# Pensions at a Glance 2019

## How does Germany compare?

27 November 2019

## Key findings

- Germany is one of a few countries that does not provide mandatory pension insurance for all self-employed workers as opposed to employees. Some groups of self-employed are covered in occupational schemes but there are large coverage gaps. Also a growing number of workers engaged in new forms of work, such as platforms will face bleak pension prospects due to lack of coverage and low contributions.
- German women today suffer from the largest gender pension gap among OECD countries (46%). As the gender pay gap is above OECD-average and many women work part-time in Germany future pension entitlements of women are likely to remain low compared to those of men.
- Net replacement rates of future retirees will fall due to the application of the sustainability factor and are expected to be lower than the OECD average. This is particularly true for low earners (half of average earnings) who can expect a 56% replacement rate compared with 68% in the OECD (52% vs. 59% for average-wage earners). Without basic and minimum pensions low-income retirees are vulnerable. A recent coalition agreement plans to introduce an income-tested minimum pension for people who have contributed at least 35 years.
- Rapid population ageing could challenge the financial sustainability of the public pension scheme. Under current legislation, public pension expenditures would rise from about 10% of GDP today to 12.5% in 2060 according to EU projections, despite a 10% drop in the pension level due to the sustainability factor.
- Germany has been the top performer in lifting employment rates of older workers since 2000 (+34 percentage points in the age group 55-64). However, employment among the 65-69 age group remains very low.

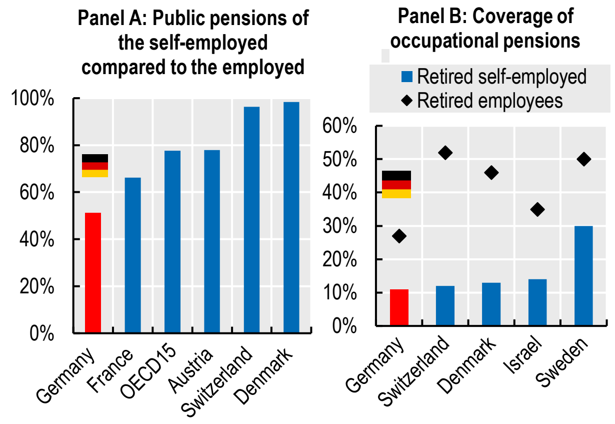
## Overview – Poor pension prospects for German workers in non-standard jobs

Pensions are high on the German policy agenda. The long-standing debate on low pensions and risks of old-age poverty recently resulted in a coalition agreement that plans to introduce a minimum contributory pension for employees with long careers, subject to an income test. Moreover, since July 2019, employees with very low wages (Midijobs, 450-850 EUR per month), while continuing to contribute at a lower rate, will now earn pension entitlements as if they were contributing fully. At the same time, the earnings ceiling for Midijobs was increased from 850 to 1300 EUR per month.

Individuals in non-standard work remain particularly exposed to the risks of inadequate retirement income in Germany. Unlike in most other OECD countries, large parts of the self-employed in Germany are not obliged to contribute to a pension insurance and will thus be dependent on other income, wealth or social assistance in retirement. By contrast, on average in the OECD, a self-employed with average wage will reach about 80% of the gross pension income of a comparable full-time employee from mandatory pension schemes. Although since 2013 there have been coalition agreements to expand the pension coverage to all self-employed, coverage is mandatory only in some occupations. Therefore, both current pension level and coverage are much lower than for employees. Among the solo self-employed, pension coverage has even decreased in all age groups since the mid-2000s. As new forms of work are becoming more common given digital transformation, many workers such as those on platforms are likely to face bleak pension prospects.

Even after a full career in standard employment, Germany's pensioners face comparatively low pensions. This will be exacerbated by population ageing that automatically lowers pensions through the sustainability factor. A 2018 law puts both a floor on the point value - such that a full career at the average wage yields a replacement rate after social security contributions and before taxes of at least 48% - and a ceiling of 20% on the contribution rate until 2025. At the same time, additional tax money is foreseen to balance the pension budget. Yet, the strongest effects from ageing will materialise after 2025. A pension commission is currently working on reform options beyond 2025. The German statutory retirement age is steadily increasing to 67 by 2031. Six OECD countries have gone a step further by introducing an automatic link of the retirement age to life expectancy to lower the political pressure of adjusting ad-hoc to rising longevity.

### Low pensions and low coverage of the self-employed




Note: Division into self-employed and employees is based on where the bigger share of working life has been spent. Source: Figure 2.6 based on data of Pettinicchi and Börsch-Supan (2019).

Based on current legislation, a full-career average-wage employee entering the labour market in 2018 can expect a net replacement rate of 52%, compared to 59% on average in the OECD. Low earners, at half average-earnings, fall further behind, with a net replacement rate of 56% compared to the OECD average of 68%. Without basic and minimum contributory pensions, redistribution in the pension system is limited. Moreover, as life expectancy differs by several years between high- and low-income earners, the system is even regressive from a lifetime perspective; richer individuals receive pension benefits for a substantially longer retirement period.

A recent coalition agreement that plans to introduce a minimum pension for people with about 35 years of work, maternity leave or long-term care tasks in the family will improve the pension prospects of some low earners. However, it will be subject to an income (but not an asset) test and will not address old-age poverty risks of low earners with long career breaks.

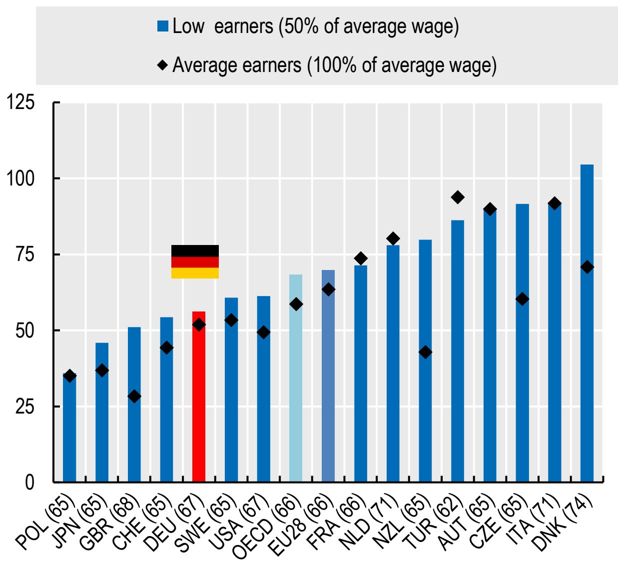
Germany has been the top performer among OECD countries in lifting employment rates in the age group 55-64; an impressive 34 percentage-point increase from about 37% to 71% since the turn of the millennium. However, the retirement of large birth cohorts in coming decades is expected to reduce the so-called working-age population (20-64) by 21% by 2050. Higher labour market participation at older ages, in particular after age 65 where employment is still very low, and more female full-time workers would alleviate the rising pressure on labour markets.

Rapid population ageing will also challenge the financial sustainability of the public pension scheme. Under current legislation, public pension expenditures would rise from around 10% of GDP today to 12.5% in 2060 based on EU projections, despite pensions falling by about 10% due to the sustainability factor.

In the future, many individuals might be at risk of old-age poverty, in particular those groups with interrupted careers or non-standard employment contracts, like single parents, self-employed and platform workers. The risk is particularly high for German women who currently suffer from the largest gender pension gap among OECD countries (46%); an above average gender pay gap and the large share of women working part-time mean that future pension entitlements of women are likely to continue lagging behind those of men. Moving towards a largely unified pension framework for employees, civil servants and the self-employed, which exists in many other OECD countries, would help to increase pension coverage for vulnerable groups and remove inequalities in social protection.

**Future net replacement rates are low in Germany**

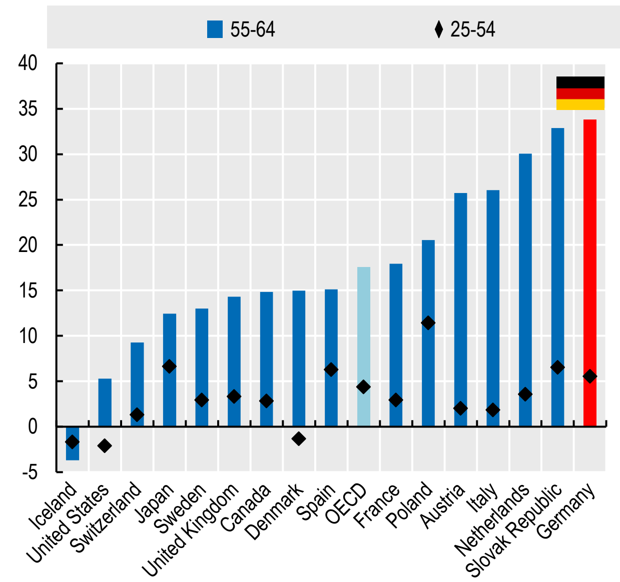
Mandatory schemes, full-career employees, %




Note: Numbers in brackets indicate the normal retirement age, based on labour market entry at age 22 in 2018 and a full career.
Source: OECD pension models. See Table 5.5.

**Large increase in employment rates of older workers**

Change over 2000-2018 in percentage points




Source: Figure 6.8 based on OECD Labour Market Statistics database.

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