

IOPS COUNTRY PROFILE: GERMANY 2023



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD), 2021	51,203
Population (000s), 2022	83,196
Labour force (000s), 2021	44,980
Employment rate, 2020	75.5
Population over 65 (%), 2022	18.3
Dependency ratio ¹ , 2021	39

Data from the last available year.

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

Source: various sources.

GERMANY: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Source: OECD Global Pension Statistic

Public pensions

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

Occupational pensions

- Pensionskassen
- Pensionsfonds
- DC schemes
- Direct insurance (Direktversicherung)
- Support funds (Unterstützungskassen)
- Direct commitments (Direktzusagen)
- Versorgungswerke

Private pensions: personal (voluntary)

- Annuities
- Riester pension plans
- Rürup

GERMANY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The **statutory** pension insurance – the so-called *Gesetzliche Rentenversicherung* (GRV) – covers all German employees. The GRV provides old age, disability and surviving dependant's benefits and is mainly financed on a pay-as-you-go basis plus taxes, with over 57 million people insured and 26 million receiving payments in 2022. Participation is obligatory. Members of the professions (e.g. physicians, lawyers, architects) are covered by the funded first pillar system. Self-employed persons can choose to contribute on a voluntary basis in funded systems or in the GRV. Contributions are split between employers and employees.

The legal retirement age was 65 until 2012 and increases 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, pension 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 pension 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 T€ 43 in 2023. Contributions are levied on annual earnings up to EUR 87.600 (2023), with the maximum contributions equivalent to 215% 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 EUR 432,24 (2023). 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 PENSIONS

Coverage

Collective or individual agreements determine the coverage of a pension plan. In 2019, approximately 53,9% of all employees were covered.

Contributions

Contributions levels are determined by collective agreements, while tax legislation allows contributions of up to 8% 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 typically as a life-long annuity (or, in the case of *Pensionsfonds*, according to a payment plan) in order to benefit from tax exemption.

The legal retirement age is between 65 and 67, depending on the year of birth. In 2022, the average retirement age was 64 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, i.e. EUR 7,300 (in 2023) 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 taxable income.

PERSONAL VOLUNTARY

Coverage

Anyone covered by the social insurance system may purchase Riester 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 individuals' income level and number of children. To receive full state

subsidies (EUR 2,100 in 2023), pension participants must invest at least 4% of their previous years' income in a plan. In 2023, the basic annual state allowance is EUR 175 for single persons EUR 350 for married couples, and EUR 185 for every child. As of 2008 participants receive tax relief of EUR 300 for every new-born child. Young professionals' bonus of one-off EUR 200 for under-25 years old people.

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 *Basis-Rente* 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 62. 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 2023, 100% of contributions were tax-exempt, with a cap set at EUR 26,528. Benefits are, however, liable to tax. People who retire in 2023 will be taxed on over 83% of their benefits, which will be 100%-taxable by 2040.

MARKET INFORMATION

Occupational pensions

At the end of 2021 *Pensionskassen* and *Pensionsfonds*' assets were worth EUR 285,7billion. There were 170 *Pensionskassen* and *Pensionsfonds* with a total of 11.3 million members and beneficiaries.

Personal voluntary

In Quarter II 2022 some 16.5 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.

REFERENCE INFORMATION

KEY LEGISLATION

2019: Directive on the activities and supervision of institutions for occupational retirement provision (IORP Directive (EU) 2016/2341, OJ EU L 354/37). The recast of this directive ("IORP II"), sets new governance requirements, new rules on IORPs' own risk assessment, new requirements to use a depositary and enhanced powers for supervisors. It contains more detailed provisions on governance, an extension of information requirements towards members and beneficiaries, and measures to facilitate cross-border activities. It was transposed into national law with effect from 13 January 2019. The Solvency II Directive, which is relevant for insurers, does not apply to Pensionskassen and Pensionsfonds.

2017: Act to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz - BRSG) introduces the possibility to conclude under certain conditions pure defined contribution schemes (no liability of the employer) in the field of occupational retirement provision. The Act includes changes to labour, social, tax and insurance supervision law.

2015: Insurance Supervision Act (Versicherungsaufsichtsgesetz - VAG); Part 4 regulates the establishment, operation and supervision of insurance undertakings, pension institutions (Pensionskassen) and pension funds (Pensionsfonds).

2007: Insurance Contract Act (Versicherungsvertragsgesetz - VVG), established in 1908; regulates the duties and rights of policyholders, insurers and insurance intermediaries in insurance contracts. The Act does not apply to pension funds.

2004: Retirement Income Act (Alterseinkünftegesetz - AltEinkG); harmonises the taxation of retirement income of employees with and without civil servant status and introduces deferred taxation for all kinds of retirement income.

2002: Act on the Federal Financial Supervisory Authority (Finanzdienstleistungsaufsichtsgesetz - FinDAG); integrates several areas of financial supervision into a single institution (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) and regulates its operations, responsibilities and powers.

2001: Act on the reform of the social security pension scheme and the encouragement of funded old-age pension provision (Altersvermögensgesetz - AVmG); amends numerous regulations of the Occupational Pensions Act, introduces the possibility of establishing pension funds, grants the right to employees to request salary deductions for complementary occupational pension plans and implements new taxation rules on retirement income.

1974: Occupational Pensions Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung - BetrAVG); allows five different methods of implementing complementary occupational pension plans; regulates all plans, including those established before 1974, vesting, benefit adjustments and preservation, portability and transferability, insolvency protection and occupational retirement provision and collective agreement.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

BaFin (Federal Financial Supervisory Authority) supervises *Pensionskassen*, *Pensionsfonds* and *Direktversicherungen* 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,
<https://www.oecd.org/finance/pensionmarketsinfocus.htm>.