ILLUSTRATION: LUISA JUNG FÜR MPG

OTHER COUNTRIES, OTHER PENSIONS

TEXT: MECHTHILD ZIMMERMANN

Which country has the best pension system? The researchers at the Max Planck Institute for Social Law and Social Policy are often confronted with this question. However, there's no simple answer: each country has its own structures that have been developed to ensure its citizens are provided for financially in retirement, and each have their advantages and disadvantages. Ulrich Becker and Simone M. Schneider have developed a visualization of the institutional structures of old age pension systems that provides an overview of these systems and enables comparisons between them.

Emotions are quick to run high when the issue of pensions is raised. In France, President Emmanuel Macron's pension reform at the beginning of 2023 led to mass protests, strikes and riots. In Germany too, pensions are frequently the subject of heated debate. Germans often look to Austria, where the pension system seems to function better than at home. However, it is worth taking a closer look at how pensions there and in other countries are organized in order to evaluate the different systems.

Ulrich Becker, Director at the Max Planck Institute for Social Law and Social Policy, had the idea to create just such an overview. It was realized with the help of scientist Simone M. Schneider, who no longer only conducts research at the MPI, but also at Pompeu Fabra University in Barcelona within the scope of her ERC project on social security systems. Together, they developed a visualization of old age pension systems in various countries: the Pension Maps. The subject of study was exclusively state organized and subsidized pension schemes. After all, everyone is free to make a private provision for their old age, for example, in the form of real estate or equity investments.

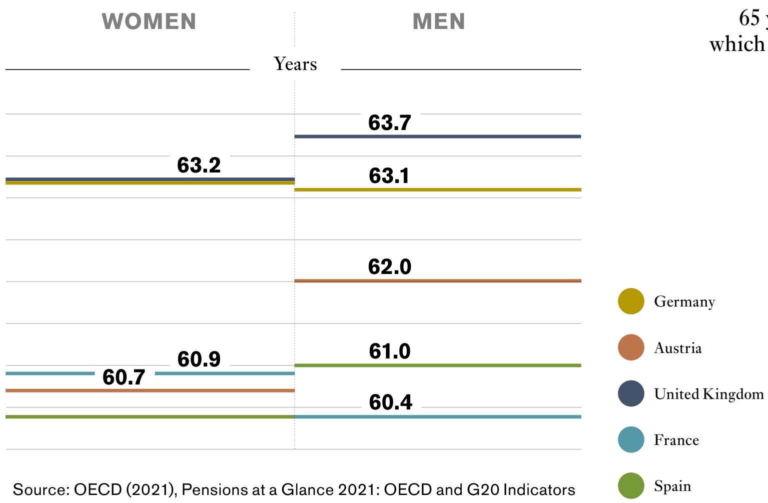
When looking at the Pension Maps, there is one thing that sticks out right away: as a rule, there are three pillars or layers of the pension system. The first is the statutory pension scheme. It constitutes a predominantly pay-as-you-go system, meaning that the pension contributions of working people are directly redistributed to older generations. Occupational pensions form the second layer: in most cases, a portion of the salary is invested by the employer for old-age provision. The third layer is made up of private pensions: with incentives from the state, working people save money with a private pension fund to gradually use it up in retirement. In almost all countries a part of the population is not covered by the pension system. For these people and for all those who do not manage to save a sufficient amount during their working lives, a basic level of tax-funded retirement income is generally provided.

In all other aspects, the systems are designed very differently: the relative significance of the individual layers varies from country to country, and with that the proportion of retirement income that comes from a particular scheme. In some countries, there is a large state pension fund, which provides pension benefits to the vast majority of the population. In others, there are multiple statutory pension schemes operating in parallel, for example, to provide for civil servants or specific professions. There are also differences regarding which pension schemes are mandatory and which are voluntary.

Together with researchers from around the world, Ulrich Becker and Simone M. Schneider have created Pension Maps for 29 countries. The Maps are modeled on a single person, who starts working life in 2020 and thus joins the pension system as a contributor. We will present five examples on the following pages.

The charts displayed below are simplified depictions of the Pension Maps from the research project (more information at https://t1p.de/hxu3l)

AVERAGE AGE OF RETIREMENT



Source: OECD (2021), Pensions at a Glance 2021: OECD and G20 Indicators

A preference for early retirement: Despite the official age of retirement in the majority of countries being around 65 years of age, there are exceptions which allow many professionals to take early retirement.

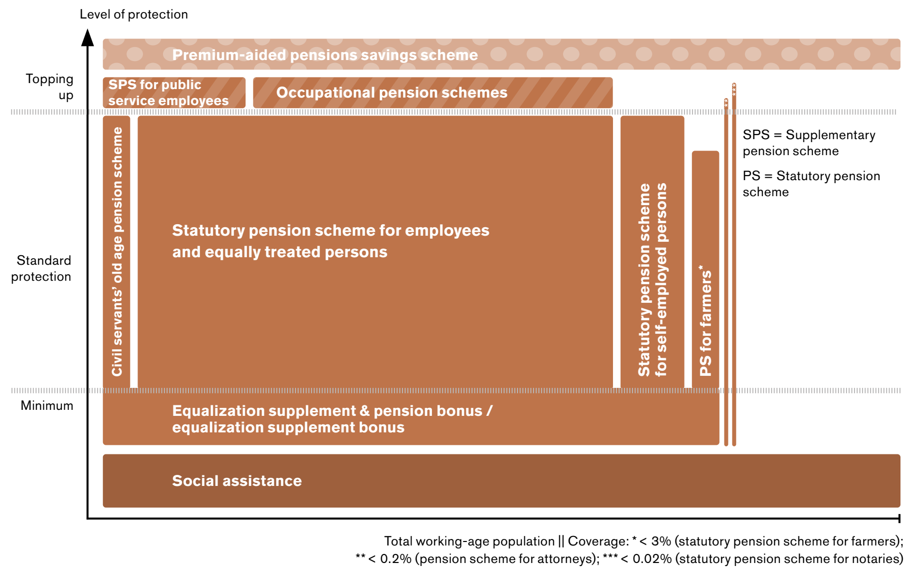
Germany

Employees in Germany are compulsorily insured under the statutory old age pension scheme, as are certain groups of self-employed people, e.g. those in the trades and arts. However, the majority of self-employed people must enroll in a private pension scheme. Germany's statutory old age pension scheme is funded on a pay-as-you-go basis; contributions paid by working people are directly redistributed to pensioners. By contrast, the pensions of civil servants are financed from taxes. Farmers and some liberal professions, such as lawyers, architects, artists, or pharmacists, have their own pension schemes. Employees can save a portion of their income tax-free with occupational pension schemes; there is a mandatory supplementary pension scheme in place for public service employees. In addition, the state supports private pensions: under a scheme known as the Riester pension, those covered by the statutory old age pension scheme, civil servants, and farmers can invest money for their old age into a private pension fund that is subsidized by the state. The Rürup pension scheme functions in a similar way, but it is accessible to the entire population.

CHARTS: GCO, ADAPTED FROM INFORMATION PROVIDED BY THE MPI FOR SOCIAL LAW AND SOCIAL POLICY

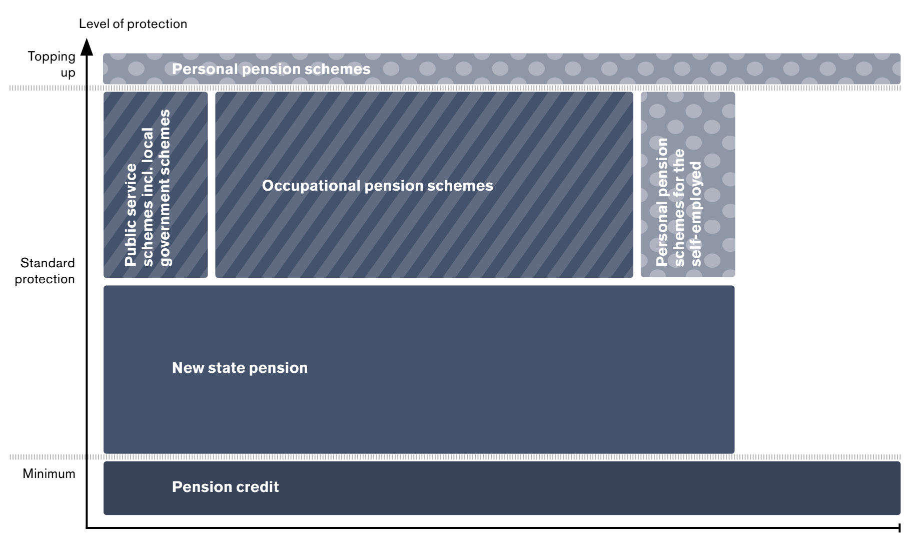
Austria

The Austrian pension system is often seen as a role model in Germany. At first glance, its structure is quite similar to the German one: there is statutory old age pension insurance for employees, which covers the large majority of the workforce. The pension system for civil servants was integrated into the statutory old age pension insurance and, unlike in Germany, operates on a pay-as-you-go basis. A further difference is that all self-employed persons are included in the statutory old age pension insurance. While the system does also contain occupational and private pension schemes, they nonetheless play only a marginal role. This can be attributed to the fact that the statutory pension is well above the EU average. Nevertheless, social law expert Ulrich Becker definitely sees weaknesses in the Austrian system too. First, the contribution rate is higher than in Germany, meaning that there is a greater burden on the working generation. Second, there is debate about how future-proof the system is: “If the demographic ratios deteriorate, it is difficult to react quickly with a pay-as-you-go system,” says Becker. Consequently, he explains, the majority of countries have a mix of various forms of financing.

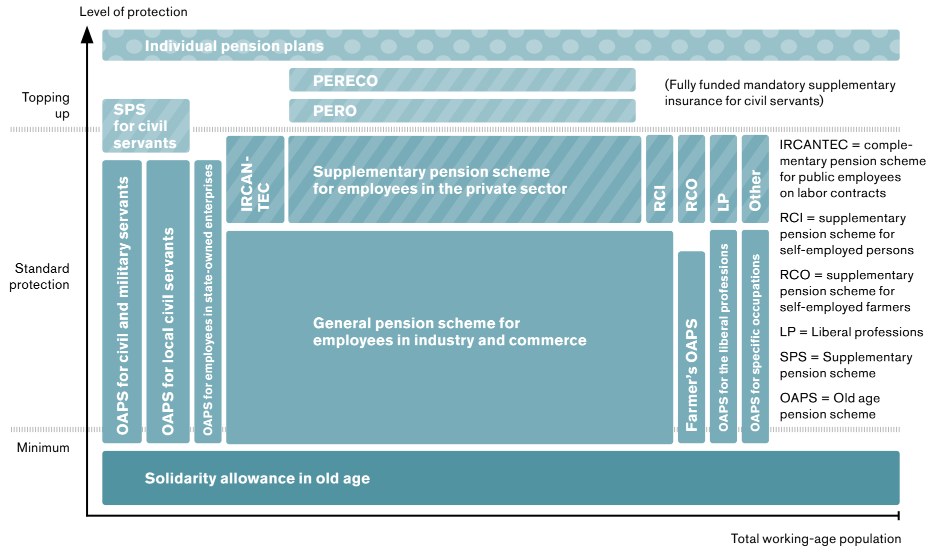


United Kingdom

In the UK, the pay-as-you-go state pension scheme not only covers salaried employees, but also civil servants and self-employed persons. Overall, however, it plays a markedly smaller role than in, for example, Germany or Austria. The new state pension in the UK guarantees only a basic, *flat-rate* income, which is the same for all pensioners, irrespective of individual pension contributions or income. Conversely, occupational pension schemes have traditionally been very strong: employers are obliged to enroll their employees in an occupational pension scheme. Employees do have the option to *opt out*, but they must actively choose to do so. The contribution amount for occupational pensions is set at eight percent of the income, split between employer, employees, and the state, whereby the employer must contribute a minimum of three percent. If self-employed persons wish to achieve a similar level of provision to that of employees, they must enroll in a supplementary, personal pension scheme. Like other countries, the state incentivizes the use of private and occupational pension schemes with tax breaks.

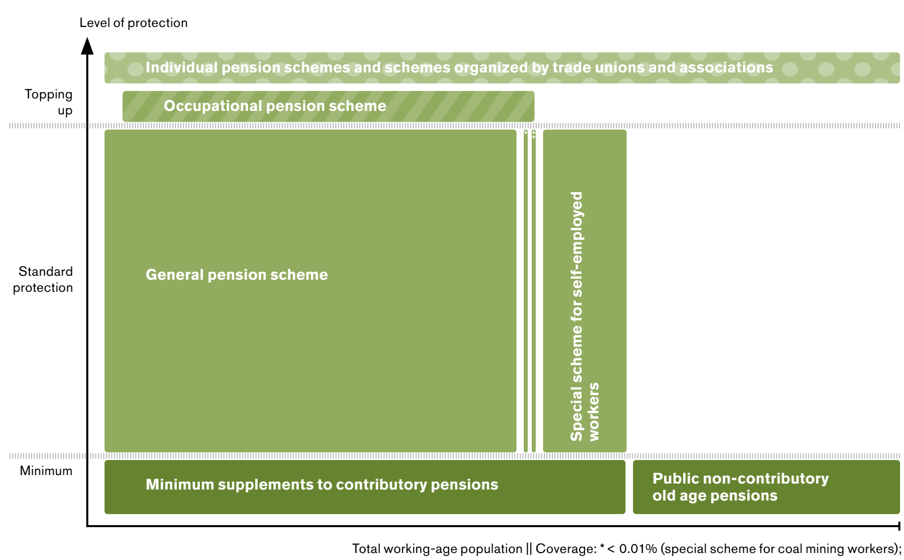


France



The statutory pension system in France is highly fragmented, with divisions according to occupational group and type of employment. For example, dancers at the Opera of Paris have their own scheme. Employees and self-employed persons, who do not fall into one of the special groups, are insured by the general scheme for employees in industry and commerce. Most employees are also required to pay into an occupational pension scheme, which – unusually – are largely pay as you go. Employees and employers must contribute a fixed percentage of the salary to these schemes, in addition to contributions to the statutory pension. Civil servants in turn pay into a fully funded supplementary pension scheme. Generally speaking, the official retirement age is 67. Anyone who has worked for 43 years or who accepts deductions can retire at the age of 62. Many make use of this option. However, according to President Macron's pension reform, the minimum age of retirement will rise to 64. This resulted in fierce protests against the reform in spring 2023. Ulrich Becker surmises that the latent fear of dwindling solidarity in society was also a cause of the outrage.

Spain



Employees and civil servants are all covered under the statutory old age pension insurance; there is also an additional statutory provision for self-employed persons, among others. Occupational pension schemes and private pension schemes play a much smaller role. In comparison with the other maps, the empty space next to the statutory systems is striking. However, this does not mean that most Spaniards are not covered by a pension scheme. Nevertheless, the range indicates that a relatively large proportion does not pay into the pension system – because people are already drawing a pension at working age (before the age of 65) or are not working. Spain is battling with a particularly high rate of youth (aged 18 to 24) unemployment (according to Eurostat, the figure was 40 percent in 2020). Spanish citizens above the age of 65 who have not paid into the general pension scheme, but are in need receive a special minimum supplement to contributory pensions.