

## Editorial

### **Introduction to the Special Issue: Demography, Social Institutions, and Individual Outcomes\***

Germany, like most EU countries, is experiencing a pronounced structural change in its population: it is aging. At the same time, the employment biographies of recent birth cohorts differ from those of previous cohorts. While the typical male employment biography in the past was characterised by a steady stream of earnings with only short interruptions of unemployment, female biographies were characterised by rather long interruptions due to child-raising activities, housekeeping, and caring for ill or elderly family members. In recent decades, the traditional conception of gender-specific roles has changed. This shift is reflected in higher employment rates among women, and in longer periods of unemployment or low earnings and increasing job fluctuation among men.

In light of these structural changes, Germany's welfare system has been reengineered, and its pay-as-you-go (PAYG) Statutory Pension Insurance (SPI) system in particular has been altered: the retirement age has been raised, contribution rates have been capped, replacement rates have been lowered, and a state-subsidised private pension (Riester pension) has been introduced to compensate

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\* Many helping hands and supporters contributed to the success of the workshop. Particularly, we are indebted to the Institute for the World Economy and the German National Library of Economics. They opened their doors for us, allowing us a spectacular view over Kiel Fjord. We would also like to thank the Lorenz-von-Stein-Institute in Kiel: Franziska Brackmann, Magdalena Hamer, Dominique Holstein, and Niklas Pütz did an excellent all-round job, from a warm welcoming of the guests in the morning to organizing means of transportation in the evenings. Many thanks also go to University's of Kiel Department of Economics. Its executive director, Horst Raff, gave a stimulating introductory speech, while Melanie Claßen, Benjamin Beckers and Jan Krause provided all kinds of technical, logistic and other support. We also thank Torsten Hammer, Ingmar Hansen, Kerstin Kotlarski, Dirk Mai, Heiko Müller and Frank Röder from the FDZ-RV (Forschungsdatenzentrum der Rentenversicherung, Research Data Center of the German Pension Insurance) for providing background information on the content of the FDZ-RV databases and its technical processing. Of course, we would also like to thank all the presenters for their stimulating presentations and the visitors for vivid discussions.

Carsten Schröder would like to thank the Max-Planck-Institute for Demographic Research, in particular Joshua Goldstein, for kind hospitality during a research visit from October 2011 to April 2012. A significant part of this Editorial was prepared then.

for the likely reductions in PAYG pensions for upcoming elderly cohorts. These reforms in turn affect the labour supply, as well as the retirement, savings, and wealth accumulation strategies of individuals, today and in the future.

To assess the benefits and costs of these reforms, rigorous empirical analyses must be conducted. A necessary ingredient of these analyses is the availability of valid household and individual micro-data, with detailed and valid information on the socio-economic and demographic situations of individuals. For the maintenance of a modern data infrastructure that is accessible to interested scientists, the foundation of Research Data Centres (RDC) has been essential. The RDCs are designed to provide the scientific community with high-quality micro-data and advice. For example, the RDC of Germany's SPI provides longitudinal data on the earnings and rehabilitation biographies of pension beneficiaries. Today, these and other administrative data have been made available, together with data from scientific surveys, such as the *Sample Survey of Income and Expenditure* (SSIE), the *Survey of Health, Ageing and Retirement in Europe* (SHARE), the *German Socio-Economic Panel* (SOEP), and *Saving and Old-age Provision* (SAVE). Efforts also have been made to combine the aforementioned administrative and scientific survey data, so that today's data infrastructure offers various options for conducting empirical and policy-oriented research on the socio-economic situations of private households, and their determinants.

To explore these issues, some 50 researchers from multiple disciplines met at the 8<sup>th</sup> workshop of the Research Data Centre of the German Pension Insurance (FDZ-RV). The workshop took place June 6–7, 2011, in Kiel (Germany). The workshop was organised in cooperation with the University of Kiel and the Lorenz von Stein Institute, and was held at the German National Library of Economics (ZBW) – Leibniz Information Centre for Economics. The workshop turned out to be an excellent interdisciplinary forum for the presentation and discussion of empirical analyses dealing with the interplay of demographic change, social security, and individual outcomes. Above all, the participants' contributions broadened our understanding of the empirical facts and trends in Germany, and also of the particular weaknesses and strengths of the underlying micro-data bases.

The workshop was opened by *Horst Raff*, the executive director of the Department of Economics of University of Kiel. The local organiser, *Carsten Schröder*, and the FDZ organiser, *Ralf K. Himmelreicher*, also welcomed the participants and outlined the main aims of the workshop. *Michael Stegmann*, and *Julia Schumilow* from FDZ-RV Würzburg then gave an overview of recent data access innovations and data releases. Subsequently, interdisciplinary research teams presented empirical analyses in the areas of "Health and Care", "Income Inequality and Income Mobility", and "Employment Biographies and Retirement Provision".

The present conference volume of the *Journal of Applied Social Science Studies* comprises seven empirical works, all touching on particular facets of the core issues outlined above. The volume starts off with an introductory paper by Rembrandt Scholz and Carsten Schröder on the “Demographic trends in Germany and their economic implications”, which focuses on regional differences in demographic trends.

The following paper by Uwe Fachinger and Ralf K. Himmelreicher uses FDZ-RV data on employment biographies to measure income mobility. Their results shed light on the adequacy of some assumptions of the life-cycle theory concerning the development of income over time, especially on the inverse U-shape assumption of income profiles.

Anita Tisch and Silke Tophoven make use of the new data source BASiD to identify typical work trajectories of two illustrative baby boom cohorts. Using optimal matching methods, they identify five typical work history patterns for the cohort of 1959 and six typical patterns for the cohort of 1965, which are characterised by different degrees of labour market participation.

Ulrike Dürr and Katharina Schulte investigate adverse selection in the German private pension insurance market by relating subjective life expectancy to the uptake of insurance. In line with the adverse selection hypothesis, they find that subjective life expectancy increases the probability of investing in voluntary private pension plans.

A decomposition approach is used by Charlotte Bartels to identify inequality between people and income variation within a 20-year period, as well as redistribution between people and income smoothing over the same period. The paper asserts that the German welfare state clearly gives priority to income smoothing over redistribution, which intensifies in the later stages of the life-cycle through the payment of social security pensions.

The contribution by Lena Detlefsen is methodological in nature, and explores the sensitivity of inequality estimates to the length of the period for which income is surveyed. Her study shows that the length of the income accounting period affects the level of inequality, and that the quantitative effect varies over time.

Gisela Hostenkamp and Michael Stolpe study how stratification in health and income contributes to the social costs of health-related early retirement. Interpreting early retirement as a device for reversing work-related declines in health, they note that early retirement improves employees’ health, enabling them to recover almost two-thirds of the decline in health suffered during the last four working years. Their calibration exercise explores how keeping all workers in very good health would change the average retirement age and social costs.

In sum, this conference volume offers empirical contributions that touch upon selected facets of the interplay between demographic change, social se-

curity, and individual outcomes. We hope that readers of these articles will appreciate the opportunity learn more about these issues, and maybe feel inspired to start own research projects – maybe in 2012, the ‘European Year of Active Aging and Solidarity between Generations’.

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