



SELECTED ISSUES OF EMPIRICAL PENSION SCHEME / PLAN ANALYSIS FOR PENSION SYSTEM ANALYSTS

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INTRODUCTION

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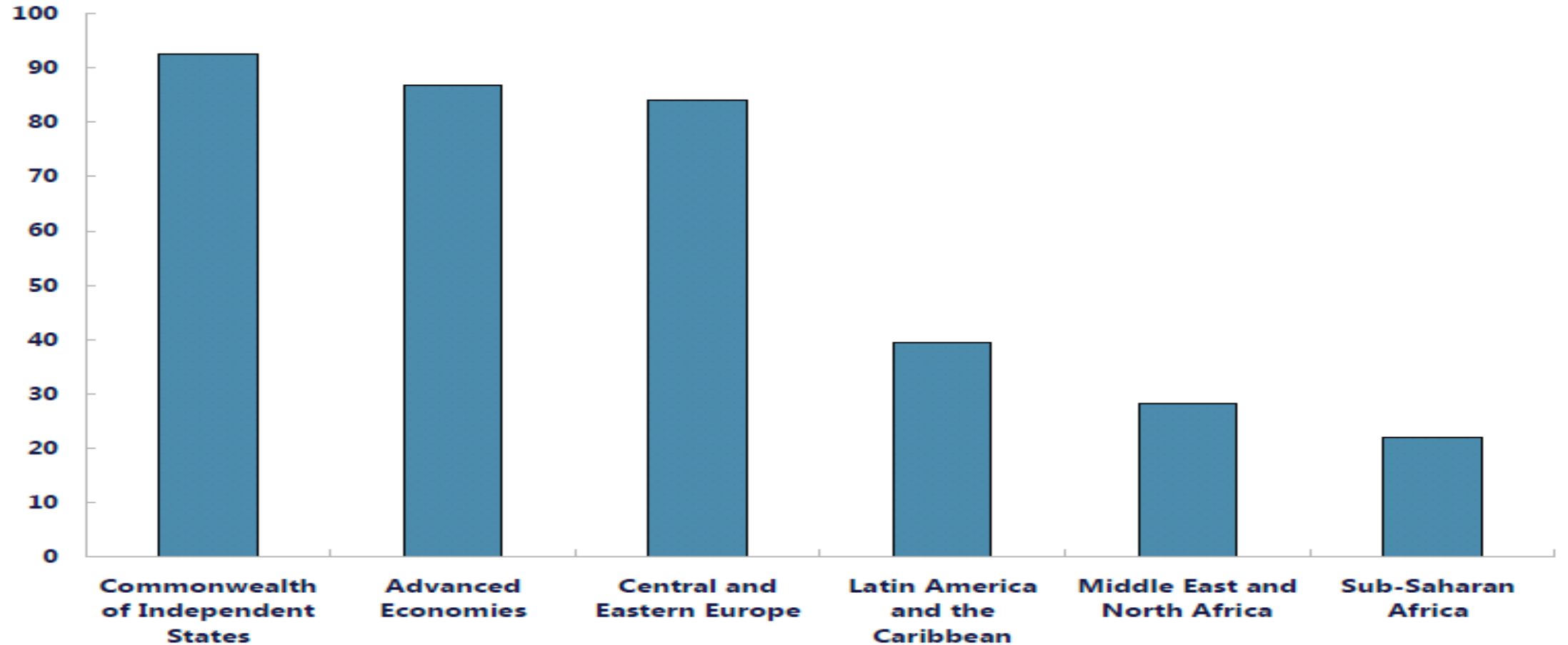
1. COVERAGE IS KEY:
DEFINITION OF THE POLICY PROBLEM AND RECOMMENDATIONS FROM
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2. LONGITUDINAL MICRO DATA SETS

COVERAGE IS KEY

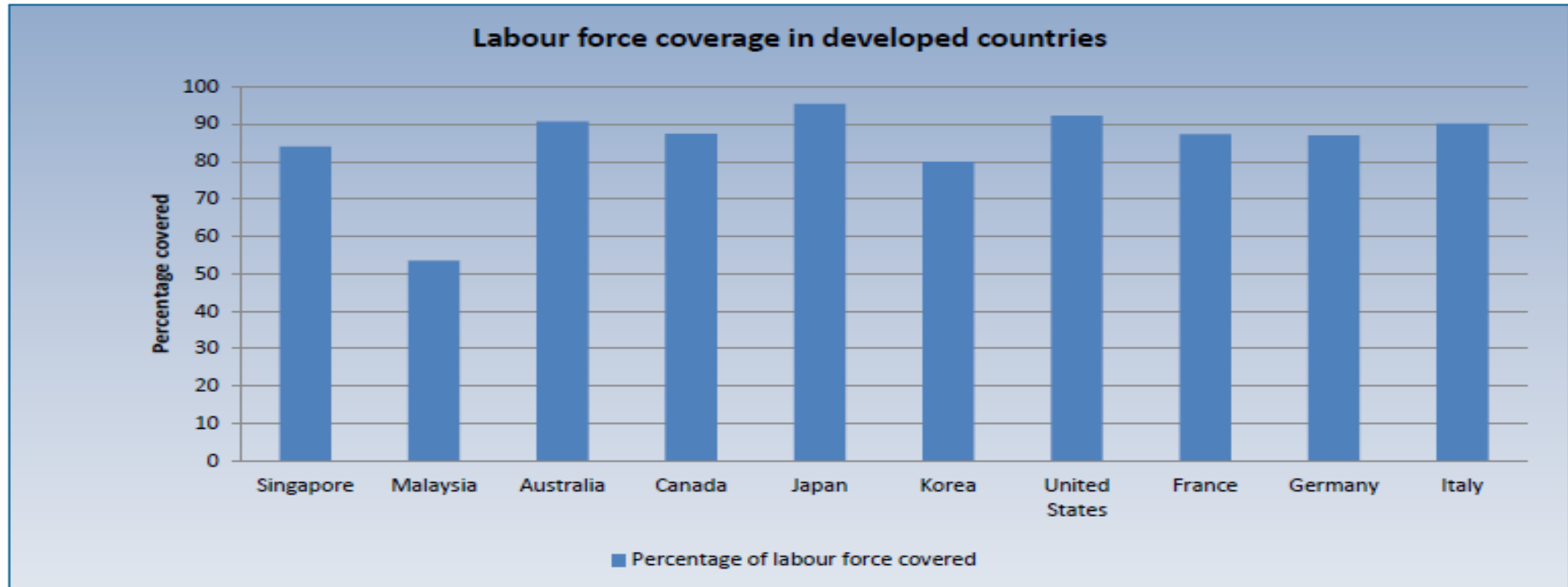
COVERAGE IS KEY

- The pension policy triangle: Adequacy in terms of poverty alleviation and earnings replacement – sustainability – coverage
- Pension reforms of previous decades have contributed to establish fiscal sustainability, partly at the cost of reduced adequacy and lower coverage
- Labour market reforms contributed to pension system sustainability, partly at the cost of coverage: e.g. part time, fixed term contracts, self employment, low wage earners
- Increased role of supplementary pensions: occupational and private commercial
- **The focus of the pension policy has shifted from sustainability to coverage to ensure inclusive development**

COVERAGE IN A GLOBAL PERSPECTIVE

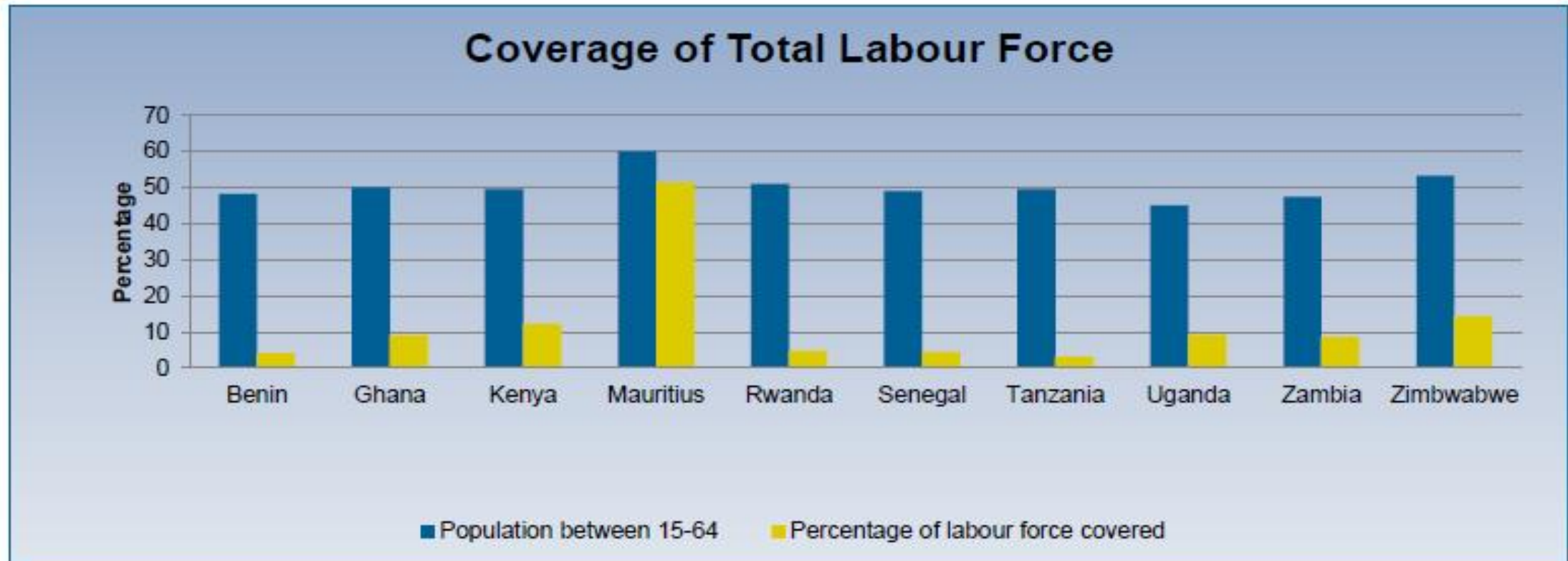


PENSIONS COVERAGE IN SELECTED INDUSTRIALIZED COUNTRIES



Source: OECD iLibrary

PENSIONS COVERAGE IN SUB-SAHARAN AFRICA

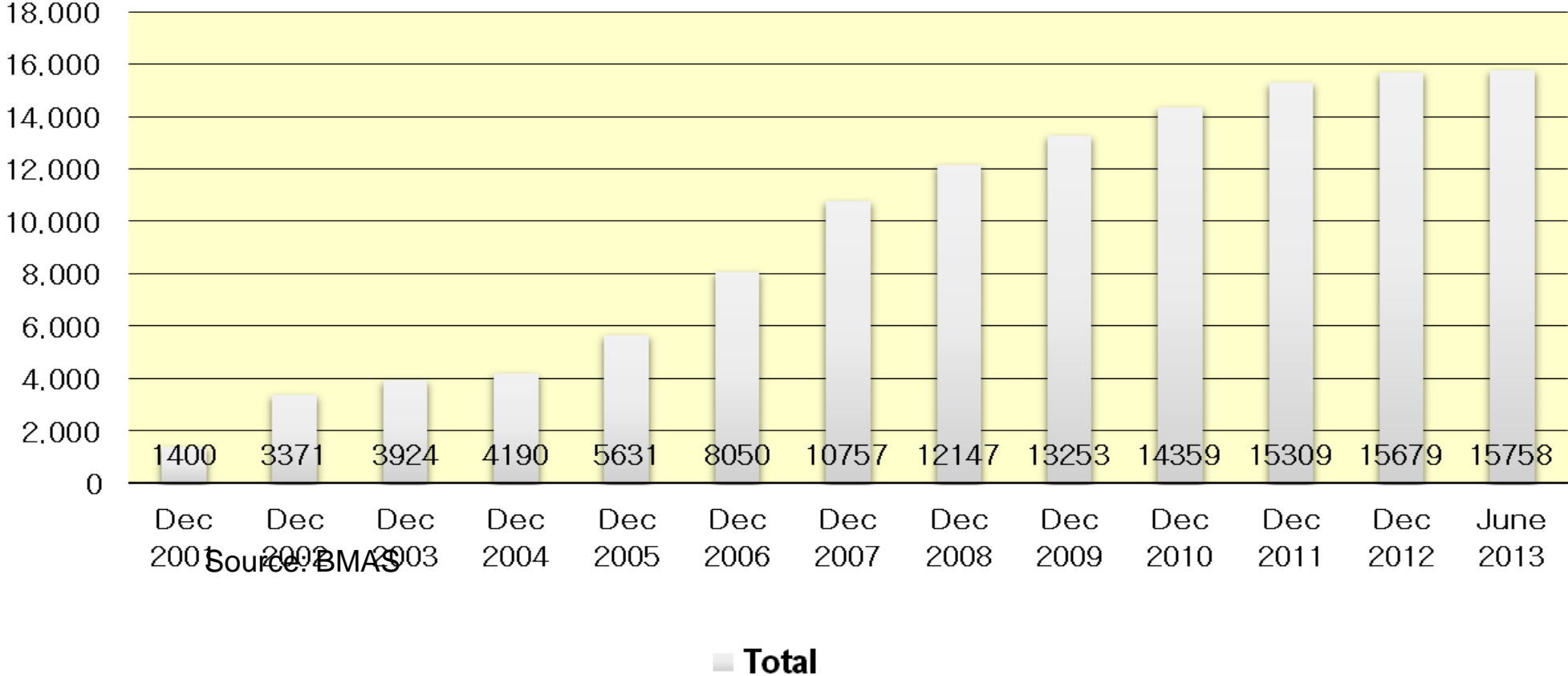


Source: Brooks World Poverty Institute, University of Manchester

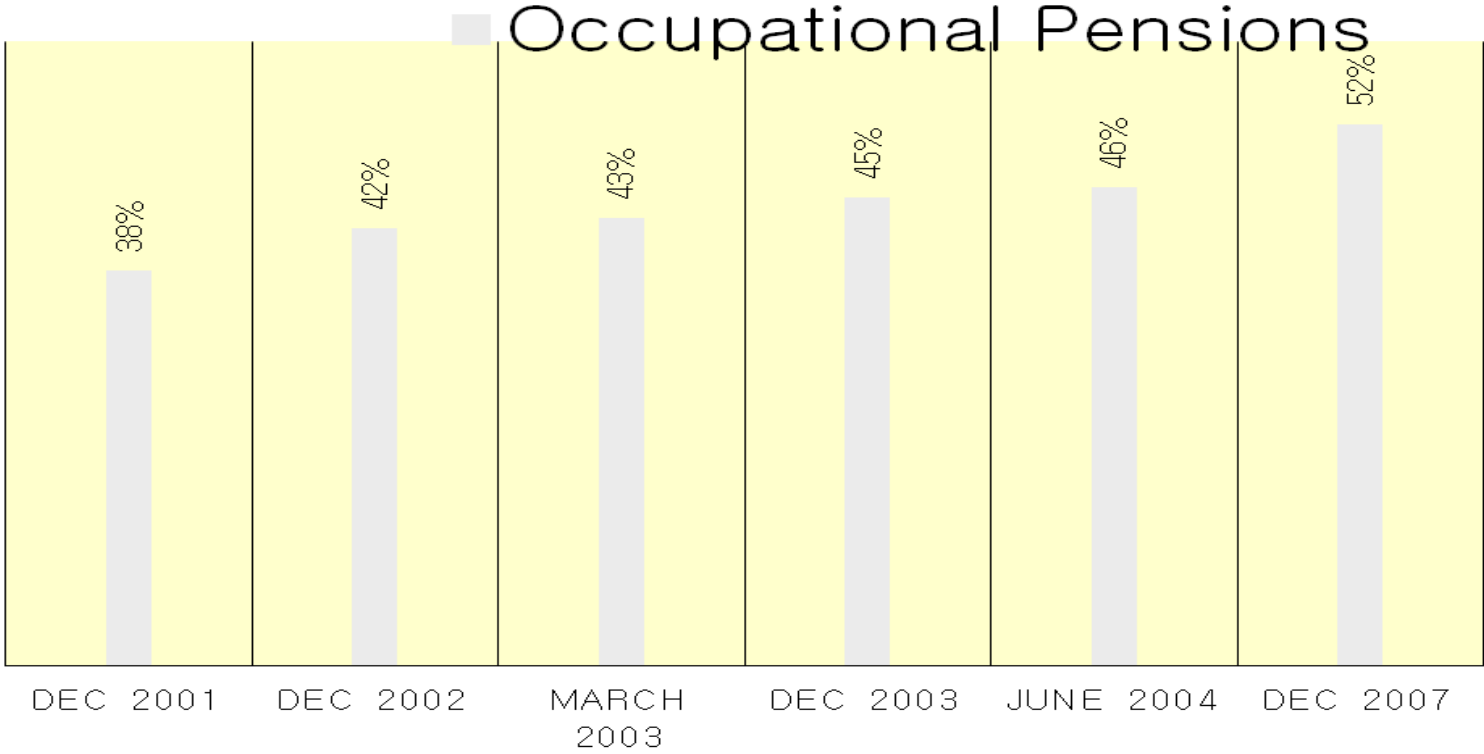
GERMANY: ENROLMENT IN SUPPLEMENTARY PRIVATE PENSION PROVISION

- **Company Pensions (2012)**
 - Coverage ratio: around 60% of employees
 - 19.6 m entitlements 2001: 14.6 m
 - 15.3 m in Occupational Pensions (57% of employees liable for social insurance)
 - Increase in deferred compensation schemes: 1.1 m employees
- **Commercial private insurance (05/2015)**
 - 16 m accounts
 - 3.6 m. insurance contracts
 - 0.2 m bank savings plans
 - 0.3 m investment fund saving
 - Endowment insurance

THE SPREAD OF RIESTER PENSIONS



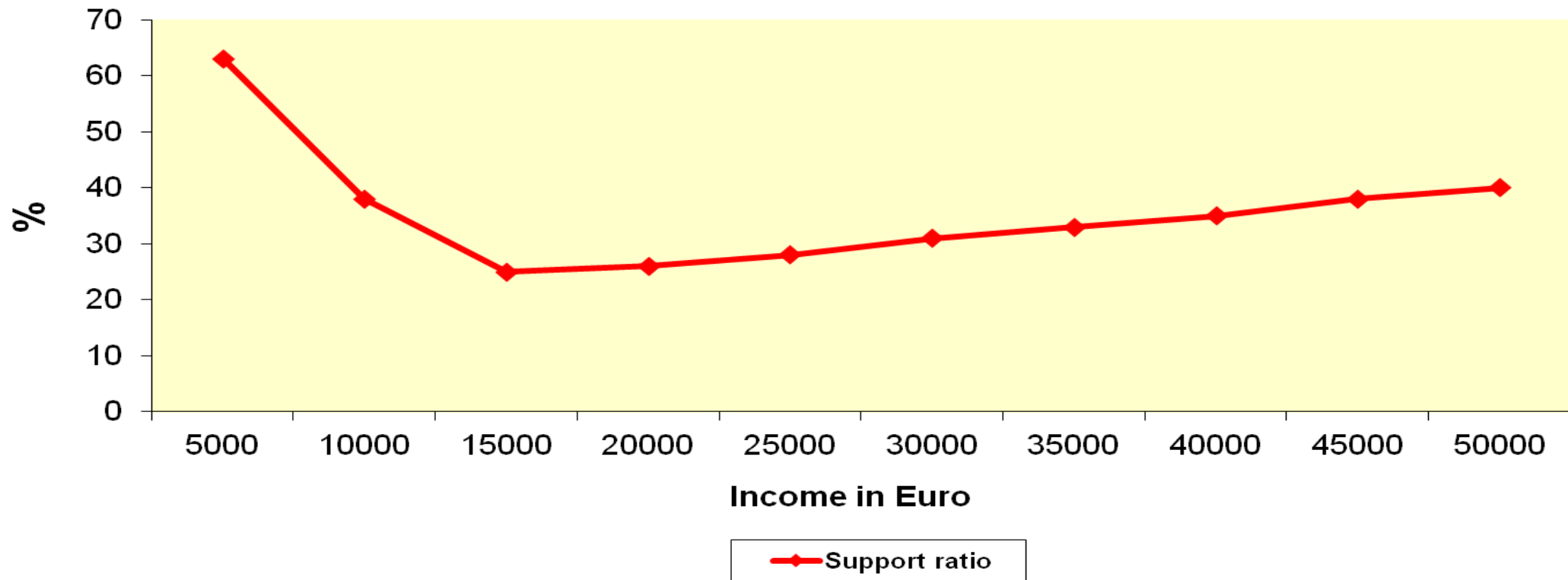
THE SPREAD OF OCCUPATIONAL PENSIONS IN THE PRIVATE SECTOR



Source: TNS Infratest (2008)

INCIDENCE OF ALLOWANCES AND TAX BREAKS IS ATTRACTIVE

Single, without children



CONCLUSION, so far

- Monetary incentives are not sufficient to achieve high coverage ratios
- What to do?
- What are the options?
- What results are to be expected?

- Learning from behavioural finance research

Coverage is key:

POTENTIAL INSTRUMENTS TO INCREASE PARTICIPATION IN PENSION SAVINGS SCHEMES

Instrument	Occupational pensions	Private commercial pensions
Mandatory enrolment	Public sector employees Liberal professions	
Automatic enrolment	Few collective agreements	
Active choice & commitment products		
Simplification and planning tools		GDV: Pension planner (?)
Reminders	Annual statement of pension rights in the statutory pension scheme	Annual statement of pension rights in the statutory pension scheme Awareness campaign Company advertising
Matching contributions	Tax incentives, mostly for employers Some collective agreements	Tax incentives

Coverage is key:

POTENTIAL INSTRUMENTS TO INCREASE PARTICIPATION IN PENSION SAVINGS SCHEMES (1)

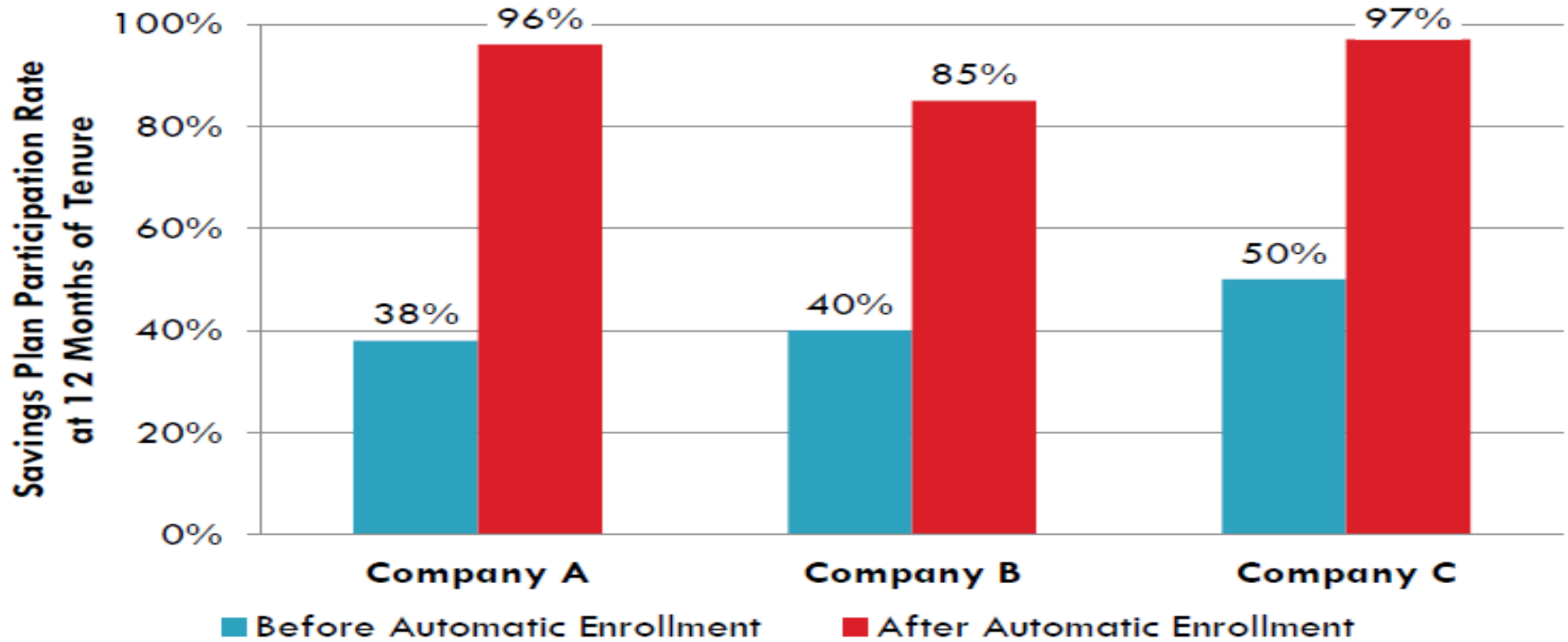
Instrument	Study	Results: Higher Participation
Mandatory enrolment not feasible in Germany		
Automatic enrolment	Madrian and Shea (2001)	Participation rate increases by 50 percentage points; Greatest for groups with the lowest savings rates initially: young lower income workers
Active choice & commitment products		Many alternative ways to implement Moderate to sizeable effects

Coverage is key:

POTENTIAL INSTRUMENTS TO INCREASE PARTICIPATION IN PENSION SAVINGS SCHEMES

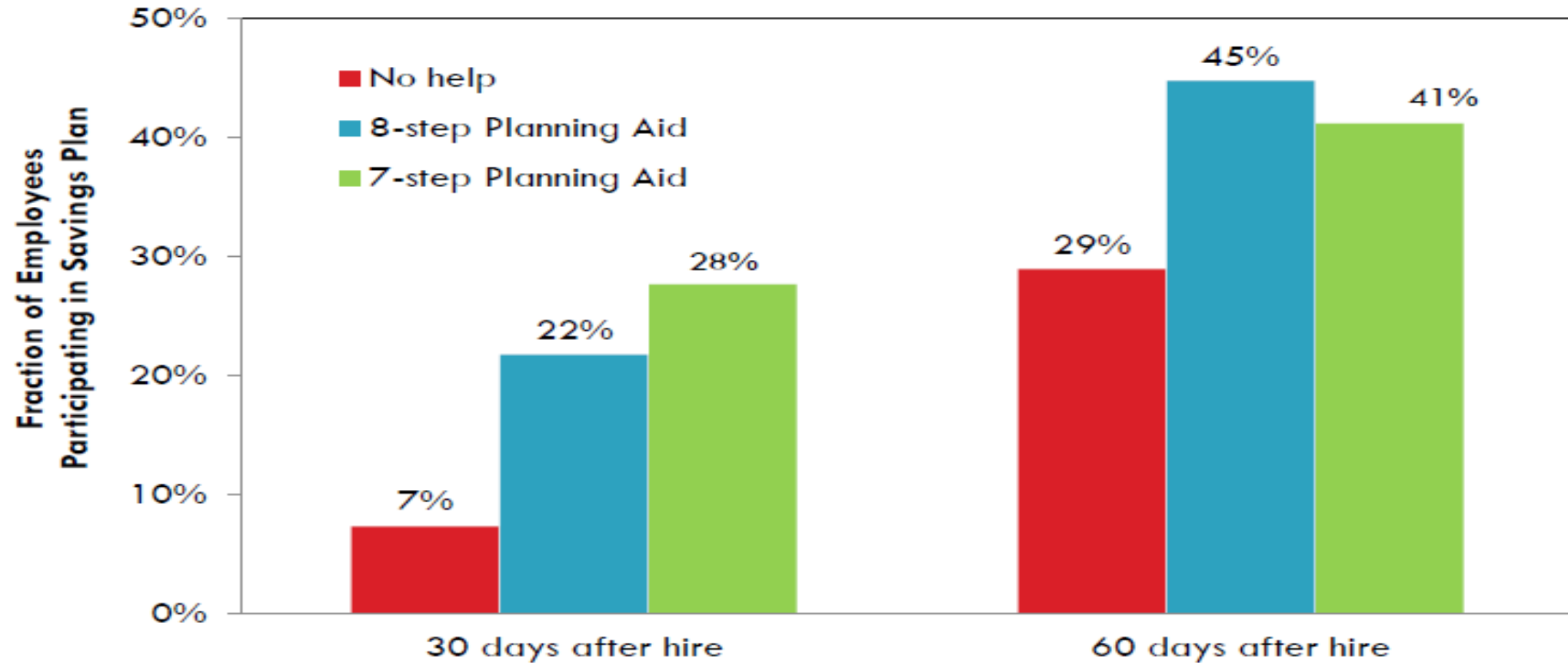
Instrument	Study	Results: Higher Participation
Commitment products		Many alternative ways to implement Moderate to sizeable effects
Simplification and planning tools	Keller, Keller and Lusardi	
Reminders	Karllan, McConnell, Mullaiathan and Zinman (2011)	Small but significant effect of reminders
Matching contributions	Engelhardt & Kumer (2007) Duflo et al (2006) Choi et al (2006) Beshears et al (2010)	Participation rate increases by 5-6 percentage points Contribution rate peaks at the matching threshold

AUTOMATIC ENROLMENT IN 401k-PLANS



Madrian and Shea (2001)

IMPACT OF PLANNING SUPPORT



QUASI-MANDATORY SAVING SCHEMES: REQUIREMENTS ON THE STRUCTURE OF THE INDUSTRY

- Industry structure: appropriate constraints on provider discretion, otherwise compulsion just establishes a right to profit ?
- Regulation and supervision is necessary, but not sufficient
- Implementation: set-up and fixed cost
- Options and default investment plan, if choice is possible
- Appropriate benchmarks
-

QUASI-MANDATORY SAVING SCHEMES: CONSIDERATIONS REGARDING THE DESIGN OF THE PAY OUT PHASE

- Financial needs and financial instruments
- Lump-sum payments
- Planned withdrawal schemes
- Annuities, deferred annuities; Single annuitant, competitive annuitization
 - Compulsion might reduce the adverse selection bias that reduced the money value of annuities
 - Unified annuitization is to the disadvantage of poorer male insurance clients and favours richer female insurance client
- Relation, integration, exemption: means tested benefits

QUASI- MANDATORY SAVING SCHEMES: INTERFERING WITH INDIVIDUAL RESPONSIBILITY

- Household life-cycle of savings: education, children, housing, bequests,
- Current consumption needs

QUASI-MANDATORY SAVING SCHEMES: CONCLUSIONS

- Germany's second and third pillar pensions are based on the principle of voluntary participation
- Regulatory developments and recent pension policies made addressing the coverage gap more pressing to achieve the objectives of the retirement system
- A single policy instrument – e. g. mandated participation – might be insufficient to close the coverage gap
- Establishment of mandated participation might produce a number of unintended results and outcome (informal economy, distributive bias, ...)
- A decision has to deal with a number of trade offs and interrelated issues.

LONGITUDINAL MICRO DATA SETS

PURPOSE

- Analysis of life-cycle pattern of individuals or households regarding many aspects of life
- Education, employment record , children, housing, saving, wealth, pension rights, etc.

ADMINISTRATIVE DATA:

- FDZ Forschungs-Datenzentrum der Rentenversicherung (Centre for Research Data on Pensions)
- Anonymised data on insurance records and pensions
- Scientific Use files: Basic and theme files
- Public Use files
- Guest researchers

Details:

- <http://www.fdz-rv.de/FdzPortalWeb/?ViewNavi=StartSeite>

SURVEY DATA: AVID

- AVID “Altersvorsorge in Deutschland (Pension Saving in Germany)
- Repeated Survey on (carried out by INFRATEST)
 - Earnings and employment pattern
 - Pension rights in statutory pension schemes
 - Pension rights in occupational pension schemes
 - Pension rights in voluntary third pillar pension schemes
- Survey in 1996 and 2005; 2005: 8,500 individuals of birth cohorts 1942 to 1961
- next survey in preparation

Create your own tables:

- <http://www.altersvorsorge-in-deutschland.de/TABVIEWER/TabViewer.html>

PANEL DATA: SOEP

- SOEP Socio-Economic Panel
- Founded in 1984 by DIW (German Institute for Economic Research, Berlin)
- 12,000 randomly selected private households (voluntary participation)
- Annual survey of those households regarding social, economic, demographic, psychologic, geographic and health aspects of life (including earnings and pension savings)

DETAILS

- <http://www.diw.de/en/soep>

Q & A



Thank you very much!
Vielen Dank!



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