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Article

"Poor products at the expense of pension policy holders": Six questions to Kornelia Hagen

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Kornelia Hagen, Senior Research Associate, Competition and Consumers Department at DIW Berlin

SIX QUESTIONS TO KORNELIA HAGEN

»Poor Products at the Expense of Pension Policy Holders«

1. Ms. Hagen, it is ten years now since the Riester pension scheme was first introduced. Since then, have those who have concluded a Riester contract made the right decision? I will try to answer this question using the example of a 35-year-old woman who concluded a contract in 2001 and plans to pay her Riester contributions up until her 67th birthday. This woman will have to reach the age of at least 78 in order to get back out of her savings agreement what she paid in. I would not say this is a good investment, but it is probably safer than any speculative investments.
2. What is the situation with contracts concluded today? People with the same background as this 35-year-old I gave as an example who decide to conclude a Riester contract today get a significantly worse deal. It always depends on how it is calculated; under certain circumstances, the woman has to reach the age of about 90 just to get back the amount she has paid in herself including the premiums granted by the state. It is not even a matter of some kind of surpluses or additional interest that she generates.
3. What is the explanation for this? There are several factors. On the one hand, since the Riester pension was introduced, the guaranteed interest rate has dropped from 3.25 percent to 2.25 percent. The much more significant factor within the Riester pension scheme structure is, however, that life insurers base the calculations for their products on very high life expectancies.
4. What are the biggest problems with the system? The biggest problem is the basis used for the calculations, which is not transparent enough. No lay person knows what life expectancy the life insurers actually use for their calculations. There are no legal provisions concerning these calculations. That is a very important part of it. There are other issues, for instance, the distribution of the surplus funds, which has been changed to the disadvantage of the savers. When crucial decisions had to be taken, the government stepped back and said it was a matter of the insurance industry, although there are regulations and provisions in place. This is difficult to comprehend because, of course, when public funding is being used, the government should also set specific guidelines.
5. Ultimately, is it those who sell Riester products who benefit most from this structure? The insurers would, of course, say this is not the case. The basic problem is, however, that we are dealing with a product that has to be profitable for the private sector. It is understandable that companies want to make a profit, but this is incompatible with the social components. Insofar, I would say, yes, I assume the providers have generated a good profit from Riester products so far.
6. Should we keep the system of subsidized personal and funded pension scheme at all? As they are at present, the products are poor and to the disadvantage of those who are saving and want to make sure they have some provision for their old age. In my view, something needs to be done about it. The matter will probably have to be given further consideration: for example, to decide whether the Riester pension should be turned into a state product with very high regulatory measures, or whether subsidies should be dispensed with altogether. It is my understanding, that the products should not continue to exist in their current form and the public sector should put the money from Riester subsidies into the statutory pension insurance in a way that is more precisely targeted, particularly for individuals in lower income brackets.

Interview by Erich Wittenberg.



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