

Will Competing Objectives in Germany's
Pension and Labor Market Policies
Harm Women's Material Well-Being at Old Ages?

Anika Rasner^a
Marjorie McElroy^b

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^a *Contact Information:* Anika Rasner, Max Planck Institute for Demographic Research, Konrad-Zuse Strasse 1, 18057 Rostock, Germany. Email: rasner@demogr.mpg.de

^b *Contact Information:* Marjorie McElroy, Duke University, Department of Economics, 213 Social Sciences Building, Durham, NC 27708, USA. Email: mcelroy@econ.duke.edu

OVERVIEW

Until recently, the German public pension system assumed the typical German worker works full-time, year in and year out, until retirement. Consequently, persons who worked continuously for more than 40 years and earned above average wages, received sufficiently high pensions during retirement to maintain approximately the same standard of living as when they worked. For a majority of elderly couples, the husband's final pension benefit was sufficiently high to provide an adequate old-age income for both partners. However, the persistent unemployment that followed German reunification has led to reforms. By exempting them from both income taxation and employee social security contributions, some reforms promote so-called atypical low paid jobs (Steiner and Wrohlich 2004). Other reforms cut unemployment compensation and shortened the maximum entitlement period (Fitzenberger and Wilke 2004). Starting before reunification, as have many other developed countries, Germany has seen large demographic changes. Some of these, including increased life expectancy and decreased fertility rates have and will continue to increase the dependency rate and have prompted a sequence of additional reforms (Börsch-Supan 2000). These reforms will reduce the replacement ratio for full time workers from about 70% to 58.5% and also penalize early retirement (Reimann 2004). Other demographic changes, including increased divorce rates, an increased share of households headed by single mothers systematically take segments of the population out from under the pension umbrella provided to full-time, continuous workers and their spouses. Using administrative pension records merged with longitudinal household survey data, this paper investigates the effects of the confluence of demographic change, pension law reform and atypical work exemptions on the retirement incomes of various demographic groups. In particular, we ask whether these changes will undo the successes Germany has had in alleviating poverty amongst the elderly, and amongst elderly women in particular.

DATA AND RESEARCH METHODS

This study employs new and unique data well-designed to trace the consequences of lifecycle work and family choices through to outcomes in old age. The data consist of administrative pension records linked to longitudinal household survey data. These administrative pension records are provided by the Research Data Centre of the German Social Security Administration. Their sample of administrative records was drawn from all active pension accounts. These administrative records provide unusually strong work histories that stretch back to age 14 and provide monthly information on the earnings, occupational status or the type of employment of the individual.

These administrative records were linked to respondents in the longitudinal household survey data is the German Socio-Economic Panel (GSOEP). Roughly speaking, the GSOEP is the German analog of the Michigan Panel Survey of Income Dynamics. Started in 1984, the GSOEP is a representative longitudinal survey of private households and individuals in Germany. Today, 21 waves are available that provide representative micro-data on persons households and families (Haisken-DeNew and Frick 2005).¹ Hence this rich and comprehensive linked data set provides a unique opportunity to study the material well-being of the present and future elderly in Germany as determined by their work and family choices in the context of pension rules.

We will use event history analysis to describe the transitions into and out of various types of employment (marginal part-time, part-time and full-time). Of central interest will be the effects of time varying covariates representing pension policies and taxes. Other time varying covariates such as marital status and numbers of children are clearly endogenous but in this initial study we will allow for this endogeneity only by comparing event histories estimated with and without these variables. For respondents observed at age 14 there will be no initial conditions problem; for respondents observed only at ages greater than 14 we can still use their event histories back through age 14 to specify much better initial conditions than is normally possible in a standard left censored event histories. We plan to stratify by sex and also experiment with joint event histories of couples.

Armed with these statistical work histories we can apply the pension rules and predict pension income in old age for individuals and couples in various segments of the population. For each, we simulate old age income under four scenarios (and variations thereof): demographic indicators fixed at their reunification levels and no pension reforms or atypical job exemptions; demographic indicators fixed at reunification levels with pension reforms and atypical job exemptions, demographic indicators consistent with trends and no pension reforms and atypical job exemptions, and demographic indicators consistent with trends and with pension reforms and atypical job exemptions.

Preliminary results indicate that atypical employment forms were successful in drawing women into the labor market. The increase in female labor force participation by and large reflects increased employment in marginal part-time and part-time employment. Moreover, as compared to men, women spend significantly more time in atypical employment. Since those individuals that work in atypical employment

¹ Each year the survey covers a core set of questions of relevant research areas (e.g. 'Population & Demography' or 'Education, Training and Qualification'). In addition, to the annual core questions, a special topic module is included in the questionnaire (e.g. 1988 'Assets'; 1997 'Social Security & Poverty').

accumulate none or only low pension entitlements, predicated pension benefits are lower for women as compared to men.

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