

Main elements of the pension model of the IWG BONN

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1. The state pension scheme for elderly, disabled and orphans consists only of a basic pension.
By introducing a basic pension, the State guarantees that no citizen will become destitute in case of age, disablement or as survivor incapable of earning his living. Any provision that exceeds the basic needs should be in the responsibility of the individual.
2. Every citizen who fulfils certain requirement is entitled to the basic pension. It will be granted without any means test.
The requirements for a basic pension for elderly are 63 years of age and 25 years of tax liability after majority. Besides the basic pension, the entitled person can continue working. Special requirements apply to disabled and survivors. By guaranteeing a general basic pension, everybody will be treated alike: men and women, working and non working population, employees in the public and private sector, self-employed and employed, native and foreigners.
3. The gross basic pension amounts to 52,5 % of national income per capita. In case of postponement beyond the age of 63, the basic pension increases based on actuarial principles, approximately by 0,3 % per month. The possibility to draw a higher basic pension in case of postponement should be an important element of the future old age security system. The idea is to create an incentive to either refer to private wealth in the first instance or to continue working beyond the age of 63. Taking the future demographic and labour market problems into account, work beyond the age of 63 could be politically very desirable in the next century.
4. Persons entitled to a basic pension have a tax-exempt amount according to the level of the basic pension.
5. The basic pension is exclusively financed out of tax income. Income should be increased by increasing indirect taxation by 60 % and direct taxation by 40 %. At the same time the pension contributions of employers and employees are abolished. They will have to be redistributed between employers and employees according to a ratio which is still to be defined. There are two reasons to finance the basic pension through general taxation:

- As everybody draws a basic pension, everybody - working or not - should take part in its financing. This can be best achieved by using the tax-system.
 - The basic pension has a distinct redistribution effect in favour of people with a poor efficiency. This redistribution can be best obtained in the framework of the tax system.
6. The basic pension scheme is administered by an independent non-governmental body. Alterations of the scheme need to obtain a two tiers majority in parliament. As the pension scheme functions more or less automatically political interventions should be the exception. There should be a broad consensus on every alteration of the scheme.
 7. The basic pension scheme can only be introduced after a transition period of 25 years. During this time
 - the financing of pension through contributions should be replaced by taxation,
 - the dynamization of pensions of the old system (gesetzliche Rentenversicherung) should be limited (dynamization of pensions up to the basic pension according to growth of income, dynamization of the rest of the old pension according to prices),
 - the build-up of future pension entitlements should be slowed down.
 8. Besides the basic pension provided by the State private provision as a second column for old age security must be encouraged. Therefore changes in family and tax policy are necessary.

Gross basic pension 2005 ca. € 850.00 p. month = ca. social subsidy for 1 person household (Sozialhilfe) after deduction of contributions to health and care insurance.

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