

---

# **Governance of the German Pension System**

**Part I (b)**

**First Pillar**

**Markus Sailer**

**Deutsche Rentenversicherung Bund  
German Pension Insurance-Federal Institute**

**Research and Development**

**Berlin, Summer 2014**

---

## **Twinning Project AZ/13/ENP/SO/24**

**Support to the State Social Protection Fund on the introduction of funded elements within the insurance-pension system, establishment of non-state pension funds and development of the legal framework for regulating their activities**

### ***Activity 4.1***

***In-depth presentation of the state pension system of the EU MS to relevant SSPF staff and other stakeholders***

**21-22 July, 2014**

- **State Social Protection Fund**
- **80 H. Zardabi Ave.**
- **Baku, Republic of Azerbaijan**

---

# Institutional Design

# German Pension Insurance-Governance

---

- **Corporations under public law**
- **Social Insurance**
- **German Pension Insurance**
  - **Federal Institute**
  - **Federal Miners Institution**
  - **14 Regional Institutions**

---

Coverage

# The German Pension System: Coverage

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

Schematic diagram without legal implications

# Mandatory Coverage of the 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**



---

# Principles of Management

# German Pension Insurance-Governance

---

- **Governance: Self administration**
  - **Two-partite management: representatives of insured and pensioners and employers organisations**
  - **Assembly of deputies**
  - **Board of chair-persons, committees**
  - **Board of directors: “day-to-day” business**

---

# Principles of Regulation and Supervision

# German Pension Insurance- Decision Making and Legislation

---

- **Federal Ministry of Labour and Social Affairs: Preparation of normative acts**
- **Committee on Labour and Social Affairs of the Federal Parliament: Consultation, debate and amendments**
- **Federal Parliament: Reading, debate and voting**
- **Federal Chamber: Agreement or rejection**
- **Constitutional Court: Compliance of pension law with fabric and stipulations if the German constitution**
- **European Court of Justice: Compliance of pension law with European Union law**

# German Pension Insurance-Supervision

---

- **Federal Ministry of Labour and Social Affairs: Legal Compliance Supervision**
- **Federal Insurance Supervision: Legal compliance supervision**
- **Federal Auditing Court**
- **Auditing Committee of the Federal Parliament**

---

# Principles and Methods of Funding

# Contribution to Statutory Pension Insurance and Pension Rights

Average wage (Euro, 2013)	34071
Rate of contribution to statutory pension insurance (% , 2013)	18.9
Contributions, payments-equally shared between employee and employer (Euro)	6440
Accrued Pension Right (Euro, Monthly Pension)	28.14
Annual Income Threshold (Euro, 2013)	69600

# German Pension Insurance-Financial Data

---

31 Dec. 2013

- **Revenues (euro, billion):** **255.7**
  - **Contributions** **193.6**
  - **Transfer from Federal Budget** **60**



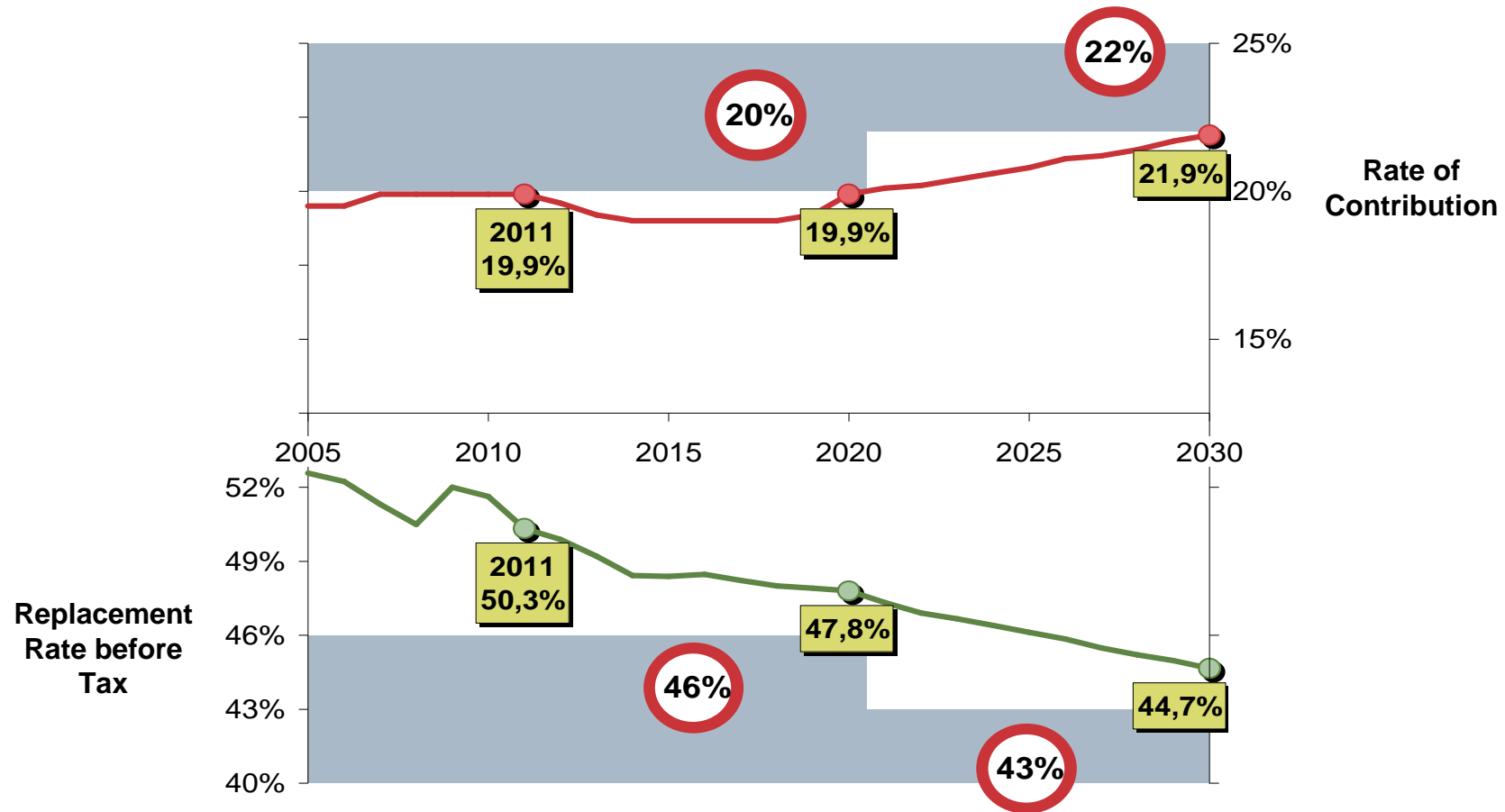
# German Pension Insurance-Financial Data

---

31 Dec. 2013

- **Expenditures (euro, billion): 252.8**
  - **Pensions** **219**
  - **Contributions to**
  - **Sickness Fund** **15**
  - **Rehabilitation** **5.5**
- **Liquidity reserve: Euro 32bn**

# Long-term Perspective: Development of the Rate of Contribution and the Replacement Rate until 2030



---

# Principles of Operations

# German Pension Insurance-Tasks (1)

---

- **Implementation of statutory pension insurance: Social Code Book no. VI**
  - **Counselling**
  - **Rehabilitative measures: medical, professional, ...**
  - **Invalidity pensions (pension due to reduced earnings capacity)**
  - **Old-age pensions**
  - **Survivors pension**

# German Pension Insurance-Tasks (2)

---

- **Company Auditing Service**
- **Financial planning and liquidity management**
- **Coordination of IT planning and development**
- **Data recording service**
- **Administration of tax allowances granted to supplementary private pension saving (“Riester-pension”)**

# Structure of Staff

---

	2012
Administration	18,000
Rehabilitation and Medical Services	3,400
Federal University of Applied Sciences Faculty of Social Security Law	40
Students and Trainees	500
Tax Allowances for Private Pensions	1,200
Total (rounded figure)	23,000

# Formation and Qualification

---

- **University degree: Law, economics, business administration, IT, Medical Sciences**
- **Graduates in social security law (Federal University ...)**
- **Specialists in social security administration (apprenticeship)**
- **Other: Secretariat, security services, ...**

---

# Principles of Operations

*Excursion: Collection of contributions*



# Principal Tasks

---

- **Management, coordination and monitoring of**
  - **Information flows**
  - **Financial flows**
  - **Documentation**

# Institutions

---

- **Revenue services of statutory health insurance funds or mini job centre**
- **Company auditing service of statutory German Pension Insurance**
- **Federal Employment Agency**
- **Federal Insurance Supervisory Authority**

# Process and Procedures

---

- **Registration**
  - **Health insurance: employees**
  - **Mini-job centre**
  - **Statutory Pension Insurance: voluntary and self employed**
  - **Special cases: construction industry, cleaning companies**

# Process and Procedures

---

- **Notification of contribution payments**
  - Insured person
  - Type of employment contract
  - Wage
- **Payment of contributions**
- **Notification to the insured persons: annual statement**

# Ensuring Compliance

---

- **On-site inspection of companies and work places**
- **On-site inspection of revenue services of health insurance funds**
- **Auditing of processes by Federal Employment Agency**
- **Supervision by Federal Insurance Supervisory Authority**

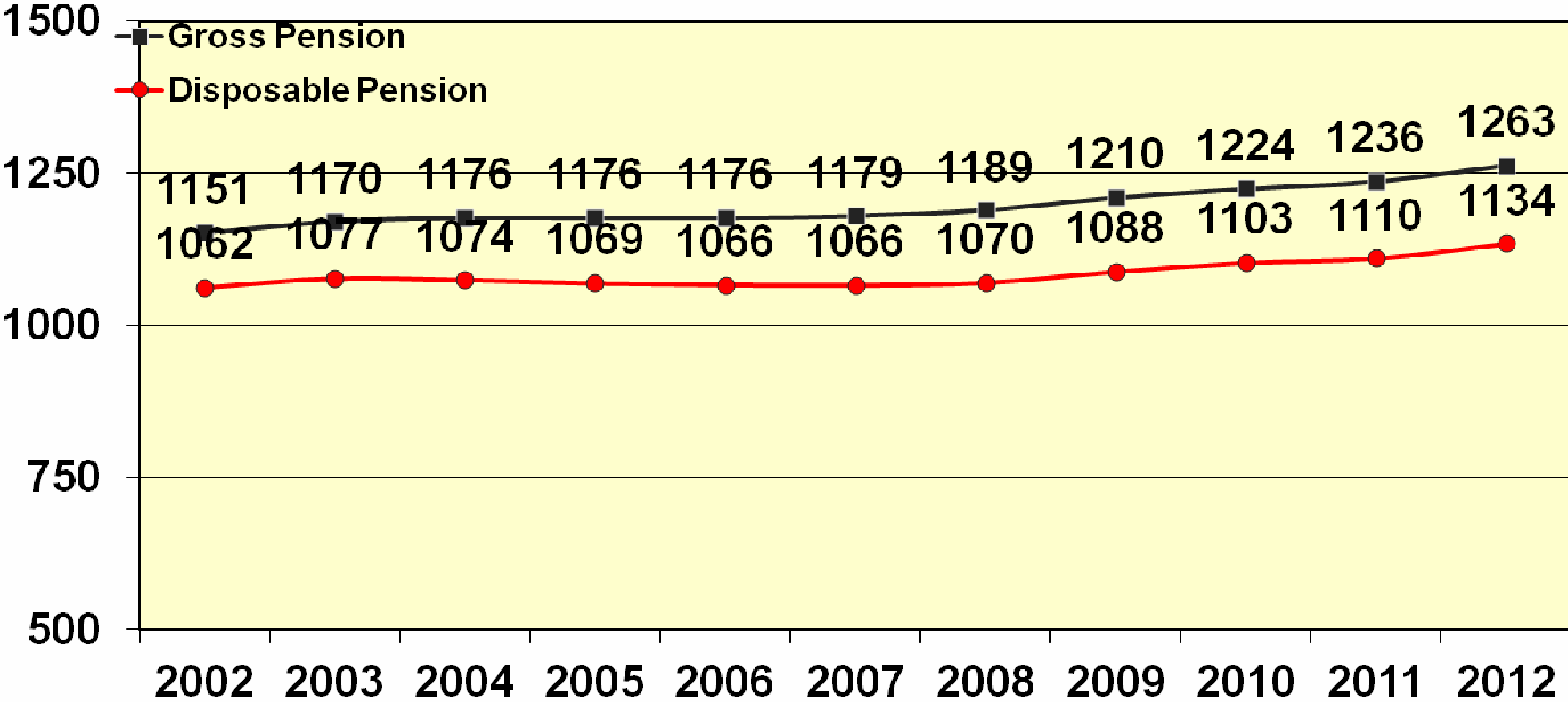
---

# Performance and Results

# Model Calculations

Year of retirement	2013	2035	2055
Age at retirement	65 + 2 months	67	67
Insurance record (years)	42	42	42
Pension at retirement (€)	1180	1945	3210
Replacement rate gross and net (%)	41,5 (45)	39 (43)	35 (39)

# Standard Pensions, Gross and Disposable Insurance record: 45 years; average wage





# Indexation of Pensions

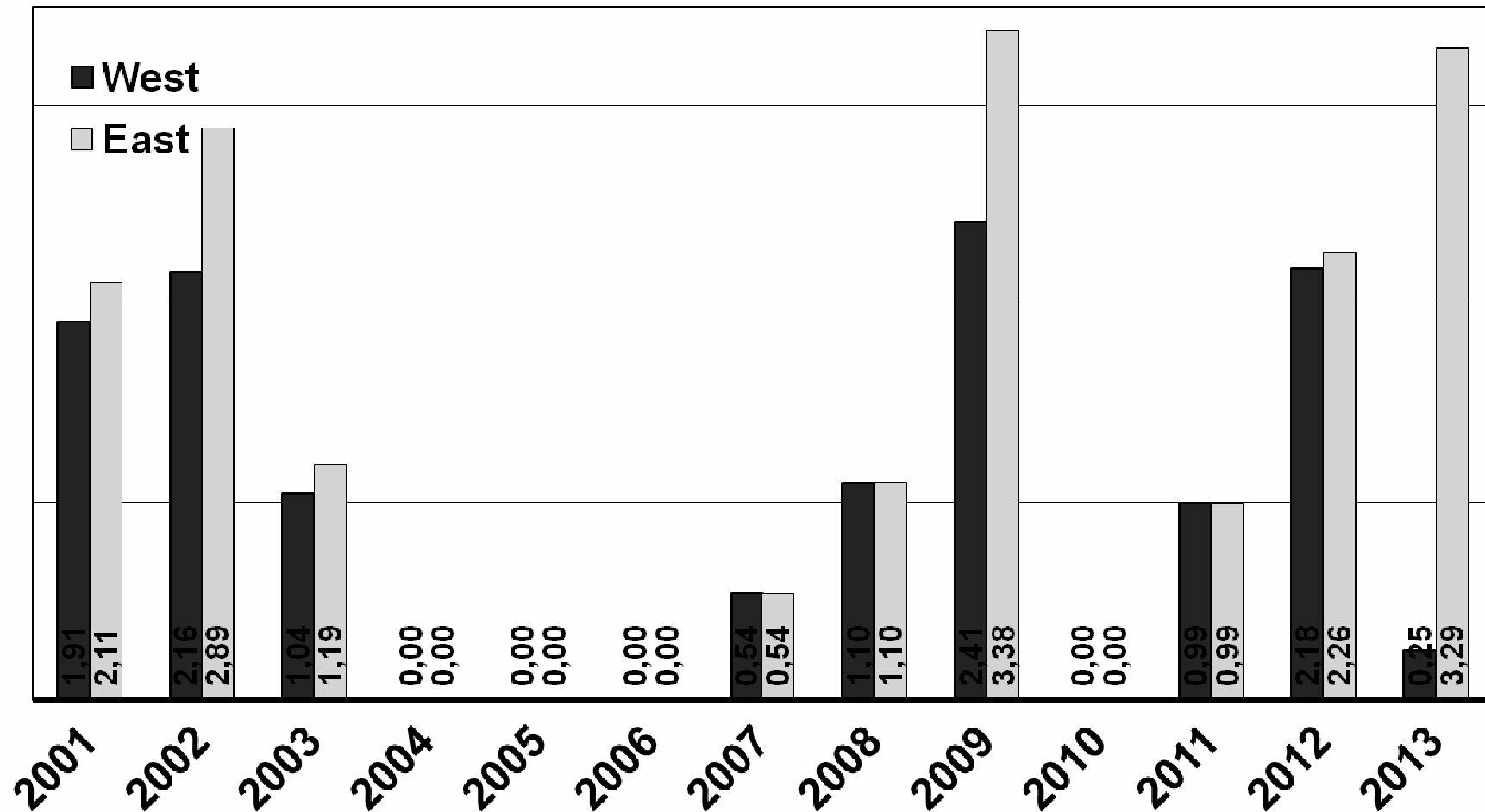
---

$$AR_{(t)} = AR_{(t-1)} * \frac{BE_{(t-1)}}{BE_{(t-2)}} * \frac{100 - AVA_{(t-1)} - RVB_{(t-1)}}{100 - AVA_{(t-2)} - RVB_{(t-2)}} * \left( \left( 1 - \frac{RQ_{(t-1)}}{RQ_{(t-2)}} \right) * \alpha + 1 \right)$$

## *Definitions*

- **AR = Current pension value (Aktueller Rentenwert)**
- **BE = Gross wage per employee**
- **AVA = Factor for Riester Pension**
- **RVB = Rate of contribution to statutory pension insurance**
- **RQ = Ratio of pensioners to employees**
- **Alpha = 0,25**

# History of pension Indexation



# Increase in Retirement Age

## Schedule for the Increase in the Retirement Age

Periods	Steps	Target
2012-2023	1 month per year	from 65 to 66 years of age
2024-2029	2 months per year	from 66 to 67 years of age

---

# Challenges

# Demographic, economic and societal changes

---

- **Changes in employment patterns and careers:**
  - **More self-employed**
  - **More precarious employment**
  - **More fluctuations, frictions and breaks**

# Adequacy of future retirement income

---

- ... to alleviate poverty and provide adequate replacement rates
- Risks
  - Earnings risk
  - Unexpected health expenditure and long term care
  - Longevity risk
  - Financial market risk: rate of return risk

# System design

---

- **Debate about roll back:  
More social security pension, less investment in private pension provision**
  - **Design problems of last pension reform**
  - **Wage development: insufficient growth**
  - **Performance of financial markets**
  - **Mis-selling and consumer protection issues**
- **Integration of insurance benefits and general social transfer payments**

# Labour market and pension system

---

- **Wage level**
  - **Low wage sector**
  - **Minimum wage**
  - **Top-ups in the pension formula or conditional cash transfers (create incentive problems)**
  - **Disability pensions**



# Labour market and pension system

---

- **Employment opportunities**
  - **Labour market for older workers has improved**
  - **Labour market participation of women**
  - **Partial pension and work**
- **Changing employment and career patterns**
- **Retirement age: edging up to 67 by 2030**

# Coverage

---

- **Coverage**
  - **Mandatory (first pillar) enrolment of the self employed**
  - **Mandatory enrolment in second pillar pensions and opting out**
  - **Quasi mandatory enrolment in supplementary pensions**
    - **Conditions and incentives**
- **Redistributive measures to honour child-rearing**

# Politics

---

## To ensure sustainability

- **Consensus between social partners and between political parties?**

---

# **Vielen Dank!**

# **Thank you very much!**

## **Kontakt / Contact**

**Markus Sailer**  
**Deutsche Rentenversicherung Bund**  
**German Pension Insurance–Federal Institute**  
**D-10704 Berlin**

**+49 30 8 65 8 93 66**

**+49 1 72 3 92 35 83**

**markus.sailer@drv-bund.de**

**sailer.markus@web.de**