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**Article**

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## Retirement Pension Provision Schemes in Germany 1996 and 2005

By Dina Frommert and Thorsten Heien

### 1. Introduction

The following article provides a brief overview of the two studies on “Retirement Pension Provision Schemes in Germany”. The studies combine survey data with process-produced data from individual pension record accounts and (partially) simulated biographies. Future incomes from various sources are calculated for individuals and married couples. The broad scope, innovative methodology and reliable data make it a unique data base for any analysis concerned with questions of old-age pensions in Germany. While the Federation of German Statutory Pension Insurance Institutions (VDR)<sup>1</sup> maintained a long tradition of statistical reporting based on process-produced data,<sup>2</sup> some research questions could not be tackled on this basis. For example, there used to be no empirical database as far as the accumulation of future pensions from the Statutory Pension Insurance and / or other sources is concerned, neither for individuals nor for married couples. Also, no reliable data were available on biographical events which are not necessarily directly related to a person’s insurance status but might still influence the amounts of entitlements to future pensions indirectly; i.e. gaps in the insurance biographies. In order to gain a complete picture, the VDR and the German Federal Ministry for Labour and Social Affairs (BMA)<sup>3</sup> commissioned *TNS Infratest Sozialforschung* to carry out the survey “*Altersvorsorge in Deutschland 1996*” (AVID 1996) and its update and successor the AVID 2005.

The AVID studies aim to identify the different types and amounts of entitlements to old-age income for individuals and married couples who at the time of the survey are between 40 and 59 years old. The surveys cover every pension scheme in Germany: the Statutory Pension Insurance, the public and pri-

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<sup>1</sup> As from the first of October 2005 all functions and responsibilities of the VDR were taken over by the newly formed “Deutsche Rentenversicherung Bund”.

<sup>2</sup> A comprehensive overview of existing administrative data is provided by Rehfeld (2001).

<sup>3</sup> In 2002 the governmental responsibility was transmitted to the newly founded German Federal Ministry of Health and Social Security (BMGS) and in 2005 to the German Federal Ministry of Labour and Social Affairs (BMAS).

vate supplementary systems, the civil servants' pension scheme, the farmers' old-age pension scheme as well as special schemes for the liberal professions. Private provisions for old age such as life insurances and private pension insurances are taken into account as well.

In this article we aim to describe the different components of the studies and we will present the main results of the AVID 1996 study. The article will conclude with a few final remarks on the status quo of the AVID 2005 survey.

## 2. The Study Design

The AVID 1996 study consisted of the following phases:

- The first step was a representative personal face-to-face survey of Germans who live in Germany, were born between 1936 and 1955 and hold an account with the Statutory Pension Insurance. In addition, their spouses were included irrespective of their age and nationality and whether or not they were covered by the Statutory Pension Insurance. With this procedure, the sample could conveniently be drawn from the already existing “*Versicherungskontenstichprobe*” (a sample of pension record accounts). The resulting net sample comprises 14,434 people.<sup>4</sup>
- After a clarification of the Statutory Pension Insurance accounts both datasets were joined with the interviewees' consent using the individual social security numbers.<sup>5</sup>
- The biographies and incomes were extrapolated for every individual until the age of 65 based on a micro simulation model developed by *TNS Infratest Sozialforschung*. Several events concerning the individual work biographies were simulated whereas socio-demographic processes were not taken into account. Details on the micro simulation model can be found in Schatz, Merz and Kortmann (2002).
- The types and amounts of pension entitlements accruing from the different pension schemes were calculated as well as the resulting gross and net incomes. The net incomes were generated by taking into account current income tax regulations<sup>6</sup> and a specially designed social insurance contribution model.

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<sup>4</sup> Individual level analyses are done for the 12,536 participants who were born between 1936 and 1955 and are entitled to a pension from the Statutory Pension Insurance. For analyses on married couples the whole sample is used.

<sup>5</sup> With this measure it is possible to identify married couples in the resulting dataset. As far as data on pension record accounts are concerned the resulting dataset is in this respect a unique case.

<sup>6</sup> As a rule the legal regulations of 1996 – the year in which the survey was carried out – were used throughout the study.

- An analysis was performed to determine the distribution of future old-age incomes based on current legislation. Apart from this the dataset also offers the possibility to evaluate social policy and simulate the outcomes of various pension policy options.

The different phases result in a multifaceted, longitudinal database. The biographical episodes are broken down to a monthly level and allow for a detailed analysis of biographical effects and correlations with various covariates. A list of publications and empirical projects undertaken with the AVID 1996 micro data can be obtained from the website of the project ([www.altersvorsorge-in-deutschland.de](http://www.altersvorsorge-in-deutschland.de)).

For the update of the study, the AVID 2005, a few innovations concerning the study design were made (Heien, 2004; Roth / Stegmann / Bieber, 2002):

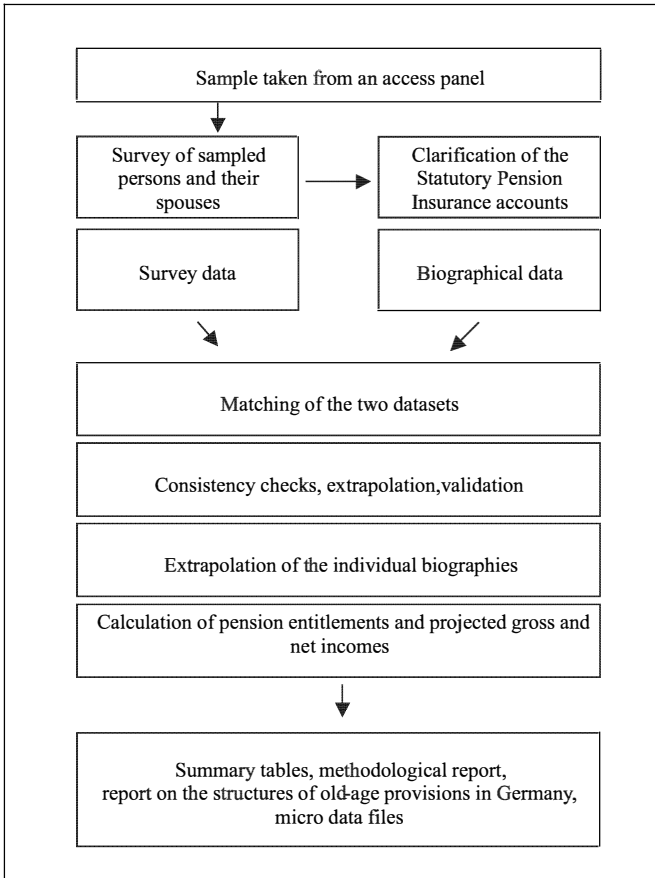
- One of the main changes was the extension of the universe of analysis to include all German citizens born in between 1942 and 1961 irrespective of any entitlements to pensions from the Statutory Pension Insurance. As a result of this decision the representative sample had to be derived from a different source and was in this instance taken from an access panel (see Fig. 1). As members of access panels can be expected to be experienced and skilled in answering self-administered questionnaires the interviews were conducted with a postal questionnaire in 2002.
- The second major change in the study design was the consideration of the new subsidised private and occupational pension provisions,<sup>7</sup> which were introduced in 2002. Since many people would not immediately sign one of these contracts, a second survey of the same sample was conducted in 2004 which was mainly concerned with the new options. With this procedure a more accurate estimate of the distribution of contracts and entitlements should be obtained.
- A final change concerns the working procedures. While the pension entitlements accruing from the Statutory Pension Insurance were calculated by TNS Infratest Sozialforschung for the AVID 1996, they are calculated by the *Deutsche Rentenversicherung Bund* this time, using a detailed programme as close to the legal regulations as possible.

All data gathered during the administrative process of the social security systems are subject to special regulations concerning data protection and privacy. Thus it was not possible for the scientific community to access the micro data files of the AVID 1996 study (see Himmelreicher, 2004, 55 ff.). However, several volumes of tables are provided which report extensively on the various findings of the study. A CD-ROM containing the volumes and the methodolo-

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<sup>7</sup> With the Pension Reform Act of 2001 the promotion of private and occupational pension provisions through allowances (“*Riester-Rente*”) or tax relief (“*Bruttoentgeltumwandlung*”) was introduced by the government.

gical report can be obtained from the website of the project. Apart from the tables provided, there is also the possibility of having special analyses based on the micro data carried out by TNS Infratest Sozialforschung. If you wish to make use of this possibility, please contact the *Deutsche Rentenversicherung Bund*.



Source: Compiled by the authors.

Figure 1: Simplified overview of the AVID 2005 study design

For the new AVID 2005 study there will again be numerous tables available which report on the results, as well as a methodological report. While a variety of other datasets concerning the Statutory Pension Insurance can be obtained from the *Forschungsdatenzentrum der Rentenversicherung* in the form of public or scientific use files ([www.fdz-rv.de](http://www.fdz-rv.de)), this is currently not the case for the

AVID micro data files. They can not be made available due to special data protection obligations towards the respondents of the survey. As a high interest in the micro data was expressed in the past there will be an attempt to optimise the means of access to the new data and to the analyses based on them.

### 3. Main Results from the AVID 1996 Survey

In the surveyed population (Germans who live in Germany, are born in between 1936 and 1955 and hold an account with the German Statutory Pension Insurance) the Statutory Pension Insurance continues to be the most important source for old age income: around 95 % of the men in the old *Länder* will receive a pension from this source and the percentage of women in the old *Länder* who will receive a pension due to their own in-payments will increase over the surveyed cohorts from 92.5 % for the oldest to 95 % for the youngest cohort. In the new *Länder* all men and women (100 %) <sup>8</sup> will receive a pension from the Statutory Pension Insurance (Roth, 2000, 18 ff.). However, the actual amounts of income derived from this source will decrease slightly from the older to the younger cohorts for men in the new and in the old *Länder* and stagnate over the cohorts for women in the new *Länder*. As far as women in the old *Länder* are concerned the increase in the participation rate corresponds to increased average amounts of pensions entitlements. <sup>9</sup> This effect is most probably due to the women's increased engagement in gainful employment (ibid.). As the amount of gaps in their working biographies decreases with the younger cohorts and the women's working lives extend over longer periods of time, their pension entitlements will increase in numbers and, more significantly, in resulting amounts. The overall trend highlights the importance of making private provisions and organising additional sources of old-age income. However, a corresponding (sufficient) rise of income from supplementary systems could not be detected. While a significant proportion of the population in the old *Länder* will be entitled to pensions from the various supplementary systems, the average amounts of old-age income derived from these additional sources will stagnate. In contrast, in the new *Länder* these additional systems still only include a very small number of people and will not actually be relevant in determining old-age income. Pensioners in the new *Länder* will have to rely almost exclusively on income they receive from the

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<sup>8</sup> The term new *Länder* refers to the part of Germany which used to be the German Democratic Republic (GDR). Any entitlements to pensions acquired in the former GDR were transferred to the German Statutory Pension Insurance (the pension system of the Federal Republic of Germany). As the pension system of the former GDR included everybody, this explains the high participation rate in the new *Länder*.

<sup>9</sup> The youngest cohort will on average receive 150 DM per month more from the statutory pension insurance than the oldest one. Please note that all amounts of income in the AVID 1996 study are given in DM, the currency at the time of the survey.

Statutory Pension Insurance.<sup>10</sup> The new study AVID 2005 will show whether the recent efforts to increase the participation rate in the second and third pillars of the German pension system are successful and will lead to substantial amounts of additional future income.

The projected net incomes at the age of 65 were calculated for every person. For men in the old *Länder* the average amounts of net income will rise about 4 % over the cohorts. The amounts for women in the old *Länder* will rise more distinctly (about 15 %). For men and women in the new *Länder*, the projected net income will stay more or less the same over the cohorts. Roth (2000, 25) explains this with structural changes concerning the sources of old age income. While most people in the new *Länder* will have to rely on the income received from the Statutory Pension Insurance, the proportion of people with other sources of income rises for the younger cohorts. Together with the effect that pensions received from the Statutory Pension Insurance decrease slightly for the younger cohorts in the new *Länder*, this results in stagnating net incomes.

Private retirement provisions are essentially determined by the individual's income situations during working life. People with low incomes will usually not be able to invest significantly in private retirement provisions and can thus as a rule only expect low or even zero old-age income from these sources. Interestingly, in the old *Länder*, the net old-age income of married couples and single women decreases with the number of children they have raised.<sup>11</sup> This does not hold true for the new *Länder* where the average net income actually rises slightly with the number of children raised<sup>12</sup>. This might be another hint as to the effect of efficient child care institutions and a higher labour participation rate of the female population – a legacy of the former GDR.<sup>13</sup>

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<sup>10</sup> For further results concerning the relative importance of the three pillars of old-age provision please refer to Frommert and Heien (2006).

<sup>11</sup> Compared with single women in the old *Länder* who do not have any children, the average projected amount of net income for single women who raised one child drops from 2,440 DM to 1,876 DM per month. More children continue to decrease the amounts albeit not as much (Roth 2000, 31).

<sup>12</sup> Again for single women, the average amount per month rises from 1,396 DM to 1,795 DM (Roth 2000, 32).

<sup>13</sup> As we can only offer a brief overview within the scope of this article please refer to Kortmann and Schatz (1999) for a detailed presentation of the central results of the AVID 1996 study or to Kortmann and Schatz (2001) for an English translation of the most important results.

#### 4. Final Remarks

The AVID studies provide a unique and useful database for evaluating social policy and detecting biographical effects on old-age income. No other data source will allow a similarly detailed picture of individual's and/or couples' future old-age incomes and the pension schemes from which it will accrue. The new AVID 2005 survey will not only be able to trace new trends for the younger cohorts as a follow-up to the old AVID 1996 study but it will also additionally include other previously unsampled population groups like the self-employed and thus provide a more comprehensive picture. Currently the field work of the second survey, the time-consuming clarification of the pension record accounts and the extensive data checking procedures have been completed (Heien, 2004). The extrapolation of the individual biographies is almost finished as well. The remaining tasks are to determine the amounts accruing from the various pension schemes and to calculate the resulting gross and net incomes. As these tasks are complicated and labour intensive, the final results can only be expected in the autumn of 2006.

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