

"Changing Germany Fairly"

A Summary of CDU programme
for reform of social security systems
December 2003

Germany - like almost all other European states - is experiencing massive population decline. At the same time, the population is ageing at an increasing pace. The number of young people actively involved in working life and paying contributions into social insurance schemes is declining, while the number of older people drawing benefits is steadily increasing.

In a declining and ageing population, expenditure on health, nursing care and pensions necessarily increases sharply, and with it the contributions made to social insurance schemes. Unless reforms are introduced, contribution levels are set to rise from the present 42 per cent of gross income to more than 60 per cent by the year 2050. In such circumstances, few people will continue to wish to work legally. An additional problem is that the link between social costs and labour costs significantly impairs the competitiveness of German products and services.

Any reform of the social security system must therefore aim to permanently reduce the burden on labour costs. In addition, forms of insurance have to be found that are less susceptible to the far-reaching demographic developments that are taking place. This is the case with funded insurance schemes, as they are geared to individual risk. Finally, any reform also has to include a degree of social compensation for low earners and families.

1. Statutory sickness insurance

The statutory sickness insurance system will be changed into a funded, non-income dependent system, and will involve payment of a "**health premium**". This should be introduced as quickly as possible following a change of government.

Based on current prices, the health premium will be **some EUR 180** for adults. This sum will guarantee unchanged revenue for the health insurance schemes and ensure that the current range of services can be maintained and funded.

In addition to the basic payment of EUR 180, a further sum of EUR 20 will be payable towards a funded **old age reserve** that will help meet the higher costs of older insured

persons. After the changeover, this reserve will be actuarially individualised and included in the premium.

The current **employer contribution** to sickness insurance will be frozen at 6.5% and paid out to employees, thus permanently increasing their income by this amount. The sum will be taxable.

Children will continue to be included in their parents' **insurance cover without payment of additional contributions**. However, children's health costs should be paid from tax revenue. This means that in future everybody - not just insured persons - will help fund children's costs according to their ability to pay.

There will be a tax-funded system of **social compensation** for insured persons on low incomes. Compensation will be handled automatically and **without any additional bureaucracy** for the insured persons by the tax authorities and health insurance schemes. For a transitional period of four years following the changeover, measures will be taken to ensure that **no insured person is worse off than before**.

The **upper eligibility limit for social compensation** - on the basis of current contribution levels - should be just under EUR 1,400 for single persons and EUR 2,800 for married couples with only one wage earner. Following the transitional phase, the total premium payable by households (including the old age contribution) should not exceed **15% of household income**. This ensures that everybody will continue to have access to appropriate medical care in future.

2. Care insurance

Care insurance will be **retained** on its present scale, but its scope will be **extended** in view of the increasing number of dementia sufferers. Benefits will be **regularly adjusted** to ensure that they retain their value for the individual requiring care.

The care insurance system will also be converted from a pay-as-you-go system to a **funded, premium-based model**. As in the case of sickness insurance and drawing on the experience gained with this, the changeover should take place as soon as possible,

Employer contributions to care insurance should be **paid out** to employees. Thus these social costs will also be permanently decoupled from labour costs. This will **positively stimulate growth and employment**.

While they are raising children, parents should receive a **premium discount** of EUR 10 per child per month from tax revenue. The CDU rejects the idea of additional premiums payable by childless individuals.

3. Pension insurance

Unless the pension insurance scheme is reformed as soon as possible, there is a danger that contributions will rise so steeply that individuals on normal salaries will no longer be able to pay, or that the pensions paid out will decline to the level of welfare payments or even below. Nobody will then understand why they should make payments for such a tiny pension during their entire working career if welfare benefits can be drawn without having paid any contributions.

The CDU therefore wants to bring about a situation whereby **individuals who have been insured for many years and have always been in full employment will receive a pension that is at least 15 per cent above the relevant level of welfare payment**. To achieve this goal, tax revenue will also have to be used. But this is only acceptable if the pensioner has no other sources of income.

The basic goal of any reform of the old-age pension system is to achieve a **new balance between the statutory pension insurance scheme on the one hand and private old age provisions** on the other. The CDU will drastically increase state support for private old-age provisions.

The effectiveness of pension insurance schemes must also be enhanced by **lengthening the period during which contributions are paid**. This can be achieved by shortening training times, thus ensuring that individuals enter working life and start paying contributions earlier; and it can also be achieved by **rigorous avoidance of early retirement**. The standard guideline should be: **anyone who has worked for 45 years and paid contributions or brought up children/cared for family members should be able to retire with a full pension at the age of 63**. Anyone who has been insured for a shorter period can receive a pension without reduction on reaching the age of 67.

Anyone wishing to retire earlier may only do so if the pension is proportionately **reduced** by an appropriate amount.

Indexation of pensions ensures that pensioners receive a fair share of any rise in levels of prosperity. It must, however, also ensure that **individuals' ability to pay the contributions is not exceeded**. That is why the indexation formula should have a built-in **demographic factor** to ensure that the increase in pensions slows down as life expectancy increases or the number of people in work declines.

Families make a crucial and indispensable contribution to the continued existence of a system of old-age provision based on social solidarity. The importance of families' **role in bringing up children** must be reflected in pension legislation. For this reason the CDU is planning:

- to pay a graduated, tax-funded subsidy of EUR 50 on pension contributions during parenting time
- to improve the system of **recognition of parenting time when calculating pension entitlement**. Future pensioners will receive three points for children born prior to 1992, and five points for children born after that date.

A growing proportion of women are now working, and for this reason women will increasingly be in a position to contribute towards their own old age provisions. This means that in future, **provisions for surviving dependants**, inasmuch as they are derived from the husband, will lose at least some of their importance, and their level can therefore be reduced in the long term. The revenue freed up by this measure should then be used to fund recognition in the pension of parenting time and time spent caring for other family members.

4. Unemployment insurance

Unemployment insurance is designed to cover the risk of an individual losing his job and, as a result, his source of income. In the case of unemployment it pays **benefits to substitute wages**. In order to maintain an acceptable balance between contribution levels and benefits entitlement, payment can only occur over a limited period of time.

That is why the **period of entitlement to unemployment benefit** has to be readjusted. In future, the benefits payable will be based on the length of the period during which insurance contributions have been paid:

- After 12 months of insurance, individuals will be entitled to receive unemployment benefit for a period of six months

- Anyone who has paid contributions for 16 months will be entitled to receive unemployment benefit for 8 months
- After 20 months, benefit can be paid for a period of 10 months
- Anyone who has paid into the unemployment insurance scheme for 24 months or longer will be entitled to benefit payments for a standard period of 12 months
- Individuals aged 55 and above who have paid statutory contributions for at least 48 months will be entitled to payment for 18 months

For a transitional period, in order to maintain confidence, a **special arrangement** will be made to enable those who have paid contributions for 14 years to receive benefit payments for a total of 24 months.

Funding of **short periods of unemployment** will have to involve a greater contribution from the insured person than in the past. During the first month of unemployment, unemployment benefit will therefore be reduced by 25%, provided this does bring an individual down to the level of welfare payments or below.