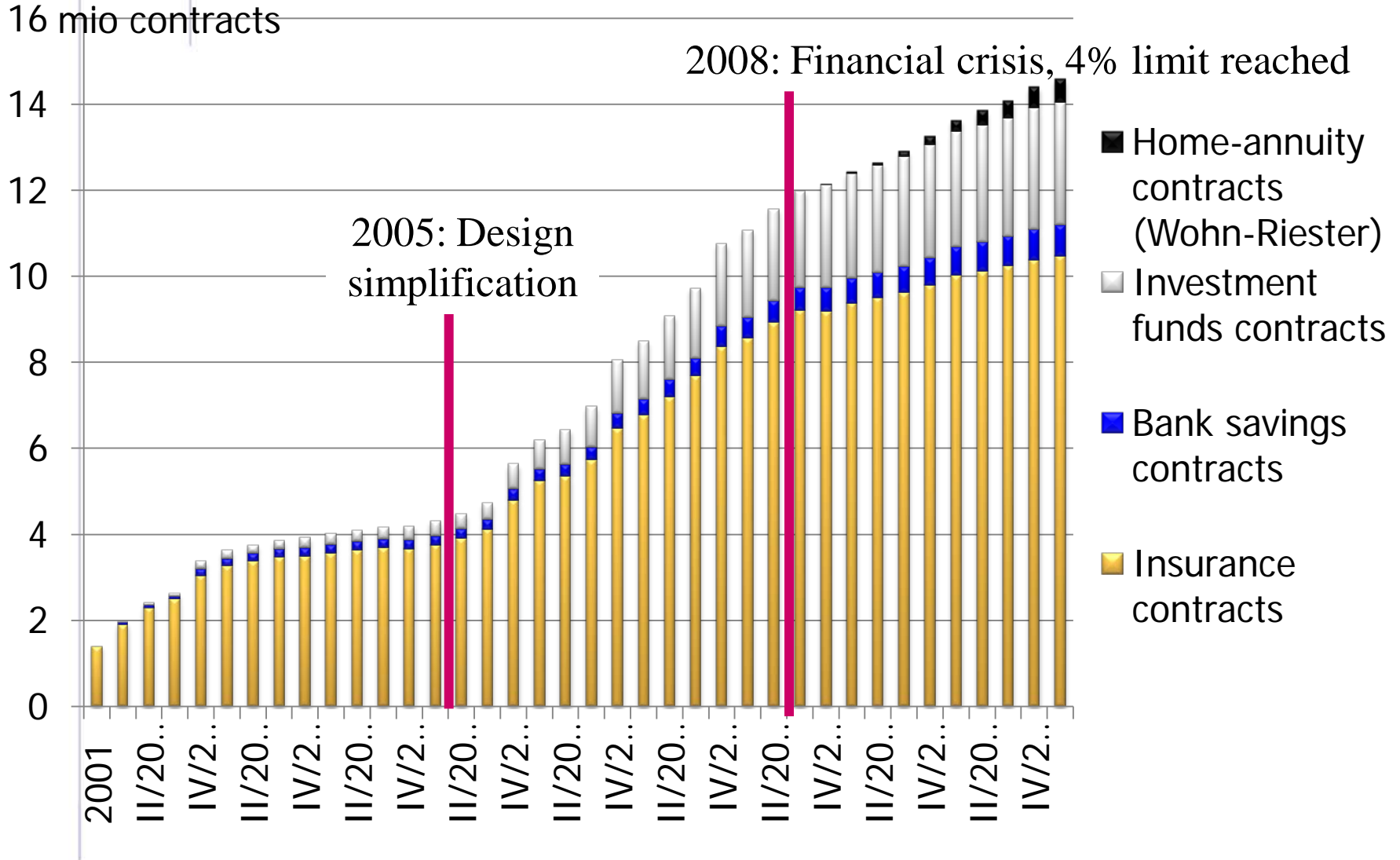


## 2. Uptake by age





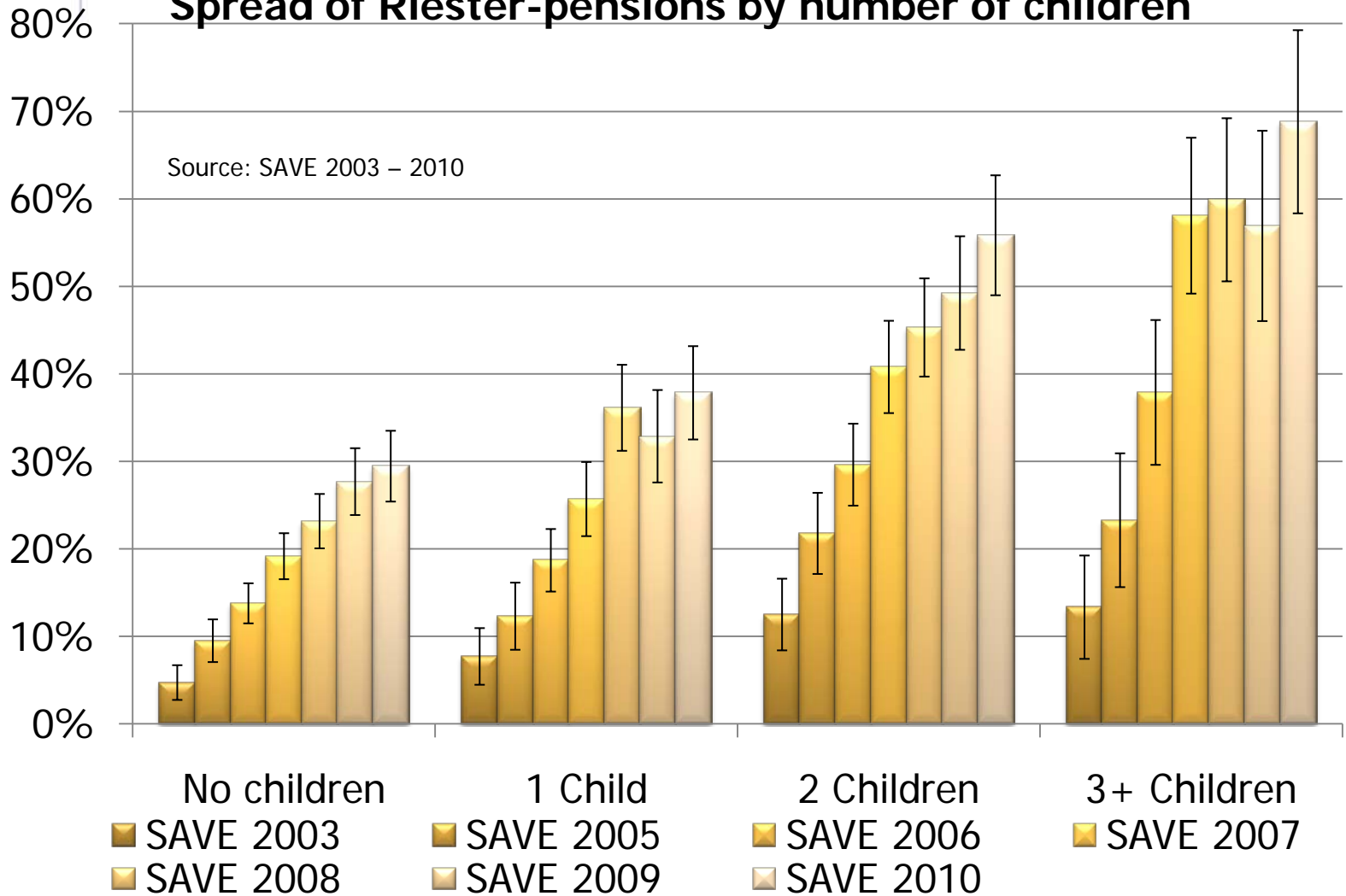
# 2. What happened in 2005? ... and what in 2008?



# 3. Targeting: Families with children

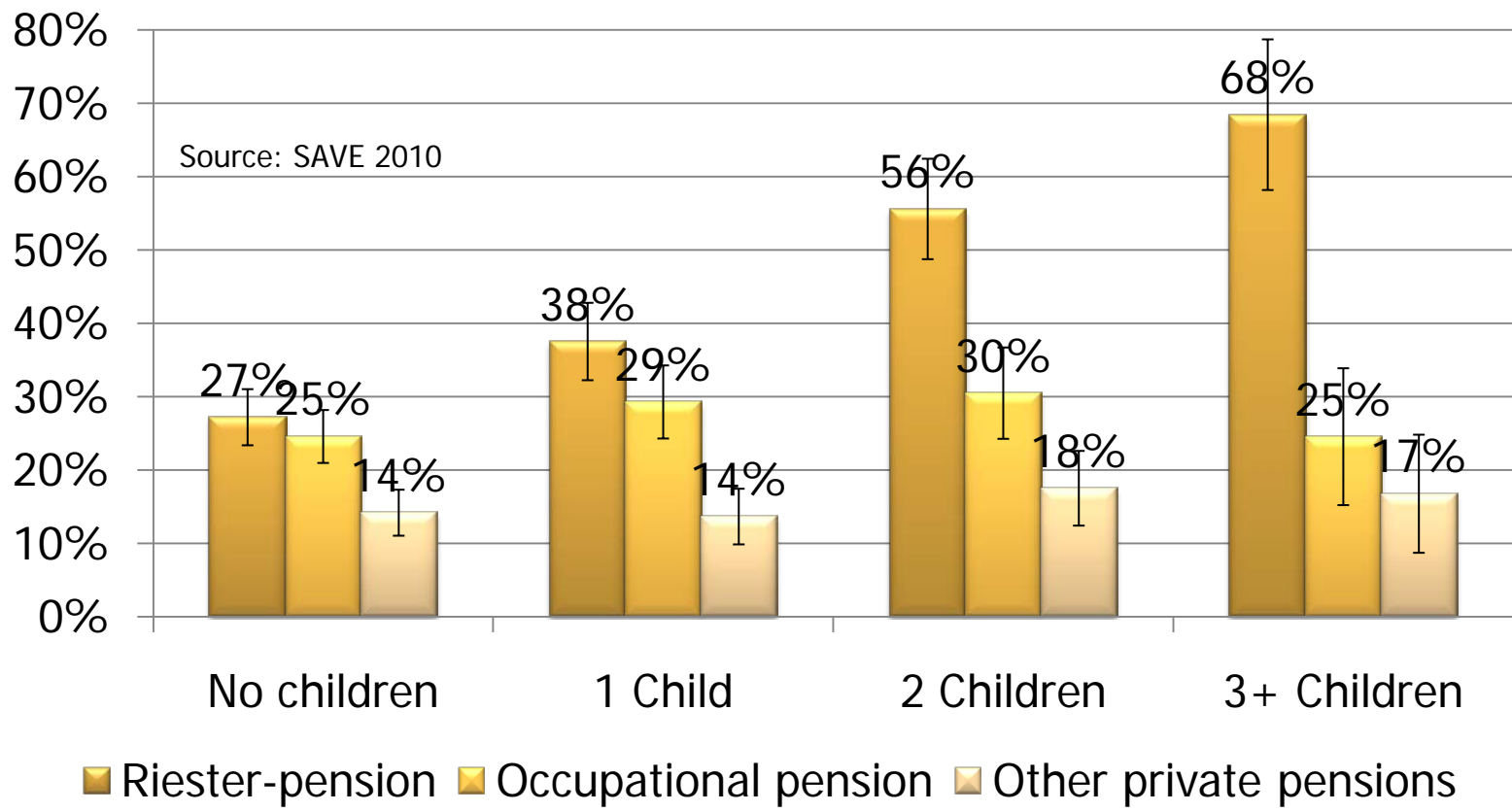


Spread of Riester-pensions by number of children



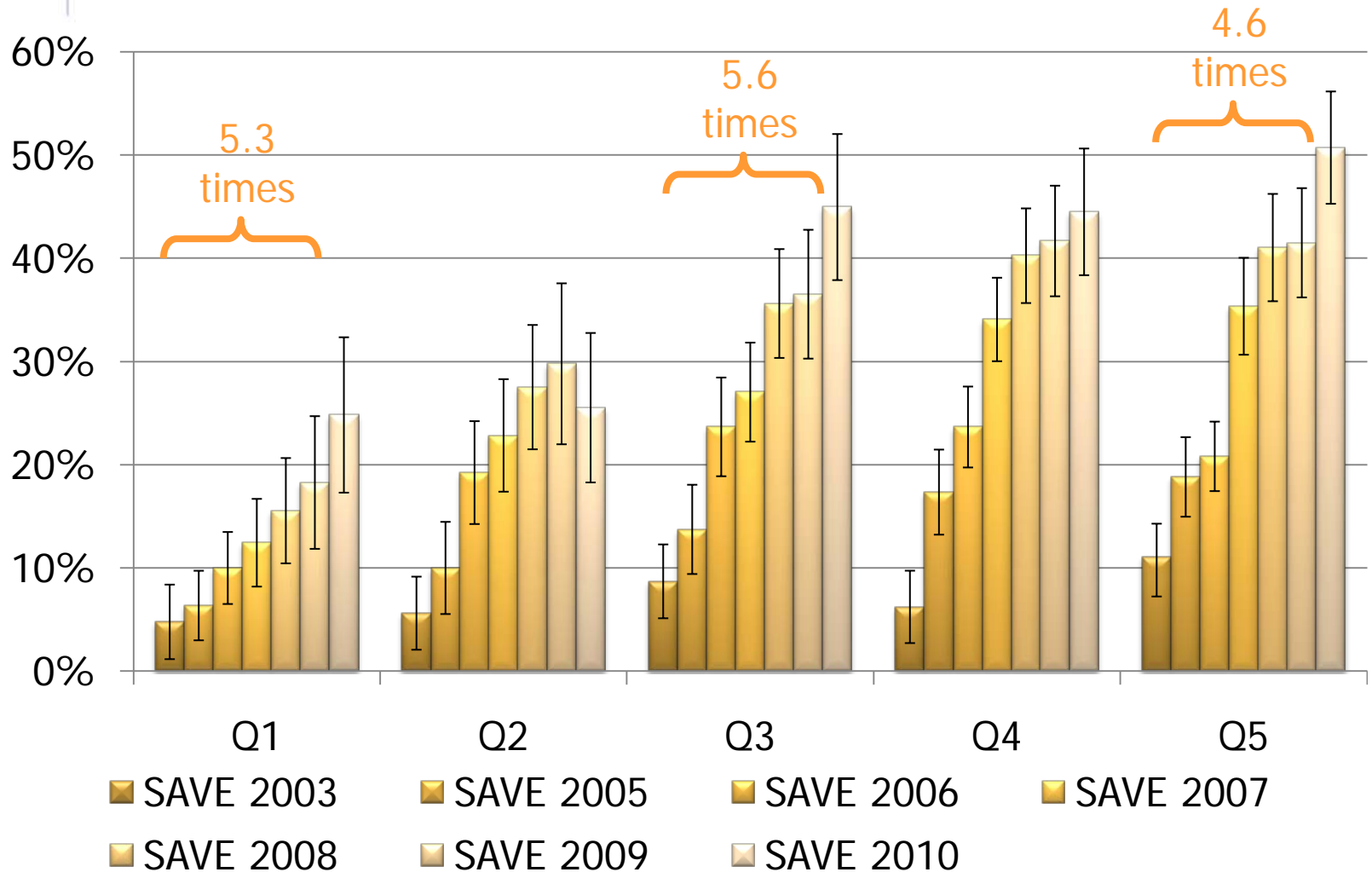
# 3. Targeting: Families with children

**Pension provision by number of children**  
Proportion of households with private pension schemes

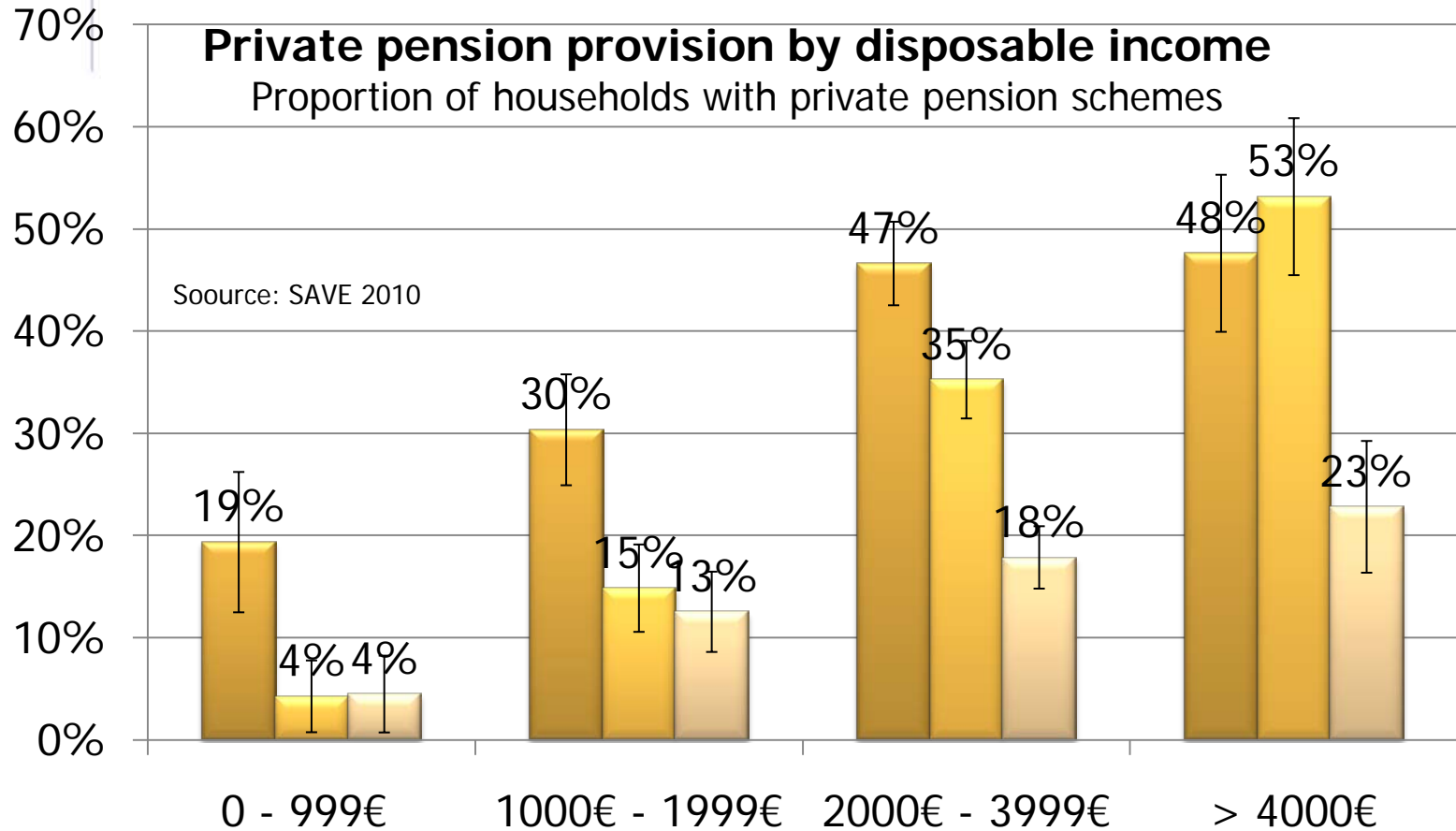


all instruments higher, but especially Riester

# 3. Targeting: Household income quintiles



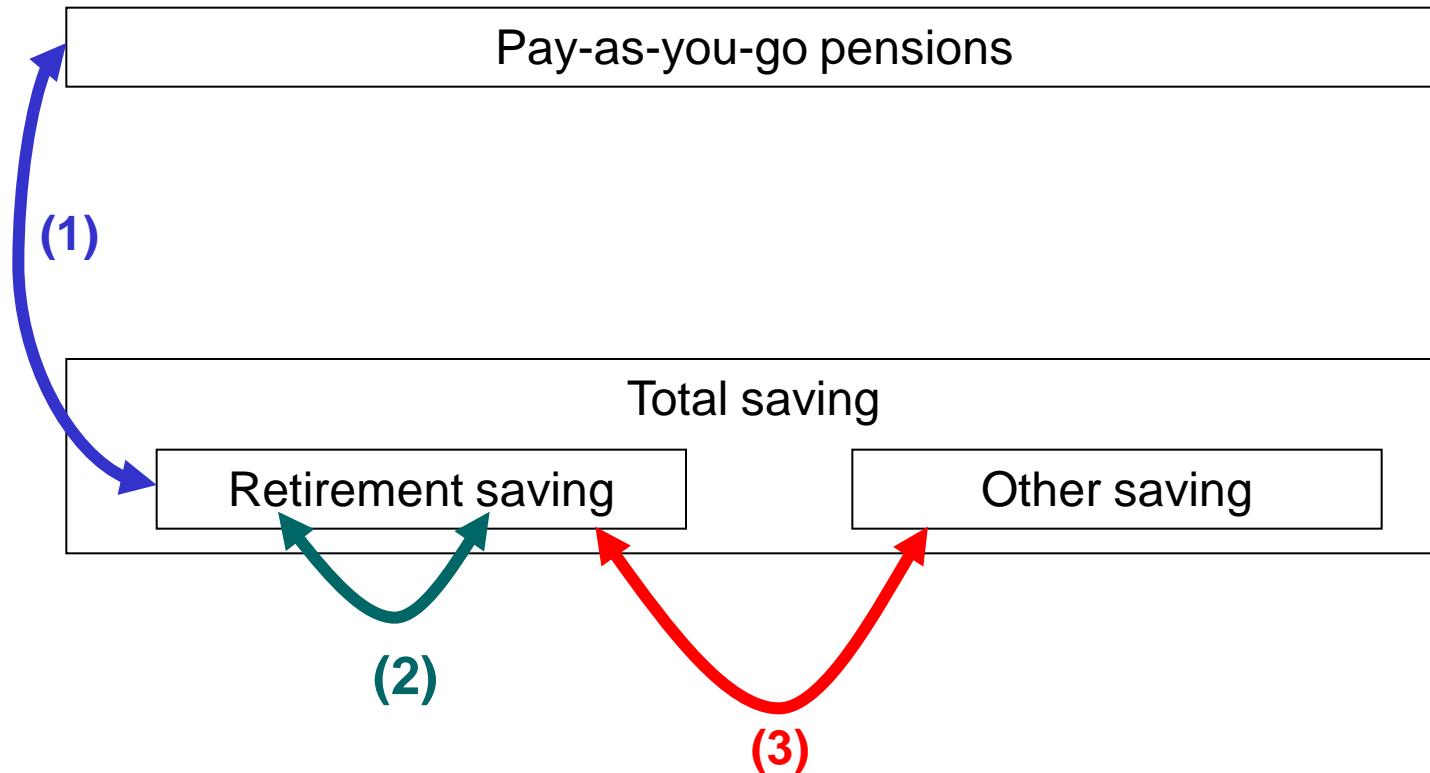
### 3. Targeting: Household disposable income



■ Riester-pension ■ Occupational pension ■ Other pension schemes

-all instruments higher for the wealthier  
-Riester especially high among low income

## 4. Crowding in/out/what?



*Figure 2: Substitution among savings types (“Crowding out”)*

## 4. Crowding in/out/what w.r.t. to other pension instruments

### Bivariate probit specification:

	Specification A: income in quintile dummies		Specification B: income in quadratic	
	Riester	Other private pensions	Riester	Other private pensions
	(1)	(2)	(3)	(4)
Mc-Fadden R <sup>2</sup>	0.137		0.136	
Rho [Chi <sup>2</sup> (1)]	0.055 [1.32]		0.060 [1.54]	
Number of observations	2255		2255	

Absolute value of z statistic in parentheses, \* significant at 10%, \*\* at 5%, \*\*\* at 1% confidence.

Covariates include HH demographics, income, education, occupation, financial literacy et al.

-positive correlation means crowding *in* !

## 4. Crowding in/out/what w.r.t. to non-pension saving

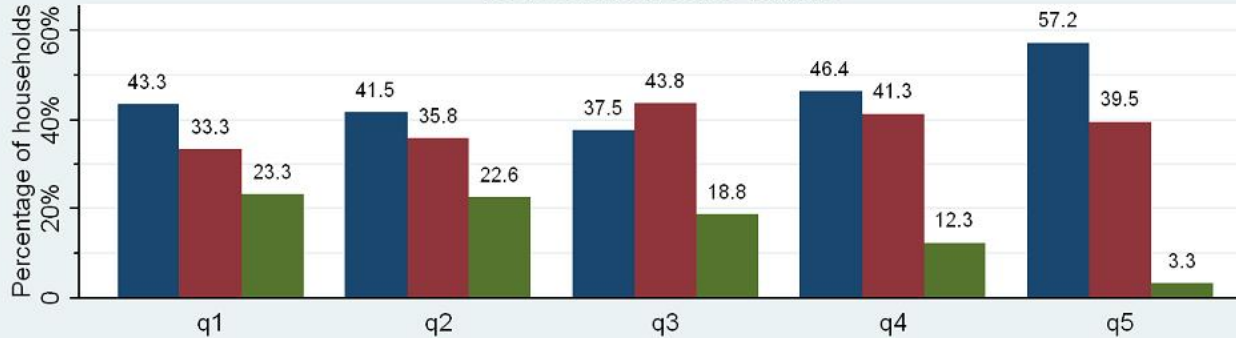
	Specification A		Specification B	
	Riester	Other private pensions	Riester	Other private pensions
<b>Saving motives:</b>				
Reason for saving: Buy real estate	-0.090 (2.11)*	-0.057 (1.39)	-0.089 (2.08)**	-0.058 (1.43)
Reason for saving: Old-age provision	0.229 (3.06)***	0.694 (7.87)***	0.218 (2.92)***	0.691 (7.86)***
Reason for saving: Inheritance	-0.124 (2.32)**	0.090 (1.80)*	-0.128 (2.39)**	0.090 (1.80)*
Reason for saving: State subsidies	0.264 (6.03)***	-0.015 (0.38)	0.269 (6.13)***	0.008 (0.20)
<b>Wealth:</b>				
Net financial assets	0.018 (0.76)	0.084 (3.31)***	0.019 (0.85)	0.077 (3.02)***
(Net financial assets) <sup>2</sup>	-0.000 (0.46)	-0.000 (-2.52)**	-0.000 (0.46)	-0.000 (2.39)**
Property owner (dummy)	0.081 (0.93)	-0.093 (1.06)	0.067 (0.77)	-0.084 (0.97)

-crowding *out* for saving towards inheritance & housing  
 -crowding *in* (if at all) for general saving

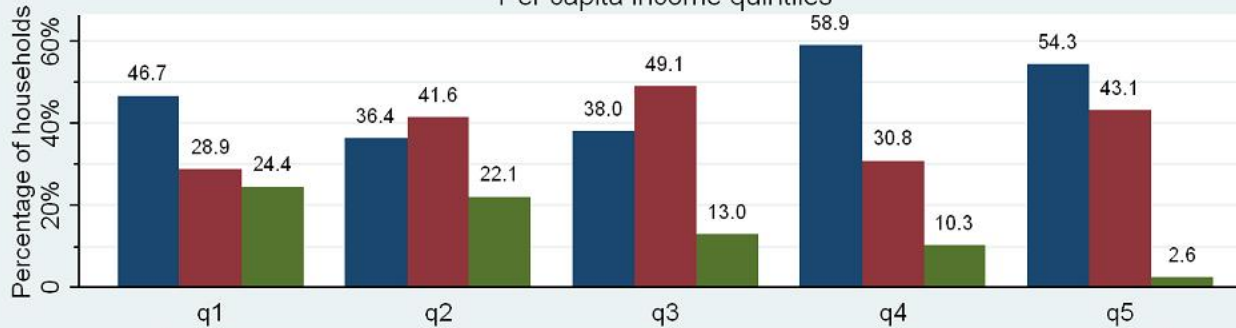


# 4. Crowding in/out/what w.r.t. to non-pension saving

Since the subscription of the Riester-contract we are...  
Household's income quintiles



Per capita income quintiles



...Saving more
  ...Saving the same
  ...Saving less

Aggregate private saving rate: 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010  
9,4 9,9 10,3 10,4 10,5 10,6 10,8 11,7 11,1 11,4

Thus: evidence tends to support *crowding in* also for general saving

1. New instruments need time: *Dynamism* only after slow start and substantial simplification of the subsidy design
2. *Depth* of subsidies could not compensate for *design flaws*
3. Uptake *only partially* follows subsidy depth (families with children vs. low-income individuals)
4. Nevertheless. Uptake also increasing in *lowest quintile*
5. *Crowding out*: housing, bequests
6. *Crowding in*: occupational pensions and other private pensions, and (tendency!) also general and thus total saving