



Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Pensions in the German Coalition Agreement

02/19/2018

Alexander Ludwig: An expert commission makes sense – but why expert opinion only after 2025 and clientele policy before?



The coalition agreement between CDU, CSU and SPD for a new federal government stipulates that by 2025 the pension level should be fixed at 48 percent and the contribution rate stabilized at 20 percent. As the Treaty rightly states, these two objectives are inconsistent with the German pay-as-you-go pension system, underlying the current assumptions about demographic and employment trends. They can only be achieved simultaneously if the tax-financed federal subsidy in the statutory pension insurance is increased.

This implicitly shifts the demographic burden to the shoulders of the younger age strata, that is, the employees who will bear a higher tax burden in the future. For the period after 2025, a commission of experts should readjust the resulting damage. Why only afterwards?

The answer is simple: Clientele policy. To recall the brief history of the pension formula of 2003: Back then, an expert commission introduced the sustainability factor, which was supposed to achieve a balanced distribution of demographic burdens between employees and pensioners. One key principle of the pension adjustment formula is very simple: If wages increase, retirement benefits should also increase, if wages fall too strongly, so the retirement benefits should also decline. In the spring of 2009, when pensions should have been lowered for the first time according to this pension formula, this mechanism was undermined under the former Labor Minister Olaf Scholz (SPD). Why? Clientele policy. Intergenerational fairness applied only up to a bearable level also at that time. A fall in pension payments would have been fair then. Would. But for all that the pensioners would have been hit. It was similar in 1998 and 1999 when the federal subsidies were increased - funded by the sales tax and the mineral oil tax.

Now intergenerational fairness will be undermined again, especially burdening the workforce again. The transparency of the system is reduced by obscuring the true costs. Experts should please readjust it again; but of course only for the time after 2025, after another two legislature periods. What room will be left for them? The designated measures create facts, such as the implicit burden of higher taxes. The experts who are supposed to decide on the future are thus extremely limited in their scope of action. Sure enough, it will hardly be politically feasible to offset the implied budget gap in the pension system created by the designated guarantees in the future by a sharp drop in pension levels (and a sharp drop in the corresponding tax-financed state contribution).

Experts are important because the question of the optimal design of the pension insurance is complex. But please right away. Until they decide, the pension formula, which was once proposed by experts, should remain in force with all consequences. Everything else would be inconsistent policy and simply a waste of taxpayers' money. Eventually, expert commissions must somehow be funded.

After all, the coalition agreement also contains some very important and correct starting points. For example, the opt-out for the self-employed, a retention of the increase of the retirement age (although there is still no talk about a meaningful coupling to life expectancy) and a strengthening of the three-pillar system also in dialogue with the insurance industry.

All of this makes sense, there should be an expert discussion on all of this. But please with the objective of implementing the results as quickly as possible, and not just after 2025, when the currently proposed reforms will have already created irreversible facts.


Alexander Ludwig (<http://safe-frankfurt.de/research/researchers/researchers-details/showauthor/112-ludwig.html>) is Program Director for „Macro Finance – Monetary Policy and Fiscal Stability“ at the Research Center SAFE.

Keywords: Household Finance ([https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?](https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=182&cHash=219248e328a909c6ab29dc8885f8d)tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=182&cHash=219248e328a909c6ab29dc8885f8d), Demography (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/demography.html>), Pension (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/pension.html>), Pension Insurance (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/pension-insurance.html>), Social System (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/social-system.html>)



Back (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)

Want to get regular updates?

 Subscribe to the Finance Blog RSS feed (<http://safe-frankfurt.de/home/rss-policyblog.xml>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

Enter your email address to get regular blog updates.

* Please read our data protection statement (<https://safe-frankfurt.de/about-safe/data-protection.html>)(pdf version (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Files/Data_Protection_Statement_10Jan2020.pdf))

I agree to the data protection statement.*

Subscribe

RECENT POLICY PUBLICATIONS

Apr 2020

Corona-Bonds und ihre Alternativen (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/corona-bonds-und-ihre-alternativen.html>)

Marcel Thum, (https://tu-dresden.de/cdd/leitung_und_beteiligte/mitglieder/lebensraum-und-infrastruktur/Thum) Alfons J. Weichenrieder (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/52-weichenrieder.html>)

Apr 2020

The Case for Corona Bonds (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/the-case-for-corona-bonds.html>)

Matej Avbelj, (<https://www.eui.eu/DepartmentsAndCentres/Law/People/Fellows/BBF/Matej-Avbelj>) Antonia Baraggia, (<https://www.mmg.mpg.de/person/99018/2553>) Jürgen Bast, (https://www.uni-giessen.de/fbz/fb01/professuren-forschung/professuren/bast/team/prof_leitung) Bojan Bugarič, (<https://www.sheffield.ac.uk/law/staff/bbugaric/index>) Emanuel Castellarin, (<https://unistra.academia.edu/EmanuelCastellarin>) Francesco Costamagna, (<https://www.law.georgetown.edu/ctls/staff/francesco-costamagna/>) Anuscheh Faraha, (<https://www.oer5.rw.fau.de/prof-dr-anuscheh-farahat/>) Matthias Goldmann, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/549-goldmann.html>) Anna-Katharina Mangold, (<https://www.europeanstudies.info/en/about-ma-eus/our-team/administrative-team/prof-dr-anna-katharina-mangold-ilm-cambridge/>) Mario Savino, (<https://unitus.academia.edu/MarioSavino>) Alexander Thiele, (<https://www.uni-goettingen.de/de/pd-dr-alexander-thiele/418590.html>) Annamaria Viterbo (<http://www.dg.unito.it/do/docenti.pl/Alias?anna.viterbo#profilo>)

Apr 2020

Emerging Evidence of a Silver Lining: A Ridge Walk to Avoid an Economic Catastrophe in Italy and Spain (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/emerging-evidence-of-a-silver-lining-a-ridge-walk-to-avoid-an-economic-catastrophe-in-italy-and-spa.html>)

Christopher Busch, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/468-busch.html>) Alexander Ludwig, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/112-ludwig.html>) Raül Santaaulàlia-Llopis (<https://www.barcelonagse.eu/people/santaaulalia-llopis-raul>)

All Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)

Contact

Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3
60323 Frankfurt am Main

Phone: +49 69 798 30080
Fax: +49 69 798 30077
Email: info@safe-frankfurt.de

Find the right contact person (<https://safe-frankfurt.de/about-safe/contact.html>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

SAFE →

- About SAFE (<https://safe-frankfurt.de/about-safe.html>)
- Job Offers (<https://safe-frankfurt.de/about-safe/career/job-offers.html>)
- How to find us (<https://safe-frankfurt.de/about-safe/how-to-find-us.html>)

Policy Center →

- SAFE Senior Policy Fellows (<https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html>)
- Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)
- SAFE Finance Blog (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)
- Policy Center Team (<https://safe-frankfurt.de/policy-center/policy-center-team.html>)



Home (<https://safe-frankfurt.de/footer-menu/home.html>) →

About this site (<https://safe-frankfurt.de/footer-menu/about-this-site.html>) →

Data Protection (<https://safe-frankfurt.de/footer-menu/data-protection.html>) →

© 2020 SAFE

Research →

- Research Departments (<https://safe-frankfurt.de/research/research-departments.html>)
- Researchers (<https://safe-frankfurt.de/research/researchers.html>)
- Data Center (<https://safe-frankfurt.de/data-center.html>)

News & Events →

- All News (<https://safe-frankfurt.de/news-latest/all-news.html>)
- Newsletter (<https://safe-frankfurt.de/news-latest/newsletter.html>)
- Expert List (<https://safe-frankfurt.de/press/expert-list.html>)