

Freie Universität Berlin, ZI Lateinamerika-Institut  
Rüdesheimer Straße 54-56, 14197 BERLIN

Prof. Carmelo Mesa Lago  
Max-Planck-Institut für Sozialrecht und  
Sozialpolitik  
MÜNCHEN  
cmesa@usa.net

### ZI Lateinamerika-Institut

Prof. em. Dr. Manfred Nitsch  
- Ökonomie -  
privat Am Sandwerder 8 c  
14109 BERLIN  
Telefon +49 30 - 838-53072/3  
privat +49 30 - 803 75 51 (casa)  
E-Mail manfred.nitsch@t-online.de  
www.fu-berlin.de/lai

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## Pension Reforms in 30-30-30 Societies

Dear Carmelo,

Glad to see you here in Berlin at Friedrich-Ebert-Stiftung on May 30 with your talk on Pension reforms. For some decades, we have collaborated with quite a few of talented young people about those topics.

On this occasion, I have reread your recent paper on “The Impact of Aging on Pensions: Latin American Lessons for the United States of America”, Public Policy & Aging Report 2021, Vol. 31, No. 2, 96-101, The Gerontological Society of America. You cover most of the area, which I have been working on, too. But my recent papers have only been published in German, mostly in MAKROSKOP<sup>1</sup> so that they do not serve much for our discussion. But your colleagues at MPI could be interested so that I document them in the footnote.

Having planned some condensed version in English for some time, I take the opportunity to formulate a summary of my thoughts with the heading “Pension Reforms in 30-30-30 Societies”. The title condenses the basic tenet, namely the demographic and economic shift from the initial situation, when pay-as-you-go systems were introduced and life was divided along 15-50-10 years of age, to the contemporary and future structure of 30 years each for youth, working life and retirement. The relationship between surplus and deficit years was 2:1, and it has changed to 1:2. However, institutional arrangements have been adjusted by piecemeal and so-called parametric reforms, and the efforts to introduce “structural” change by privatization and capital market involvement has not really tackled the basic problem: How to secure a decent and fair standard of living for the elderly after their life with monetary income from work on the labor market or in independent and entrepreneurial activities.

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<sup>1</sup> Nitsch, Manfred: Publications in the Journal MAKROSKOP at various dates. Vorsicht vor Renten-Schwindel - 1 (06.03.2020); Vorsicht vor Renten-Schwindel - 2 (10.03.2020); Was ist unser Vermögen? (19.06.2020); Sozialpolitik für eine 30:30:30-Gesellschaft (04.03.2021); Das Dritte Alter zwischen Familie, Staat und Markt - 1 (27.08.2021); Das Dritte Alter zwischen Familie, Staat und Markt - 2 (09.09.2021). Letter to the editor of Süddeutsche Zeitung: Manfred Nitsch: Altersgeld wie Kindergeld (SZ, 03.12.2020, p. 26).

The formula 30-30-30 is not perfect. Youth, i.e. in economic terms, life without labor income beyond the coverage of one's standard of living, has not been extended for such a period in many countries and for many persons, and old age has only reached 90 years for rather few in this world. But demographic trends are on their way, and in terms of living standard costs, health expenditures and claims for a decent life, young and elderly people do no longer differ that much from the middle-aged working population. In a larger sense, the formula draws attention to the new dimensions of pensions reforms and other issues like inheritance and family laws.

The traditional system is not only obsolete with regard to the life cycle, but also in that it relies on labor income as the only source of caring for old age. Some 50 active years of salary income were sufficient to finance another 10 years of rather poor retirement income at the Bismarck beginning, but nowadays 30 years with active labor income are much too short for accumulating enough value for securing a decent standard of living as claimed by the long-living elderly, - not only in rich societies. Other sources of income and taxes or contributions have to be found, when wide-spread poverty is to be avoided.

Contributory labor income has not only come under demographic pressure because of the extension of childhood and education, but also by sabbaticals, family and leisure periods and unemployment. Digitalization and globalization are just adding further traits in that direction. The shortage of contributions has thus to be balanced by other sources of finance.

In countries with cultures and mentalities, where the labor markets and their salary hierarchies in social relations are basic and undisputed as in Germany, the "equivalence" between the amounts and the differences among them in the labor market, should be maintained so that contributions from and along salaries should remain in place. But what else in addition, and how? Private personal savings from labor income are no solution, but they are always welcome, of course. In general, however, they are simply not large enough. And income from capital markets, entrepreneurial activities, inheritances, and lotteries are nice to have in old age, but hard to regulate in a way that could cover the costs for fair pensions and care for every human being (in a certain country).

The 30-30-30 scheme is to suggest not only the coming life cycles, but also the symmetry between the first and the third age. In Germany since 1935, "Kindergeld" (child benefit / child allowance / child support) has been given to parents, who are not able to finance the upbringing of their children. It's an allowance of 250 Euro per month nowadays for every child in Germany. In our model, 50 years of labor had once to be enough to finance not only 10 years of old age, but also and above all 15 years of childhood. That has been changed over the decades, and I am pleading for a similar unconditional, but taxable contribution for every person over 65 or 67 or 70 or retired for whatever reason like illness or inability. That could supplement the contribution-related pensions in a fair way. If you take the parallelism between childhood and old age seriously, you can find all kinds of benefits for children, apprentices, students, and others in their first phase of life – eventually to be mirrored at the old age period. Like child and family allowances are spread over a large area of agencies and regulations,

old age “Pensions” would and should thus acquire a much larger sense, but isn’t that what we have been working for all along?

Finally, public pensions have always been another workshop of ours. How to deal with them in an aging world? Lush pharaonic pensions for top bureaucrats, military personnel and politicians are, of course, to be cut to legitimate levels, but the lower strata and their status-quo claims remain in dispute. When asked, how to harmonize private business and public pension schemes, an old and often discussed topic of yours, I have been answering the following: Monetary pensions should be ruled more or less like the ones from the private sectors. But there is in Germany a very useful privilege to be preserved, namely “Beihilfe” (government allowances in the cases of illness and care). It could and should be extended to all pensioners so that illness and care do not absorb ever rising health costs to be borne by the individual or his or her insurance company, but by the State as a measure of human rights and solidarity with those persons, who are sick and who have to be cared for.

Yours cordially, with abrazo grande,



P. S. Please allow me to use this text for a wider audience.