

# Growing Pensions Through Investment

## What Germany can learn from the United Kingdom and Sweden

Germany needs to set a new course for its pension policy. The country's over-reliance on the pay-as-you-go system must be reduced by strengthening asset-backed pensions. An international comparison highlights the gap that needs to be closed: in Germany, the assets earmarked for retirement amount to 6.4% of GDP, compared with an OECD average of 95.2%.

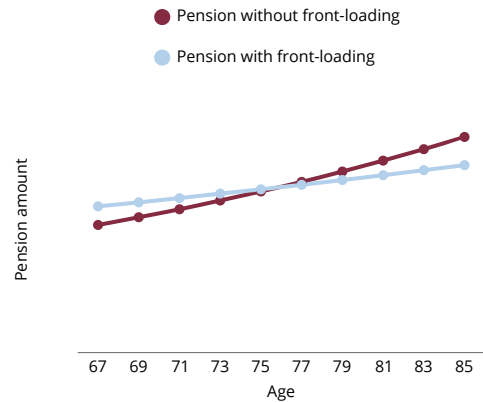
Reform options (country)	How it works	Application in Germany
Automatic enrolment (United Kingdom)	Automatic enrolment in occupational pensions schemes, with a right to opt out for employees; 82% participation rate	Introduce an opt-out model to make occupational pension schemes more widespread. Gradually increase the minimum contributions so as not to place an excessive burden on companies and employees.
NEST (United Kingdom)	NEST is a state-run occupational pension scheme that all companies can use	Germany should establish a state-run occupational pension scheme. This will mitigate the risk that small businesses and companies with a low-wage workforce will not be served by the market, as their contribution volumes are too low.
Premiepension (Sweden)	Under Pillar 1, 2.5% of pensionable earnings is mandatorily invested in an asset-backed scheme, known as "premiepension"	Sweden demonstrates that an asset-backed pension system can also be introduced into the statutory pension scheme.
Front-loading (Sweden)	When the pension starts, a portion of future pension increases is brought forward – a process known as front-loading. As a result, the initial pension is higher and consequently rises more slowly over time (see fig. Front-loading).	Front-loading can mitigate the drop in income upon retirement and thus increase support for necessary reforms.
Link to life expectancy (Sweden)	Automatic linking of key age thresholds to life expectancy	Once the agreed increase in the standard retirement age to 67 has been completed, Germany should introduce a rule-based mechanism linking the retirement age to future changes in life expectancy. This would prevent longer life expectancy from automatically leading to longer periods of pension receipt. At the same time, such a rule would depoliticise the adjustment of retirement ages.
Pension Group (Sweden)	The "Pension Group" is a cross-party body in which changes to the pension system are agreed upon. Reforms are only pursued if they can achieve consensus within the group. This decouples pension policy from short-term party political interests.	Germany should establish a pensions committee modelled on the Pension Group. This could either be attached to the Parliamentary Advisory Council on Sustainable Development and Future Issues or set up as a new body along similar lines. Alternatively, the remit of the Social Advisory Council could be expanded.

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## Front-loading

Sweden uses front-loading to cushion the drop in income when people retire. When a person starts receiving their pension, a portion of future pension increases is brought forward. This means the initial pension is higher and consequently rises more slowly over time.



## Why more asset-backed pensions?

1

### GREATER FINANCIAL LEEWAY

Funded schemes bring additional financial leeway into pension provision. This flexibility can be used to increase retirement income and/or relieve the burden on the pay-as-you-go system.

2

### MORE RESILIENCE

Pension provision depends less on the ratio of contributors to pensioners.

3

### MORE TRUST

Visibly accumulated wealth will boost the younger generation's confidence in pension policy.

4

### MORE GROWTH AND INNOVATION

Late-stage venture capital will support the necessary structural shift towards more high-tech companies.



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