COUNTRY SPOTLIGHT GERMANY

Reform in a time of crisis

Whilst the German Pensions Commission's report is still warm from the press, its recommendations have provided less of a splash than many had hoped and could face further limits in the midst of Covid-19

WRITTEN BY SOPHIE SMITH

Pension systems around the world have been progressively adapting to suit growing and diverse member needs, and Germany is no exception, kicking off the decade with its final Pensions Commission report (GPC), published in March. But whilst the GPC's report is still warm from the press, its recommendations have provided less of a splash than many would have hoped, with DGB board member, Annelie Buntenbach, stating that the report had been "neither a blessing or a curse" for many workers. Fairr by Raisin head of pension products, Dr Alexander Kihm, also notes that "concrete recommendations" were generally sparse within the report.

Kihm clarifies that where there are recommendations, these were to be expected, and are generally aligned with the existing German pension system and policy. He highlights, however, that many of the more controversial topics have been postponed to a new commission in the future, the creation of which was a central recommendation of the report.

Primarily though, the report and commission have focused on statutory pension schemes, with many passages reading like a "keep it up," according to Mercer Germany chief actuary, Thomas Hagemann.

"In fact, the recommendations are too limited," he adds, "they do not include specific proposals or major drivers, and do not represent a boost for the pension system.

"On many points, the commission has not passed beyond considerations. Considerations on the different ways of adjusting entitlements and current benefits, and considerations on the standard age limit are presented, but these did not result in a specific recommendation."

This neglect for occupational schemes has been highlighted by a number of industry experts with ABA general secretary and CEO, Klaus Stiefermann, also stating that the report deals with such pension schemes "only marginally".

"As far as occupational pension schemes are concerned," he notes, "it is merely stated that their expansion is still unsatisfactory."

Reform in a time of crisis?

However, Deutsche Rentenversicherung Bund spokesperson, Dirk von der Heide, argues that in light of the current crisis, the commission's decision not to include concrete measures may be more "far-sighted than limited". And whilst the report itself was not delayed due to the ongoing Covid-19 pandemic, it seems likely that the creation of another commission, and many of the, albeit limited, recommendations, could face more delays and limitations, as a result of the crisis.

"The pandemic naturally affects all areas, including pension provision and thus also occupational pension schemes," emphasises Stiefermann. "As a funded system, it naturally also suffers from the current developments on the capital markets."

Adding to this, Hagemann clarifies that proposals requiring an additional financial effort could be "significantly delayed", also stating that whether there will be any significant development for the pension system in this legislative period "remains to be seen".

Some see the pandemic as less of an obstacle for the proposals however, with Willis Towers Watson Germany director of legal, tax and accounting, Dr Michael Karst, arguing that there should not be "substantial impact" on the GPC proposals.

"It is likely that the pandemic will accelerate e.g.

the implementation of a digital platform," he explains, acknowledging that it is not yet clear whether the pandemic will lead to changes to raise the first pillar pensions, with respect to the economic consequences of the crisis.

The pandemic also appears to have sped up discussions about how the industry calculates and underlies guarantees, especially for long-term commitments, adds Kihm, also highlighting the development of the Pan-European Personal Pension Product (Pepp) as another area to be monitored closely over the coming period.

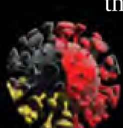
A change already underway?

Of course, the GPC report is not the only driving force for change in the German pension system and, in fact, the report itself has highlighted much of the existing policy work and reform already in the pipeline.

"The main legislative initiative is a change for the insolvency protection of 'Pensionskassen' according to a decision of the Court of the European Union," adds Karst.

"This legislation is on track and will oblige employers to pay contributions to the insolvency protection agency (PSV) from 2020 or 2021 onwards. The coronavirus has so far had no impact on the introduction of this legislative change," he states.

However, Hagemann highlights discussions around the introduction of a basic pension as a crucial ongoing reform, adding that while the federal government has stood by the existing timeline, which would see this introduced before the end of this legislative period, it remains to be seen whether this will happen in practice considering the crisis.



"At the moment," he clarifies, "immediate supervisory measures to mitigate the consequences of the coronavirus crisis can be observed; for example, with regard to deadlines for reports and funding obligations."

Indeed, von der Heide also highlights the pressing issues that have arisen in the German pension system as a result of the current crisis, such as concerns around the impact on those returning to work to support medical, or food collection efforts. Diverting attention and resources to deal with these concerns, and the broader impact of the Covid-19 pandemic, could mean that other ongoing plans, such as those for a European or German

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tracking system, could be delayed, Stiefermann warns, also stressing that financing could become more difficult in view of the "enormous challenges" facing national budgets.

"In the crisis, other issues have higher priorities," agrees Hagemann. "This will lead to delays in all projects, especially when they require an additional financial effort."

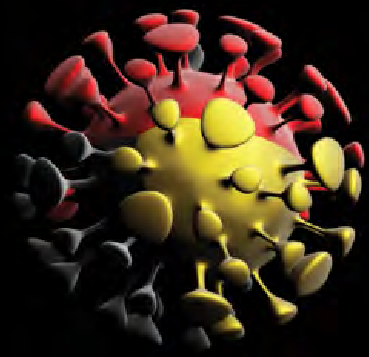
Although, Hagemann argues that the general cross-pillar pension information is "necessary" and will "certainly be introduced" despite the current crisis. However, he acknowledges that the European Tracking Service is not so important as only a few employees work abroad, and therefore may face more limitations.

Navigating the long grass

Despite any limitations or diverted resources stemming from the current crisis, there is a clear need for greater reform in the occupational pensions space in the German pension system. And while the GPC report may have been relatively limited in its recommendations, industry experts are less restrained.

"The headline should be: 'Stability for the first pillar system, simplifying the occupational pension system with respecting support for employers and employees to raise participation'," argues Karst, highlighting the careful balance that must be achieved in the cross pillar system. Adding to this, Stiefermann also acknowledges that the pay-as-you-go state pension will continue to be the "mainstay of the German pension system".

"However," he clarifies, "occupational pension provision



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as a second pillar with its great efficiency and collective approach should, wherever possible, be the first choice for supplementary provision. It should therefore be promoted more strongly than private pension provision. It also deserves greater commitment from the social partners."

Change then, is clearly needed, not only in the specific technical issues, but also perhaps in terms of broader priorities and policy. But with focuses split between a number of broader goals, and no unanimous verdict on the most vital change to be made, just what form any future changes could take, especially amid so many other pressing priorities, remains to be seen. ■

A Ripple not a splash

The start of the year had been expected to bring with it some of the first social partner pension (SPP) models, with Talanx AG and Vereinte Dienstleistungsgewerkschaft (Ver.Di) expected to have its agreement for one finalised in January 2020.

Yet, progress remains limited according to Karst, who emphasises that no social partner pension model has been implemented in the market so far. "Nevertheless," he adds, there is interest in the market, and we expect first social partner models in the market in the second half of 2020 or the first half of 2021."

However, Kihm warns that while there have been various initiatives published and 'live', this has been limited to a website level, with no "concrete financial products" yet in place.

"So there's no uptake visible, lots of talk, but not much action," Kihm explains. "It's remarkable that there is only one concrete SPP in Germany by Talanx (insurance company) and Ver.Di (services union).

"As a limitation, the mandatory parity of investment committees between employers and trade unions is perceived as a main barrier; and the unions are not especially keen on guarantee-free products."

This is echoed by Stiefermann, who emphasises that the SPP is "uncharted territory", arguing that social partners must participate in the steering process, and must also agree to use part of the financial mass of a collective bargaining round to finance the SPP.

This means that an SPP takes time, and while Stiefermann acknodwledges there are technical changes still needed, he emphasises that "what is really crucial", is that the social partners actually want an SPP, as they are the ones to organise financing, management and administration.

According to Kihm though, there is a low level of interest in SPP models from trade unions, thanks to the complex structure, which can raise barriers for market entrants. He explains: "To establish new products and providers, preceding commitments are required from both collective bargaining parties… the portability of current collective parties into SPP would greatly enhance uptake and yet, at the same time, it could create moral hazard by taking away the guarantees."

However, Karst notes that the current legislative framework has to be applied in first cases to identify where potential changes could make sense. "Therefore this model does not need changes," he explains, "but time for negotiations and implementation."

Karst continues: "Due to the complexity, politicians should give more time to implement this type of occupational systems. The GPC is heading very clearly in this direction by stating the year 2025 for the evaluation of participation rates, but it is likely that even these five years may not be enough to see a substantial raise of participation rates in the market due to SPP models.

"To raise the participation rates, it would be much more important to promote and support the existing occupational system with necessary adaptations."

However, as Hagemann points out, the GPC has not touched upon the SPP at all, instead choosing to introduce the Deutschlandrente as a "totally new model".

"If a model which has just been introduced does not develop, should a new one be introduced immediately, or should we first analyse what is lacking in the first model? The Commission has obviously not asked itself this question."