Only few schemes for arduous and hazardous work

In Germany, schemes for hazardous or arduous work exist for a few occupations, reducing retirement ages to a limited extent. Germany includes special provisions for miners in the statutory public pension scheme based on hazardousness or arduousness, but some collective agreements provide options to retire early for certain occupations. Early-retirement provisions for police officers, firefighters and military, often covered by hazardous or arduous occupations schemes across the OECD, are provided as part of the civil servants' pension scheme.

Germany is one of seven OECD countries with special pension rules for early starters, and one of only four still crediting study periods – although only for qualifying periods, not for pension levels. Early-starter schemes are usually intended for people who have enjoyed fewer years of education, are more likely to perform physical labour or work in hazardous environments, possibly impacting their health. However, these schemes require long careers to qualify: previously known as "*Rente mit 63*" requiring 45 years to retire without penalties up to two years before the statutory retirement age, it currently is accessible at the age 64 and 2 months, rising to 65 in 2029. Only people who manage to remain healthy enough to have long working lives could attain these schemes. Studies show that people retiring through this scheme are more likely to be highly skilled workers without tertiary education, in relatively good health upon retirement and having accrued higher pension. While the aim of the programme was to recognise long contribution periods it also implies it did not primarily benefit people with health issues nor vulnerable retirees. Further, crediting study periods can be expected to benefit healthier people with higher life expectancy.

Earnings-related pensions are vulnerable to high inflation

Unlike the majority of OECD countries, Germany does not protect earnings-related pensions in payment against price inflation. Instead, they are indexed to wage growth and to changes in the contribution rate and the ratio of pensioners to contributors. Wage indexation usually is more beneficial for pensioners, but the recent surge in inflation and the resulting decline in real wages has reversed this principle. Targeted benefits (e.g. *Grundsicherung im Alter*) are better protected against inflation in Germany due to changes in their indexation in 2023. In addition to adjusting to 70% of price growth and 30% of wage growth, these benefits are now also adjusted to the full price increase over the last year as an approximation of inflation during the coming year.

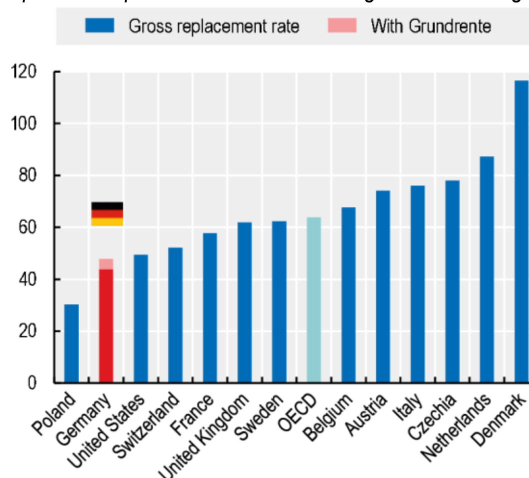
German indexation procedures stand out for the very long period of 7 months between the end of reference period and the adjustment of pensions. In most OECD countries, the gap between the reference period and pension adjustment is only three or four months and in four countries it is even only one month.

Limited redistribution towards low earners

Due to the sustainability factor, German mandatory pensions render a relatively low future gross replacement rate of 43.9% for a person entering the labour market at age 22 in 2022 with a full career on average earnings, below the OECD average of 50.7%. Including voluntary private pension schemes, the German replacement rate increases to 54.7% assuming full-career contributions of 4%. Most countries with below-OECD average replacement rates for an average earner redistribute more and have higher replacement rates for low earners. Among the 21 OECD countries in this position, the replacement rate for a low earner is 17 percentage points higher on average, whereas the *Grundrente* only increases the German replacement rate by 4 percentage points. Alongside Poland, Germany is the only among these countries where the difference in replacement rates between low and average earners is below 9 percentage points.

Germany has low future replacement rates for low earners

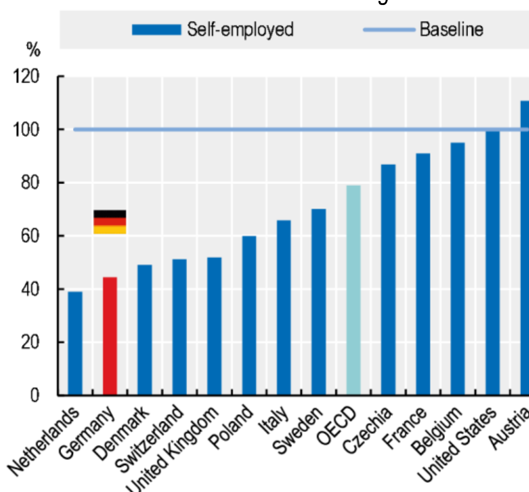
Gross pension replacement rates if earning 50% of average wage



Source: Table 4.1.

Very low mandatory pensions for the self-employed

Pension of a self-employed worker relative to an employee with the same taxable income at the average wage before taxes, for individuals with a full career from age 22 in 2022



Source: Figure 5.6.

Retirement-age links to life expectancy to uphold pensions

Linking the statutory retirement age to life expectancy once it reaches 67 can help the German government to achieve its goal to consolidate the lower limit on the net replacement rate in the future. The 48% limit below which the of an average-wage worker with a 45-year career is not supposed to fall, will expire in 2025. One in four OECD countries now boast such a link, as it can improve the financial situation of the pension system in the future without reducing pension benefits. A link

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increasing the statutory retirement age by two-thirds of life-expectancy gains roughly keeps the share of adult life that people can expect to spend in retirement constant across cohorts. Sweden, which adjusts pensions to demographic evolutions similar to Germany, recently introduced such a link to avoid that life-expectancy gains would erode pension benefits, boosting its future replacement rates. In the medium term, efforts to increase the employment of women and older workers are important to improve pension finances and uphold pension benefits.

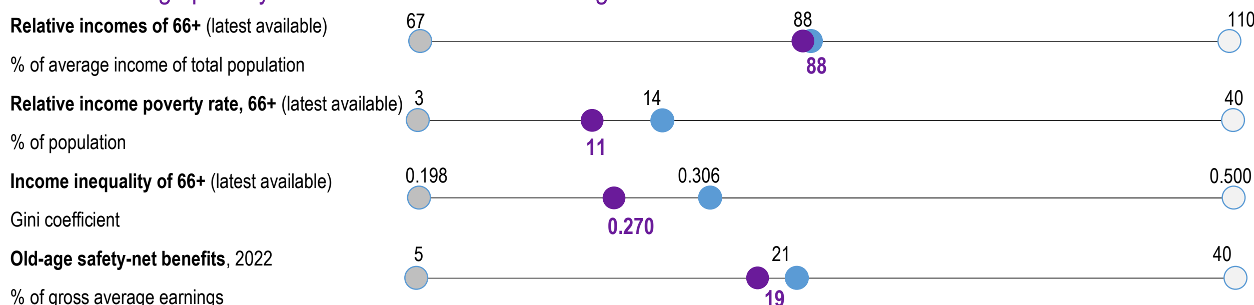
Very low mandatory pensions for the self-employed

Germany is one of only five OECD countries where there are no mandatory pension contributions for the self-employed, except in some specific occupations. Three of the four other countries provide a non-contributory basic pension based on residence. Hence, without private provisions, a self-employed person not paying contributions to the pension system has to fall back on social assistance even after a full career with a taxable income at the average wage (before taxes), resulting in a post-retirement income that is only 44% of that of an employee with the same taxable income.

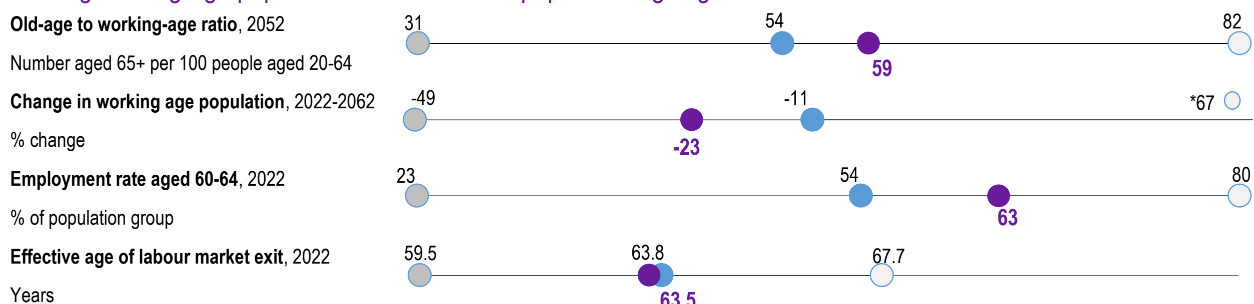
Germany is preparing a draft law reform expanding the pension coverage of the self-employed, among others to reduce old-age poverty among the self-employed. In the 2021 coalition agreement, the governing parties agreed to introduce mandatory old-age pension insurance for all new self-employed. The new self-employed would be insured in the statutory pension system unless they choose an "equivalent" private pension product. However, since the planned reform would only apply to new self-employed, it can take decades before all self-employed are covered.

Germany OECD Min Max

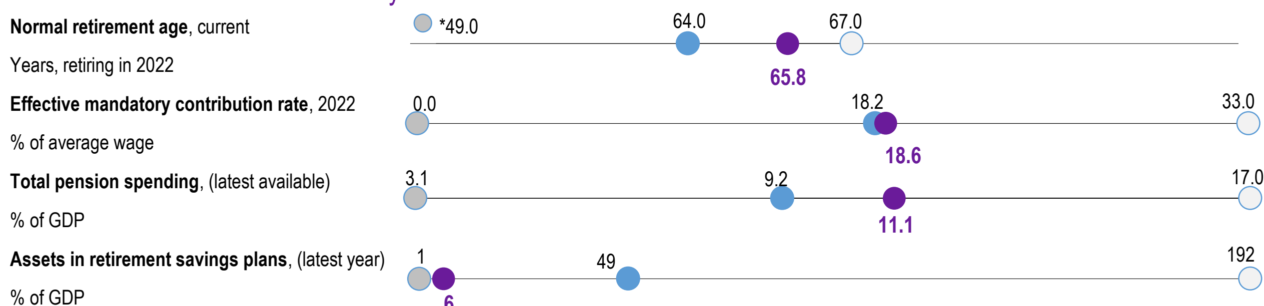
German relative old-age poverty is lower than the OECD average



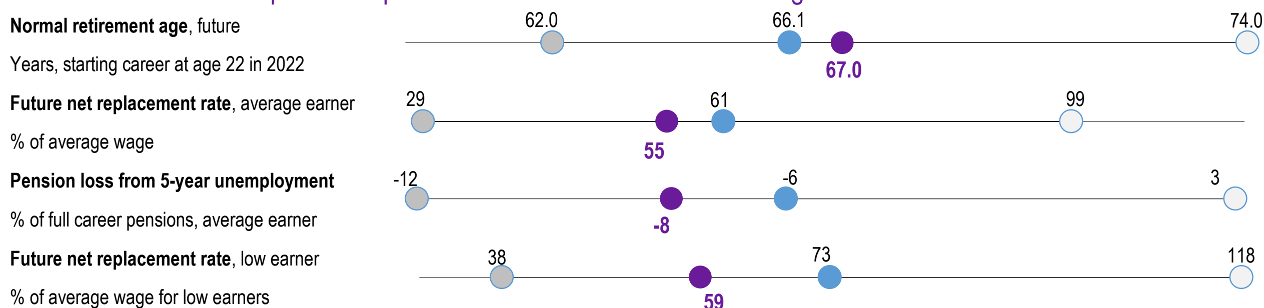
A fast-shrinking working-age population will exacerbate population ageing



Pension financial assets are low in Germany



German retirees will have lower pension replacement rates than the OECD average



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