

# Germany

## Germany: Pension system in 2008

The statutory public pension system has a single tier and is an earnings-related PAYG system. Calculation of pensions is based on pension points. There is a social-assistance safety net for low-income pensioners.

## Key indicators

		Germany	OECD
Average earnings	EUR	41 400	27 800
	USD	60 500	40 600
Public pension spending	% of GDP	10.7	7.0
Life expectancy	At birth	79.8	78.9
	At age 65	83.4	83.1
Population over age 65	% of working-age population	32.8	23.6

## Qualifying conditions

At present the regular old-age pension is payable from age 65 with at least five years' contributions. Fewer than five years' contributions earn no benefit. The statutory retirement age will be gradually increased to 67 during the next two decades. For those born 1964 or later, the statutory retirement age will be 67.

## Benefit calculation

### Earnings related

A year's contribution at the average earnings of contributors earns one pension point. The relevant average earning is approximately identical to the National Accounts average earnings. Contributions based on lower or higher income earn proportionately less or more pension points. Contributions are levied on annual earnings up to EUR 63 600 in 2008. The ceiling is equivalent to 208% of the relevant average earnings. The relevant earnings were EUR 30 625 in 2008. This is only equivalent to 74% of the OECD average earnings measure.

At retirement, the pension points of every year are summed up. The sum of pension points is then multiplied by a "pension-point value", which was EUR 316.98 in 2008. The pension point value is valid for newly retired and already retired pensioners. It is updated annually in line with gross wages as a starting point but depends also on two additional factors. The first factor incorporates changes of the contribution rates to the statutory pension scheme and to the subsidised voluntary occupational and personal pension schemes. An increase of contribution rates will reduce the adjustment of pension point value. The second, so-called sustainability factor links the adjustment of the pension-point value to changes in the system dependency ratio, that is, the ratio of pensioners to contributors.

These factors were integrated into the indexation rules with the aim to limit the increase of the contribution rate from the current 19.9% to 22%. The increase of the contribution rate and of the pensioner/contributor ratio will result in indexation to less than average wages. In the long run, future adjustment of the pension-point value is expected to be 14% below the increase of average earnings.

The relevant average earnings for calculating the pension points as well as the pension-point value are slightly different in the new Länder. This difference is assumed to disappear in the long run as wages will align.

**Social assistance**

For people with low income there is a social assistance which is also applicable for pensioners. The social-assistance amounts, in the Western Länder, in 2008 to EUR 8 424 per year including average benefits for housing and fuel costs; this is equivalent to 26.7% of relevant average gross earnings and 20.3% of OECD average earnings.

**Voluntary**

There is an additional voluntary and private pension which can be provided by banks, insurance companies or investment funds (so called Riester-pension). State incentives are given for building up a Riester- pension.

**Variant careers****Early retirement**

Early retirement is possible from 63 with 35 years' contributions with reductions. If retiring before the age of 67, benefits are reduced by 3.6% per year of early retirement. In addition, retiring at age 63 compared to someone retiring at 67, pension entitlements are significantly lower due to working four years less and not earning additional pension points. Besides this the old-age pension for severely handicapped people can be claimed. People with an assessed degree of disability of at least 50% and at least 35 years of coverage can presently retire at age 60 with a maximum reduction of 10.8%. The retirement age of this pension will be gradually increased from age 60 to 62 years.

An exception to the increase of the statutory retirement age to 67 is as follows: people can still retire at the age 65 without reductions if they complete 45 years of insured employment, child care or from child-raising periods up to age 10.

**Late retirement**

Deferring the pension after 67 earns a 6% increment for each year of additional work.

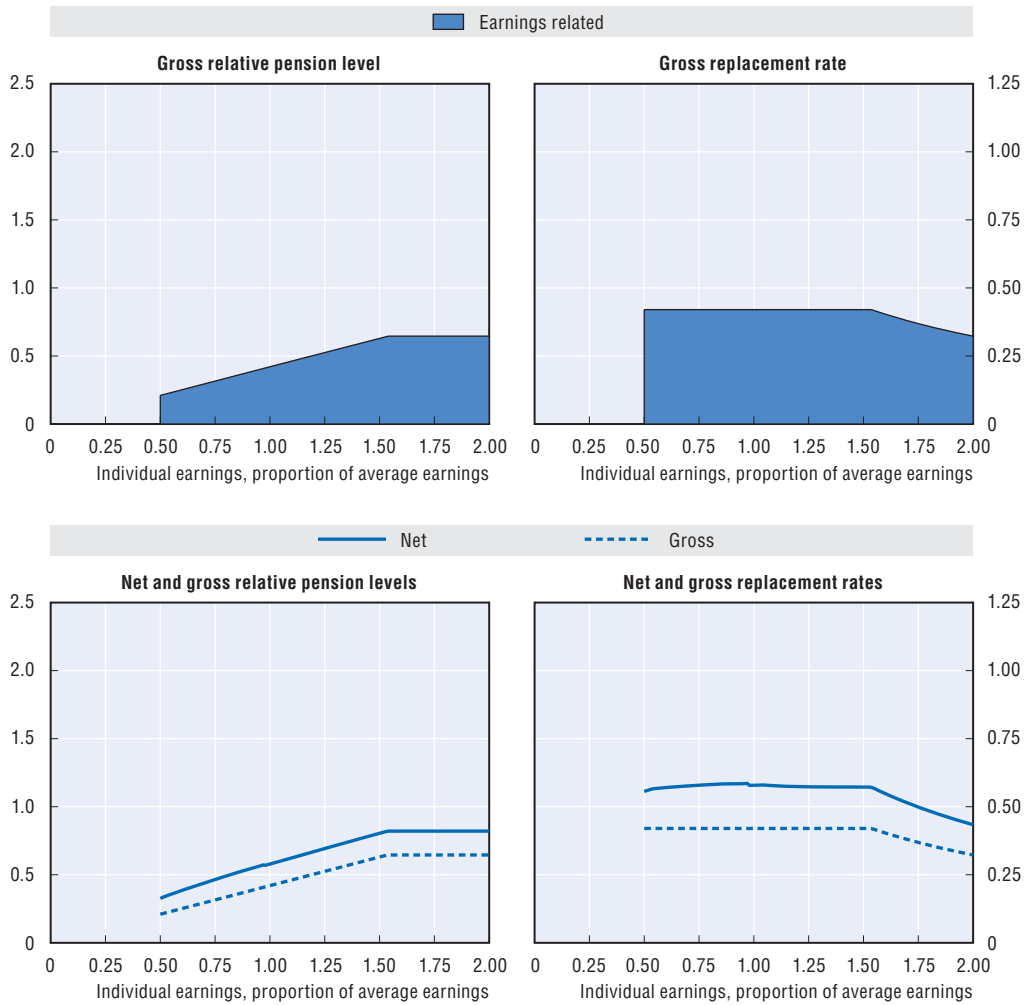
**Childcare**

For children born in 1992 or later one parent is credited for a period of three years with one pension point per year (equal to contributions based on average earnings). For children born before 1992 only one pension point is credited. The state pays corresponding contributions for these entitlements. These entitlements can be taken by either an employed or non-employed parent or can be shared between parents. There are also credits for periods caring for children up to age of 10. These years count towards the number of years needed to qualify for a pension (*Berücksichtigungszeit*) and in addition have an effect on the pension entitlement. If people work while their children are under 10 or if at least two children under 10 are parented, they receive a bonus of up to 0.33 pension points per year. However, this cannot result in a total accrual exceeding one pension point per year.

### **Unemployment**

The unemployment insurance contributes to the pension scheme on behalf of the unemployed. During the first period of unemployment benefits (*Arbeitslosengeld I*), contributions are paid on the basis of 80% of previous gross earnings. The first period lasts between six and 24 months depending both on age and contribution years. Thereafter, the unemployed person moves to the second type of unemployment benefit (*Arbeitslosengeld II*), which is both paid at a lower rate and is means-tested. For this period, the unemployment insurance pays contributions on the basis of EUR 205 per month, so that 0.0834 pension-points are earned for each year during the second period of unemployment.

### Pension modelling results: Germany



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	36.6	21.0	31.5	42.0	63.0	64.6
Net relative pension level (% net average earnings)	52.6	32.7	46.5	57.9	80.5	82.1
Gross replacement rate (% individual gross earnings)	42.0	42.0	42.0	42.0	42.0	32.3
Net replacement rate (% individual net earnings)	58.4	55.6	57.9	57.9	57.2	43.4
Gross pension wealth (multiple of individual gross earnings)	7.7	7.7	7.7	7.7	7.7	5.9
Net pension wealth (multiple of individual gross earnings)	6.4	6.9	6.6	6.1	5.7	4.3
	7.7	8.3	7.9	7.4	6.8	5.2

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