German workers adjust to retirement plans without guarantees

By Editorial Staff *Thu, Jan 11, 2018*

Germany, like the U.S., has a retirement plan coverage problem. A new law, for the first time, allows employers and workers to set up U.S.-style defined contribution plans. But the plans lack the guarantees to which German workers are accustomed.

Like the U.S., Germany is struggling to expand the coverage ratio of workplace retirement plans. An estimated 43% of German workers work in companies that don't offer either a defined benefit or defined contribution pension. They face retirement with only the state pension, which is gradually shrinking.

A new German labor law (the "Betriebsrentenstärkungsgesetz," or BRSG), effective January 1, addresses that problem by allowing unions and employers to set up US-style defined contribution plans. The plans are easy to set up, but offer no investment guarantees for workers or income guarantees for retirees. For workers accustomed to defined benefit plans, that feels uncomfortable.

There's no question that Germany needs more workplace plans. Only a third (34%) of Germans between ages 14 to 29 say they trust the state pension to provide enough for them in retirement, but 61% have faith in workplace pension plans, according to a November survey by Germany's largest multi-employer pension plan, MetallRente.

Among the 1,000 surveyed individuals of all age groups, 48% trusted the state pension and 56% trusted occupational pensions. The survey also provided a boost for Germany's new pension law, the BRSG, which came into effect on 1 January.

Just over half of the young people surveyed trusted pension plans that were set up jointly by employers and employee representatives, known as the Tarifparteien. Under the BRSG, the Tarifparteien of each industry can now set up pension plans without guarantees but with a "defined ambition" goal.

The new law represents the first time German law has supported pension funds without guaranteed retirement incomes. For that reason, the new law was and remains extremely controversial within the trade unions, according to a bulletin from the European Social Policy Network (ESPN), part of the European Commission, published last July.

Attitudes towards defined contribution plans vary considerably among Germans workers, who just now adjusting to the shift in pension risk to workers from employers.

“On the one hand, the exclusion of any performance guarantees may expand the investment opportunities in global stock markets in a low-interest rate environment. On the other hand, employees have no certainty about the eventual value of their occupational pensions. Even the risk of losses cannot be excluded,” the ESPN bulletin said.

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