Pensions at a Glance 2023

Germany

Germany: Pension system in 2022

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 are available as part of the separate system of basic social assistance in old age and in the event of reduced earning capacity.

Key indicators: Germany

		Germany	OECD
Average worker earnings (AW)	EUR	55 041	39 182
	USD	57 961	41 261
Public pension spending	% of GDP	10.4	7.7
Life expectancy	at birth	81.0	80.7
	at age 65	84.6	84.6
Population over age 65	% of working-age population	38.0	31.3

Qualifying conditions

At present the regular old-age pension is payable from age 65 and ten / eleven months (depending on the pensioner's year of birth) with at least five years' contributions. Less than five years' contributions earn no benefit. The statutory retirement age is gradually increasing to 67 years by 2031, which means that for those born in 1964 or later, the statutory retirement age will be 67. A special length of service pension is paid with 45 years of contribution at age 65 for those born 1964 or later.

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. The (preliminary) relevant earnings were EUR 38 901 in 2022. Contributions based on lower or higher income earn proportionately less or more pension points. Contributions are levied on annual earnings up to EUR 84 600 in 2022.

At retirement, the pension points of every year are summed. To calculate the amount of the yearly pension the sum of pension points is then multiplied by a monthly "pension-point value", which was EUR 36,02 in 2022, and by 12 (months). 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 a gradually slower growth of the pension point value in relation to gross wages per capita in the long run. A minimum threshold for the replacement rate was regulated by law in 2018. Until 2025, the adjustment of the pension point value cannot result in a replacement rate of an average-wage worker with a 45-year career falling below 48%.

The relevant average earnings for calculating the pension points as well as the pension-point value are slightly different for East German pensions. In 2017, a law concerning the alignment of East German pension values to West German levels was legislated. The East German pension point value will reach the West German point value by 2024. As of 2025, there will be no differences in pension regulations.

Supplement for long-time low-income contributors (Grundrente)

In January 2021, Germany introduced an individually calculated pension supplement (Grundrente) to those who have made compulsory contributions to the statutory pension insurance for at least 33 years on the basis of relatively low earnings throughout the whole working life. The number of points earned are doubled, but only to a maximum of 0.8 per year (corresponding to 80% of the average income) for a maximum of 35 years. Only contribution periods with average earnings points of at least 0.025 per month (corresponding to 30% of the average income) are eligible. The supplement is subject to an income test: The full amount of the supplement is paid to pensioners with monthly relevant income (including salary, pensions, rental income, etc.) of up to EUR 1 317 for a single person or EUR 2 055 for a couple. With monthly relevant income above these amounts, but not exceeding EUR 1 686 for a single person or EUR 2 424 for a couple, the supplement is reduced by 60% of monthly income above EUR 1 317 or EUR 2 055, respectively. No supplement is paid with monthly income greater than EUR 1 686 for a single person or EUR 2 424 for a couple.

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 and cover the basic right to a subsistence minimum. Means-tested provision results as the difference between the individual need and the respective household income (including pension benefits). The average of these needs' amounts to EUR 9 732 per capita in 2019 for all, who received means-tested old-age provision.

Voluntary private pensions

There is an additional voluntary 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 the 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 statutory retirement age (age of 67 for those born 1964 or later), benefits are permanently reduced by 3.6% for each year pensioner's 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 fewer and not earning additional pension points.

Individuals can still retire at the age 63 without any pension deduction if they complete 45 years of insured time (employment, childcare or from child-raising periods up to age 10 or periods of short-time unemployment (UB1) all count as insured time). Unemployment spells two years before the pension begins do not count. Beginning in 2016 the age 63 is increasing until it reaches 65 for those born before 1964. At present, early retirement is possible from age 64 or age 64 and two months.

Since 1 January 2023, with a view to the general shortage of skilled workers and in order to further increase work incentives, the additional earnings limit for early old-age pensions was abolished.

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 two pension points are credited. These entitlements are given to employed as well as non-employed parents and can be split between parents. Those child related benefits in the public pension system are tax-financed. There are also credits for periods caring for children up to age 10. These years are considered as qualifying periods for a pension ("Berücksichtigungszeit") and in addition have an effect on the pension entitlement. If people work while having at least one child below age 10, or if two or more children below the age of ten are parented (without working requirement), their pension entitlement for this period will be increased by 50 percent. The bonus cannot exceed 0.33 pension points per year. However, overall, the total accrual may not exceed one pension point per year.

Reduced earning capacity pensions

In 2022, it was decided to improve reduced earning capacity pensions that began in the period from 2001 to 2018. These will receive a lump-sum supplement to their individual pension benefits (from 2024)

Also, since, 2023, the additional earnings limit for pensions for reduced earning capacity has been significantly increased up to the personal working capacity.

Unemployment

The unemployment insurance contributes to the pension scheme on behalf of the unemployed. During the first period of unemployment benefits (UB, "Arbeitslosengeld "), contributions are paid on the basis of 80% of previous gross earnings. The first period lasts between 6 and 24 months depending on both age and contribution years. Thereafter, the unemployed person moves to the second type of unemployment benefit (UB2, "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.

Self-employed

With exemption for some occupations, the self-employed are not compulsorily covered by any earning-related pension scheme

Personal income tax and social security contributions

Taxation of pensioners

There is no special relief for older people.

Taxation of pension income

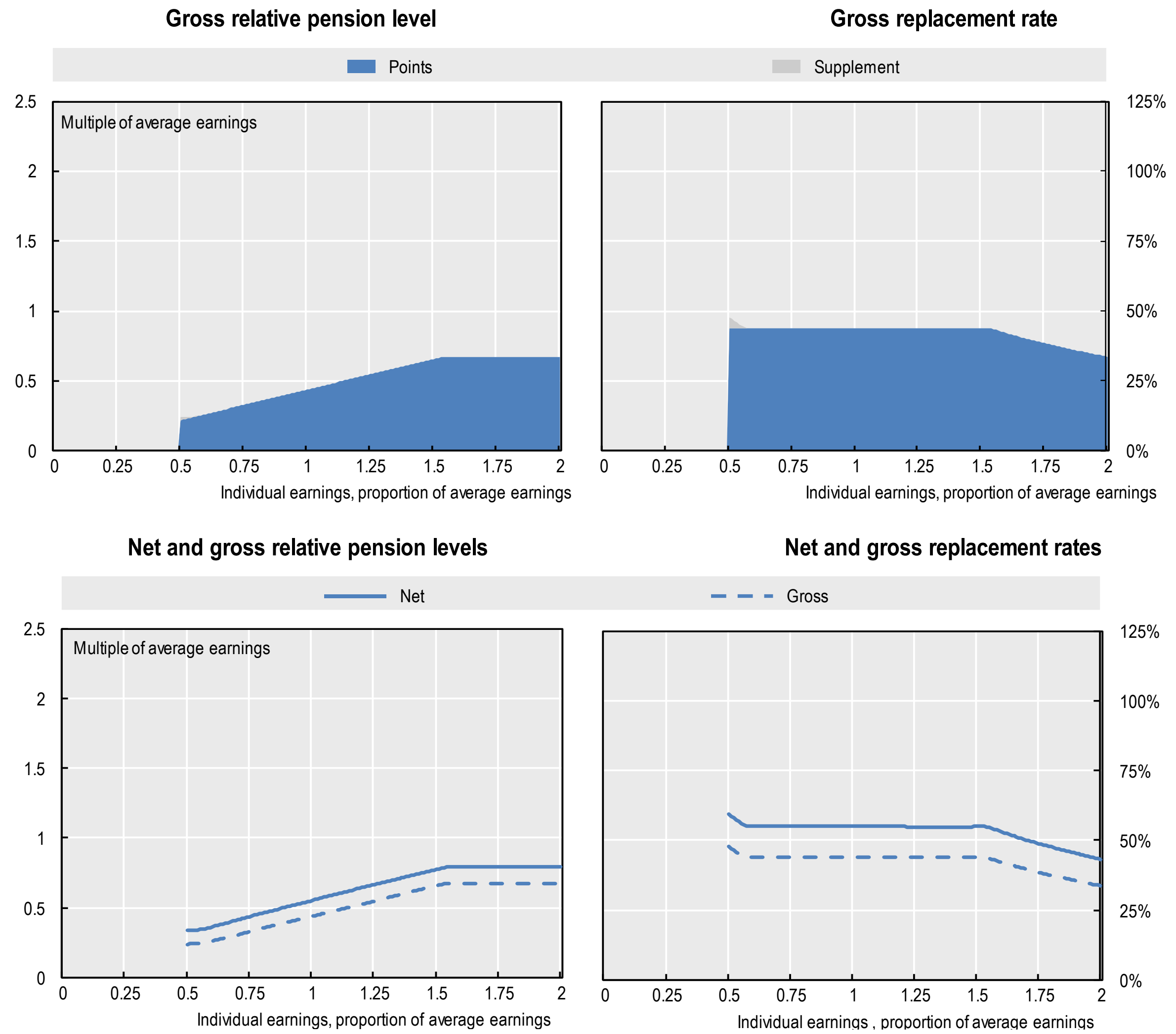
The tax regime is changing from a TTE into an EET system. The proportion of the income subject to tax varies with the year of retirement at which the individual first started drawing the pension. In 2022, 82% of the pension is taxable. From 2022 until 2040 the taxable part of the pension will increase by one percentage point per year.

There are additional tax exemptions summing up to EUR 138 for pensions drawn at any age. In addition, contributions to health and long term care insurances allowing for services comparable to the provisions of the statutory health and long term care insurance are tax exempt from the taxable income. For pensioners, these contributions are usually entirely tax exempt.

Social security contributions paid by pensioners

Pensioners pay social security contributions on pension income to the health care system (8.3% in 2018) and to the long-term care system (2.55% in 2018). However, pensioners do not pay contributions to the pension scheme if they draw a full pension after exceeding the statutory age limit for the regular retirement pension and do not waive the insurance exemption and to the unemployment insurance.

Pension modelling results: Germany in 2067 retirement at age 67



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	23.9	32.9	43.9	65.8	67.4	67.4
(% average gross earnings)						
Net relative pension level	33.5	43.6	55.3	77.5	79.1	79.1
(% net average earnings)						
Gross replacement rate	47.8	43.9	43.9	43.9	33.7	22.5
(% individual gross earnings)						
Net replacement rate	59.2	55.2	55.3	54.9	43.2	29.1
(% individual net earnings)						
Gross pension wealth	10.6	9.7	9.7	9.7	7.5	5.0
(multiple of individual gross earnings)	11.8	10.8	10.8	10.8	8.3	5.5
Net pension wealth	13.1	12.2	12.3	12.2	9.6	6.5
(multiple of individual net earnings)	14.6	13.6	13.6	13.5	10.6	7.2

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.