

## Germany

The public pension system has a single tier. It is based on pension points. There is a social-assistance safety net for low-income pensioners.

### Qualifying conditions

The pension is payable from age 65 with five years' contributions and from age 63 with 35 years'. Fewer than five years' contributions earn no benefit.

### Benefit calculation

#### **Earnings-related**

A year's contribution at the average earnings of contributors earns one point. Contributions are levied on monthly earnings between EUR 325 and EUR 4 500 (2002 values). The floor and ceiling are equivalent to 12 and 163% of average earnings respectively. People in short-term employment (up to 50 working days a year) are exempted regardless of their earnings, but people who work 15 hours or more a week must contribute even if their earnings fall below the floor. The ceiling also applies to the number of benefit points earned. Average covered earnings were EUR 28 626 in 2002, equivalent to 86% of the earnings of the average production worker in that year (the measure used here).

The sum of points at pension age is multiplied by a monthly "pension-point value", which was EUR 25.31 in the first half of 2002 and EUR 25.86 in the second half of the year. The first three year's contributions before the age of 25 are adjusted upwards to the lesser of 75% of the individual's total pension entitlement or 75% of his or her lifetime average pay.

The pension-point value is uprated annually in line with gross wages subject to an adjustment for increases in the total (employer and employee) contribution rate to the public scheme. The government aims to limit this rate to 22%. In 2002, the total contribution rate was 19.1%. In the long term, therefore, the pension-point value will fall relative to real earnings.

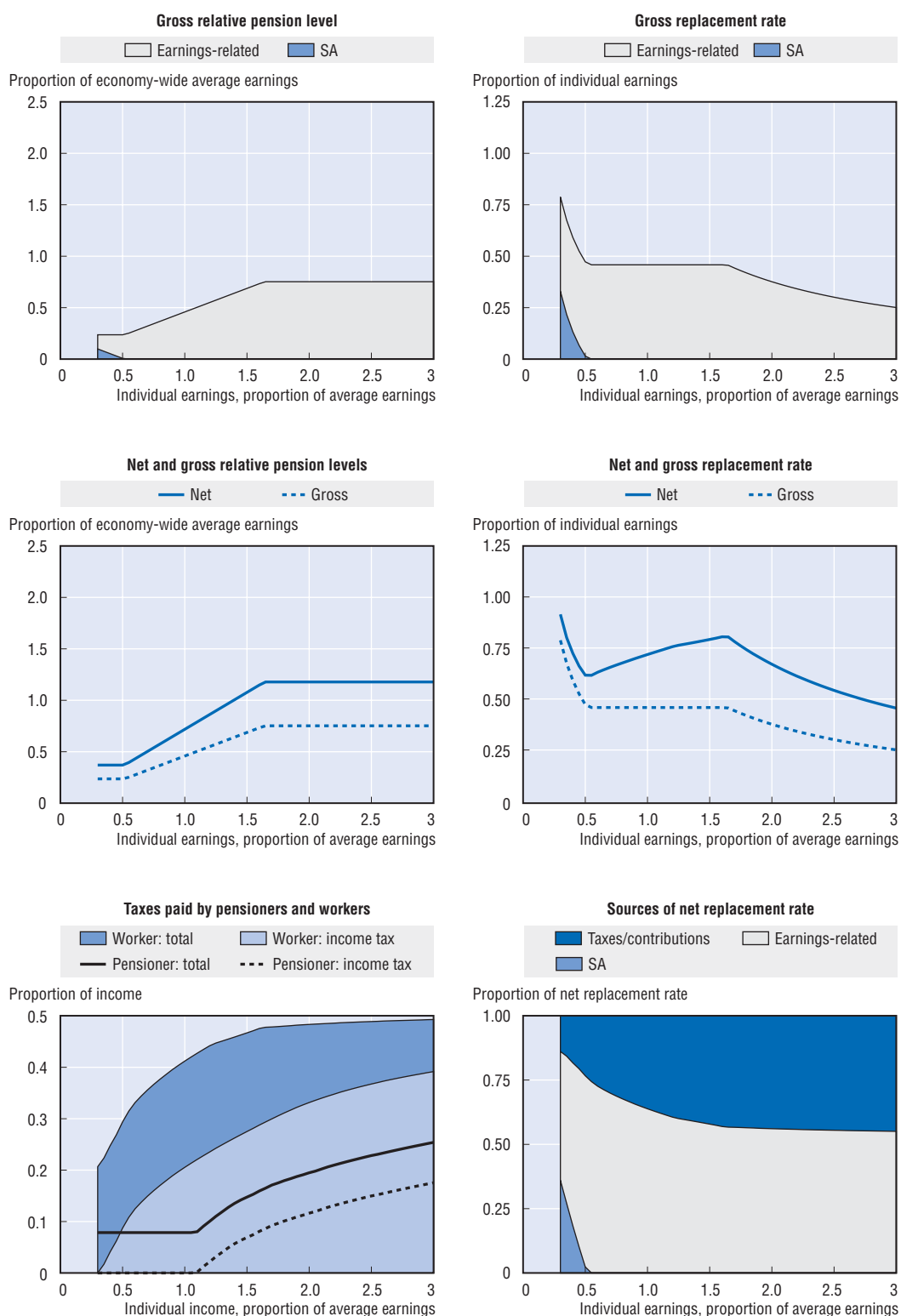
A further change in rules was legislated in 2004 but it has not been modelled. The "sustainability factor" will link the uprating of the pension-point value to changes in the system dependency ratio, that is, the ratio of pensioners to contributors.

Some of the parameters are slightly different in the new Länder.

#### **Social assistance**

The benefit value is determined regionally. The government pays the health and long-term care contributions of older social-assistance recipients. There is also a supplement to cover housing and fuel costs. Average total social-assistance receipt in the Western Länder in 2002 was EUR 648 per month.

## Pension modelling results: Germany



Source: OECD, based on information provided by the countries.

## 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 7 236 per person in 2002. This provision applies equally to citizens of pension age and those of working age.

### Taxation of pension income

Some forms of pension income are taxed as if they were annuities. A part of the income reflecting the (notional) repayment of capital is not taxable, while a part relating to the (notional) interest on the capital is taxable. This covers the public pension, privately purchased annuities and two particular types of occupational pension plan.

The proportion of the income subject to tax varies with the age at which the individual first starts drawing the pension. For retirement at age 65, only 27% of the pension is taxable. The share at other illustrative ages is as follows: 38% at 55, 32% at 60 and 21% at age 70.

There are additional deductions totalling EUR 138 (EUR 102 plus EUR 36) for pensions drawn at any age.

### Social security contributions paid by pensioners

Pensioners do not pay social security contributions on pension income in respect of unemployment and pension insurance. However, pensioners pay one-half of the contributions paid by workers for sickness and long-term care insurance, which, in 2002, amounted to 7% and 0.85% respectively.

### Pension modelling results: Germany

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	23.6	34.4	45.8	68.7	75.2	75.2
Net pension level (% of average net earnings)	37.0	53.8	71.8	107.7	117.8	117.8
Gross replacement rate (% of individual earnings)	47.3	45.8	45.8	45.8	37.6	30.1
Net replacement rate (% of individual net earnings)	61.7	66.6	71.8	79.2	67.0	54.2
Gross pension wealth (multiple of average earnings)	4.3	6.2	8.3	12.5	13.7	13.7
Net pension wealth (multiple of average net earnings)	6.7	9.8	13.0	19.6	21.4	21.4
	8.0	11.6	15.4	23.1	25.3	25.3

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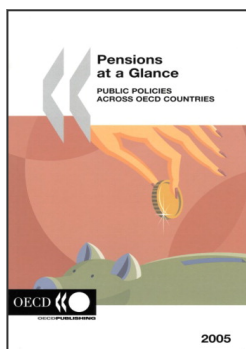
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