



# Material Security

# 2

## Introduction

Income and wealth, main indicators of the material situation, are a major aspect of quality of life in old age. Our material circumstances widen or narrow our scope for action. Whether old age is experienced as good or bad depends to a large extent on how financially secure we are and on our level of satisfaction with our standard of living. Our material situation in old age is the result of the entitlements to old age provision accumulated during our lives plus our private assets. In the past few years the conditions relating to provision for old age have been changing: the pensioners of the future will have to make different provisions for their old age than those of today. The level of contributions and benefits in the statutory pension scheme are

falling; private and company pension schemes are growing in importance.

But people in the second half of life do not have the same chances of adapting to the changing conditions of old age provision. A private pension scheme calls for financial flexibility, sufficient information on the workings of the system and the readiness to enter into such a scheme in the first place. The financial situation of the future generation of older people will be influenced by their biographies, life style, resources and preferences. This means that the current generation of 'baby boomers' who are in mid-adulthood, those born between the mid 1950s and 1960s, will be confronted with less stable employment

conditions and periods of unemployment less well cushioned than generations before them. This could mean that in future the transition to retirement will be insufficiently financially secured for more older people.

The German Ageing Survey (DEAS) examines how income, wealth and provision for old age have developed over the past twelve years for those aged between 40 and 85 – the old of today and tomorrow – and how people in the second half of life perceive and assess their standard of living against a backdrop of social change.

By so doing, DEAS provides representative data on current socio-political issues, including:

- Who will be the material winners and losers of developments in society?
- Who can look forward to secure material conditions in old age, who will be faced with a drop in living standards or even precarious circumstances?
- What role should the welfare state play in old age provision? ■

## The income gap is widening

The middle incomes of older people stagnated over the past twelve years. At the same time, a greater number of older people lived with either low or very high incomes. Well over a half of those in the second half of life – 60 percent – described their standard of living as high or very high. The average per capita income adjusted to household size and composition ('equivalence income') of 40-85 year olds was around 1,700 Euros net in 2008 and was thus ten percent higher than in 2002. When adjusted for inflation, medium incomes are, however, stagnating and the gap between high and low income groups is widening.

Overall incomes vary among the various groups. There are differences between age groups, between men and women, East and West Germans and, most markedly, between education groups. In the second half of life, the 55-69 year olds are the group with the highest income. With around 1,800 Euros, they have 100 Euros more at their disposal than the 40-54 year olds and around 300 Euros more than those aged between 70 and 85. Men have on an average around 1,800 Euros, largely accounted for by those living

alone, and thus 200 Euros more than women. East Germans earn less than West Germans: on an average the disposable income of West Germans in 2008 was around 500 Euros more than East Germans. The largest differences in income are determined by education: in 2008 high school and university graduates had almost twice as much money as those with lower qualifications.

### a) The majority manage on their income

Most older people reported in 2008 that their money was either 'more or less' or 'completely' sufficient to cover their needs. This is particularly true of those with a better education, whose average higher income also means that they assess their standard of living more positively. In the lower income groups only one in four rates their standard of living as good or very good. In the highest income group this applies to eight out of ten people (see Figure 1).

The overall picture shows that people in mid-adulthood (40-54 year olds) are most often affected by financial underprovision and those older (70-85) least often. Those aged between 40 and 54 in the East German states are particularly prone to financial need: more than one in four here reports having either 'not at all' or 'barely' money at their disposal. Despite a significant reduction in old age poverty since the mid 1950s, older women living alone are still

today overrepresented among those living in precarious income situations.

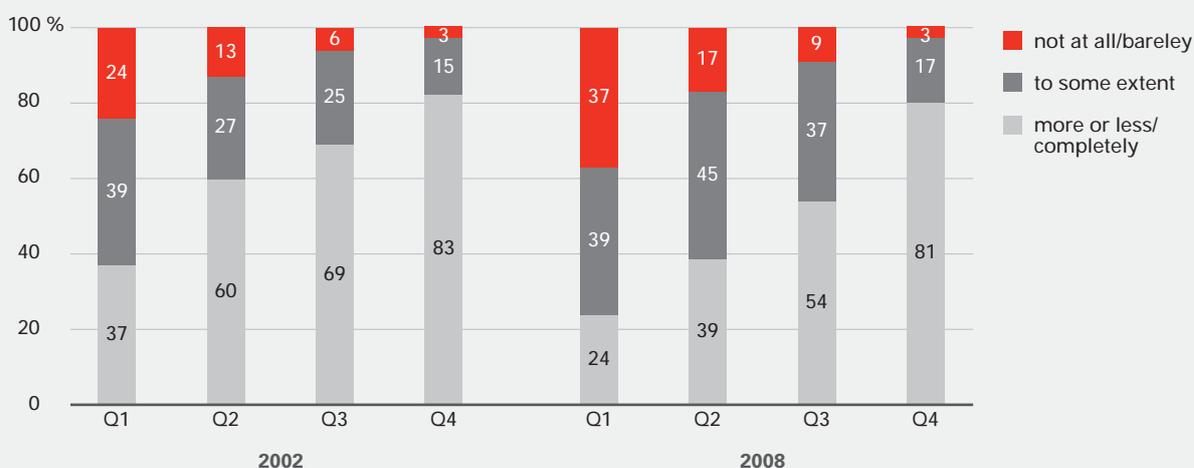
### b) Better educated people more likely to have more money on retirement

Private wealth in old age will become more important in future to compensate for losses suffered from the statutory pension system. In total, in 2008 four out of five people in the second half of life had some level of financial assets, one in five had no assets at all.

The unequal distribution of wealth is accounted for and augmented in the second half of life by inheritances and gifts in money or kind. In 2008 people with a better education inherited almost twice as much as those not so well educated or were at least expecting to inherit. Ownership of real estate is not quite so firmly concentrated among the better educated. Around 60 percent or more than every second person of 40-85 year olds owned real estate in 2008 and made either full or partial use of this themselves.

**Figure 1** | Subjective fulfilment of need according to income groups.

The figure shows to what extent money sufficiently meets the needs of the various income groups. Income groups are divided into four categories of need-weighted per capita income: Q1 stands for the lowest quarter (lowest income group), Q4 for the highest.



Source: German Ageing Survey, German Centre of Gerontology. Q1-Q4: Equivalence income (= per capita income) of household (OECD new) in quartiles.

It can be assumed that in future a growing number of people in retirement will not be able to access private assets in order to compensate for loss of pension income.

Presents in money or kind will probably contribute little, as the 40-85 year olds to date received gifts in money or kind far less often than they gave them. ■

## Sharp increase in concern over future standard of living

In comparison with the DEAS surveys of the past, more people were worried about their future standard of living in 2008 – people of all educational backgrounds and income groups. In all, one in three of those in the second half of life expects a dropping standard of living. Just under 60 percent of the 40-85 year olds expect their situation to remain stable and around ten percent expect things to improve in future.

Among the group of those who worry a lot are people living in East Germany, those with a low or medium educational level and people approaching retirement. In the West German states just under 30 percent expected their standard of living to drop, in East Germany over 40 percent. The same is true in East Germany for every second person approaching retirement (aged 55-69) and already retired (70-85).

### a) Private provision for old age still not sufficiently widespread

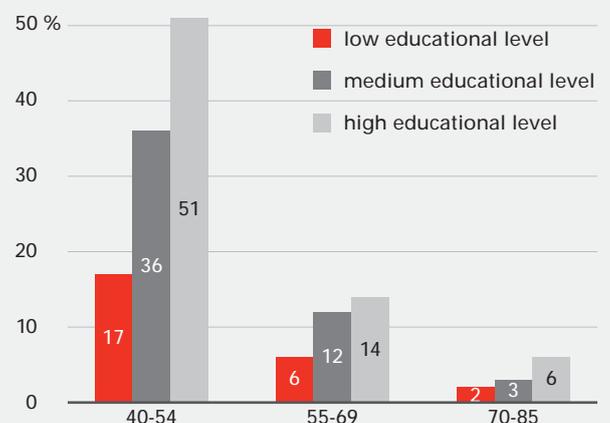
DEAS examines which group of people make private arrangements for their old age and shows that in 2008, almost 40 percent of people of older working age (40-54 year olds) had opted for a state subsidized private pension (“Riester pension”) (see Figure 2). It is evident that any independent old age provision needs sufficient backup: in the two top quarters of income distribution, i. e. the 25 percent with the highest income and the 25 percent directly beneath them, over 40 percent of those in the 40-54 age group belonged to a state subsidized pension scheme

in 2008. In the third quarter, this still applied to a good third of the 40-54 year olds and below that just one in four.

Thus people who earn well are most likely to invest in a private pension scheme, people on low wages much less so. It is precisely those people who will depend most on a private pension to offset the drop in statutory old age provision who often do not avail themselves of the option. This means that the group of people threatened by poverty in old age is growing. East Germany is particularly affected.

**Figure 2** State subsidized old age provision according to age and education groups.

The graph shows the proportion of those investing in a state subsidized private pension scheme (“Riester pension”) in 2008 according to education groups (low, medium or high education level).



Source: German Ageing Survey, German Centre of Gerontology.

## b) Public provision for old age retains its importance for older people

DEAS collects information on what people in the second half of life think about provision for old age and to what extent they see old age provision as a state responsibility or as something which individuals themselves should be responsible for.

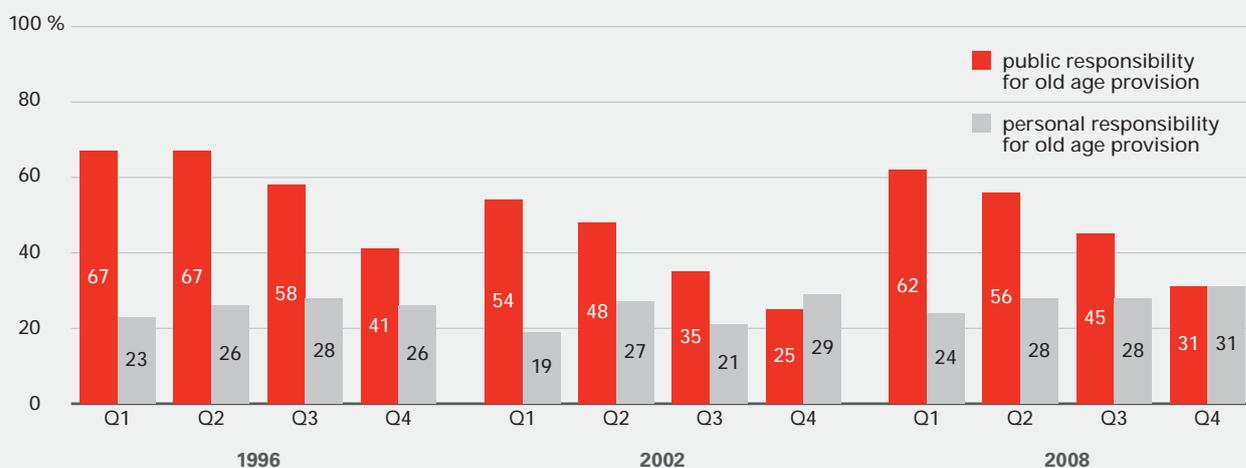
Nearly every second person in the second half of life thinks that old age provision is ultimately a state responsibility. Only one in three stresses

personal responsibility. These attitudes are strongly related to the respondent's financial situation and social status (see Figure 3).

People with little resources for a private pension are more likely to support stronger involvement by the state. Conversely, people on high salaries tend to emphasise individual responsibility. West Germans (29 percent) are more in favour of private responsibility for old age provision than East Germans (21 percent). This difference between the two parts of the country has been more or less stable since 1996. ■

**Figure 3** | Attitudes to old age provision according to income groups.

The graph shows the proportion of those who stress either public responsibility or personal responsibility for old age provision in various income groups. The income groups are divided into four categories of need-weighted per capita income: Q1 stands for the lowest quarter of income, Q4 for the highest.



Source: German Ageing Survey, German Centre of Gerontology.

## Summary: No cause for concern on material situation but there are worries about the future – public old age provision is still important

The income situation of those in the second half of life is currently on the whole not problematic. But differences in income and wealth have grown over the past few years and the currently still moderate poverty and wealth rates are growing. In East Germany there is more likelihood of more older people being affected by old age poverty in future: in contrast to West Germany, the proportion of people without assets here has risen. Income in East Germany is also lower and state subsidized private pensions are less common.

Living standards in the second half of life are generally positively assessed. But there are a growing number of older people who report poor living standards and insufficient resources. Concerns about living standards dropping in future increased considerably in 2008 in contrast with 1996 and 2002. This trend applies especially

to older people in East Germany and older people with a low level of education and low income, but is also found among other education and income groups and in West Germany.

From the view point of those in the second half of life, the state has a key role to play in old age provision. In this context more East Germans clearly expect the state to fulfil a social security and compensatory function than West Germans. An old age provision system based on solidarity will continue to be important for social security. It is already apparent today that it is precisely those people who would depend on private provision in old age who have not opted for this. It is those with better education and higher earnings who have adopted a private pension system. This applies both to state subsidized pensions and other forms of old age provision, for example forms of saving not subsidized by the state. ■



## Press Information

### **The German Ageing Survey (DEAS)**

The German Ageing Survey is a comprehensive study of the second half of life, meaning mid- and late adulthood. The study aims to provide scientifically sound information helpful for political decision makers and relevant sections of the general public as well as providing data to be used in scientific research. The study was conducted to date in 1996, 2002 and 2008. The DEAS is funded by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ). The authors are responsible for the contents of this publication.

### **This document is based on the following book:**

Motel-Klingebiel, A., Wurm, S., & Tesch-Römer, C. (Eds.). (2010). Altern im Wandel. Befunde des Deutschen Alterssurveys (DEAS). Stuttgart: Kohlhammer.

**This document is free of charge and not for sale.**

**The following documents summarizing main results are available online at**

**<http://www.dza.de/EN/DEAS-Press-Information>**

- The German Ageing Survey (DEAS):  
A Long-Term Study on the  
Second Half of Life in Germany
- Material Security
- Health and Well-being
- Participation in Society:  
Employment, Voluntary Work and Education
- Living Arrangements and Partnership
- Intergenerational Family Relations in  
Transition

A brochure containing the press information listed above is published as part of their public relations work by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth ([www.bmfsfj.de](http://www.bmfsfj.de)).

**You may obtain further information on this topic from the German Centre of Gerontology (DZA) and online from [www.german-ageing-survey.de](http://www.german-ageing-survey.de)** ■

Editor:

**German Centre  
of Gerontology (DZA)**

Manfred-von-Richthofen-Straße 2  
12101 Berlin

Telephone +49 (0)30 - 260 74 00

Fax +49 (0)30 - 785 43 50

**[www.dza.de](http://www.dza.de)**