

## Does pension privatization increase old age poverty? A comparison of Germany and Great Britain

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The strengthening of private provision for old age, which was a major part of the recent pension reforms in Germany, has raised concerns about a potential increase of old age poverty in the future. In Great Britain, reforms towards an expansion of private provision for old age were undertaken in 1986 already. As a consequence, a lot of individuals contracted out of the state earnings-related pension scheme in favour of private pension plans. This development was followed by an increase in relative poverty rates of the elderly, which remain at a very high level compared to other European countries till today. In contrast, poverty among the elderly is at a low level in Germany where private pension provision plays only a minor role. In recent years, both countries have introduced specific means-tested benefits for retirees to cope with old age poverty.

This study compares the incidence and determinants of relative income poverty among retirees in Great Britain and Germany in the years 1992 to 2006. It examines the question of what role the composition of pension provision, and especially the expansion of private provision, plays in explaining poverty in old age. Therefore, the development over time and the effects of pension privatization reforms are analyzed.

Two retiree cohorts are differentiated: (1.) Individuals who retired before the mid 1990s (birth years 1910-29) and those who retired after the mid 1990s (birth years 1930-43). The analysis group consists of individuals who are retired and older than 60 years. Data from the German Socio-economic Panel (GSOEP) and the British Household Panel (BHPS) is used to estimate the impact of income composition on the poverty risk.

In a first descriptive analysis step, the "income portfolios" of poor and non-poor retirees are compared to analyze the relative importance of public, private and occupational pension benefits in Germany and Great Britain. While the income composition are homogenous and dominated by the public pension in Germany, in Great Britain differences between poor and non-poor individuals appear, the latter having generally a greater mixture of income sources. Besides, also for poor elderly the share of private and occupational pension income has increased during the last decade.

In a second analysis step, fixed effects estimations are used to estimate the impact of individual level variables, especially the share of pension income sources on the incident of poverty during retirement. The *preliminary* findings show that the income composition plays a significant role only in Great Britain, whereas in Germany demographic factors play a larger -but decreasing- role. Furthermore, in Great Britain cohort differences exists with regard to the effect of the income from public pension: While in the first cohort, a higher share of any pension income source does reduce the poverty risk, in the second cohort the public pension income has no effect. The newly introduced minimum income benefits have a significant positive impact only in Great Britain.

The example of Great Britain shows that pension privatization alone cannot be blamed for high old age poverty. Rather the level of the public pension, which is the main income source for low income groups, plays a crucial role in poverty alleviation. Public minimum benefits have a positive effect in Great Britain, but might reduce saving incentives for low income groups, and thus lower the participation in private pension plans in the long run. For the future situation in Germany it can be concluded that a reduction of the public pension level can lead to an increase in old age poverty if no effective minimum income benefits exist.

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