

Burden on the Young

Excerpt from “German Downturn” written by Jesper Vind and published in Weekendavisen, December 8, 2025.

The controversial package¹ guarantees a retirement age at the current level of 67 and that the average worker’s pension payout does not fall below 48 percent of the German average wage. According to 22 economists - including some of the government’s own advisors—this is precisely what makes it excessively generous.

They argue that the government’s legislation will intensify “the demographically driven structural problems in the pension system,” referring to another major issue affecting Germany in 2025:

The country has one of the oldest populations, with a growing number of retirees who must essentially be supported by relatively fewer and fewer people in employment. This is done through a so-called pay-as-you-go system, in which current contributions from employees and employers are used directly to pension pay outs to current retired Germans. This is without significantly supplementing the model with individual savings, as is the case in Scandinavia.

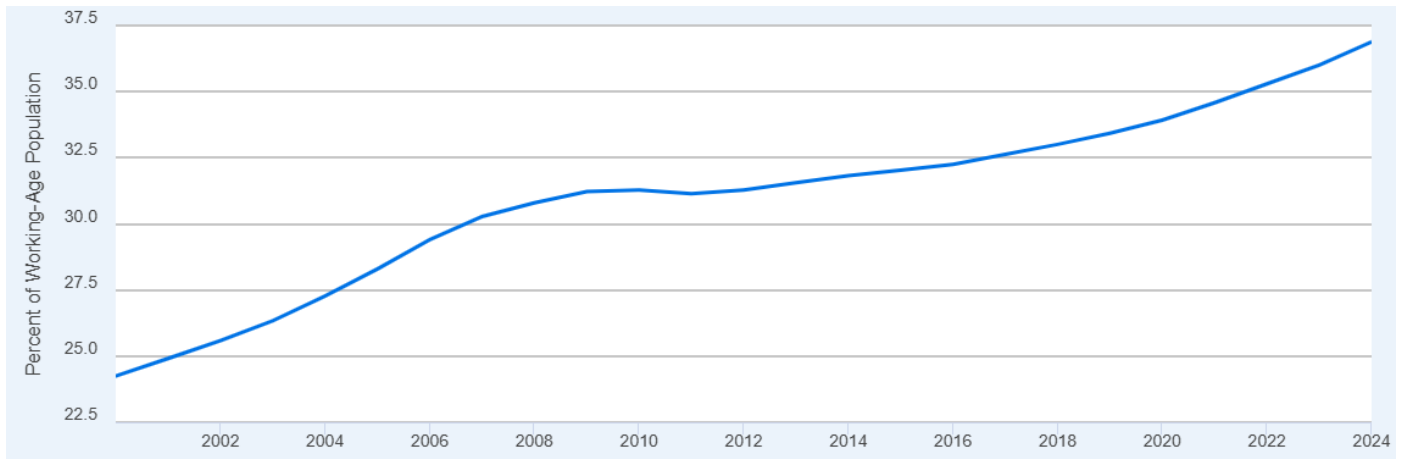
This makes the German pension model extremely vulnerable, if the number of employees declines relative to the number of retirees, or if the economy performs poorly - and both are currently the case. Consequently, the German pension system must increasingly be financed by the state - and thus by taxpayers - and, according to the ifo Institute in Munich, this amounts to more than one-third of all government tax revenues.

By allowing this system to persist, Merz and his colleagues are defying ‘the widely recognized need for reform,’ writes Jochen Buchsteiner, political editor at Frankfurter Allgemeine Zeitung.

“What has this pension package actually achieved? Although the CDU/CSU campaigned on a platform of political renewal - specifically regarding economic policy - the legislation just passed will further increase both the tax burden and, in all likelihood, labour costs.”

¹ At the end of 2025, the German government passed legislation referred to as the “pension package”.

The development in the number of people 65+ in relation to the number of people in the ages 15–64 in Germany 2000-2024



Source: World Bank

Note: The graph shows the relationship between the number of people 65+ and the number of people active in the labour market as a percentage. In 2000, this relationship was 24.3 older people per 100 in the age group 15-64. This ratio changed to 36.9 in 2024.