



OECD
2015 Pension Policy Notes
GERMANY

- Increase the normal retirement age faster and link it to gains in life expectancy.
- Enhance employment-friendly family policies such as the availability to full time childcare.

The German pension system is under pressure due to unfavourable demographics. The statutory public scheme is an earnings-related points system financed on a pay-as-you-go basis. The calculation of the pension benefit is based on the number of pension points earned throughout the working career. Additional means-tested benefits can be claimed from the social assistance. Voluntary occupational pensions (*Betriebliche Altersvorsorge*) can be granted by employers, and about half of all workers belong to these schemes. The overall system has basically no redistribution feature, but the old-age (relative) poverty rate is below the OECD average. The pension age is currently 65 and 4 months (gradually rising to 67 by 2029) with at least five years of contributions. As of July 2014 special length of service pension is paid at age 63 for workers with 45 years of contributions. From 2016 this age will increase until it reaches 65 in 2028.

Key indicators: Germany and OECD average

	Mid-1980s	Mid-1990s	Mid-2000s	latest available	latest OECD	long-term	long-term OECD
Pensionable age for a full-time career starting at the age of 20	63.0 (60.0)	65.0	65.0	65.0		65.0	
Retirement age	65.0 (60.0)	65.0	65.0	65.2	62.9 (61.8)	67.0	64.6 (64.4)
Net replacement rate, avg earner						50.0	63.2 (62.7)
Total mandatory contribution rate		19.2	19.5	18.9	19.1		
Total pension spending, % of GDP	11.0	11.2	12.2	11.4	10.3		
Public pension spending, % of GDP	10.5	10.6	11.4	10.6	8.4		
Public debt, % of GDP	..	54	70	79	115		
Employment rate 55-64, %	53.6 (21.3)	48.2 (26.8)	53.6 (37.6)	71.4 (60.0)	66.1 (49.1)		
Labour-market exit age			61.8 (60.7)	62.7 (62.7)	64.6 (63.1)		
Old-age poverty rate, %	9.2	9.7	8.5	9.4	12.6		
Life expectancy at 65, years	13.6 (17.3)	15.0 (18.8)	17.0 (20.4)	18.3 (21.4)	18.4 (21.5)	23.2 (25.9)	22.9 (25.9)
Old-age dependency ratio	0.24	0.24	0.31	0.35	0.28	0.67	0.57
Fertility rate	1.4	1.3	1.4	1.4	1.7	1.7	1.8

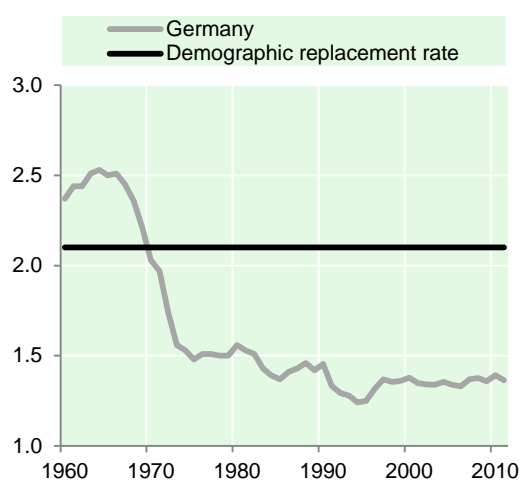
Note. The figures for women appear in parenthesis where they differ from those for men.

Long-term: Around 2060 based on all legislated reforms up to mid-2015.

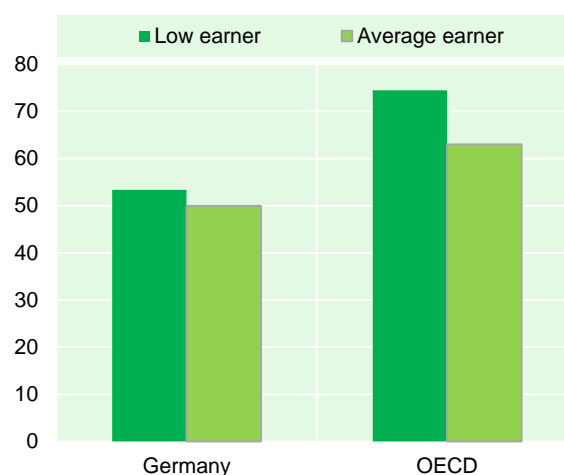
Pension contributions rates will increase based on current legislation and benefits will become less generous due to the dismal demographic outlook. The German society has been ageing rapidly due to persistently low fertility rates and increases in longevity. The average fertility rate has been below the demographic replacement level for almost 45 years, and by 2050 France and the United Kingdom would surpass Germany in population size. The old-age dependency ratio (the ratio of people aged 65 and above divided by the number of people aged 20 to 64) is the third highest in the OECD. It has increased from 0.24 in 1970 to 0.35 in 2015, and is projected to double by 2060 at 0.68; this is far above the OECD average of 0.26 today and 0.52 in 2060. Furthermore, future net replacement rates for full-career average-wage workers are projected to be well below the OECD average (57% compared to 66%), while the pension contribution rates are planned to increase to 22%, which is also comparably high. The combination of rapid ageing, low future benefits and high pension contribution rates will make any needed additional adjustments in the form of benefit cuts or increases in contributions difficult. Consequently, new changes might have to come through higher retirement ages. To some degree this is already happening. In the last 10 years, the employment rate of people aged 55 to 64 has

increased by almost 25 percentage points and is now above the OECD average. Yet, this is still below the best performing countries and the labour market exit age is below the OECD average. A high incidence of low-pay and part-time work also raises concerns about future old-age poverty risks.

Total fertility rate 1960-2011



Long-term net pension replacement rates



Sources: OECD Society at a Glance 2014, OECD pension models.

Beyond their cost recent measures might have a negative influence on social norms. In July 2014, the pension age was reduced to 63 years for people with 45 years of contributions from 65 years. In addition, child credits were retroactively allotted to women with children born before 1991.

Further structural reforms such as increasing the normal retirement age faster and linking it to gains in life expectancy are needed to counteract the negative effects of demographic ageing on pension system delivery. Political pressures to spend more on current retirees or on those close to retirement are likely to increase as the population and the electorate become older. Working more and longer and increasing employment rates for all age groups will be important to increase the prospects that pensions system could deliver on promises. In addition, expanding output and thus revenues will enable the economy to finance public services, notably health and long-term care services, which would contribute to the wellbeing of the elderly. Demand for these services will grow as the share of the very elderly increases in the population. Employment-friendly family policies (such as the availability of fulltime child care and income-related family benefits) that enable young men and women to combine work and family life are also important to change the overall demographic structure in the long-term and to increase employment rates. However, even if fertility rates return to the demographic replacement level (about 2.1) the demographic outlook will remain bleak for a long period.

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