



Bundesministerium
des Innern

Demography Report



Federal Government Report on the Demographic
Situation and Future Development of Germany

Summary

Mission and Aims

Demographic change in Germany is marked by low birth rates and a declining population size. Increased life expectancy, the resulting ageing of the population and the growing proportion of the population with an immigrant background affect Germany more than other industrial countries. Demographic change impacts almost every area of life and will significantly influence our society and economy in the coming decades.

The Federal Government sees managing demographic change as one of its biggest future tasks. For this reason, in November 2009 the Federal Minister of the Interior was asked to produce the Federal Government Report on the Demographic Situation and Future Development of Germany by 2011 and present a proposal for a cross-ministerial demographic strategy for the Federal Government by spring 2012.

In this report, the Federal Government describes the demographic changes and impacts of demographic change on various areas of life and policy. The report presents the federal measures taken so far and points out future areas for action. In this way, the Federal Government hopes to contribute to a broad public discussion of demographic change.

Demographic Change: Facts and Trends

The population of Germany has been shrinking since 2003 and is now 81.7 million residents. The reason is that the number of people dying is higher and rising faster than the number of those being born. Since 2003, positive net migration (more people moving to Germany than moving away) has not made up the difference between the death rate and the birth rate. This trend will continue in the coming years. According to models of the Federal Statistical Office, Germany's population will decline to 65-70 million by 2060. That would be as much as 17 million fewer residents, or a decline of 15% to 21% within 50 years. This trend is also accompanied by a decline in the working-age population.

While the population is declining, the age structure is also shifting. Over the next two decades, the proportion of older persons in the total population will significantly expand. Today, the population group of children and young people under age 20 is roughly the same size as the group of persons aged 65 and older, and each group makes up about 20% of the total population. In 2030, the group of persons aged 65

and older will account for 29% of the total population; in 2060, every third person (34%) will be at least 65 years old.

There are two reasons for population ageing: Germany has had low birth rates for many years. After reaching a peak in the mid-1960s, known as the “baby boom”, average birth rates have steadily declined. Since the mid-1970s, the birth rate in Germany has remained low at an average of 1.4 children per woman. This is well below the rate of 2.1 children needed to replace the parental generation. The low birth rate is due in part to a large proportion of women remaining childless, especially highly educated women; to childbearing at later ages; and to changing notions of the family.

In addition, average life expectancy in Germany, as in other industrial countries, has steadily risen over the past 150 years by about three months per year. This increased life expectancy initially arose from a decline in child mortality. For more than six decades, however, it has reflected an increase in life expectancy at the oldest ages. This trend will continue. According to the estimates of the Federal Statistical Office model, life expectancy for persons born in 2060 will rise by eight years for males, to 85, and by seven years for females, to 89.2. And the physical and mental health of an increasing number of people attaining very old age is also improving, while the number of years spent in good health is growing.

In past decades, Germany had very high net migration, which reduced the impact of population ageing and delayed the process of population decline. In 2008 and 2009, more people emigrated from Germany than migrated here (after statistical adjustment of the civil register), but in 2010, migrants to Germany again outnumbered those moving away by about 128,000 persons.

Rising birth rates or more migration can moderate the impact of changes in the age structure, though they cannot stop them, because ageing is already inherent in the current age structure of the population and is speeding up as the large age cohorts of the baby-boomer generation grow older.

As well as population ageing and decline, two more trends are significant for demographics: First, lifestyles and families in Germany have become more diverse. Second, the population has become more ethnically diverse. The proportion of residents with an immigrant background has grown to nearly one-fifth of the total population. This trend will continue.

Demographic change affects different regions to differing degrees. Some regions have lost population, while others have gained. Population ageing is taking place in all regions, at different rates. However, it appears that peripheral rural areas will be especially affected by demographic change. Many parts of eastern Germany have already seen significant population ageing and decline, magnified by internal migration. Rural and urban areas in western Germany are also increasingly affected by this trend.

Family and Society

Family is central to demographic change. It is the place where affection, responsibility, cohesion and solidarity play a special role. Lifestyles and birth rates have changed over the past decades. This has been accompanied by a different notion of what family is. Along with the classic nuclear family, unmarried couples and single-parent families have gained growing acceptance.

An important factor in the decision to have children is being able to balance family and work commitments. One thing has not changed: Women still take on most of the family-related tasks and have to reconcile these with paid employment.

A large number of government measures and benefits help families in various life situations and phases. In 2008, federal family benefits amounted to €14.8 billion, of which €24 billion were cash benefits for families. Federal support for families takes the form of maternity, parental and child allowances; the recognition by the statutory pension insurance of years spent raising children; and coverage in the statutory health insurance for spouses and children at no extra charge. Low-income families are eligible for child supplements and housing allowance.

Expanding the provision of child care is an important way to help balance family and work commitments. In addition to care for young children, more flexible care services are needed, such as all-day care for school-aged children. Nearly half of all families with school-aged children have a hard time finding a good balance between family and work commitments. The Federal Government supports in particular the expansion of early-childhood education and care, new alternatives for developing more family-friendly living and working conditions, and a family-centred human resources policy.

As life expectancy has risen and people are remaining healthier as they age, they are able to remain active to higher ages. Germany cannot do without the experience and engagement of its older residents. Longer life expectancy changes intergenerational relationships within families (grandparents – grandchildren) and offers new possibilities for further employment and volunteering after reaching the official retirement age. In regions especially affected by ageing and population decline, engagement by older people in particular can help maintain key infrastructures. The necessary framework conditions need to be improved to enable people to pursue their desire for civic engagement regardless of their age.

Migration and Integration

The number of people migrating to or emigrating from Germany is another factor in demographic change. Depending on the framework conditions, we can expect annual net migration of between 100,000 and 200,000 persons in the coming years. While the number of ethnic German resettlers and their families coming to Germany has been declining for years, some areas of labour migration have seen strong growth.

Germany will need greater immigration by skilled and highly qualified workers in order to mitigate the negative impact of shortages of skilled labour on productivity and growth. In order to make Germany more attractive to highly qualified and skilled workers, the Federal Government will reduce bureaucratic obstacles for eligible workers, improve the framework conditions for their temporary and permanent resident permits, and examine how foreign skilled and highly qualified workers can be recruited in a more targeted way to meet the needs of the German labour market, as well as how such recruitment can be organized in line with coherent and transparent criteria such as need, qualification and ability to integrate.

It is difficult to forecast how many workers in different occupations and with different skills will be needed in certain regions and industries of Germany, since this need also depends on the economic situation. A tool for determining current and future labour needs broken down by industries, regions and qualifications (job monitor) is being developed with the help of the research community in order to design targeted, needs-based measures.

The number of Germans emigrating to other countries has nearly tripled since the 1970s. In 2010, 141,000 Germans were registered as leaving the country. At the same time, 115,000 Germans moved to Germany, most of them returning home. The

permanent emigration of Germans is often seen as a loss. For this reason, the Federal Government is working to make it easier for German emigrants to return to Germany.

Integration policy is aimed at helping immigrants participate equally in social, economic and cultural life in Germany while strengthening social cohesion. The most important single federal measure of the nation-wide integration programme published in September 2010 is the integration course, a basic service for all new immigrants and those already living here.

Economy, Labour, Education and Research

In the coming decades, demographic change will alter the framework conditions for growth and prosperity. Economic potential and growth heavily depend on having enough productive, skilled and innovative workers.

But the level and structure of overall economic demand will change as a result of demographic changes.

The size of the working-age population began to decline already ten years ago. This decline has so far been compensated by an increase in the number of women and older workers and by a reduction in unemployment in recent years. The working-age population (20 to 64) in Germany is currently 49.8 million.

Starting in 2015, this group is expected to noticeably decline in size. This process will further accelerate starting in 2020, when the baby-boom generation begins to retire. In 2030, the working-age population will probably have 6.3 million fewer persons than in 2010. This is assuming annual net migration of 200,000 persons starting in 2020. If fewer people immigrate to Germany, then the working-age population will decline even more.

To deal with the growth-inhibiting impact of demographic change and to manage the threat of a shortage of skilled labour, we should take better advantage of existing labour and innovation potential and the potential of qualified immigrants. Labour potential can be mobilized in those groups which have so far been underutilized, such as women, older workers and persons with disabilities, as well as persons who have not yet succeeded in becoming permanently integrated in the labour market. In recent years, the Federal Government has further developed the set of tools for active la-

bour market policy on the basis of extensive research. In 2011, the Federal Government presented its strategy for ensuring the supply of skilled labour and describing its aims and measures.

A higher rate of female employment can be achieved above all with better and more flexible child-care services for preschool- and school-aged children, with family-friendly working conditions, and with human resources policy oriented on equality. This applies above all to single parents. Improved career opportunities and possibilities for career advancement provide additional incentives for greater labour market participation by women.

The most important approach to such incentives is targeted support for women when choosing a career, re-entering the labour market, starting a business and advancing to management positions.

The potential of older workers has long been underestimated. They have a wide range of skills, abilities and experience. As the proportion of older workers increases, it is more and more important that jobs and working conditions be adapted to their needs. Ensuring safe and healthy working conditions, promoting health in the workplace, and organizing work in a way that recognizes individual abilities and avoids repetitive tasks keeps workers motivated and productive in every phase of their working life. Continuing professional development in the sense of lifelong learning and a work environment that promotes good health also help maintain productivity and retain older workers.

With the right framework conditions and support, the great potential of workers with a disability can also be much better utilized. The Federal Government is supporting this with its "Inclusion Initiative", among other things.

Less-skilled workers continue to bear the brunt of unemployment. Young people who have not finished school and young adults without an occupational qualification have significantly worse chances in the labour market. This is why the aim is to improve educational and occupational training options, thereby enabling young people to gain a foothold in the labour market. This is all the more important when the future age cohorts are shrinking.

Increasing the educational levels of the population can have a major impact on growth. A high level of education increases work productivity and employment rates

and has a positive effect on production. The aim is to further raise the education level of the population, fight educational deficits and ensure equal educational opportunities.

Demographic change poses a variety of new challenges to public education in Germany. The individual educational sectors need to adapt to the birth rates and ageing process, for example, in early-childhood education, all-day schools, the transition to occupational training and in continuing professional development. In-service training and education also need improvement and should better cater for the needs of adults aged 30 and over, who may already have children. Despite the population decline caused by demographic change, investment in education will therefore remain at the same level and should even be increased in certain areas, in order to help people in all living and educational situations with appropriate educational measures.

In addition to education, research and innovation play a significant role in compensating for shrinking production and growth potential. Research and innovation policy therefore has two major tasks: First, training and recruiting more younger people to work in research and innovation; and second, increasing and adapting research and innovation activities. The Federal Government has set the goal of investing an additional 12 billion euros in the key fields of education and research in the period 2010 – 2013.

Population ageing and decline also have an impact on overall economic demand. On the one hand, changes in the rate of consumption and the ratio of consumption to savings can be expected. On the other hand, there will be significant shifts in the structure of consumption. Policy-makers can and will stay on top of these changes by raising awareness of the problem, pointing out possible solutions and improving framework conditions.

The Pension System

The pension system is designed to ensure adequate income after retirement from active working life. The system rests on three pillars: statutory pension insurance, the occupational pension scheme and private pension plans. The most important pillar by far is the statutory pension insurance. Other important schemes include the civil servants' pension scheme, retirement and surviving dependants' pension for public service employees, farmers' old-age security, artists' social insurance and pension funds of the free professions.

Demographic change creates challenges for the statutory pension insurance, which is a pay-as-you-go system. If the number of those paying into the system falls while the number of those drawing pension benefits rises, this would necessarily create financial pressure if counter-measures had not already been taken.

The aim is to ensure sustainable funding for the pension system while appropriately balancing the interests of young and old. Against the backdrop of demographic change, the Federal Government has undertaken a series of reforms over the past two decades, affecting not only the statutory pension insurance but all aspects of the pension system. One of the most important reforms with regard to statutory pension insurance, adopted in 2007, is the gradual raising of the official retirement age from 65 to 67 by 2029. This applies to persons in other pension schemes as well, such as federal civil servants.

Raising the retirement age is an important pension policy measure; at the same time, it sends a signal to society and the private sector to further promote new attitudes towards older workers and age-appropriate working conditions. In this way, it also helps counter the threat of skilled labour shortages.

Health and Long-Term Care

More and more people are living to old age with improving levels of mental and physical health. But the increase in life expectancy is not always accompanied by good health. With a growing proportion of older and very old people, the health-care system will have to deal with higher expenditures and shrinking revenues. The reason for higher health-care expenditures is the growing need for health care, especially for older people. Another factor is advancements in medical technology, which also drive up costs.

The shift in the age structure also affects the revenue side: The growing number of retirees resulting from population ageing tends to weaken the finances of the health-care system, which is now largely funded from wage- and salary-based contributions.

The aim of health-care policy is to continue to make sure everyone in Germany, regardless of income, age, health risks or place of residence, has access to the necessary medical care at a high level of quality and to medical progress.

This requires reforms to the health-care system. With the Statutory Health Insurance Financing Act, which entered into force on 1 January 2011, the Federal Government has already set the course for sustainable financing of the statutory health insurance. In addition, the draft Act on Care Structures in the Statutory Health Insurance, which the Federal Government adopted in August 2011, lays the groundwork for high-quality, local medical care in order to improve the concrete care situation of patients in economically disadvantaged regions and to counter the growing shortage of doctors in these regions. More staff will also be needed in other caring professions as well to meet the growing demand. To meet this demand while ensuring quality care, the Federal Government, together with the states and relevant organizations, introduced a campaign to promote training and qualification in eldercare occupations. The Federal Government is also preparing new legislation to consolidate occupational training in the health-care field.

As people in our society live longer, targeted prevention and health promotion at every age are more important than ever. Prevention and health promotion help prevent illnesses, help people stay healthy longer and contribute to quality of life. These aims will be further developed in a national prevention strategy.

Like the statutory health insurance, the long-term care insurance is also affected by demographic change. A system financed solely through income-based contributions will be subject to reduced funding in an ageing society. At the same time, the ageing population will require more care services. In 2010, about 2.42 million people required long-term care. According to current estimates, this number could rise to 2.9 million by 2020 and to 3.37 million by 2030. The growing number of older persons suffering from dementia constitutes a special problem.

The Federal Government's aim is for persons needing long-term care to continue to have access to affordable care and be treated with dignity. This also means that persons in need of care should be able to remain as independent as possible and participate in social life. To manage the growing number of persons needing long-term care, financing for the long-term care insurance must be put on a solid footing, and the framework conditions for care provision must be improved. With this in mind, the coalition agreement calls for additional capital funding, which must be mandatory, individually tailored and fair to both younger and older generations.

Out-patient care must be expanded so that care patients can be looked after at home as long as possible, in accordance with their wishes. Persons providing care for fam-

ily members also need support. To make it easier to reconcile work and the need to care for family members, the Federal Government has decided to introduce leave to care for family members.

Rural and Urban Regions, Infrastructure and Mobility

Demographic change has very different impacts on rural and urban areas, as processes of growth and decline often occur at the same time, sometimes not far from each other. In addition to population decline, factors for this development include internal migration and the regional and economic starting situation. The change in the age composition will also have a significant impact on life in urban and rural areas.

Especially in thinly populated rural areas, population decline will lead to reduced demand on infrastructure and increased resource use. Population ageing will change the demand for infrastructure services, which will be more oriented on the needs of older people, above all health care and long-term care services, medical care, appropriate housing options and age-specific social infrastructures. Providing such infrastructure locally is a challenge especially in rural areas. However, it is important not to sacrifice the goal of equivalence between rural and urban areas. Solutions tailored to local conditions which take into account regional and economic circumstances must be developed. In many cases, regional cooperation can ensure that tasks are carried out efficiently. The Federal Government is assisting the state governments among other things with grants and model projects, especially in the provision of vital services. And Federal Government programmes in the field of urban development assistance and housing policy are helping cities and rural communities remain attractive places for persons of every generation to live.

Participation in work and society requires a good transport infrastructure and transport options as well as modern communications technology. Overall, demographic change will not mean less, but different and regionally diverse traffic. For this reason, transport systems must be adjusted to meet actual needs while paying attention to safety and ease of use and developing innovative solutions, in particular for local public transport. It is also important to ensure that thinly populated rural areas have access to high-capacity broadband connections and networks.

Government and Public Administration

So that government will be able to function in future generations, a central aim is securing the long-term sustainability of public finances. To this end, an important prerequisite is effectively reducing public debt. The introduction of the limit on public borrowing anchored in the Basic Law the principle of long-term sustainability of the federal and state budgets.

To implement this borrowing limit, the Federal Government is pursuing a growth-oriented consolidation strategy, which includes comprehensive, long-term finance, economic, education, research, family and social policy. Giving priority to expenditures on education and research as well as child care is an important part of the growth orientation of this strategy. Reforms of the social insurance systems in recent years will significantly help reduce long-term financing risks.

To ensure that government can continue to function, it is also necessary for public administration to adjust its services to the changing demographic framework conditions. While this primarily affects state and local governments, the federal administration must also address this issue. Public administration of the future will rely even more on modern technology in providing its services, offering them online or over the telephone.

Government as employer will also have to manage the effects of demographic change, ensuring that it remains productive despite ageing staff, reduced budgets, further staff cuts and more complex processes. The foreseeable developments require the federal administration to pursue human resources policy which takes demographic change into account.

Outlook

This report makes clear that Germany, more than most other OECD member states, will have to be prepared for population ageing and decline in the coming decades. This trend will affect almost every area of life, society and public policy, giving rise to new challenges to social cohesion and economic prosperity in Germany over the long term. Better living conditions and good medical care have improved the chances of living a longer and healthy life. This offers opportunities for individuals and society. It is important to recognize these opportunities and use them in a positive way.

As the report describes in detail, the Federal Government has already responded to the coming changes in all relevant policy areas. In order to take advantage of the opportunities offered and challenges posed by demographic change, the Federal Government will coordinate all the demographic policy activities of the federal ministries in a demographic strategy to be presented in spring 2012. The Federal Government strategy will be based on intergenerational policy tailored to the different living situations which promotes development opportunities at an early stage and for people of every age by creating the necessary framework conditions. The Federal Government is organizing its tasks to achieve the following four goals:

1. Recognizing and taking advantage of opportunities offered by living longer

Increased life expectancy and the resulting extended years of health represent an enormous opportunity for each individual and for society as a whole. It is accompanied by a shift in the sequence and length of the classic life phases (education, work, retirement) and in some cases overlaps between them. Everyone should have a chance to develop his or her potential and abilities, to pursue dreams and contribute to society and economic life. Options for development should be organized at an early stage for people of every age and in every area of life, from family, education, employment and civic engagement to health.

2. Increasing growth and ensuring prosperity

The anticipated decline of the working-age population will outpace the decline of the overall population starting in about 2020. The resulting challenges for economic growth, in particular ensuring enough skilled labour and productivity growth, require managing this process. This demands above all training and exploiting the domestic labour potential, allowing more immigration of skilled workers and strengthening the research and innovation potential and growth-promoting framework conditions of the factor and product markets.

3. Maintaining and strengthening social justice and social cohesion

Population ageing and regional differences in population dynamics will require willingness to change and adjust. This applies to stable financing and generation-appropriate organization of the social insurance systems as well as to ensuring local provision of vital services in regions and communities. People in Germany should be

able to rely also in future on appropriate provision for their old age and on health and long-term care services.

4. Preserving government's ability to function

In order to preserve government's ability to function, the public budgets must remain sustainable. An important point of orientation is intergenerational equity. The social insurance systems and the palette of public services should be adjusted to changing conditions and needs.

Starting with these four goals, the Federal Government has come up with the following fields of action for its demographic strategy:

- Enabling young people to take part in education and training regardless of their background or gender, facilitating their transition to work and teaching them the basics of a healthy lifestyle from their earliest years.
- Supporting a child- and family-friendly society, including family-friendly housing conditions, and making it easier for couples to decide to have children.
- Improving the ability to combine work and family life, so that people can take responsibility for raising their children or looking after family members in need of care, achieve their occupational potential and maintain it during family-related periods of non-employment.
- Further improving the preconditions for a long and healthy working life; redefining images of ageing; and promoting continuing education and qualification.
- Ensuring the supply of skilled labour and strengthening entrepreneurial initiative by taking advantage of domestic potential – above all by increasing the labour market participation of women and older workers, and through greater immigration of skilled foreign workers.
- Increasing innovation and supporting growing economic productivity through infrastructure and growth-promoting framework conditions.
- Activating the potential of older people, encouraging their participation in society and strengthening their civic engagement.
- Encouraging healthy and independent living as long as possible through measures ranging from age-appropriate housing to family and social networks; ensuring quality and appropriate health and long-term care.
- Setting the framework for demographic change in rural and urban areas, while taking advantage of opportunities to conserve resources and preserve the environment; ensuring the provision of vital services and need-based mobility services; keeping an eye on the equivalence of living conditions; enabling social participation and improving local integration.

- Putting public finances, including those of the social insurance systems, on a solid footing for the long term; ensuring productive and efficient public administration for all.

The federal level does not have exclusive responsibility for managing the effects of demographic change in these fields of activity. State and local government, the private sector, social partners and other social actors are also called on to act in their areas of responsibility. Managing demographic change and taking advantage of the opportunities offered by a long and healthy life will succeed only if the different public- and private-sector levels work together and address demographic challenges actively and for the long term. Each individual must act responsibly: Without personal responsibility, we will not succeed in managing demographic change.

The Federal Government sees its demographic report and the demographic strategy based on it as helping to develop a cross-level demographic policy for Germany and to achieve overall sustainable development. Based on existing cooperation, in its demographic strategy the Federal Government will also make proposals on where and in what form additional cross-level coordination on measures in these fields of action will be needed.

Demographic change and managing its effects is a complex process. Demographic policy is therefore a long-term task. It can succeed only with public participation. This requires an exchange. With its demographic strategy, the Federal Government will therefore initiate a dialogue process in which demographic policy activities at the various government and non-governmental levels will be further coordinated.