



COUNTRY FRAMING REPORT

Germany

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Pension Reforms in Germany

The German public pension system has undergone a long reform process. The reforms started at the beginning of the 90s as a response to the ageing of the population and its consequences on the financial sustainability of the system and implied a paradigm change in the public pension provision.

Since the nineties, the possibilities of retirement before the mandatory retirement age have become more restrictive. Further, individuals who retire early must accept a reduction of the pension level of 0.3 percent per month of early retirement.

Moreover, the mandatory retirement age has been increased from 65 to 67. Starting in 2012 the mandatory retirement age is scheduled to increase gradually until reaching the target age of 67 by 2029. At this point, it needs to be taken into account that in the period 2000-2010 the mandatory retirement age for women was increased from 60 to 65. Which means that the mandatory retirement age of women has been increased in 7 years in a relative short period.

At the same time, there has been an important development since the early 2000s of the second and third pillars. The shortfalls in public benefits are expected to be offset by supplementary occupational and private pensions (2001 Riester and 2004 Rürup reforms). For this reason, supplementary pensions (which are not mandatory) are subsidized, either by tax deferral or tax deduction, or by direct subsidies to individual and occupational pension plans.

These reforms, especially the restrictions for early retirement and the increase of the mandatory retirement age have important effects on the retirement behavior of older workers. Regarding the effective retirement age (defined as the average age of exit from the labour force), we observe that for women it has grown from 59 in 1996 to 62,7 in 2014. For men it has grown from 60.3 to 62.7 in the same period (OECD 2015). This indicates that following the reforms there has been a delay in the average age of retirement for both men and women. This is at the same time translated into higher labour force participation rates of older workers. The participation rates of persons between 55 to 64 was in 1996 44.1% (below the OECD average) and has increased rapidly to 69.1% in 2014 (OECD 2016) over the OECD average.

Further, not only the employment rates have changed during this reform period but also the expected retirement age. According to survey data (DEAS, German Ageing Survey) the percentage of individuals between 40 and 59 who expected to retire at age 65 or older in 1996 was 18.1% (Engstler & Romeu Gordo 2014). This percentage in 2011 was already 45.9%, indicating that in a relative short period, individuals have adapted their not only their expectations and they assume a long working life.

Care Policies³

Maternity leave provisions have a long standing history in Germany. It started at the end of the 19th century. Since 1878 women who had recently given birth were entitled to three weeks of leave. With the introduction of a mandatory health insurance system in 1883, a financial compensation

³ This section gives a broad overview of main entitlements of leave for care and their development. It is not meant to give a detailed account nor does it cover options for short-term leave such as the option to take leave in order to care of a sick child or the possibility to up to ten days of leave in case of sudden dependency on care for close relatives. It also does not cover the introduction, the subsequent political and juridical debate and the abolition of the *Betreuungsgeld*, a provision that entitled parents which did not use that state paid child care facilities to a financial benefit.

for lost income was introduced which accounted for 50% of the woman's wages (Becker, 2000: 177). Since 1979, when maternity leave was extended and fathers were entitled to take part of it, statutory leave provisions for fathers exist (Lippmann, 2001). Today, maternity leave (generally) covers 14 weeks, of which six weeks are to be taken before and eight weeks after birth (§3, 6 Gesetz zum Schutz der erwerbstätigen Mutter (MuSchG)). Maternity leave is remunerated at a rate of 100% of the mother's wages.

In general, the introduction of the *Erziehungsurlaubsgesetz* in 1986 is perceived as the beginning of policies explicitly aiming at care – rather than regeneration after giving birth (Henninger/Wimbauer/Dombrowski, 2008: 288). It created the possibility for mothers and married fathers to take up to three years of paid leave which were compensated with a flat rate benefit of DM 750 (Lippmann, 2001: 2; Scheiwe, 2003: 192). Since then two major reforms have taken place. A major reform in 2001 furthermore introduced the option to split the time taken into different periods of leave until the child turned eight – as long as the majority of the leave was taken in the first three years of the child's life (Henninger/ Wimbauer/ Dombrowski, 2008: 294). It furthermore presented families with the opportunity to opt for a shorter leave and therefore be entitled to higher remuneration (Honekamp, 2008: 458). Thereby, the benefit remained means tested (Henninger/ Wimbauer/ Dombrowski, 2008: 294). In 2007 another important reform changed the underlying design of parental leave in Germany. Instead of a flat rate benefit, the remuneration of parental leave is henceforth set as a percentage of previous income with a maximum cap at €1800. If parental leave is taken up in part-time (i.e. working times are reduced), the payment is based on the differences in income resulting from the decrease in working time. Parents that were not in employment previously are entitled to a flat rate benefit (Henninger/Wimbauer/Dombrowski, 2008: 296). Furthermore, the reform shortened the possible leave and introduced so-called daddy months, i.e. a specific time frame that is specifically dedicated to the parent which does not take up the majority of the leave (Sarter, 2012: 188).

In addition to maternity and parental leave, options for statutory leave exist for care of close relatives. In the context of demographic change, it was estimated that the number of those depending on care would increase by 37% till 2020 (Auth/Leider/ Leitner, 2011: 157). In order to increase opportunities for domestic care and foster the reconciliation of work and family life for carers, a 'care time' (*Pflegezeit*) was introduced. The *Pflegezeit* introduced an entitlement for employees to take a leave of up to six months to care for close relatives. The leave itself is not remunerated. Yet, depending on the health of the dependent, a financial benefit might be accessible (Auth/Leider/Leitner, 2011: 158). In addition, in 2012 a further entitlement was introduced that provides employees with the possibility to reduce their worktime to at least 15 hours per week for up to two years. While it is in itself not paid, provisions exist that foresee that whatever the loss in income is restricted to half of the reduction in working time. However, after returning to full-time employment, the wages will remain at that level until the worktime wage relation is counterbalanced (Auth, 2012: 136).

Retirement and health

One important aspect when considering pension reforms is their effect on health, and this aspect is often neglected. Therefore, it is of relevance to consider the effects of retirement (or of a prolonged working life) on health and differentiate the gender aspects of these effects.

By entering retirement, there are some changes in time and income constraints and those changes can also affect health. For example, due to more time flexibility there might be a change in health behaviors. Individuals have more time to do sport and to cook healthier. Further, retirees are

relieved from the strain at job, which can have positive health effects. On the other hand, retirement is usually associated with income loss, which might also affect health behaviors. Social contacts are also affected by retirement and this might affect negatively mental health. Further, there are gender aspects in these mechanisms. For example, in the case of social contacts, women are less in risks of social isolation than men.

The empirical literature investigating the effect of retirement on health shows mixed results. In a recent study Eibich (2015) investigates these relationships with the German Socio-Economic Panel. His study shows that retirement has a significant and positive effect on self-reported health and mental health and decreases outpatient care utilization. Regarding the mechanisms that explain this positive relationship, the authors conclude that retirees are released from work related stress, they increase their sleep duration and further they increase their physical activity.

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