

Talking point

No all-clear signal from demographics

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The latest population projections by Germany's Federal Statistical Office once again highlight the Herculean task of coping with demographic change. Once immigration begins to fall from its current temporary high, the fair weather in the labour market caused by rising employment figures may already turn cloudy within the next ten years. Consistent political action in the fields of old-age provision and long-term care is required given rising life expectancy and the expected doubling of the number of the very elderly.

The latest population projection presented by the Federal Statistical Office on April 28 once again demonstrates the momentous nature of demographic change. Germany's population is ageing and shrinking. High net immigration numbers of roughly half a million persons both this year and last will do little to change this. The preferred assumption made by the Statistical Office that this is only a temporary spike seems plausible. Immigration from southern European countries is already on the decline. With the economic situation in these countries stabilising further, it is likely to gradually peter out. One would also be ill-advised to count on a steady stream of migrants from Central Europe, with the fact that demographics there look equally unfavourable being just one aspect. Even if immigration only returns to its long-term average of 200,000 persons per annum over the coming years and does not drop further to 100,000 (as in the last decade), Germany's population will begin to shrink from the beginning of the 2020s.

This decline is predicated on the age structure of the population and a low fertility rate of 1.4 children per woman. For over four decades now and despite massive investment in family policy the fertility rate has never risen from this low level by any significant measure. There is no evidence suggesting a turnaround in the trend. Hence, the Statistical Office in the more favourable of its two baseline scenarios only expects the fertility rate to rise to 1.6. Even if this happens and long-term net immigration comes to 200,000, Germany's population will shrink by more than 5% by 2060, i.e. from a current 81.1 million to then 76.9 million. This result is also based on a moderate increase in life expectancy. With fertility remaining unchanged and immigration falling to 100,000 p.a., only 67.6 million people will live in Germany in 2060 – 17% less than today.

The decline will be even more pronounced in the potential labour force. In the lower variant the number of 20 to 64-year-olds would fall by 11% in the next decade and by as much as 30% overall by 2060. In the more optimistic scenario assuming twice the volume of net immigration, i.e. 200,000 p.a. (with the fertility rate unchanged) the potential labour force would also only come to 38 million. This is a decline of 11 million workers or 23% from the current level. And even in this scenario a substantial decline in the order of 4.4 million or 9% will be visible already over the next 15 years.

Particular attention should be paid to another aspect of the new official projections as they show how the decline in the labour force potential can be effectively slowed, at least on a medium-term horizon, by an increase in the retirement age. If the labour force potential is defined based on a retirement age of 67 (representing a 2-year increase) the number of workers is higher by about 2 million in both 2030 and 2060 under both of the above-mentioned migration scenarios.

Conversely, this means that any deviation from the gradual increase of the legal retirement age to 67 by 2030, and a resulting increase in the actual age of retirement, would be counterproductive. This is true above all of the "retirement at 63" option for particularly long-serving employees introduced on July 1, 2014. By March 2015 alone, just under 280,000 employees had applied to be granted this option for an early exit from working life. This is doing all the more damage to the labour market as a disproportionately large number of those who qualify for retirement at 63 with full pension entitlement are skilled workers. There is already a shortage of skilled labour with key qualifications such as engineers. Another measure running counter to demographic requirements is the minimum wage. Initial experience shows that it destroys minijobs, for instance, which are particularly widespread

among older workers. Moreover, the minimum wage does not tally with the growing number of less qualified immigrants, particularly from eastern Europe, and asylum seekers.

In light of such political mistakes, it is all the more important to find other ways of keeping the labour pool stable. Above all, there should be greater incentives for older workers to choose a later exit from working life as well as to keep working after retiring, to further improve the conditions for and thus increase the number of women in full-time employment, and to make Germany more attractive for qualified migrants from non-European countries. And, of course, it is about safeguarding productivity. This requires intensified efforts to provide the qualifications needed for the declining number of young workers and a willingness of older workers to embrace the concept of life-long learning, to mention only major aspects. There is no doubt that all these are well-known tasks, some of which have already been addressed by political measures. Cases in point are the liberalisation of immigration rules or measures to help parents balance the demands of work and family life. At the same time, though, the new Statistical Office data should be seen as a reminder that continued efforts and consistent political action are necessary. Especially an ageing society must continually strive to maintain labour market flexibility and high qualification levels for its labour force.

The immigration boom witnessed at present only has a slim effect on population ageing. Assuming higher (200,000 p.a.) rather than lower immigration numbers and a persistently low fertility rate, the old-age dependency ratio would climb to 61 instead of 65 by 2060 from currently 35. A stronger effect is exerted by the assumptions regarding increasing life expectancy on the calculated share of the over 65-years-olds compared with those aged 20 to 64. With life expectancy rising moderately (and immigration slowing down), the old-age dependency ratio would only come to 58 in 2060. By contrast, it would double to more than 69 if life expectancy were to follow the trend witnessed over the last 40 years.

Thanks to medical progress, for instance in the fight against cardiovascular disease, and a healthier lifestyle life expectancy has been on the rise for years now, particularly (residual) life expectancy starting with retirement age. Hence, the Statistical Office assumes that in 2060, men and women aged 65 will have another 22 and 25 years to live, respectively. This is 4.5 and 4.3 years longer than today. In a scenario where life expectancy rises more quickly, the difference even amounts to 6 and 5.8 years, respectively. This is reflected first and foremost in a pronounced increase in the number of the over 80-year-olds. In all scenarios presented, this figure will double from 4.4 million people today to approximately 9 million by 2060. Higher immigration numbers and a faster increase in life expectancy would even push up the number of the 80+ cohort to 10.8 million around mid-century.

Hence, the Herculean tasks in connection with old-age provision and long-term care mean that the latest projections are no reason at all to sound the all-clear. It is also true, though, that politicians have taken important measures in the last decade to pave the way for the future. Among others, these are retirement at 67 (by 2030) and a focus on individual and corporate old-age provision through the "Riester" pension (named after the minister who introduced the scheme), the basic pension and so-called "Entgeltumwandlung", i.e. earnings are paid into a company pension scheme. But circumstances require further steps in this context as well. To achieve more widespread use of corporate pension schemes, enhanced regulation of these schemes – primarily improved tax conditions – would be helpful, especially for small and medium-sized companies. There is considerable need for action on the part of both politicians and citizens in view of a parallel increase in both the number of the very elderly and those requiring long-term care – as regards financial provision and ensuring a sufficient number of care personnel.

All in all, the 13th population projection probably provides no spectacular new insights. However, it comes at the right time. In a phase in which the German economy is getting back on track and many experts are making upward revisions to their macroeconomic forecasts, it can only be useful to provide a counterpoint. The Statistical Office's calculations serve as a reminder that Germany will still have to make considerable changes if economic momentum and wealth are to be safeguarded or even increased over the coming decades.

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