Federal Ministry
of Education
and Research

Bert Rürup / Anabell Kohlmeier:

Economic and socio-political significance of further training saving plans

Dieter Dohmen / Vera de Hesselle / Klemens Himpele: Analysis of potential models and development of a concrete concept for training saving plans

OUTLINES of the two reports

These excerpts are for information purposes.

Only the complete versions of both reports are definitive.

Contents

The reports were mandated by the Federal Ministry of Education and Research.

The authors are responsible for the content.

Bert Rürup und Anabell Kohlmeier: Economic and socio-political significance of further training saving plans

This experts' report looks into what effects arise from the participation in further training plans for the economy on the one hand and for the individual on the other. Building upon this it will be demonstrated what responsibilities belong to the state and in particular the individual with financing further training plans. Since in addition to the increase in further training participation, the appreciation of individual financing responsibility should be improved in particular, an adapted, expandable, three-element extensive financing instrumentation is proposed in this report.

1. Socio-economic and institutional parameters

With the analysis of the effects of the further training plans on the economy as well as individuals, the most important parameters are the effects of globalisation and population development.

Globalisation, which manifests itself in increased trade activity, outsourcing, i.e. the delimitation of value chains in the sense of an increasingly strong usage of international distribution of labour by a stronger input from abroad and the partial substitution of exports by direct investments and offshoring, with the current parameters in Germany leads to a decline in jobs for low-qualified workers and at the same time to an increase in qualification demands for jobs offered in Germany.

Population development is characterised by aging and the increased decline in overall population in the last few years. In the latest 11 coordinated population projections from the Federal Office of Statistics from 2006, the limits of a corridor in which the population size and the age increase of the population developed in tune with current demographic trends are set out. According to this, by 2050 the German population will fall by 10% (upper limit of the corridor) to 16% (lower limit of the corridor) to 74 or 69 million, with an over-proportional decline in the labour force, which - under the prevailing conditions – will affect the growth potential of the economy. According to the latest forecasts, the associated shift in the relation between the economically active population and non-economically active population to the detriment of the active population – by 2035, the proportion of the economically active population in comparison with the population as a whole will fall by 15% - leads to the economically active population having to produce 15% more than today by 2035, if the same amount of consumer and investment goods per head of population is to be produced as today. If one assumes that the path of production development of the last few years of around 1.5% per head of population continues in the future, the abovementioned decline in the economically active population would correspond to a fall in growth of 0.45 percentage points per year, which in turn constitutes almost a third of the previous average real economic growth per head of population and thus would absorb a quite considerable proportion of growth potential.

However, this potential growth negation as a consequence of population development can be reduced, if not even compensated, if the following is achieved: firstly, the decline in the economically active population must be dampened not only by the consequential reduction in unemployment but much more by an increase in the labour force participation rate, in particular by women and older employees and not least by extending people's working lives. Secondly, compulsory training efforts, in particular an increase in further training activities, are necessary in view of the increased average age in order to increase the employment chances of older employees as well as to increase labour productivity.

Likewise compulsory training and in particular further training efforts are necessary so that the negative consequences for the labour market resulting from the decline in job places for unskilled workers and the simultaneous rise in qualification requirements for the remaining job places in Germany as a consequence of globalisation can be softened.

2. Participation in further training in Germany

The necessary further training activities are confronted with a shockingly low participation in further training in Germany: with a participation rate in further training of 25 to 64-year olds who are economically active of just 14% in 2003, Germany comes off particularly badly in an OECD comparison. Denmark, Sweden and the US lead the way with participation rates of 45%, followed by the UK with 34%. Austria, France and Belgium also emerge clearly better than Germany with rates of 23%. Only Spain and Italy have lower rates of participation in further training of 25 to 64-year olds who are economically active, 9% and 6% respectively.

Table 1: Participation in non-formal job-related further training by the economically active population according to age in selected OECD countries, 2003

	Participation rates (%)			
	25 - 34	**35 - 44**	**45 - 54**	**55 - 64**
Germany	16	16	14	9
Belgium	24	22	22	14

Denmark	46	49	49	39
France	27	25	21	14
Ireland	14	15	14	10
Italy	6	7	7	4
Austria	26	26	22	15
Sweden	43	46	48	43
Spain	9	11	8	4
United Kingdom	36	36	35	25
United States	45	43	46	40

Source: OECD (ed.) (2005), Education at a Glance – OECD indicators Paris, p.367.

Particularly problematic – especially against the backdrop of the increase in working life – is the low participation of older employees. As table 1 shows, the participation rate for 45 to 54-year olds in Germany in 2003 was 15% and the rate for 55 to 64-year old was just 9%. As can also be seen from table 1, the rates for the 25-34 years group and the 35-44 years group stood at 16% each. These rates are too low, although they are higher than with older workers.

Particularly noticeable with the consideration of participation rates for Germany in an international comparison is also the fact that the decline in further training participation in Germany already comes into play with the 45 to 54-year old group, which is worrying against the backdrop of the increase in working life.

Furthermore, against the backdrop of the relative decrease in jobs for unskilled workers and the simultaneous increase in qualification requirements of the jobs remaining in Germany as a consequence of increasing national and international competition, the relatively low participation in vocational further training of persons who have left school with few qualifications and the associated low vocational positions is to be seen as problematic. For example, in 2003, across Germany 38% of people with an Abitur [equivalent to A-levels], but only 16% of people with a lower school leaver's qualification took part in vocational further training. Likewise in 2003, across Germany people with higher vocational qualifications participated more frequently in vocational further training: 44% of secondary school graduates but only 11% of people without vocational education participated in vocational further training in Germany in 2003.

3. The individual and social dimension of participation in further training schemes

Aside from the calculated positive effects of participation in further training schemes on the economy, namely the positive influence on economic growth, which results from the increase in human capital due to participation in further training and the associated development of technical progress, as well as the associated effects for the labour market, further positive effects for society from participation in further training schemes are to be expected. Since the positive growth effects and the associated improvement in the situation on the labour market lead to increased contribution income for social insurance and to higher tax receipts. Furthermore it can be assumed that higher qualified citizens can take on more responsibility for the upbringing of their children and demonstrate a more marked understanding of democracy as well as more citizen's involvement.

Aside from these positive effects of further training for the national economy, the participation in further training schemes also develops an individual dimension. This is because the participation in further training schemes in principle has a positive effect on individual earned income via its work productivity increasing influence as well as reducing the risk of unemployment. To this end it must be ensured, however, that the scope of these positive effects on the three abovementioned values of individual earned income, opportunity for advancement and the individual risk of unemployment is dependent on a series of influential factors. The scope of the effects thus depends on the type and duration of the scheme, the length of the period of employment as well as age. In particular, general vocational further training schemes which demonstrate that they

- lead to an increase in the general human capital of the individual
- and thus increase the working productivity within as well as outside of the existing employment relations
- and for this reason normally are subsidised by the participants themselves,

lead to the described positive effects on the individual earned income, opportunity for advancement and job stability.

4. The financing responsibility of the state and the individual

From the described external effects of vocational further training on the national economy – these are above all positive effects on economic growth and the improvement of the situation on the labour market – a governmental responsibility for financing further training arises.

At the same time it must be borne in mind that there are schemes which serve training and improvement in company-specific human capital and thus distinguish themselves by increasing labour productivity within the existing employment relations. These schemes usually do not result in significant positive effects on individual earned income, opportunity for advancement and job stability. First and foremost they bring about an increase in competitiveness and profitability of companies, so that their financing should be covered by employers.

The schemes labelled general vocational schemes, which are distinguished by increasing labour productivity within as well as outside of the existing employment relations in contrast generate positive effects on individual earned income and opportunity for advancement as well as reducing the risk of unemployment, so that for these schemes a financing responsibility also lies with individuals. The special responsibility for individuals for financing general vocation further training schemes becomes clearer when one considers that the positive income effects resulting from participation in these further training schemes and in particular the resulting higher job stability to a considerable degree contribute to an equalisation of income and thus the consumption level of the whole life cycle of an individual and has a corresponding positive effect on pensions, i.e. the legal pensions and the capital-covered excess plan. This is because a continuous progress in earned income, which as described is easier to realise through regular participation in further training schemes, increases the amount of legal pension payments and facilitates the additional creation of a capital fund for private or company pensions.

5. The implementation of individual financing responsibility of the individual

In particular the groups for whom a particularly high further training requirement has been identified, namely older and unskilled workers, will not have the financial means offhand which are necessary for individual financing of general further training schemes. For this reason, for better appreciation of this individual financing responsibility with a simultaneous increase in participation in further training, an expandable, three-pronged scheme package has been proposed.

With the configuration of this instrument package, it was especially borne in mind that firstly the savings potential of households is limited and secondly with different savings motives, a displacement effect could arise. In particular, competition between saving for a private pension and potential savings for further training purposes should be avoided, since saving for a pension should be the most important savings goal for each individual. This derives from the fact that payments of the official pension insurance due to demographic shifts will no longer ensure a standard of living in old age. At the same time, competition between reasons to save is also to be avoided, since they both serve towards ensuring a decent standard of living in old age. This is because regular participation of individuals in further training schemes contributes – as already described – via the positive influence on individual earned income and reducing the risk of unemployment to an equalisation of income and thus the consumption level over the lifespan of an individual and therefore has a positive effect on pensions.

In order to take into account the limited savings potential of households and to avoid competition for savings between further training and pensions, the instrument for creating a capital fund for further training purposes, proposed in this report, links to an existing instrument for capital accumulation:

To this end the expansion of the Capital Accumulation Act (CAA) with the possibility of non-penalised withdrawals from savings before the expiry of the retention period of usually seven years for the financing of general vocational further training schemes has been proposed. With this instrument, the individual can have access to funds required for the financing of less cost-intensive schemes after a short saving period and in addition the number of people potentially reached by the expansion of the Act, namely rather unskilled people and thus on lower incomes, a group which has a special need for further training, is increased.

Since the capital accumulated within the framework of the Act, which formerly was usually used for consumption purposes, is actually put to investment use through the financing of further training, a suitable incentive is created. In addition, the granting of a further training premium for low earners is offered, which should be designed so that 50% of participation costs up to a total of €154 are covered by the state.

Since there are also general vocational further training schemes whose costs exceed the amounts that can be saved in the short term via the Capital Accumulation Act, the expansion of the Act should also by augmented by the possibility of the use of a further training loan without a credit check similar to study credits.

6. Summary

With regard to international experience – in particular the introduction of Individual Learning Accounts in the UK – is can be assumed that the proposed, expandable, current three element scheme package, comprised of

- the expansion of the Capital Accumulation Act with the possibility of non-penalised withdrawals from savings before the expiry of the retention period for the financial of general vocational further training schemes,
- the possibility of the use of a further training loan without a credit check similar to study credits
- ensuring a further training premium for low earners, which should be designed so that 50% of participation costs up to a total of €154 are covered by the state

leads to an increase in overall further training participation and in particular amongst older and unskilled workers and strengthens the appreciation of individual responsibility for the financing of general vocational further training schemes.

Dr. D. Dohmen / Prof. V. de Hesselle / K. Himpele: Analysis of potential models and development of a concrete concept for training saving plans

This report contains the discussion and development of a concrete model for further training saving plans. The proposed model corresponds to the guidelines of the coalition agreement in which it states: “The general public, business and the individual must participate in the financing of further training in an appropriate manner. Through training saving plans we want to develop new financing instruments and also amend the Capital Accumulation Act. This will happen in a budget-neutral manner.” (cf. line 1749). The concept discussed below should be implemented for vocational further training schemes. This is to be defined by vocational and individual and/or general further training by means of the specifications of the Income Tax Act. According to this there is a vocational cause when an objective connection between further training schemes and a job exists and the affected expenditures are carried out for the advancement of the job. The vocational further training identifies further training schemes which are approved by the employer; they should also be the responsibility of the social partners.

Aside from the improvement in individual financial capabilities, bigger and hitherto sub-proportionally participating population groups should be mobilised for further training. A first target group is people who cannot finance further training schemes from their current income and cannot get them financed elsewhere. This group should have additional and goal-oriented funds made available to them through the further training saving plans. It must be pointed out, however, that a partial conflict of targets arises between the goal of mobilising hitherto non-participating or little participating population groups and the guidelines of the budget-neutral coalition deal. If this is understood in the strict sense of annual, public budget-oriented guidelines, it therefore follows that the goal of mobilisation cannot be achieved by the introduction of loan options alone. If on the other hand one considers further training as investment from the state’s point of view and looks at the resulting effects with a focus on employability and the associated improvement in professional positions on the labour market, which is likely to increase income and/or reduce the risk of unemployment, then there are also positive consequences for the public budget as well individual pension income. In this respect, governmental support for the improvement of individual financing abilities appears justified, if not actually demonstrated.

I. Further training and capital accumulation in Germany

Participation in further training in Germany falls with age. Whilst 46% of 19 to 49-year olds take park in further training, only 31% of 50 to 64-year olds do likewise. Among 60 to 64-year olds participation lies at just 21%. However, multivariate analyses show that with a simultaneous check of age and training factors, *age* no longer represents an independent factor. Aside from a clear connection between vocational position and the likelihood of further training, higher participation in further training is to be observed the higher the vocational qualification or school leaver's qualification. It is agreed that this uneven distribution as well as the level of participation in further training, low by international standards, is a situation which requires urgent improvement. A study from BIBB shows the relevance of the financing of further training for the question of mobilisation, in which 28% of non participants mentioned financial impediments amongst other factors. This sheds light on the need for new and expanded financing instruments.

The individual costs for further training vary greatly. It is shown that in the majority of cases comparatively low amounts of a few hundred euros are spent, but that also scheme costs can reach several thousand euros. Individually financed total expenditures in a good 50% of cases come to under €500 per scheme; a further 13% of participants pay contributions of €500 to €1,000 per scheme and around 33% have higher costs. If only the costs relevant to further training saving plans are considered – and again separated from participation fees – then the financing requirements fall further. Thus over half of the participants in formalised, non-vocational further training who were looked at paid no participation fees – over 80% of all participants had to pay fees of €500 or less, i.e. only two in ten participants pay more than €500. On the other hand, 6% have to pay more than €2,500 and over 2% have to pay €5,000 or more.

In these cases, the further training costs can rarely be financed by current income alone, so that a need for other, expanded financing options arises here, which incidentally might in many cases arise with smaller amounts.

These costs for further training have up until now had to be raised largely without governmental support. From the state's point of view, assistance is provided in the Income Tax Act, the Upgrading Training Assistance Act as well as the Social Law Book. Thus adaptive continued training on small and middle incomes are not usually covered. Offers from private financial service providers are even missing in the loan area, which despite an abundance of consumer credits holds no offers for investment in further training.

Table 1: Remaining costs for participants in formalised, non-operational vocational further training

Formalised, non-operational further training	Only direct costs		Only participant fees	
	Per cent	Cumulative per cent	Per cent	Cumulative per cent
No costs	13.2%	13.2%	52.2%	52.2%
under €100	14.7%	27.9%	10.3%	62.5%
€100 to under €250	16.2%	44.1%	12.5%	75.0%
€250 to under €500	11.0%	55.1%	6.6%	81.6%
€500 to under €1,000	15.5%	70.6%	6.6%	88.2%
€1000 to under €2,500	16.9%	87.5%	5.9%	94.1%
€2.500 to under €5,000	8.8%	96.3%	3.7%	97.8%
Over €5,000	3.7%	100.0%	2.2%	100.0%
Maximum value	***€ 9,003***		***€ 5,300***	

Source: Data from BiBB, forecasts from FiBS

NB: “Direct costs” comprises the BiBB data for participation fees, travel costs, procuring training and working material, foreign accommodation and meals as well as childcare costs amongst other factors

With the consideration of possible training savings models, it must be borne in mind that many households – if at all – can only save towards one goal, i.e. either they are saving for a pension, for property *or* for further training. It is to be assumed that for most people, pensions or property take priority and are more urgent than saving for further training. In addition, training requirements in vocational further training can rarely be planned in the long term, usually arising out of relatively short-term “necessities”, options or desires and / or new offers. At the same time, longer savings periods are required in order to save up several thousand euros. This contradiction between the required longer time horizon and the normally rather short training perspective does not give much hope of success to a separate savings exclusively for further training. Against this backdrop, it appears to make more sense to build upon already existing savings options such as the Capital Accumulation Act and in this respect to use the fact that many people already save for various purposes. This is how the guidelines of the coalition deal are oriented. In addition, there is the advantage that bureaucratic expenditure will be minimised since no addition administration will be required. The corresponding measures are known to the users as well as the financial service providers and do not have to be advertised elaborately. Furthermore, an opening of current regulations allows access to current savings and therefore shortens the handling time and at least limits the competition between various savings motives.

As capital-political instruments, the Capital Accumulation Act, the Housing Construction Premium Act and the Pension Capital Act (“Riester Pension” or “Rürup Pension”) come into consideration as government-sponsored points of contact. However, only the “Riester Pension” is de jure not limited to set income and thus theoretically suitable to reach all employees paying social insurance. So far at least, however, only certain target groups, mainly those on middle and higher incomes have actually been reached, and less so for lower income groups for whom previously capital accumulation according to the Act was attractive, given that the savings sums had overtaken those of the Riester Pension. Since the Riester receivables in future in particular in the form of allowance will become more attractive and in addition a higher proportion of gross income is affected, this will change successively, however.

Indeed, a withdrawal from the Riester capital is very justifiable, since an equalisation and if applicable increase in lifetime income can also be achieved via further training. However, at present the fact that the associated withdrawal rules would be time consuming in a very complex and bureaucratic way for several reasons speaks against linking up with the Riester Pension and in addition presents several legal problems. Furthermore, the saved capital is still relatively low due to the short amount of time since the introduction of the “Riester Pension”. For these reasons, linking the further training savings plans with the Riester Pension will not be proposed. However, this does not mean that how the spread of the “Riester Pension” is developing will not be looked into again at a later point in time and whether a withdrawal possibility similar to property withdrawal could present a meaningful opportunity.

Assistance according to the Capital Accumulation Act in contrast benefits smaller and medium-sized incomes, insofar as a satisfactory ability to save exists, since some groups of people cannot use these instruments due to a lack of income or ability to save, including the lowest-earning groups such as the unemployed and welfare recipients. Furthermore, some target groups, in particular self-employed and freelancers, are also de jure ruled out from using government-assisted savings instruments. For these groups, only the ”Rürup Pension” comes into consideration.

Due to the German government’s planned discontinuation of the Housing Construction Premium Act, the possibility of anchoring the training savings plans will not be discussed in more detail. In addition, the Act is systematically fixed on the assistance of housing construction or property acquisition.

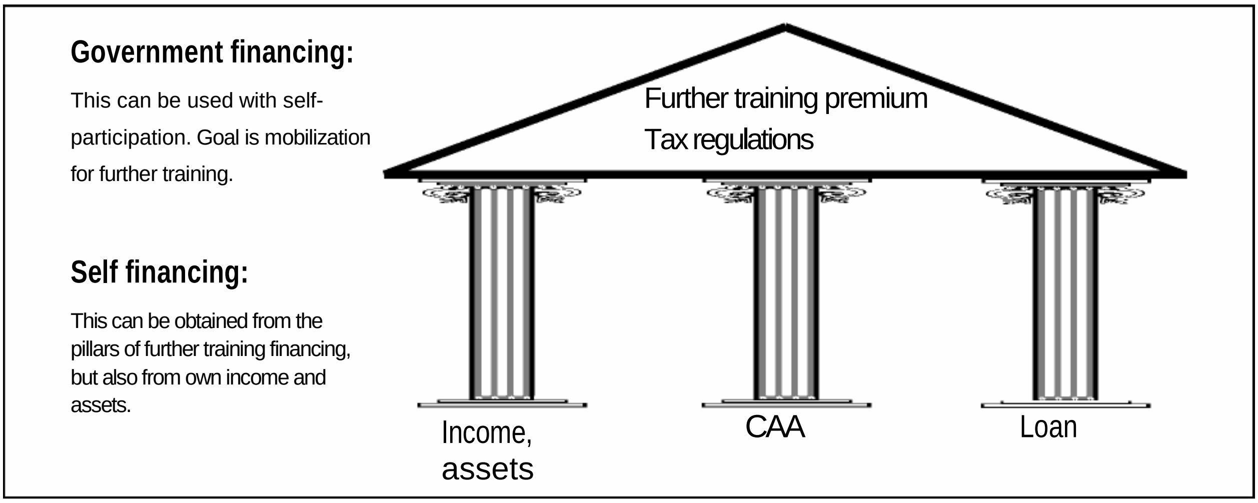
Furthermore it has been deliberated, within income tax regulations, to make available liquidity at the time of the scheme and not with the availability of income. For the purposes of the simplicity of the instrument, this will be ruled out to begin with, and another examination with a view to the implementation possibilities will take place at a later date. This applies in particular against the backdrop of cross-period budget neutrality, since further training costs today are already deductible as recruitment costs or operational expenditures. With the aim of developing as quick and unified instrument as possible which still offers support opportunities for various financing requirements, the following solutions are proposed:

II. Further training savings plan model

The financing of further training can partly be made up of workers' own funds and partly from governmental co-financing. Currently, workers' own funds can only be (pre)-financed from current income or available assets. Governmental co-financing is currently mainly comprised of tax regulations which result in a fall in recruitment costs or operational costs within the framework of income tax assessment.

The following three-pillar model is proposed, whose "roof" is comprised of governmental assistance:

Figure 1: The three-pillar model for financing further training



The self-financed proportion can at first be obtained from current income or available assets. For dependent employees with a low or medium income, a withdrawal from the

Capital Accumulation Act comes into consideration. As a third instrument which can be used fundamentally independently from other access criteria is a further training loan.

Governmental co-financing – the roof protecting the pillars – takes place via two instruments: the already available instruments within the income tax law serve the taxpaying group. These are income tax reductions for dependent employees as well as claims within the ordinary income tax return. These tax regulations – in particular for people who have no or only a very low relief via the income tax assessment – can be expanded with the new instrument proposed here by a governmental allowance (further training premium). This allowance serves two purposes: firstly it should serve as in assistance instrument for those who receive no other government co-financing within the Income Tax Act and secondly as a mobilisation instrument with low and middle incomes.

a. Component 1: Opening the Capital Accumulation Act for withdrawal for further training purposes

Within the framework of the Capital Accumulation Act, a withdrawal from the saved funds which does not harm allowances for the financing of further education costs before the expiry of the retention period should be possible. In this way, available savings are accessed in order to improved liquidity without losing the right to governmental allowances. Through a withdrawal from the Capital Accumulation Act –

	Förderkorb 1					Förderkorb 2				
Savings year	Own share	Interest (3 %)	Govt. allow.	Acc.	Share of financeable further training schemes	Own share	Interest (3 %)	Govt. allow.	Account	Share of financeable further training schemes[1]
1	€ 470	€ 0	€ 0	€ 470	55.1%	€ 400	€ 0	€ 0	€ 400	50,0%
2	€ 470	€ 14	€ 0	€ 954	69.1%	€ 400	€ 12	€ 0	€ 812	63,2%
3	€ 470	€ 29	€ 0	€ 1.453	80.9%	€ 400	€ 24	€ 0	€ 1.236	78,7%
4	€ 470	€ 44	€ 0	€ 1.966	86.0%	€ 400	€ 37	€ 0	€ 1.673	82,4%
5	€ 470	€ 59	€ 0	€ 2.495	87.5%	€ 400	€ 50	€ 0	€ 2.124	86,8%
6	€ 470	€ 75	€ 0	€ 3.040	89.7%	€ 400	€ 64	€ 0	€ 2.587	87,5%
7	€ 470	€ 91	€ 294	€ 3.895	93.4%	€ 400	€ 78	€ 504	€ 3.569	92,6%
Total	**€ 3.290**	**€ 311**	**€ 294**	**€ 3.895**		**€ 2.800**	**€ 265**	**€ 504**	**€ 3.569**	
in %	*84.5%*	*8.0%*	*7.5%*	*100.0%*		*78.5%*	*7.4%*	*14.1%*	*100.0%*	

Source: Calculations from FiBS, Data from BiBB

[1]Proportion of further training schemes which can be financed at the end of the corresponding savings year on the basis of the BiBB data with the amount from the Capital Accumulation Act. The remaining direct costs for non-operational vocational further training in formalized schemes are covered.

according to preceding savings time – medium to large schemes can be financed.

Table 2: Savings volumes with the Capital Accumulation Act

Depending on interest rates, around €500 is available after one year and after seven years €3,500 to €4,000; under some circumstances, even larger amounts. After just one year the direct costs of at least half of all vocational further training schemes carried out today can be financed by a withdrawal from the Capital Accumulation Act; if one only considers the participation fees, this rises to 80%.

The saved amounts should be paid in full during the retention period of usually 7 years for further training purposes without loss, i.e. the bonus will be paid in full despite the premature withdrawal. The savings amounts remaining after withdrawal will have interested paid exactly as before withdrawal. The target groups are people with low and middle incomes who save according to the Capital Accumulation Act, such as workers with a taxable income of up to €17,900 per year or €35,800 with joint assessments.

The following positive effects are expected:

- Via successful further training, the saver can reduce the risk of unemployment and/or earn a higher income and save more money, in the Riester Pension for example.
- Through the discontinuation of the retention period, more flexible products will prevail on the capital market which on the one hand correspond with legal requirements and on the other hand also correspond with the interests of consumers (exceptionally early saver availability for training purposes).
- Monitoring the repayment obligation, which for example could be required in the “Riester Pension” would lead to increased administration expenses for financial service providers (insurance companies / building societies / banks). With withdrawals from the Capital Accumulation Act, this is not necessary.
- Through the simple withdrawal possibility without a repayment obligation, the “withdrawal stoppage” is low for the savers so that the instrument has a greater chance of success.
- If savers have a fee for early withdrawal imposed, this can be extremely low due to the lower interest loss of the lending institution.
- A minimum withdrawal (de minimis limit) does not have to be introduced according to current forecasts, since it can be assumed that the savers can gauge usage and costs (e.g. bank fees) for the early withdrawal themselves and the associated expense will not apply to small amounts. If these assumptions are not confirmed, a de minimis limit for withdrawal should be considered.
- The opening of the withdrawal option in the Capital Accumulation Act would not be linked with additional public costs.

The use of the Act for further training schemes would give an incentive and income-increasing application for the saved money instead of a consumptive one, which is usually the case. The corresponding incentive could be increased further with the association with the further training premium (see below).

b. Component 2: further training loans with favourable interest rates

The second pillar of the proposal is aimed at all those who cannot or do not want to (fully) finance their further training schemes from their own income, tax-related increase in liquidity or the withdrawal option. The loan will only then be economically meaningful if the other alternatives are exhausted. A withdrawal from capital accumulation or financing from current income will be more economical than a loan. A further education loan via a public bank (e.g. KfW or a comparable regional state bank) should be offered. This loan should in principle be available to all participants in vocational further training – without a typical credit assessment. Interest rates could be oriented in a similar way to the Federal Education Assistance Act (BaföG) or the “Master BaföG” (AFBG) on the EURIBOR including an adequate administration cost premium. As with student loans from KfW, the losses should be refinanced via the group of people taking out loans so that the interest rate must be slightly higher. It is estimated that the loan can thus be issued at an interest rate which is far under normal commercial loans but perhaps slightly higher than student loans at around 6% p.a. The lowest loans sums certainly have an effect here. For instance, with 50% of the schemes, expenditures of a maximum of €500 must be financed; only a limited number of 10 to 15% of participants have costs of over €1,000 per scheme. If comparatively low fees can also be financed by loans, then this requires lower administration cost and a possibly cost-efficient distribution structure. Due to administrative consideration and / or reasons of cost, a de minimis limit must be fixed which will probably be under €500 but possibly over €1,000. This has the consequence that corresponding loans come into consideration for 20 – 30% of further training participants. Excepted are those who request comparatively cheaper schemes.

It is the goal of the further training grant set out below to close this gap at least partially. Since the cost of living cannot be financed by any of the other instruments, but this is useful in certain cases, the further training loan can also be absorbed into its financing.

c. Component 3: Further training grant

The further training grant is a central element of the training saving model and can be arranged according to the desired goals. A relatively simple model will be proposed here. Up to a taxable income of €17,900 or €35,800 combined (in accordance with the Capital Accumulation Act regulations), a further training grant of 50% of the participation fees, up to a maximum of €154, can be awarded, i.e. the participant him or herself must pay the same amount towards financing the scheme themselves. In order to avoid schemes with very low participation fees being awarded grants and the administrative process being brought into action, a de minimis limit of €30 should be introduced. This will mean that the full grant will only be used starting from a participation fee of €338, including the de minimis limit. For more than three quarters of all formalised vocational further training schemes, a governmental co-financing of almost 50% can thus be ensured. In other cases, a decreasing part financing is still possible, where the maximum amount is paid out at most.

The further training grant should first of all reach the target groups who have so far not benefited from tax regulations – and who will also not profit from them in future. These are people, married couples and families, whose taxable income is under the basic tax allowance and who therefore pay no income tax. They would possibly have additional liquidity effects through current regulations, e.g. via Capital Accumulation Act withdrawals, but no net cost relief via governmental co-financing, which comes into effect with other via tax rebates. A further training grant also appears to be only fair since it is hardly wise that the government co-finances some participants and not others on lower incomes. A considerable part of this target group includes groups which for income reasons participate under-proportionally in further training. With this in mind, awarding a further training grant appears appropriate to even out existing inequalities.

The further training grant is the only component of the model proposed here that involves additional public expenditure. Due to the major significance of the central goal of mobilisation, it is considered indispensable.

The extent of the fiscal effects is depending on

- The amount of the grant,
- The number of people eligible (here: income boundaries) and
- The level of the ”de minimis limit“ as well as
- ”Rhythmisation“ (i.e. how often the grant may be used).

Participation fees should only be part-financed by the grant. The calculation of costs coming from the public purse is made difficult by a very limited data situation. These costs are determined mainly by the amount of the grant and the question of assistance of “repeaters”, i.e. those who have already applied for a grant in the previous year. In the proposed model, i.e. with a grant of a maximum of €154, a de minimis limit of €30 and an income boundary of a taxable income of €17,900 / €35,800, annual costs of around €60m arise. If one reduces the grant so that it can only be used when no further training schemes were carried out in the previous year, then these costs are reduced. For example, if half of the participants are “repeaters”, then the implementation will cost €30m. Additional costs vis-à-vis the sums estimated here will arise if a major mobilisation takes place. However, a central goal of the grant would thus be achieved.

Within the framework of the report, various models with different de minimis and assistance borders have been worked out, however mostly they can only bring about relatively low savings or a limited expansion of the circle of assistance. With regard to the effectiveness, the model described here is a concrete proposal.

The components of the model can be used individually or in combination, so that there are several possibilities in different cases which can be used. Nevertheless, in most cases there is a relatively clear prioritisation: the tax options and / or further training grant should be used as a priority, then the possibility of withdrawals from the Capital Accumulation Act – if available. The further training loan is to be seen as a financing for remaining amounts which cannot be – fully – financed by other components, since the interest rate is higher than with other regulations.

In addition, the existing regulations within the Income Tax Act for tax-related cost allowances for vocational further training schemes should be applied more strongly. In this way, 15 – 42% of scheme costs can be “refinanced” depending on the marginal rate of tax. However, only people who pay income tax will profit from this regulation. With dependent employees, the employee lump sum of €920 must be covered since only expenses going beyond this lead to an additional tax reduction. At the same time it must be pointed out that within the framework of the income tax rebate procedure, further training costs may already be part-financed by the government during the current tax year. The German government should look into this possibility further.

III. Examples

Peter S is 57 years old. He has been working for years at a medium-sized company and earns €18,000 gross per year. Due to his age, Peter S may lose out on technical developments and may thus lose his job. To this end he is continuing training for €500, where he only has to pay the costs for participation fees. Peter S applies for a further training grant of €154. The remaining €346 must be financed from his own income. Since he has no other costs which he can claim as expenses, there is no further tax relief.

Roswitha Z, 45 years old (single parent, one child), has worked for many years at the company Müller & Sohn, a small consultancy with five employees, as a secretary and general assistant to the director and earns €20,000 gross. Since the company is increasingly working together with partners from neighbouring countries and communication often takes place in English, she would like to improve her knowledge of English and in particular learn specialist vocabulary. She has booked on several English courses in 2008 which cost a total of €1,700.

Since Roswitha's taxable income is less than €17,900, she can apply for a further training grant, with which she can obtain €154. Roswitha will withdraw the remaining €1,546 from her Capital Accumulation Act account. In the following year, she will get €163.50 "back" due to the income tax assessment, since she can claim expenses over the employee's lump sum of €920 ; i.e. she can write €626 off against tax. If she can pay this €163.50 as a one-off payment into the Capital Accumulation Act account, the interest rate will be 3%, as with the Capital Accumulation savings. In total, Roswitha must pay nearly €1,400 for further training herself; however, she would not be able to carry out the further training without the possibility of making withdrawals. The following overview summarises the financing once again.

	Amount	Interest loss / profit[1]
Further training costs	€1.700	
Grant	€154	
Withdrawal from CAA account	€1.546	-€143.36
Loan	€0	€0.00
Tax saving (incl. solidarity tax)	€164	€15.16
Total self-contribution	€1.689	83.5%
Total govt. co-financing	€333	16.5
Total costs (incl. interest)	€2.022	100.0%

Source: FiBS

NB: [1] Accrued interest upon withdrawal from the CAA until contract end; with loans until repayment and with investment of amounts paid via tax until the end of the term of the CAA savings agreement

Table 3: Financing possibilities for Roswitha Z.

Gerda A., divorced, was unemployed after leaving school and later devoted her time to raising her children. She is now planning to get back into employment. To this end, she is undertaking further training for €800. Due to a lack of income, she can make use of the further training grant. She has to finance the first €80 (de minimis limit) herself. Of the remaining €270, the government will pay for half after the grant, so that Gerda A will pay €165 herself, and she will receive €135 from the further training loan.

Jürgen G. (32), single, has been saving for three years according to division 1 of the Capital Accumulation Act. As a builder, he earns €20,000 gross per year. He wants to train as a surveyor and is undertaking modules for a total of €3,400. Jürgen can withdraw €1,400 from his CAA account. In addition, he applies for a grant of €154 for the participation fee.

Table 4 : Financing possibilities for Jürgen G.

	Amount	Interest loss / profit[1]
Further training costs	€3,400	
Grant	€154	
Withdrawal from CAA account	€1,400	-€175.71
Loan	€1,174	-€72.38
Tax saving (incl. solidarity tax)	€672	
Total self-contribution	€2,822	77.3%
Total govt. co-financing	€826	22.7%
Total costs (incl. interest)	€3,648	100.0%

Source: FiBS

1 With withdrawals: until contract end. With loans: Until full repayment. With investment of tax rebates: until the end of the CAA term.

Since Jürgen G is taking part in his schemes in November and December he can also procure €672 in “support” via the incoming tax rebate procedure. For the remaining €1,174, Jürgen is taking a loan out. Since he is still saving with the CAA, he opts for a relatively low repayment rate and pays back €51.91 for two years.

IV. Summary

The various examples show that through the new financing instruments, many schemes can be assisted and financed. It must also be ensured that the model elements within the context of the guidelines are coordinated so that the different target groups are reached. In addition, it would of course be desirable to make the further training grant as generous as possible, but this would involve a burden on the national budget. However, it should be pointed out that with a grant of €154, the government will be paying for almost half of formalised schemes of up to €338. Thus more than three quarters of all further training schemes can be nearly half co-financed. This means that even a comparatively moderate grant can have a significant mobilisation effect. Experience with a similar instrument in the UK shows that even with sums in the above region, signification positive effects can arise with further training participants who previously abstained. The governmental grant benefits low earners especially, who often take part in smaller measures.

Furthermore, the proposed creation of a possibility to withdraw from Capital Accumulation Act accounts offers a further financing possibility, which reaches lower and middle income groups and who are thus receiving an opportunity for financing in addition to current income. Depending on the preceding length of savings, these groups, despite certain limitations with their incomes, can now be in a position to undertake and finance more expensive schemes.

Finally, the loan is an additional financing and closes part of the remaining gap in particular with regard to the financing of cost-intensive schemes for which livings costs had to be financed. Here interest costs are to be considered, however the loan closes the liquidity gap at the time of the scheme so that this can be implemented more easily than before.

The above considerations show that the model specified in this report can fulfil the expectations and requirements set for the realisation of further education savings plans. It facilitates a clear improvement in liquidity in (almost) all cases in which further training schemes cannot be financed with current income or available assets and can contribute toward a revival in individual willingness for further training. In many cases, the further training schemes may only be carried out due to the newly created financing possibilities so that this can play an important role in the increase of further training participation.

However, by way of conclusion, it must be pointed out that greater assistance for unemployed people or schemes for post-qualification of people without school qualifications would be desirable. However, this is not possible via an instrument which – as stipulated in the coalition agreement – is designed for individual participation. The guidelines of the coalition agreement are a serious restriction in this respect. For this important task, expanded financing instruments are required in addition to the further education savings plans.

V. For implementation

The market for further training is complex and unclear. Likewise, existing financing possibilities and the opportunities for interested parties via further training savings plans are not easy to fathom. An obligatory consulting session should be carried out before interested parties can use the different instruments. The obligatory consulting session should cover at least the following:

- What further training schemes are meaningful and recommended with regard to getting and improving employment prospects?
- What financing options does the interested party have and what instruments are most suitable for them?
- If applicable a written confirmation that the chosen scheme is regarded as vocational further training and eligible for assistance according to the proposed financing help.

After the consulting session, a certificate is drawn up which shows that the scheme meets the above requirements and it involves non-operational, vocational further training. This must be geared to the individual case. After this, it must be examined whether the training expenditures are objectively connected with future income from the desired vocational activity.

The consulting session can only meaningfully be carried out by institutions who know the relevant market and are already present on it. A country-wide establishment of new "further training agencies" is neither affordable nor implementable in the short term.

Consultancy institutions must meet the following criteria:

- Present nationwide
- Experience in the further training market
- Independent from further training institutions

Consultancy institutions could be chambers, adult education centres, state-specific consultancy establishments such as further training associations (Schleswig-Holstein) or consultancies for other further training assistance schemes (such as the “Bildungscheck” in North Rhine – Westphalia). In order to find the best solution, it would make sense to get in touch with the individual states [*Länder*] and the potential consultancy centres.