

Old age spooks Germans

Fewer than half of Germans aged 55 to 64 work. That's just one scary statistic in a nation facing a pension crisis, writes Cherelle Murphy.

On a summer weekend on Island Rügen on Germany's north-east coast, handsome, bow-tied waiters serve litre upon litre of beer to relaxed sunbathers. School holidays have just begun, but there are few buckets and spades on the beach. The pace is slow. The faces are wrinkled. The reclining bodies are sedated by a lifetime of work.

Many of the holidaymakers are over 55 and one of the fundamental issues driving the politics at this weekend's German election is how to cope with an ageing population. Germany's total fertility rate is one of the lowest in the world and life expectancy is increasing. With just 1.37 children per woman, the young generation in Germany is only about half the size of the largest baby-boom cohort. Less than half of the nation's 55 to 64-year-olds work, and their employment rates are well below European targets, according to the European Union's labour force survey. Germany's public pension bill is about 12 per cent of gross domestic product (GDP), which is about 2.5 times as expensive as the United States' social security system. The retirees on Island Rügen don't contribute to social security anymore. (,,) Instead they draw down on this insurance, relying on the handsome, bow-tied waiters not only to deliver their lunch but also their pension cheques. For now there are enough waiters, bankers and doctors to keep them going, but the burden of social security costs and health care is growing and the nation's demographic dilemma means tomorrow's pensioners will live in a Germany that can't afford the level of support that this generation enjoys.

Anne Eckert, 31, from Frankfurt, doesn't expect the same government hand-outs as her parents. "I am convinced that the government will not be able to keep the pension level. And by the time I will retire there is a good chance that I won't get paid anything, maybe apart from a very small pension if I am lucky," she says, (,,)

The Federal Ministry of Health and Social Security projects that 36 per cent of the population will be over the age of 65 in 2050, up from 23 per cent now. That means there are fewer workers available to support the rising number of retirees. And the situation is made worse by Germany's culture of early retirement and the generosity of its pensions. **The pension bill is projected to grow to just over 16 per cent of GDP by 2040, according to the *Survey of Health, Ageing and Retirement in Europe* from the Mannheim Research Institute for the Economics of Ageing (MEA).**

The chancellor, Gerhard Schröder, who is battling to keep the Social Democratic Party in government, has tried to reduce the cost of the welfare state and make the labour market more flexible, but the reforms have proved to be deeply unpopular. Voters may be fooling themselves if they think Angela Merkel's Christian Democratic Union will give them some respite from the reform agenda. (,,) The reality is that whichever party wins the next election, it will have to take a political hit by reining in pensions and health spending, while also trying to convince German employees to work longer.

Hardo Muggenburg, who worked on the German parliament's recent series of studies on demographic change, says virtually none of the recommendations was taken up.

Muggenburg says the really difficult questions about how to reverse, or at least halt, fertility decline for the long-term stability of the country's demographics were not even tackled. (,,)

Charlotte Hoehn, a demographer working for the government's own statistical bureau, also keeps the United Nations informed of Germany's policy responses to population change. She

says Germany's governments have failed to listen to demographers, who have been warning of the pressures of demographic change for 30 years. (,,)

Germany's total social expenditure is now about one-third of GDP and the government can't afford for it to go any higher if it wants to maintain good European relations. Germany and France are already in trouble with the European Commission for failing to keep their budget deficits to below 3 per cent of GDP.

Most German workers are covered by five types of pay-as-you-go social insurance schemes, of which the pension scheme is the largest. The second-largest is health and the others are unemployment, long-term care and occupational accident insurance. Together these make German workers among the most expensive in the world. In a country with an ageing population, even these extreme expenses are doing little to help the government meet rising costs of retirement because the contributions are linked to current wages, not future demands on the system. The government, through the recent Rürup Commission, took measures to improve the sustainability of the social security system. But according to world-renowned demographer Axel Börsch-Supan, of the Mannheim Research Institute for the Economics of Ageing, more work has to be done to convince the public and the legislators that more radical steps are necessary. "Quite clearly, stopping the trend towards early retirement is one policy necessity; adapting the statutory retirement age to increased life expectancy is another one," the professor says in a discussion paper.

The government has taken measures to increase the retirement age and increase the attractiveness of private pensions, which are a small fraction of government-funded pensions. But the experts say there must be more guts in the policies, (,,) In the health sector, pressures on the system are also growing. As in Australia, this is not only because of demographics but also because of medical progress, which is lifting costs. Roland Eisen, from the University of Frankfurt's department of economics, says the government needs to be ruthless by cutting health spending at the very old ages and that may mean "no new heart [transplant] for the old boys". The demographic pressures being faced by Germany are not unique, but population policy has been taboo for most of the postwar years following the extreme interpretations of population shaping used during the Nazi era. "It is seen that the government shouldn't try to influence the bads of the people," says Christian Kutzner, a scientific employee of the Berlin Institute for Population and Development. "That would be seen as immoral." (,,) "Our history matters a lot," she (*Zeit* journalist Elizabeth Neijahr) says, adding that the lingering horrors of the Nazi era explain why there are so few demographic academics in Germany. (,,) Eisen says the winner of this weekend's election would do the country a favour by getting on with the job of cutting the big payments.

"It is only psychology. If we do it today we start to cope with it today." The only other solution, he jokes, is a German equivalent to severe acute respiratory syndrome, or SARS. "Maybe some wonderful illness will hit, and hopefully it will hit the old boys and girls."