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Press Release

Only 38 per cent of young adults regularly save for retirement. Second youth study on finance and pension provision shows: Pension reform has missed ambitious goals.

Berlin. Young Germans are more optimistic about the future than ever. Even though they are sceptical about the economic outlook, they scarcely dread unemployment. 95 per cent of the young expect to lead a good life in ten to 15 years from now, and 91 per cent are optimistic about being successful in their jobs. "It has been long since we have seen such an optimistic young generation", says Klaus Hurrelmann of the Berlin Hertie School of Governance and research director of the study. "The good economic situation has reached the minds of young men and women." However, he is concerned about one result: Only 38 per cent of the young aged 17 to 27 regularly save for retirement in addition to the state pension scheme. "With respect to old-age provision, which is a question of vital importance, the young feel overstrained, ill-informed and abandoned by the state and politics. Most of today's young Germans run the risk of poverty in old age. In particular, young women face old-age poverty."

On behalf of the pension scheme MetallRente, the social research institute TNS Infratest Sozialforschung carried out a representative telephone survey, and – just as with the first study in 2010 – interviewed 2,500 adolescents and young adults aged 17 to 27.

Heribert Karch, managing director of MetallRente, comments on the results of the study: "To a large extent, the pension reforms of the past years have missed their ambitious goals. The decreasing pension levels are not adequately compensated by additional pension plans. What is alarming is that it affects mainly the young. Of all generations, the young may turn out to be the losers of the reform."

Willing to save for retirement, but overstrained

Most of the respondents of the study realize that they must make provisions for their retirement. Their mainly optimistic view of the future does not beguile them into being careless but comes along with rational planning (82 per cent) and a socially engaged attitude (84 per cent). "With this result", says Klaus Hurrelmann, "the study clearly contradicts the predominant public opinion and popular clichés. The young generation in Germany is willing to save for retirement."

The study reveals that the young are money-conscious. 55 per cent of them save regularly and another 30 per cent sporadically. This is a little more than three years ago. 89 per cent of all respondents believe that additional savings are generally necessary to avoid old-age poverty. "The word has got around: Based on the current status, they will get less than 40 per cent of their gross salary and will not be able to make a living on that. But they are uncertain about how to manage their old age provision in times of the financial crisis, the Euro crisis, and unpredictable future prospects", says Mr. Hurrelmann. Only 63 per cent of those who actively save invest their money into pension plans. Instead, they are increasingly investing into vocational training and academic studies in order to be fit for the labour market. Also, they are saving more for holidays and travel. "The young feel overstrained when it comes to saving money for something that will happen in 40 years time. This is a perfectly understandable reaction, which was not taken into account during the reform back in 2001."

Call for the state

The financial literacy of the young leaves much to be desired. Just under half of the respondents classify themselves as financially competent. Only a minority believe that they can explain terms like “occupational pension scheme” (38 per cent) or “Riester pension” (31 per cent). An understanding of these terms, however, is of crucial importance for retirement savings in addition to the state pension scheme. Not surprisingly, young people who are insecure and uncertain about the return of capital-based pension plans are calling for the state. 82 per cent of our respondents are confident that the state will provide good pensions even in the future. Of those who do not save, 52 per cent believe that the state is responsible for pension provision, compared to only 42 per cent three years ago. “They would prefer the state to guarantee their pension provision so that they do not have to decide at their own risk during times of crisis”, explains professor Hurrelmann.

Just like the first study, this survey reveals the lack of financial literacy among the young generation. “The legislator has imposed a lot of responsibility on the young, but has failed to equip them with adequate knowledge about pension plans”, criticizes Klaus Hurrelmann. In particular, the financial knowledge of women should be improved. Even though young women generally save more than young men, their share of old-age provision is too low. The authors believe that more education is badly needed. Education alone, however, does not protect people from making serious mistakes. On the one hand, it is important to offer intelligible and clear pension plans that consider the planning horizon and the attitude of young people. On the other hand, efforts must go further. “Better framework conditions for collective processes of pension provision are needed in order to overcome this mental overload”, emphasizes Heribert Karch.

Increasing support of occupational pension plans

In addition to the state pension system, the young particularly trust in occupational pension plans. The survey shows that since 2010, those who save for retirement increasingly opt for occupational pension plans. Figures have grown from 31 per cent in 2010 to 38 per cent. 43 per cent of young adults aged 25 to 27 who save for retirement have an occupational pension plan. Stable industrial relations at the company apparently create confidence. At the workplace, the need for additional pension savings can be conveyed in a reliable and cost-effective way. 67 per cent of the respondents that have an occupational pension plan receive a contribution from their employer.

“A pension system that enjoys people’s trust and appreciation deserves more support. The framework conditions for this institutional form of pension provision must be improved”, says Mr. Karch. The company parties should be supported in their endeavour to offer each and every employee automatic and full access to collectively agreed occupational pension plans. The different existing offers at company and industry level should be given a greater margin for implementation. Heribert Karch states: “Occupational pension needs a clear political commitment: more legal certainty for collective models of participation, more fiscal flexibility, and fairer social security contributions. The longer political decision-makers half-heartedly pursue their policies or even let them slide, the greater the danger that young people fall back on the state and turn their backs on the reform process”.

The study "Jugend, Vorsorge, Finanzen – von der Generation Praktikum zur Generation Altersarmut?" has been published by BeltzJuventa and is available at bookshops. ISBN 978-3-7799-2881-2.

Link and book extract:

<http://www.beltz.de/de/verlagsgruppe-beltz/gesamtprogramm/detailansicht/titel/jugend-vorsorge-finanzen.html>

Download the press kit at: www.metallrente.de

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MetallRente was founded in 2001 by the two major social partners Gesamtmetall and IG Metall. Today, MetallRente is Germany's largest industrial pension scheme. It offers additional occupational and private pension plans as well as plans for vocational disability and surviving dependant's pensions. Besides the metal and electronic industries, MetallRente has been joined by the wood, synthetics and textile industries and similar handicrafts.