



Support to the State Social Protection Fund on the introduction of funded element within the insurance-pension system, establishment of non-state pension funds and development of legal framework for regulating their activity  
Twinning Project AZ/13/ENP/SO/24



# Pension System in Germany

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Gesellschaft für  
Versicherungswissenschaft  
und -gestaltung e.V.



# Who is GVG?



- GVG = (non-profit) Association for Social Security Policy & Research since 1947
- Forum for discussion of further development of social security in theory & practice
- Membership: almost all relevant institutions in the field of social security in DE
- In the pension field: statutory pension insurance, occupational pensions and private pensions
- Old-age committee of GVG: deals with fundamental & current issues of statutory & supplementary provision for old-age

## ➤ Historical development and legal foundation

- Invalidity and old-age insurance 1889
- Art. 20 GG: The Federal Republic of Germany is a democratic and **social** Federal State
- Social Code esp. book IV & VI (general provisions & statutory pension insurance)

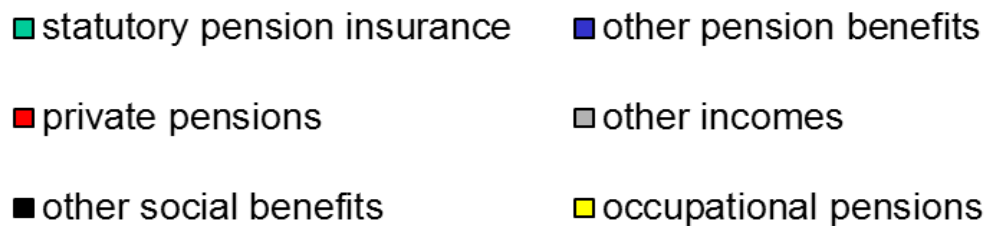
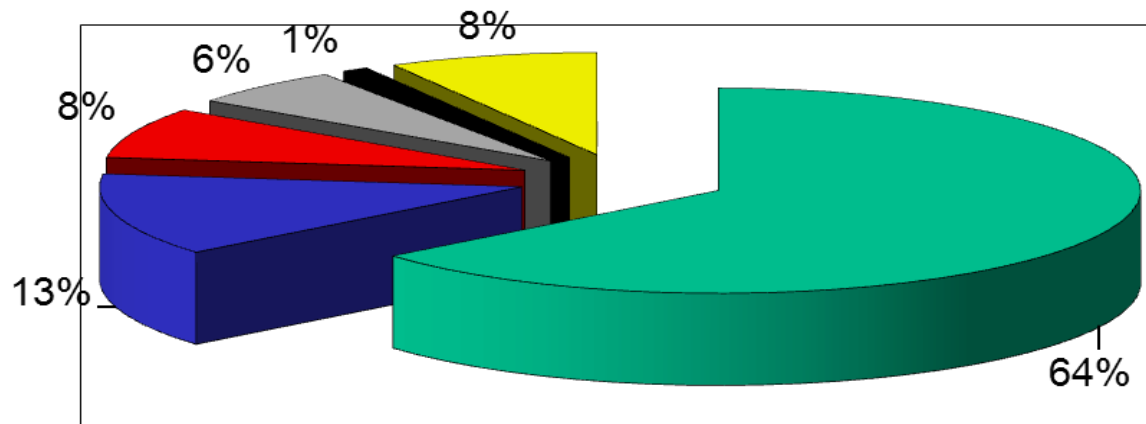
## ➤ Basic structure: 3 pillar system...statutory, occupational & private pensions





# Pension income in Germany

## Pension income (brut) from different pillars for persons aged 65+, 2011



Source: Alterssicherungsbericht 2012

# Important pension reforms (1)

**1974** - Law on Enhancement of occupational retirement provisions (BetrAVG) set out the **rules for occupational pension provision**

**1992** - Insurance Supervision Act (VAG): **regulates** (supervision of) some forms of **occupational pension funds and insurance companies**

**2000/2001:**

- ❖ **Reform of disability pensions** (previous occupation no longer taken into account)
- ❖ Introduction of subsidised personal savings arrangement (**Riester-Pension**)- Retirement Savings Act (*Altersvermögensgesetz*)
- ❖ Creation of legal right to conversion of salary to occupational pension scheme (deferred compensation)

## 2004/2005:

- Introduction of **sustainability factor** into the pension formula  
- Act on Sustainability of Pension Insurance (*RV-Nachhaltigkeitsgesetz*)
- **Limit to increase of contribution rate** to 22% of income until 2030
- **Promotion of occupational & private retirement savings** via new regulation of pension taxation - Retirement Income Act (*Alterseinkünftegesetz*) ⇒ Tax exemption for contributions & investment income + taxation of pension benefits ⇒ from 2040 full pension taxation
- **Organisational reform** of the statutory pension ⇒ merging of pension insurance for „white“ and „blue-collar“ workers

## 2007:

- Gradual **increase of legal retirement age from 65 to 67** until 2029
- Introduction of a **new long-service pension** (45 contribution years) as from 65 years

## 2014:

- Reform of the long-service pension: **full pension as from 63 years** (65 y. as from 2029) when 45 contribution years
- Increase of pension for mothers with a child born before 1992 through consideration of child raising years



## (General) Statutory pension insurance

- ❖ Coverage: Compulsory for blue and white collar workers
- ❖ Financing: equal contributions from employers & employees + state subsidy (ca. 30%), PAYG
  - *No element of capital funding*
- ❖ Benefits: Pension amounts determined by previous (life-long) wages & contributions paid
- ❖ Risk burden: the young working generation

## Benefits:

- Old-age, disability pensions (reduced earning capacity) and surviving dependant's pensions
- Minimum **qualifying period of 5 years** of insurance
- **Legal retirement age: 67 years** as from 2029 (gradual increase from 65 to 67 each year between 2012 & 2029)

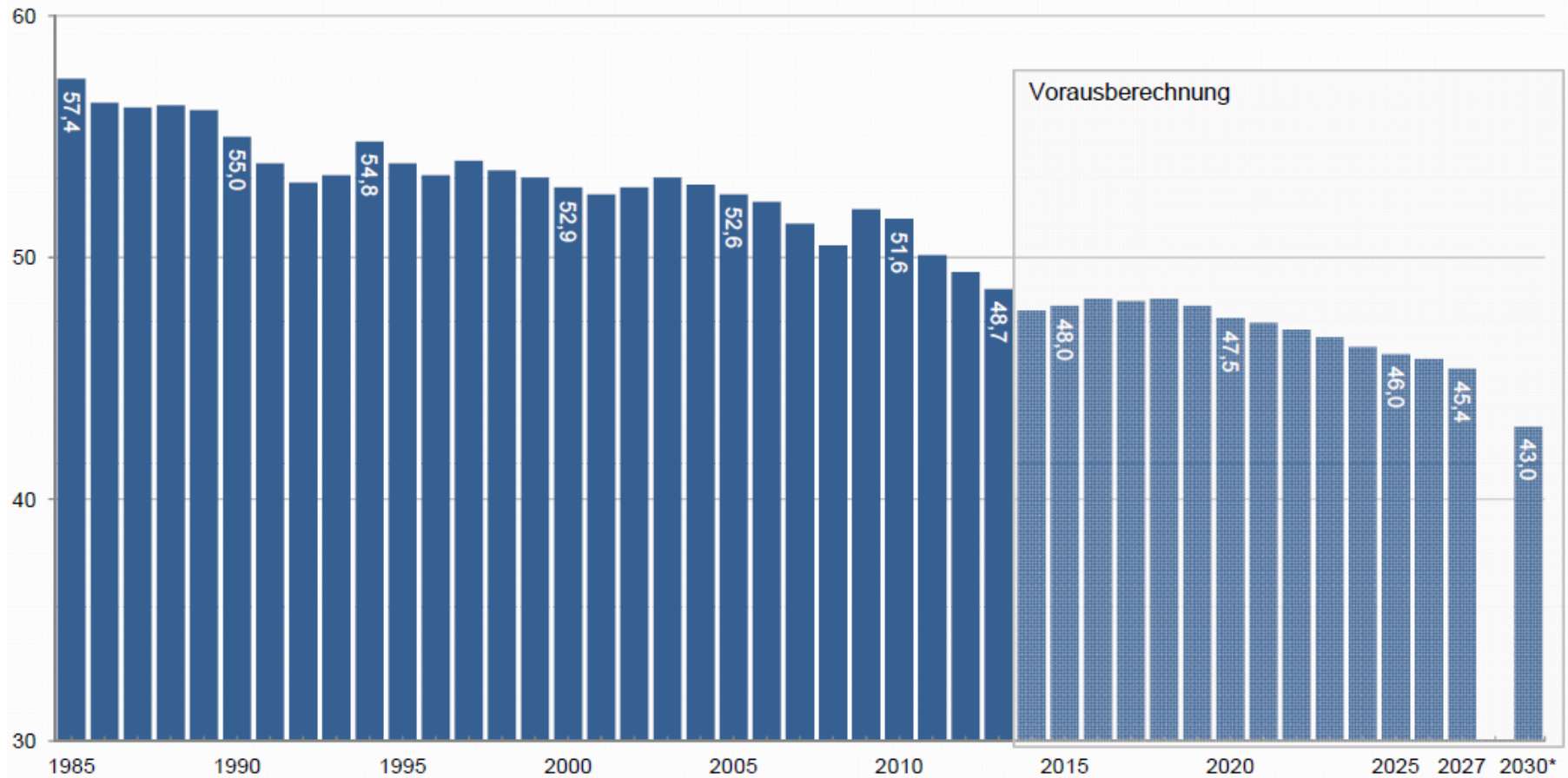
## General Figures 2014 (general scheme DRV)

		Old Federal States (West)	New Federal States (East)
<b>Contribution rate</b>	2014	18.9% (2012: 19.6%)	
<b>Contribution assessment ceiling (per month/per year)</b>	2014	5,950€ / 71,400€	5,000€ / 60,000€
<b>Average annual working income</b>	2014	34,857€	
<b>Lower income ceiling</b>	2014	450€	
<b>Amount of standard pension after 45 years insurance (per month)</b>	As from 1.7.2013	1,266.30€	1,158.30€

Source: Deutsche Rentenversicherung, Aktuelle Daten 2014

# 1st pillar: Statutory Pension Insurance

Evolution of the pension level (net pensions) before taxation 1985 - 2027 & 2030. Net standard pension (45 insurance years) in % of the average yearly working income



Source: <http://www.sozialpolitik-aktuell.de/alter-datensammlung.html#id-1967>

## 2nd pillar: Occupational Pensions




- ❖ Occupational pensions have been existing in Germany for more than 150 years
- ❖ 1974 „Betriebsrentengesetz (BetrAVG)“ as a first legal framework
- ❖ **2001** „Altersvermögensgesetz“ established a **legal right** for every employee **to deferred compensation** (or salary conversion)
  - Right to “convert“ part of monthly brut salary (4% of earnings up to SC ceiling) directly into an occupational pension plan
  - State subsidy: part of converted salary is free of social contributions & taxes

## 2nd pillar: Occupational Pensions

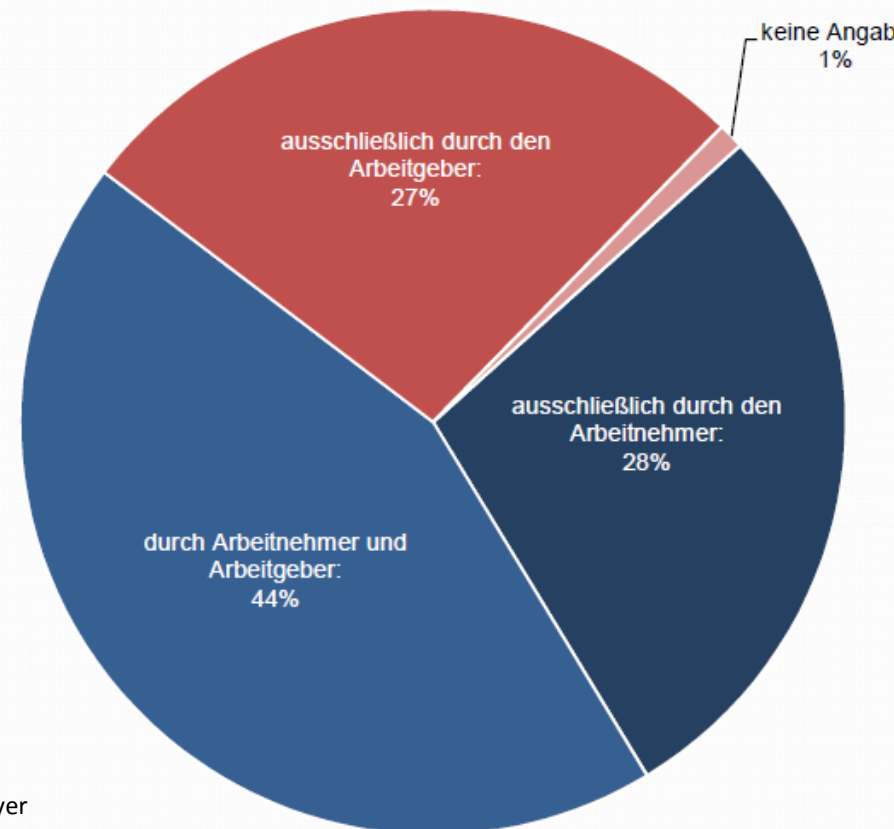
- ❖ Coverage: Voluntary, but right to salary conversion since 2002
  
- ❖ Financing: traditionally voluntarily funded by employer, but trend to employee financed pensions
  - *Solely employer-funded pension schemes: from 54% of company sites in 2001 to 27% in 2011*
  
- ❖ Benefits: depends on the system, DB, DC
  
- ❖ Risk burden: employer and the insured

# 2nd pillar: Occupational Pensions

Funding of occupational pensions (2011) in % of company sites in the private sector:

-  Funded solely by employer = 27%
-  Funded by employer and employee = 44%
-  Funded solely by employee = 28%

*Solely employer-funded pension schemes: from 54% of company sites in 2001 to 27% in 2011*



Source: [www.sozialpolitik-aktuell.de/alter-datensammlung.html#bav-1969](http://www.sozialpolitik-aktuell.de/alter-datensammlung.html#bav-1969), Bundesministerium für Arbeit, Altersicherungsberichts 2012. Source of data: Employer surveyTNS Infratest

## 2nd pillar: Occupational Pensions

- ❖ Existence based on collective/company agreements or choice of employer for specific form of pension plan
- ❖ Coverage rate: approx. 52% of employed in private sector (2007)
- ❖ Broader coverage:
  - among **larger companies** (84% in companies with  $\geq 1,000$  employees /  $\leq 50\%$  in companies with  $\leq 249$  employees)
  - among **men** (men: 54% / women: 48%)
  - in sectors with big profit margins, high salary levels & export orientation: **banking & insurance, manufacturing and mining industries**
  - in West Germany



## 3rd pillar: Private Pensions

- ❖ Coverage: Voluntary  $\Rightarrow$  but little statistics about coverage
- ❖ Financing: private premiums & State subsidies in some cases
  - Since 2002 subsidised „*Riester-Pension*“
- ❖ Benefits: DC
  - Private pension schemes: Guaranteed interest rate (low!) and profit participation
  - Certification for some products when specific conditions fulfilled
- ❖ Risk burden: The insured

## 3rd pillar: Private Pensions

### Riester-Pension

- ❖ Eligibility: any person covered by the statutory pension insurance and subject to full tax liability (+ civil servants, soldiers, judges, disability pensioners). Not eligible: voluntarily insured, self-employed, free professions, recipients of social assistance, etc.
- ❖ Investment of **minimum of 4% of previous year's earnings** into a *Riester* plan
- ❖ State subsidies: **basic annual State supplement** (EUR 180) + **child supplements** (EUR 185 per child / for children born after 2008: EUR 300)

## 3rd pillar: Private Pensions

### Riester-Pension

- ❖ Investment into **certified Riester products**: annuities, investment fund savings plans, bank savings plan, loan agreements for owner-occupied property
- ❖ Benefits **not paid before age of 60** (or 62).
  - Life-long annuity or programmed withdrawal. Capitalisation of up to 30% possible
- ❖ Benefits can be **inherited by survivors** under conditions

# Thank you!