

The logo for the Mannheim Research Institute for the Economics of Aging (MEIA) is displayed in a bold, italicized, lowercase sans-serif font. The letters are dark blue and set against a light blue background that features a faint, grid-like pattern and a collage of small, semi-transparent images of people in various settings, including what appears to be a classroom or meeting.

# Mind the Gap: Incentives to Boost Retirement Saving

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*Begin with: What is the aim? How large a gap to fill?*

### **Part I: Exploit European institutional variation**

1. Incentive effects through PAYG systems
2. Incentive effects through taxation
3. Incentive effects through opt-in/opt-out mechanisms

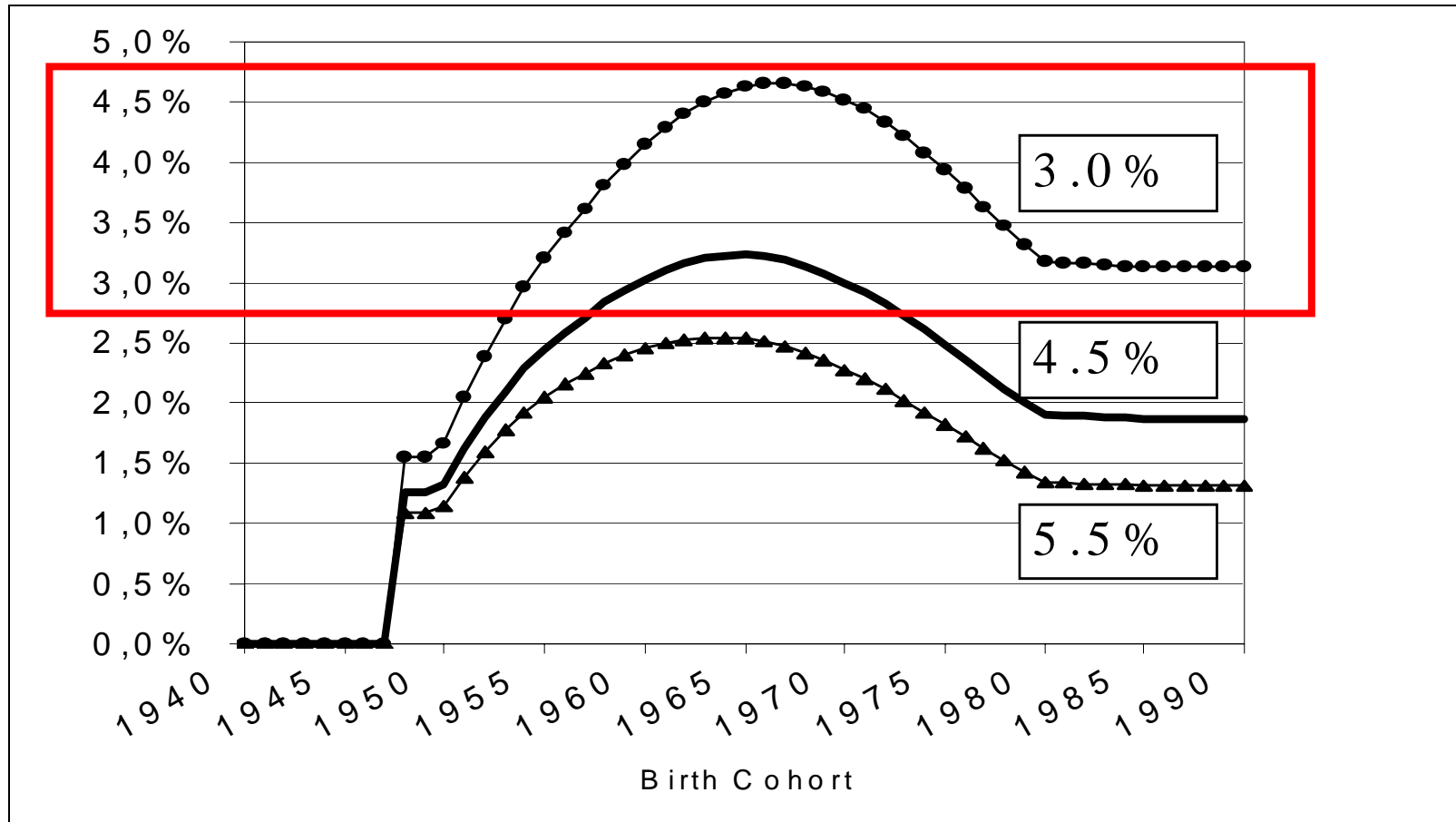
### **Part II: Germany and the recent reforms**

1. Pre-2001 tax incentives and their effects
2. Introduction of IRA-type "Riester" pensions
3. Tax subsidies/credits vs. product regulation

*End with policy conclusions*

# How large a gap to fill?

**Figure 1: Saving rates necessary to fill pension gap**  
 (Percent of gross earnings, by real rate of return)



Source: Birg and Börsch-Supan (1999).

# European variation

**Table 1: Sources of Retirement Income – Size of the “Three Pillars”**

Percent <sup>a</sup>	D	F	I	E	NL	CH	GB	US
<b>First Pillar</b> <sup>b</sup>	85%	79%	74%	92%	50%	42%	65% <sup>f</sup>	45%
<b>Second Pillar</b> <sup>c</sup>	5%	6% <sup>e</sup>	1%	4%	40%	32%	25%	13%
<b>Third Pillar</b> <sup>d</sup>	10%	15%	25%	4%	10%	26%	10%	42% <sup>g</sup>

**Notes:** (a) Percent of total income of average two-person household just after retirement. (b) Public retirement income (public pensions, social assistance, civil servants’ pensions, etc.). (c) Private occupational pension income (d) All other retirement income (asset income, net transfers received, earnings, etc.). (e) In France, mandatory occupational pensions are pay-as-you-go financed and are included in the first pillar. (f) In Great Britain, first pillar income also includes SERPS. (g) In the US, 25 percentage points of this figure are earnings.

**Sources:** Disney et al. (1998), Gruber and Wise (1999), Börsch-Supan and Miegel (2001).

**Table 2: Comprehensive Retirement Income Replacement Rate**

	D	F	I	E	NL	CH	GB	US
<b>Percent of Preretirement</b> <sup>a</sup>	82%	79%	80%	./.	78%	81%	69%	./.

**Notes:** All income sources of average two-person retiree household just after retirement as percent of total income average two-person household just before retirement. Source provides no strictly comparable data for Spain and U

**Source:** Disney et al. (1998).

*Table 3: Assets and Participation in Tax-Favored Retirement Saving Plans*

	<b>D</b>	<b>F</b>	<b>I</b>	<b>E</b>	<b>NL</b>	<b>CH</b>	<b>GB</b>	<b>US</b>
<b>Percent of GDP</b>	8.6%	5.7%	5.5%	5.0%	116%	112%	76%	108%
<b>Percent of employment</b>				42%	90%	79%	59%	53%

*Source:* Antolin, de Serres and de la Maisonneuve (2004). Data refers to year 2000. Life-insurance not included.

*Table 4: After-Tax Replacement Rates (Public Pensions)*

	<b>D</b>	<b>F</b>	<b>I</b>	<b>E</b>	<b>NL</b>	<b>CH</b>	<b>GB</b>	<b>US</b>
<b>Percent</b>	77%	77%	97%	92.5%	46%	57%	40%	48%

*Source:* Adapted from Casey (2003). Based on the salary of an average production worker at “normal” age of retirement. In France, mandatory occupational pensions are pay-as-you-go financed and are included in the above figure. In the Netherlands, mandatory occupational pensions are pre-funded and not included in the above figure.

*Table 5: Tax Treatment of Retirement Savings*

	D	F	I	E	NL	CH	GB	US
<b>Percent</b>	EEP	EEP	EPP	EET	EET	EET	EET	EET
<b>Effective Tax on Contributions</b>				22.1%	37.1%	16.6%	22.1%	29.0%
<b>Effective Tax on Accrued Income</b>				14.5%	12.8%	12.7%	20.1%	22.3%
<b>Effective Tax on Benefits</b>				17.1%	32.1%	11.6%	17.1%	24.0%

*Source:* Yoo and de Serres (2004). E=tax exempt, P=partially exempt/partially taxed, T=taxed. Comparable data for Germany, France and Italy is not available.

# Substitution/Crowding-Out

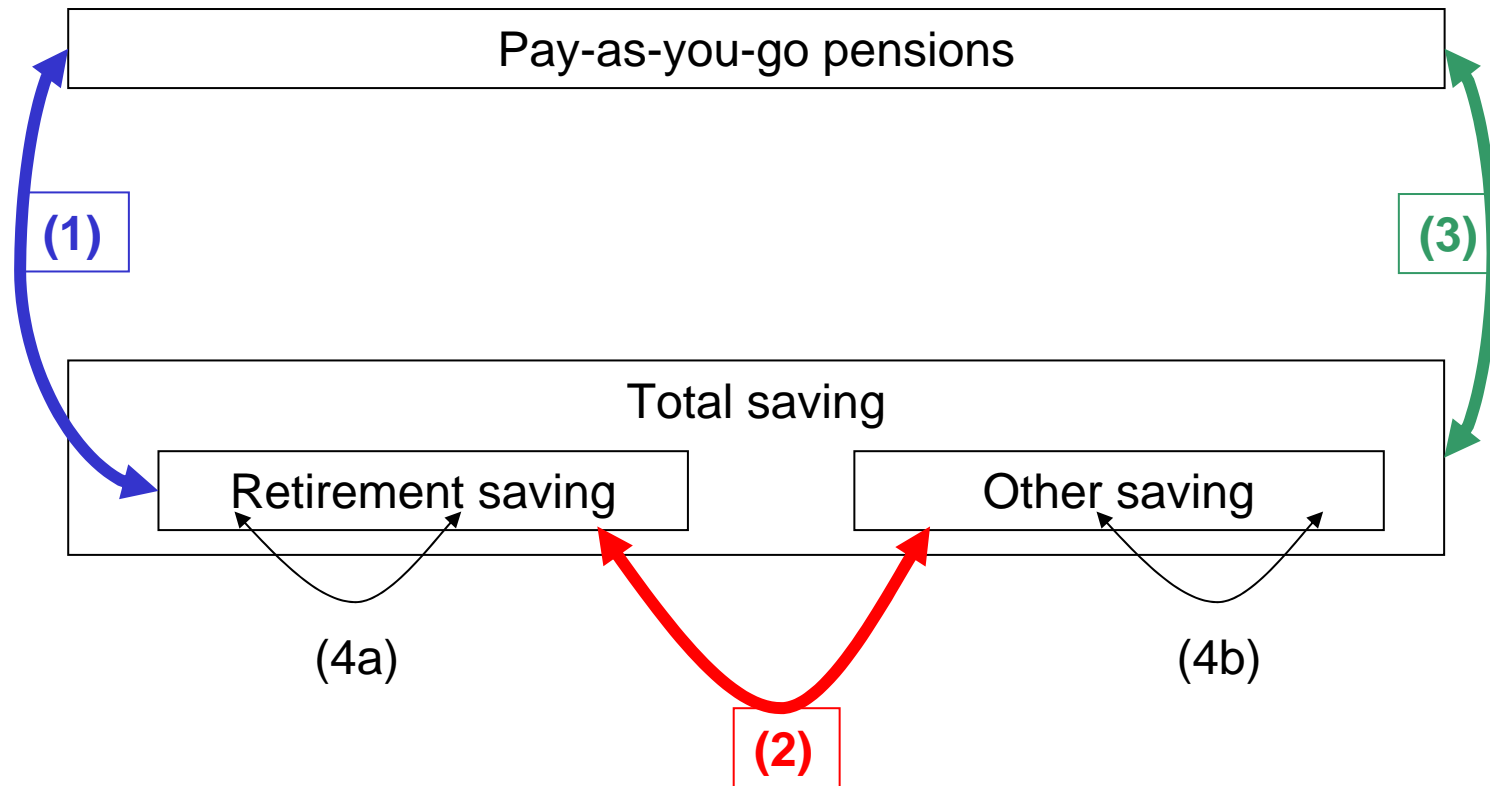
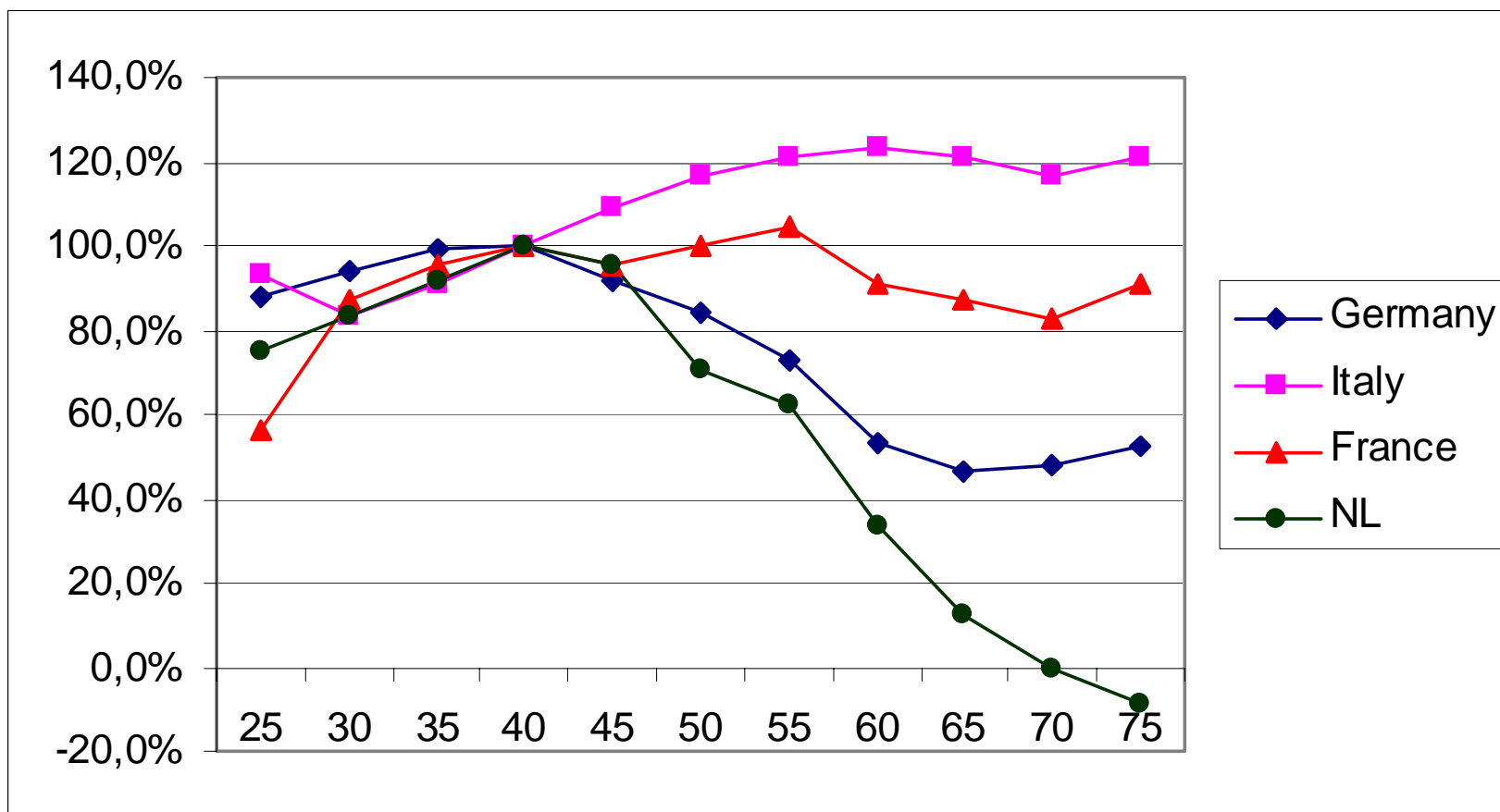


Figure 2: Substitution among savings types (“Crowding out”)

- **Time series:** - Kim (1992) in Germany  
- Rossi and Visco (1994) in Italy
- **Cross section:** Brugiavini (1987), Jappelli (1995) in Italy
  - Börsch-Supan and Stahl (1991), Brunsbach and Lang (1998), Walliser and Winter (1999) in Germany
  - Alessie, Kapteyn and Klijjn (1997), Kapteyn, Alessie and Lusardi (1997), Euwals (2000) in the Netherlands
- **“Experiment”:** -Attanasio and Brugiavini (1997) using the 1992 Italian Social Security Reform  
Attanasio and Rohwedder (2004) using UK
- **Cross-national panel:** Börsch-Supan and Lusardi (2003)



*Figure 3: Age-specific saving rates (cohort corrected)*



**Sources:** France: Fall, Loisy, and Talon (2001); Germany: Börsch-Supan, Reil-Held, Rodepeter, Schnabel, and Winter (2001); Italy: Brugiavini and Padula (2001); Netherlands: Alessie and Kapteyn (2001).

- Tax incentives: PAYG vs. saving/among saving instruments
- PAYG substitution: the role of information
- Mandatory/Quasi-mandatory/Opt-in vs. opt-out



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## Outline

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Table 7: Effects of different taxation rules on retirement saving

	Public retirement insurance	Civil servant pension	Occupational pension I/II (pension promise/provident fund)	Occupational pension III/IV (direct insurance/staff pension insurance)	Whole life insurance	Investment fund
<b>Tax Regime</b>	EEP	EET	EET	TET	PEE	TTE
<b>Benefits as percent of contributions</b>	173.3%	143.7%	159.9%	142.8%	143.7%	124.8%

*Note:* The figures reflect a savings period of 37 years and an annual contribution of EUR 500, a real rate of interest of 3%, a retirement age of 65 and an average tax rate of 22%. Deductions are calculated on the basis of statutory percentage rates; no account is taken of maximum tax allowance amounts. E=tax exempt, P=partially exempt/partially taxed, T=taxed.

*Source:* Computed from Börsch-Supan and Lührmann (2000)

## *Individual retirement saving:*

**Table 8: Composition of household wealth, Germany, 1978–1998**

	1978	1983	1988	1993	1998
Savings accounts	33,8%	26,7%	25,2%	17,5%	22,2%
Building societies	13,6%	13,0%	9,5%	7,5%	7,5%
Stocks and bonds	16,2%	19,6%	19,7%	31,4%	24,3%
Life insurance (cash value)	36,4%	36,7%	42,4%	33,3%	30,7%
Other financial wealth	0,0%	4,0%	3,4%	10,4%	15,3%
Total gross financial wealth	100,0%	100,0%	100,0%	100,0%	100,0%

**Note:** Household data from the Einkommens- und Verbrauchsstichprobe (EVS).

**Source:** Börsch-Supan, Reil-Held, Rodepeter, Schnabel and Winter (1999) and own computations.

## *Occupational pensions:*

Direct pension promise: 202 bn Euro of 342 bn Euro total

## *Riester 2001:*

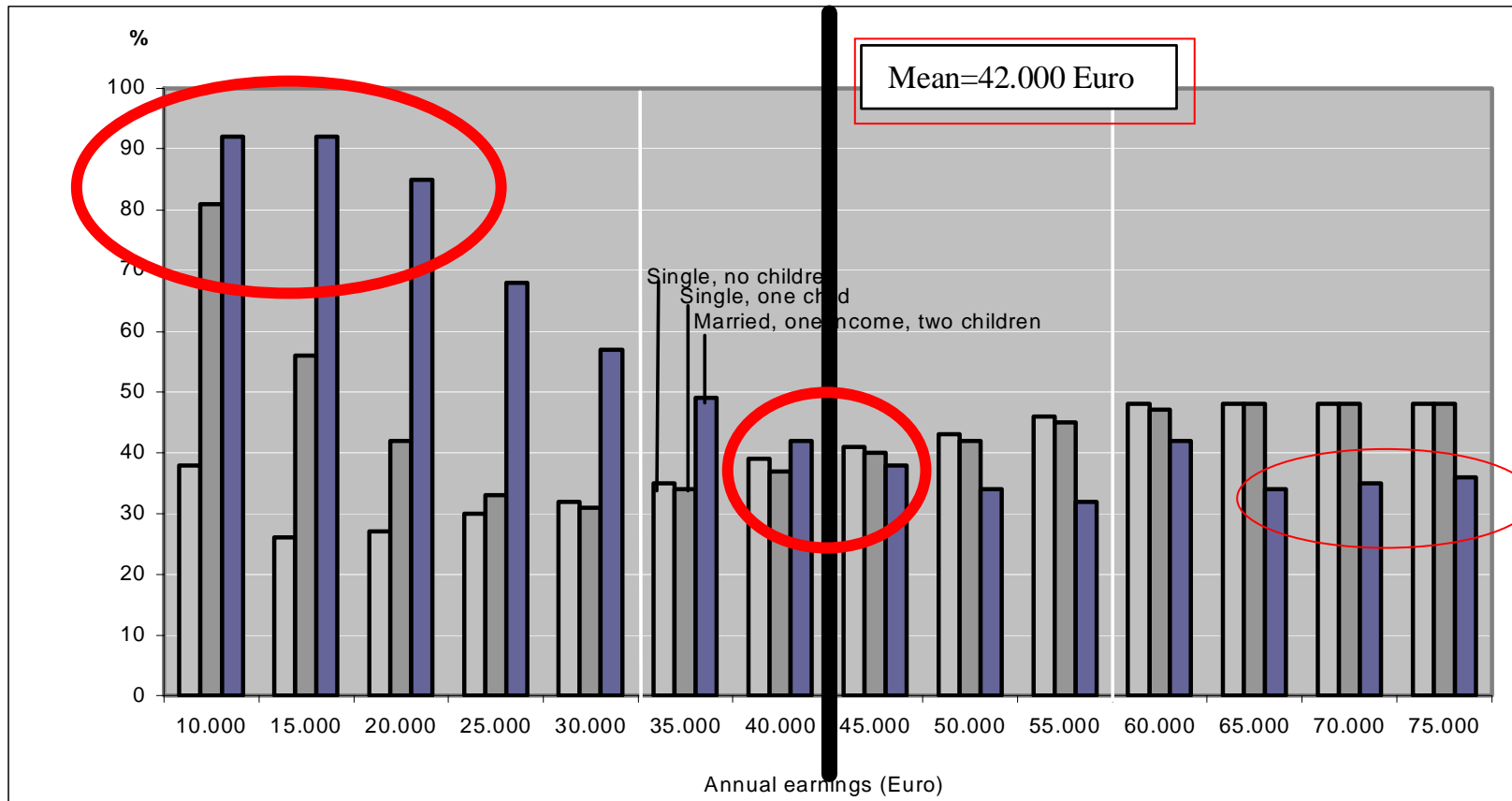
1. Replacement rate down by hypothetical uptake
2. Introduction of IRA-like Riester pensions
3. Deep tax subsidies/credits, plus tight regulation

## *Rürup-Commission I and II, law in 2004:*

1. Replacement rate down by “sustainability factor”  
(indexation by system dependency, quasi notional DC system)
2. Some deregulation of Riester pensions
3. Deferred taxation, plus tax subsidies/credits

# Riester pensions: Tax incentives/subsidies

*Figure 5: Depth of subsidies to Riester pensions*



*Note:* Direct subsidy/the tax advantage as a percentage of savings in form of the new supplementary pensions.

*Source:* Deutsche Bundesbank (2002).

# Riester regulations

1. Regular contributions.
2. Benefits paid out when beneficiary reaches age 60/retirement age.
3. Accrued contributions (inclusive of subsidies) guaranteed (i.e., nominal return nonnegative).
4. Benefits must be a life long annuity or a disbursement plan.
5. Disbursement plan must continue to provide benefits until age 85, then life long annuity.
6. Supplementary survivor's coverage must not offset original plan.
7. Initial commission and administrative charges must be spread equally over at least 10 years.
8. Information must be provided on administrative and switching cost, and investment policies, including ethical, social and ecological investment criteria.
9. Claims to pension benefits cannot be transferred to third party (incl. not be bequeathed).



## *Take up of Riester pensions*

1. Very sluggish (2 mio out of about 35 mio)
2. IRAs in the 1980s? 401(k)?
3. Stalling since 2003

## *Evidence Boeri-Börsch-Supan-Tabellini:*

1. People like mandatory retirement saving
2. Con: Tax character, implicit guarantees
3. Pro: Implicit guarantees, moral hazard, self-control issues

### *Long-run PAYG vs. retirement saving:*

- Almost perfect substitution: communicating pipes
- How long is the long run?

### *Short/medium run role of tax relief:*

- Taxes shift saving among instruments
- Effect of even very deep tax relief/subsidies can be offset by restrictions on demand/supply side
- Costs of deferred taxation are high, unless double tax

*Information about PAYG evolution!*