

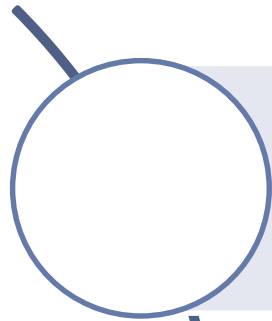
Old age provisions for people with low earned income and discontinuous employment history

Conference on the occasion of the 40th anniversary of implementing the Polish-German convention on old age insurance and accident insurance

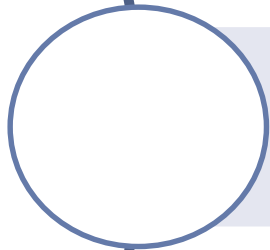
Warsaw, 25th April 2017

Dr. Ulrich Walwei

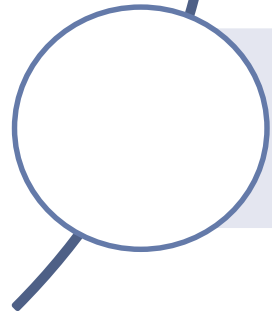
Starting point and question



Employment biographies of individuals differ greatly regarding (dis-)continuity.



Employees show a considerable spread in earned income and life-time wages.



What are the implications of these divergences for old age provisions?

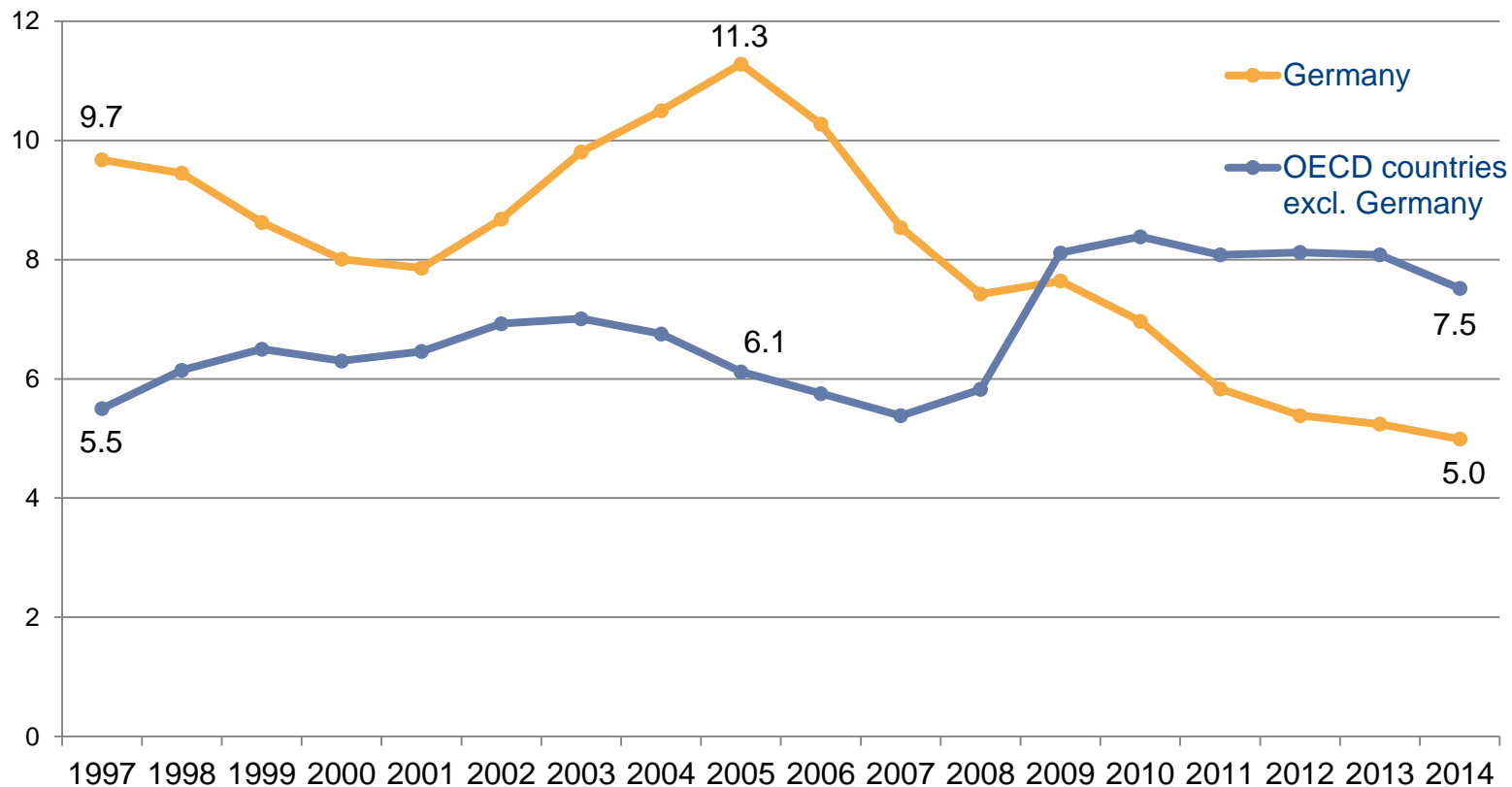
Divergences of employment histories and earned income and their relevance for old age pensions in Germany



- Old age pensions mainly depend on the overall contribution period of individuals and the level of their contributions per year.
- The contribution period depends on the particular employment history of an individual.
 - Employment history may consist of spells of employment, unemployment or non-employment.
- The level of contributions per year depends on earned income of an individual. Claims are related to the corresponding average of earned income.
 - Earned income is determined by the level of wages per hour and individual working hours.

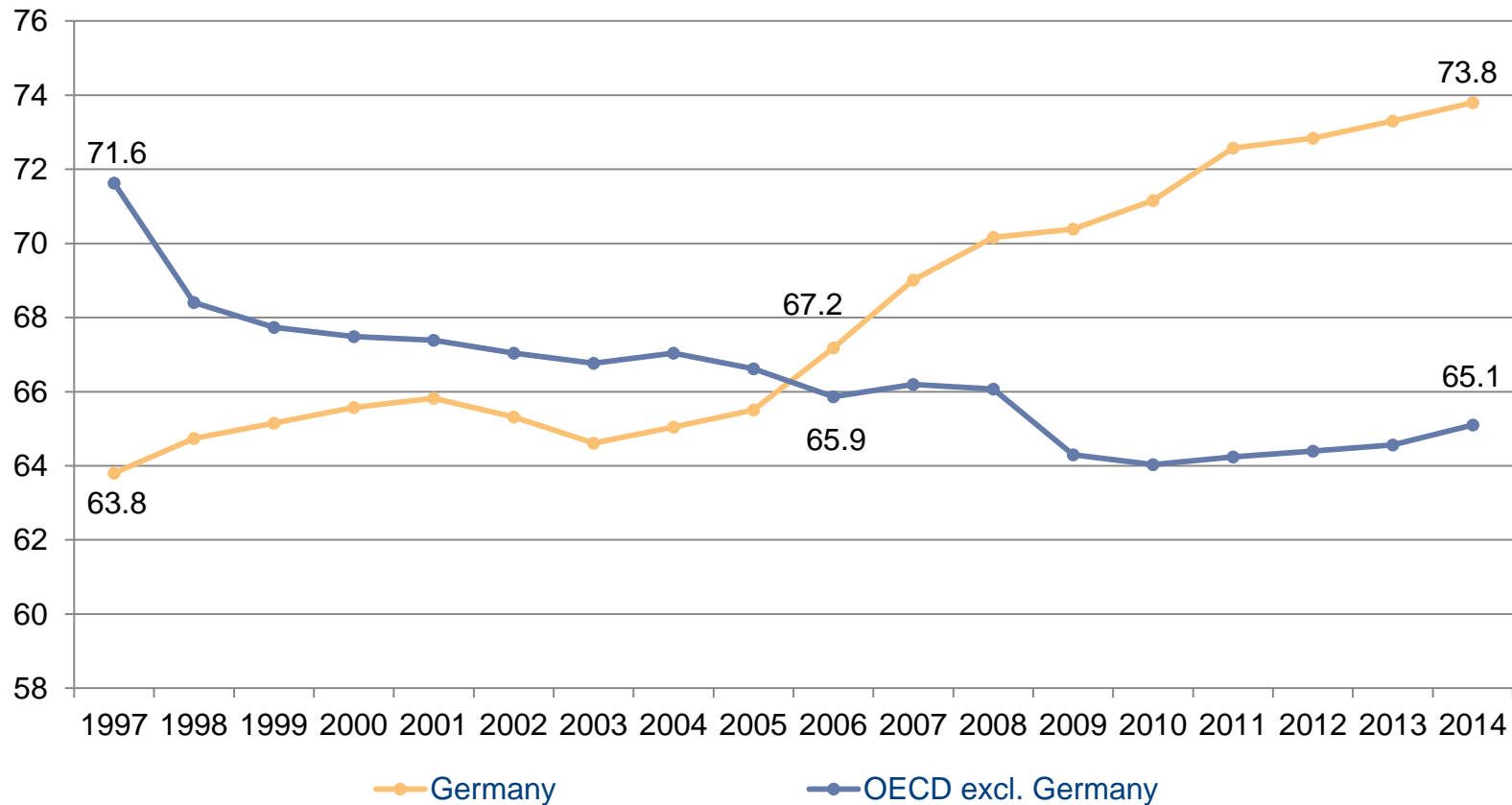
Some stylized facts

Unemployment rates in Germany compared with OECD average (excl. Germany), 1997 to 2014, percentages



Source: OECD

Employment rates in Germany compared with OECD average (excl. Germany), 1997 to 2014, percentages



Source: OECD

Growth of employment forms in different periods, 1998-2006 and 2006-2014, in percentages

Forms of employment	1998/2006	2006/2014
Standard work arrangements	-7.3	8.1
Self-Employment (excl. one-person businesses)	0.5	1.3
Permanent "full-time" employment (more than 31 hours a week) ¹⁾	-8.0	8.7
Nonstandard work arrangements	36.0	8.1
Part-time work (31 hours a week or less) ²⁾	21.5	20.9
"Marginal" part-time work ³⁾	81.5	5.6
Fixed-term contracts (more than 31 hours) ⁴⁾	24.7	-12.7
Agency work (more than 31 hours) ⁵⁾	70.3	30.6
One-person-businesses	29.5	-2.8
Specific work arrangements**⁶⁾	-13.6	-11.4
Total	4.0	7.1

1) Without temporary agency workers.

2) Including fixed-term contracts and temporary agency workers.

3) the under-coverage and variation of marginal employment compared with the employment statistics of the Federal Employment Agency are due to different methods of measuring and different evaluation models.

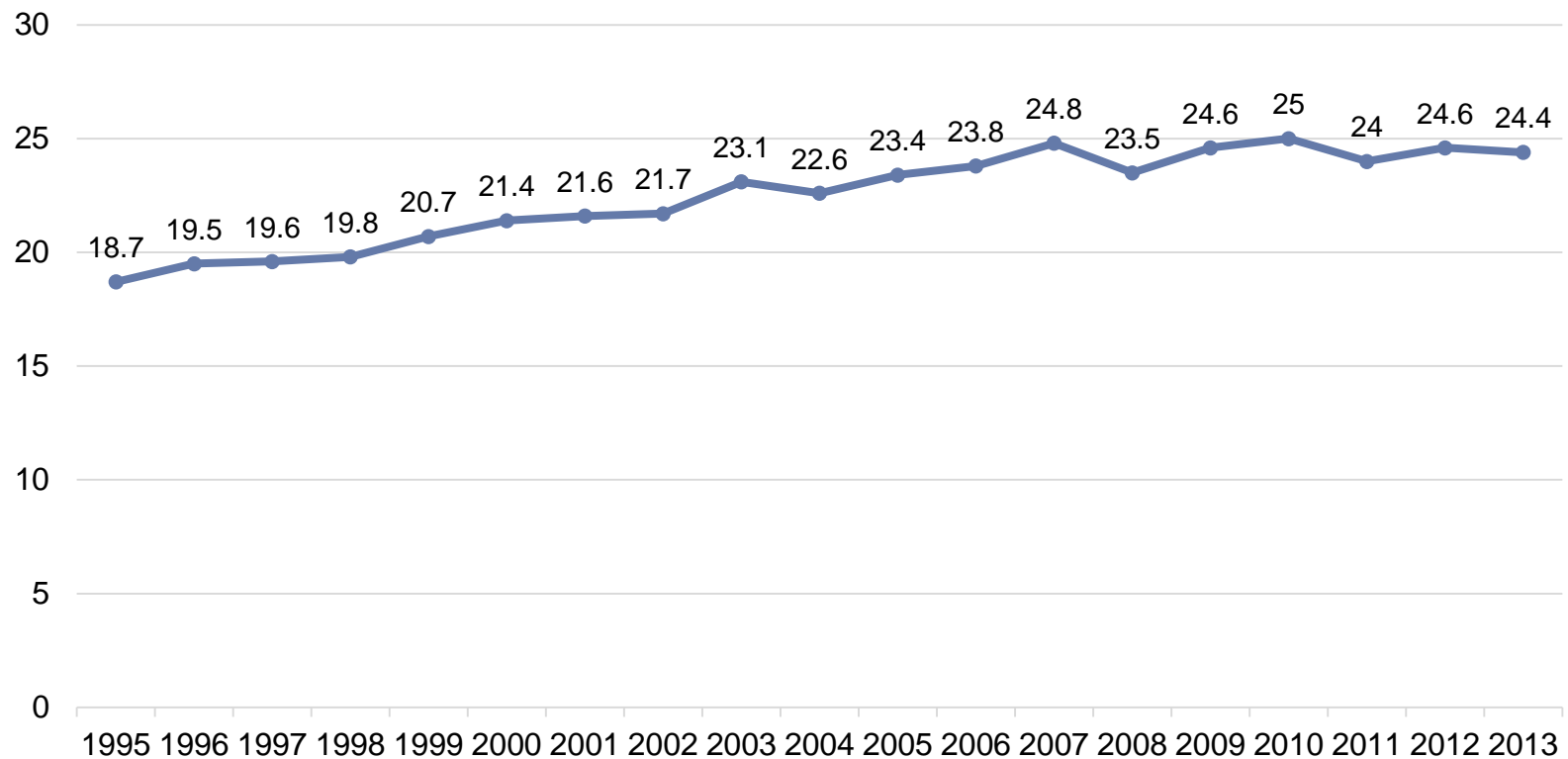
4) Including temporary agency workers.

5) Without fixed-term employment and part-time employment. The amount of part-time employed temporary agency workers had to be estimated for the period of 1991 to 1996. The value of 2 percent was assumed. The amount of fixed-term employed temporary agency workers also had to be estimated. According to sector-data a share of 25 percent was assumed for the period of 1991 to 2003, for the period as of 2004 a share of 33.3 percent was assumed.

6) Including: Apprentices, soldiers, persons working in alternatives to military services, related family workers and workers who do not indicate whether their contract is on a permanent or temporary basis.

Source: Destatis, Labour force survey; own calculations

Share of workers with low hourly wages⁽¹⁾, 1995-2013, percentages



⁽¹⁾ Low hourly wages are defined as wages being lower than two third of the median hourly wage.

Datasource: IAQ-Report 2015/03

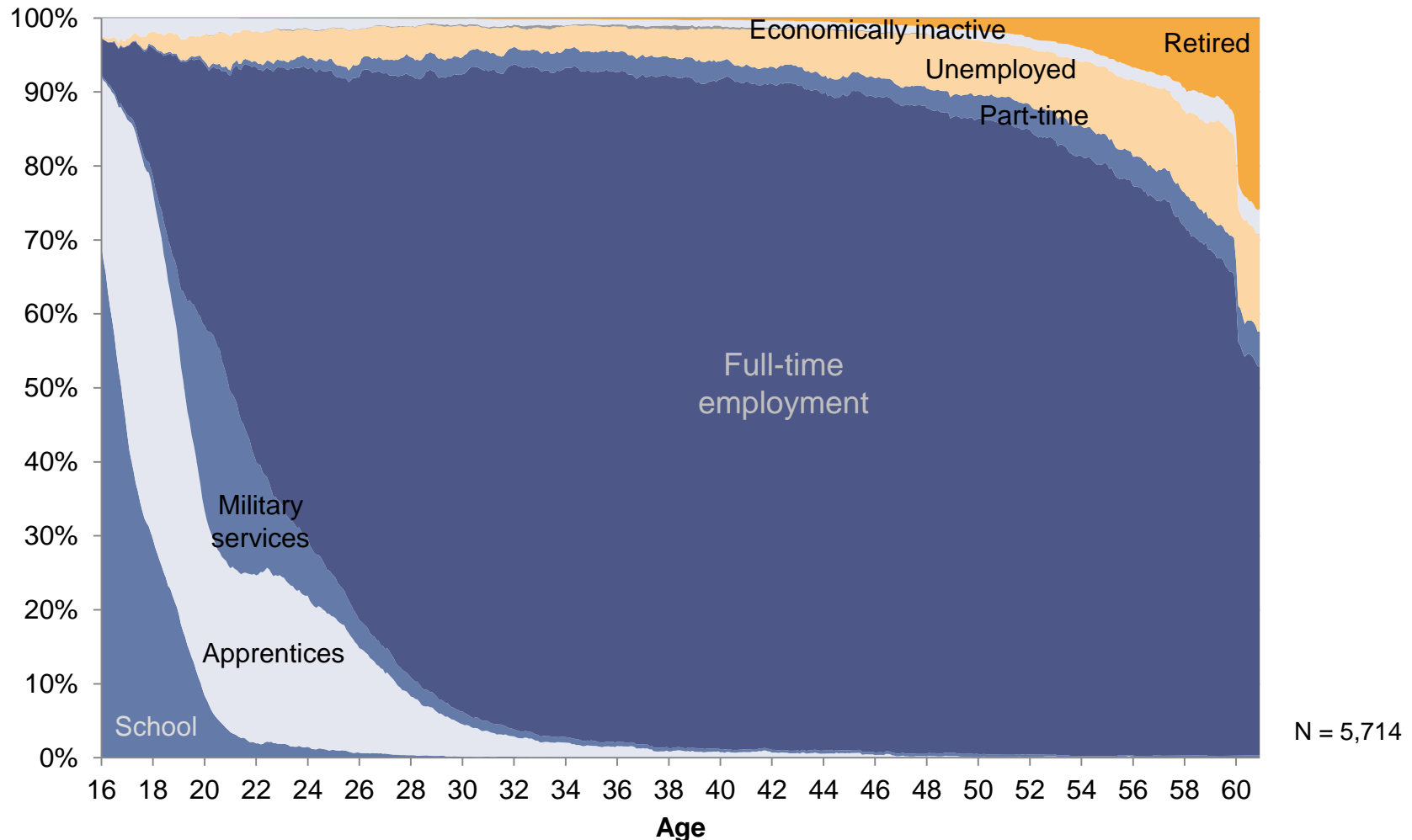
Flexibility and stability of employment



- Unemployment, non-standard work or low wage employment may occur at any point of time in an individual's employment history.
- Workers can move from employment to non-employment, from non-standard work to standard work and from low wage employment to a well paid job or vice versa.
- Sustainability of old age provisions depend greatly on how stable or volatile certain periods of employment and non-employment are.

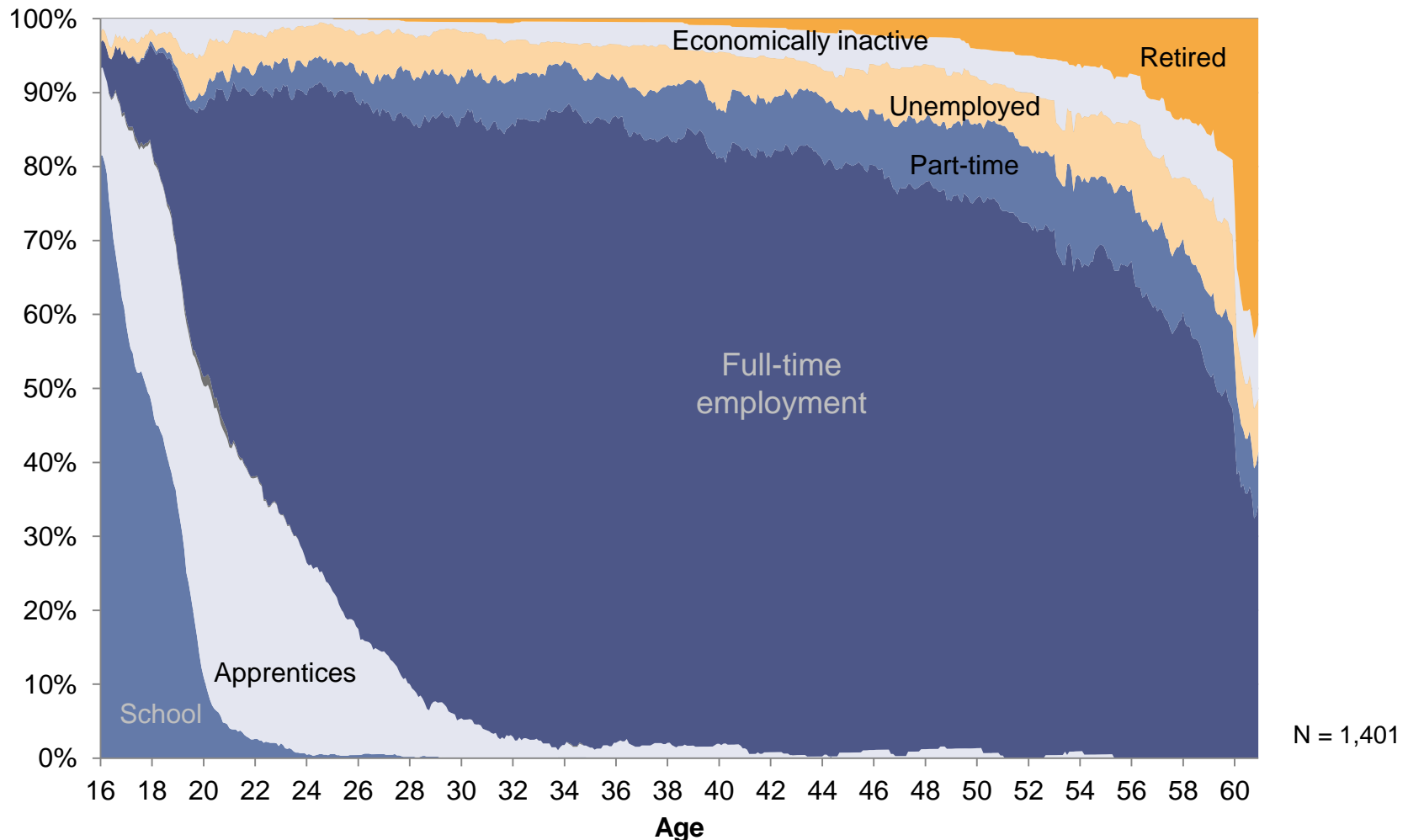
- Unemployment is not equally distributed among individuals.
- Study by Schmillen/Möller (2008) focused on employment histories of individuals born between 1950 and 1954.
- One half of total spells of unemployment was concentrated on five percent of all individuals; on the contrary, around 60% of all individuals were on the bright side.
- One group which is mostly affected by unemployment is characterized by a proportionally high level of low skills.

The “average” employment history of men



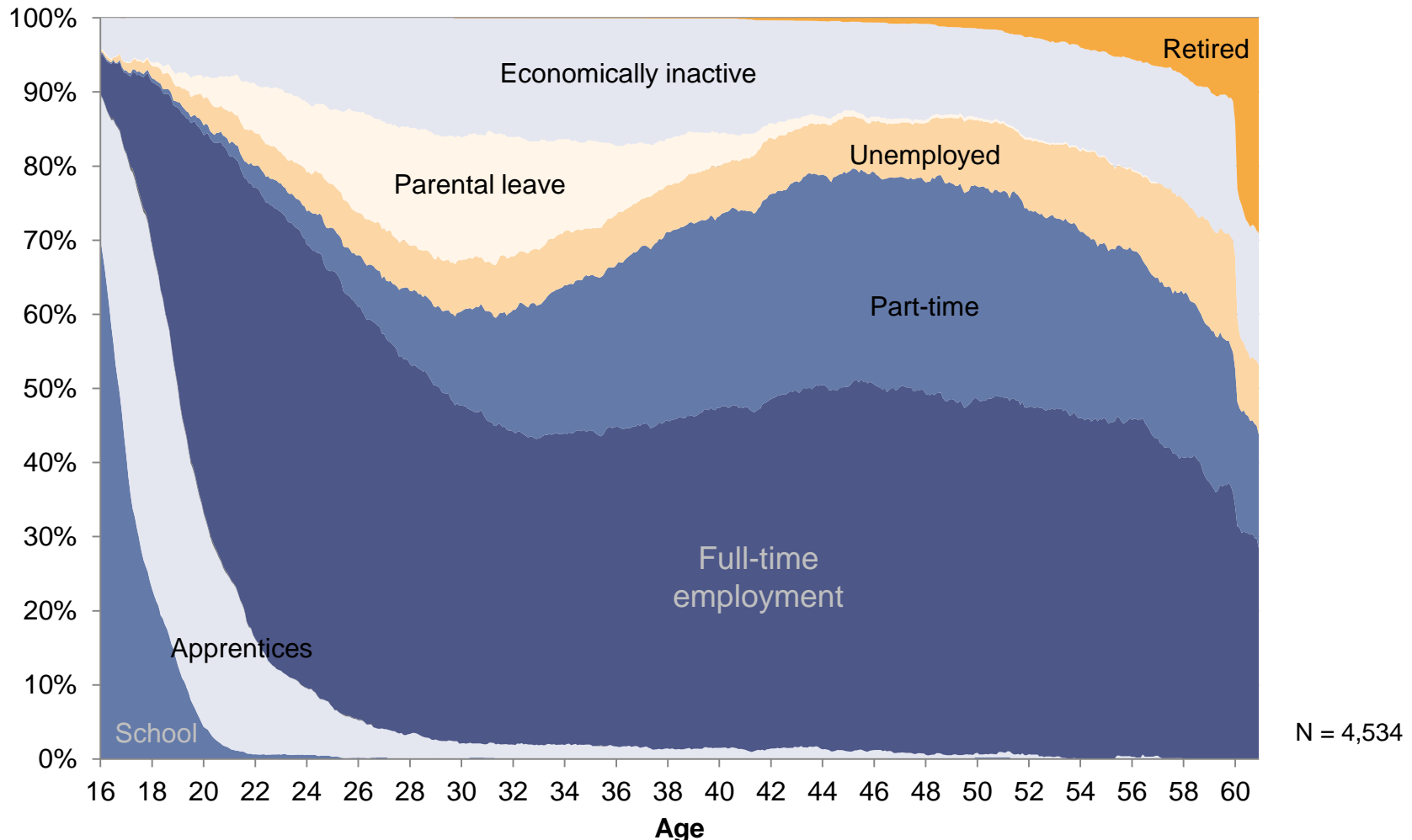
Source: Drasch/Kleinert 2012; data: NEPS starting cohort 6 wave 1

The “average” employment history of childless women



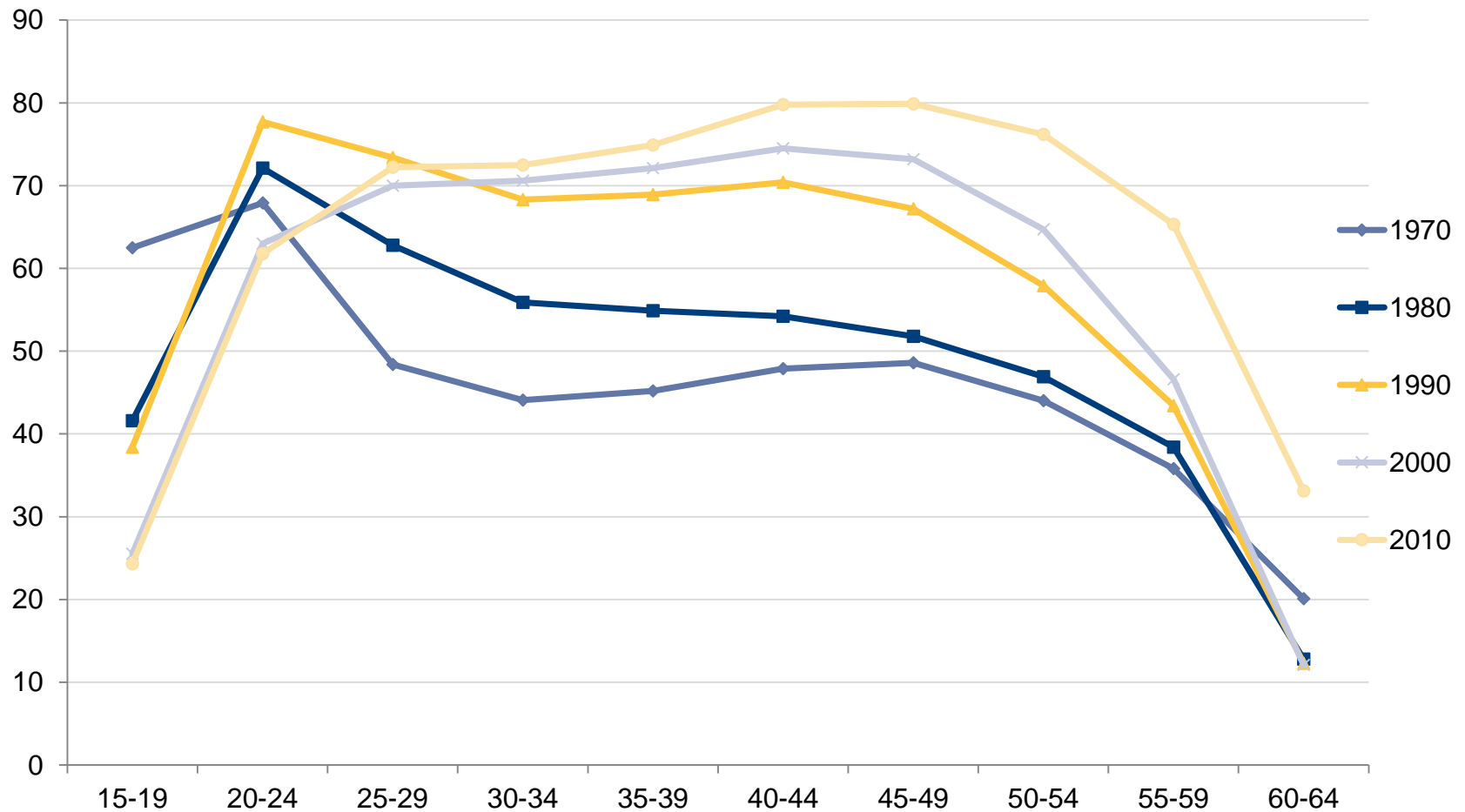
Source: Drasch/Kleinert 2012; data: NEPS starting cohort 6 wave 1

The “average” employment history of mothers



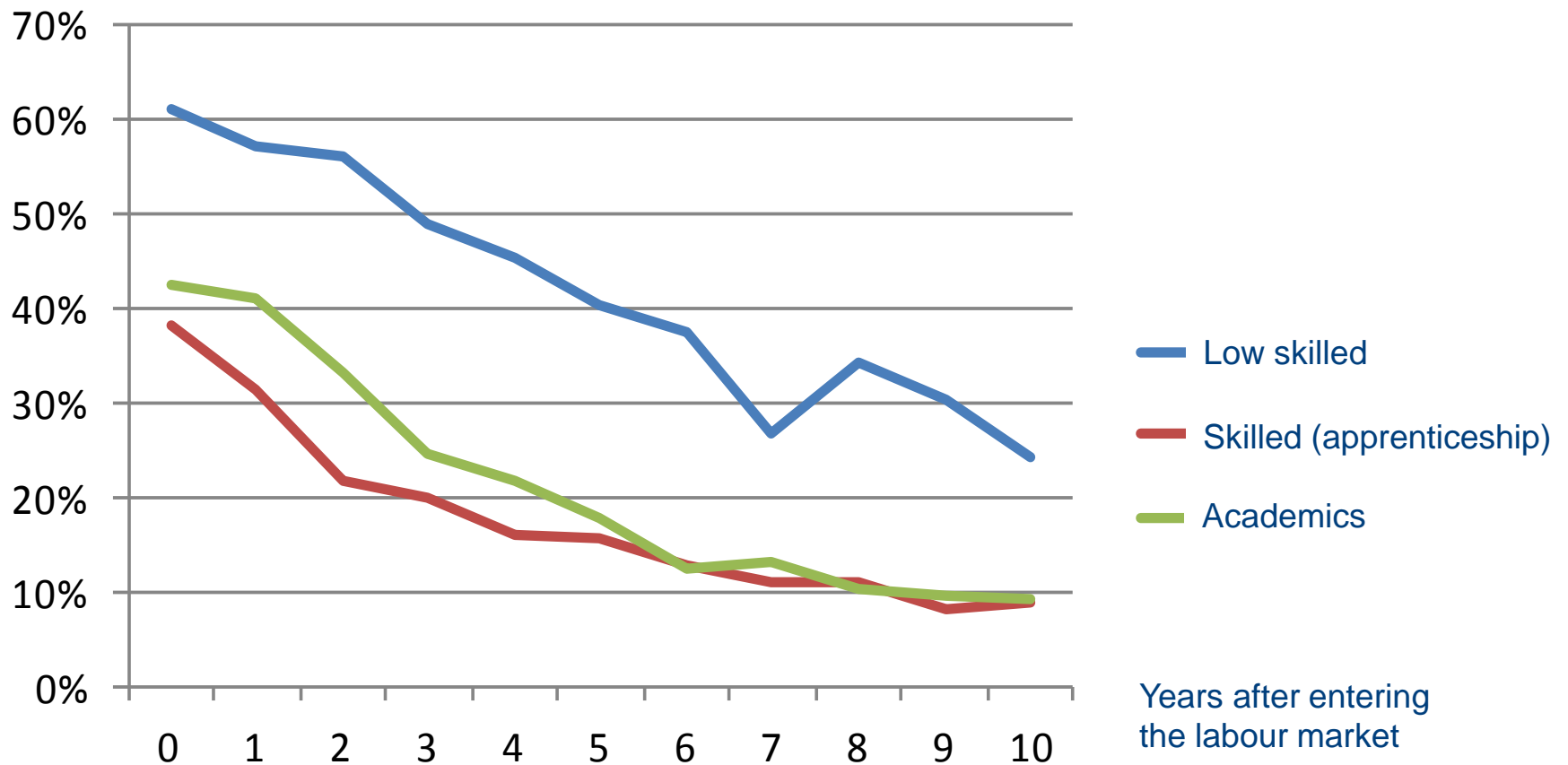
Source: Drasch/Kleinert 2012; data: NEPS starting cohort 6 wave 1

Employment rates of women by age cohort, 1970-2010, percentages



Source: Eurostat, Labour Force Survey

Fixed-term contracts of young workers by level of skills, in percentages



Source: Microcensus 2008; calculations: IAB

Transition rates by work arrangement from one year to another, percentages



	Marginal part-time	Part-time (< 32h/week)	Fixed-term contract	Agency work
Remains in nonstandard work	94.5	89.8	62.6	92.7
Changes to standard work	5.5	10.2	37.4	7.3

Source: PASS Wave 1-9 pooled, unweighted results, calculation: Carina Sperber

Wage mobility of low wage earners



- Share of low-wage earners among young workers has increased over time and is clearly higher than the share among all workers.
- However, the upward mobility of young low-wage workers has always been higher compared to all low-wage workers; the same is true for men compared to women.
- There was a decrease in upward mobility in the late 90s and an increase in the following years.
- Upward mobility is more likely for low-wage earners with favorable individual characteristics such as skills and is depending on employer characteristics such as size of company or coverage of collective agreements.

Source: Jens Stephani (2014): Aspects of wage dynamics in Germany. (IAB-Bibliothek, 350), Bielefeld: Bertelsmann, 144 S.)

A recent proposal addressing the issues within the system of old age provision: The “*Solidarity pension*“



- General idea: People with long spells of full-time employment should receive an old-age pension which is intended to be higher than social welfare. The proposal includes three elements:
 - People with long periods of low-wage work (more or less at the minimum wage level) should be credited at least 75% of the corresponding wage average for that period.
 - For people with at least 40 years of insurance and 30 years of contribution the minimum old-age pension should be at least 850 Euros.
 - Unemployment spells, including times of basic income, should not necessarily jeopardize an old-age pension above the subsistence level.

Conclusion



- The German system of old age provisions can compensate at best only parts of insufficient life-time wages.
 - The reason is that compensation may create various problems of equal treatment.

- Therefore, prevention needs to be intensified much more
 - in terms of fostering education and skill formation,
 - by strengthening upward mobility, e.g. through life-long learning,
 - by tackling and avoiding long-term unemployment through active labor market programs,
 - by a compulsory insurance for solo entrepreneurs,
 - and by measures of preventive health care.

Thank You!

For further information:
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