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MetallRente Study 2016
Today's young Germans are pension reform's precarious generation
Only 35 per cent of young people between 17 and 27 routinely save for their retirement

- **Optimistic about the future**
- **Less afraid of poverty in old age but doubtful about private pension schemes**
- **Generation Y saves less for old age. Supplementary private retirement plans have not taken root with this generation.**
- **Company pensions are becoming more popular**
- **Preference for automised savings schemes**
- **Policymakers must pave the way**

Policymakers have to act – and quickly. This is the unanimous position of the editors of the latest MetallRente study "Jugend, Vorsorge, Finanzen" (Youth, Retirement Savings, Finances), given that an entire generation is facing the threat of poverty upon reaching retirement. Today's young Germans place either too little trust in the state-subsidised private pension schemes, or they have too little money, or both. The results of the survey make this clear. Midway through the pension reform process that began in 2002, the latest MetallRente study reveals that, so far, it has failed to reach its goals.

The social research institute TNS Infratest surveyed 2500 young adults between the ages of 17 and 27 for the study, asking them about their personal expectations for their future, as well as their attitudes towards and strategies for retirement planning. Both MetallRente studies from 2010 and 2013 clearly demonstrated the following: the youth are willing in principle to make financial provision for their retirement, but only a minority are actually pursuing viable pension strategies. This third survey now enables a concrete analysis of trends over the last six years.

According to youth researcher Prof. Dr Klaus Hurrelmann who has overseen all three surveys, "The majority of young people are optimistic when thinking about their own future." Positive expectations have increased, when compared with the surveys of 2010 and 2013. The young generation is also increasingly positive about Germany's development. "But," emphasises Hurrelmann, "Generation Y is increasingly doubtful about private pension plans. The realism of the youth is striking. They are well aware that given the current conditions, today's retirement schemes cannot support an adequate standard of living in old age."

"Even 15 years after the pension reform, a culture of supplementary private retirement savings has not yet been established in Germany. The young generation is actually moving in the opposite direction," adds Prof. Dr Christian Traxler, co-author of the study and, like Prof. Dr Hurrelmann, a researcher at the Hertie School of Governance.

Managing director of MetallRente Heribert Karch describes the results of the latest study as "deeply distressing". The pension reform was introduced 15 years ago with the idea of creating greater justice between the generations. The results, however, show that fairness has not been achieved. Karch explains his alarm: "The young generation is occupying an increasingly precarious position with regards to pension policy. State spending on pensions in Germany is, together with Poland, Spain and Slovenia, at the lower end of the top third of OECD countries. However, the wage replacement ratio in Germany – that is, the relationship between pension payouts to previous active income – is at the bottom end of the OECD nations! Instead of generational justice we have insecurity. We have to start taking countermeasures."

For the first time, the survey also questioned the youth regarding their attitudes about how they could effectively be nudged to contribute more towards their retirement. The results show that the majority of young people support certain nudges, such as automatic enrolment in saving plans.

The latter half of the study looks beyond Germany's borders. European researchers are busy analysing pension systems and reform efforts in other countries. Their findings clearly reveal that it is not only in Germany that retirement provision is in danger … but successful reforms are still possible!

Findings

Optimistic about the future

The 2016 study shows that 73 per cent of young people assume the future will turn out well for them personally ("very well" 22%). This reveals an increase in positive expectations compared to the studies from 2013 and 2010. The young generation also took an increasingly positive view of Germany's development: 48 per cent estimate it to be currently good ("very good" 5%). In 2010, these figures were 37 ("good") and 1 per cent ("very good").

Only 26 per cent believe "entirely" ("somewhat" 34%) that the economy is endangered by indebted euro-area countries. In 2013 these estimates where at 34 and 43 per cent respectively. In spite of the crisis, 22 per cent place their trust "entirely" ("somewhat" 39%) in the euro. These figures also showed a positive development compared to 2013.

Less afraid of poverty in old age but doubtful about private retirement insurance

Young savers put aside 64% of their savings for vacation and travel (2010: 56%). They are also more willing to save for education and studies (2016: 42% / 2010: 39%). But only 35 per cent of young people routinely save for their pension (2010: 38%). 49 per cent save at all (routinely or now and then) for old age (2010: 55%). Of those who save (16% do not save at all) it is 58% (2010: 66%).

However, overall only just below half of all young people save for retirement (2016: 49% / 2010: 55%); of those that save, 58 per cent of their savings go toward their pension (2010: 66%).

Women in particular are shifting towards other savings goals. Their readiness to save for old age has dropped considerably (2016: 49% / 2010: 57%).

First and foremost, the young generation wants to enjoy life and therefore is putting aside less for retirement. The percentage of young savers who agree "entirely" with this point of view increased from 45 per cent in 2010 to 50 per cent in 2016. The findings however show a decrease in the percentage of youths who have saved "entirely" no money or very little money for retirement (2016: 38% / 2010: 42%).

Hurrelmann sees this tendency to focus on the present as "absolutely understandable". "Young people opt for things that are currently useful to them and not for schemes that are uncertain to actually benefit them in the future." Young adults do not only save for future consumption, but also for studies and education. They realise that an education is advantageous for the job market and also reduces the risk of poverty.

At the same time, the fear of poverty in old age has decreased among women. Currently only 34 per cent of women are "entirely" afraid ("somewhat" 27%) of this. In 2010 these figures were at 47 and 24 per cent respectively. Only 27 per cent of young men share this fear "entirely" ("somewhat" 23%). These figures have remained relatively constant compared to the other recent surveys. Young people seem to have a pragmatic and realistic approach to their future retirement. 54 per cent "entirely" expect to be working well past the age of 65 and a further 33 per cent consider this expectation to be "somewhat" realistic.

Company pensions are becoming more popular. Private pensions are not an established market with the young generation.

The percentage of youth who have opted for a company pension plan has increased from 31 per cent (2010) to 40 per cent (2016). In contrast, fewer young people use “Riester” products (government-subsidised pension schemes that were introduced as the third pillar of the 2002 reform) or other private retirement or life insurance products. The percentage of youth who use “Riester” schemes sank from 50 per cent in 2010 to 42 per cent in 2016.

There is considerably more awareness now of occupational pension plans than “Riester” schemes: 39 per cent could explain a company pension plan to a friend. But currently only 27 per cent feels confident enough to explain the government-subsidised pension scheme. This is an all-time low. The reverse conclusion is alarming: 61 per cent of young people do not know what the term “occupational pension plan” really means and a disturbing 73 per cent do not know what Riester schemes are.

However, more young people are starting to favour company pension plans. And yet, supplementary retirement schemes have not become sufficiently established among the members of Generation Y. Heribert Karch sums up the situation accordingly: “Too few participants, too little money and soon to be too late”. Every country that is counted as a success in the field of retirement provision, such as Denmark or the Netherlands, has always had two core pillars: the state and the company pension. Therefore in Germany, the terms and conditions of company pensions finally need to be improved.

Preference for defaults

65 per cent approve the introduction of automatic enrolment in saving plans. When these kinds of savings plans are combined with opt-out clauses and subsidies, approval ratings rise to 89 per cent.

“The almost unanimous approval of a default savings scheme was very surprising,” adds Traxler. “It appears as if young adults want automised schemes that at least partially reduce the need for actively making long-term savings decisions on their own.”

Currently, 91 per cent of young people want annual information on their pension prospects as soon as they enter the job market. 81 per cent, however, note that this information needs to be made easier to understand. Only 10 per cent say they have too much as opposed to too little information.

Policymakers must pave the way

Policymakers must pave the way for the young generation to be protected from poverty in old age. “We are currently midway through a 30-year reform process,” says Heribert Karch. “It is time for a mid-term summit with all necessary decision makers to discuss further measures. If we truly want to strengthen occupational pension plans, obstacles have to be removed and better conditions created. This means that subsidies for employers and employees need to be simplified and the more serious problems of fairness between the generations solved.” Karch argues that under these kinds of conditions, models that capitalise on social partnerships could also be promising.

Prof. Dr Hurrelmann concludes that “we cannot continue on the same course. Even the exemplary person who pays into all three pillars of the pension system cannot bank on a satisfactory result in the end. The system is currently leading young people on a wild goose chase. Policymakers need to act – now. Otherwise it will be too late for the youth. Objectively speaking, they are facing the threat of poverty in their old age. I am not being pessimistic, this is simply a fact.”

Jugend, Vorsorge, Finanzen

Zwischen Eigenverantwortung und Regulierung.
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Downloads: www.metallrente.de/Jugendstudie

The contributions, interviews and charts of the abridged version of the MetallRente Study are free for use.

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MetallRente was founded in 2001 by the two major German social partners Gesamtmetall and IG Metall. The pension scheme offers occupational and additional private pension plans as well as occupational disability schemes and insurance for surviving dependants. In addition to the metal and electronics industries, the steel sector, the textile industry as well as the wood and plastics industries have all joined this pension fund.