

PART II

Chapter 9

**Ageing and the Public Service
in Germany**

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Executive Summary

As in many of the OECD member countries studied, Germany is experiencing a profound structural demographic shift, characterized by a growing proportion of elderly and a decreasing proportion of young people in the population, as well as certain national demographic specificities. These demographic changes are going to have a pronounced impact on the German public service as well as on private industry.

For the public sector, specifically, the foremost ageing challenge is cost containment. Indeed, staffing expenditures are expected to rise by between 15% and 22% over the next 20 years, due to employee ageing. Public pension expenditures are projected to rise from EUR 24.3 billion at present, to 34 billion in 2020, and to 64 billion in 2040, due to the growing number of recipients of state benefits. The two other major short-term challenges are capacity maintenance and labour market attractiveness.

The German public sector ageing policy appears to be limited to date but is set to evolve in the future to gradually better take ageing into account. Paradoxically, at the political level, awareness of the ageing problem seems to be high. Public sector ageing strategies are integrated into government-wide regulatory plans that take into account the anticipated impact of demographic change across all policy areas. From this point of view, the “ageing policy” is a cross-sector project. Ultimately, the public sector ageing strategy can be boiled down to the following objectives: i) to reshape public pension schemes; ii) to delay large-scale departures; and iii) to create new frameworks for older workers. The ageing strategy does not yet include an overall capacity maintenance strategy (including staff renewal for retirees, recruitment based on changing sectoral needs, etc.) and ageing changes are not included in the definition of workforce planning and workforce readjustment policies (the current modern administration programme, launched in 1999, remains the basis). The ageing strategy is structured by managerial tool adaptation, but does not include government-wide institutional reorganisation, public service delivery reshaping, or budget reallocation across sectors.

This limitation can be largely explained by the preponderance of systemic administration reform (the Structural Reform Act), undertaken in 2004-2005 in Germany. This is an organisational development of different managerial tools (recruitment, pay system, performance management, lifelong learning, etc.), as well as a reform of the civil service. It has been conducted rather independently from the ageing strategy, even though all of these reforms will have a profound impact on the evolution of the civil service.

1. Ageing: Facts, figures and forecasts

1.1. An ageing population and labour market¹

1.1.1. Ageing population

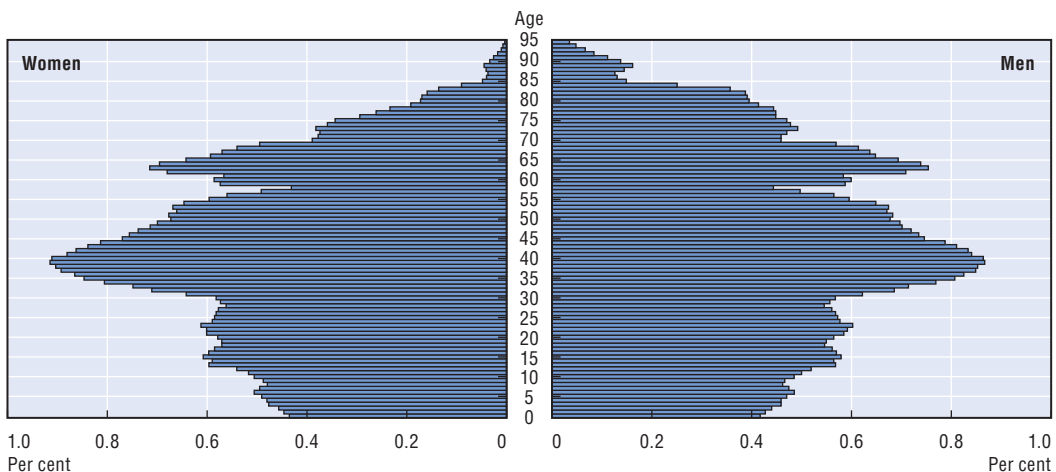
The age structure of the German population has changed over the past 10 years, gravitating towards higher age groups. According to the Federal Statistical Office, this is demonstrated, *inter alia*, by the fact that the percentage of persons over the age of 60 rose from 20.4% in 1993 to 24.7% in 2003. There was a similar trend in people aged 80 and over, whose share of the total population rose from 4.0% to 4.2% and will continue to rise in the future. By contrast, the proportion of the total population accounted for by the young generation (under the age of 20) and the middle-aged generation (aged between 20 and 60) declined over the same period – despite positive net immigration (*i.e.* the number of arrivals exceeded that of departures), which was particularly concentrated in these age groups. The proportion of children and young people dropped from 21.5% to 20%, between 1993 and 2003, and the proportion of middle-aged people dropped from 58.1% to 54.9%, over the same period.

This trend will accentuate in the future, with a projected increase in the proportion of the 65 and over age group from its current level of 18% of the total population to 30%.

Germany is already well along in the ageing process. As shown by the age pyramid above, the cohort of people aged 60-70 is already of considerable size. This state of affairs is specific to Germany, given its history: whereas the cohort of people born between 1935 and 1945 was constrained in many other European countries, this cohort was quite significant in Germany. Also, whereas the cohort of 50-60 year olds is much larger in other OECD member countries, it was constrained in Germany (post-Second World War period).

According to projections made by the Federal Statistical Office,² based on a median variant,³ the population will decline from 2013 onwards, peaking briefly at 83 million and then dropping to the 1963 level (when the German population was 75 million) by 2050.

Figure 9.1. **Age structure of the German population in 2003 (% of total)**

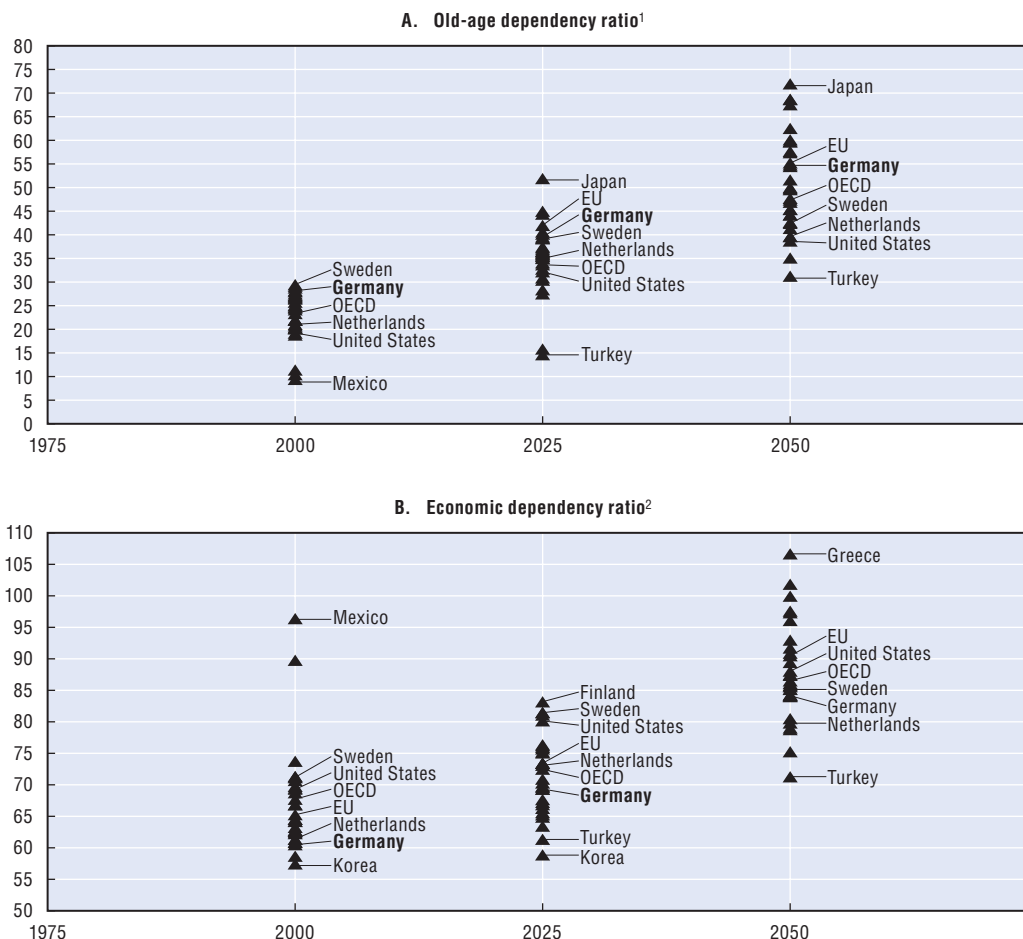


Source: Federal Statistical Office.

The first critical ageing period will occur between 2010 and 2020. The proportion of the population aged between 20 and 60 will still be around 50% in 2020, after which this age group will make up less than half of the population. People under 20 will also drop from 21% of the population in 2003 to 16% in 2050. Persons aged 60 and older currently account for one-quarter of the population. By 2020, they will account for just under 30%, and by 2030 they will make up over one-third of the population (34.4%). This ageing process is clearly reflected in the rise of the old-age dependency ratio.

The old-age dependency ratio will leap from 26% in 2000 to 40% in 2025, and further to 55% in 2050, above the OECD average, but very close to the EU average.⁴ Over the coming two decades, however, the additional burden on the working age population stemming from the growing size of the retired population will be partly counterbalanced by the decline in the under-20 population. After 2025, however, the total dependency ratio increases in tandem with the old age dependency ratio, with no further changes in the ratio between the youth and working age populations.

Figure 9.2. Demographic dependency ratio in OECD member countries, 2000-2050



1. Ratio of population aged 65 and over to the population aged 20-64.
2. Ratio of the sum of the population aged less than 20 plus the population aged more than 65 to the population aged 20-64.

Source: Ageing and Employment Policies/Vieillesse et politiques de l'emploi. Germany, OECD, 2005, drawn from National projections and UN, World Population Prospects 1950-2050 (2002 Revision) for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey.

1.1.2. Ageing labour market

According to the medium variant of the German Statistical Office's *Tenth Co-ordinated Population Projection* (Statistisches Bundesamt, 2003), the size of the working age population will fluctuate around its current level of 50 million people until approximately 2020, but will decline rapidly thereafter to some 40 million in 2050. In addition, the working population will age rapidly, with an increase in the share of those aged over 50 from 30% in 2007 to 39% in 2020.

The decline in the size of the working age population could in fact be compensated for by an increase in participation rates, or, at constant participation rates, by an increase in individual employment duration, in terms of weekly and annual hours worked. In fact, labour force participation rates of older workers in Germany are relatively low by international standards, especially for men. The 66% rate for men aged 50-64 is the ninth lowest among the 30 OECD member countries, eight percentage points below the OECD average and well behind the current leading countries in Europe. At close to 50%, the participation rate of women aged 50-64 is closer to the OECD average, but at the same time, further away from those of the lead countries.

Should participation rates remain constant, the total labour force would start contracting over the next five years and eventually fall sharply to its 1950 level by 2050 – a 20% decline from today's level. In the unlikely case that between 2000 and 2030, in each five-year age group, gender specific participation rates converge to the maximum rate observed across the OECD, the total labour force could continue to grow rapidly, much faster than in the past 20 years, by around 0.8% annually on average until 2020. Even in this case, however, the labour force would decline rapidly after 2030, though it would still be 6% higher in 2050 than it was in 2000.

1.2. An ageing civil service

1.2.1. Current situation

In 2003, the public service had a workforce of approximately 4.8 million, with 4 million directly employed in the public service of the three levels of government (federal government, federal *Länder*, and communes).⁵ There are three main categories of personnel: civil servants (under civil service status), salary earners, and wage earners (public employees under labour law contracts). According to the Federal Statistical Office, the federal level comprises around 491 000 employees (including civil servants, salary earners and wage earners), the federal *Länder* around 2 155 000 employees, and the local communal level around 1 400 000.⁶

The average age of employees in the public sector has risen over the past five years from 41.5 to 42.7, and in the private sector from 39.1 to 39.9 over the same period. In the private sector, the vast majority of gainfully employed persons are aged between 30 and 39, accounting for 28.1%, whereas in the public service, the age cohort of 40 to 49 year olds makes up the largest group – just slightly ahead of the 50-64 year olds. Many more persons under the age of 30 are working in the private sector (20.9%), proportionately speaking, than in the public sector (14.8%).

The difference can be attributed to two main factors: i) workforce planning in the public service and the policy to reduce unemployment among older workers (National Action Plan for Employment Policy 2003 and 2004), which raised the average age of the

public workforce; ii) a higher rate of unemployment among older people in the private sector.⁷

In 2003, older employees made up the vast majority of the total workforce. For example, 31.2% of employees were aged over 50, followed by the 40 to 49 year olds who made up 30.7% of the workforce. All together, the age group 35-55 comprised 59% of the public sector. People aged between 30 and 39 made up 23.2% of the workforce and those aged between 20 and 29 accounted for 13.6%.

As shown in Tables 9.1-9.3, there are clear differences in age distribution between regional and local authorities, by cohort.

The federal *Länder* have the largest proportion of employees over the age of 50: 34.7% of the workforce, as against 23.2% for the federal level and 28.7% for the communes. The

Table 9.1. Age structure of persons employed by the federal government on 30 June 2003 (%)

Age group	Civil servants, judges	Salary earners	Wage earners	Career soldiers and fixed-term volunteers	Total federal level	Total federal level, excluding soldiers and fixed-term volunteers
Under 20	0.5	1.6	3.6	2.3	1.9	1.6
20-29	12.6	7.7	6.4	59.4	28.5	9.5
30-39	28.8	20.5	16.7	19.4	21.7	23.2
40-49	30.4	31.4	33.2	13.8	24.7	31.4
50-64	27.6	38.8	40.3	5.1	23.2	34.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Special evaluation by the Federal Statistical Office.

Table 9.2. Age structure of persons employed by the federal Länder on 30 June 2003 (%)

Age	Civil servants, judges	Salary earners	Wage earners	Total persons employed
Under 20	0.4	0.9	3.8	0.8
20-29	10.7	13.6	9.1	11.6
30-39	22.3	24.2	22.6	23.0
40-49	30.2	29.4	31.0	29.9
50-64	36.5	31.9	33.6	34.7
Total	100	100	100	100

Source: Special evaluation by the Federal Statistical Office.

Table 9.3. Age structure of persons employed by the communes on 30 June 2003 (%)

Age	Civil servants, judges	Salary earners	Wage earners	Total persons employed
Under 20	0.6	2.3	1.2	1.8
20-29	11.3	13.2	6.2	11.3
30-39	27.9	24.1	21.8	24.1
40-49	34.5	33.7	34.7	34.0
50-64	25.7	26.7	36.0	28.7
Total	100	100	100	100

Source: Special evaluation by the Federal Statistical Office.

communes have the largest group of employees aged 40-49, at 34%, as against 29.9% for the *Länder* and 24.7% for the federal level. But the differences are most striking for the 20-29 year old age group, larger at the federal level compared to local levels (28.5% as against 11.6% and 11.3% for the *Länder* and communes, respectively). However, it must be noted that a large proportion of younger federal public servants can be attributed to the approximately 190 000 soldiers in the Federal Armed Services.

1.2.2. Large-scale departures

At all levels of government, the proportion of 35-55 year olds will probably decrease from 59% presently to approx 50% by the year 2010, at current employment levels. Over the same period, the proportion of employees over 55 is expected to rise to 40%, and to 60% by the year 2020.

As shown in Figure 9.3, departures have already begun. Between 2004 and 2010, 10% of the current workforce will have retired. Between 2010 and 2015, roughly 15% of the entire public workforce is expected to leave – 10% at federal level and around 15% at the local level (*Länder* and communes). Then, between 2015 and 2020, 15% of the public sector will leave over a very concentrated period of time – around 12% at the federal level, 15% for the *Länder* and over 15% for the communes.

In Germany, large-scale departures will affect the sub-national government more than the federal level. Around 35-40% of sub-national government personnel are expected to leave between now and 2020. However, here again, one of the main reasons for the statistical difference between Germany and other countries is the high number of soldiers employed at the federal level.

Over the long term, according to German government forecasts, the second major peak in large-scale departures will occur after 2020: 30% of the current workforce is expected to leave between 2030 and 2040, corresponding to the departure of the 35-55 year old cohort.

1.2.3. Most affected sectors and functions

Differences across levels of government and types of employees

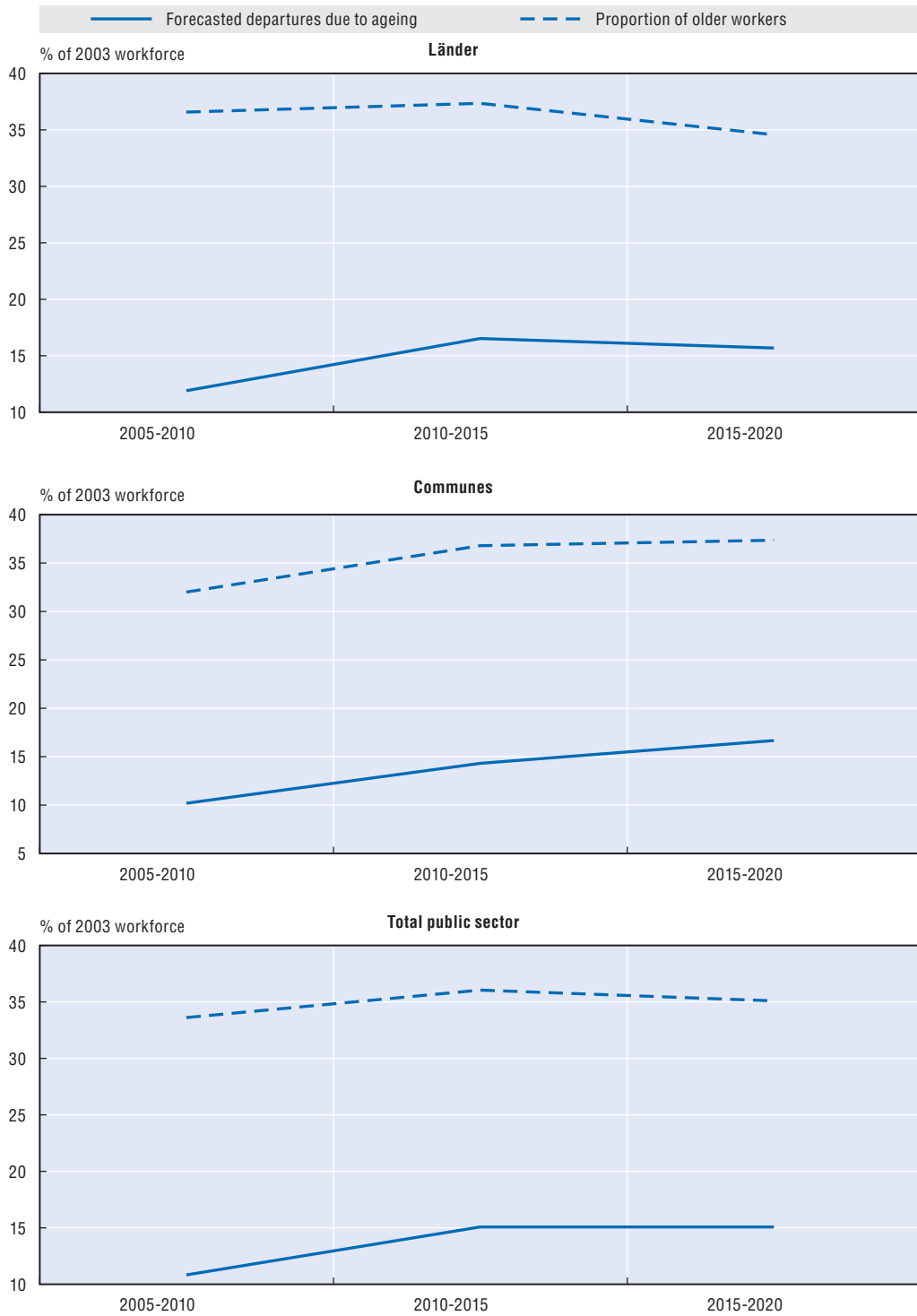
The different employee categories will not be affected by ageing at the same time. Indeed, there are considerable differences between levels of government.

At the federal level, salary earners and wage earners will be more affected by the consequences of ageing, compared with civil servants (departure peak: 2010-2020). At the *Länder* level, it is expected that civil servants will be more affected and will leave before salary and wage earners (departure peak: 2010-2015). At the commune level, wage earners will be affected first, and then salary earners and civil servants (expected departure peak: 2015-2020).

Education and health sectors

No specific data on the age composition of the health and education sectors are available. The management of these sectors is devolved to the regional government, and thus, will be specifically and dramatically affected by ageing (a high and growing proportion of older workers, large-scale departures in the medium term and over a more protracted period).

Figure 9.3. **Forecasts for large-scale departures and increasing proportion of older workers**



Source: National sources and OECD forecasts.

Leadership and management functions

The majority of current executives are in the age group of 55-60 year olds, at all three levels of government. The proportion of executives in the younger age groups is very low. In this respect, large-scale departures of managers are forecast between 2010 and 2015.

2. Adapting the civil service to meet ageing challenges: Government strategy and actions

2.1. Design and leadership of ageing strategies

The German public sector ageing strategy is linked with the broader ageing framework endorsed by the federal government. This strategy, involving all generations, combines a sustainable family policy (e.g. by providing financial assistance, expanding childcare facilities, etc.) with a policy of active ageing (e.g. by making greater use of knowledge, based on experience, in trade, industry and society). This government-wide strategy with regard to demographic change, known as Agenda 2010, has created the prerequisites for stabilising social security systems over the medium term.

The public sector ageing strategy is founded on two main pillars: a managerial tool adaptation strategy, with a view to structuring older worker management and delaying large-scale departures, and public sector pension reform. The ageing strategy is linked with the evolution of systemic HR features (structural reform) and current public sector workforce planning strategy (the “Modern State – Modern Administration” Programme).

However, these policy frames are bound together: the government has explicitly recognized that reforms of the employment conditions in the public service are and will be made with a view to responding to the foreseeable consequences of demographic trends on the labour market and social security systems. Two main reforms have been endorsed within this framework: pension reform and pay determination reform.

The Federal Chancellery is responsible for leadership of the policy strategies related to ageing. The Federal Ministry of the Interior can basically determine the ageing policy in the public service by virtue of its legislative powers, including public sector pay scales and pension schemes.⁸ The administrative leadership of HR ageing strategies, on the other hand, is divided between central and local levels of government. Indeed, institutionally, the federal government and the federal *Länder* have both joint and separate regulations for civil servant employment.

However, implementation is delegated to individual ministries. HRM has to be designed and implemented separately by the federal ministries and the ministries of the federal *Länder*.⁹ In this respect, the federal Ministry of the Interior creates the statutory basis for civil service law and hence determines public service policy, while the respective ministries are responsible for administrative leadership and implementation.

However, the harmonisation of delegated ageing policies is ensured since the federal government and the federal *Länder* co-operate on specific issues – for instance, on the project to reduce early retirement. This also applies to the development of general concepts such as the strategy for life-long learning in the federal government and federal *Länder* Commission on Educational Planning and Research Funding. Furthermore, the federal Ministry of the Interior strives to develop holistic proposals for the federal administration, not only on the basis of civil service law but also on a human resources and organisational basis.

2.2. Measures taken to face the challenge of ageing

2.2.1. Decreasing costs and increasing productivity, while maintaining capacity

Policies to contain the costs of future pension liabilities

Pension cost forecasts

Public pension costs include: expenditures for civil servant pensions, entirely paid for by employers; and, expenditures for government employee pensions, partially paid for by employees.

In 2003, expenditures for civil servant pensions totalled EUR 34.1 billion. The federal government, the federal *Länder* and the communes paid around EUR 25 billion worth of employer contributions to the statutory pension insurance fund for government employees (with the rest paid for by employees). Over the medium and long term, the contribution rate of 19.5% (with the employer contribution at 9.75%) is expected to rise to 22% (with an employer contribution of 11%). In addition, there is the federal government's general subsidy of the statutory pension insurance fund, which at present totals approximately EUR 80 billion; it is not possible to quantify the proportion allocated to government employees.

With the Third Pension Report published on 25 May 2005, the federal government outlined the projections for expenditure on retirement benefits for the civil service. They projected that the number of recipients of state benefits (pensions and pensions for surviving dependants including an annual special allowance) will double in the federal *Länder* by 2030, whereas the number of recipients of state benefits from the federal government, including those at *Deutsche Bahn* and *Deutsche Post*, will decline overall (due to restricted recruitment and lower average personnel age, as well as the restructuring of railway and post services). As a consequence, pension expenditure is set to skyrocket by 2020. The growing number of recipients of state benefits alone – not counting pension increases – will push the pension expenditures of regional and local authorities up from EUR 24.3 billion, in 2003, to around EUR 34 billion by the year 2020. With pensions rising by 1.5% a year (index-linked), this means expenditures will rise to approximately EUR 44 billion by the year 2020 and to around EUR 64 billion by the year 2040.

In the supplementary pension scheme for government employees,¹⁰ pay-as-you-go pensions paid out approximately EUR 7.5 billion, in 2003. The number of pensioners is set to rise from around 2 million today to around 2.4 million by 2020 and 3.3 million by 2030. Taking into account the considerable benefit restrictions arising from the reforms made in 2001, and annual pension increases of 1.5%, pension expenditure is set to rise from EUR 7.5 billion today to around EUR 13 billion by the year 2020 and to around EUR 17 billion by 2030.

Benefits and pension fund reserves

Since 1992, pension benefits have been adjusted and cut several times. Among other things, the pension scale was stretched from 35 to 40 years, the age threshold for applications was increased, the inclusion of education and training periods was restricted, the calculation of invalidity pensions further reduced, rules were introduced to reduce benefits in the event of early retirement, and the regulations on outside activities made much stricter. Since 1999, steps have been taken to develop pension reserves, which are to be gradually drawn down at times of maximum pension expenditure, in order to ease the

burden on public budgets. They are financed by reduced pay adjustments for civil servants and recipients of state benefits.

The federal government adopted legislation, on 25 May 2005, to establish a sustainable basis for financing civil servant pension costs (Pension Sustainability Act), which is designed to curb the rise in pensions by transferring the so-called sustainability factor in the statutory pension insurance fund to the pension system for civil servants. By taking into account the changing relation between number of acting and retired civil servants, the sustainability factor will contribute to decreasing pensions.

Increasing the retirement age and contribution period

The legal retirement age in the public service is the same as in the private sector, namely 65. Mandatory retirement age has not been delayed, but the question of reform will be revisited in 2008. There is an upper limit to retirement (flexible arrangements): under existing law (Section 41, Subsection 2 of the Act on Federal Civil Servants), retirement may be postponed, upon request, until the age of 68, at the latest, "if it is in the employer's interest".

There are several differences in retirement age based on both employment categories and functions: the retirement age for civil servants is lower than for salary and wage earners (63 since 1998); the retirement age varies across types of civil servants (for police, corrections officers, and members of the fire brigade, the retirement age is 60, although some federal *Länder* have already raised it to 63, while the general retirement age for career soldiers is currently 61).

Constraining early retirement schemes

The main incentive for early retirement was based on the method of determining pension benefits: the previous formula allowed civil servants to reach maximum benefit levels at the age of 54.¹¹ As in other OECD member countries, retirement for reasons of disability is one of the main causes of inactivity among older workers across the entire labour market,¹² as well as for civil servants specifically.¹³

In principle, there are no arrangements for early retirement, with some specific minor exceptions. But in reality, the effective retirement age was, on average, 60.3 in 2002. It is therefore rather similar to the average retirement age in the private sector, which was 60.4 in 2002. According to some studies, only 20% of civil servants retire at the legal age of 65.¹⁴ This explains why the current age group of people aged over 55 represents only 15% of the public sector workforce.

Three principal measures have been undertaken to decrease the number of early retirees:

1. In order to counteract the rising number of early retirements, which serve to extend the periods during which pensions are drawn, pension reductions have been gradually introduced, from 1 January 2001 onwards, similar to the statutory pension insurance fund: those applying for early retirement (at 63) receive a pension cut of 3.6% per year until they reach the age of 65. Pension reductions for those who retire due to invalidity or who apply for early retirement because of a serious disability are, however, limited to 10.8%. Thus, the main focus of reform is on reducing the number of early retirees aged between 63 and 65.
2. In 2005, a substantial reform of partial retirement schemes was introduced (see section on flexible working time and satisfaction), applying only to civil servants.¹⁵ The minimum age to apply for partial retirement has been increased from 55 to 60. The partial retirement model will be available until 31 December 2009. Severely disabled civil

servants and sectors where job cuts are being made (dispensing with the creation of new posts) are exempted from this restriction. Currently, the proportion of employees who retire via partial retirement is relatively high. In the federal sector, 47% of civil servants retired in 2003 when they reached retirement age (65) and 11 % retired when they reached the special retirement age for federal police officers (60); 13% applied to retire at the age of 63 and 10% retired at 60 due to a serious disability. Around one-third of civil servants who retired at the age of 65 had previously taken advantage of the partial retirement scheme.

3. Preventative measures aimed at promoting health have been introduced (The Occupational Health and Safety Act and the Social Code Part Seven, as the legal basis). These are a major component of the holistic approach to increasing the rate of employment of older employees and limiting disability. The measures that need to be taken in the area of occupational health and safety are not uniformly regulated, but rather depend on the employer's assessment of the actual risk involved. Older employees have been targeted for company health promotion, particularly in connection with the issue of "reducing early retirement".

Improvements in life-long education and training for older workers

This is a cornerstone of human resource ageing policy, as well as of the structural reform framework. It has been explicitly coordinated with the goal of retaining older workers, not only for longer periods, but also to prevent them from exiting the workforce for reasons of disability. Provisions on "rehabilitation before care" have introduced statutory measures to enable employees to seek a different job in the public service if their ability to work is diminished. However, there are, in fact, no specific measures for older workers within the broader lifelong learning framework applying across the public service.

Flexible working time and satisfaction

These arrangements constitute one of the main human resource aspects of the ageing policy. Older employees in the public service, both civil servants and salary earners, can opt to take part in a partial retirement scheme as a form of part-time work. Partial retirement means that the remaining working time is spread across two phases – a working phase and a non-working phase – until the employee reaches full retirement age. During partial retirement, older employees can work half the number of hours previously worked and receive 83% of their most recent net pay. This option can be exercised according to a so-called block model or as part-time work.

The vast majority of employees opt for the block model, in which the remaining number of working hours before retirement age is spread across two phases. In the first (working) phase, employees work full-time but receive a lower salary. During the second (non-working) phase, employees are no longer required to work, since they have worked these hours in advance. Only a small percentage of employees are availing themselves of partial retirement by opting to work part-time (only 5% of applicants).

Workforce replacement and adaptation to structural changes

Policies to downsize the public service

The total number of posts in the federal administration has decreased significantly over the last five to 10 years (–1.5% annually). This trend is less a consequence of the ageing

workforce than of a human resources policy designed to gradually compensate for the significant increase in staff size resulting from reunification and to thus reduce the wage bill. Major workforce adjustment tools have included ongoing job cuts, targeted staff cuts in specific areas, and organisational changes (such as the merger of ministries and divisions, and the privatisation of *Deutsche Post* and *Deutsche Bahn*). This trend only involves the central government. The other two levels of government are not following the same trend.

It does not appear that the administration plans to use natural attrition and large-scale departures due to ageing to mechanically reduce the workforce. The renewal rate has yet to be determined. However, some specific managerial measures have been undertaken to downsize the workforce in the coming years that are directly linked to the ageing strategy. For instance, changes in employment conditions have allowed for a downsizing of the number of civil servants and an increase in the number of salary and wage earners. The aim has been to reduce the wage bill: civil servants have higher salaries and pension benefits and they do not make obligatory contributions. In the coming years, it is conceivable that teachers and university professors will no longer be civil servants.

Public sector attractiveness, replacement, and other recruitment policies

As mentioned by the Ministry of Interior, the federal administration has no difficulty recruiting qualified staff. One reason for this is the high rate of unemployment among university graduates. In the context of the current labour market, public service competitiveness has in fact increased.

Capacity maintenance needs due to large-scale departures are not seen as requiring structural changes to implement a new staff renewal strategy and active workforce planning. In the immediate future, there are no plans for maintaining capacity through active workforce readjustments (recruitment in key sectors and functions to replace leavers), but, on the other hand, the overall workforce strategy does not entail downsizing.

Public sector attractiveness policies

As the government foresees some recruitment difficulties after 2010, with a decreased number of applicants, a number of measures have been implemented to address this issue including measures to increase the portability of pension rights between the public and the private sectors, and measures to improve career opportunities in the public service (the introduction of a performance and function-oriented career compensation system, a strengthening of the performance management system, advanced lifelong learning, staff mobility among the three levels of government, etc.).

Changes in management practices

The German government has profoundly changed its management practices in recent years, though few of the reforms have actually been linked to ageing challenges. Reforms include improved performance management systems (through expanding task areas and areas of responsibility, models for integration of new staff, etc.), improved knowledge management and training policies ("Strategy for Lifelong Learning in the Federal Republic", internal and external advanced training and human resources development concepts, IT-based learning programmes, etc.), improved flexible

employment conditions (flexitime, part-time work and telework), improved cooperation between levels of administration as well as with the private sector (more intensive exchanges of staff between federal authorities, with the federal *Länder*, international organisations and, in particular, with industry and trade associations). Further measures to link these systemic changes with HR needs due to an ageing public sector are projected.

Changes in pay determination

Pay determination was profoundly reformed in 2005. The ageing civil service was not the main reason for the reform, but it has been explicitly linked to the ageing strategy (as a structural lever for change).

Until 2005, seniority was the key factor in pay determination (staff expenditure for public servants depended on their age). The Ministry of Finance determined that the cost of a single employee would rise by between 15% and 22% due to ageing alone, even if the civil servant in question was not promoted into a higher pay grade and no general pay adjustments were made. The proportion of civil servants working for the federal government, the federal *Länder* and the communes in higher intermediate service rose from 40%, in 1993, to 50%, in 2003, and the proportion of those civil servants working for the federal *Länder* in fact rose from 55% to 67%, over the same period.

A new pay system was introduced on 1 October 2005. Contrary to the present system, employee pay no longer depends on their age, but rather on their respective training and skill-level, also taking into account their professional experience. This explains why age-related increases in staff costs for public servants will be lower in future. Compensation will no longer rise automatically with age, but will depend more on individual performance.

One of the main objectives of the reform is to reduce pension liabilities. Indeed, individual pension benefits for civil servants are calculated on the basis of the last wage received.¹⁶ Since a large majority of older workers have reached a high salary bracket by the end of their careers, the removal of the age-related pay criteria is also, and even primarily, aimed at reducing pension liabilities. In addition, paths to retirement, such as early retirement and disability, were also based on final salary.

2.2.2. Institutional changes and reallocation of resources

Institutional division of responsibilities and budget reallocation across levels of government

No institutional readjustments based on increasing needs for public services provided by sub-national government have been planned.

Resource reallocation across levels of government and sectors

Healthcare

Age-related spending has been considered as a whole, through the linkage of pension, health and long-term care spending. New financial measures were taken, in 2004, in order to be able to provide increasing health and long-term care demands: from 1 April 2004, pensioners are required to pay a full contribution to the long-term nursing care insurance fund. Even civil servants have been obliged to contribute, not directly but through pension deductions.

However, further budget reallocations may be needed in the coming years. OECD data projections¹⁷ have generated several scenarios including measurements of demographic effects, the health status of the elderly population, and income elasticity. Public health expenditures are expected to rise from 7.8% of GDP in 2005 to between 8.2%-11.4% in 2050 (the median scenario forecast is 9.6%).¹⁸ These increases in public expenditure are significantly above the OECD average.¹⁹ Projections including long-term care expenditures are as follows: from 8.8% of GDP in 2005 to between 11.8%-14.3% of GDP in 2050, significantly above the expected OECD average.²⁰

For the time being, there are no plans to reorganize budget allocation based on sectoral changes in public service demand.

Education

As previously indicated, decreases in the population aged below 20 will reduce education needs. Public expenditures on education were 4.4% of GDP in 2002.²¹ Some forecasts project a decrease in this percentage of around 0.7% of GDP.²²

However, there is no indication that the education sector will be allocated a smaller budget, even if the change in status of professors to salary earners rather than civil servants demonstrates an effort to reduce costs in the education sector.

3. Projected impact of government action

3.1. Cost containment

3.1.1. Financial impact of pension reform

The German government estimates have determined that there has been a decline in pension costs since 1999. The introduction of the Act to Reform the Pension System in 2001 has served to contain the rise in public and other pensions by a total of five percentage points over several years, from 2003 onwards. The revenue saved as a result of these measures was allocated to the pension reserves of the federal government and the federal *Länder* to safeguard future pension liabilities. In this context, civil servants who make voluntary savings contributions for their old age, as well as employees contributing to pension funds, have benefited from allowances and tax relief since 1 January 2002.

Early retirement and early retirements due to invalidity have been significantly reduced with the implementation of pension reform. According to 2004 estimates by the Federal Statistical Office, invalidity had reached its lowest level in 25 years, affecting just 392 civil servants. All together, as forecasted, participation and employment rates for the 55-64 age group will have improved by five percentage points by 2010.²³

However, the Third Pension Report, published on 25 May 2005, has shown that even though measures implemented thus far have clearly curbed pension expenditures, they are not sufficient to safeguard the financing of public pensions over the long term. The final step in the reform, the Pension Sustainability Act, launched in 2005, is forecasted to further curb pension increases: they are projected to be 0.2% lower over the coming years, and the level of pension benefits paid will drop accordingly. As a result of measures implemented in 2001 and 2005, the level of pension benefits is expected to decrease gradually in the future from 75% in 2002 to 71.13% of last salary by 2010. Furthermore, the impact on pensions of periods of education at university or polytechnic will be limited, as with the statutory pension insurance fund. Another hindrance to reform is the limitation set up within early retirement policies: pension reductions for persons who retire due to

invalidity or who apply for early retirement because of a serious disability are indeed limited to 10.8%.

Future reforms/perspectives: The funds freed up as a result of the freeze on pension increases will be allocated to pension reserves in order to ease the burden on future public budgets and provisions will be made for future generations. By limiting the rise in pensions and building up pension reserves, a sound basis will be created for the financing of public pensions, even though the number of recipients of state benefits is expected to rise sharply over the coming years. Finally, the creation of pension reserves for newly appointed public servants, to be allocated to a pension fund in the future, was intended to complement benefit adjustments in public pensions with a gradual transition to capitalized financing.

The German government has already committed itself to making a final decision on the necessity for structural reform in 2008, if the current framework is deemed insufficient. German experts think it will be necessary to raise the retirement age by one month per year from 2011 onwards, which means that the retirement age would rise to 67 by the year 2035.

3.2. Capacity maintenance

3.2.1. Measures to retain older workers

Current arrangements lack any real incentives to retain older workers until the upper age limit of 68. As in some other OECD member countries, the first priority has been to constrain early retirement, and less to develop incentives to delay large-scale departures. As a consequence, in only a very few cases do civil servants avail themselves of this option. And only rarely do human resources departments recognise service-related interests.

A specific initiative related to the ageing strategy should be mentioned here. Germany seems to be one of the only OECD member countries to have included alternative solutions based on the voluntary participation of retirees in the labour market (not only in the public sector) within its ageing strategy. The survey on the number of people working in a voluntary capacity showed that 40% of 55-64 year olds and 26% of those aged over 65 are working on a voluntary basis. The willingness of older people to take up voluntary positions has risen by almost 6% in comparison with the data gathered in 1996. Generally, the civil service and collective bargaining law that applies to public-sector employees encourages staff to become involved in volunteer work, with numerous arrangements for paid release from official obligations to enable them to effectively take up these positions. However, work performed on a voluntary basis does not normally take priority over an employee's full-time job.

3.2.2. Workforce adjustment policy

The German government has not made staff reallocation and adjustment an important part of its ageing strategy (downsizing through non-renewal of current retiring staff, reallocation across sectors and staff renewal following staff attrition are not developed as part of the ageing strategy).

No specific policy addresses staff attrition for salary earners and wage earners who will be the main categories of staff concerned by staff attrition, both at the central and local level. This is especially important for the major public employers, namely at the regional and local levels, which have to deal with large-scale departures earlier, for longer periods and of greater magnitudes than the federal level.

In addition, the adaptation of managerial tools to ageing challenges appears rather minimalist compared to projected capacity maintenance challenges. The current ageing strategy meets short term challenges, but may lead to substantial skill deficits from 2010, especially in certain functions. In any case, the ageing policy package would need to be reshaped before 2015.

3.2.3. *Future reforms/perspectives*

The German Ministry of Interior is currently in the process of deepening the reforms of the main managerial tools, adapting them to ageing challenges. For instance, plans have already been made to enhance specific policies in order to decrease older worker disability as part of the ongoing modernisation of civil service law. An obligation to undergo training, for instance, will become a statutory requirement for employees in order to achieve a greater diversity of employment opportunities for those who are considered incapable of performing certain tasks due to invalidity.

Besides, specific arrangements to delay large-scale departures through early retirement constraints, as well as through adapted flexible employment conditions, may be strengthened in the coming years. The aim is to continue to make working hours more flexible. To this end, initial consideration is being given, in particular, to providing individual departments with greater room for manoeuvre.

It is also possible that the number of civil servants will be reduced in the future. This category of employee is indeed privileged compared to other categories and it is possible that there may be harmonization in the future, especially with regards to pension rights.

Finally, preventive healthcare policies for older workers will be strengthened in the coming years with a view to responding to the goal of delaying departures. Future policies will aim increasingly to boost the rate of employment of older employees by increasing the range of well-timed measures tailored to specific target groups in the area of behavioural and conditional prevention.

4. Conclusion

The German ageing strategy is founded on three main pillars: pension reform, managerial tool adaptation aimed at delaying large-scale departures, and a framework for retaining older workers. The primary goal of the ageing strategy is cost containment. Thus, policies undertaken to delay departures are based on constraining early retirement schemes to decrease unemployment benefits and disability schemes, with only few geared to providing incentives for retaining older workers.

All things considered, to date, the HR component of the ageing strategy is rather minimalist compared to the magnitude of the challenges, and ageing could be better used as a window of opportunity for structural HR reform. In particular, the coordination of the ageing strategy with the workforce planning framework and the implementation of HR reform could help strengthen the ageing strategy. In addition, better developed coordination of HR strategies among the different levels of government should help best align the different strategies and reallocate staff and resources in the most efficient manner.

Notes

1. This section is partly based on *Ageing and Employment Policies/Vieillessement et politiques de l'emploi. Germany*, OECD, 2005.
2. See *Tenth Coordinated Population Projection*, German Federal Statistical Office, 2003.
3. This scenario quantifies changes in the scale and age structure of the German population based on assumptions that are deemed realistic from today's perspective. The assumptions are the following: a steady average birth rate of 1.4 children per woman; an increase in life expectancy at birth, by the year 2050, to 81.1 for males and 86.6 for females; and, an annual net positive migration of around 200 000 people.
4. *Ageing and Employment Policies/Vieillessement et politiques de l'emploi. Germany*, OECD, 2005, p. 39.
5. The remaining personnel are distributed among the indirect service, joint authorities, and the Federal Railway Property. Since this report focuses on national and local governments, the following information refers to these three authorities only.
6. The next round of forecasts of the Federal Statistical Office were to take place in 2006.
7. Based on the national labour force survey in *Ageing and Employment Policies: Germany* (op. cit. p. 52), roughly 10% of older workers are unemployed, well above the OECD average.
8. For this purpose, leadership is shared with other ministries deeply involved in ageing issues, such as the Federal Ministry of Finance, which is responsible for the long-term safeguarding of public finance and hence for public budgetary policy that is aimed at meeting demographic challenges, and the Federal Ministry of Health and Social Security, which is responsible for the statutory pension insurance fund for wage and salary earners.
9. The respective ministries have exclusive responsibility for their staff, as set forth in Article 65 of the Basic Law.
10. This refers to supplementary old-age and dependant benefits, partly financed by employees and intended to amount to pensions (Federal and Länder Government-Service Supplementary Pension Agency and the Association of Local and Church Pension Schemes).
11. See A. Börsch-Supan and C. Wilke (2004), "The German Public Pension System: How it Was, How it Will Be", *NBER Working Paper No. 10525*; and *Ageing and Employment Policies/Vieillessement et politiques de l'emploi. Germany*, OECD, 2005.
12. Germany, with an employment rate for workers aged 55-64 of around 39%, was below the OECD average in 2003. See *Ageing and Employment Policies/Vieillessement et politiques de l'emploi. Germany*, OECD, 2005.
13. This is the case at all three levels of government, excluding salary and wage earners.
14. See A. Börsch-Supan and C. Wilke (2004), "The German Public Pension System: How it Was, How it Will Be," *NBER Working Paper No. 10525*.
15. This does not apply to salary and wage earners.
16. The formula takes earnings over the last two years prior to retirement.
17. "Projecting OECD Health and Long Term Care Expenditures: What are the Main Drivers?", *Economics Department Working Paper No. 477*, OECD, February 2006.
18. According to the cost containment scenario.
19. The OECD average was 5.7 % in 2005 and 6.3%-9.6% in 2050 (median scenario: 7.7%).
20. According to the cost containment scenario and cost-pressure scenario, respectively. The OECD average was 6.7% in 2005 and is expected to rise to 10.1%-12.8% by 2050.
21. *Education at a Glance*, OECD, 2005.
22. "The Economic Impact of Ageing Populations in the EU 25 Member States", *Economics Paper No. 236*, European Commission, December 2005.
23. *Ageing and Employment Policies/Vieillessement et politiques de l'emploi. Germany*, OECD, 2005.

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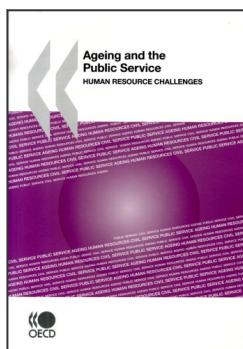
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