Germany struggles with defined contribution

By Editorial Staff *Fri, May 10, 2019*

Among low-income Germans, only 28% of those earning up to €2,500 ($2,804) a month were signed up for a workplace pension and just over half (52%) of those earning up to €4,500 ($5,047) had a workplace pension, compared to 71% of those earning above this level.

Contrary to popular belief, not all Europeans have cushy pensions. In the German state of North Rhine Westphalia, only 47% of those employed in the private sector are covered by a workplace savings plan. The country has been promoting voluntary defined contribution plans, but there's still a big coverage gap.

The situation in North Rhine Westphalia's motivated its labor and social affairs minister, Karl-Josef Laumann, to call for mandatory workplace pensions across the German federal republic, according to a report in IPE.com.

Laumann, a Christian-Democrat, said at the annual conference of the pension association aba (Arbeitsgemeinschaft für betriebliche Altersversorgung) that proposals to reduce the statutory state pension level for everyone makes no sense when only half of Germany's workers can make up the shortfall by saving in occupational pensions.

Among low-income earners, he said, only 28% of those earning up to €2,500 ($2,804) a month were signed up for a workplace pension and just over half (52%) of those earning up to €4,500 ($5,047) had a workplace pension, compared to 71% of those earning above this level.

"We're not reaching the low income earners with occupational pensions," Laumann said.

"Where we no longer have collectively agreed wages, no one is thinking about workplace pensions—and that's why I come to the conclusion that this won't work with a voluntary-only approach."

Germany's workplace pension reform law of 2018, known as the BRSG, had led to some growth in coverage, said Heribert Karch, the outgoing chairman of aba. But coverage growth is still slow.

Around 56% of Germans in jobs that are subject to taxes for national insurance also had a workplace pension in 2018, Karch said, with current approaches set to take this to around 60% or 70% by 2030. That would represent an increase of around 30 percentage points in

30 years.

Germany has been moving toward establishment of defined contribution (DC) plans designed by trade unions and employer organizations through collective bargaining agreements, an arrangement known as the “social partner model.” Trade unions are expected to discuss that plan in the fall.

Like the US, Germany appears to be struggling to increase the future retirement security of its citizens while balancing the cost equitably among workers, employers and the government, as it transitions to a world where defined contribution plans are the only supplement for the basic state pension.