

# Germany

# Minimum Pension in Old Age

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Prof. Dr. Hans-Joachim Reinhard

# Germany

## The Pension System

- Covers 85 percent of the population (only employees)
  - not civil servants
  - not self-employed
  - not freelancers
- Pay-as-you-go system
- Financed by contributions but 33 percent state subsidies

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## The Pension System

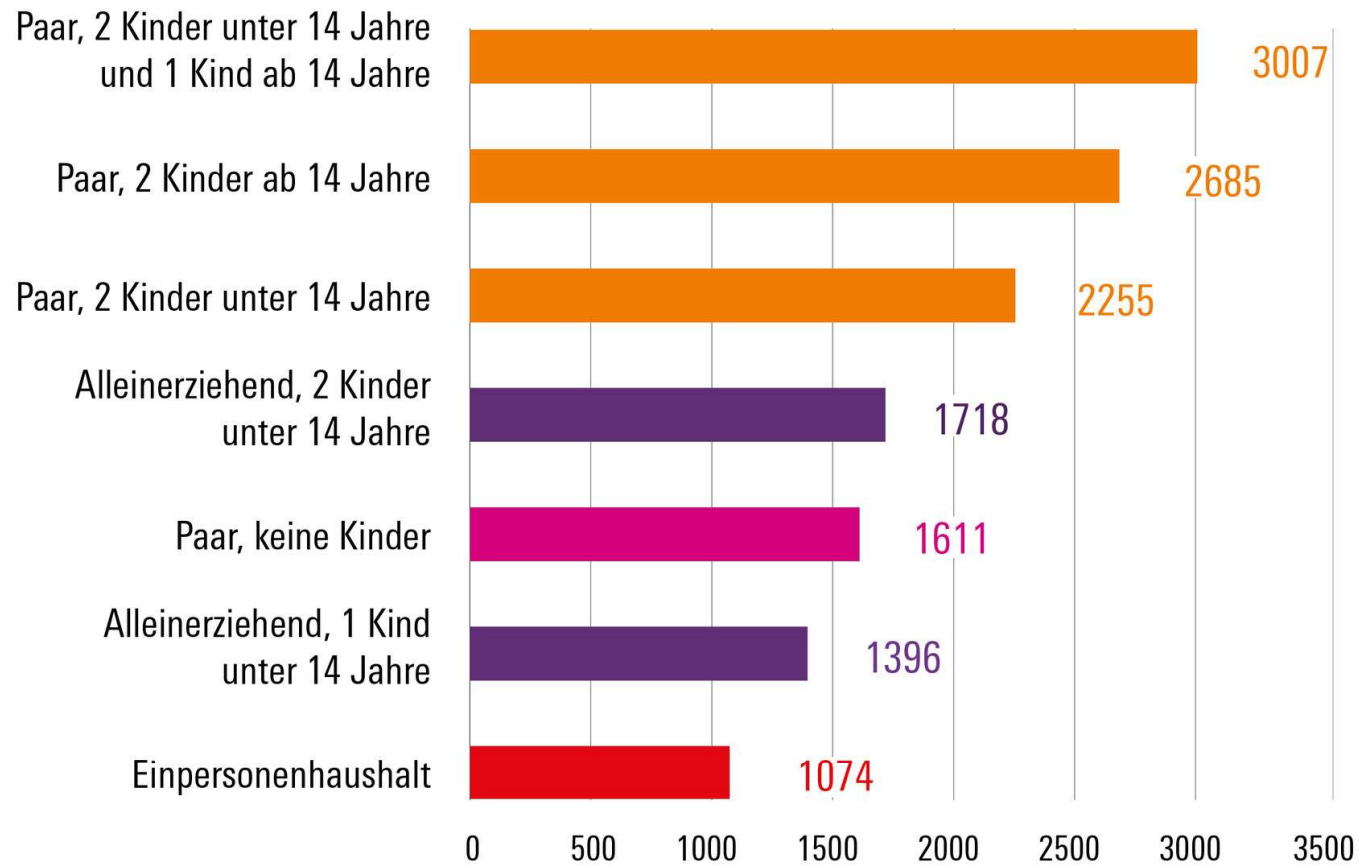
- Benefits strictly earnings-related
- Statistical average salary decisive
  - 2022: 38.901 € / year (3.241.75 € / month) = 1 earnings point [EP]
  - Value of 1 earnings point = 34.19 € (33.47 € East Germany)
  - E.g. 40 years \* 1 EP = 40 EP
  - 40 EP \* 34.19 € = 1367.60 € monthly pension

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## The Pension System

- Individual salary: average salary = individual earnings point
- Eg. minimum salary ( $12 \text{ €} * 40 \text{ hrs} * 51.5 \text{ weeks} = 24.720 \text{ €} / \text{ year}$ )
- $24.720 \text{ €} : 38.901 \text{ €} = 0.6355 \text{ EP}$
- E.g.  $0.6355 \text{ EP} * 40 \text{ years} = 25.42 \text{ EP}$
- $25.42 \text{ EP} * 34.19 \text{ €} = 869,11 \text{ €}$  monthly pension
- Poverty thresholds:

## Armutsgrenzen (in Euro) nach Haushaltstypen in Deutschland, 2019



Daten: Mikrozensus

Quelle: Amtliche Sozialberichterstattung

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## Types of Minimum Income

- For employable persons aged 15 to retirement age
  - SGB II: Grundsicherung für Arbeitsuchende (basic protection for jobseekers)
- For unemployable persons age 0 – retirement age
  - SGB XII: Grundsicherung [Sozialhilfe] social assistance
- For elderly persons of retirement age and invalid persons
  - SGB XII: Grundsicherung im Alter und für Erwerbsunfähige [social assistance in old age and for invalid persons]
- **For pensioners with pension below a limit**
  - **SGB VI: Grundrente (basic pension [supplement])**

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## Basic Pension (Supplement)

- In force since 1 January 2021
- Not a basic pension for all pensioners but a supplement for certain pensioners
- Administered by the General Pension Scheme
- Tax-financed
- Income-tested not means-tested

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## Basic Pension (Supplement)

### **Requirements:**

- Minimum 33 insurance years (396 months)
- Minimum 30 percent of average salary (11.670,30 € year /972,53 € month)
- For persons with less than 33 insurance years → no entitlement even with low income
- For persons with less than 30 percent of the average salary → no entitlement even with a long insurance career



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## Basic Pension (Supplement)

### **Benefit:**

- (Progressive) doubling of individual earnings points (e.g. 0.3 EP up to 0.6 EP)
- Maximum 0.8 (after 35 insurance years)
- Final result is reduced by 12.5 percent
  - (e.g. 0.3 EP up to 0.6 EP – 12,5 percent = 0,525 EP)
- Maximum for 35 insurance years: no benefit for long careers (e.g. 40 years)
- Maximum supplement 2022: 418 €

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## Basic Pension (Supplement)

### Means Test:

Maximum monthly income:

**1250 Euro (single)**

**1950 Euro (couple)**

If income exceeds the limit: **60 percent** is taken into account

E.g. Single with a 1300 € income:  $50 \text{ €} * 60 \text{ percent} \rightarrow$  supplement is reduced by 30 €.

If income exceeds 1600 € / 2300 €: **100 percent** is taken into account.

E.g. Couple has a 2400 € income  $\rightarrow$  supplement is reduced by 100 €

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## Basic Pension (Supplement)

### **Critical points from a national perspective:**

- Complicated formula
- High administrative workload for the pension system and tax administration
- Delay in income data from tax administration
- Exclusion of low-income workers (e.g. part-time female workers or “450 €-employees”)
- No substantial increase in pension
- High income of partner may result in loss of supplement for eligible pensioner
- Deduction of social security contributions (10.8 percent) may result in a lower amount than social assistance
- No means test for high-level property assets

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## Basic Pension (Supplement)

### **Critical points of a European Perspective:**

- Only insurance periods are relevant for coordination not insured income
- Different levels of income in member states
- Income abroad can be easily hidden
- Different tax systems for calculating income
- Amount of pension supplement may change with the increase of income or increase in value of earnings point (1 July each year)
- No coordination with minimum pension systems of other member states
- Difficulty to consider income (e.g. for survivor's pension)
- Possible discrimination of persons with mixed careers (e.g. 10 years as a self-employed or civil servant and 25 years as an employee)