

PRESS RELEASE

## A pension reform is necessary: Several measures need to be combined

- As the German baby boomers are approaching retirement, the level of pension benefits will decline, while the contribution rate will sharply increase under current rules.
- Core elements of a reform of the German statutory pension scheme (GRV) should be a link between the retirement age and life expectancy as well as the introduction of a new type of funded pension plans.
- Additional measures are necessary to alleviate the financial burden on contributors in the short term and to avoid social hardship among pensioners.

**Wiesbaden, 08.11.2023** – As the baby boomer generation starts entering retirement, Germany is currently entering an acute phase of demographic ageing. This calls for far-sighted reforms of the statutory pension scheme (GRV). These reforms should combine several measures in order to achieve four goals: First, to stabilise the budget of the GRV; second, to address the consequences of demographic ageing in a targeted manner; third, to distribute financial burdens more fairly between future pensioners and contributors; and, fourth, to avoid social hardship. At the same time, bundling different reform options increases social acceptance, since individual measures would not have to become too severe.

Under current rules, the benefit level of the GRV is likely to decline while the contribution rate will sharply increase over a longer period of time. To avoid this, core elements of a reform should be a link between the statutory retirement age and future increases in life expectancy, combined with the introduction of a new form of supplementary, funded pensions. Adjusting the retirement age to changes in further life expectancy at the current retirement age directly addresses one of the causes of demographic ageing and has favourable effects on the contribution rate, the benefit level and the subsidies from the federal budget to the GRV. Combined with funded pension plans which are mostly based on stock-market investment and should be more transparent, more widespread and more profitable than the current Riester pensions, the level of old-age provisions can be significantly increased in the long run and poverty risks at old age can be reduced. However, these reform options will only take full effect in the long-term.

### Changes in pension up-ratings and redistribution within the GRV

In Germany, a period of rapid ageing will take place in the next 15 years. For this reason, long-term reforms must be supplemented by measures that have sizeable effects already in the short-term. Fixing the pension level, as currently planned by the federal government, is not a sustainable solution, but will exacerbate foreseeable increases in contribution rates. This will intensify conflicts between pensioners and contributors. Instead, the burdens involved in an ageing society must be shared more fairly between and within these two groups. A combination of different measures is essential for this purpose.

“No single reform option is sufficient to solve the financing problems of the GRV. By bundling several measures, their strengths can be combined and social hardship avoided,” explains council member Martin Werding. Strengthening the existing link between annual benefit up-ratings and old-age dependency as well as the introduction of price up-ratings of benefits after award would have favourable effects on the financial situation of the GRV in the short-term. However, these two reform options increase the risk of poverty at old age. A progressive assessment of benefit entitlements can significantly reduce the inequality of pension benefits and lower the risk of old-age poverty for low-income earners. With a progressive benefit assessment, individuals with low annual earnings would acquire higher entitlements than under the current proportional assessment, while individuals with high annual earnings would acquire correspondingly lower entitlements.

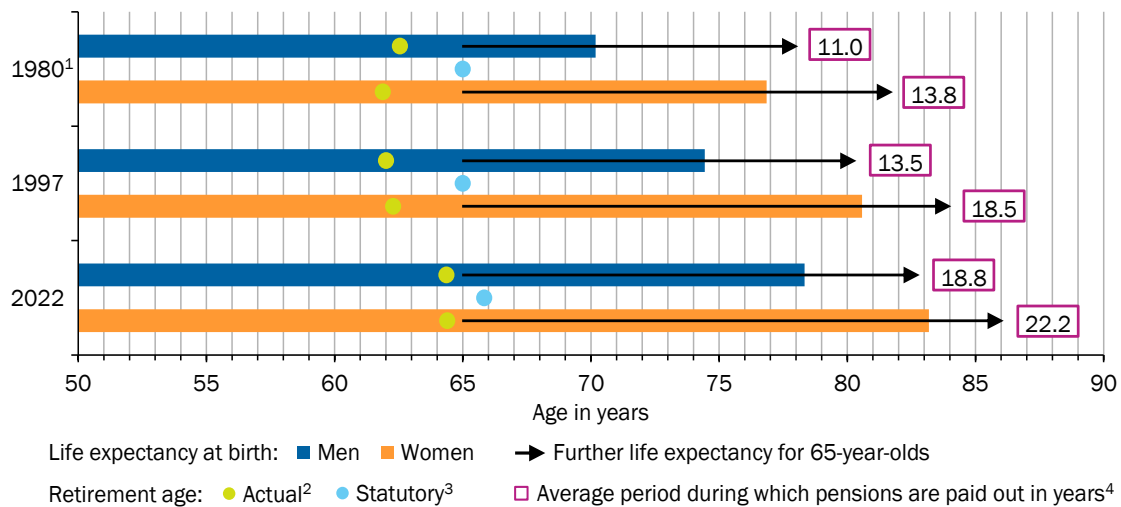
### Inclusion of civil servants and the self-employed

Expanding the population covered by the GRV to include future civil servants and the self-employed does not solve the GRV’s funding problems. While this would increase the number of contributors and reduce budgetary pressures in the short term, these effects would disappear when the additional contributors retire. In fact, funding problems would be exacerbated in the long term, since civil servants have a life expectancy that is higher than average. In addition, the budgets of state-level and local governments would come under great pressure during the transition. However, such a reform can be implemented in a cost-neutral manner if contributions for new civil servants could be made available for funding old-age pensions of earlier civil servants. A reform of this kind would make sure that all changes in the statutory pension scheme are uniformly applied to civil servants as well. There is also a potential for reducing expenditure on civil servants' pensions relating to their additional occupational pensions and to a more restrictive policy of appointing civil servants in Germany.

Temporary relief for pension finances may also result if - as already agreed in the government coalition - self-employed individuals without a mandatory old-age provision would become subject to such a mandate in the future. It remains to be seen, however, how many of these self-employed persons will opt for coverage provided by the GRV rather than choosing an optional private pension plan. Including the self-employed would close existing gaps in their old-age provision, relieve the welfare state of the burden of providing them with income support at old age, and prevent free-rider behaviour.

## Life expectancy and retirement age for old-age pensions

The average period during which pensions are paid out has increased significantly in recent years



1 – Former West Germany. 2 – Retirement due to old age. 3 – Women could retire at age 60 in the years 1980 and 1997. The statutory retirement age is to gradually be raised from 65 to 67. The retirement age of 65 years and 10 months for 2022 applies to those born in 1956 who reached retirement age in that year. The retirement age of 67 years applies to all those born after 1963. 4 – For all kinds of GRV pensions.

Sources: Deutsche Rentenversicherung, Federal Statistical Office  
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