

## Flexible working lives and pension coverage in Europe with a focus on women: Lessons to be learned by Germany

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**REC-WP 01/2011**



Working Papers on the Reconciliation of Work and Welfare in Europe

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## **About the author**

Janine Leschke is senior researcher at the European Trade Union Institute (ETUI) in Brussels. She holds a PhD from the social science faculty of Free University of Berlin. Prior to her current position she has worked in the labour market and employment unit of the Social Science Research Centre Berlin (WZB). Her main areas of research are European labour market and social policies. She is currently working on comparative projects on the labour market and social policy outcomes of the economic crisis, on job quality, precarious employment and intra-EU labour migration. She has expert and advisory functions in several organisations among them the European Statistical Advisory Committee (ESAC) and the Council of Europe. More details can be found at <http://www.etui.org/research/about/Staff/Leschke-Janine>

## **Abstract**

In particular due to increasing female employment over the last decades employment has become more flexible in regard to the contract form and we observe more discontinuous employment careers. This paper discusses in how far retirement pension systems in Europe are suited to cover the specific risks of flexible workers. Recent reforms to these systems (e.g. the strengthening of private elements) and their outcomes on flexible workers are also scrutinised. Section 1 discusses the increasing flexibility of working lives, focussing on breaks in paid employment caused by the incompatible demands of family and working life and on atypical forms of employment, in particular part-time and fixed-term employment. Section 2 discusses the problems encountered by persons with flexible labour market histories with regard to retirement pensions, and points to good practices from several European countries. Section 3 analyses retirement pension in Germany in detail based on the German Socio-Economic Panel (SOEP) data which contains life course information. It looks at differences in pension coverage taking account of the full-time and part-time employment history of individuals. It puts specific emphasis on the private 'Riester pension' plan which contains incentives for participation of specific labour market groups usually disadvantaged in third pillar private pension schemes.

## **Keywords**

Pensions, non-standard employment, welfare state, life course perspective, micro-data analysis

## Introduction

The increasing labour market participation of women – entailing issues of compatibility between occupational activity and family life – and the growth in atypical forms of employment have led, in recent decades, to increasingly flexible occupational lives and career paths, particularly among women. This article discusses whether and to what extent this increasing flexibility of career paths is accompanied by a shortfall in pension coverage for the persons concerned.

Particularly in the group of continental European countries<sup>1</sup> that resort principally to the social insurance model, social security systems are traditionally strongly geared to the ‘male-breadwinner model’. This model is based on the so-called ‘standard employment contract’ for men, an arrangement essentially characterised by permanent full-time work in the service of one employer. Under this model the role assigned to women – insofar as they are also wives – is that of full-time career and housewife contributing, at most, an additional wage in a subsidiary capacity. The associated social security provision is geared to maintaining status and displays a strong degree of equivalence between contributions and benefits. Derived benefits provided under this system include free cover for the whole family under the statutory sickness insurance scheme and survivor pensions for widows and orphans under the statutory retirement insurance system.

Despite the fact that, even in continental European countries, the male-breadwinner model no longer corresponds to the preferences of the population<sup>2</sup>, the unequal sharing within the family unit of care and household tasks remains a fact as appropriate institutional facilities to redress this situation, in particular, a comprehensive system of childcare for nursery and school-age children, are frequently lacking. Against this background a strong degree of equivalence between social security contributions and benefits is not a fair method of distribution. Nor is a system based on derived benefits appropriate or able to offer security in a situation of increasingly unstable marriages and a high proportion of single-parent families.

By taking a look at European countries whose social security systems have generally developed provisions that better cater for flexible occupational careers, this article discusses reform options for continental countries and particularly Germany. The analysis focuses on benefits provided under the retirement pension system.

Section 1 discusses the increasing flexibility of working lives, focussing on breaks in paid employment caused by the incompatible demands of family and working life and on atypical forms of employment, in particular part-time and fixed-term employment. Section 2 discusses the problems encountered by persons with flexible labour market histories with regard to retirement pensions, and points to good practices from a number of European countries. Section 3 analyses retirement pension coverage in Germany based on the German Socio-Economic Panel (SOEP) data. It looks at differences in pension coverage taking account of the full-time and part-time employment history of individuals and puts a specific emphasis on the

third pillar private pension that has been strengthened in recent years and contains incentives for participation of specific labour market groups.

## **Flexible occupational careers resulting from care responsibilities and atypical employment**

### **Combining family and work**

The specific features and extent of flexible employment patterns, characterised by breaks in employment or a shortening of working hours for reasons associated with care responsibilities, vary considerably among European countries (OECD 2009a). The differences stem, in particular, from the varying nature of the relevant institutions but also from the extent to which men are actively involved in care and household tasks. Both the shaping of the institutions that foster work/family compatibility (particularly childcare and elderly care facilities, but also parental leave and part-time arrangements, as well as flexible working time arrangements) and the involvement of men in care tasks bear the strong imprint of prevailing norms and values (Leschke and Jepsen 2010, forthcoming).

The continental European countries (and to an even greater extent the southern European countries) are characterised, in this respect – in contrast to the Nordic (and, to a lesser extent, the Anglo-Saxon) countries – by comparatively conservative norms and values<sup>3</sup>. Care and household tasks were for a long time regarded as the exclusive preserve of women and this state of affairs continues to be encouraged by the granting of tax benefits for non-labour market participation or only minimal participation (e.g. in the form of short-hour jobs) as well as by options to take advantage of comparatively long career breaks and by the promotion of part-time work. The provision of care facilities outside the home which, in the Nordic countries in particular, allows women a free choice between paid employment or non-labour market participation, has under the ‘continental’ model acquired no more than a subsidiary position. This situation is still today reflected in the low numbers of children in nursery care and in a system of half-day school attendance in the absence of widespread public facilities that would provide care for schoolchildren during the afternoons.<sup>4</sup> In particular on account of long and sometimes irreversible career breaks, the employment rates of women are still – in spite of significant increases – significantly lower in the countries of continental Europe than in the Nordic countries.<sup>5</sup>

### **Atypical employment**

Against the background of higher employment rates – particularly among women (an increase of almost 15 percentage points between 1987 (earliest available data) and 2009 in the EU12) – atypical forms of employment have become increasingly widespread in Europe. Thus the average rate of part-time employment increased from 12.7% to 20.9% between 1987 and 2009 and, among women, this rate rose by about 9 percentage points to a current level of 36.5% (Eurostat 2010).



Austria, Belgium, Germany, the Netherlands, Sweden and the UK have female part-time employment rates of more than 40% in 2009. Another increase – albeit less strong – was recorded in the proportion of fixed-term contracts, the percentage of which rose between 1987 and 2009 from 9.0% to 13.4% (with losses due to the crisis – in 2008 the share had been 14.5%), with a rate among women that is about 1 percentage point higher than the rate for men (Eurostat 2010, numbers referring to EU12). The incidence of fixed-term employment is particularly pronounced in Spain, Portugal and Poland. Both part-time work and fixed-term contracts are more frequently followed by unemployment or inactivity than are full-time work and open-ended contracts. Alongside breaks taken for family care purposes, these forms of employment can thus contribute to unstable and flexible occupational careers (European Commission 2003: 131-140; Leschke 2008: 140-160; Schulze Buschoff and Protsch 2008: 56ff.). The extent to which atypical employment contracts enable transitions to regular jobs or, on the contrary, represent permanently suboptimal employment options with a higher risk of unemployment and inactivity varies not only between countries but also between different labour market groups and, in particular, between men and women. Such transitions are particularly difficult for women and this applies especially – as observed in Germany and Great Britain in particular – of the transition from part-time to full-time employment (OECD 2002: 159-165; Chaupain-Guillot et al. 2004; O'Reilly and Bothfeld 2002).

Atypical forms of employment have – both at European level in the framework of the European Employment strategy and in individual countries – been actively promoted by tax incentives, (de)regulation measures and stricter requirements concerning acceptance by the unemployed of jobs offered.<sup>6</sup> In many countries, part-time work continues to be regarded as an appropriate solution for combining career and family and in this capacity – frequently because of the lack of childcare facilities – is almost exclusively practised by women. In 2009 on the European average 29% of part-time employed women stated that they were in part-time jobs due to care responsibilities, whereas this applied to only 4% of men (ELFS 2010). Important country differences are evident. In Denmark and Portugal, Latvia, Lithuania, Romania and Slovenia the share of women working part-time due to care responsibilities is below 10%, whereas it is more than 30% in France, Luxembourg, the Netherlands and Austria (EFLS 2010).

Among women in particular, there thus exists an accumulation of various risks that can lead to flexible labour market histories. On account of the fact that social protection systems have been constructed, in particular in the continental European countries, on the so-called standard employment contract, these flexible labour market histories adversely affect the social insurance of the groups concerned.<sup>7</sup>

## Old age insurance systems

### New trends in retirement pension systems

The majority of European countries have in recent years reformed their old-age insurance system. The main factor prompting reform was the financial sustainability of the system. Irrespective of the scope of individual reforms, common trends can be recognised: in the basic state pension (first pillar) a much closer link has been established between contributions and benefits, accompanied by simultaneous strengthening of the occupational retirement benefit (second pillar) and the individual supplementary provision (third pillar). A further trend is the abolition or severe restriction of survivor (i.e. widows') benefits in favour of more strongly individualised systems.

The reforms of recent years have led in almost all countries to losses in benefits for low-earners.<sup>8</sup> An exception here is the United Kingdom where improvements for low-earners are attributable to the introduction of an additional state pension (State Second Pension) with a banded system of wage replacement rates that vary depending on income and an increase in the minimum income guarantee, now known as the 'Pension Credit' (OECD 2007b: 66ff.). In about a quarter of EU countries the reforms introduced will, according to calculations made by the EU Social Protection Committee (Social Protection Committee 2006: 22ff.), lower the net income replacement rates of persons with breaks in employment record<sup>9</sup> more than those of persons with a history of continuous employment. In the majority of the EU27 countries the results of the reform are comparable for both groups, albeit based on a lower starting point for persons who have taken career breaks.

### The first state pillar

Under the first pillar the existence of, on the one hand, minimum periods of contribution and, on the other, a linking of pension levels to contribution periods and occupational earnings generates differences between the levels of benefit received by flexible employees and those of 'standard workers'.

#### **Minimum contribution periods and linking of pension levels to contribution periods**

The fact that in several European countries access to retirement insurance systems is subject to a minimum period of contributions can, in itself, represent a problem for persons with discontinuous labour market careers. In nine countries the minimum period of contributions is fifteen years and in three others it is ten years. These countries are exclusively new member states and southern European countries (MISSOC 2008a).<sup>10</sup> What is more, entitlement to a full pension is frequently dependent on relatively long periods of contribution and this applies equally to countries with relatively short minimum contribution periods such as Germany. In most countries certain specific forms of career break count as contribution periods for the purposes of pension calculation.<sup>11</sup> This applies, for example, to short-term unemployment (this is important for persons employed on fixed-term contract), to

parental leave (but also in some cases to additional periods spent bringing up children in excess of parental leave), to periods of sickness or further education.<sup>12</sup> A problematic feature here in relation to the level of pension is, however, that these periods are frequently taken into account only to the tune of minimum contributions (European Commission 2004:91ff.). It is important in this connection that credits (in particular for child care) should be awarded in a gender-neutral fashion and should not represent negative incentives for labour distribution, since otherwise they will exacerbate the gender-typical distribution of labour and thus tend to adversely affect the careers of women. The German and Swedish examples deserve a positive mention here, insofar as the credit is not linked to a break in career. In Germany, up to the applicable threshold, the credit points awarded bringing up children and those deriving from employment are added together (BMFSFJ 2002: 26 and 27)<sup>13</sup>. In Sweden, during a maximum of the first four years of a child's life it is possible to choose between the following three options for building up contributions: contributions based on 75% of the average wage of all insurees; contributions based on 80% of individual income in the year before the child's birth; or claiming of a fixed-rate supplement (Ståhlberg *et al.* 2005:66; Palmer 2001:7).

#### **Linking of occupational earnings and level of pension**

Basic or minimum pension systems are favourable to flexibly employed workers whose occupational earnings are likely to be lower or less regular, but they exist in a few European countries only. They also differ greatly in terms of the level of benefits which, in some countries, are not high enough to avoid poverty.<sup>14</sup> They are usually accompanied by contribution-based complementary systems (MISSOC 2008b). The Nordic countries and the Netherlands make use of universal tax-funded systems based on the residency principle, thus entailing no disadvantages for the flexibly employed (for a detailed overview of the old-age pension systems of Nordic countries see Nordic Social-Statistical Committee 2008). The basic state pension in the United Kingdom is confined to employed and self-employed persons and the full amount – and even this is not enough to raise recipients above the poverty threshold – is usually payable at 30 years<sup>15</sup> of contributions, although certain periods of childcare and other care activities, as well as unemployment, are taken into account when calculating this period (MISSOC 2008b). The rules for receiving some basic state pension have been relaxed with the 2007 pension act, so that every qualifying year now gives entitlement to some state pension, whereas before the reform at least 25% of the qualifying years were needed to gain any state pension entitlement whatsoever.<sup>16</sup> Until 2006, the minimum pension in Belgium placed flexibly employed workers at a disadvantage for it was paid only to individuals who had been employed full-time for at least two thirds of a full career and the level of benefit depended on the number of years worked; under the new regulation, work of at least half-time for two thirds of a full career grants access to the minimum pension (Peeters *et al.* 2007: 134 ff.).<sup>17</sup> The Belgian and British examples show that the effectiveness of basic insurance elements depends very much on the precise manner in which they are devised.

Pension systems differ as regards both wage replacement ratios and the extent of (linear) linkage to previous occupational earnings. In Germany, on account of the

equivalence principle, the net wage replacement rate for low-earners is much less than in the more progressive systems found in, for example, Denmark and the United Kingdom (OECD 2007b: 32-35). Accordingly, different arrangements are in place to meet the need for additional mechanisms to raise the value of the pensions of former low earners/flexibly employed persons (see also European Commission 2006a:142). Some of these additional arrangements are described below. In Germany, for example, there is provision to upgrade the pension entitlement of part-time employees with below average earnings and children under the age of 10 to a maximum of 100% of the average income (BMFSFJ 2002:28 ff.). In Spain and Greece also, part-time work is proportionately upgraded for pension calculation purposes (European Commission 2006:176 and 180ff.). Such a possibility exists also in Belgium but is triggered in very special cases only (e.g. part-time for the purpose of work-sharing) such that it caters for no more than 5% of part-time employees (Peeters *et al.* 2007:133).

An additional possibility for improving the pension benefits of part-time workers consists in taking the best years only for the purposes of pension calculation. Such an arrangement benefits, among others, persons who have worked full-time as well as part-time. But many EU countries have abolished, or at least distinctly weakened, calculation of this kind in favour of a system based on lifetime working hours (OECD 2007b:56ff.) A redistribution from high to low incomes in contribution-based systems can be achieved also by establishing a ceiling on benefits but not on contributions. This is the case, for example, in Sweden, where, however, lower contributions are levied on wages earned in excess of the benefit threshold (Ståhlberg *et al.* 2005:67).

#### **Additional old-age insurance systems (second and third pillars)**

Flexibly employed workers are frequently either directly (self-employed or short-hours workers) or, in the case of low or irregular wages, indirectly excluded from the additional old-age insurance provision constituted by the second and third pillars. This is shown by Peeters *et alia* (2007) and O'Connell/Gash (2003) in their analyses of occupational pensions for, respectively, fixed-term employees in Belgium and part-time workers in Ireland. Antolin (2008:12-21) confirms these findings in relation to systems of private provision in eight OECD countries (including Finland, Germany, Ireland and the United Kingdom). Part-time workers (with the exception of Germany) and self-employed workers as well as low-income groups less frequently save for private pensions than do full-time employed workers and those with higher earnings. The findings on individual private pensions are also supported by descriptive analysis based on the EU-SILC data.<sup>18</sup> In all European countries with individual private pension plans and available information the coverage rates are higher among full-time permanent workers than among non-standard workers. Furthermore, the average net contributions and therefore the value of the private pension plans are usually considerably lower among non-standard workers (see table A1 and A2, appendix). There is large country variation in the importance of individual private pensions.

One possibility of removing this discrimination, at least in relation to occupational pensions, is to make occupational pensions compulsory for all labour market groups. Thus in the Netherlands, for example, part-time workers cannot, since 1994, be excluded from the complementary retirement insurance systems; nor, since 2002, can the length of the contract constitute a reason for exclusion (European Commission 2006a: 222). In Belgium too improvements in this respect have been introduced but, even so, flexible employees can suffer disadvantage in relation to benefit levels, as has been shown by Peeters *et alia* (2007:139) in relation to fixed-term employees. Overall, very significant differences are to be found among the EU27 countries in terms of occupational pension coverage: some countries, which include Spain, Finland, Luxembourg, Portugal and Poland, have a rate of coverage of below 10% while in the Netherlands and Sweden coverage is above 90% (Social Protection Committee 2008: 10 ff.).

Redistribution margins are significantly more restricted in the field of occupational pensions and private provision since, in contrast to the state old-age insurance systems, years spent in unemployment, sickness or childcare are more rarely taken into consideration (Eurofound 2005: 47). There do exist a few positive examples in this respect, however. In Estonia, Hungary, Lithuania, Poland, Slovakia and Sweden at least certain types of career break count as contribution periods for occupational pension calculation purposes (Social Protection Committee 2008: 35-37). Also, under the German 'Riester pensions' provisions, persons with children and low-earners derive greater benefit from state provision than other groups (see section 3.5).

A further problem in relation more particularly to occupational pensions is represented by the portability of pension claims which, frequently in the case of fixed-term employees and to some extent also other workers who have interrupted their careers or changed jobs, cannot be fulfilled. Some countries (e.g. Denmark, the Netherlands and the United Kingdom) have in recent years improved the portability of occupational pensions in order not to hinder the employees' mobility. In Germany there still exist, in spite of improvements achieved with the pension reform of 2001 stipulating minimum employment periods of five years and a minimum age of 30 years, very strict eligibility criteria for occupational pensions which many atypical employees or persons with career breaks are unable to meet.<sup>19</sup>

In 2005, the European Commission proposed a directive on improving the portability of supplementary pensions; in 2007 this proposal was revised and the transferability element replaced by the aim of improving the acquisition and preservation of supplementary pension rights (European Commission 2007). No agreement on this proposal has yet been reached in the Council but the issue has currently been included in a consultation on how to ensure adequate, sustainable and safe pensions (European Commission, 7.7.2010).

The degree of severity of the shortfall in insurance provision under the second and third pillars experienced by flexibly employed persons depends very much on the weight of the state pillar in the overall provision of insurance against old age. The

trend in Europe is, however, increasingly towards a strengthening of private insurance elements.

## **Empirical analysis of flexible employment and pensions in Germany**

This section analyses pension coverage and levels in Germany based on the 2007 German Socio-Economic Panel (SOEP) data. It focuses on state, occupational and private pension components. The first three sub-sections focus on retired persons, analysing the differences in access to and level of pensions depending on full-time and part-time work experience. Sub-section 4 focuses on prime-age standard and flexible workers and their perception of future state pension coverage. Sub-section 5 analyses in detail the access of standard and flexible workers to the third-pillar private “Riester pension”. This analysis makes use of the life-course information provided in the SOEP data on full-time, part-time and unemployment experience.<sup>20</sup>

### **Work experience of retired men and women**

The average full-time work experience of women that were retired in 2007 and were at least 60 years of age was 21 years, whereas it was 38 years for men. About one quarter of these women had worked full-time for more than 35 years and only about 10 percent had worked full-time for more than 40 years. This compares to 72 percent of men with full-time work experience of more than 35 years and close to 40 percent with full-time work experience of more than 40 years.

The average years spent in part-time employment over the life course were about 5.5 years for women and less than one year for men. About three quarters of men and 50 percent of women had never worked part-time. Only about one percent of men had worked part-time for more than 10 years whereas among women the share was around 21 percent.

The average unemployment experience was lower than one year for both men and women. According to the SOEP status variable, 69% of men and 76% of women in this age group had no unemployment spells. About 9% of both men and women had unemployment spells of more than 3 years.

### **Coverage rate**

Due to the low minimum contribution period, the coverage rate of the regular first-pillar pension is high, regardless of full-time work experience. The more problematic cases in terms of coverage rates are occupational and private pensions. Only about 12 percent of persons that were retired in 2007 received benefits from their own company pension. Table 1 shows that not even 5 percent of people with up to 20 years of full-time work experience had access to benefits from a company pension and in the group with 20 to 30 years of full-time work experience the coverage rate was only marginally higher. Those with 30 to 40 years of full-time experience fared best, with a coverage rate of about 20%. In all categories men were

considerably more likely than women to have access to benefits from a company pension. In total, about 20 percent of men and only 6 percent of women had access to benefits from a company pension (table 1). This outcome and the fact that persons who have more than 40 years of work experience – these are more likely to be persons with fewer years in education and therefore lower qualification levels – fare worse than those with 30 to 40 full-time years highlights that also occupation, sector, job status and firm size matter.

<b>working experience full-time</b>	<b>yes</b>	<b>male</b>	<b>female</b>
>0 & <10 years	4.39	-*	3.9
>10 & <20 years	4.55	-*	4.3
>20 & <30 years	5.96	11.3	4.2
>30 & <40 years	19.53	25.2	10.4
>40 years	14.50	17.9	5.6
Total	12.42	21.2	5.7

**Table 1:** Receiving own company pension (%)

*Source: own calculation, based on SOEP data.*

*\*note: too small case numbers.*

In the cohort regarded here the coverage rate of private pensions is very low. This is not surprising as this component of the pension system has only recently been strengthened in Germany – in particular with the introduction of the so-called ‘Riester Rente’. We will therefore analyse private pensions separately in section 3.5, looking at the contributions of prime-age individuals to private pension plans.

### **Pension level**

Looking at the average individual pension level which includes components from all three pillars but excludes derived pensions (survivor pension, etc.), we see that the value increases gradually with full-time work experience (table 2, column ‘total’). Due to women’s lower earnings which derive from the type of occupation, the sector of work, the firm size and the like and their lower likelihood of having access to second- and third-pillar pensions, the pension level of women in Germany is considerably lower than that of men, even when we control for full-time working experience. At more than 40 years of full-time work experience the average gross pension of women in this sample is 500 Euros smaller than that of men.

The level of both the regular individual state pension and the occupational pension increases with full-time working experience. At less than 10 years of full-time work experience the average individual state pension lies at 462 Euros, whereas it has a value of 1049 Euros for 30 to 40 years full-time work experience (table not shown). The value of an occupational pension is 197 Euros for up to 10 years of full-time work experience and 711 for 30 to 40 years (table not shown); importantly, only around 12 percent of retirees in the age group analysed receive occupational pensions. Both the regular individual state pension and the occupational pension

contribute to the large gender differences depicted in table 2. The gender difference in the individual state pension level is around 350 Euros. What is more, not only do considerably more men have access to company pensions but at the same time the value of this pension is more than double for men.

working experience full-time	total	male	female
none	372	_**	365
>0 & <10 years	509	1118 (23)*	474
>10 & <20 years	554	1449 (24)	521
>20 & <30 years	928	1264	816
>30 & <40 years	1446	1698	1043
>40 years	1338	1475	975

**Table 2:** Average own pension income (1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> pillar)

*Source: own calculation based on the SOEP 2007 data.*

*\*case numbers in brackets if small. \*\*case numbers too small.*

Derived benefits (especially widow's pension) currently still play a large role in the German pension system but they are gradually being reduced. Analysis based on the SOEP data shows that both coverage and value of the survivor's pension is considerably higher among women than men.

### Subjective assessment of future pension level

We now turn to persons who are currently employed and distinguish between full-time workers with a long full-time work history (20 years or more), part-time workers with a long part-time work history (20 years or more) and marginally or irregularly employed persons with a long full-time, part-time work history or a mix of both<sup>21</sup>. Only 20 percent of full-time workers think that, on retirement, they will be able to support themselves well or very well on their state pension alone.<sup>22</sup> The respective share is 14% for part-time workers with long part-time histories (table 3). About 75 percent of workers who are at present marginally or irregularly employed and have long work histories perceive the possibility of supporting themselves on their state pension alone as poor or very poor. The respective shares for the categories 'poor' and 'very poor' are 38 percent for full-time workers, and 52 percent for part-time workers.



	At present full-time employed, and at least 20 years of full-time experience	At present part-time employed, and at least 20 years of part-time experience	At present marginal or irregular employed, and at least 20 years of part-time or full-time experience or a mix of both
	per cent		
Very Well	1	0	..**
Well	19	14 (31)*	..**
Not so well	42	34	23 (34)
Badly	25	28	27
Very badly	13	24 (35)	49

**Table 3:** Support yourself on state pension only

*Source: own calculation based on the SOEP 2007 data.*

*\*case numbers in brackets if small. \*\*case numbers too small.*

*Note: The question asked in the SOEP is as follows: "How well are you able to, or would you be able to, cover your living costs in old age solely with the statutory retirement or pension?"*

## Private pension insurance

### Coverage of private pension schemes

65% of full-time and 62% of part-time workers with at least 20 years of, respectively, full-time and part-time work experience have either an individual life insurance policy or a private pension insurance (taken out by themselves or their employer). Only 36 percent of marginally or irregularly employed persons with at least 20 years of full-time and/or part-time work experience are covered by an individual private insurance scheme.

In 2001 the so-called 'Riester Rente', a state-subsidised private pension scheme, was introduced. Subsidies are higher for persons with children and, since 2008, young persons who receive a bonus if they sign up before their 26th birthday. In total, 12.15 million Riester contracts had been signed by the end of 2008 (BMAS 2009). The incentive for persons with children indeed seems to work as take-up is higher among prime-age part-time workers who often work part-time due to care responsibilities than for both prime-age full-time workers and those employed exclusively on a marginal basis; the latter have access only if they contribute voluntarily to the state pension scheme (Table 4). The shift from state towards private pension schemes is often thought to benefit persons with higher and more regular earnings. The 'Riester pension' scheme, however, on top of the incentives for youth and persons with children, also contains incentives for persons with low earnings, as the subsidy is paid on the basis of a very low minimum level of saving. By providing some idea of the take-up of the private 'Riester pension' scheme, the following regression analysis will shed light on the question of whether proper

incentive-setting in private pension schemes can lead to more equal access of persons with flexible working lives.

	Full-time	Part-time	Marginal employed
	per cent		
Yes	23	34	23
No	77	66	77

**Table 4:** Signed private Riester pension plan after 31.12.2001, prime age workers (25-50 years)

*Source: own calculation based on the SOEP 2007 data.*

### Take up of private ‘Riester pension’ plan

The following logistic regression model tests whether the incentives included in the ‘Riester pension’ plan are working. The expectation is that some of the persons with flexible working lives (part-time workers, persons with children (who are likely to have more career breaks) and, also, persons with lower earnings are at least as likely to participate in the private ‘Riester pension scheme’ as their counterparts.

The analysis is restricted to prime-age workers in order to rule out (dis)incentives to save for private pensions close to retirement age or upon leaving school or education and it controls for gender, age and qualification level. A dummy that captures German or non-German nationality is also included. The following job characteristics are taken into account: working-time (full-time, part-time or marginal), contract type (permanent, temporary or self-employed<sup>23</sup>), current occupation and current earnings. In terms of household context, we control for the composition of the household (one or two persons with or without children) and the household income.

Table 5 shows that there are no differences between men and women (controlling for individual and job characteristics) in the signing of a ‘Riester pension’ plan. In line with the incentive structure, persons with children in the household (couples and single parents) are significantly more likely to sign a private ‘Riester pension’ plan than persons without children. In contrast to the descriptive analysis above, when we control for household composition and job characteristics part-time work is no longer associated with higher take-up of the Riester pension scheme (the coefficients for working time are not significant). However, corresponding to a lack of incentives for these groups and even, in the case of self-employed, restricted possibilities for participation, we see important differences in take-up of the private pension scheme by persons with standard and atypical contracts: persons with temporary contracts and those who are self-employed are less likely to have signed a private Riester pension plan than persons in a permanent job. Individual earnings and household income seem to have either an extremely small or no influence on the take-up of the private pension plan.

Dep. variable: Riester pension plan : yes	coefficient	Odds ratio	p value
women	0.11	1.12	(0.132)
age	-0.01*	0.99*	(0.024)
Education (Reference: higher education)			
inadequate education	-1.10*	0.33*	(0.023)
elementary education	-0.28*	0.76*	(0.039)
vocational education	-0.05	0.95	(0.543)
Non-German nationality	-0.62**	0.54**	(0.000)
Working time (Reference: Regular full-time)			
regular part-time	0.11	1.11	(0.207)
marginally employed	-0.04	0.96	(0.784)
other	0.12	1.13	(0.737)
Contract type (Reference: Permanent, employee)			
temporary job	-0.24*	0.79*	(0.023)
self-employed	-0.51**	0.60**	(0.000)
Occupational category (Reference: Professional)			
armed forces	-0.46	0.63	(0.362)
legislator, senior officials, managers	-0.08	0.92	(0.551)
technical and associate professionals	-0.03	0.97	(0.786)
clerks	0.13	1.14	(0.255)
service workers	-0.09	0.92	(0.487)
skilled agricultural and fishery workers	0.09	1.09	(0.761)
craft and related trades work	-0.21	0.81	(0.090)
plant and machine operators and assemblers	-0.20	0.82	(0.188)
elementary occupations	-0.36*	0.70*	(0.018)
Current labour income (EUR)	-0.00*	1.00*	(0.014)
Household type (Reference: Couple without children)			
one person household	-0.05	0.95	(0.642)
single parent	0.40**	1.49**	(0.004)
couple with children	0.61**	1.83**	(0.000)
other household	0.11	1.12	(0.657)
Monthly household income (EUR)	0.00	1.00	(0.328)
constant	-0.83**		
observations	6872		
Prob > chi2	0.0000		

**Table 5:** Influencing factors on signing a private ‘Riester pension’ plan\* - logistic regression analysis for persons 25-50 years

Source: own calculation based on SOEP 2007 data

\* significant at 5%; \*\* significant at 1%

There are some interesting additional outcomes that call for attention. First of all, education and occupation do matter but only at the extremes. Elementary and, particularly, inadequate education have a negative influence on participating in the private pension scheme compared with higher levels of education, whereas there are

no differences between persons with vocational and those with higher education. Similarly, while persons in elementary occupations are less likely to sign a 'Riester pension' plan than professionals, the coefficients for all other occupations are not significant. Secondly, although we control for earnings, job characteristics and household composition, non-German nationals are only half as likely as Germans to take up a private 'Riester pension' plan.

## Conclusions

Flexible labour market careers with breaks in employment and phases of atypical employment have become more widespread in recent decades on account, in particular, of the increasing labour market participation of women. There is strong country-to-country variation in the extent of these phenomena depending on institutional contexts and prevalent norms and values.

Because of differences in emphasis in the principles underlying the conception of social protection systems, the insurance provision for flexibly employed workers exhibits significant differences from one country to another. While the Nordic countries, in particular, but also the Netherlands, with their individualised insurance systems that contain comparatively generous elements of minimum insurance provision available irrespective of labour market career, are in a relatively good position to meet the demands posed by flexible labour market careers, the systems firmly based on equivalence that are encountered in the continental countries are less well suited to meeting the insurance risks of the flexibly employed. What is more, under the German system, for example, a striking feature of which remains a high proportion of derived benefits, non-active or only minimally employed spouses (generally wives) often enjoy better insurance cover than flexibly employed workers.

How can the 'continental' European social security countries and particularly Germany succeed, against the background of international experiences, in finding better solutions for the insurance cover of flexible working lives? Efforts so far made in Germany to adapt social security systems to flexible career patterns have resulted in a series of special arrangements such as taking career breaks into account in the calculation of contribution periods, upgrading of contributions from periods spent in part-time work, or – in the case of unemployment insurance – the upgrading of unemployment benefits for particular groups of part-time workers. In some cases, these arrangements lack transparency, and, though they have indeed contributed to improvements in certain areas, they are inadequate to redress the major differences, such as those between men and women, in access to (particularly second and third tier) and level of pensions. One of the reasons for this is that the upgrading of contributions is frequently based on minimum contributions only and is, at least in the German system, restricted to the first pillar of the insurance system.

What kind of recommendations for action might then be made? Under the first pillar of retirement insurance which remains highly segregated, elements of basic insurance could be further strengthened. But these should be provided as individual

basic pensions and not, as is currently the case under e.g. the German basic insurance arrangements, in the form of means-tested, stigmatising welfare payments. It is also important that the full basic pension should be paid irrespective of previous employment status, for otherwise, as had for example been the case in Belgium in the past, it serves to reproduce the inequalities of working life. A further particularly problematic aspect relates to the widespread strengthening of the second and third pillars in conjunction with the simultaneous strengthening of the equivalence between contributions and benefits under the first pillar because not only do persons with unbroken occupational careers and stable (high) incomes receive higher state pensions but they usually also derive greater benefits from the complementary forms of insurance. Reforms in this area could consist in requiring companies to offer occupational provision irrespective of occupational status. Short-term breaks in employment could be bridged, as under the first pillar, while at the same time the portability of occupational pensions requires substantial improvement. As was seen in section 3, at present, occupational pension coverage not only increases with full-time work experience over the life course but, as the gender differences indicate, also seems to be highly influenced by sector, firm size and position and this calls for additional action. The third pillar too could be constituted in such a way that it becomes more of an obligation, and in this context financial support for low-earners and persons with children – as in the Riester pensions – appears to make good sense. In spite of this, as the analysis in the previous section shows, there are still groups – in particular low-skilled workers, persons working in elementary occupations, temporary workers, self-employed and non-nationals – for whom the incentive structure of the ‘Riester pension’ scheme alone does not seem to work.

Further, restricting derived benefits and tax advantages for married couples would be one way to release resources that could then be channelled into the introduction into social security systems of more redistributive mechanisms, thereby contributing to better insurance provision for flexible working careers. At the same time, the already trodden approach of developing childcare for nursery- and school-age children should be continued and speeded up so as to offer parents a free choice between full-time and part-time employment and concerning length of career break. In this same context, incentives for men to become more involved in household and care tasks should also be stepped up. A good example in this respect are non-transferable ‘father’s months’ which exist in, for example, the Swedish, the Icelandic and the new German parental leave schemes.

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<sup>1</sup> Belgium, Germany, France, Luxembourg and Austria are habitually classified as continental European countries, and to some extent also the Netherlands. However, this latter country is increasingly, in relation to several different criteria, more akin to the Nordic countries than to the continental European ones.

<sup>2</sup> In 2001 (to our knowledge the most recent year for which data is available) only between 3.9% (Austria) and 14.1% (France) of couples with children aged under six expressed preference for a model in which the husband works full-time and the wife is not in employment. At the same time, this type of distribution was actually found in between 27.3% (Belgium) and 52.3% (Germany) of households composed of a couple and children aged under six. The EU15 average (excluding

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Denmark) was 10.2% (preferred form of distribution) and 37.9% (actual form of distribution) (OECD 2001: 135).

<sup>3</sup> While in Sweden and Denmark around 40% of male workers perform one hour or more of housework per day, the proportions for Germany and Austria are 18% and 13%. Among working women the figure is close to 70% with only very small differences among the four countries in question (European Working Conditions Survey 2005, own calculation).

<sup>4</sup> Nursery enrolment figures for children aged under three in Germany and Austria are 9.0% and 4.1% while in Belgium and France they are significantly higher at 38.5% and 26.0%. The figures for Finland, Sweden and Denmark are 22.4%, 39.5% and 61.7% respectively (OECD 2009b).

<sup>5</sup> The employment rate of women in continental European countries is between 55.7% in Belgium and 67.5% in Austria. In the Nordic countries it is between 70% in Finland and 74.4% in Denmark (Eurostat 2008).

<sup>6</sup> In Germany, for example, measures such as the new regulation on mini-jobs and the introduction of the Ich-AGs (now renamed Gründungszuschuss) led to more short-hours employment and more self-employment with no or only limited insurance protection at the same time as employment subject to the payment of social security contributions was falling (Bundesagentur für Arbeit 2006; 2007).

<sup>7</sup> Thus the data contained in a study on old-age provision in Germany by Riedmüller and Willert (2008) point to a definite link between occupational history and income in old age. The more years a person has worked full-time, the higher are the projected retirement pension expectations. By contrast, the correlations between low-hours employment and income in old age, periods of unemployment and income in old age and long periods spent bringing up children and income in old age are unequivocally negative (Riedmüller and Willert 2008: 11-21).

<sup>8</sup> In Germany the pension expectation of a worker with a full career and half the average income was, before the reform, slightly below the OECD average of 40% of average net income; after the reform it was 32% (OECD 2007b : 128ff).

<sup>9</sup> Broken careers are here defined as working lives lasting 30 rather than 40 years. The break of ten years takes place after 15 years of working life, after which working life is resumed for a further 15 years (Social Protection Committee 2006).

<sup>10</sup> The United Kingdom requires a ten- to eleven-year period of contributions for entitlement to a basic pension

<sup>11</sup> In Belgium workers can take a one-year career break or reduce their working hours by one fifth for up to five years without forfeiting their social security rights (e.g. pension entitlement) as based on full-time employment (Devisscher and Sanders 2007: 119-125).

<sup>12</sup> Country examples for individual career breaks are supplied in MISSOC (2008a : 20 ff).

<sup>13</sup> A period of inactivity in excess of three years for bringing up children has very negative effects on claims for the first-pillar state pension (Riedmüller and Willert 2008:20).

<sup>14</sup> The Nordic Social-Statistical Committee (2008: 52) in its study on old age pension systems in Nordic countries states that the level of basic pension is high in Iceland, Denmark and the Faeroe Islands.

<sup>15</sup> For further information see [http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG\\_183754](http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_183754)

<sup>16</sup> For further information on the 2007 pension act see

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<http://www.publications.parliament.uk/pa/pabills/200607/pensions.htm>

<sup>17</sup> Based on administrative data Palmans et al. (2007) calculate that 42% of female pensioners who retired in 2002, 2003 and 2004 and were formerly employed, were not entitled to claim the guaranteed minimum pension, while this applied to only 3% of male workers.

<sup>18</sup> The EU-SILC defines individual private pension plans as pension policies taken out by individual households on their own initiative, independently of their employers or government and outside any social insurance scheme. Although envisioned for the future, the current EU-SILC data does not include information on optional employer's social insurance contributions (private pensions, additional health insurance and term life insurance).

<sup>19</sup> Thus in spite of significant increases, in 2003, only one in every five women, as distinct from half the men in western Germany had a claim to an occupational pension, a situation that is also attributable to the gender difference in distribution among sectors and companies of different sizes. What is more, the occupational pensions of western German women were much lower than those of men (Klammer 2005: 356ff).

<sup>20</sup> For the analysis the generated variables EXPFT\$\$ "Working experience full-time employment", EXPPT\$\$ "Working experience, part-time employment" and EXPUE\$\$ "Unemployment experience" are used. They are created from monthly information from the calendar dataset and annual information from the biographical dataset (compare Projektgruppe SOEP 2009: 7-9).

<sup>21</sup> Low case numbers prevent doing this analysis for two distinct groups of marginal workers, those with long full-time work histories and those with long part-time work histories.

<sup>22</sup> The formulation of the question in the SOEP questionnaire (see note under table 3) is ambiguous as to whether the assessment refers to the respondent's own entitlements alone or whether it includes also those of the spouse or partner.

<sup>23</sup> Not all groups of self-employed are allowed to participate in the private pension Riester plan but only those who are subject to pension insurance contributions, such as craftsmen, and also artists and journalists, who are covered by the special social security scheme for artists.

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## Appendix

country	full-time	part-time	full-time
	permanent	permanent	temporary
	per cent		
Austria	39	32	21
Czech Republic	55	45	36
Estonia	13	5	07
Spain	23	16	8
France	9	8	4
Greece	6	5	3
Ireland	14	7	5
Italy	10	9	5
Latvia	2	1	1
Poland	8	3	3
Portugal	6	1	1
Sweden	47	47	20
Slovenia	34	19	26

**Table A1:** Individual private pension plan coverage by working time and contract type (%)

*Source: EU-SILC 2007 data, cross-sectional.*

country	full-time	part-time	full-time
	permanent	permanent	temporary
Euro			
Austria	1063	931	689
Czech Republic	202	156	177
Estonia	319	251	.*
Spain	1149	941	715
France	1246	965	593
Greece	865	.*	725
Ireland	1817	789	.*
Italy	1603	1495	1446
Latvia	171	86	.*
Poland	475	.*	418
Portugal	1293	.*	.*
Sweden	675	657	519
Slovenia	447	390	420

**Table A2:** Average net yearly contribution in individual private pension plan by working time and contract type (Euro)

*Source: EU-SILC 2007 data, cross-sectional.*

*\* Results based on case numbers below 20 have been deleted.*

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