

IOPS COUNTRY PROFILE: GERMANY



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	35 900
Population (000s)	81 471
Labour force (000s)	43 350
Employment rate	92.6
Population over 65 (%)	20.6
Dependency ratio ¹	38.7

Data from 2010 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

GERMANY: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Single tier public pension based on points and a social assistance safety net.

Private pensions: occupational (voluntary)

- Pensionskassen
- Pensionsfonds
- Direct Insurance (*Direktversicherung*)
- Support funds (*Unterstützungskassen*)
- Direct commitments (*Direktzusagen*)
- Versorgungswerke

Private pensions: personal (voluntary)

- Annuities
- Reister pension plans

Source: OECD Global Pension Statistic

GERMANY: PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	72,745	74,773	78,679	83,835	90,590	97,843	112,763	117,884
Total investments, as a % of GDP	3.44	3.49	3.64	3.79	4.04	4.21	4.64	4.72
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	48.59	43.46	21.74	20.94	22.80	21.95	5.83	5.84
• Issued in foreign currencies	ND	ND						
By financing vehicle (as a % of Total investments)								
• Pension funds	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• Book reserves	ND	ND						
• Pension insurance contracts	ND	ND						
• Other financing vehicle	ND	ND						
By pension plan type								
• Occupational assets	ND	ND						
• % of DB assets	ND	ND						
• % of DC (protected and unprotected) assets	ND	ND						
• Personal assets	ND	ND						
Structure of Assets (as a % of Total investments)								
Cash and Deposits	1.60	2.32	2.46	2.63	2.59	2.63	2.31	2.92
Fixed Income	51.69	52.96	54.57	57.16	56.96	57.76	53.81	55.31
Of which:								
• Bills and Bonds issued by the public and private sector	31.31	31.35	27.48	29.02	30.81	31.55	25.81	26.01
• Loans	20.38	21.61	27.09	28.14	26.14	26.21	28.00	29.30
Shares	39.10	36.72	34.91	32.22	34.59	34.03	0.13	0.04
Land and Buildings	4.73	4.43	4.15	3.82	3.20	2.88	2.40	2.44
Other Investments	2.87	3.57	3.91	4.18	2.66	2.70	41.35	39.30
Contributions and Benefits								
Total Contributions, as a % of GDP	0.09	0.11	0.16	0.20	0.26	0.28	ND	0.29
• Employer Contributions, as a % of Total contributions	66.60	41.47	39.33	33.44	61.26	54.22	ND	ND
• Employee Contributions, as a % of Total contributions	33.40	58.53	60.67	66.56	38.74	19.91	ND	ND
Total Benefits, as a % of GDP	0.12	0.13	0.13	0.14	0.14	0.14	0.15	0.15
• % of benefits paid as a Lump sum	ND	ND						
• % of benefits paid as a Pension	ND	ND						
Membership (in thousands of persons)¹								
Total membership	3,262	4,405	3,567	4,136	6,824	7,310	7,575	7,575
• % of Active membership	69.20	75.14	74.10	77.46	82.20	83.06	83.90	83.90
Of which: % of Deferred membership	ND	ND						
• % of Passive membership	30.80	24.86	25.90	22.54	17.80	16.94	16.10	18.41
Other beneficiaries	ND	ND						
Number of Pension Funds/Plans								
Total number of funds	136	165	177	182	178	175	178	180
Total number of plans	ND	ND						

Note: Data refer only to Pensionskassen and Pensionsfonds.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

GERMANY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The statutory insurance – the so-called *Gesetzliche Rentenversicherung* (GRV) – covers all German employees. The GRV provides old age, disability and surviving dependants' benefits and is mainly financed on a pay-as-you-go basis, with over 51m people insured and 24 million receiving payments. Members of the professions (e.g. physicians, lawyers, architects) are covered by funded first pillar systems. Self-employed persons can choose to contribute on a voluntary base in funded systems or in the GRV. Contributions are split between employers and employees.

The legal retirement age is currently 65, but will increase to 67 between 2012 and 2029. Early retirement is possible from age 63 for those born after 1952, provided they have 35 years of contributions and 8 years of contributions immediately before retirement. If retirement takes place before the age of 65, benefits are reduced by 3.6% per year of early retirement. Pension entitlements will also be significantly lower than those of someone retiring at 65, since lower number of working years leads to not earning additional pension points (see below). Deferring pension entitlements after 65 earns a 6% increment for each year of additional work.

Under the compulsory statutory insurance, the entitlement to a pension is calculated on the basis of the number of contribution years and the level of relevant average earnings, which stood at €28,973 in 2004. Contributions are levied on annual earnings up to €62,400 (2005), with the maximum contributions equivalent to 210% of relevant average earnings. A year's contribution at the average earnings of contributors earns one pension point, with contributions based on lower or higher income earnings more or fewer pension points. Upon retirement the pension points of every year are added up. The sum of pension points is multiplied by a "pension points value", which was €313.56 (2004). It is adjusted annually in line with gross wages and additional factors. The relevant average earnings for calculating the pension points as well as the "pension point value" are slightly different in the eastern Länder, but these differences are expected to disappear as wages will align.

Social assistance is available to low-income pensioners.

OCCUPATIONAL VOLUNTARY

Coverage

Collective agreements determine the coverage of a pension plan. In 2006 approximately 65% of all employees were covered.

Contributions

Contributions levels are determined by collective agreements, while tax legislation allows contributions of up to 4% of earnings to be paid into German cash-balance plans. In general, however, these types of plans are not contributory.

Benefits

Benefits must be paid out as a life-long annuity (or, in the case of *Pensionsfonds*, according to a payment plan) in order to benefit from tax exemption.

Although the legal retirement age is 65 for men and 64 for women, it largely depends on the rules set out in plans. In 2006 the average retirement age was 60.8 years.

Taxation

Since 2005 taxation legislation has treated *Pensionskassen*, *Pensionsfonds* and direct insurance identically. Contributions up to a ceiling of 4% of the maximum social insurance contribution and EUR 2 496 (in 2005) are tax-free. Investment returns are tax-exempt, while benefits are taxed. Sums of money that the employer allocates to book reserves are tax-deductible and not considered as an employee's taxable income.

PERSONAL VOLUNTARY

Coverage

Anyone covered by the social insurance system may purchase Riestert products.

Contributions

While providers must offer a minimum benefit guarantee, contribution levels are determined in the terms of contracts with providers. Participants qualify for subsidies from the government, the level of which depends on an individual's income level and number of children. To receive full state subsidies (EUR 1 575 in 2007), pension participants must invest at least 3% of their previous year's income in a plan. (The subsidy is due to rise by 4% in 2008 to a maximum of EUR 2 100.) In 2007 the basic annual state allowance was EUR 114 (EUR 154 in 2008) for single persons, EUR 228 (EUR 308 in 2008) for married couples, and EUR 138 (EUR 185 in 2008) for every child. As of 2008 participants receive tax relief of EUR 300 for every new-born child.

Benefits

Benefits are paid out in the form of a life annuity or a programmed withdrawal.

Taxation

Riester products are treated according to the EET formula: contributions and investment income are tax-exempt, while benefits are taxed.

PERSONAL VOLUNTARY (OTHERS)

Coverage

The *Rürup* pension provision is intended primarily for the self-employed and professionals.

Contributions

Contribution levels are laid down in the contract with the provider.

Benefits

Benefits are paid out as an annuity after the age 60. Lump sum payments and early withdrawals are not allowed.

Taxation

Contributions are gradually evolving towards greater tax exemption: the tax-free portion of contributions was 60% in 2005, while EUR 20 000 (EUR 40 000 for married couples) will be deductible from tax bills in 2025. In 2007, 64% of contributions were tax-exempt, with a cap set at EUR 12 800. Benefits are, however, liable to tax. People who retire in 2007 will be taxed on over 54% of their benefits, which will be 100%-taxable by 2040.

MARKET INFORMATION

Occupational voluntary

At the end of 2007 *Pensionskassen* and *Pensionsfonds*' assets were worth EUR 99.6 billion (USD 136 billion). There were 178 *Pensionskassen* and *Pensionsfonds* with a total of 7.5 million members. Of the *Pensionsfonds* (24 in 2006 and 27 in the first quarter of 2008), there were 26 with 0.4 million members. In the year under review, many *Pensionskassen* and *Pensionsfonds* developed new products which enabled existing pension obligations to be transferred from employers to pension fund managers.

Investments made in the name of and at the risk of pension funds in 2007 rose to approximately EUR 630 million, while investments made in the name of and at the risk of employees and employers increased by 56.4% to EUR 12.2 billion. The rise in such investments is attributable primarily to a major manufacturing corporation which, in 2006, transferred its pension obligations to a pension asset manager it created to that end. Most pension investments are held in specialised pension asset management companies set up solely for that purpose.

Personal voluntary

In 2007 some nine million participants had signed up to *Riester* contracts, while reform legislation in 2004 enhanced their portability.

Rürup pensions have not been as popular as expected, because benefits cannot be inherited. However, survivor or disability benefits can be included in contracts.

POTENTIAL REFORM

Following the 2004 reform, contributions to the public insurance scheme will be subject to a gradually increasing taxation, while public pension benefits will see a corresponding increase in tax exemption.

From 2008, everyone who has purchased a *Riester* pension product will receive a €300 tax break per child born after 2008. Those under age 21 who purchase a *Riester* product will receive a one-off bonus of €100.

Recently, there have been calls to make occupational pension provision mandatory rather than voluntary.

REFERENCE INFORMATION

KEY LEGISLATION

- 2004: *Alterseinkünftegesetz*, or Retirement Income Act, (2004): regulates the taxation of pensions and amended some tax-related issues.

- 2001: *Altersvermögensgesetz*, or Retirement Savings Act (2001): introduced the personal pension savings arrangement, among other measures.
- 1992: *Versicherungsaufsichtsgesetz*, or the Supervision of Insurance Undertakings Act (1992): regulates *Pensionsfonds*, *Pensionskassen*, and insurance companies.
- 1974: The *Gesetz zur Verbesserung der betrieblichen Altersversorgung*: a law to enhance occupational retirement pensions (1974), it sets out rules for occupational pension provision.

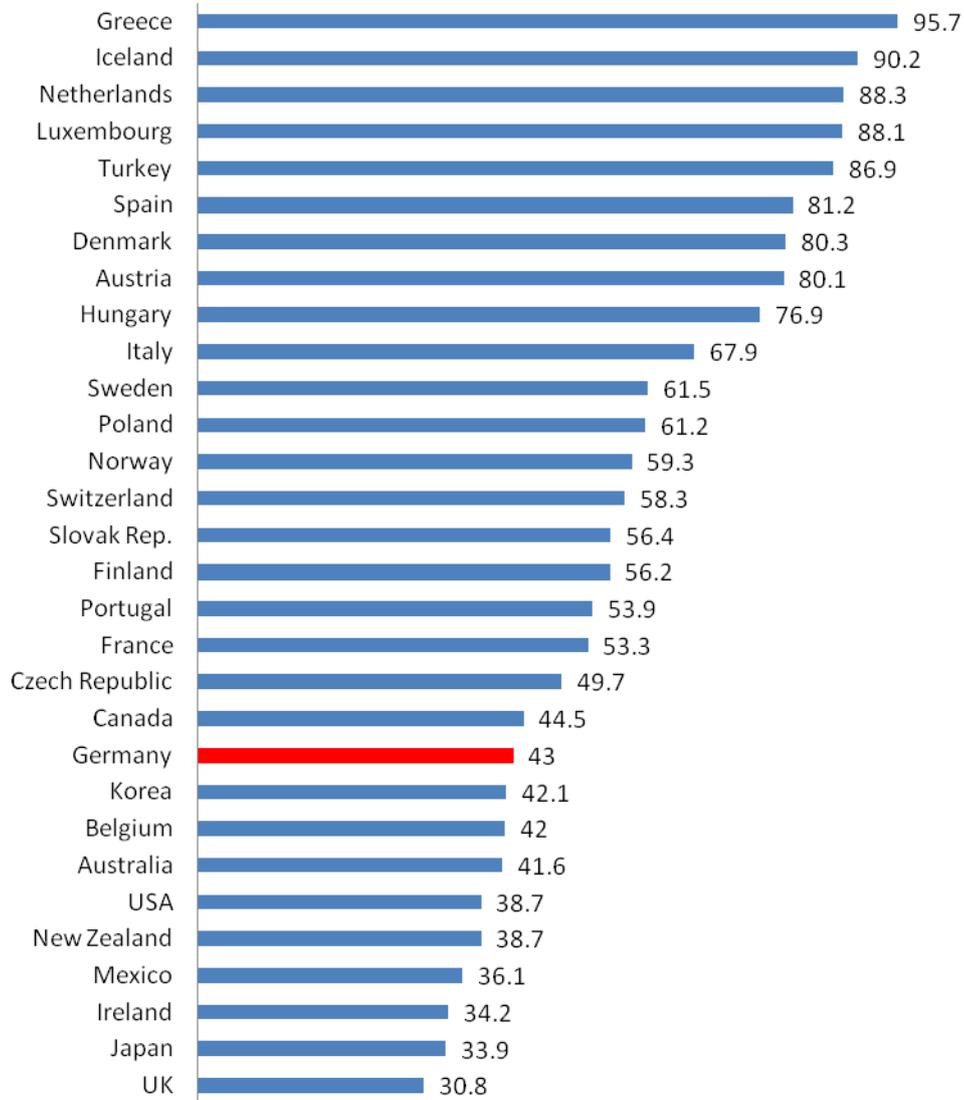
KEY REGULATORY AND SUPERVISORY AUTHORITIES

- BaFin (the Federal Financial Supervisory Authority): supervises *Pensionskassen*, *Direktversicherung* and *Pensionsfonds*, as well as insurance companies providing *Riester* or *Rürup* pensions: www.bafin.de.

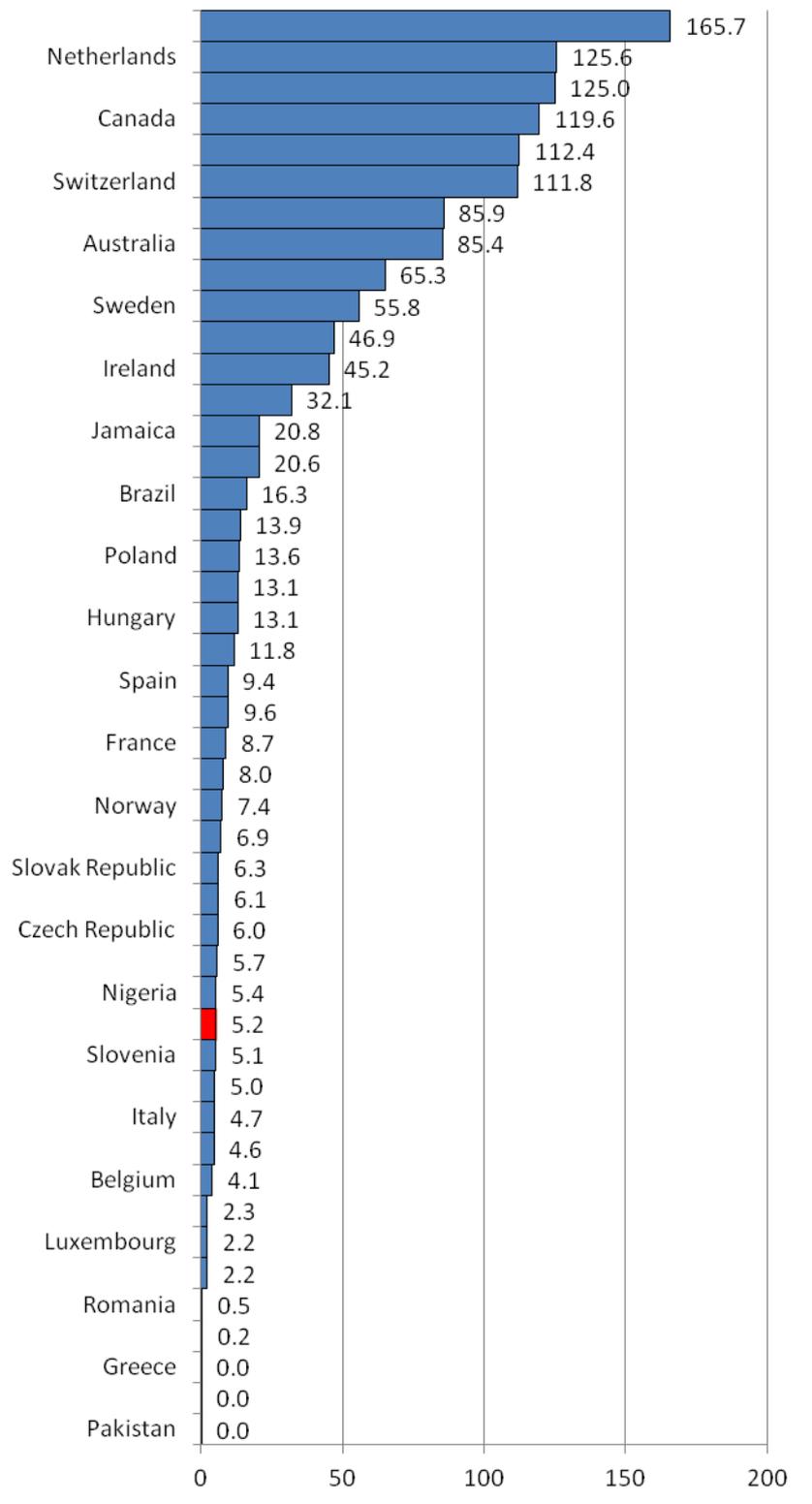
KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

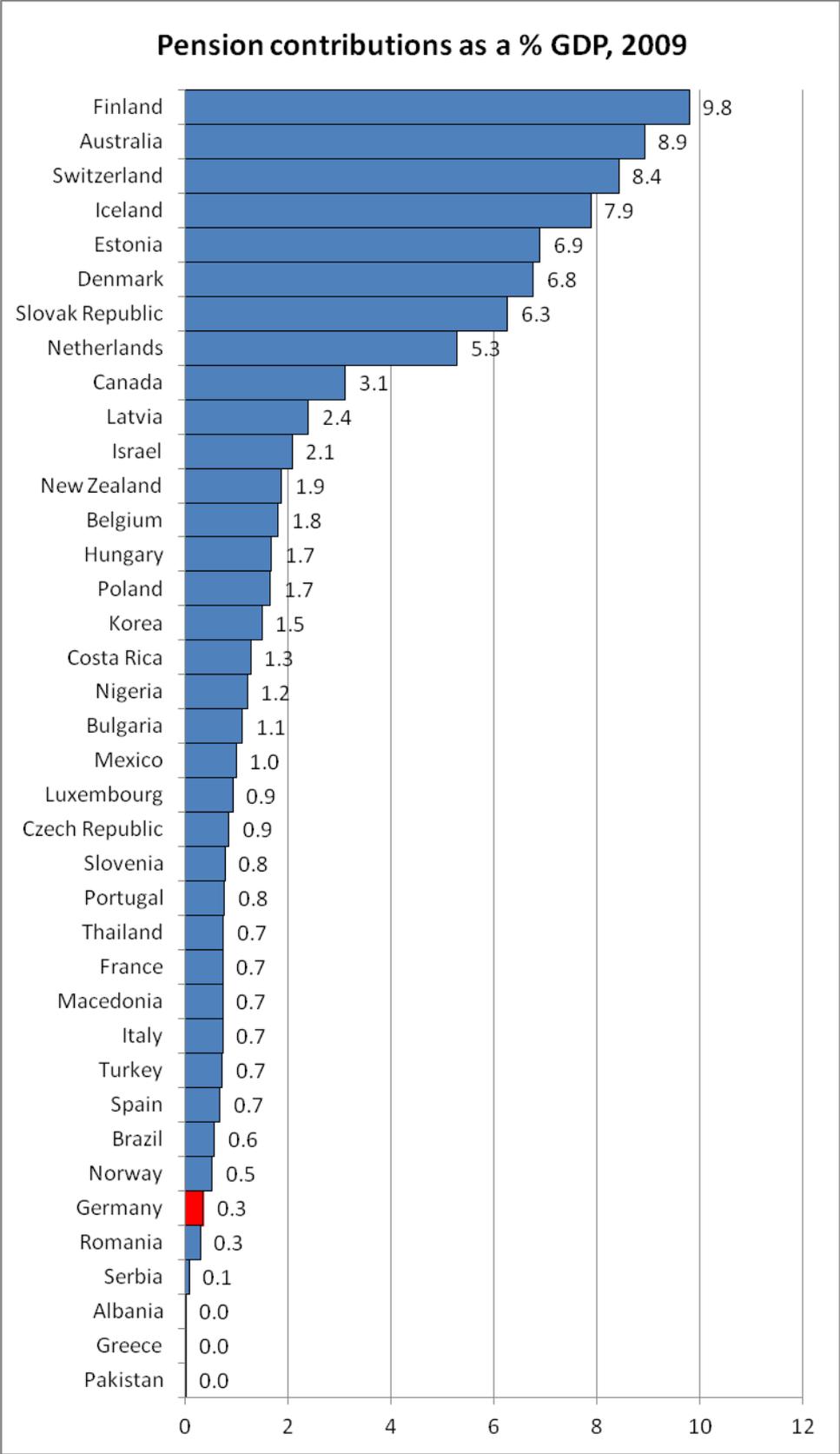
- BaFin (Federal Financial Supervisory Authority).
- OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009



Pension Fund Assets as a % GDP 2009





Pension Benefits as a % GDP, 2009

