

Germany

Germany: Pension system in 2012

The statutory public pension system has a single tier and is an earnings-related PAYG system. Calculation of pensions is based on pension points. If individual old-age provision from all income sources is not sufficient, additional means-tested benefits can be claimed from social assistance.

Key indicators

		Germany	OECD
Average worker earnings (AW)	EUR	44 800	32 400
	USD	59 100	42 700
Public pension spending	% of GDP	11.3	7.8
Life expectancy	At birth	80.6	79.9
	At age 65	19.3	19.1
Population over age 65	% of working-age population	34.8	25.5

StatLink  <http://dx.doi.org/10.1787/888932908782>

Qualifying conditions

At present the regular old-age pension is payable from age 65 and one month with at least five years' contributions. Less than five years' contributions earn no benefit. Commencing with the year 2012 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 67 200 in 2012. The ceiling is equivalent to 207% of the relevant average earnings. The relevant earnings were EUR 32 446 in 2012. This is only equivalent to 72% 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 336.84 in 2012. The pension point value is valid for newly retired and already retired pensioners. The pension point value is adjusted annually in relation to the gross wage growth as a starting point. In addition, the "contribution factor" accounts for changes of the contribution rate to the statutory pension scheme and to the subsidised (voluntary) private pension schemes. An increase of contribution rates will reduce the adjustment of the pension point value. The "sustainability factor", that measures the change of the number of standardised contributors in relation to the number of standardised pensioners, links the adjustment of the pension point value to the changes in the statutory pension scheme's dependency ratio, the ratio of pensioners to contributors. These two factors in the indexation formula can alter the size of adjustment, resulting in an expected 14% lower growth of the pension point value in relation to gross wages per capita in the long run. Furthermore, the increase of the contribution rate will be limited from currently 19.6% to 22%.

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

If individual old-age provision from all income sources is not sufficient, additional means-tested benefits can be claimed from social assistance. Those benefits refer to the individual primary needs. Means-tested provision results as the difference between the individual need and the weighted household equivalence income (including pension benefits). The average of these needs amounts to EUR 8 484 per capita in 2011 for all, who received means-tested old-age provision. This is equivalent to 28% of relevant average gross earnings (EUR 30 300 in 2011) and 19% of OECD average earnings (EUR 43 700 in 2011).

Voluntary private pensions

There is an additional voluntary and private pension which can be provided by banks, insurance companies or investment funds (so-called Riester pension). Riester pension is tax-promoted and subsidised by government. The modelling assumes a contribution rate of 4%.

Variant careers

Early retirement

Early retirement is possible at the age of 63 for persons with an insurance record of at least 35 years. However, the pension benefit will be reduced by a permanent deduction, which increases in line with the rise of the statutory retirement age. If retiring before the age of 67, benefits are permanently reduced by 3.6% for each year pensioners fall short of the statutory retirement age. 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, 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 contribution period 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

Postponing the retirement age will yield a higher pension accrual of 0.5% for each month worked after the statutory retirement age.

Childcare

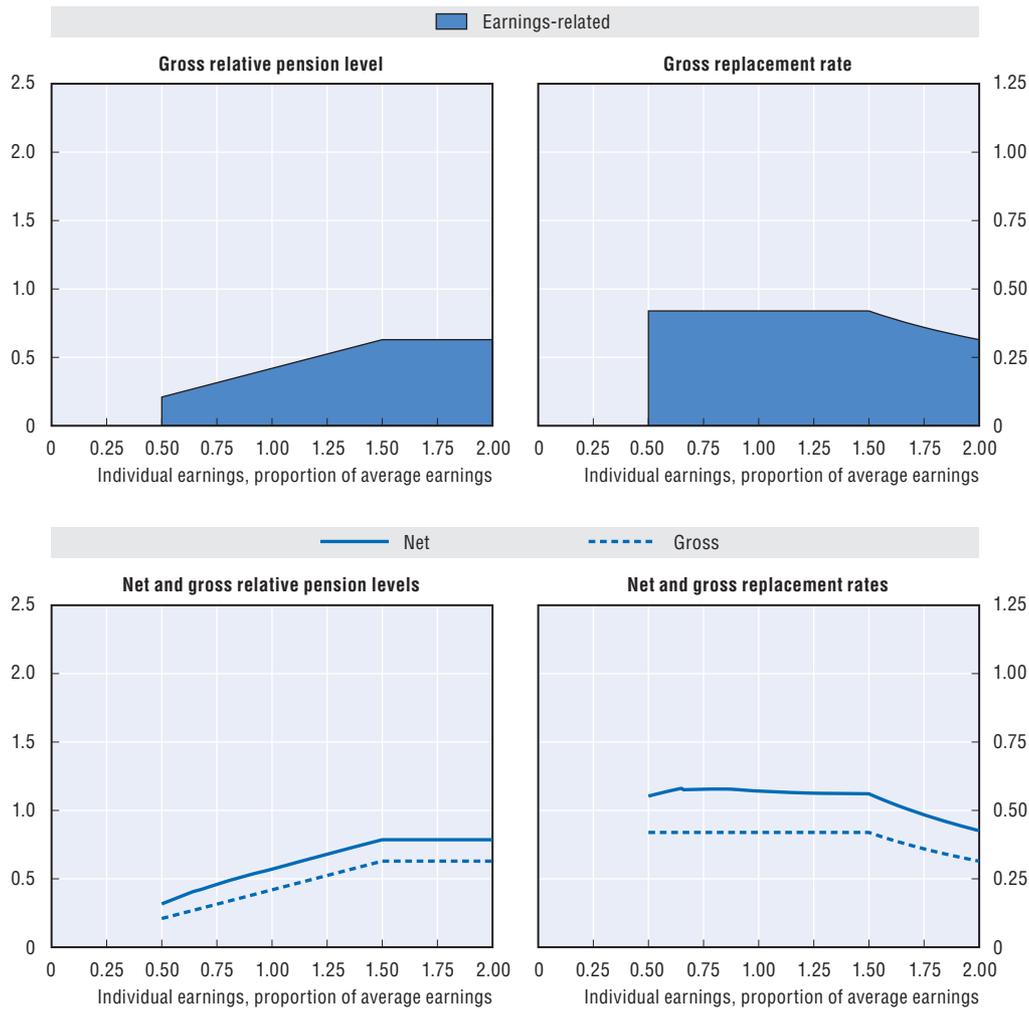
For children born in 1992 or later one parent is credited for a period of three years with one pension point per year (equal to contributions based on average earnings). For children born before 1992 only one pension point is credited. These entitlements can be taken by either an employed or non-employed 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. Those child-related benefits in the public pension system are tax-financed.

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 6 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 means-tested and paid at a lower rate. For this period, the unemployment insurance provides no financial contributions to the pension scheme.

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)	36.5	21.0	31.5	42.0	62.9	62.9
Net relative pension level (% net average earnings)	51.8	31.7	45.9	57.1	78.6	78.6
Gross replacement rate (% individual gross earnings)	42.0	42.0	42.0	42.0	42.0	31.5
Net replacement rate (% individual net earnings)	57.8	55.2	57.7	57.1	56.1	42.6
Gross pension wealth (multiple of individual gross earnings)	8.2	8.2	8.2	8.2	8.2	6.2
Net pension wealth (multiple of individual gross earnings)	6.9	7.4	7.1	6.7	6.1	4.6
	8.1	8.6	8.4	7.8	7.1	5.4

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