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Europe

Study Paper
May 2026

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Growing Pensions Through Investment

What Germany can learn from Sweden and the United Kingdom

Imprint

Publisher

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Belgium

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Table of Contents

Executive Summary

Germany needs to set a new course for its pension policy. Over-reliance on the pay-as-you-go system must be reduced by strengthening funded pension schemes. An international comparison highlights the ground that needs to be made up: In Germany, assets earmarked for retirement amount to 6.4% of GDP, compared with an OECD average of 95.2%.

A more fully funded pension scheme has several advantages. Firstly, funded schemes bring additional financial leeway in the pension system. If funded entitlements are built up over a long period, future retirement provision can be drawn to a greater extent from accumulated capital and investment returns. These additional funds can be used to increase pensioners' retirement income or to ease the pressure on the pay-as-you-go system. Secondly, funded pension schemes increase the resilience of the pension system because they reduce dependence on the ratio of contributors to pensioners. Thirdly, they will boost the younger generation's confidence in the pension system as assets are visibly being built up for future pensions. Fourthly, funded pension schemes increase the pool of capital available in the long term and can thus support the structural shift away from an economy heavily focused on middle-technology sectors towards a greater number of high-tech companies.

Other countries, such as Sweden and the United Kingdom, have already taken this approach. The study identifies best practices in the United Kingdom and Sweden for expanding funded pension schemes, from which it derives recommendations for action in Germany. Furthermore, Sweden demonstrates that not only can pension policy be supplemented by funded schemes, it can also be regulated and institutionally safeguarded within a pay-as-you-go system.

Learning from the United Kingdom I: Opt-outs to boost workplace pensions

Germany could increase the uptake of workplace pension schemes by introducing an opt-out model. **The United Kingdom demonstrates just how effective automatic registration can be.** Employers must enrol their employees into a workplace pension scheme and, although employees are entitled to opt out, **82% of employees now participate in a workplace pension scheme.** A model like this would be a good way to strengthen the second pillar in Germany. Contribution obligations should be introduced carefully. Minimum contributions should only be increased on a gradual basis so as not to place an excessive burden on businesses and employees.

Learning from the United Kingdom II: A catch-all solution for businesses

A nationwide opt-out model requires a simple catch-all solution for businesses because there is a risk that smaller companies and those with a largely low-wage work-force will not be served by the market, as the volume of their contributions is not profitable for private providers. To this end, the United Kingdom has set up the National Employment Savings Trust (NEST). NEST is a government-backed provider of workplace pensions that is available to all businesses. **Germany should establish a state pension scheme modelled on NEST**, which would serve as an accessible, affordable and reliable solution, particularly for smaller businesses and low-income workers.

The United Kingdom also supplements workplace pensions with institutional safeguards. The Pension Protection Fund protects pension scheme members in the event of the insurer's insolvency, and the Fraud Compensation Fund can compensate pension scheme members for losses resulting from fraud.

Learning from Sweden I: Embedding funded schemes in the state pension system

Sweden demonstrates that capital funded pensions can also be implemented within the state pension system. **Under the Premium pension system, a mandatory contribution of 2.5% of pensionable earnings is invested in a funded scheme.** Insured persons can spread their capital across up to five funds. Anyone who does not indicate an active investment choice will automatically be assigned to the government's standard fund, *AP7 Såfa*. The Premium pension system thus combines mandatory funded provision, individual freedom of choice and a reliable default option.

At the same time, Sweden demonstrates that funded pension schemes also have economic benefits. The large stock of long-term capital facilitates the financing of innovative scale-ups. **Sweden has** the highest per capita venture capital investment in the EU, averaging around **€ 450, and has given rise to four of the 14 EU companies valued at over 10 billion dollars** founded within the last 50 years.

Learning from Sweden II: Front-loading and regulatory compliance

Sweden not only offers ideas for expanding funded pensions, its pay-as-you-go pension system also contains elements that are of interest to Germany. Firstly, Sweden uses a system known as "front-loading" to cushion the drop in income when people retire. **When you start receiving your pension, part of the future pension growth is brought forward thereby increasing the initial pension benefits. Conversely, pensions rise at a slower rate going forward.** A similar mechanism could also be explored in Germany. It would increase initial pension benefits without raising the overall pension amount. This could boost support for necessary reforms.

Secondly, Sweden also makes statutory adjustments to key age thresholds in its pension system in line with changes in life expectancy. As life expectancy rises, so does the so-called target retirement age. This prevents increased life expectancy from simply leading to longer periods of pension receipt. At the same time, such a rule removes the political dimension from the adjustment of age limits. Once the agreed increase in the standard retirement age to 67 has been implemented, Germany should also introduce a statutory mechanism linking the retirement age to future changes in life expectancy.

Learning from Sweden III: The "Pensionsgruppen" ensures a reliable pension policy

Sweden demonstrates how pension policy decisions can be institutionally safeguarded. **Sweden's "Pensionsgruppen" is a cross-party body within which fundamental changes to the pension system are decided upon by political consensus.** Although the Pension Group has no formal right of veto over the government or parliament, **in political practice, fundamental reforms are only pursued if they can achieve a consensus within the Group.** This creates a mechanism for political restraint that makes short-term changes to the pension system more difficult and increases the reliability of pension policy decisions.

Germany should follow this example and establish a permanent pensions committee. This could either be part of the Parliamentary Advisory Council on Sustainable Development and Future Issues ("Parlamentarischer Beirat für nachhaltige Entwicklung und Zukunftsfragen") or established along similar lines as a new body. Alternatively, the remit of the Social Advisory Board ("Sozialbeirat") could be extended. In both scenarios, the committee should initiate fundamental reforms or systematically assess pension reform proposals in terms of their long-term financial implications and their intergenerational distributional effects. If the legislature fails to act on the committee's proposals, it should be required to give its reasons publicly and in writing. This would not be legally binding on government or parliament, but it would increase transparency and political commitment.

1. Introduction

The German pension system faces major challenges. A low birth rate and rising life expectancy mean that, in future, an ever-decreasing number of contributors will have to support an ever-increasing number of pensioners. Because the German pension system is essentially pay-as-you-go (PAYG), and therefore highly sensitive to such demographic changes. With a PAYG system, state pension benefits are financed directly from current contributions and general tax revenue, without any individual savings being built up.[1] Funded pension provision is generally less vulnerable to demographic changes but is underdeveloped in Germany. The combination of an ageing population and a strong focus on the PAYG system means that pension level provided by the statutory pension system in Germany is comparatively low. A person who enters the labour market in 2024 at the age of 22, has a full employment history and earns the average wage throughout their career will achieve a net replacement rate of 53.3%. The pension replacement rate in Germany is therefore below both the OECD average of 63.2% and the EU average of 68.3%.[2]

In order to raise pension levels and enhance the resilience of the German pension system, funded pension schemes must be expanded. With funded schemes, individual or collective contributions are accumulated over time and invested to finance future pension benefits.[3]

Firstly, therefore, the aim of this study is to develop options for reform that will further expand funded pension provision in Germany. The reform options are based on the successful models of Sweden and the United Kingdom. Secondly, the study shows that increasing the level of funded provision is important, not only in terms of pension policy, but also in terms of growth and innovation policy. Furthermore, to ensure that the proposed reform of the German pension system brings about its intended long-term effects and that a sustainable and intergenerationally equitable pension policy is secured, there also appears to be a need to protect the German pension system more effectively from short-term political interventions that, in the interests of certain voter groups, weaken or undermine reforms that have already been agreed. Thirdly, therefore, the Study examines the mechanisms by which the long-term sustainability of the German pension system can be strengthened whilst also upholding the principle of democracy. Sweden, which has established such a mechanism, serves as a model here too.

Section 2 below begins by explaining why the expansion of funded pension schemes is necessary from the perspective of pension policy and economic policy. Then, using Sweden and the United Kingdom as case studies, Section 3 will examine the institutional mechanisms through which these countries have successfully expanded funded elements. The aim is to identify best practices and the elements that could also be implemented in Germany. Section 4 then discusses ways of removing the pension system from the realm of day-to-day politics, thereby increasing the reliability of pension policy decisions. Finally, Section 5 sets out specific recommendations for Germany involving both the expansion of a funded pension system and the institutional stabilisation of the pension system.

2. Why Germany Needs a More Robustly Funded Pension System

The revenue from a pay-as-you-go pension scheme can be summarised as follows:

> *Number of employed persons paying contributions × average pensionable wage × total contribution rate for statutory pension insurance*

In a purely pay-as-you-go system, revenue must equal expenditure. The latter can be represented as follows:

> *Number of pension recipients × average pension.*

In Germany, the federal government contributes additional funding on the revenue side. This funds non-contributory benefits[4] under the pension insurance scheme.[5]

These two equations show why Germany's ageing population poses a threat to the sustainability of the pay-as-you-go pension system because, on the revenue side, the number of people in work who are required to pay contributions is falling, whilst on the expenditure side, the number of pensioners is rising. One indicator of this is the trend in the old-age dependency ratio.[6] Put simply, the old-age dependency ratio indicates how many pensioners must be supported by every hundred people of working age. This metric is an indicator of the system's stress levels. Thus, the following applies: the higher the old-age dependency ratio, the greater the stress. In Germany, the old-age dependency ratio rose from 34 in 2014 to 39 in 2025[7] and is set to rise further in the coming years (see Fig. 1).

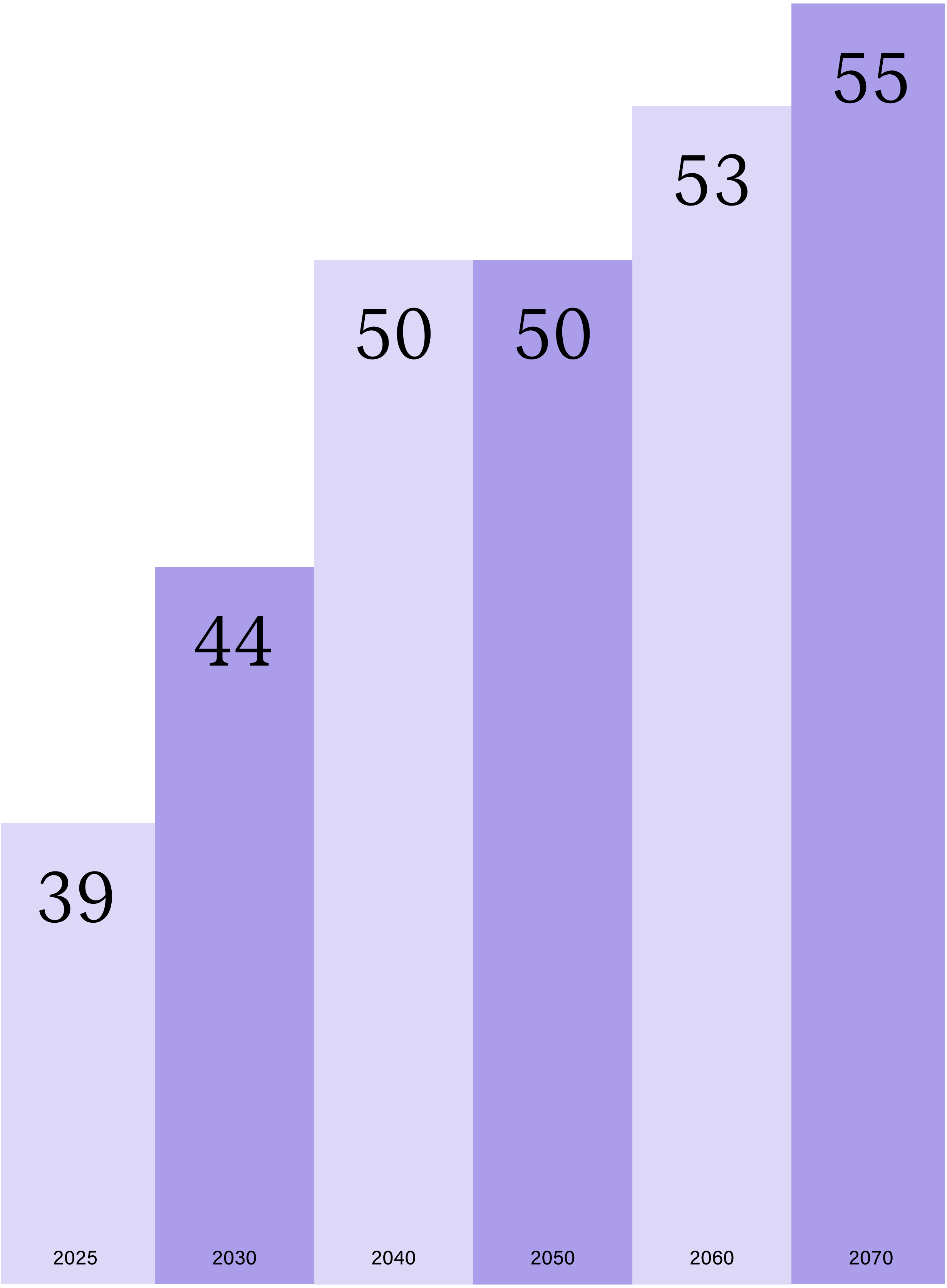

Fig. 1: Number of people aged 65 and over per 100 people aged between 20 and 64 (old-age dependency ratio) in Germany. Source: Own graph based on data from Eurostat and the European Commission[8].

A key reason for the rise in the old-age dependency ratio in Germany is the decline in the birth rate in the early 1970s (see Fig. 2). As a result, later cohorts entering the labour market are smaller than the earlier cohorts, which had higher birth rates. Without immigration, the old-age dependency ratio would therefore rise over a long period and, assuming life expectancy remained unchanged, would only stabilise at a higher level once the last members of these relatively large cohorts have passed away. Assuming life expectancy remains constant, this higher state of equilibrium would be expected around the 2060s.[9]

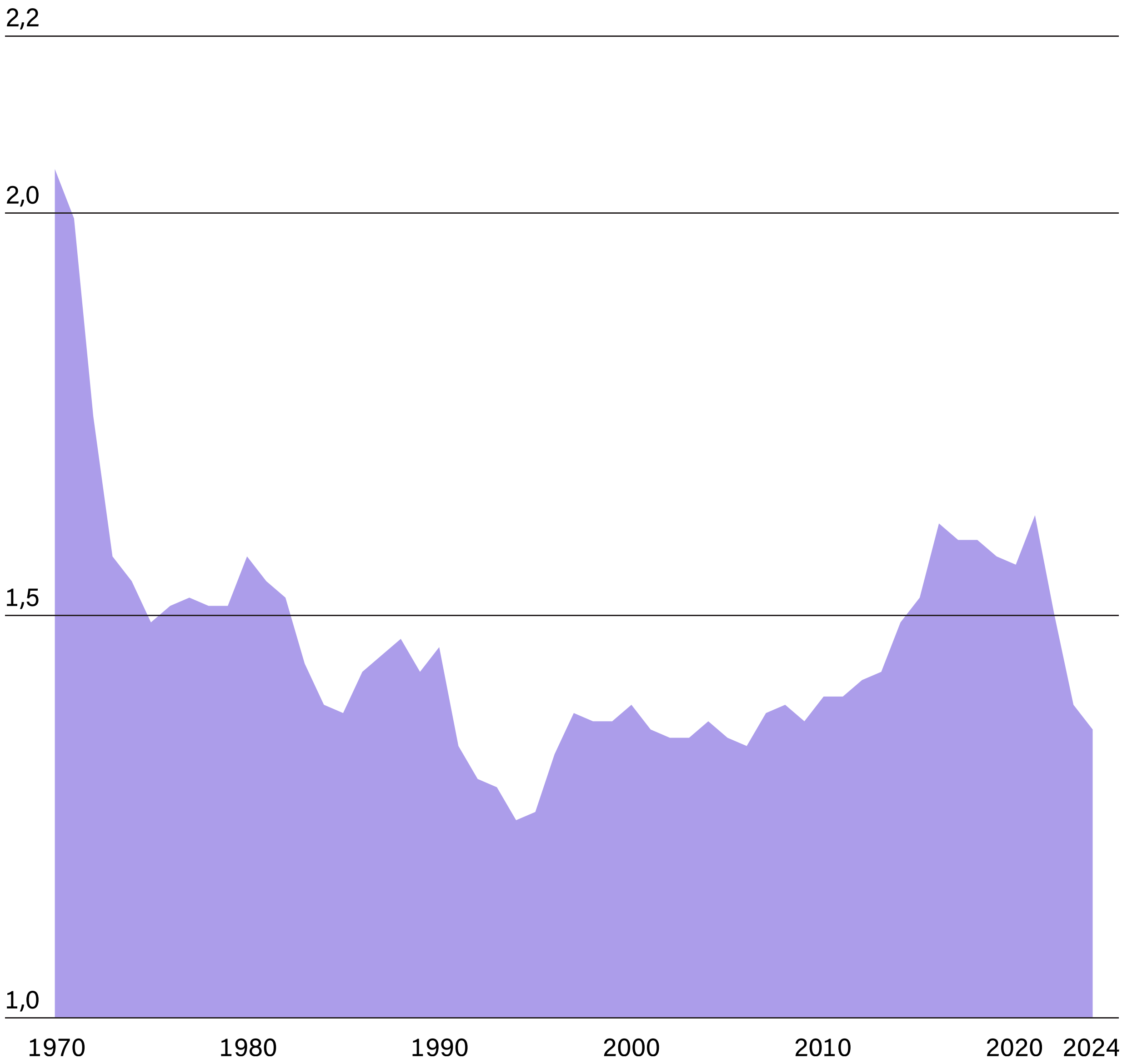

Fig. 2: Trends in the fertility rate in Germany**.** Source: Federal Institute for Population Research[10] and Destatis.

Another reason for the rise in the old-age dependency ratio is the increase in life expectancy upon reaching the standard retirement age in Germany. Although the standard retirement age will be gradually raised to 67 by 2031, this will not be enough to fully offset the rise in life expectancy upon reaching the standard retirement age that has occurred since 1957. This is because when the standard retirement age was set at 65 in 1957,[11] life expectancy after reaching that age was 12 years for men and 14 years for women.[12] Currently, life expectancy after reaching the standard retirement age of 66 years and four months is around 18 years for men and around 21 years for women.[13]

Furthermore, on average, employees retire before reaching the standard retirement age. In 2024, the average retirement age for men and women was 64.7. It hasn't always been like that. Until the 1972 pension reform, the average age at which men began receiving a pension was actually higher than the standard retirement age. The reform expanded the options for early retirement and early retirement schemes.[14] However, taking early retirement does not in itself place an additional burden on the pension system; it only does so if the associated pension reductions do not fully offset the longer period of pension receipt and the shortfall in pension contributions. This, however, is precisely what does happen under the statutory pension scheme.[15]

The trends outlined above have a particularly severe impact on the German pension system because it is essentially pay-as-you-go (see Fig. 3). If the pension system were more funded, it would be more resilient to such demographic changes. However, the development of funded schemes will not provide a rapid solution to these challenges because building up a funded pension scheme requires long periods of saving. It typically requires several decades to take full effect which will be too late to significantly mitigate the current birth-related rise in the old-age dependency ratio in the coming years.

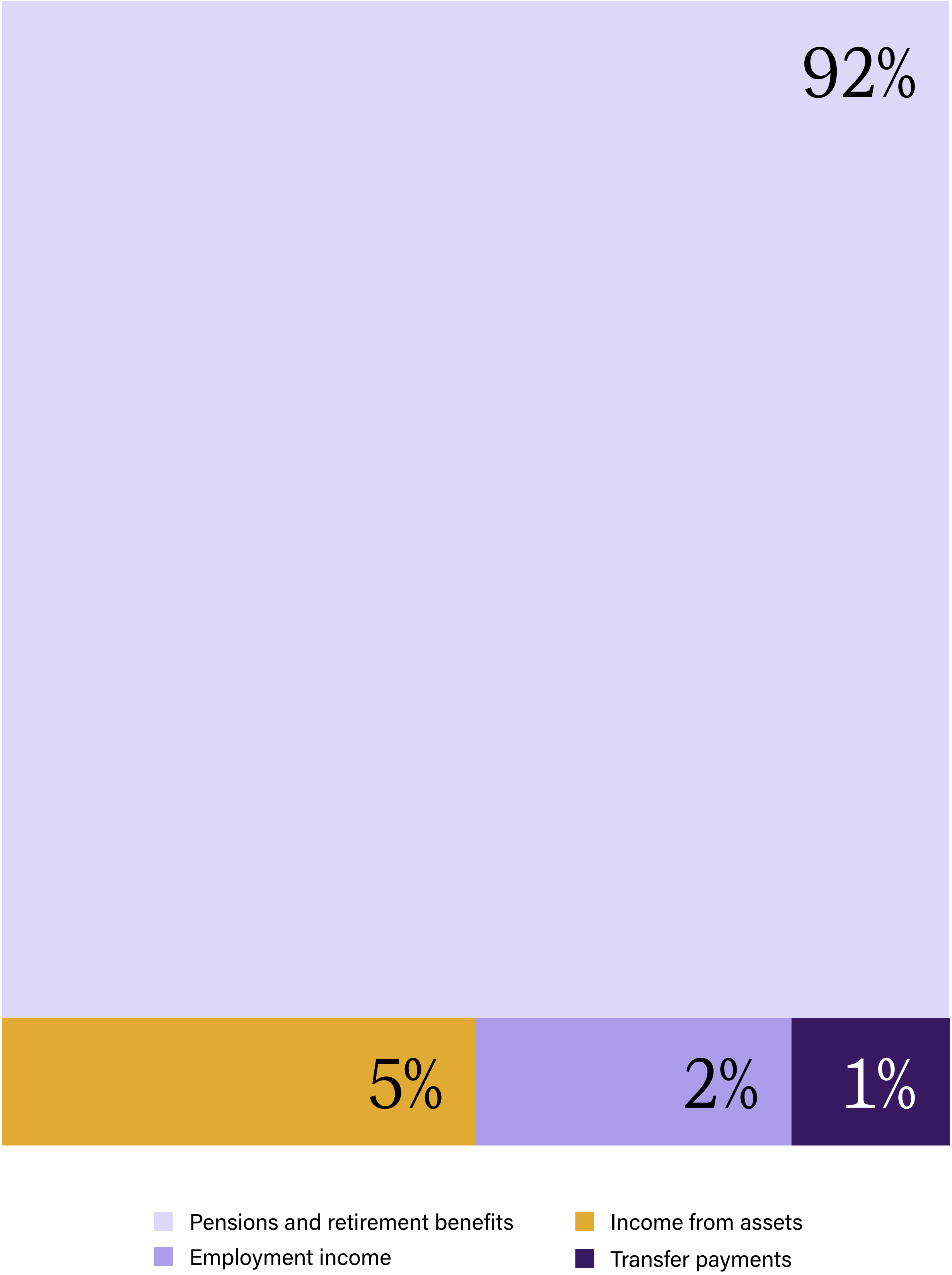

Fig. 3: Sources of income for pensioner households as a share of net household income (in %) in Germany (2025). Source: Destatis (2026). Pensioner households are households consisting exclusively of people aged 65 or over who are retired.

To cope with this acute demographic pressure, a wide range of other measures is therefore required, such as raising the statutory retirement age, phasing out non-contributory benefits, and limiting pension increases. Nevertheless, it is unlikely that such measures alone will be sufficient to fully meet the adjustment required.[16]

Nevertheless, a higher level of capital cover for pensions still makes sense: Firstly, once it starts generating significant returns and entitlements, it could help to gradually ease the burden on the pay-as-you-go system. This opens up the possibility of reducing the pressure on contribution rates in the long term. Secondly, it could help to increase retirement income beyond the level that can be financed through pay-as-you-go contributions alone. Thirdly, it could enhance the pension system's resilience to future demographic and economic pressures, such as a further decline in the birth rate, a further rise in life expectancy or unfavourable developments in the labour market. And fourthly, greater capitalisation boosts confidence in the long-term sustainability of the pension system, particularly among the younger generation.

Other countries began shifting their pension systems towards a more funded model many years ago. Germany, too, has taken steps in this direction in the past, but their impact has been limited. A comparison with other countries shows just how much ground Germany has to make up (see Fig. 4).

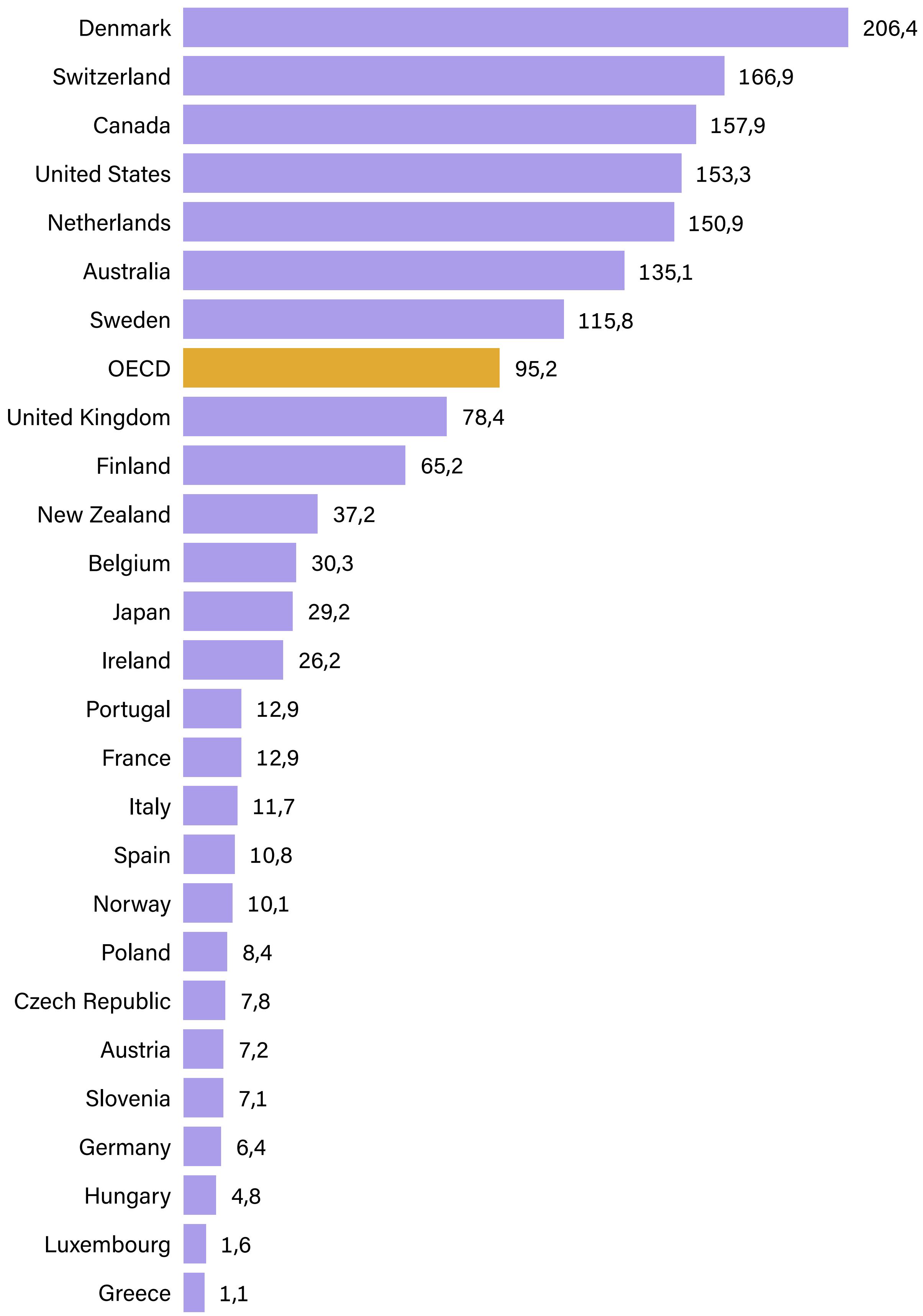

Fig. 4: Funded pension assets held by pension schemes as a percentage of GDP (2024 or most recent available year)**.** Source: Own illustration based on OECD, Pensions at a Glance 2025.

In recent months, Germany has launched several pension reform initiatives[17] aimed at strengthening the funded pension system but these merely tweak a few aspects of the existing system. They will therefore only lead to a moderate increase in funded pension provision. Other measures are needed to significantly increase the level of capital coverage (see Chapters 3 and 4).

Expanding funded pension schemes would be important not only in terms of pension policy but also in terms of growth policy because a higher level of capitalisation will increase the stock of available capital, thereby facilitating the financing of innovation. Greater investment in innovative companies will, in turn, boost productivity growth as a result of which, wages, capital income and tax revenues will rise.[18] In his report on the future of European competitiveness, Mario Draghi pointed out that Europe must accelerate radical innovation in order to boost its productivity growth.[19] He attributes Europe's low productivity growth in particular to its lack of high-tech companies. Only four of the world's 50 leading technology companies are European. And between 2013 and 2023, the EU's share of global technology revenues fell from 22% to 18%. During the same period, in the US, it rose from 30% to 38%. Europe must escape the "middle-technology trap".[20][21] Without more high-tech companies, productivity growth will remain low.

A major obstacle is that Europe is struggling to provide sufficient capital to innovative companies during the scale-up phase.[22] There is a lack of sufficiently large venture capitalists. As a result, venture capital investment in the EU, at 0.2% of GDP, is significantly lower than in the US, where it stands at 0.7%.[23] On average, European venture capital funds are also significantly smaller than their American counterparts, which limits their ability to support successive rounds of large-scale funding. This contributes to the fact that public institutions account for a large proportion of venture capital investment in Europe (31%). In the US, the figure is just 4%.[24]

This is precisely where pension funds can play an important role. They have a long-term investment horizon, require a high degree of diversification and are professionally managed, which makes them particularly well-suited to providing capital for high-growth and innovative companies, whether through private equity – particularly venture capital – or through investments in listed shares.[25] Without a substantial pool of funded pension assets, Europe will therefore find it difficult to finance innovation on a large scale. In the US, pension funds account for around 50% of private equity investments.[26]

The example of Sweden shows that this connection is not merely theoretical. Within the EU, Sweden is one of the countries with particularly high levels of funded pension assets relative to GDP (see Fig. 4). At the same time, it boasts one of Europe’s most dynamic innovation ecosystems and, at an average of around €450, has the highest per capita venture capital investment in the EU.[27] This figure is roughly double that of Ireland, which ranks second with around €230 per capita. As a result, Sweden has has given rise to four of the 14 EU companies valued at over $10 billion founded within the last 50 years. Sweden is therefore more successful than any other EU country.[28]

The Swedish pension system is described in more detail in Chapter 3 below. In addition to Sweden, the following section also examines the pension system in the United Kingdom. This pension system is also an instructive example, as the United Kingdom has succeeded in significantly increasing the proportion of employees who are members of a funded occupational pension scheme. It is precisely in this area that German policymakers currently see a pressing need for action.

3. Strengthening Funded Pensions: Two Case Studies

Sweden

Since 1999,[29] the Swedish pension system has been structured as a hybrid three-pillar model that combines pay-as-you-go and funded components, as well as compulsory and voluntary elements (see Fig. 5). In addition to the compulsory state pension (Pillar 1), the Swedish system comprises a comprehensive pillar of semi-compulsory occupational pension provision (Pillar 2) and a smaller pillar of voluntary private pension provision (Pillar 3), which is not covered in this study.[30] Each of the three pillars includes funded components. The total amount of pension capital under management in 2022 was around € 730 billion (SEK 8.1 trillion).[31]

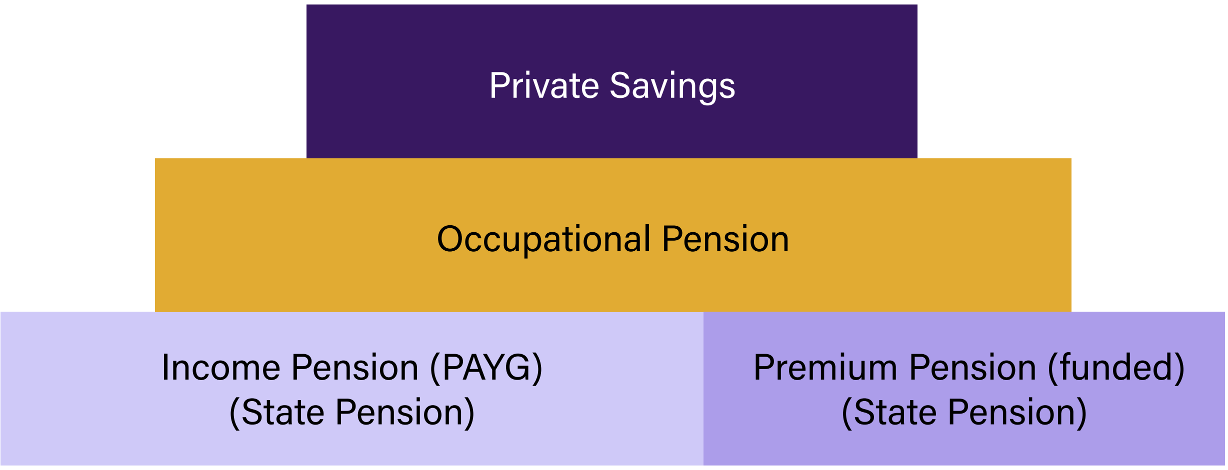

Fig. 5: The three pillars of the Swedish pension system. Source: The Swedish Pensions Agency (2026)[32]

Pillar 1: The State Pension

The first pillar in Sweden, the state pension system (*Allmän Pension*), is earnings-related and split between a pay-as-you-go "**income pension**" (sub-system 1) and a mandatory funded component known as the "**premium pension**" (sub-system 2). In addition, a "**guarantee pension**" funded from the national budget[33] is available for those whose lifetime income is low. Overall, state pension benefits account for the largest share of retirement income (65–70% of average pension income).[34] In addition to the state pension, eligible individuals may, under certain conditions, receive additional benefits such as supplementary pensions, housing benefit, other special support payments and, where applicable, survivors' and disability pensions.[35]

State pension entitlements are funded by three different types of pension contributions:

Employees pay a standard pension contribution (employee contribution, allmän pensionsavgift) of 7% of pensionable income. Pensionable income is the income after deduction of the standard pension contribution of 7%. Pensionable income therefore generally amounts to 93% of actual income. Each person's pensionable income is calculated by the tax office and determined as part of the annual tax assessment.[36] There is a minimum and a maximum limit for pensionable income. To qualify for a pension, your income must be at least 42.3% of the income base amount (inkomstbasbelopp) applicable for that year. The income base amount is revised annually and stands at SEK 83,400 for 2026,[37] which is equivalent to approximately €7,740. The lower limit is therefore approximately 35,278 SEK, which is equivalent to around 3,274 euros.[38] Furthermore, employees' contributions to the state pension scheme are levied only up to a ceiling of 8.07 times the income base amount. In 2026, this limit will be 673,038 SEK, which is equivalent to approximately 62,458 euros.[39] Unlike in Germany, the employee's contribution is levied at source as part of their provisional tax payments. When their tax is assessed, employees are subject to a withholding tax equal to their contribution, meaning that their general pension contribution is effectively funded from general tax revenue.[40]

Employers pay a pension contribution (arbetsgivaravgift / ålderspensionsavgiften) amounting to 10.21% of total earnings, including the portion of the salary that exceeds the current ceiling of SEK 673.038.

These excess contributions flow into the state budget, meaning that income in excess of SEK 673.038 does not give rise to any pension entitlements in this context.[41] In practice, therefore, the cap leads to a redistribution of wealth that is disadvantageous to high earners.[42] Self-employed people also pay a personal contribution (egenavgift) of 10.21%.[43]

The Swedish government pays a state old-age pension contribution (statliga ålderspensionsavgiften) of 10.21% on any pensionable benefits paid under the unemployment insurance scheme. For people receiving sick pay and disability benefits, the state also pays the employee's contribution. This also applies to pensionable benefits paid in respect of military service, study or raising children.[44]

Overall, approximately 40% of contributions to both the income pension and the premium pension are borne by employees and 60% by employers.[45] Together, the pension contributions amount to 17.21% of total income – or 18.5% of pensionable income. Of the contributions paid into the pension system, 16% goes towards the income pension and 2.5% towards the premium pension.

Sub-System 1: Pay-As-You-Go "Income Pension"

The state retirement pension in Sweden is primarily financed by the **pay-as-you-go component,** known as the income pension (inkomstpension). The contribution rate for this component is set for the long term at 16% of pensionable income.

Unlike in Germany, contributions are denominated not in earnings points but in monetary units (Swedish kronor) and are credited to notional individual accounts that accrue notional interest. The pension entitlements and the interest payments are notional because they are not backed by capital stock but by a promise of payment by the state; consequently, current pension payments must be financed by current contributions, just as in any other pay-as-you-go scheme. To be more precise, this is a notional defined contribution (NDC) scheme[46] with fixed contributions that operates without actual investment funds.[47] A pension entitlement can be regarded as a claim against the pension scheme. The NDC accounts are managed by the Swedish Pensions Agency (Pensionsmyndigheten). During the savings phase, the individual account balance increases by the contributions paid and by a notional interest rate derived from an income index calculated on the basis of the average wage.[48] The appreciation of pension entitlements thus reflects the average growth in the income of contributors.

Upon retirement, the accumulated notional capital is converted into an annuity with the monthly pension benefits calculated on the basis of the contributions made and life expectancy.[49][50] This is done by dividing the accumulated balance at retirement by what is known as the annuity divisor, which is calculated based on the current gender-neutral life expectancy at the individual's specific retirement date and age, as well as a notional interest rate.[51] This method of calculation has two consequences: As the divisor decreases with a later retirement age—given the shorter life expectancy at that point—and the pension amount therefore increases, insured persons have an incentive to defer the receipt of pension benefits. Secondly, pensions for women are around 8% higher than under schemes based on gender-specific life expectancy.[52] Pensions for men are correspondingly lower.

Another notable feature is that the annuity divisor incorporates a real interest rate of 1.6 per cent. As a result, the initial pension is higher than it would be without this interest rate being factored in. After retirement, pension benefits are then only be adjusted in line with the rise in nominal average earnings, minus this 1.6% (see Fig. 6).[53] The Swedish Social Insurance Agency describes this "front-loading" as an "advance payment" that is "paid for" by the fact that the pension grows at a slower rate than it would have done without front-loading.[54] Front-loading was introduced to mitigate the drop in income following retirement.[55]

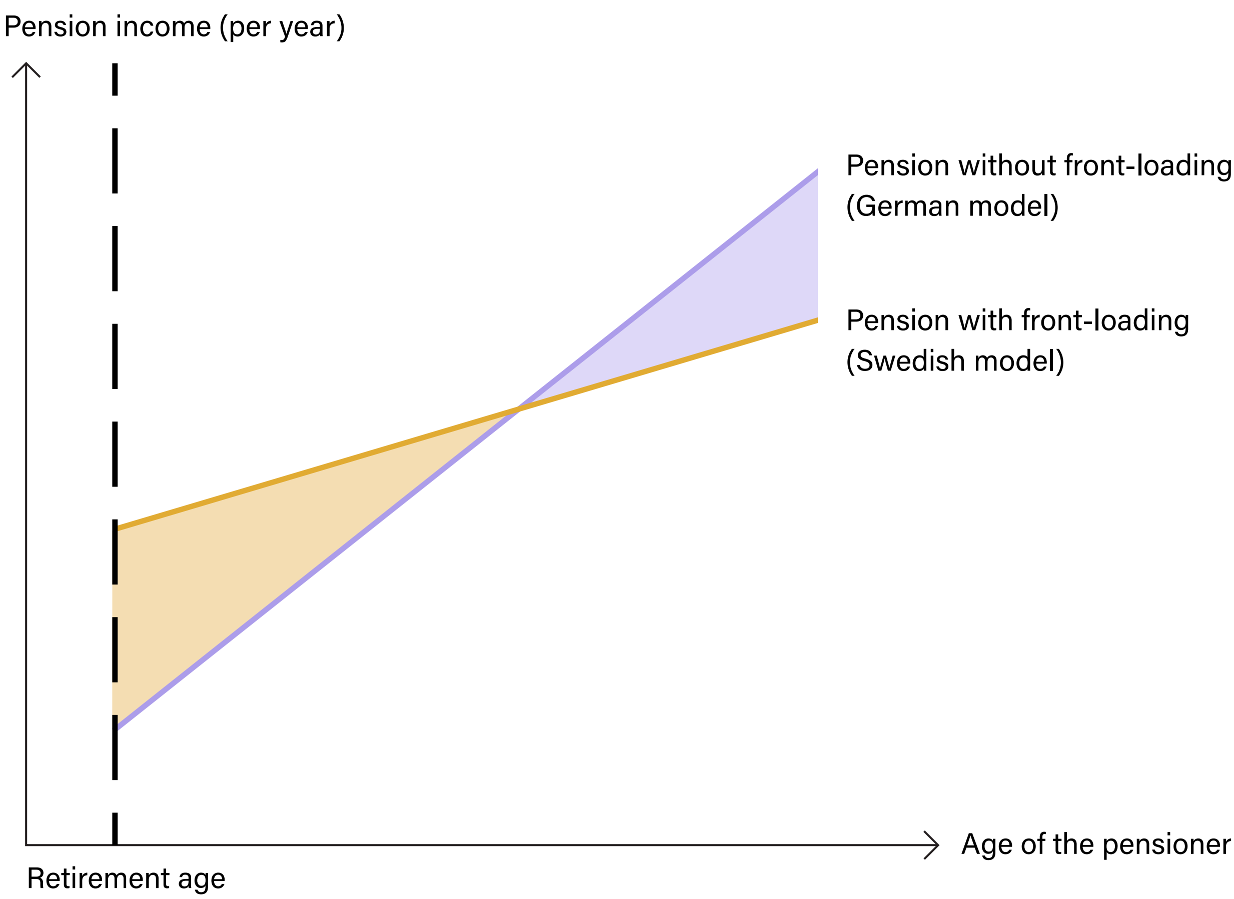

Fig. 6: Front-loading. Source: Own representation.

In order to be able to meet these obligations regardless of economic and demographic trends, an automatic balance mechanism provides a safeguard in the event that the total liabilities in the system exceed the notional asset positions.[56] If the balance mechanism is activated, the indexation of current pensions and the returns credited to notional accounts will be reduced by the ratio of assets to liabilities.[57]

Sub-System 2: Mandatory Funded "Premium Pension"

The second component of the Swedish state pension is the **mandatory premium pension (premiepension)**. Unlike the pay-as-you-go income pension, this is a funded scheme. The contribution rate for this component is 2.5% of pensionable income. This portion of the contributions is credited to the employee's separate personal investment account. The contributions are invested in pension funds. In this arrangement, account management and investment are handled by separate parties: the Swedish Pensions Agency (Pensionsmyndigheten) manages the accounts centrally whilst the investments are made by independent funds. One of the aims of introducing the premium pension in 1999 was to achieve risk diversification within the pension system and allow individuals to make their own choices within the state pension system.[58]

Although this is a compulsory insurance scheme, policyholders are free to decide how to invest their money and can spread their retirement savings across up to five different pension funds via a dedicated fund platform, choosing from around 478 approved funds[59] – depending on their individual risk preferences.[60] If no choice is made, the pension contributions will automatically be invested in the **state standard fund "*AP7 Såfa*"**, a combination of an equity fund ("*AP 7 Aktiefond*") and a bond fund ("*AP 7 Räntefond*"), which invests in fixed-income securities such as government or corporate bonds.[61] AP7 Såfa's equity exposure is approximately 90%. Anyone using funds other than the standard *AP7 Såfa* fund has the option of investing their pension capital in funds with a focus on Sweden, which account for around 12% of the total assets in the premium pension scheme. These funds also invest in Swedish growth companies.[62] For those who wish to manage risk but do not want to select individual funds, there are three further government-managed fund portfolios to choose from in addition to the standard *AP7 Såfa* option: "*AP7 Försiktig*" (with a low equity allocation), "*AP7 Balanserad*" (with a balanced allocation) and "*AP7 Offensiv*" (with a high equity allocation).[63] *AP7 Såfa* currently manages around half of all defined-contribution pension assets, which amounted to €130 billion (almost 25% of Sweden's GDP) in 2025 alone.[64]

The Swedish premium pension, introduced in 1999, has been reformed in recent years. In 2022, Sweden established a new independent fund selection authority (*Fondstorgsnämnden*), which has since been responsible for selecting and reviewing suitable pension funds for the Swedish premium pension system. Whereas previously fund managers could register easily and policyholders could choose from over 800 funds, since 2023 funds have been selected through public tenders. These funds are made available to Swedish policyholders via the premium pension platform introduced in 2022. Under the premium pension scheme, the payment of commission relating to funds is not permitted. The new fund selection authority aims to ensure that policyholders have access to a manageable number of high-quality, cost-effective, sustainable and transparent pension funds with varying risk profiles (ranging from lower-risk bond funds to higher-risk equity funds).[65] The funds have to meet certain quality standards and strict sustainability criteria. Among other things, fund managers must have been in business for at least three years, act in the best interests of pension savers, and manage assets of at least SEK 500 million outside the fund marketplace for premium pensions.[66] The aim of the reform was not only to ensure the quality of the funds, but also to reduce their number, strengthen oversight of the remaining funds, and make the system less vulnerable to fraud and abuse. This was prompted not only by cases of fraud and misuse involving individual funds, but also by the realisation that relatively few people take the trouble to actively select funds.[67]

With the state-run standard fund *AP7 Såfa*, the individual risk is automatically adjusted to the age of the person insured. Until the age of 55, the entire capital is invested in shares. Thereafter, the proportion of shares is reduced by three percentage points per year until the age of 75 and reallocated to bonds. From 75 onwards, the proportion of shares remains constant at 33% and the proportion of bonds at 67%. The aim is to achieve a return that is at least as good as the average for retail investment products.[68]

The activities of the state pension funds are governed by the Swedish Pension Funds Act but the funds are not subject to government intervention. Although the Swedish Government appoints the board of directors of the AP 7 Fund, the board appoints a managing director who is independent of the Government. The performance of all state-owned AP funds is assessed annually, and the results are reported to the Swedish Parliament.[69]

Once the payout phase begins, pensions in Sweden must be paid in the form of **monthly lifetime annuities**. One-off payments are not possible. The payment of the premium pension is independent of that of the pay-as-you-go pension. In both cases the (notional) capital accumulated by the time the pension commences is divided by an annuity factor.[70] The insured person then has two options: He or she may opt for the fixed (guaranteed) annuity. In this case, all fund units are sold to the AP7 agency, which pays out the calculated annuity on a monthly basis at a constant nominal rate, plus a share of profits. Alternatively, policyholders can opt for a dynamic (variable) annuity. Under this option, the AP7 pension agency sells only a portion of the fund capital to cover the annuity payments for the following year; the remainder of the capital remains with the relevant fund. The amount of the pension paid out therefore continues to depend on developments in the capital markets. If the capital market is performing poorly at the time of retirement, policyholders can opt for a variable annuity in the hope that the capital market will recover. Furthermore, the state pension agency AP7 is entitled to adjust pension payments in the event of an unexpected rise in life expectancy or mortality rates, not only for future pensioners but also for those already receiving pension payments.[71]

The Swedish premium pension system has a cost structure which comprises of two elements. Firstly, the Swedish Pensions Agency levies a centralised, proportional administration fee for all the general administrative tasks and services it provides; in 2025, this amounted to 0.025% of the capital, subject to a maximum of SEK 151 (€13.71). Secondly, fund managers charge a proportional management fee for both equity and bond funds. These fees are lower than those on the open market. The capital-weighted average fund management fee stood at around 0.11% in 2025.[72] This is because the pension authority negotiates discounts on fund management fees with the fund providers.[73] Policyholders do not incur any additional transaction costs when buying or selling fund units within the premium pension scheme.[74]

Pillar 2: Occupational Pension

The second pillar – occupational pension – is also significant in Sweden.[75] Since 1973, the Swedish state pension system has been supplemented by semi-compulsory occupational pension schemes. These are funded occupational pension schemes, which are governed by collective agreements between trade unions and employers' organisations and financed by employer contributions. "Semi-compulsory" means that the occupational pension scheme automatically applies to all employees covered by collective agreements. Given the very high level of collective bargaining coverage among Swedish companies, this applies to around 90% of all employees in the public and private sectors.[76] These employees therefore receive a company pension (*tjänstepension*) in addition to the state pension.

Employers who are bound by a collective agreement must set up occupational pension and insurance schemes for their employees in accordance with the terms of the agreement and regularly pay pension contributions amounting to 4.5% of their wages.[77] Employers may be covered by collective agreements as a result of the following:[78]

→ membership of an employers' association or

→ a "collective agreement binding upon the employer", i.e. the employer commits to applying the collective agreement for the sector without being a member of an employers' association.

Anyone employed in the public sector always receives a workplace pension. Private employers, on the other hand, do not always offer a company pension scheme. This applies, for example, to smaller companies in emerging sectors that are not (yet) covered by collective agreements.[79]

Self-employed people, on the other hand, are not covered by occupational pension schemes.[80] The Swedish Pensions Agency recommends that they, and employees who do not receive a company pension, take out private pension provision and save between 4.5% and 6% of their monthly pre-tax salary.[81]

Unlike the state pension, the occupational pension also allows employees to accrue pension entitlements on income above the limit of 8.07 times the income base amount. The occupational pension is therefore particularly important for employees on higher incomes.[82]

Under the occupational pension scheme, employees in Sweden generally have a limited choice. They can decide how the capital paid in by their employer should be managed and choose between traditional insurance (*traditionell försäkring*) or investment fund insurance (*fondförsäkring*). With traditional insurance, responsibility for managing the funds is transferred to the insurance company, which selects the investments. Traditional insurances generally have a lower proportion of shares and are therefore lower risk than investment fund insurances.[83] Employees are often offered a guarantee that they will receive a portion of their premiums back.[84] Traditional insurances include all policies that are not investment fund insurances. With investment fund insurances, employees can decide for themselves which funds their pension capital should be invested in, and thus also choose the level of risk. If employees take out investment fund insurances without actively selecting the funds themselves, the money is invested in a default investment portfolio ("entry-level solution"), which generally also adjusts the level of risk to the employee's age.[85]

If the employee does not choose an occupational pension scheme governed by a collective agreement, their pension capital will automatically be invested in a traditional insurance policy.[86] In many cases, employees can switch later between traditional insurance and investment fund insurance. It is also possible to transfer capital in an occupational pension scheme to another provider.[87] In 2021, the fees for this were capped at a maximum of 0.0127% of the base amount (SEK 600 SEK or € 59.80 euros for 2020).[88]

In most cases, beneficiaries can choose whether to receive their occupational pension for life or over a shorter period of 5, 10, 15 or 20 years. Once the choice has been made, it cannot be changed subsequently. Many people opt for a lifetime payout. If you do not make an active choice, you will receive a lifetime payout.[89]

Most occupational pensions can be claimed from the age of 55 at the earliest. Public sector employees can start drawing their occupational pension from the age of 63 at the earliest. Some occupational pensions are paid out automatically from the employee's 65th birthday, although the payout may be stopped by the employee. Other occupational pension schemes require members to apply for the payout.[90]

A company pension scheme is not just a retirement pension; in many cases, it also includes health insurance, under which beneficiaries receive additional compensation in the event of illness, on top of the benefits provided by the Swedish Social Insurance Agency (*Försäkringskassan*). It also includes optional life insurance for surviving dependants.[91] Two possible options are, for example, repayment protection and family protection, but employees who opt for survivor's benefits receive a slightly lower pension[92] although the rules for the protection of surviving dependants vary across different occupational pension schemes.

In Sweden, there is no longer a fixed, statutory retirement age. Instead of a fixed retirement age, there is a retirement window. Within this window, people can decide for themselves when to retire and from what age they wish to receive their pension in full or in part.[93] The Swedish reform of 2019, which introduced a so-called target retirement age ("*Riktålder*"), has been in force since 2026.[94] The target retirement age is not a mandatory retirement age, but it does affect the window for claiming a pension and, consequently, the earliest date from which certain pension benefits can be claimed.[95] The target retirement age is based on the year of birth and has been set at 67 for the year 2026.[96] From 2027, the target retirement age will be linked to average life expectancy at the time of retirement. If life expectancy increases, the target retirement age will also rise.[97] To this end, the target retirement age for people born after 1964 will be recalculated and set each year,[98] and forecasts will be produced for those whose target retirement age has not yet been determined.[99]

The state income-based and premium pensions can be claimed no earlier than three years before reaching the target retirement age, but certain transitional arrangements apply depending on age. Nevertheless, entitlement to the guaranteed pension, any supplementary pensions and the housing allowance begins only when the target retirement age is reached, which is currently 65.[100] Eligible individuals can draw their pensions without having to give up work. Everyone has the right to work until the age of 69, and in some cases even longer with the employer's consent.[101]

In the case of the first pillar's income-based and premium pensions, no further conditions—such as a "full insurance period"—, other than reaching retirement age, need to be met in order to claim a pension. The Swedish pension system is therefore highly flexible, both in terms of early retirement and the option to defer pension payments indefinitely. [102]

Second-pillar occupational pensions are not affected by the target age. The age at which beneficiaries can start drawing their occupational pension depends on which collective agreement applies to them.[103]

Interim Conclusion

The Swedish pension system is a multi-pillar system; its first pillar combines a pay-as-you-go NDC scheme with a mandatory funded component. This state pension is supplemented by a funded occupational pension scheme (second pillar) that is largely governed by collective agreements. The following aspects of the Swedish pension system, in particular, offer valuable insights for the further development of the German system:

A distinctive feature of the Swedish pay-as-you-go income pension is what is known as front-loading which results in higher pension benefits at the start of retirement but a slower rate of increase thereafter. Specifically, this means that during the payout phase, pensions are not adjusted in line with wage growth. Instead, the wage index is subject to a reduction of 1.6 percentage points. A similar scheme in Germany could also help to cushion the drop in income upon retirement by providing a higher initial benefit, thereby making it easier for those retiring to maintain their standard of living, which in turn could increase support for reform measures.

The Swedish premium pension scheme demonstrates that a funded sub-system can be established even within a state pension scheme, thereby reducing the overall risk associated with a purely pay-as-you-go system. This will help to improve the stability of the pension system. Under the Swedish premium pension scheme, 2.5% of an individual's pension contributions must be invested in a funded scheme.

The premium pension also serves as a model for Germany in terms of its favourable cost structure and the individual options available when selecting funds and choosing a payout option. The fact that policyholders can choose between low-risk, neutral and high-risk investment options, and can even opt to support the domestic economy by selecting funds with a domestic investment focus, fosters a sense of personal responsibility and, where appropriate, increases acceptance of the compulsory funded insurance scheme. Alternatively, the government's standard fund offers a sound default option for those who are unable or unwilling to grapple with the details of choosing a fund. It would seem sensible for Germany to provide for a similar combination of freedom of choice and a reliable standard solution when introducing funded elements.

However, application of the Swedish model of occupational pensions (Pillar 2) is only possible to a limited extent in Germany. Germany could, however, – for example, by issuing appropriate recommendations to the parties to collective agreements – encourage the inclusion of occupational pension schemes as a standard feature in collective agreements.

United Kingdom

The following section provides an outline of the UK pension system. A high proportion of workers in the United Kingdom are members of occupational pension schemes. This was achieved through a reform in the mid-2010s. Occupational pension schemes are a key component of the pension system because the pay-as-you-go pension scheme only provides a small pension. To gain a better understanding of the importance of occupational pension schemes, therefore, we will first outline the basic features of the state pension[104] before going on to describe the occupational pension system.

Pillar 1: The State Pension

The state pension in its current form was introduced by the Pensions Act 2014[105] and applies to people who started paying pension insurance contributions on or after 6 April 2016. The retirement age is currently 66 for both men and women and will rise to 67 by 2028. Between 2044 and 2046, the retirement age will then be raised to 68.

The full state pension currently amounts to £230.25 per week, or £12,005 per year. This amounts to 27% of average earnings. The pension is increased each year by the highest of the following three amounts: Wage growth, inflation or 2.5%. To be eligible for the full pension, people who did not pay social security contributions before 6 April 2016 must have 35 years of contributions. Unlike in Germany, the amount of contributions paid does not affect the size of the state pension; however, the length of time for which contributions have been paid does. To be eligible for a state pension at all, insured persons must have paid contributions for ten years. A contribution year is gained through the payment of social security contributions, through social security credits, or through the payment of voluntary contributions. With every year of contributions, the pension increases by £6.58 per week[106]until the full amount is reached or the person reaches retirement age.[107] For people on very low pensions or with special needs, there are various forms of state support, such as a pension supplement,[108] housing benefit[109] and care allowance.[110] These are mostly funded by tax revenue.

Transitional arrangements apply to people who already paid social security contributions before 6 April 2016, as these individuals have already accrued entitlements under the old system, which are taken into account when calculating their state pension. In such cases, the state pension may be higher than £230.25 per week.

The state pension is mainly funded by social security contributions from employees and employers. These contributions are not used solely to fund pensions, but also to fund other contribution-based social security benefits, such as the Employment and Support Allowance.[111] In addition, around 25% of contributions are used to fund the National Health Service.[112]
The state pension is funded on a pay-as-you-go basis. Employees who are over 16 years of age and have not yet reached the statutory retirement age are required to pay contributions. In addition, weekly income must be at least £242.[113] Employees with an income of between £125 and £242 do not have to pay National Insurance contributions, but are treated as if they did. Employees earning between £242 and £967 per week pay 8%, and 2% on any income above that amount.[114] Employers generally pay 15% on wages exceeding £96 per week.

Pillar 2: Occupational Pensions

In addition to the state pension, the United Kingdom has workplace pension schemes in which 82% of employees participate.[115] The proportion of employees with a workplace pension has risen steadily since 2012, when the participation rate stood at around 47% (see Fig. 7). The increase is attributable to the introduction of automatic registration in October 2012.[116] Under the automatic enrolment scheme, all employers are legally required to enrol their employees in a workplace pension scheme. Provided the employee does not object, both the employee and their employer will make contributions to the company pension scheme. The law applies to all employees who are at least 22 years of age and have not yet reached the statutory retirement age. They must also earn more than £10,000 a year (in 2025/26).[117] Employees who do not meet one or both of these criteria are entitled to join a workplace pension scheme voluntarily (known as an "opt-in"), provided they are aged between 16 and 75 and earn more than £6,240 per year. In this case, the employer must pay the same minimum employer's contribution as the employee would have received had they been enrolled automatically. Employees aged between 16 and 74 who earn less than £6,240 may also opt in but, in this case, the employer is not required to make any contributions. Automatic enrolment does not apply to the self-employed.

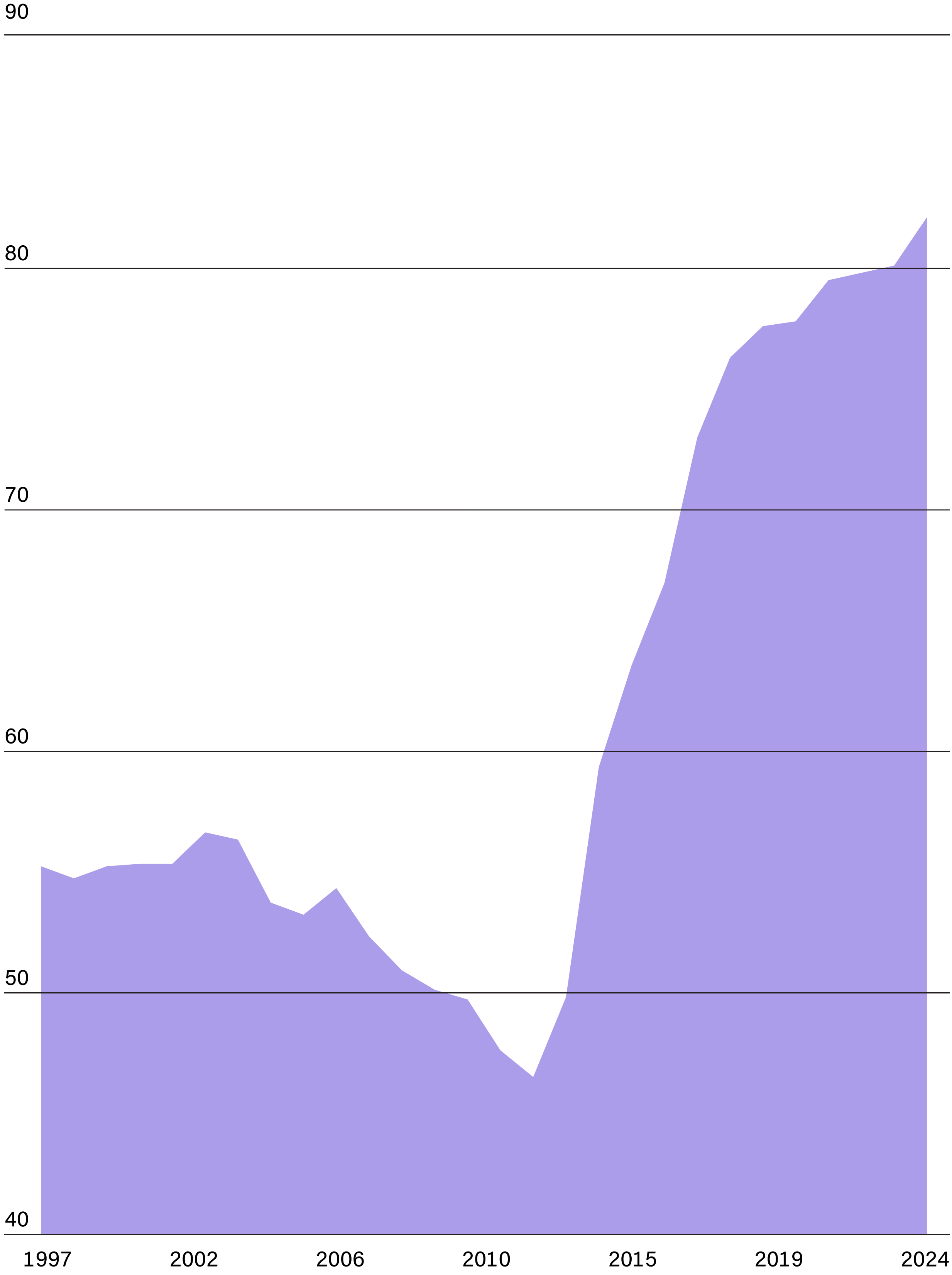

Fig. 7: Proportion of employees with a company pension scheme. Source: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021 provisional and 2020 final results.

Automatic enrolment was introduced gradually between October 2012 and February 2018, based on company size (number of employees). The minimum contributions that employees and employers are required to pay were also introduced gradually, reaching their full rate of 8% of income in April 2019. Employers pay at least 3% and employees 5%. Some employers pay more than 3%. Thus, in 2024, the median employer contribution in the private sector stood at 6%. In 2025/26, employees and employers will pay these contributions on earnings between £6,240 and £50,000.[118] If an employee chooses to opt out, the employer may also choose to opt out of contributions to the company pension scheme. Employers must not encourage their employees to opt out.

Employee contributions to occupational pension schemes are subject to tax relief in the United Kingdom which takes place either by way of a "net pay" arrangement or via "relief at source". Under a net pay arrangement, the contribution is deducted from the gross salary before income tax is calculated; this immediately reduces the taxable income. With relief at source, contributions are initially deducted from net pay; the pension provider then claims basic tax relief back from the government and credits it to the pension account.[119] Insured persons who do not pay income tax receive a payment from the government amounting to 20% of their contributions.[120]

Investment income from pension assets is tax free but pension payments from a pension fund are subject to tax. For many policyholders, this arrangement has the advantage of shifting taxation from a stage of life typically characterised by higher income to a stage of life often characterised by lower income.[121] In addition, insured persons can receive up to 25% of their pension savings as a tax-free lump sum when they start drawing their pension.[122]

In 2023, every employee enrolled in a workplace pension scheme saved an average of £3,910. In the same year, total occupational pension assets stood at £131 billion (see Fig. 8).

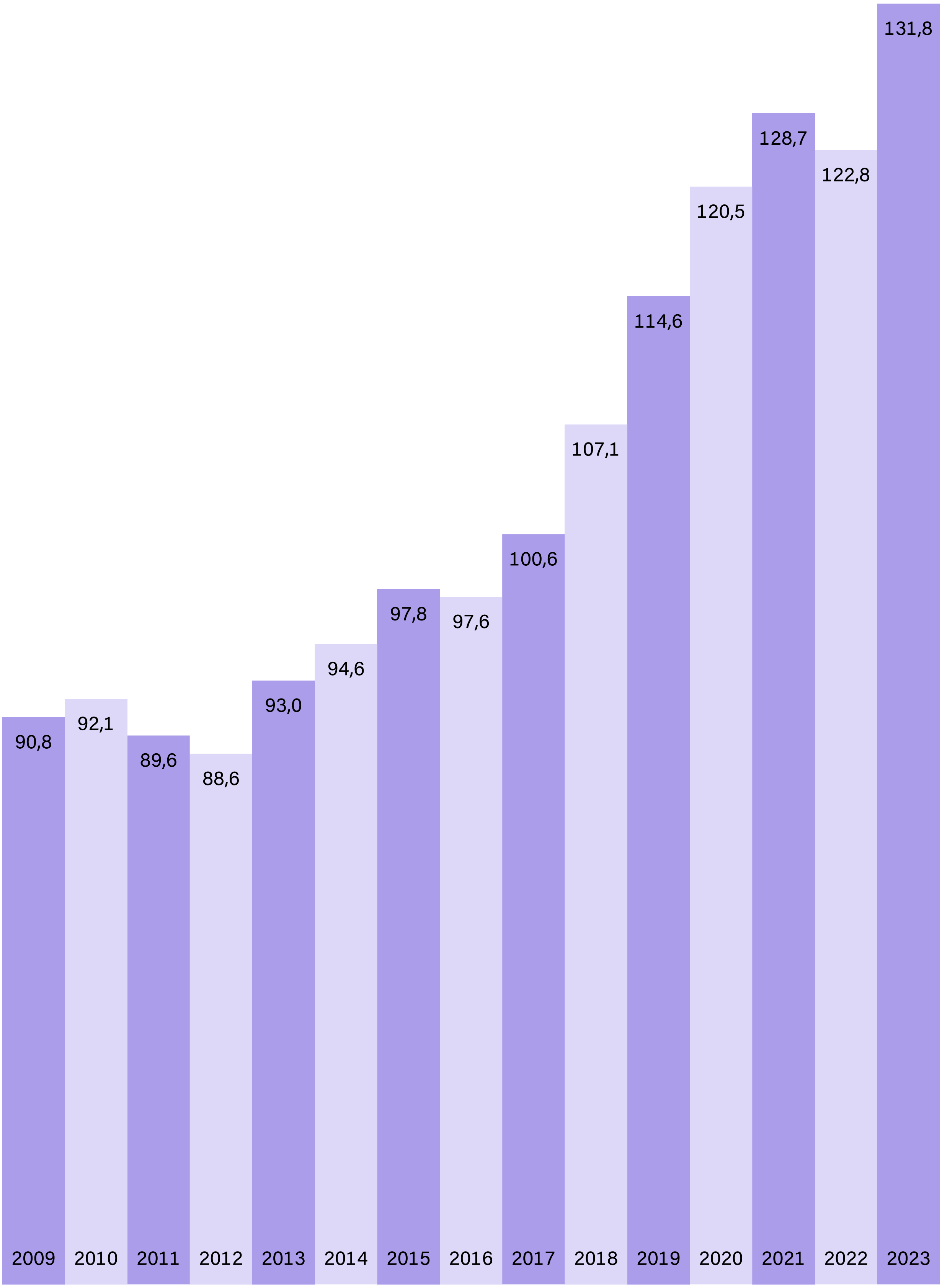

Fig. 8: Employer-sponsored pension assets (£ billions). Source: https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023.

The occupational pension scheme is regulated by The Pensions Regulator. This authority also monitors employers' compliance with their obligations regarding automatic enrolment.

Finally, there are various funds in place to provide partial protection for members in the event of their fund becoming insolvent or in the event of fraud. The Pension Protection Fund is a statutory fund designed to protect members of defined-benefit pension schemes in the event that the fund's provider becomes insolvent. As a rule, the Pension Protection Fund reimburses 90% of the members' contributions unless they have already reached normal retirement age at the time of the insolvency, in which case they will receive 100% of their pension. In addition, a fraud compensation fund pays compensation to occupational pension schemes that have suffered losses as a result of fraud. The Pension Protection Fund manages the Fraud Compensation Fund.[123]

The National Employment Savings Trust (NEST) Corporation was established to ensure that all employers can enrol their employees automatically without any problems. As a public corporation established by law with its own legal identity, it is responsible for NEST, the state-run workplace pension scheme. NEST is a workplace pension scheme which allows for the automatic enrolment of employees into the scheme by their employers and subsequently for both employers and employees to pay contributions towards future retirement provision. NEST is obliged to accept every employer. NEST is aimed at employers who are at risk of not being accepted by private providers because their contribution amounts are too low. These include, in particular, employers with fewer than 250 employees and employers with a high proportion of low-income workers. NEST has to offer a workplace pension scheme to these employers, regardless of the company's profitability.

NEST has a combined fee structure comprising a subscription fee of 1.8% on all contributions to the fund and an annual management fee of 0.3% of the fund's value. This is roughly equivalent to an annual fee of 0.5% of the fund's value. NEST's fees are therefore slightly higher than the average fees charged by private providers (0.48%). However, the fees are below the cap on occupational defined-contribution pension schemes of 0.75% of the managed assets.[124] The fees are borne in full by the employees.[125]

NEST currently offers six different funds: the Nest Retirement Date Fund, the Nest Ethical Fund, the Nest Sharia Fund, the Nest Higher Risk Fund, the Nest Lower Growth Fund and the Nest Guided Retirement Fund.[126]

NEST's returns slightly outperformed those of other master trusts,[127] whilst its risk level was also below average.[128] To finance its construction, the NEST Corporation received government support in the form of a loan. This is expected to be repaid by 2038.

Interim Conclusion

The UK pension system differs significantly from the German system. The state pension is straightforward in design and provides only basic cover. It is not designed to safeguard standard of living. A significant proportion of people's standard of living in old age is secured through occupational pension schemes in which 82% of employees participate. The following particular aspects of the UK pension system offer ideas for the further development of occupational pension schemes in Germany:

A key lesson from the British system is the effectiveness of automatic enrolment in workplace pension schemes. Since the introduction of so-called "auto-enrolment", companies have been required to enrol employees in a workplace pension scheme. Although employees retain the right to opt out, this rarely happens. An opt-out model like this could be a good way to strengthen the second pillar in Germany.

The British example also shows that automatic enrolment can only be effective across the board if small businesses are also given easy access to a workplace pension scheme. NEST has been created as a catch-all solution that companies can use regardless of their size or workforce structure. In Germany, it follows that an opt-out model for occupational pension provision should be supplemented by a publicly organised standard provider.

Furthermore, a gradual introduction of minimum contributions would seem advisable. In the United Kingdom, both automatic enrolment and the obligation to pay contributions were phased in over a period of several years. This enabled companies, employees and fund providers to adapt to the new requirements. In Germany, too, such a phased introduction would make sense to ensure that the burden on businesses and employees remains manageable. One possibility would be a low minimum contribution that increases over several years.

Finally, the British system demonstrates that funded pension schemes should be accompanied by appropriate safeguards. The Pension Protection Fund and the Fraud Compensation Fund are designed to provide insured persons with at least partial protection in the event of insolvency or fraud. For Germany, therefore, when it comes to greater capital coverage, it is not only returns that are relevant but also institutional safeguards against provider insolvency and fraud.

4. Taking Pensions Out of the Day-to-Day Political Debate

As outlined above, the pay-as-you-go pension system requires comprehensive reform in light of demographic trends. At the beginning of the year, the German government set up a commission on old-age provision to draw up proposals for reform. The fact that such a comprehensive reform is now necessary is not solely due to demographic trends because these have been known about for many decades. It is also due to the fact that previous reforms aimed at stabilising the pay-as-you-go system have regularly been watered down, suspended or reversed. There are numerous examples of this.

The demography factor, introduced in 1999 with the aim of linking pension adjustments more closely to rising life expectancy, was suspended before it came into effect.

→ In 2009, the pension guarantee clause was extended so that pension levels would not decrease in nominal terms even if wages fell.

→ The no-reductions old-age pension for people with particularly long insurance records, introduced in 2014, represents a partial reversal of the previously agreed increase in the statutory retirement age to 67.

→ The catch-up factor was suspended from 2019 to 2021.

→ Currently, none of the sustainability factors are having any effect because the standard formula has not been used since 2025 due to the minimum guarantee level of 48%.[129]

These measures may be justifiable in individual cases from a social policy perspective. However, they often conflict with the goals of long-term sustainability and intergenerational fairness. This comes as little surprise as pension policy is prone to being exploited for electoral gain. Political actors can make improvements to benefits that are visible in the short term, whilst pushing the financial burden down the road and shifting it onto contributors, taxpayers and the younger generation. This problem is not unique to Germany; it affects other countries as well. For this reason, Sweden introduced a mechanism in 2003 designed to protect pension reforms from short-term political interference.

The aim of this section is to present proposals designed to improve the reliability of Germany's pension policy. Specifically, the proposed measures are intended to help distribute the burden of pension reforms fairly across the generations and to make it more difficult to use pension policy as a means of securing votes.

The Concept of Intergenerational Justice

It is not easy to provide a universally accepted definition of intergenerational justice. Each generation has its own history, which cannot be held up as an absolute standard against the experiences and realities faced by another. The following definition does not cover all historical differences between generations and therefore does not claim to provide a comprehensive normative definition of intergenerational justice. However, it is suitable for assessing the distribution of burdens within the pension system over time. On that basis, a pay-as-you-go pension system is fair to all generations if the ratio of pensions paid out to contributions paid in is the same for all generations.[130] This definition means that the burdens of demographic change would have to be shared across society as a whole.[131]

The following section outlines three mechanisms designed to promote a generationally just structure for the German pay-as-you-go pension system whilst also making it more difficult to use pension policy as a means of securing votes.

The "Pensionsgruppen" in the Swedish Parliament

The Swedish Parliament (*Riksdag*) has a Pension Group (Swedish: "*Pensionsgruppen*"), which currently includes representatives from all the parties represented in parliament.[132] This group serves to provide political backing for Swedish pension reform and its fundamental principles. It also prepares core changes to the statutory pension system. Although the Pension Group has no formal right of veto over the government or parliament, in political practice, reforms to the pension system are only pursued if they can achieve a consensus within the Group. The Pension Group thus acts as a mechanism for political restraint which makes unilateral changes to pension policy more difficult. Since the introduction of the Pension Group, relatively few fundamental changes have been made to the Swedish pension system. If the government wishes to alter the financial circumstances of pensioners, it resorts instead to changes in tax law or to measures outside the pension system itself.[133]

The Pension Group is chaired by the Minister with primary responsibility in the Government for the general pension system. Where possible, members should be members of both parliament and the Social Insurance Committee.[134] The Pension Group did not come into being through a single formal act of establishment, but evolved from the cross-party reform process of the 1990s. It was established as a permanent monitoring group to safeguard the pension agreement following implementation of the reform in the late 1990s and early 2000s.

The Swedish example shows that pension reforms can and should be underpinned by specific procedures. Germany should follow Sweden's example and set up a permanent cross-party pension commission tasked with preparing fundamental changes to the statutory pension scheme. Such an institution could help to make pension reform more reliable and act as an impediment to short-term "election promises".

Introduction of a New Pensions Committee

In Germany, a pensions committee could follow Sweden's example and form part of the *Bundestag*'s Parliamentary Advisory Council on Sustainable Development and Future Issues or it could be newly created along similar lines. The Parliamentary Advisory Council was first established in 2004 and has been reconstituted regularly in every parliamentary term since then. However, it does not come into effect automatically as it has not yet been enshrined in the *Bundestag*'s Rules of Procedure.[135] During the current parliamentary term, the Advisory Council consists of eighteen members, who are appointed by the parliamentary parties in accordance with their size.[136] One argument in favour of making the pensions committee a permanent feature of the Parliamentary Advisory Council is that the Council is already tasked with providing parliamentary support for and promoting sustainable development.[137] A pensions committee attached to the Advisory Board would broaden this sustainability perspective by including fiscal and intergenerational dimensions.

Alternatively, a pensions committee could be established outside the *Bundestag* and attached to the Social Advisory Council.[138] One argument in favour of this is that the Social Advisory Council is already institutionally linked to the statutory pension insurance scheme. The Social Advisory Council comprises the following representatives: four on behalf of pension scheme members, four on behalf of employers, three representing the social and economic sciences, and one representative from the *Deutsche Bundesbank*. Its main task[139] at present is to produce an annual expert report on the Federal Government's pension insurance report.[140] The pension insurance report provides information on the financial development of the pay-as-you-go system over the next fifteen years.[141]

The remit of the Social Advisory Council could be extended.[142] The Council could initiate specific reforms and/or systematically assess pension policy reform proposals in terms of their long-term financial implications and their (intergenerational) distributional effects. On that basis, the Social Advisory Council could submit proposals to the legislature. If the legislature fails to act on the Council's proposals, it should be required to give its reasons publicly and in writing. Such a requirement to provide reasons would not be legally binding on the government and parliament, but it would increase the transparency of decisions on pension policy. This would enable voters to get a better understanding of the long-term implications of a pension policy measure for contribution rates, pension levels, government subsidies and future generations.

Constitutional Amendment

Rather than setting up a pensions committee, the long-term stability of the statutory pension scheme could also be safeguarded by placing greater constitutional constraints upon the legislature. One possibility would be a constitutional amendment which – like the debt brake[143] – sets out binding requirements for the (intergenerational) sustainability of the pension scheme, or even of all social security schemes.

The basis for such an approach can be found in the constitutional debate on the intertemporal guarantee of freedom. There have already been isolated calls for a broad, constitutionally enshrined fundamental right to fairness in the context of the intertemporal guarantee of freedom for all decisions that affect the future, a category which explicitly includes pension policy.[144] The concept of the intertemporal guarantee of freedom was particularly evident in the Federal Constitutional Court's so-called Climate Ruling of 2021. There the Court refers to "an obligation to safeguard fundamental freedom over time" and to the need "to spread the opportunities associated with freedom proportionately across generations".[145]

Based on this understanding, the “intergenerational contract” underlying the pay-as-you-go system could, under certain circumstances, be understood not only in terms of its intergenerational impact, but also in terms of its intertemporal impact. The fundamental constitutional principle, as already applied in the law on public debt and environmental law, could thus be extended to pension insurance law in the interests of far-reaching intergenerational justice.[146]

Consequently, such a constitutional guarantee of the intertemporal protection of freedom under Article 2(1) of the Basic Law would ensure that any pension policy decisions are formulated in a fair manner. This constitutional amendment would establish a new right of recourse to be brought, as a unified community based on solidarity, against the state rather than against individual generations.[147] Future state intervention that encroaches upon this right of recourse, through the suspension of measures that have already been adopted, would require justification based on fair distribution of the burden, provided that such intervention complies with the mandatory requirement of foreseeability.[148] This approach could help to remove the emotional element from decisions on pension policy and separate them from any electoral tactics. However, the Federal Constitutional Court’s decision to dismiss the case[149] of 26 January 2026 concerning the constitutional complaint against the “2025 Pension Package” has made it more difficult to apply the concept of the intertemporal guarantee of freedom, as established in the climate ruling, to the statutory pension insurance scheme, which is why such an argument now requires a significantly greater degree of substantiation.

Furthermore, the impact of a constitutional amendment would be significantly more drastic than that of a pensions committee. A constitutional provision would be legally binding on the legislature and would potentially subject decisions on pension policy to judicial review. This could enhance the long-term reliability of pension policy, but it also carries the risk of shifting greater responsibility for complex distributional decisions onto the courts. Ensuring that pension policy is fair to all generations through constitutional safeguards would therefore be a particularly far-reaching reform option to be considered, principally in cases where milder institutional measures – notably a pensions committee – were deemed insufficient.

Five Recommendations for Germany

1. Present funded schemes as a long-term supplement and a component that is fair to all generations

The expansion of funded pension schemes should be presented politically as a long-term addition to pay-as-you-go pensions. The acute pressures on the statutory pension scheme are primarily due to demographic change. Increased capital coverage will not alleviate this pressure in the short term, as it requires long accumulation phases and will only take full effect after several decades. That is precisely why measures to build up additional capital reserves should be implemented as quickly as possible. A delay in setting up the scheme will simply delay stabilisation of retirement income through funded entitlements and investment income. Funded pension schemes are not therefore the answer to the immediate pressure for reform facing the statutory pension scheme, but they are a key component in improving individual retirement provision in the long term and reducing over-reliance on the pay-as-you-go system.

Furthermore, a pension system with a higher level of capital funding can stimulate economic growth, as it increases the pool of capital available in the long term and thus facilitates investment in businesses and innovation. If structured correctly, funded pension schemes can boost the younger generation's confidence in the sustainability of the pension system. It also indicates that the forthcoming reforms are not merely aimed at shifting the increasing burden of the pay-as-you-go system onto younger contributors, but that, at the same time, additional sources of funding for future old-age pensions are being established. Measures to expand funded pensions should therefore be presented as a second key source of funding that will complement and stabilise the pay-as-you-go system in the long term.

2. Combining pension reform with a growth agenda

Sweden demonstrates that capital funded pensions can also be implemented within the state pension system. Under its premium pension system, a mandatory contribution of 2.5% of pensionable earnings is invested on a funded basis. Insured persons can spread their capital across up to five funds, including funds that focus on investments in Sweden. Anyone who does not indicate an active investment choice will automatically be assigned to the government's standard fund, *AP7 Såfa*. The premium pension system thus combines mandatory funded provision, individual freedom of choice and a reliable default option.

At the same time, Sweden demonstrates that funded pension schemes also have economic benefits. The large pool of long-term capital makes it easier to finance innovative scale-ups. Sweden has the highest per capita venture capital investment in the EU, averaging around € 450, and has produced four of the 14 EU companies, founded within the last 50 years, that are valued at over 10 billion dollars.

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3. Learning from Sweden: Setting rules for retirement age and pension arrangements

The Swedish pension system shows that reforms to pay-as-you-go pensions must aim not only for financial stability, but also for public acceptance and reliability. In Germany, two factors are particularly relevant:

Firstly, Germany should introduce a "**front-loading mechanism modelled on the Swedish system**" into its statutory pension scheme. Front-loading means that part of future pension growth is brought forward to the start of retirement. The initial pension is therefore higher, but then increases at a slower rate over the course of the pension period. This can help to cushion the drop in income when people move from working life into retirement.

The fact that pension reforms are often perceived as leading to a lower standard of living is precisely why a higher pension level at the start of retirement could increase the acceptance of such reforms.

Secondly, once the already agreed increase of the standard retirement age to 67 has been implemented, Germany should introduce rules linking it to future trends in life expectancy. Sweden has introduced a target retirement age for this purpose, which in future will be adjusted automatically in line with average life expectancy. Such a link will prevent increasing life expectancy from automatically leading to ever-longer periods of pension receipt without making a corresponding adjustment to the gainful employment phase. At the same time, a rule-based adjustment would reduce the political pressure to keep redefining the retirement age through a series of individual, contentious decisions. It would make the need for demographic adjustments more transparent and strengthen the long-term sustainability of the pay-as-you-go pension system.

Thirdly, Sweden demonstrates that capital funded pensions can also be implemented within the state pension system. Under the premium pension scheme, a mandatory fixed proportion of state pension contributions is invested on a funded basis. This means that funded pension schemes are not merely a voluntary supplementary form of provision outside the statutory system, but an integral part of the state pension. In Germany, this means that the expansion of funded pensions need not rely solely on voluntary private or occupational pension schemes; funded elements could also be integrated more firmly into the statutory pension scheme, for example through an additional mandatory funded component. The Swedish premium pension also combines individual choice with a standard state fund for those who do not wish to make active investment decisions.

4. Learning from the United Kingdom: Making workplace pension schemes the norm

Germany should boost the uptake of workplace pension schemes by introducing an opt-out model. In the United Kingdom, employers are required to enrol employees into a workplace pension scheme. Although employees retain the right to opt out, in practice this rarely happens. 82% of employees now participate in a workplace pension scheme. An opt-out model like this would be a good way to strengthen the second pillar of the German pension system.

For automatic enrolment to be effective across the board, small businesses in particular need easy access to a workplace pension scheme. With NEST, the United Kingdom has established a catch-all solution that employers can use without having to deal with any red tape and regardless of whether their workforce structure is economically viable for private providers. In Germany, it follows that an opt-out model for occupational pension provision should be supplemented by a government-organised or government-backed standard provider. This could provide smaller businesses and low-income workers in particular with easy access to workplace pension schemes.

Furthermore, a gradual introduction of minimum contributions would seem advisable. In the United Kingdom, both automatic enrolment and the obligation to pay contributions were phased in over a period of several years. This enabled companies, employees and providers to adapt to the new requirements. In Germany, too, such a phased introduction would make sense in order to avoid acceptance problems and ensure that the burden on businesses and employees remains manageable. One possibility would be a low minimum contribution that increases over several years.

Finally, occupational pension schemes should be accompanied by appropriate safeguards. In the United Kingdom, the Pension Protection Fund and the Fraud Compensation Fund are designed to provide insured persons with at least partial protection in the event of insolvency or fraud.

In Germany, therefore, consideration should be given to how insured persons can be effectively protected against provider insolvency, fraud and misconduct in the event of an expansion of occupational pension schemes.

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5. Institutional safeguards for pension policy based on the Swedish model

Germany should put more institutional safeguards in place for key decisions on pension policy. Sweden's so-called **Pension Group** provides a model. This is a cross-party political body in which the parties represented in the Swedish *Riksdag* discuss the future development of the pension system. Although the Pension Group has no formal right of veto over the government or parliament, in political practice fundamental changes to the pension system are prepared by the Group and only pursued if they achieve a consensus within the Group. This creates a mechanism for political restraint that makes short-term changes to the pension system more difficult and increases the reliability of pension policy decisions.

Germany should follow this example and establish a permanent cross-party pensions committee. This committee should prepare fundamental reforms to the statutory pension system, assess their long-term financial implications and ensure that their consequences for the different generations are transparent. The aim would not be to remove the legislature's democratic freedom to make decisions, but to raise the barriers to interventions motivated by short-term considerations. The pensions committee could either be part of the *Bundestag*'s Parliamentary Advisory Council on Sustainable Development and Future Issues or established along similar lines as a new body. This is supported by the fact that the Advisory Council already monitors sustainability issues at parliamentary level and works across party lines. A pensions committee attached to the Advisory Council would broaden this sustainability perspective by including fiscal and intergenerational dimensions.

In addition, the Social Advisory Council could also become more closely involved. Institutionally, it is already linked to the statutory pension system and produces expert opinions for the German government's pension insurance report. Its technical expertise could be used to assess the long-term implications of reform proposals put forward by the pensions committee or the Federal Government for contribution rates, pension levels, the federal subsidy and intergenerational fairness.

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