

Position paper: Reform of state-subsidized old-age provisions in Germany

Our reform proposals

1. Integration of occupational pension and subsidized pensions

We propose to combine occupational and subsidized private pensions. The historically evolved separation is becoming less and less appropriate for today's working environment. Just two models for two market segments should be offered.

2. Two models for different market segments

We recommend the introduction of one model for the standardized retirement provision and for the self-directed retirement provision, respectively. Both models will lead to a massive reduction in administrative and distribution costs and thus to a significant increase in pension returns, compared to the previous models.

A central platform for standardized retirement provision

We recommend the establishment of a government platform for standardized retirement provision, which providers (life insurers/ pension funds) select via a tendering process. Due to the lean cost structure, there are no distribution costs and very low administrative costs. This cost advantage alone would have dramatic benefits for the pension level. (See chart 2). The model is the Swedish *ITP/Collectum model*, which has been operating successfully for decades. The platform has the advantage of low costs, high transparency, competition and quality control, managed by a state authority. At the same time, it would avoid the governance problems of a state-run fund.

A pension model for self-directed investment selection

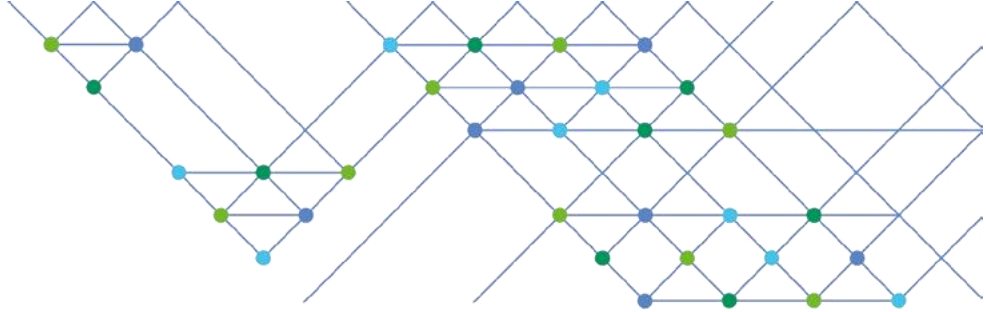
At the same time, we propose the introduction of a model for pensioners who wish to manage their own investments. Such pensioners open an account and a custody account with an approved direct bank and put the investment together themselves. The model is the Canadian *RRSP/RRIF model*.

3. Expansion of the group of pensioners

The old-age provision system must be open to all sections of the population: employees, mini-jobbers, self-employed, civil servants, housewives and househusbands. Payments should be made by the pensioners themselves and also from their employers; the model should also be suitable for very small businesses/employers be easy to handle.

4. Increase participation

Employers should automatically register their employees for the bAV (employer-funded pension) when they join the company and pay part of their salary as a contribution, unless the employee specifically rejects this option. The model is the British system of *automatic enrolment/opt-out*.



5. More flexible subsidies and tax treatment

Since employment biographies are becoming more and more dynamic due to changes in the labor market, should it be made possible to save more in "good years", so that later income losses or declines do not lead to permanent reductions in the pension. Much higher annual tax allowances are required, which can be carried over for several years. The model is the British *Lifetime Allowance System*.

6. Increase in pensions by abolishing guarantees in the savings phase

Especially in the low-interest phase, interest and contribution guarantees have led to very low-yield investment returns. These guarantees should be removed, in order to be able to invest in more profitable asset classes, such as equities and thus increase pension returns.

7. Additional increase in pensions by securing longevity without guarantees in the payout phase

For the payout phase, "annuity pools" should be offered via the platform. These provide an annuity for life, but still allow an investment in profitable asset classes during the payout phase, since the amount of the annuity is not guaranteed with this model.

Excerpt from the original paper [Positionspapier zur Reform der staatlich geförderten Altersvorsorge in Deutschland](#)

Frankfurt am Main, August 2022