OLD AGE STATE AND PRIVATE WELFARE TODAY AND TOMORROW IN THE FEDERAL REPUBLIC OF GERMANY

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Introduction
The Ache are a nomadic tribe living in Paraguay. When the
old are no longer able to hunt and care for themselves and
become an increasing burden to the young, a roof of palm
leaves is built, a warming fire lit and some food prepared. The
group then moves on, leaving the old person behind to die.
Some time later the group returns and saves the corpse from
wild animals.

In our civilised western world in which hunger and poverty
appear to have been banished to a large extent, we no longer
kill off the infirm; we tend for them in rest homes and nursing
homes. For this the young have to work more in order to pay
for pensions and intensive care. Soon many will believe we
are no longer able to tend for the very old; no longer able to
prolong their lives at great cost. The generation contract ap-
ppears to be failing, we are returning to the law of the wolfpack
and questioning whether society can support the old.

Even if we adopt a less dramatic perspective, the pronounced
change of the age structure of the West German population,
as a result of the drop in the birthrate in the 1960s and rising
life expectancy, raises a number of questions regarding ade-
quate provision for the financial risks of old age.

These problems are intensified by the disintegration of stan-
dard life forms such as marriage and the multi-generation
household.

Essentially the aged are confronted with three financial risks:

- income after retirement
- health costs
- cost of long-term care

The solutions to these three risks in West Germany's social
security system vary greatly, nursing care in particular being
practically unsolved.

Income After Retirement
West Germany has a high, internationally recognised level
of financial welfare for the years of retirement, the principles of
which date back to Bismarck and its hundredth anniversary
was celebrated last year. It is based on the so-called three pillar
concept on which financial welfare for old age is based. The
three pillars are:

- state pensions
- company old age pensions
- self provision with private life insurance

The main pillar is that of state pensions, based on a contract
between the generations of employed contributors payers and
those drawing pensions. Each employed person currently
pays approximately 19% of his gross income (up to a maxi-
mum limit of DM 1,197) into this branch of social security, the
employer pays 50% of these contributed amounts. Current
old-age pensions are paid out of these contributions.

Nowadays after a full working life an average pensioner can
expect to draw a pension of 65 to 70% of his final net income,
although for top earners proportionally lower pensions are
paid in view of the maximum contribution limit. The old age
pension can in principle be drawn from the 65th year. Numerous
special agreements have led, however, to an average start of
payment which is below the age of 60. The remaining life
expectancy of a 60 year-old man is 16 years and that of a
women 21 years.

Moreover, the state pension contains surviving dependent
welfare for the widow or widower. After death of the bread-
winner the spouse is still entitled to approximately 60% of the
expected original pension (including self benefits) even if
death occurs before retirement.

Part of the welfare gap (last net income less pension) is now-
days often covered by a company pension scheme paid
voluntarily by the former employer, frequently backed by life
insurance in the form of a direct policy or a reinsurance cover.
This form of welfare contains for the employer aspects that
relate to personnel policy since the benefits become vested
only after several years of service. In this way the employee is
bound to the company.

Tax concessions for the company under the company pension
law of 1974 made this form of provision popular in the 1970s.
One in three pensioners draws a company pension in addition
to the state benefit and two out of three employees are entitled
to a corresponding form of welfare. 97% of all industrial
concerns with more than 1000 employees grant their employ-
ees a company pension, although with medium-sized compa-
nies employing 20 to 50 workers this figure drops to 44%. In
addition this form of welfare is currently losing significance
since it can lead to a great burden on the company (legislation,
obligation to adjust current pensions, etc.). Improved legisla-
tion would again enhance the significance of this form of
welfare.

The third pillar of the West German old age welfare system is
self welfare by means of life insurance policies. There is great
security of this financial investment as it is protected by a high
degree of state regulation and state supervision. Also the
attractive yields and tax reliefs have caused it to gain in
significance. Generally the interest is free of income tax and the premium can be tax-deductible in certain cases. Individual welfare is intensified by the rising incomes of many employees at a time of economic boom. Finally, prosperity is rapidly increasing—partly through inheritance—as for the first time in centuries we are now able to look back on 45 years of peace in Europe.

At the end of 1989 there were more than 69.5 million life insurance policies in force in West Germany providing insurance coverage of DM 1,562 billion and a premium income of more than DM 58 billion. The great majority of policies (84%) were endowment policies, the classical form of life insurance. Some 80% of all households have a life insurance.

Apart from the complementary function of old age provision and life insurance for state pensions, these forms of welfare are of great economic significance in view of their capital-forming function. Whereas the assets of state pension funds only amounted to about DM 14 billion in 1980, those of life insurers rose from DM 14 billion in 1980 to DM 263 billion in 1984 and DM 416 billion at the end of 1989. The policy reserves for company retirement funds amounted in 1980 to DM 170 billion, of which DM 115 billion were pension provisions. These private forms of provision make an important contribution to economic investment and economic growth.

Because of the demographic developments in West Germany, the number of persons contributing to state pensions will drop drastically in relation to those drawing pensions up to the year 2030. For every 100 people aged between 20 and 60, there are currently 36 people aged over 60; in 40 years' time this figure will be about 74. Solutions to the effects of this shift in the age structure are today being sought in the extension of the retirement age and/or raising of premiums. In each case, however, doubts are increasingly cast over the generation agreement.

Two pillars of old age welfare — company schemes and private insurance — are unaffected by demographic development, unlike state social security, and will therefore continue to be of great, if not increasing, significance. At the end of 1992 the first stages of the Single Market in Europe are to be realised. At the moment, under pressure from Great Britain in particular, thought is being given to the deregulation of the life insurance market. The measures under discussion could increasingly lead to a range of products on the European life insurance market which are not primarily concerned with old age welfare. It is therefore doubtful whether this is relevant in view of the significance of life insurance for old age welfare as described above.

Health Costs

Although sickness is not a typical risk of old age, expenditure does increase with advancing age. Compulsory — in certain cases also private — health insurances assume the costs. The population of West Germany is very well covered in this respect, although provisions in the legal sector have been subject to restrictions in recent years because of rapidly increasing costs. In compulsory health insurance the current premium rate is approximately 11 to 13% of the gross income (up to a limit of DM 4,725 per month), although the entire family is then covered. The premiums in private health insurance are significantly below the state ones, especially for younger ages. Family members are, however, not included. In both forms the employer's share in the total contributions is 50%.

Increasing problems are caused in this sector by rising premiums and higher deductibles borne by the insured in the compulsory sector (in view of the cost explosion of recent years), the more frequent illnesses of advanced age and the provision gap on entering retirement.

The Cost of Long-term Care

Long-term care is a phenomenon occurring almost exclusively among the aged, especially the very aged. According to the few statistics available (cf. also ref. 4), 60% of persons requiring long-term care are over 65 years old, while only 17% of the population falls in this category. The probability that a person will require nursing care within the next year is less than 0.1% for persons aged 45 and less. By the age of 65 this has risen to 0.3% and for an 85-year-old man it is 3.1%. For a woman of the same age it is 4.7%. The degree of care required also rises as age advances.

The number of persons requiring care is estimated at over a million, more than a quarter of whom are in nursing homes (1977). Some 85% of all persons requiring care who live at home are looked after free of charge by members of the family.

Legal requirements are largely absent, health insurers in particular not covering long-term care. It is safe to assume additional costs in the region of DM 10 billion if this old age risk were to be regulated by law. Numerous attempts at a long-term care law have failed. In particular, means of financing using taxes or a solution in the way of social security have long been discussed. But ultimately all suggestions have failed at the obstacle of high costs. Long-term care is after all not a general life risk since only a small section of the population will ever need it. For this reason individual care would seem to be more appropriate. At the moment proposals are being intensively discussed on the political level, according to which all West Germans older than 45 years would have to conclude a private long-term care cover with a health or life insurer.

Since the mid-1980s both branches of the private insurance industry have included in their range of products ways of providing for the financial risks of long-term care. Long-term care insurance is available in two forms, either as daily benefits for long-term care or as insurance of costs with a percentage participation. Annuity care insurance of life insurers contains three benefit components: a care annuity (dependent on the degree of long-term care), a death benefit in the amount of 24 to 36 monthly annuities less annuities already paid from the annuity care insurance, and an old age pension payable from the age of 85 regardless of the state of health of the insured.

Final Remarks

Even if in West Germany we are far removed from the customs of the Aché and financial security for old age would appear to be well solved, we shall face problems in this sector in the next years which give rise to fears of a growing generation conflict.

The problems of state pensions and long-term care present West Germany with major tasks which can only be solved jointly between the state organs and the carriers of statutory and private welfare institutions, whereby a greater emphasis on self provision by means of legal measures is also desirable.
SOME REFERENCES


