a flexible system leads to an increased awareness of the reality of retirement and consequently to the realization that basic decisions must be made well before that event.

The system of retirement can be readily manipulated, it appears to have a noticeable effect on the retiree, and yet investigations in this area are lacking. Further study on the effects of different systems of retirement deserves encouragement.

Social Security Abroad

New Private Pension Law in the Federal Republic of Germany*

At the end of 1974, the Parliament of the Federal Republic of Germany passed a pension reform law that became effective on January 1, 1975.[1] Somewhat similar to the recent United States law on private pensions—the Employee Retirement Income Security Act of 1974—the German law regulates standards for vesting and termination insurance in the case of shutdown of sponsoring firms.[2] It provides for the first time regulations to govern private pension plans through the establishment of statutory minimum requirements. In the past, the Government's only role was through the insurance law regulating those types of plans operated through or in the form of insurance companies. The law also sets up a reinsurance mechanism.

The aim of the reform is to deal with three specific problem areas: (1) the absence of vesting, (2) benefit integration (the offset effect of indexed social security benefits on unindexed private pension benefits), and (3) the imbalance between retirement-age provisions under the public and the private programs (for the former, flexible provisions beginning with age 63; for the latter, age 65).

Background

Private pension plans cover about 80,000 firms with more than 12 million workers or about 60 percent of the wage and salary workers. Actual benefits paid out amounted to 2.5 billion marks in 1972.[3] For the social security system's old-age, disability, and survivors' program, expenditures reached 66 billion marks in that year.

Germany has three main types of company plans. The most prevalent is the "balance-sheet reserve plan," which includes about 70 percent of the workers covered by private pension plans. Under this method, the employer can set up on his books an internal reserve to cover the expected benefits (either by a transfer from profits or by establishing an account for each worker). He continues, however, to use the actual funds for regular company operations. There is no segregation of funds from the general assets of the employer. Under this type of plan, before the new law, the worker risked the loss of entitlement if he left or was laid off before retirement. In addition, the fate of the benefits depended upon the welfare of the individual firm.

A second type is the separate pension fund, similar to the pension trust funds in the United States. This kind of fund can be arranged by one or more firms. About 10 percent of the workers covered by pension plans came under such a system. Many of the separate pension funds are found in multiemployer plans—frequently those covering a branch of industry in a particular area, such as chemicals or banking in one individual city. They have been used primarily for white-collar workers. The employee is granted a legal claim to benefits.

The third type is the provident or support fund. Although such funds number in the thousands, they are generally small in size and cover an estimated 10 percent of the workers under private pension schemes. Employees do not have a legal right to the pensions.

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[1] For background, see Max Horlick and Alfred M. Skolnik, *Private Pension Plans in West Germany and France* (Research Report No. 36), Office of Research and Statistics, 1971.

[2] Vesting refers to the guarantee provision in pension plans ensuring that an employee who terminates his employment before eligibility for regular retirement will retain his pension credits accrued from the employer's contributions.

[3] One U.S. dollar equaled 3.202 deutsche marks as of December 1972.

In addition, many small and medium-sized firms tend to use life insurance companies for their funding. Formerly, when the insured worker left a firm, generally his rights to the policy expired unless he had contributed to the cost.

Vesting Provisions

In the past, there were no government requirements regarding vesting, and in fact very little vesting occurred. The new law provides for vesting upon attainment of age 35 and when a worker (a) has at least 10 years of service under a pension plan or (b) has been with the firm for at least 12 years, including 3 years of covered service under a pension plan. Under this provision, which affects all types of company plans, vesting was granted immediately on passage of the law. In practice, there is generally little turnover in German industry after age 35. In fact, one survey showed a turnover rate of less than 1 percent.

Under the new law, upon separation from a firm, either for voluntary or involuntary reasons, the eligible worker is to be given a written notification of the amount of his accrued pension amount that will be payable at the time of his retirement. The full pension is based on a normal full career of coverage—that is, from the time of hiring in a company, presumably at age 25, to completion at age 65. The amount of the vested accrual will be calculated on the ratio of actual covered service to the full career. A worker who has been with an employer from age 25 to age 65 could, for example, be eligible for a pension of 500 marks. If, however, he left work after 20 years, he would be entitled to half this amount.

Pension Guarantee

The law provides that pensions be guaranteed against loss in the event that the company goes bankrupt. Pensions, particularly under the balance sheet reserve plan and the support fund, were not protected before the new law. It was decided that this guarantee was to be implemented not through an agency of government, but through a cooperative arrangement. The German Employers Association, the Association of German Industry, and the Association of Life Insurance Companies established, for this purpose, a mutual pension guarantee plan called the Pension Insurance Association. The association is under the general supervision of the Federal Office for Insurance Matters. In principle, all employers with private pension plans are to be members of the association. Those with plans operated by insurance companies or in the form of separate pension funds are, however, exempt.

The monthly pension amount is guaranteed up to a maximum of three times the current social security contribution ceiling. It should be noted that this ceiling is usually about 75 percent greater than the average wage of workers in manufacturing. The social security benefit of the average worker is, in turn, about 40-50 percent of final pay. The pension guarantee maximum would, therefore, be high enough to cover the pension of all except higher-paid technical and managerial personnel.

The guarantee is financed by a contribution from all nonexempt employers. These contributions covering the guarantee are intended to pay for current old-age and survivor pensions and for administration, and to create a reserve against fluctuations or other contingencies. If a company fails, then the Pension Insurance Association will purchase life annuities for the insured workers from an insurance company. In case of dissolution or liquidation of the association, the Government-sponsored Bank for Equalization of Burdens will assume responsibility.

Retirement Age

In 1973, the West German social security system reduced the minimum statutory retirement age from 65 to 63 and provided for "flexible" retirement between ages 63 and 67. The company plans continued to provide for payment at age 65, however. The new law aligns the private to the public system in this regard. The private plans are now also required to take into account the earlier retirement age provided under the social security system for women and the long-term unemployed (both at age 60).

Indexing

Employers are required to review every 3 years whether the pensions in force are to be

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TABLE M-19.—OASDHI hospital insurance: Number of bills for inpatient short-stay hospital [1] care approved for payment, covered days, total charges, and amounts reimbursed, by type of beneficiary and period approved, as of December 28, 1974 [2]

Period approved [3]	Approved bills			Hospital charges				
	Number (in thousands)	Covered days of care [4]		Total (in thousands)	Per bill	Per day	Amount reimbursed [5]	
		Total (in thousands)	Average per bill				Total (in thousands)	Percent of total
	Total [6]							
January 1970–December 1970	6,176	76,429	12.4	$5,799,477	$939	$76	$4,473,544	77 1
January 1971–December 1971	6,312	75,060	11.9	6,573,045	1,041	88	5,041,010	76.7
January 1972–December 1972	6,584	75,875	11 5	7,340,475	1,115	97	5,576,434	76.0
January 1973–December 1973	6,941	78,116	11 3	8,218,286	1,184	105	6,205,013	75.5
July 1973–December 1973	3,486	38,528	11 1	4,159,608	1,193	108	3,133,112	75.3
January 1974–June 1974	3,903	42,954	11.0	4,881,499	1,251	114	3,696,704	75.7
July 1974–September 1974	1,827	19,438	10 6	2,381,134	1,303	122	1,794,945	75.4
	Persons aged 65 and over [7]							
July 1973–December 1973	3,291	36,602	11.1	3,944,917	1,199	108	2,972,794	75.4
January 1974–June 1974	3,598	39,758	11.1	4,491,347	1,248	113	3,406,795	75 9
July 1974–September 1974	1,678	17,935	10.7	2,183,611	1,301	122	1,649,098	75 5
	Disability beneficiaries [8]							
July 1973–December 1973	196	1,926	9 8	214,691	1,097	111	160,318	74 7
January 1974–June 1974	306	3,196	10 5	390,152	1,277	122	289,909	74.3
July 1974–September 1974	149	1,503	10 1	197,523	1,328	131	145,847	73.8

[1] General and special hospitals reporting average stays of less than 30 days.
[2] See table M-18, footnote 1.
[3] See table M-18, footnote 2
[4] Before January 1, 1968, excludes days in excess of 90 per benefit period, beginning January 1, 1968, may include a lifetime reserve of 60 days, applicable to stays beyond 90 days
[5] See table M-18, footnote 4
[6] See table M-18, footnote 5
[7] See table M-18, footnote 6
[8] See table M-18, footnote 7.

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adjusted for wage and cost-of-living increases. The review is to take into consideration the living standard of pensioners and the financial status of the company itself. The decision is left to the employer on whether to raise pension levels and by how much. The employer is not actually required to index the pensions; provisions of the pension bill did not pass the legislative process, primarily because of anticipated high costs to the company in an inflationary period.

Offset Forbidden

In the past, certain types of plans promised a specific percentage of previous earnings upon retirement, based on the combined amount of the social security benefit and the private pension. The social security benefit is subject to automatic adjustment on the basis of wage changes, however, and the private pension is not indexed.

Under some plans the result was an offset of the private pension against the social security benefit: as the public benefit grew, the private amount decreased. The social security benefit is directly tied to the number of years worked (increasing by 1.5 percent of average earnings for each year). If the employer had originally promised a benefit of 65 percent of earnings, an employee who retired after 35 years would consequently receive 52.5 percent of average earnings from the social security system, and 12.5 percent from the private plan. If he worked 40 years, however, he would receive 60 percent from social security and only 5 percent from the company plan. In addition, after the granting of the pension, the amount could be reduced under some plans, as the public benefit increased.

These offsets are no longer permitted. The law also includes a retroactive restriction affecting benefits already in payment.