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

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Starting point: Pension privatization and poverty in old age

Country sample: Germany and Great Britain
Both countries differ with regard to the role of private and occupational pension provision:

- **Multi pillar pension system of Great Britain**: reforms towards an expansion of private provision for old age at the end 1980s. Flexibility and free choice of pension provision
- **State-centred** social insurance pension system of Germany: Private and occupational pension provision play a minor role. Strongly regulated and obligatory public pension system.

Research Questions
What role does the income composition during retirement in explaining income poverty in a multi pillar compared to a state-centred pension system? What differences exist over time, as an effect of privatization reforms?

Income composition in old age and pension reform steps

Income composition of 60+ and pension policy in Great Britain

1988 reform: Easy access to private provision, possible contracting-out from public social insurance pension

1990s: Downsizing of public pension level, contracting-out wave

Recent years: Stricter regulation of private provision, additional public means-tested benefits for low-income elderly ("pension credit")

Income composition of 60+ and pension policy in Germany

Until 1990: Generous public pension benefits and early retirement regulations, specific regulations for East Germany's transition period

1990s: Pension benefit reduction for early retirees and specific groups

Recent years: Introduction of means-tested minimum income benefit especially targeted at elderly ("Grund- sicherung im Alter")

Pension income sources and poverty risk in cohort comparison

Cohort Comparison
1. Cohort: Individuals who retire until the mid 1990s (born 1910-29)
2. Cohort: Individuals who retire from the mid 1990s (born 1930-43)

Assumptions
I. In general, private and occupational pension income components play a larger role in Britain
II. Due to the shrinking level of the public pension in Great Britain, its role for poverty reduction is decreased in the second cohort
III. The newly introduced means-tested benefits should show a positive effect in both countries

Regressions on income poverty during retirement in Britain and Germany (coefficients of fixed effects models)

Great Britain:
- In the first cohort, a higher share of any pension income source does alleviate poverty, this is no longer the case for public pension in the second cohort
- The newly introduced minimum income benefit pension credit does have a positive effect in the second cohort
- Demographic factors have no strong effects

Germany:
- Due to the homogenous income composition, the source of pension income does not play a role in explaining poverty during retirement. Also the newly introduced targeted minimum income benefit shows no effect
- Demographic factors generally play a larger role in Germany than in Great Britain, although the effects are reduced in the second cohort.

... and, does pension privatization increase poverty in old age?
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.