Press Release

Study: Germans overestimate their future pension

Better understanding one's expected pension contributes to financial security in old age

Munich, February 2018. A new study reveals that most Germans overestimate the pension payment they can expect upon retirement. However, targeted information by the government can help to be better prepared for retirement – through increased private retirement provision.

To maintain the stability of the pension system in times of demographic change, political actors increasingly confide in private retirement savings in addition to public pensions. With the introduction of the so-called *Riesterrente* in 2002, the German government presented citizens with the option of having their private retirement savings publicly subsidised, thus incentivising private savings. A side effect of the reform, however, was the further complication of the pension system. In 2005, in an attempt to help citizens better understand the system and to raise awareness about the necessity of private old-age provision, the German government began sending out annual letters to citizens informing them about the projected amount of their future pensions.

Researchers have now assessed the effect of these letters. Using data from the *Survey of Health, Ageing and Retirement in Europe* (SHARE) and the *German Socio-Economic Panel* (SOEP), they analysed how accurately German citizens are able to estimate their projected pensions and how the receipt of an information letter affects their saving behaviour. The analysis was made possible by SHARE-RV, a subsample of SHARE, which anonymously matches data from survey participants with their pension insurance data. Hereby, researchers were able to compare participants' expectations of their future pensions with the actual projected amount. The result: the vast majority of participants overestimate their future pension. However, the annual letters and the included information about the actual pension proved to be effective: private savings and labour earnings considerably increased after receiving the letters.

The researchers consider the results of their study as guidance on how policies could be designed that effectively increase future pension entitlements: targeted information can trigger an increase in private retirement savings and, thus, improve pension incomes. A better understanding of the pension system and expected pensions among citizens considerably contributes to the stability of the public pensions system as well as to their individual financial security in old age.

The study was published in the Journal of Public Economics (January 2018):
Mathias Dolls, Philipp Dörrenberg, Andreas Peichl und Holger Stichnoth, "Do retirement savings increase in response to information about retirement and expected pensions?", Journal of Public Economics 158, 2018, 168–179.

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About SHARE:
SHARE, the *Survey of Health, Ageing and Retirement in Europe* (SHARE) is a multidisciplinary and cross-national panel database of micro data on health, socio-economic status and social and family networks of more than 120,000 individuals (approximately 300,000 interviews) from 27 European countries and Israel (Wave 1 to 7) aged 50 or older. The data are available to the entire research community free of charge. SHARE is centrally coordinated by Prof. Axel Börsch-Supan, Ph.D. at the *Munich Center for the Economics of Aging* (MEA), a division of the Max Planck Institute for Social Law and Social Policy.

Contact:
SHARE-ERIC
Philipp Beck (Public Relations)
Amalienstraße 33, 80799 Munich
+49 (0)89 38602-352 | beck@mea.mpisoc.mpg.de | www.share-eric.eu