



GERMANY

		Key indicators		
		Germany	OECD	
Germany: pension system in 2006 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.	Average earnings	EUR	42 400	28 600
		USD	53 200	35 800
	Public pension spending	% of GDP	11.4	7.2
	Life expectancy	at birth	79.8	78.9
		at age 65	83.9	83.4
Population over age 65	% of working-age population	32.2	23.8	

Qualifying conditions

The pension is payable from age 67 with five years' contributions and from age 63 with 35 years' for those born 1964 and later. Fewer than five years' contributions earn no benefit.

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 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 63 000 in 2006. The ceiling is equivalent to 214% of the relevant average earnings. The relevant earnings were EUR 29 494 in 2006, equivalent to 70% of the OECD average earnings measure.

At retirement, the pension points of every year are summed up. The sum of pension points is multiplied by a "pension-point value", which was EUR 313.56 in calendar year 2006. 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 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 currently 19.9% to 22%. The increase of the pensioner/contributor ratio will result in indexation to less than average wages. In the long run, the adjustment of the pension-point value is expected to be 18% 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 2006 to EUR 8 172 per year including average benefits for housing and fuel costs; this is equivalent to 19.3% of average earnings.

Voluntary private pensions

There is an additional voluntary private pension which can be provided by banks, insurance companies or investment funds. The contribution rate for this *Riester* pension is gradually increasing to 4% by 2008. Coverage of occupational plans is 64% of employees and coverage of personal schemes is 44%. There are numerous types of voluntary personal and occupational plans in Germany and there is significant double-counting of individuals between these two categories. Most provision now is provided on a defined-contribution basis and a contribution rate of 4% is assumed: this is the most common because it is the maximum that attracts a significant public subsidy.

Variant careers

Early retirement

For those born 1964 or later, early retirement is possible from 63 with 35 years' contributions and eight years of contribution immediately before retirement with reductions. If retiring before the age of 67, benefits are reduced by 3.6% per year of early retirement. In addition, compared to someone retiring at 65, pension entitlements are significantly lower due to working two years less and not earning additional pension points. Early retirement without reductions at the age 65 is possible with 45 years of contributions.

Late retirement

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

Childcare

The state pays pension contributions for three years per child born in 1992 or later. This can be taken by either employed or non-employed parent or shared between parents. These years are credited with one pension point (equal to contributions based on average earnings) per child. There are also credits for periods caring for children up to age 10. These years count toward the number of years needed to qualify for a pension (*Berücksichtigungszeit*) and in addition have an effect on the pension entitlement. If people work and contribute when 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 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.

Personal income tax and social security contributions

Taxation of pensioners

There is no special relief for older people (specifically). Income up to a statutory line (the *Existenzminimum*) is exempt from tax. This was EUR 7 664 per person in 2006. This provision applies equally to citizens of pension age and those of working age.

Taxation of pension income

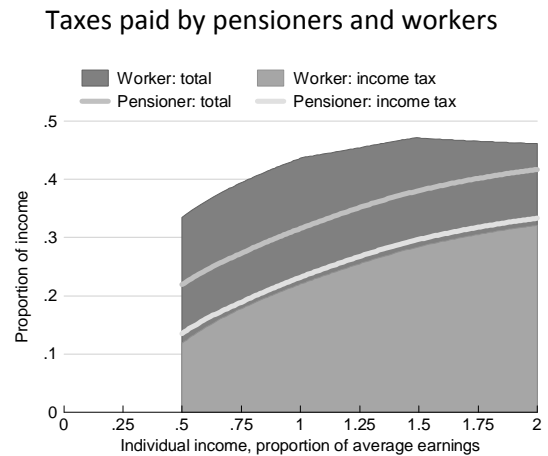
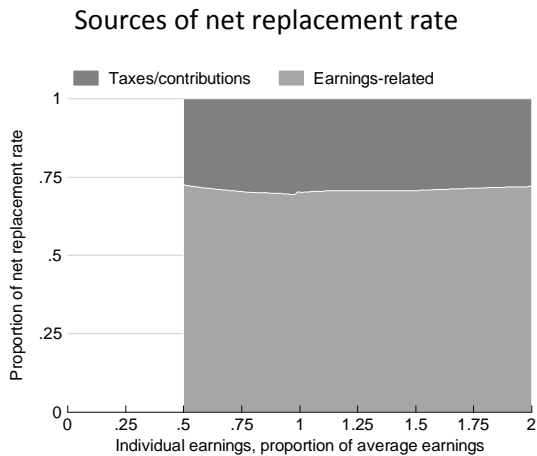
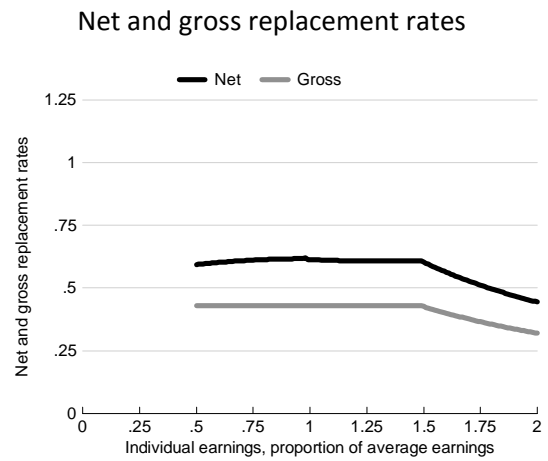
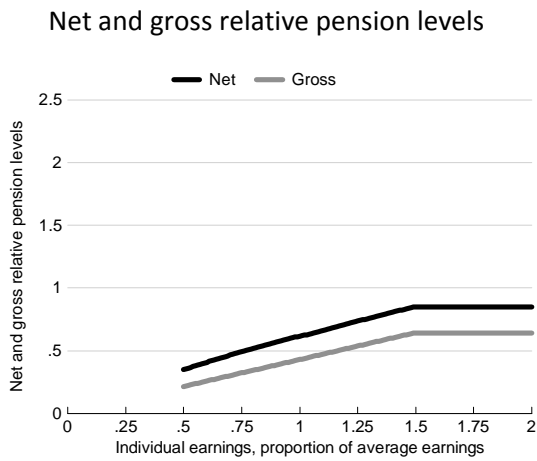
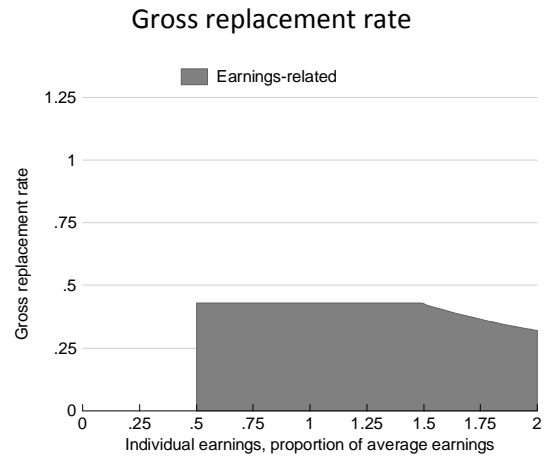
The tax regime changes from a TTE into an EET system. The proportion of the income subject to tax varies with the year of retirement at which the individual first started drawing the pension. In 2006 52% of the pension is taxable. Until 2020 the taxable part of the pension will increase by 2 percentage points per year and from 2020 until 2040 by one percentage point per year in 2006.

There are additional deductions totalling EUR 138 (EUR 102 plus EUR 36) for pensions drawn at any age. And in addition contributions to health and long term care insurances are deductible to a certain extent from the taxable income. For pensioners, these contributions are usually entirely deductible.

Social security contributions paid by pensioners

Pensioners pay social security contributions on pension income to the health care system (roughly 7.8 % in 2006) and to the long term care system (1.7 % in 2006). However, pensioners do not pay contributions to pension scheme and unemployment insurance.

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)	38.3	21.5	32.3	43.0	63.9	63.9
Net relative pension level (% net average earnings)	56.5	34.9	49.3	61.3	84.8	84.8
Gross replacement rate (% individual gross earnings)	43.0	43.0	43.0	43.0	42.6	32.0
Net replacement rate (% individual net earnings)	61.5	59.2	61.1	61.3	60.3	44.4
Gross pension wealth (multiple of average gross earnings)	7.2 8.5	7.2 8.5	7.2 8.5	7.2 8.5	7.1 8.4	5.3 6.3
Net pension wealth (multiple of average net earnings)	6.0 7.1	6.6 7.8	6.2 7.3	5.8 6.8	5.3 6.3	4.0 4.7