The German government's "pension reform": A travesty for pensioners in poverty

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The recent "reform plans" of Ursula von der Leyen (conservative Christian Democratic Union), Germany's federal minister for labour and social welfare, are supposed to prevent poverty among the elderly. In fact the plans are not worth the paper they are printed on.

The proposed tax-financed increase in pensions for low income earners will not prevent poverty in old age. Rather, it bears all the signs of a crude deception. It is designed to hide the fact that the government and its predecessors have done everything possible to undermine and destroy the social systems that formerly saved the elderly and the sick from a complete collapse into poverty.

Due to take effect in 2013, the "reform" allegedly guarantees a monthly pension of €850, particularly to women who have raised children or nursed relatives on an extended basis. It is already virtually impossible today to make ends meet with such a small pension. This will become even less possible within the next couple of years, when the population faces price increases and a constant rise in rents and charges for energy, water, public transport and other services.

Secondly, hardly any of the approximately 400,000 elderly people who currently have to scrape by on the state's paltry €650 basic social security allowance because their pensions are not sufficient, and few of the country's future pensioners, will benefit from the "reform". This is the case because the requirements to qualify for the subsidised pension have been compounded in such a way that hardly anybody will be able to fulfill them. Even Von der Leyen herself is reckoning with a mere 17,000 people who would be able to benefit from her much-heralded reform.

Whoever wants to apply for the €850 will not only have had to pay into the pension fund for 45 years and worked for at least 35 years, but also to have taken out private pension insurance. The minister dismissed criticism of these prerequisites, arguing that the minimum contribution for a Riester pension (voluntary supplementary pension promoted by the state) was only €5. Apart from the fact that €5 is a lot of money for the poor when there is hardly enough at month's end for even a hot meal, many low-wage earners are unwilling to contribute to a Riester pension because—even if they were entitled to it—existing regulations would preclude them from drawing a cent more than the basic social security allowance (€650).

Despite a few possible concessions, the 45-year period of contributions is set unrealistically high. Although periods of unemployment, schooling, training and higher learning are to be considered pensionable years, in contrast to current regulations, women who have been absent from their job for a long time will profit little from the new scheme.

Time spent raising children, caring for relatives and doing mini-jobs will also be counted as insurance contribution years. But this will apply only if additional top-up contributions are paid into the pension fund. What housewife or widow from the lower income levels will be able to afford that?

All things considered, only a few of the broadly based long-term unemployed and the many who have given up trying to register as job seekers will be able to meet these criteria. The vulnerable self-employed, whose incomes are barely enough to support them and who are therefore rarely able to invest for their retirement, will get absolutely nothing because the "reform" applies only to employees.

Given the "debt brake" (constitutional restriction on loans made by the state), Von der Leyen's plans are also sure to be subjected to austerity measures during the legislative process. They will therefore not allay the rise in old-age poverty, but merely give the impression that something is being done about it.

Poverty in old age will increase.

In August, the media frequently reported on several indicators pointing to a dramatic increase in the poverty of elderly people in Germany.

The Organisation for Economic Co-operation and Development (OECD) warned last week that millions of Germans are threatened with poverty in old age. Germany was said to be at the bottom of the international league table when it came to old-age security for low-income earners. This is due mainly to the numerous "containment measures" of recent years, which have allegedly secured the pension systems in the face of demographic change. These measures have actually exacerbated poverty in old age and will leave future generations of pensioners unable to live from their retirement income unless they have taken out additional private insurance.

However, it is doubtful whether people will be able to rely on an income from "private provision", given the turmoil in financial markets. Many pensioners in the US—where private provision is traditionally much more common—were plunged into poverty by the financial crisis, because their pension funds suffered massive losses or their savings suddenly became worthless.

Poverty in old age means that sections of the population no longer working are unable to meet their needs through resources either from their own assets or from the state and private pension systems.

It is assumed that retirement conditions have never been as good as they are for the current generation of pensioners, and that poverty in old age is a rare phenomenon. As proof of this it is argued that only slightly over 2 percent of current retirees have applied for an increase in their pension benefits via the so-called basic (welfare) allowance.

But poverty in old age is certainly not a rarity. The number of recipients of basic welfare benefits among the elderly and people handicapped by a reduced earning capacity has increased by more than 40 percent. In addition to this, there are many elderly people—especially women—who don't dare or are ashamed to claim the basic social security allowance, and would rather try to save by cutting down on food and clothing, or reducing expenditure on cultural activities or health products.

Welfare organisations assume that at least three-quarters of the old-age poor have not applied for basic social security benefits. As a result, they have to devote about 40 percent of their meager pension to paying for housing, which is without central heating or a bath in almost 60 percent of the cases.

Working despite being retired

More and more retirees are taking on marginal part-time and temporary jobs (office cleaning, delivering newspapers, etc.) to supplement their pensions. The established political parties interpret this to mean that these elderly people still feel quite fit, and the retirement age can therefore be further increased. In fact, most working retirees seek employment simply because they cannot live on their pensions.

Coming into retirement are an increasing number of people who have been unemployed or marginally employed, and therefore receive very inadequate pensions. Consequently, the number of working pensioners has increased by 60 percent within a few years. In 2010, about 660,000 people between the ages of 65 and 74 were employed in marginal jobs. According to the welfare associations, this amounted to an increase of 244,000 over the year 2000.

There has been an increase in the number of pensioners who were able to bring themselves to apply for the so-called basic state welfare benefits in addition to their normal pension. However, the number was still quite low at approximately 400,000 in 2009. It had only been 258,000 in 2003.

The increase in old-age poverty is primarily due to the widespread low-wage employment sector—for which the Social Democratic Party (SPD) and the Greens are responsible—and Von der Leyen's cuts in the social welfare budget.

The federal minister only recently made drastic cuts in her budget for the poorest of the poor in order to make savings for other already underfunded programmes. Typical in this respect is the "education package" for poor children, which deliberately allows discrimination and stigmatisation to flourish for the sake of reducing costs. In order to fund the "educational package", for example, the state will no longer contribute to pension insurance for the long-term unemployed.

The termination of pension contributions in this area alone will bring savings of €2 billion from the welfare budget each year. Poverty in old age will also be augmented by the cuts in disability pensions for people whose working hours are limited because of ill health.

As in society as a whole, the incomes of the elderly are very unevenly distributed. There is certainly a layer of well-insured pensioners who have been able to secure a good retirement income due to the long-term employment and relatively high wages they enjoyed. However, such a happy outcome has in recent decades been denied to a growing percentage of the population in the wake of the economic crisis, neoliberal economic policies and particularly the introduction of the Hartz welfare regulations by the SPD-Green government.

The press has recently taken up the case of former East German female divorcees who accumulated only a limited number of pensionable working years, because they were raising children. They receive paltry monthly pensions of between €250 and €650, but no compensatory maintenance contributions from their former husbands, because such a provision was not incorporated into former Stalinist German Democratic Republic (GDR) law—nor was it part of West German law prior to 1977. Politicians of the established parties cynically exploit the current legal situation, hypocritically regretting that the state "can do nothing" for these women.

These and other elderly people reduced to living in poverty can only be helped by an unconditional basic income financed from the taxation of society's super-rich.