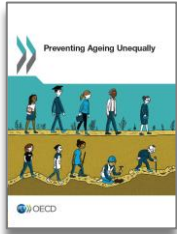


Preventing Ageing Unequally

How does GERMANY compare?



How will future retirees fare? The OECD report *Preventing Ageing Unequally* examines how the two global mega-trends of population ageing and rising inequalities have been developing and interacting, both within and across generations. Taking a life-course perspective the report shows how inequalities in education, health, employment and income interact, resulting in large lifetime differences across different groups. Drawing on good practices in OECD countries, it suggests a policy agenda to **prevent** inequality before it cumulates; **mitigate** entrenched inequalities; and **cope** with inequality at older ages. The report points to strong policy complementarities and synergies and thus a whole-of-government approach is likely to be much more effective than a series of separate inequality reducing policies. In particular, to ensure a better retirement for all, policies have to be coordinated across family, education, employment, social ministries and agencies.

Overview – Old-age inequality risks are building up despite current economic prosperity

Income inequality has been growing from one generation to the next in Germany: it is estimated to have increased by more than 10% between those born in the 1950s and 1980s (three percentage points in terms of the Gini coefficient), following a similar increase between those born in the 1920s and the 1950s. Poverty rates among the working age population have also grown over recent decades while they declined for people at retirement age.

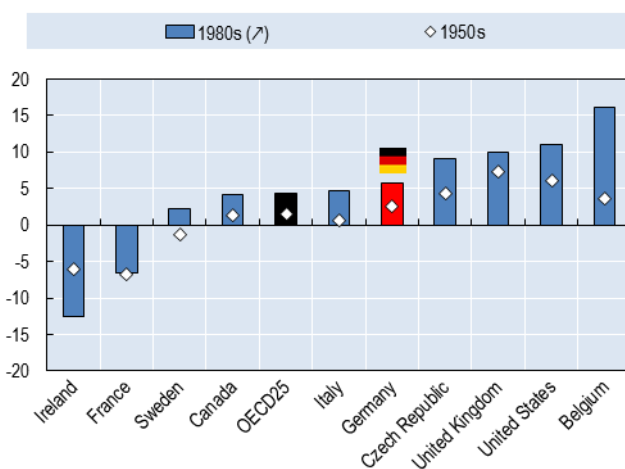
One big reason for the rise in inequality is that the pay gap between the highly educated and their lower educated peers is much higher nowadays than it was 40 years ago. Globalisation, the transformation from an industry to a service economy and technological developments like automation and digitalisation are leading to polarisation in the labour market: while needs for both

high- and low-skilled workers has been increasing, the demand for medium-skilled workers has been falling, hollowing out the middle and increasing social and economic risks for this group.

The rise in wage inequality will be reflected in higher inequality among pensioners, as the German pension scheme links pension entitlements closely to life-time earnings. The projected net pension replacement rate of 55% for low-earners, who are starting out in the labour market today, is far below the OECD average of 75%. Germany today has the largest gender pension gap among OECD countries (46%) and many women work part-time meaning that gender pension gaps will persist. Neither basic nor minimum pensions exist, so individuals with low pension entitlements will have to rely on the means-tested old-age safety net, which amounts to only 19% of average earnings compared to 28% in Austria and 40% in New Zealand.

Income inequality has grown considerably in Germany

Estimated change in income Gini across birth cohorts

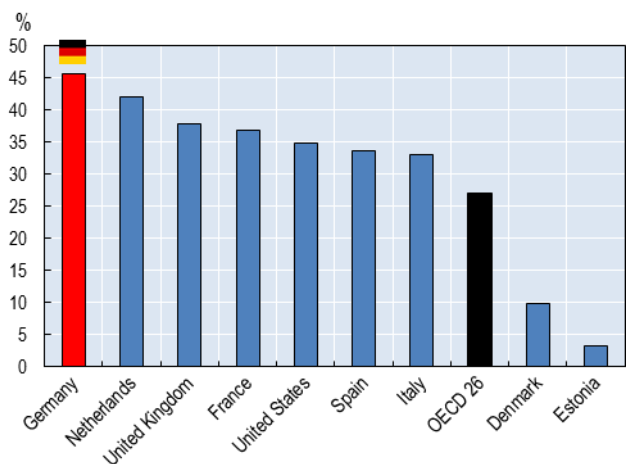


Notes: Changes in income Gini at the same age across birth cohorts in p.p., average across age groups, cohort reference = 1920s. Data for Germany before reunification relate to West Germany.

Source: OECD calculations from LIS data. See [\[Figure 1.5\]](#).

Germany has the largest gender pension gap among OECD countries

Relative difference in women's pensions compared to men's



Note: The gap is computed as the difference in average pensions across genders divided by male's average pensions.

Source: For European countries: EU-SILC 2014 and 2013, for USA EBRI Databook on Employee Benefits Updated 2010. See [\[Figure 3.15\]](#).

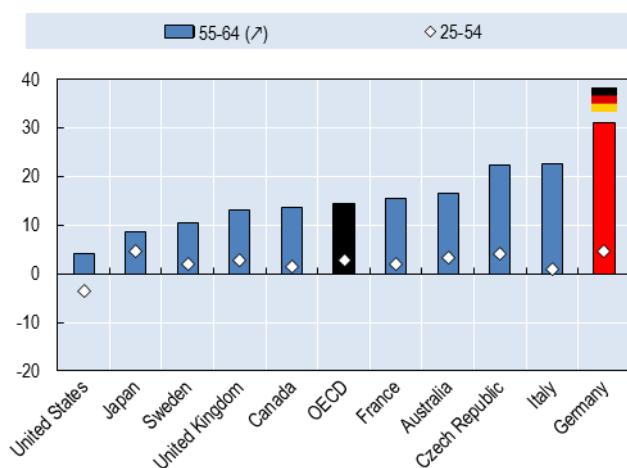
Germany has made impressive progress in employment rates across all levels of education, in particular of older age groups (31 percentage points for those 55-64 since 2000 compared to an OECD average of 14 p.p.), and of women of all ages. This will help cushion inequality and poverty risks as Generation Y ages. Moreover, more and more people are attaining tertiary education, which improves their employment prospects.

Yet, certain population groups, like single mothers and low-educated, low-paid workers are still facing lower earnings and employment chances and will be most at risk of old-age poverty. In addition, digitalisation and an increase of non-standard jobs may also increase retirement income risks, as not all workers might be covered or contributing enough for adequate pensions.

Moreover, health inequalities are still prevalent in many OECD countries and Germany is no exception. Health problems at older working ages may limit the opportunities to mobilise people's potential to work beyond the statutory retirement age and limit people's well-being at old age. While life expectancy differences between east and west Germany have diminished considerably since reunification, differences between men and women and between different levels of education remain. Moreover, being overweight or obese is already a wide-spread problem among older Germans, particularly women. Unless this problem is tackled at younger ages, it will further increase risks of long-term care needs and put pressure on Germany's public long term care insurance scheme.

Employment rates of older workers increased significantly in Germany

Change in employment rates, older vs prime age workers between 2000 and 2016

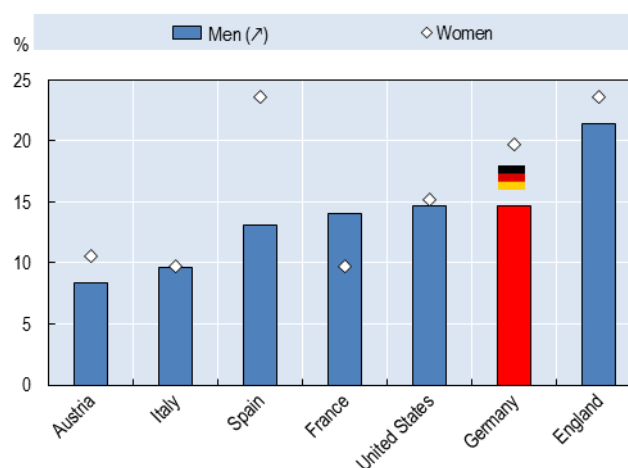


Notes: Percentage point change.

Source: OECD calculations from OECD Education database. See [Figure 1.13].

Obesity rates are high among the 80+ in Germany

Prevalence of obesity among the 80+



Source: Börsch-Supan (2016); 2006 English Longitudinal Study of Aging; United States Health and Retirement Study 2006 as cited in Solé-Auro (2016); Solé-Auro and Crimmins (2013). See [Figure 6.11].

Disadvantage in health and income start early in life, reinforce each other and compound over the life course. Substantial savings of public expenditure could be made if income, wealth, education and health inequalities were picked up earlier and addressed at younger ages. A comprehensive policy approach for Germany, therefore, would start by providing affordable and good quality childcare and improving the education chances of children from disadvantaged socio-economic groups. Breaking the links between socio-economic disadvantage and health status should be an integral part of this strategy. In addition, since moving from education to the labour market is a decisive turning point in people's lives, ensuring a smooth school-to-work transition is vital for preventing unequal ageing. Access to social protection and continued training throughout the working life will be essential to limit old-age inequality and avoid skill shortage in the upcoming digital transformation. Finally, in conjunction with preventive measures, mitigation of entrenched inequalities is needed to reduce inequalities and halt their progression. Attention therefore also has to be paid to mitigating old-age poverty risks for those retirees who, despite all efforts, were not able to contribute sufficiently throughout their career.