COUNTRY SPOTLIGHT GERMANY

A second look

Peter Carvill considers whether the German pensions system is as effective as it appears at first glance

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At first glance, the pensions landscape in Europe's dominant economy appears to be robust. The German system has long been considered stable and effective for today's pensioners and retirees. In most key metrics, according to research by the Organisation for Economic Co-operation and Development (OECD), the country outperforms most of its counterparts on average. Its average worker earnings stand at just over €47,809 compared to €34,803 across the rest of the OECD countries, while life expectancy is an average of 81.3 years, compared to 80.9.

State provision is currently comprehensive. According to the OECD's Pension at a Glance 2017, "The statutory public pension system has a single tier and is an earnings related PAYG system. Calculation of pensions is based on pension points. If individual old-age provision from all income sources is not sufficient, additional means-tested benefits can be claimed from social assistance."

However, all is not ideal and much needs to be done in order to secure the future pensions landscape. Germany's population is ageing rapidly and public pensions spending remains relatively high: in 2017, it accounted for 10.1 per cent of GDP, compared to 8.2 per cent across the other OECD nations. The percentage of the population over the age of 65 is also high—34.8 per cent to 27.9

per cent. OECD figures predict, with current legislation, that pensions spending as a proportion of GDP will rise to 12.5 per cent by 2050.

A big concern is that very few are paying into an occupation pension scheme. Law firm Wilkie Farr & Gallagher estimate that only half of employees at German companies receive occupational pension benefits. Among smaller business, that proportion drops to 32 per cent.

In order to tackle this, the German government came up with the Law Strengthening Occupational Pensions (LSOP), which came into force on 1 January. Says Wilkie Farr & Gallagher: "The aim of the legislative change is to further expand coverage of occupational pensions (betriebliche Altersversorgung) as one of the three pillars of Germany's old-age pension system (statutory pension insurance, occupational pensions and private retirement savings)."

Fabian von Löbbecke is Talanx Pensionsmanagement's chief executive officer. Under his remit is responsibility for occupational retirement provision at HDI. He acknowledges that there is an urgent need within Germany for additional provision to the state system.

"According to current projections by the federal government," he says, "the level of the statutory pension will fall to 45 per cent of average earnings by the year 2030. No minimum limit has been defined for the years subsequent to 2030. In other words, the accustomed standard of living cannot be maintained in old age without supplementary provision components."

Von Löbbecke points to one example of the improvements that LSOP brings to the established system of company pension schemes. "From 2019 onwards, employers must subsidise new occupational pension contracts taken out by their employees to the tune of 15 per cent. Starting in 2022 this requirement will also apply to already existing contracts. The employer contribution is, however, already allowed today. This means that for employees occupational retirement provision, even compared to individual provision, becomes the most efficient way to save for retirement. Taken purely on its own, this innovation introduced by the LSOP, and there are many others besides, makes occupational retirement provision significantly more attractive for employees."

These are one step on a long road, but a move in the right direction. The country's ageing population is causing a rise in demand for labour at a point when the younger demographic are entering more-tertiary industries. This was posited a few years ago as one of Merkel's motivations for allowing over 1,000,000 refugees into Germany at the height of the refugee crisis. But with a backlash of far-right violence recently in Chemnitz, 'Mutti' Merkel's fragile coalition may currently have more-pressing demands on their attention than future pension provision. ■