



Jarna Bach-Othman

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ABSTRACT

This review analyses the level of pension contributions paid in Germany in 2005. The aim of the review is to provide an overview of the total cost of pension financing when taking into account occupational pensions and the government's share of financing in addition to the statutory pension contributions. Pension assets and related investment operations are not included in the analysis. The review also presents examples of employee and employer pension contributions for a wage earner covered by different kinds of occupational pension schemes and the so called Riester pension.

Pension contributions have been compared in relation to the market and basic (factor) price GDP, as well as the wage bill and to the compensation of employees (including also the employer's social security contributions). By using different indicators, we have sought to achieve maximum comparability between the results of different countries.

All pension contributions in relation to GDP at market prices was 14,57 per cent and in relation to GDP at basic prices 16,15 per cent.

The review is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Germany, the countries compared were Denmark, France, Finland, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries have been published as separate reviews. The overall results of the comparison have been published in the publication *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

ABSTRAKTI

Tässä selvityksessä tarkastellaan Saksassa maksettujen eläkevakuutusmaksujen tasoa vuonna 2005. Katsauksen tavoitteena on antaa kuva eläketurvan aiheuttamasta kokonaismaksurastuksesta, kun huomioon otetaan lakisääteisten eläkemaksujen lisäksi maksut lisäeläkejärjestelmiin sekä valtion osuus rahoituksesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle.

Eläkemaksuja on verrattu suhteessa markkina- ja tuottajahintaiseen bruttokansantuotteeseen sekä palkkasummaan ja työnantajan sosiaaliturvamaksut sisältävään palkansaajakorvaukseen. Eri mittareilla on pyritty mahdollisimman vertailukelpoiseen tulokseen eri maiden välillä. Katsauksessa on lisäksi esitetty esimerkkilaskelmia palkansaajan eläkevakuutusmaksuista.

Markkinahintaiseen bruttokansantuotteeseen suhteutettuna kaikkien eläkevakuutusmaksujen osuus oli 14,57 prosenttia ja suhteessa tuottajahintaiseen bruttokansantuotteeseen 16,15 prosenttia.

Selvitys on osa Eläketurvakeskukseen laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Ranskan lisäksi muuta tarkastelumaat olivat Alankomaat, Iso-Britannia, Norja, Ruotsi, Saksa, Suomi, Sveitsi ja Tanska. Muita maita koskevat tiedot on julkaistu erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

CONTENTS

1	Introduction.....	7
2	Pension contribution level in 2005	10
3	Financing of statutory and mandatory pensions	14
	3.1 General pension insurance	14
	3.2 Farmers' pension scheme	17
	3.3 Public-sector pension scheme	17
	3.4 Pensions for independent professionals	18
4	Financing of occupational pension provision arranged by the employer	19
	4.1 Private-sector occupational pensions	19
	4.2 Public-sector occupational pension schemes and occupational pension schemes in agriculture and forestry.....	20
5	Financing of Riester pensions	22
6	Examples.....	23
	References	25

1 Introduction

Statutory pension provision in Germany is mainly based on earnings-related pensions. In addition to statutory provision, occupational pension provision arranged by the employer is common. In order to secure a minimum income, persons who have reached the age of 65 may be paid a means-tested, tax-financed benefit, if the person is not entitled to an earnings-related pension or if the earnings-related pension is small.

The general statutory pension scheme covers about 80 per cent of the employees. The scheme covers wage earners, part of the self-employed persons, as well as public-sector employees who are not civil servants. Pension provision for artists, musicians and authors who work as self-employed persons is governed by a separate act and insurance is handled by the Artists' Pension Fund (Künstlersozialkasse, KSK). This type of insurance is also part of statutory pension insurance. It is also possible to join the general pension scheme by paying voluntary contributions. The benefits paid are old-age and disability pensions as well as survivors' pensions. In Germany pension rights accrue also for many unpaid periods, such as periods of childcare, periods of study, military service and periods of caring for close relatives.

The administration of the general pension scheme was harmonised in 2005, when the separate pension providers which had handled pension insurance for white-collar workers and blue-collar workers, respectively *Rentenversicherung der Angestellte* and *Rentenversicherung der Arbeiter*, were merged. The insurance providers of miners, railway workers and seamen were merged in the same year, and nowadays pensions for employees in these industries are administrated by one provider, *Deutsche Rentenversicherung Knappschaft-Bahn-See*. Farmers and several other professional groups, for instance physicians and architects, have their own pension scheme. Pension insurance for independent professionals is mandatory for persons in the relevant profession, but is not part of statutory social insurance. Public-sector civil servants have their own pension scheme.

In the statutory pension scheme, pension rights accrue on the basis of so-called pension credits, which the employee accumulates according to the proportion of the earnings in relation to the general earnings level. If the employee's average earnings in a certain year correspond to the average earnings for all employees, the employee accrues one pension credit for this year. On retirement all the credits accrued during the working career are multiplied by the value determined for the pension credit¹, and this value is adjusted annually. Currently the retirement age is 65 years, but it will be increased gradually, so that for those born in 1964 and later the retirement age will be 67 years.

The legislation concerning occupational pensions was reformed in 2002. Through the new legislation the preconditions for the arranging of occupational pension provision were

1 The value of the pension credit is adjusted with a coefficient which takes into account the development in gross wages, the change in contribution level and the so-called sustainability factor. The increase in the statutory pension contribution is deducted from the increase in gross wages. The sustainability factor reacts to developments in the number of insured in relation to the number of pensioners.

improved. Arranging of occupational pension provision has traditionally been voluntary for the employer², but since the beginning of 2002 the employees have the right, if they so wish, to convert part of the wage into occupational pension provision ("Entgeltumwandlung") and the employer is by law obligated to offer this opportunity to the employee. Pension saving is also subsidised through tax benefits. The contributions are deductible in the taxation and the employer is partially exempted from the statutory social insurance contributions, if the employer participates in the financing of the employee's occupational pension provision.

The increase in occupational pension provision has been rapid. In 2001 before the new legislation took effect, 52 per cent of private and public-sector employees were covered by occupational provision. In 2005 already about 64 per cent of employees were covered by occupational pension provision, and in 2006 the percentage had increased to 65. In 2004 46 of private-sector employees were covered by occupational provision. There are considerable differences in the coverage of occupational provision between former East and West Germany, between companies of different size and between the genders. In former East Germany occupational pension provision for the employees is considerably rarer than in former West Germany, even though the coverage of occupational pension provision in East Germany improves rapidly. Irrespective of area, women are less frequently covered by occupational pension provision than men. The clearly highest proportion of employees covered by occupational pension provision can be observed for employees of large companies. Approximately 94 per cent of large companies (200–500 employees) arrange occupational provision for their employees. As regards line of business, occupational pension provision is most common in the banking and insurance sector and in industry. The public sector has its own occupational pension scheme. As in the private sector, occupational pension provision in the public sector is rarer for women than for men.

The state-subsidised individual pension saving, the so-called Riester pension, took effect in 2001. The popularity of these pensions has increased at record speed since the end of 2005. At the end of 2005 approximately 5.6 million pension contracts had been concluded, and at the end of 2007 the number of contracts totalled already about 10.8 million. Most of the contracts have been concluded with insurance companies, but the number of contracts concluded with investment funds has increased rapidly. In 2005 approximately 85 per cent of the contracts had been concluded with insurance companies and 10 per cent with investment funds. At the beginning of 2007 the corresponding figures were 80 per cent and 16 per cent.

Table 1 describes the main sources of income for persons of retirement age by marital status, area and gender.

2 Collective occupational pension provision has been arranged in some industries, e.g. the construction industry.

Table 1. *Main sources of income for over-65s, % of gross earnings.*

Source of income	All	Married couple		Single man		Single woman	
		West	East	West	East	West	East
Statutory pensions	66	57	89	60	87	68	95
Other pensions	21	26	2	26	5	22	2
Earnings from work	4	7	5	3	1	1	0
Interest and rental income, life insurance etc.	7	9	3	9	6	6	2
Social assistance, housing allowance, basic provision	1	0	0	1	1	1	1
Total	100	100	100	100	100	100	100

Source: Rentenversicherungsbericht 2006.

The table indicates that, despite the increase in occupational provision, statutory pensions are still the most important source of income for persons of retirement age. In the future the significance of occupational pensions for the income in retirement will probably increase. Of the gross income of persons of retirement age, on average 66 per cent is represented by statutory pensions and 21 per cent by occupational pensions. In the eastern part of Germany the role of statutory pension provision is especially significant.

The increase in occupational pension provision has been seen as a positive development due to the cuts made in statutory pension provision. On the other hand, the employer's partial exemption from the payment of statutory contributions when the employer participates in the financing of occupational provision decreases the premium income of the statutory pension scheme, and may cause pressure to increase the contribution. The original plan was that the exemption from the payment of contributions was to be terminated at the end of 2008, but in 2007 a decision was taken to continue the practice of exemption from contribution payments with certain restrictions.

2 Pension contribution level in 2005

The pension contribution level in Germany in 2005 is analysed in the following. The data on premium income are based on the statistics Sozialbudget 2005, which is published by the Ministry of Employment and Social Affairs (Bundesministerium für Arbeit und Soziales) and which includes data on the financing of both statutory pensions and occupational pension provision arranged by the employer. The data on the total premium income for occupational pension provision arranged by the employer do not include occupational pensions which are based on the company's book reserves. Pension savings subsidised by the State, so-called Riester pensions, are included in the statistics. They are also included in this analysis, since the State participates in the financing of these pensions even though the Riester pensions are to their character individual pension savings. Other individual pension provision has been excluded from the analysis. Both as regards statutory pensions and occupational pensions the premium income stated in the statistics is the broadest unified data available at the relevant time. The data on GDP and wage sum are based on the OECD publication National Accounts of OECD Countries: Main Aggregates.

Table 2 states the premium income gathered from different pension schemes to finance pensions as regards both statutory and occupational pension provision. The analysis covers both private and public-sector premium income. The total premium income includes employer's and employee's contributions, the State's share of the financing and other income. The figures do not include income which in the statistics is considered as refund, consisting of e.g. transfers between different schemes. The premium incomes are stated in relation to the wage sum and GDP for the whole economy. The wage sums are stated as both the wage sum including the employer's social insurance contributions (compensation of employees) and the wage sum without these contributions. GDP is expressed as both GDP at market prices, which includes indirect taxes, and GDP at basic (factor) prices, which does not include indirect taxes. In 2005 German GDP at basic (factor) prices amounted to €2,022,470 million and GDP at market prices to €2,241,000 million. The wages, including the employer's contributions and other compensations to the employees, amounted to €1,130,240 million. The wage sum excluding the employer's contributions was €911,980 million.

The total premium income of the pension schemes amounted to €326.69 billion in 2005. Most of the premium income, nearly 87 per cent, came from statutory pension schemes. The share of the general pension insurance scheme in the total premium income was approximately 72 per cent. The share of private-sector occupational provision arranged by the employer in the total premium income was approximately 9.5 per cent and the share of Riester pensions 0.54 per cent. The premium income for occupational pensions arranged by the employers does not include the companies' book reserves, which are the most common way of arranging occupational pension provision for the employees. Thus the premium income for occupational pensions is in reality higher than the figure stated in the table.

Table 2. Pension contributions in relation to the wage sum and GDP in 2005.

Pension scheme	Premium income, billion €	Premium income/wage sum ^a %	Premium income/wage sum ^b %	Premium income/GDP ^c %	Premium income/GDP ^d %
Statutory pensions					
General pension insurance ^e	234.69	20.76	25.73	10.47	11.60
Public-sector pensions	34.43	3.05	3.78	1.54	1.70
Pensions for independent professionals	11.07	0.98	1.21	0.49	0.55
Pensions for farmers	3.18	0.28	0.35	0.14	0.16
Total	283.37	25.07	31.07	12.64	14.01
Occupational pensions					
Occupational pensions arranged by the employer ^f	30.96	2.74	3.40	1.38	1.53
Riester pensions	1.76	0.15	0.19	0.08	0.09
Occupational pensions for farmers and the public sector	10.6	0.94	1.16	0.47	0.52
Total	43.32	3.83	4.75	1.93	2.14
Statutory and occupational pensions in total	326.69	28.90	35.82	14.57	16.15

a) Wage sum including the employer's social insurance contributions.

b) Wage sum without the employer's social insurance contributions.

c) GDP at market prices.

d) GDP at basic (factor) prices.

e) Also includes those covered by miners' and artists' pension insurance and voluntary insurance.

f) Does not include the companies' book reserves.

The total premium income amounted to 28.9 per cent in relation to the compensation of employees and to 35.8 per cent in relation to the wage sum. The premium income amounted to approximately 16 per cent in relation to GDP at basic (factor) prices. Statutory pension provision constituted 14 per cent of this share. In 2005 the general pension scheme had a deficit of €3.9 billion, and the State had to pay additional funds into the scheme (see chapter 2). If the contribution deficit is added to the total premium income for the general pension insurance scheme in table 1, the premium income would amount to 10.65 per cent in relation to GDP at market prices. According to the statistics Sozialbudget 2005, which was used as reference material for the analysis, the pension expenditure of the general pension scheme (without the aforementioned refunds) amounted to 10.7 per cent in relation to GDP in 2005.

In table 3 the total premium income for the different schemes are divided into the employers', the employees', the self-employed persons' and the State's contribution shares in the different schemes. As in the previous table, the contribution shares are stated in relation to the wage sum and GDP.

When the total premium income is analysed by income source, the table indicates that the contributions of the insured (incl. self-employed persons and voluntarily insured persons) and of the employers constituted in total nearly 62 per cent of the total premium income for statutory pension insurance. In the table the premium income for the public-sector pension scheme has been divided into the wage earners' and the employers' contributions in accordance with the publication Sozialbudget 2005, which was used as reference. However, public-sector pensions are mainly financed from State funds and levies collected from the Länder and the municipalities. Occupational pension provision is mainly financed by the employers, whose contribution share of the total premium income for occupational pensions amounted to approximately 81 per cent.

Table 3. Employer's, employee's and the State's contribution shares in 2005 in relation to the wage sum and GDP.

Pension scheme	Premium income, billion €	Premium income/wage sum ^a %	Premium income/wage sum ^b %	Premium income/GDP ^c %	Premium income/GDP ^d %
Statutory pensions					
Wage earners	82.67	7.314	9.065	3.689	4.087
General pension insurance ^e	82.60	7.308	9.057	3.686	4.084
Public-sector pensions	0.07	0.006	0.008	0.003	0.003
Employers	84.56	7.48	9.27	3.77	4.18
General pension insurance	71.89	6.36	7.88	3.21	3.55
Public-sector pensions	12.10	1.07	1.33	0.54	0.60
Independent professionals	0.57	0.05	0.06	0.02	0.03
Self-employed persons	7.25	0.64	0.79	0.32	0.36
General pension insurance	0.95	0.08	0.10	0.04	0.05
Independent professionals	5.59	0.49	0.61	0.25	0.28
Farmers' pensions	0.71	0.06	0.08	0.03	0.03
State's share^f	103.64	9.17	11.36	4.62	5.12
General pension insurance	78.92	6.98	8.65	3.52	3.90
Farmers' pensions	2.46	0.22	0.27	0.11	0.12
Public-sector pensions	22.26	1.97	2.44	0.99	1.10
Other income^g	5.253	0.46	0.58	0.23	0.26
General pension insurance	0.34	0.03	0.04	0.01	0.02
Independent professionals	4.91	0.43	0.54	0.22	0.24
Farmers' pensions	0.002	0.00	0.00	0.00	0.00
Public-sector pensions	0.001	0.00	0.00	0.00	0.00
Total	283.37	25.07	31.07	12.64	14.01
Occupational pensions					
Wage earners	5.06	0.45	0.55	0.23	0.25
Riester pensions	1.76	0.16	0.19	0.08	0.09
Occupational pension provision arranged by the employer ^h	2.82	0.25	0.31	0.13	0.14
Occupational pensions in agriculture and forestry and public-sector occupational pensions ⁱ	0.48	0.04	0.05	0.02	0.02
Employers	35.20	3.11	3.86	1.57	1.74
Occupational pension provision arranged by the employer ^h	28.14	2.49	3.09	1.25	1.39
Occupational pensions in agriculture and forestry and public-sector occupational pensions ⁱ	7.06	0.62	0.77	0.32	0.35
State's share^f	0.53	0.05	0.06	0.02	0.03
Occupational pensions in agriculture and forestry and public-sector occupational pensions ⁱ	0.53	0.05	0.06	0.02	0.03
Other income^g	2.53	0.22	0.28	0.11	0.12
Farmers' occupational pensions and public-sector occupational pensions	2.53	0.22	0.28	0.11	0.12
Total	43.32	3.83	4.75	1.93	2.14
Statutory and occupational pensions in total	326.69	28.90	35.82	14.57	16.15

a) Wage sum including the employer's social insurance contributions.

b) Wage sum without the employer's social insurance contributions.

c) GDP at market prices.

d) GDP at basic (factor) prices.

e) Includes also those covered by voluntary insurance.

f) Includes the State's contributions and direct subsidies.

g) Includes capital income, other income and refunds.

h) Does not include the companies' book reserves.

i) No exact information on whether the figure includes all public-sector occupational pension schemes.

The employers' and the insured persons' contribution share of the total premium income for the general pension insurance scheme totalled approximately 66 per cent. The State's share of the premium income was nearly 34 per cent. As regards statutory pensions, the State's share of the premium income is the highest for farmers' pensions, approximately 77 per cent. As regards Riester pensions, the State's share has not been indicated in the table stating the final premium income in the publication Sozialbudget 2005, which was used as reference. Thus the State's share is also excluded from the figures in table 3. According to preliminary data, the State's share of the total premium income for Riester pensions was approximately 17 per cent.

3 Financing of statutory and mandatory pensions

Statutory pensions are mainly financed through the employer's and the employee's contributions and State funds. In Germany the State's role in the financing of statutory pensions is significant, since the State finances about one-fourth of the pension expenditure. The general statutory pension scheme has a small buffer fund, which has to amount to at least 20 per cent of the monthly pension expenditure, according to the legislation which has been in force since 2004. The size of the buffer fund decreased steadily during the initial years of the 2000s and at the end of 2005 the buffer fund was smaller than at any time during the previous 30 years, only about 10 per cent of the monthly pension expenditure. At the time the deficit of the fund amounted to €1.4 billion (Bericht der Bundesregierung 2005).

3.1 General pension insurance

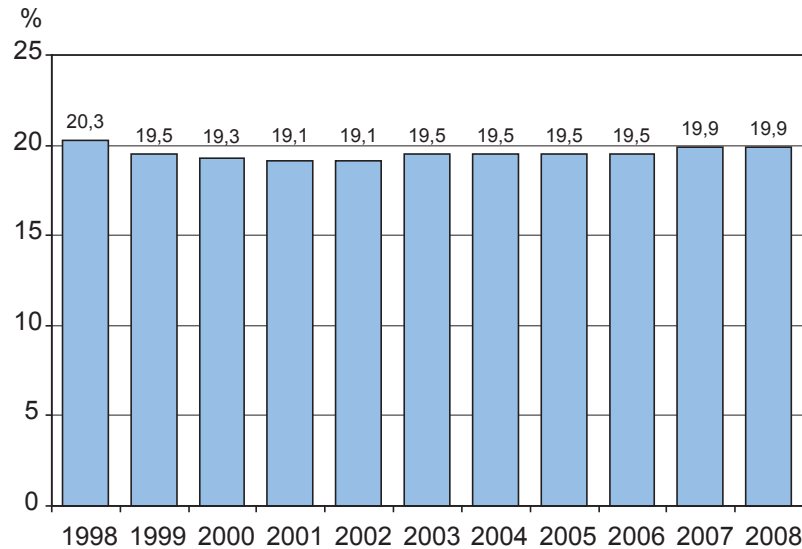
The financing of general pension insurance and of pension insurance for miners, railway workers and seamen is based on the pay-as-you-go principle. The benefits paid from the general pension scheme are mostly financed through the employer's and the employee's contributions. In 2005 the pension contribution was 19.5 per cent of the employee's gross wage up to the earnings ceiling. The contribution is divided in half between the employer and the employee, meaning that both paid 9.75 per cent each. The same contribution is used to finance old-age and disability pensions as well as survivors' pensions. The earnings ceiling, which is the basis for the contributions, is adjusted annually in line with the general wage development. For the part of the wage which exceeds the earnings ceiling no contributions are levied and neither do any pension rights accrue. The ceiling is lower in former East Germany. In 2005 the upper limit for the pensionable earnings was €5,200 per month in West Germany and €4,400 per month in East Germany.

The contribution in the miners' pension scheme is higher than in the general pension scheme. In 2005 the total contribution was 25.90 per cent of the wage below the earnings ceiling. The employee pays the same share of the contribution as in the general pension scheme, i.e. 9.75 per cent in 2005. The employer pays the remainder of the contribution, i.e. 16.15 per cent in 2005. The earnings ceiling is also higher than in the general pension scheme. In 2005 the ceiling was €6,400 per month in West Germany and €5,400 per month in East Germany. The contribution in the artists' pension scheme is the same as in the general pension scheme. Artists who work as independent professionals (incl. musicians etc.) pay half of the contribution. The remainder of the contribution is financed through State funds and levies from companies in the artistic and information industry.

In recent years there has been pressure to increase the pension contribution due to, among other factors, changes in population structure and the financial situation. From the beginning of 2007 the contribution was increased to 19.9 per cent. In connection with the 2004 pension reform an upper limit was set for the contribution, the so-called pension contribution ceiling.

The aim is that the contribution would stay at 19.9 per cent until 2012, increase to a maximum of 20 per cent by 2020 and to a maximum of 22 per cent by 2030. Figure 1 depicts the development of the contribution over the last ten years.

Figure 1. General pension contribution, % of gross wage.



Source: Deutsche Rentenversicherung.

Table 4 describes the total premium income and expenditure in the general pension insurance scheme in 2004–2006. The total premium income in the table differs somewhat from the premium income stated above due to different statistical methods. The figures in table 4 do not include internal transfers in the general pension insurance scheme and also not pension expenditure due to the unification of Germany.

Table 4. Premium income and expenditure in general pension insurance in 2004–2006, million €.

	2004	2005	2006
Premium income	232 468	231 687	243 062
Total expenditure*	235 433	235 616	235 528
Premium income – Total expenditure	-2 965	-3 929	7 534

* Includes also other expenditure items than pensions, e.g. administrative costs.

Source: Rentenversicherung in Zeitreihen 2007. Statistik der Deutschen Rentenversicherung.

In 2005 the premium income for the general pension insurance scheme was not sufficient to cover pension expenditure. The premium income fell short of pension expenditure by approximately €3.9 billion and the State had to pay additional subsidies into the scheme. In 2006 the scheme was in surplus. Table 5 describes the pension expenditure by pension benefit in 2004–2006.

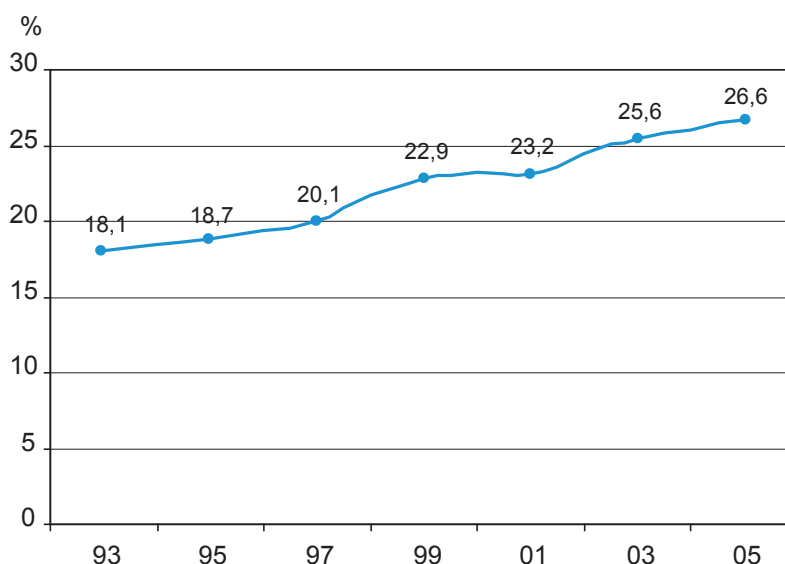
Table 5. Pension expenditure in general pension insurance in 2004–2006, million €.

	2004	2005	2006
Old-age pension	156 153	158 303	159 600
Disability pension	15 896	15 250	14 638
Surviving spouse's pension	37 523	37 373	37 167
Orphans' pension	847	833	814
Total	210 522	211 861	212 320

Source: Rentenversicherung in Zeitreihen 2007. Statistik der Deutschen Rentenversicherung.

In 2005 the old-age pension expenditure constituted about 75 per cent of the total pension expenditure. The share of the disability pensions was approximately 7 per cent and the combined share of the surviving spouse's pensions and orphans' pensions was 18 per cent. The old-age pension expenditure amounted to 7.06 per cent in relation to GDP at market prices, the disability pension expenditure to 0.68 per cent and expenditure for survivors' pensions to 1.7 per cent.

The State participates in the financing of the general pension insurance scheme by paying direct subsidies to the scheme and the contributions for certain unpaid periods. The general subsidy paid by the State is linked to the development in gross wages and the contribution level, and its share increases or decreases accordingly. In addition to the general subsidy, the State pays additional subsidy into the scheme from the revenues from VAT and environmental tax. A small proportion of the premium income derives from revenues from wealth, such as taxes on capital income. Figure 2 describes the State's share of the pension expenditure in 1993–2005.

Figure 2. The State's share of the pension expenditure in general pension insurance, %.

Source: Deutsche Rentenversicherung.

The State's share of pension financing has increased steadily since the initial years of the 1990s. In 2005 the State's share of the pension expenditure was slightly over one-fourth, 26.6 per cent. Through the so-called sustainability factor, which was introduced in 2005, the aim is to

improve the financial sustainability of the scheme by adjusting pension levels to changes in population structure and developments in the employment rate. Since the scheme is based on the pay-as-you-go principle, the scheme's financial balance is especially sensitive to the aforementioned changes, and the sustainability factor reacts to changes in the ratio of pensioners to gainfully employed persons. 25 per cent of the change is taken into account when adjusting pensions. The factor is also used when determining "pension credits" (see Introduction), in which case it affects both the pensions of those who are already retired and future pensions. In the long term the factor will reduce pensions by an estimated 14 per cent. The pension level is also reduced by the 2004 tax reform, through which the taxation of pensions was tightened. Until 2005 50 per cent of the pension was taxable income. Starting in 2006 the taxation will be gradually tightened, so that in 2040 the whole pension will be taxable income. Statutory pensions were not index-adjusted in 2004–2007.

3.2 Farmers' pension scheme

The farmers' pension scheme covers approximately one per cent of all employees. The scheme is mandatory for everyone who works in the industry, and the benefits paid are old-age, disability and survivors' pensions. Farmers' pension insurance is handled by nine pension funds, which also collect the contributions and pay the pensions. In 2005 the scheme's total premium income amounted to approximately €3.2 billion. The premium income has decreased slightly in the last five years. Of all the pension schemes the farmers' pension scheme is the pension scheme which receives the most support from the State. In 2005 78 per cent of the total premium income came from the State and the remainder from the farmers' contributions.

The contribution of the scheme is fixed. In 2005 the contribution amounted to €199 per month in West Germany. In 2008 the contribution had increased to €212 per month. In former East Germany the contributions are lower. The State pays part of the contribution by income classes, so that when the earnings increase the State's share of the contribution decreases. The State's share varies according to income class between 3.8 and 60 per cent. If the annual earnings exceed a certain upper earnings limit (€15,500 in 2008), the State does not participate in the contribution.

3.3 Public-sector pension scheme

The public-sector pension scheme is based on the pay-as-you go principle, but the scheme will be gradually changed towards a funded scheme. Since the beginning of 2007 the buffer fund of the scheme has been increased by funding the contributions of new employees. The fund is administrated by Deutsche Bundesbank.

The public-sector pension scheme covers e.g. state civil servants, judges and persons employed in the armed forces. A large proportion of other public-sector employees are not covered by the scheme; instead they are covered by pension insurance in accordance with the Social Insurance Act. Their employment contracts correspond to private-sector employment contracts

and they pay the same contributions as others covered by the general pension scheme. The public sector employs approximately 4.6 million persons, i.e. approximately 12.6 per cent of the gainfully employed workforce. Of these persons, approximately 1.7 million are state civil servants. The number of persons covered by the public-sector pension scheme has decreased for several years now, and in 2005 the scheme had 3.8 million insured.

The pensions are financed through State funds as well as levies collected from both the Länder and the municipalities. In 2005 the premium income of the scheme amounted to €35.8 billion.

3.4 Pensions for independent professionals

Pension insurance schemes for independent professionals cover both self-employed persons and persons working under an employment contract. The schemes are often based on partial funding.

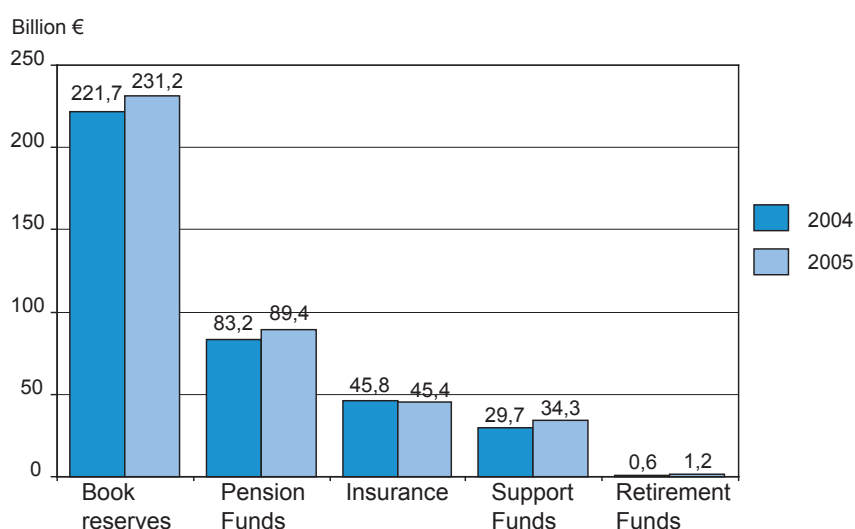
In 2005 the total premium income amounted to €10.4 billion. In 2005 nearly 90 per cent of the premium income came from contributions paid by persons working as self-employed persons and from other income sources, such as capital income. The contributions vary between different schemes, but they often follow the development in the contribution level in the general pension scheme.

4 Financing of occupational pension provision arranged by the employer

4.1 Private-sector occupational pensions

In accordance with the act on occupational pensions the employer may arrange occupational pension provision for the employees in five different ways: as so-called book reserves in the company, with a pension fund, with a support fund, with a retirement fund or through pension insurance. In 2006 most of the occupational pension assets, 56.2 per cent were in the companies' book reserves. 23 per cent of the assets were in pension funds, 9 per cent in support funds, 11.3 per cent in pension insurance policies and 0.5 per cent in retirement funds. The establishing of retirement funds has only been possible since 2002. The main difference between pension funds and retirement funds is that retirement funds have less stringent investment rules and that the retirement fund has to have insurance against insolvency. Figure 3 describes the distribution of occupational pension assets by the manner of arranging pension provision.

Figure 3. Distribution of occupational pension assets in 2004–2005, billion €.



Source: Arbeitsgemeinschaft für betriebliche Altersversorgung e.V.

The aggregate occupational pension assets amounted to €381 billion in 2004 and €401.5 billion in 2005. In 2005 the total premium income of the private-sector occupational pension schemes amounted to €28.8 billion. This figure does not include occupational provision which has been arranged through the companies' book reserves. Since more than half of occupational pension provision consists of book reserves, the total premium income is in reality considerably higher than the figure stated above. The premium income for occupational pension provision arranged by the employer increased in 2000–2005 by approximately €9 billion.

The employers finance the main part of occupational pension provision, but the employees are to an increasing extent required to pay contributions. At the beginning of 2002 about 54 per cent of occupational provision was financed solely by the employer, whereas in mid-2004 the employers financed solely only 38 per cent of occupational pension provision. Over the same period the share of occupational pensions financed jointly by the employers and the employees increased from 25 per cent to 41 per cent (Stiefermann 2006). In 2005 approximately 90 per cent of the total premium income came from the employers' contributions (see table 3).

The average contributions vary according to the manner of arranging occupational pensions. Table 6 presents the average monthly contribution paid into pension funds, retirement funds, and pension insurance policies in 2005 by gender.

Table 6. *Average* monthly contributions paid into occupational pension schemes, euros.*

Type of provision	Contribution women	Contribution men	Total
Pension fund	77	105	100
Insurance (2003)	88	80	85
Retirement fund	97	86	104

* Some insurers have not reported contributions separately for men and for women. Source: TNS Infratest Sozialforschung 2007.

When the employee uses the right to convert part of the wage to an occupational pension benefit, the part of the wage to be invested in the occupational pension may be at the most 4 per cent of the gross wage below the earnings ceiling of the statutory pension scheme. The maximum amount was €2,496 in 2005 and €2,544 in 2008.

4.2 Public-sector occupational pension schemes and occupational pension schemes in agriculture and forestry

There are several different occupational pension schemes in the public sector. There are, for instance, separate schemes for state and local government employees and for church employees. The occupational pension scheme for public-sector employees does thus not cover state civil servants, judges or persons employed by the armed forces. Public-sector occupational pensions are mainly financed through the employers' contributions and revenues from capital tax and other levies. Since 1999 the employees have also participated in the financing of the pensions. The State supports the scheme through a small share, approximately 4.3 per cent of the premium income consisted of state subsidy in 2005. Since 2002 the employee's occupational pension contribution has amounted to 1.41 per cent and the employer's contribution to 6.45 per cent of the employee's wage. The contribution is used to finance the benefits paid from the scheme, which are old-age and disability pensions as well as survivors' pensions. In the church and local government schemes the contributions may vary.

Those who work in agriculture and forestry also have their own occupational pension schemes. The employer should pay occupational pension to the employees to an amount of at least €5.20 per month (in 2008). The State pays subsidy for the pensions. The aggregate total premium income of the public-sector occupational pension schemes and the farmers' occupational pension schemes amounted to approximately €12.45 billion in 2005.

5 Financing of Riester pensions

The popularity of state-subsidised voluntary pension saving, so-called Riester pensions, has increased rapidly since the end of 2005. At the end of 2005 about 5.6 million insurance contracts had been concluded, in early 2007 already over 9 million. Most of the contracts have been concluded with insurance companies, but the number of contracts concluded with investment funds is increasing. In 2005 85 per cent of the contracts had been concluded with insurance companies and 10 per cent with investment funds. At the beginning of 2007 the corresponding figures were 80 per cent and 16 per cent. The smallest number of contracts has been concluded with banks.

In 2005 the minimum contribution paid by the employee had to amount to 2 per cent of the previous year's earnings, but at least €60. The contribution is levied on the earnings for which statutory pension contributions are paid. The maximum contribution per year was €1,050 in 2005, i.e. about 2.5 per cent of a middle-income employee's annual wage. The State pays two kinds of subsidy for the Riester pension: basic subsidy, which in 2005 amounted to €76 per year, and subsidy for minor children, which amounted to €92 per child per year. The subsidies paid by the State are deducted from the minimum contribution. In 2006 and 2007 the minimum contribution had to amount to 3 per cent of the earnings below the earnings ceiling, and at the beginning of 2008 the contribution was increased to 4 per cent. In 2008 the maximum amount of savings was €2,100. The minimum contribution still had to amount to at least €60. The basic subsidy was increased to €154 per year and the subsidy for minor children to €185 per year.

6 Examples

A calculation of the employer's and the employee's average pension contributions in the private sector is presented in the following. The contributions are calculated for a middle-income and a high-income employee under the assumption that the wage earner is covered by the general pension scheme and that the employee is covered by occupational pension provision arranged by the employer. A further assumption is that the employee is single and pays Riester pension contribution according to the minimum level. The wage data are based on the employees' average wage according to the OECD Economic Outlook database, and in 2005 the average wage amounted to approximately €41,688, i.e. €3,474 per month. The earnings ceiling for the pension contributions in West Germany, €5,200 per month in 2005, has been used in the examples.

The occupational pension contributions have been estimated by relating the average occupational pension contributions presented in table 6 to the average wage. The contributions are calculated on the whole wage without any earnings ceiling. In reality the employer often pays in defined benefit schemes a contribution of a certain amount up to the statutory earnings ceiling and a certain contribution for the part which exceeds the ceiling. Since the employer usually finances most of the occupational pension, the examples assume that the employer pays 90 per cent of the contribution and the employee 10 per cent. In table 3 on the total premium income by source of income, the employer's share of the premium income for occupational pensions in the private sector was also approximately 90 per cent.

The Riester pension contribution is calculated on the basis of the minimum contribution in force in 2005. The contribution was 2 per cent of earning below the earnings ceiling. The calculation takes into account the subsidy paid by the State, €76 in 2005, which has been deducted from the required minimum contribution.

Table 7. Pension contributions for private-sector employee in 2005, % of the wage.

	Employer	Employee	Total
1 x average wage			
Statutory pension contribution	9.75	9.75	19.50
Occupational pension provision arranged by the employer:			
- Pension fund	2.59	0.29	2.88
- Retirement fund	2.69	0.30	2.99
- Pension insurance (2003)	2.20	0.25	2.45
Riester pension	-	1.8	1.8
2 x average wage			
Statutory pension contribution	7.30	7.30	14.60
Occupational pension provision arranged by the employer:			
- Pension fund	1.30	0.14	1.44
- Retirement fund	1.34	0.15	1.50
- Pension insurance	1.10	0.12	1.22
Riester pension	-	1.4	1.4

A private-sector middle-income employee who is covered by the statutory general pension scheme and for whom the employer has arranged occupational pension provision with a pension fund and who saves towards a voluntary Riemer pension by paying the minimum contribution pays 11.84 per cent of the monthly wage in estimated pension contributions. The employer's contributions for this same employee amount to 12.34 per cent. An employee who is covered by pension provision of the aforementioned kind but whose monthly earnings are twice the average wage pays 8.84 per cent of the wage in pension contributions. In this case the employer's contributions amount to 8.6 per cent.

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