Riester Pensions: the Matching Defined Contribution Savings Scheme in Germany

Axel Börsch-Supan, Michela Coppola, Anette Reil-Held, Daniel Schunk

Munich Center for the Economics of Aging (MEA)
@ Max Planck Institute for Social Law and Social Policy
1. How are Riester pensions designed?
2. How have Riester pensions developed since 2001?
3. Does the targeting to families with children and low-income individuals work?
4. Crowding in/ out w.r.t. other savings
   (a) other private pension schemes
   (b) financial wealth, housing, bequests
1. Design of Riester pensions: Tax credits and deductions

Table 1: State incentives for supplementary pension provision.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1%</td>
<td>38</td>
<td>46</td>
<td>525</td>
</tr>
<tr>
<td>2004/05</td>
<td>2%</td>
<td>76</td>
<td>92</td>
<td>1050</td>
</tr>
<tr>
<td>2006</td>
<td>3%</td>
<td>114</td>
<td>138</td>
<td>1575</td>
</tr>
<tr>
<td>2008</td>
<td>4%</td>
<td>154</td>
<td>300</td>
<td>2100</td>
</tr>
</tbody>
</table>
1. Design of Riester pensions: Extent of matching

Subsidy as percent of total (!) contribution

Note: Direct subsidy/the tax advantage as a percentage of savings in form of the new supplementary pensions. Source: Deutsche Bundesbank (2002).
2. Riester pensions: Uptake

- Home-annuity contracts (Wohn-Riester)
- Investment funds contracts
- Bank savings contracts
- Insurance contracts

16 mio contracts
2. Uptake relative to other private pension instruments

Spread of private pension provision

Source: SAVE 2003 - 2010

- Riester-pension
- Occupational pensions
- Private-pensions
2. Multiple private instruments

Households with multiple pension schemes

Source: SAVE 2003 - 2010

- No old-age provision
- One Instrument
- Two Instruments
- Three Instruments

<table>
<thead>
<tr>
<th>Year</th>
<th>No old-age provision</th>
<th>One Instrument</th>
<th>Two Instruments</th>
<th>Three Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>14%</td>
<td>10%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>2004</td>
<td>20%</td>
<td>13%</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>2005</td>
<td>19%</td>
<td>9%</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>2006</td>
<td>23%</td>
<td>19%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>2007</td>
<td>28%</td>
<td>18%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2008</td>
<td>27%</td>
<td>18%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2009</td>
<td>30%</td>
<td>20%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>
2. Uptake by age
2. What happened in 2005? ... and what in 2008?

2008: Financial crisis, 4% limit reached

2005: Design simplification

- Home-annuity contracts (Wohn-Riester)
- Investment funds contracts
- Bank savings contracts
- Insurance contracts

Contracts:
- 16 mio contracts
- Financial crisis, 4% limit reached
- Home-annuity contracts (Wohn-Riester)
- Investment funds contracts
- Bank savings contracts
- Insurance contracts

Years:
- 2001
- II/2001
- IV/2001
- II/2002
- IV/2002
- II/2003
- IV/2003
- II/2004
- IV/2004
- II/2005
- IV/2005
- II/2006
- IV/2006
- II/2007
- IV/2007
- II/2008
- IV/2008
3. Targeting: Families with children

Spread of Riester-pensions by number of children

Source: SAVE 2003 – 2010
3. Targeting: Families with children

Pension provision by number of children
Proportion of households with private pension schemes

Source: SAVE 2010

- Riester-pension
- Occupational pension
- Other private pensions

all instruments higher, but especially Riester
3. Targeting: Household income quintiles

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>10%</td>
<td>30%</td>
<td>50%</td>
<td>70%</td>
</tr>
<tr>
<td>Q2</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Q3</td>
<td>30%</td>
<td>50%</td>
<td>70%</td>
<td>90%</td>
</tr>
<tr>
<td>Q4</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
<td>100%</td>
</tr>
<tr>
<td>Q5</td>
<td>50%</td>
<td>70%</td>
<td>90%</td>
<td>110%</td>
</tr>
</tbody>
</table>

Quintile percentages show a trend from Q1 to Q5, with a peak of 5.6 times higher in Q3 compared to Q1, and 4.6 times higher in Q5 compared to Q1.
3. Targeting: Household disposable income

Private pension provision by disposable income
Proportion of households with private pension schemes

- Riester-pension
- Occupational pension
- Other pension schemes

-all instruments higher for the wealthier
-Riester especially high among low income

Source: SAVE 2010
4. Crowding in/out/what?

Figure 2: Substitution among savings types ("Crowding out")
4. Crowding in/ out/ what w.r.t. to other pension instruments

Bivariate probit specification:

<table>
<thead>
<tr>
<th></th>
<th>Specification A: income in quintile dummies</th>
<th>Specification B: income in quadratic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Riester</td>
<td>Other private pensions</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Mc-Fadden R²</td>
<td>0.137</td>
<td>0.136</td>
</tr>
<tr>
<td>Rho [Chi²(1)]</td>
<td>0.055 [1.32]</td>
<td>0.060 [1.54]</td>
</tr>
<tr>
<td>Number of observations</td>
<td>2255</td>
<td>2255</td>
</tr>
</tbody>
</table>

Absolute value of z statistic in parentheses, * significant at 10%, ** at 5%, *** at 1% confidence.

Covariates include HH demographics, income, education, occupation, financial literacy et al.

- positive correlation means crowding **in**!
4. Crowding in/ out/ what w.r.t. to non-pension saving

<table>
<thead>
<tr>
<th>Saving motives:</th>
<th>Specification A</th>
<th>Specification B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason for saving: Buy real estate</td>
<td>specification A</td>
<td>specification B</td>
</tr>
<tr>
<td>Reason for saving: Old-age provision</td>
<td>0.229 (3.06)***</td>
<td>0.218 (2.92)***</td>
</tr>
<tr>
<td>Reason for saving: Inheritance</td>
<td>-0.124 (2.32)**</td>
<td>-0.128 (2.39)**</td>
</tr>
<tr>
<td>Reason for saving: State subsidies</td>
<td>0.264 (6.03)***</td>
<td>0.269 (6.13)***</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wealth:</th>
<th>Specification A</th>
<th>Specification B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net financial assets</td>
<td>0.018 (0.76)</td>
<td>0.019 (0.85)</td>
</tr>
<tr>
<td>(Net financial assets)^2</td>
<td>-0.000 (0.46)</td>
<td>-0.000 (0.46)</td>
</tr>
<tr>
<td>Property owner (dummy)</td>
<td>0.081 (0.93)</td>
<td>-0.093 (1.06)</td>
</tr>
</tbody>
</table>

-crowding **out** for saving towards inheritance & housing
-crowding **in** (if at all) for general saving
4. Crowding in/out/what w.r.t. to non-pension saving

Since the subscription of the Riester-contract we are...

Household's income quintiles

Per capita income quintiles

Aggregate private saving rate: 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

9.4 9.9 10.3 10.4 10.5 10.6 10.8 11.7 11.1 11.4

Thus: evidence tends to support *crowding in* also for general saving
Policy conclusions

1. New instruments need time: *Dynamism* only after slow start and substantial simplification of the subsidy design.

2. *Depth* of subsidies could not compensate for *design flaws*.

3. Uptake *only partially* follows subsidy depth (families with children vs. low-income individuals).

4. Nevertheless, Uptake also increasing in *lowest quintile*.

5. *Crowding out*: housing, bequests.

6. *Crowding in*: occupational pensions and other private pensions, and (tendency!) also general and thus total saving.