Pension insurance

Willi S. has never been the flighty sort. Quite the contrary: when he was chief accountant in the old firm, Willi, now 73, more than once had to dissuade his boss from an over-ambitious expansion plan. There was no time for flights of fancy back then. So it will come as no surprise that he is still careful with his money now he has retired. Willi and his 70-year-old wife Anneliese have no financial worries: They long ago paid off their mortgage on the detached house they have lived in for the last forty years, and Willi and Anneliese S. have been saving all their lives. But mostly they live off their pension. "We can get by comfortably on it," says the 73-year-old. "I used to earn a good salary, and my wife went back to her job as a sales clerk once the children were out of the house."

Willi S. is enjoying his retirement. His biggest hobby is flying model aeroplanes. He has several small planes and gliders, all of which he built himself. He is off to the airfield with two fellow pensioners "whenever my wife lets me," as he says with a smile. When he's there, Willi does allow himself the occasional flight of fancy, too.

Welfare and pension insurance go hand in hand. For decades now, pension insurance has provided people with the financial security they need in old age.

Recent demographic change coupled with the need to maintain the financial security offered by a state pensions system requires reform of the pensions system if we are to avoid overburdening current and future contributors while providing appropriate pension levels for future old-age pensioners. Reform is the only way to make pensions secure and affordable in the long term.

The Pensions Reform Act 2001 builds on the innovative measures already introduced by the current government. Germany's ecological tax reform deserves special mention because it systematically provides tax revenue to allow benefits not previously covered by the state pensions system.

Since April 1999, after many years of rising contributions, pension contributions have been lowered from 20.3% to 19.1%. This is an important element in containing ancillary wage costs and thus in improving the conditions for a healthier labour market. New pension legislation has also resolved the long debate on separating persons engaged in minor employment from those who abuse self-employment status, i.e. determining who and who is not subject to compulsory membership of the state health insurance scheme.

Long-term, viable pension reform requires an equally balanced and fair distribution across the generations. This can only be done by way of sustainable policy. Over the next 30 years or so, pension contributions need to be kept at a level that does not overburden future contributors while at the same time ensuring that state pensions provide a level of income for those in retirement which allows them to more or less maintain the lifestyle they achieved before they retired. Basically, we need to create a pensions system that is both viable and affordable in the long term.

This brings with it the need to limit contributions that have risen apace with demographic change. The burden of high contributions has already crossed the pain threshold. This is why we need to stabilise contributions to the state pensions system in the long-term to ensure that they do not exceed 22 per cent in 2030. Ever rising contributions would have a drastic effect on people's belief in and acceptance of the state pensions system.

In terms of input and output, i.e. contributions and pensions, we cannot ignore reality: the positive development that enables people to live longer as a result of increased life-expectancy means that people draw their pensions over an extended period of time. This is why the goal of achieving contribution targets by 2030 depends on future pension levels being lower than they are today. There is no other way but to alter the pension alignment formula to effect a slight reduction in pension levels in 2011. For those contributing, this will result in a slight levelling out in pension increases compared with wage increases and in standard pension levels sinking from around 70 per cent today to around 68 per cent in 2030.

The state pensions system remains the most important element of financial security in old age. However, it may be enhanced by a supplementary private pension plan that is both voluntary and subsidised by the state. Subsidising supplementary private pensions lies at the heart of the pension reform. This does not mean replacing part of the existing state pension, but actually supplementing it. Only in this way can we secure or maybe even improve the lifestyles of future contributors in their old age.

What this means is that the future pensions system will rest on broader foundations, with state pensions based on collective provision supplemented

by company and private pensions based on individual initiative and incentives. The new pensions system will benefit all generations by combining collective provision with capital gain.

Who is insured?

With some exceptions, all white-collar and blue-collar **employees** pay compulsory contributions to the state pension fund - as do trainees, disabled people employed at sheltered workshops, and people on military or civilian service.

The contribution assessment limit for 2002 is EUR 4,500 a month in western Germany and EUR 3,750 in eastern Germany. This is not the limit for compulsory membership of the state pension fund; that is, even if you earn more, you must still pay contributions. The contribution assessment limit is the maximum amount from which your contributions to the state insurance fund are calculated, even if you earn more.

Not all **self-employed people** have to pay compulsory contributions. Those who must include **self-employed tradespeople**, though these may opt out after 18 years. **Self-employed artists and members of the publishing professions** have to pay contributions under the Artists Social Welfare Act if their annual income exceeds a set minimum, and until they have been five years in the profession - though they pay only half the contributions themselves. Contributions are subject to a certain minimum annual income which those new to the respective professions may not attain. The Artists' Social Welfare Fund (Künstlersozialkasse) in Wilhelmshaven decides who must pay contributions and also sets the rate.

As of 1 January 1999, you must also pay contributions if you are **self-employed** and in your self-employed capacity do not have any employees who must pay contributions themselves, and you primarily work on a long term basis for a single client or employer. You are considered to work primarily for a single client or employer not only if you are primarily under contract to one client or employer, but also if you are economically dependent upon such a client or employer.

People starting a new business can be exempted from paying contributions for up to three years. An exemption can also be claimed by people who are already near retirement age.

Under a transitional arrangement for those who have already made other provisions for old age, certain self-employed people can gain an exemption from contribution payments. To qualify for the exemption, the person concerned must (a) have been aged 50 or older on 1 January 1999 or (b) have life assurance or a personal or company pension plan that dates from before 10 December 1998 and whose benefits and premiums were rendered equivalent to those of statutory pension insurance by 30 June 2000 or are so rendered within one year of the person becoming subject to compulsory pension insurance; the benefits are equivalent if the policy or plan pays out to the policyholder or to surviving dependants in the event of invalidity, survival beyond age 60 or higher, and death, while the premiums are equivalent if they equal or exceed the statutory contributions that the policyholder would otherwise have to pay. The exemption criteria can also be met with other equivalent forms of pension provision. The exemption must be applied for within one year of the person becoming subject to compulsory pension insurance. The earliest cut-off date for exemption applications was 30 June 2000. Exemptions apply retrospectively to 1 January 1999.

Additionally, an exemption from compulsory pension insurance is available in case of hardship for a limited period to 30 September 2001 for certain self-employed people who are subject to compulsory pension insurance – self-employed teachers, carers, midwives, and self-employed people in eastern Germany.

Farmers are not insured with the state, but with a separate farmers' pension fund. This special system provides farmers with partial cover, which they supplement in other ways - often by selling the farm on retirement or claiming Altenteil, the right of German farmers to live on the farm after making it over to their children.

Self-employed people who are not required to pay compulsory contributions can apply to start doing so within five years of becoming self-employed. They then have the same rights and obligations as compulsory contributors.

Child-raising periods: Mothers and fathers are automatically insured during the initial child-raising period. Up to three years are credited for children born since 1 January 1992, and up to one year for children born earlier. These contributions are paid by the federal state.

Carers: You are automatically insured without paying contributions if you are in paid work for 30 hours a week or less and spend at least 14 hours a week looking after someone (say, a relative) who qualifies as being in considerable need of care. This improvement came in with the first stage of the new long-term care insurance system on 1 April 1996.

Claimants of income-replacement benefits continue to be compulsorily insured if they were so insured in the year before they began drawing benefit. If not, they can usually apply for compulsory membership of the pension fund. Income-replacement benefits include sickness benefit, injury benefit, transitional allowances, preretirement benefit, and early retirement pay. The contributions are paid by the agency awarding the benefit.

Who is exempt from insurance?

1. Marginal employment: You are exempt from insurance if you are in marginal employment, regularly working less than 15 hours a week and regularly earning not more than EUR 325 a month.

If you are employed under a EUR 325 contract only or earn less than EUR 325 a month and do not have a primary occupation for which you must pay contributions, your employer pays a 12 per cent lump-sum pension insurance contribution. If you are not already on a full old-age pension, the extra contributions will boost your pension and the period over which you pay them will go towards your pension qualifying period.

If you are in marginal employment and agree in writing with your employer to waive the exemption, you must pay contributions from then on until your employment is terminated. Anyone - except people on a full pension - can use this option provided that they do not have any other employment that is subject to contributions. You must top up the 12% lump-sum employer's share with a further 7.1% to make up the full contribution (of 19.1% from 1 January 2002). This gains you entitlement to all pension benefits, including rehabilitation, pension on account of reduced earning capacity, and credit months for an early-retirement pension. Employees on less than

EUR 155 a month pay a minimum contribution based on EUR 155, on which the employee's share is credited. Employers have a duty to inform employees that they have the option to top up their pension contributions.

2. Short-term employment: Regardless of how much you earn, you are exempt from insurance if your employment commenced no more than one year ago (not just within the same calendar year) and is limited by nature or prior contractual agreement to a maximum of two months or fifty working days, unless it is your regular employment and you earn more than EUR 325 a month.

3. Multiple occupations: If you have a marginal occupation that is not short-term as well as a primary occupation for which you pay contributions, your earnings are totalled. You must pay pension, health and long-term care insurance contributions on your earnings from the marginal occupation, but not unemployment insurance.

If you have two or more marginal or short-term occupations, you must pay contributions for all types of social insurance if you exceed the above limits for either marginal or short-term employment in total.

4. Exceptions: There are special rules for certain groups, for example trainees and apprentices or disabled people. Contributions are still levied on these groups even if the criteria for marginal employment are fulfilled.

Note: Any decisions regarding your social insurance obligations under the law are made by the statutory health insurance fund responsible for your area. The health insurance funds also provide information and advice.

Who can pay voluntary contributions?

If you do not pay compulsory contributions, as a rule you can pay voluntary contributions to the employee pension funds. This option is primarily for self-employed people and housewives. Public servants, judges and regular soldiers are subject to certain restrictions.

Rehabilitation

German pensions law expressly prefers rehabilitation to pensions where possible. The pension insurance funds examine all pension applications submitted on account of reduced earning capacity, to see if rehabilitation is a viable alternative and would eliminate the need for a pension.

Who can claim a pension?

Like any other insurance, to claim a pension you must have paid contributions and satisfy various conditions laid down by the law.

Old-age pensions

Only an insured person can claim an old-age pension. You must have reached a set age, have paid contributions for a minimum period (known as the qualifying period) and have applied for a pension. For some types of pension you have to satisfy other legal and personal conditions before you can claim.

The Pensions Reform Act 1992, passed as early as 1989, raised the early retirement age thresholds of 60 and 63 to the standard retirement age of 65. Then in 1996 and 1997, it was decided to bring forward the start date for raising the age thresholds and to shorten the steps that would effect the rise. This meant that the rise in age thresholds would begin and be completed earlier than provided for under the Pensions Reform Act 1992. For contributors severely affected by this change, and to maintain confidence in the pensions system, the steps prescribed in the Pensions Reform Act 1992 continued to apply (these resulted in a lesser increase in the age threshold).

The rise in pension ages is linked to a flexible retirement start date. This means that both early retirement or delayed retirement are still possible even with the phased increase in retirement age thresholds. If you delay your retirement beyond the age of 65, you are entitled to a bonus that increases your monthly pension by 0.5%. If you retire early, before your 65th birthday (with the exception of old-age pensions for severely disabled people: before your 63rd birthday), you will encounter deductions from your pension. During the interim period in which the age threshold is raised in monthly steps, a separate age threshold applies for each year and month of birth to provide non-deductible pensions. Each month of early retirement results in a deduction of 0.3% of the payable pension for the entire pension period. The bonuses and deductions serve to ensure that the same amount of pension is paid out over the entire pension period irrespective of the date of retirement. This avoids that delayed retirement results in a lesser pension or that early retirement results in a more generous one.

You can offset or avoid the reduction in your monthly pension by paying higher contributions. You may pay these before your 60th birthday, but not after your 65th.

1. Standard Old-age Pension

Old-age pension may be claimed upon reaching your 65th birthday. It is not subject to any deductions. The only condition is that you must have completed the qualifying period (minimum contribution period) of five years.

2. Long Service Pensions

Long service pension is an early retirement pension that may be claimed by contributors born before 1 January 1948 upon reaching their 63rd birthday provided that they have completed a qualifying period of 35 years, i.e. have paid compulsory contributions over that period. For contributors born in 1948 and 1949, the pension age threshold for long service pensions is to be reduced in monthly steps so that from the end of 2011 (for contributors born in November 1949 and after) they may claim long service pension upon reaching their 62nd birthday.

The pension age threshold for long service pensions rose from 63 to 65 in monthly steps between 2000 and 2001. This means that from the beginning of 2002, long service pensions for contributors who retire at the beginning of 2002 will be subject to deductions. To maintain confidence in the pensions system, the Pensions Reform Act 1992 stipulates a lesser increase in the age threshold for certain groups:

- Contributors born before 1 January 1942 who have paid compulsory contributions for 45 years in an insured occupation, excluding any periods during which they have claimed unemployment benefit or unemployment assistance.
- Contributors born on or before 14 February 1941 who were receiving early retirement pay or transitional benefit from the seamen's fund on 14 February 1996.

3. Old-age pension after unemployment or partial retirement

If you were born before 1 January 1952, you may claim this pension after a qualifying period of 15 years, have paid compulsory contributions for at least eight of the ten years before payments are due to begin, are unemployed when payments are due to begin or have been in partial retirement and have been unemployed or receiving miners' redundancy compensation (Anpassungsgeld) for at least 52 weeks since attaining the age of 58 years and 6 months. If you have been in partial retirement for at least 24 months (see the Employment Promotion chapter), you can claim this pension regardless of whether your partial retirement was funded by the employment office.

The pension age threshold for unemployed and partially retired people rose from 60 to 65 in monthly steps between 1997 and 2001. As a result, from January 2002 pensions for those who retire at 60 are subject to an 18 per cent reduction.

To maintain confidence in the pensions system, the Pensions Reform Act 1992 stipulates a lesser increase in the age threshold for certain groups:

- Contributors aged 55 by 14 February 1996 whose employment was terminated on or after this date by prior dismissal or voluntary redundancy, and who received miners' redundancy compensation or were unemployed from then on. An agreement restricting the term of employment made before 14 February 1996 or the approval of a fixed-term employment or training scheme counts as voluntary redundancy.
- Contributors in the coal or steel industry aged 52 by 14 February 1996 and made redundant before or after this date in a scheme already approved under Article 56(2)(b) of the Treaty Establishing the European Coal and Steel Community (ECSC Treaty).
- Contributors born before 1 January 1942 who have paid compulsory contributions for 45 years in an insured occupation, excluding any periods during which they have claimed unemployment benefit or unemployment assistance.

4. Old-age pension for women

This is paid from your 60th birthday onwards after a qualifying period of 25 years if you were born before 1 January 1952. You need to have paid contributions for more than 10 years since your 40th birthday. From 2012, women born after 1 January 1952 will no longer be entitled to this pension.

The pension age threshold for women will rise from 60 to 65 in monthly steps between 2000 and 2004. The same exclusions on compassionate grounds apply as for unemployed and partially retired people, though the cut-off date in this case is 7 May 1996.

5. Severe disability pension

This is paid from your 60th birthday onwards after a qualifying period of 35 years if you are registered as severely disabled, occupationally disabled or as an invalid when pension payments are due to begin. In recognition of the special needs of severely disabled people, this pension is paid out at age 63 and not at age 65, the age for standard old-age pension.

To maintain confidence in the pensions system, the age threshold for this pension will not rise for contributors born before 1 January 1951 and who were registered as severely disabled or as an invalid under the law as it applied on 31 December 2000. Between January 2001 and December 2003, the pension age will increase from 60 to 63 (this affects contributors born after 31 December 1940). The increase in pension age does not apply to contributors born on or before 16 December 1950 and are severely disabled, occupationally disabled or invalided as of 16 November 2000. Contributors born before 1942 who have paid compulsory contributions for at least 45 years in an insured occupation (excluding any periods during which they have claimed unemployment benefit or unemployment assistance) are likewise exempt.

6. Miners' long service pension

This is paid from your 60th birthday onwards after a qualifying period of 25 years (made up of all contribution periods when you were employed full time underground).

Partial pension

◆ Partial retirement on a partial pension

Under the Pensions Reform Act that came into force on 1 January 1992, you now have the option of drawing a full pension or of working shorter hours and drawing a partial pension. This allows you to move gradually from working life into retirement. The amount you can earn while drawing a partial pension is much higher than the amount you are allowed to earn in addition to a full pension.

Of course, for people to take advantage of the partial pension option, there must be an adequate supply of part-time jobs. With this in mind, the law provides that employers must give due consideration to the possibility of providing part-time work for any employees who wish to cut down their hours and draw a partial pension. If an employee proposes this as an option for the part of the company or organization he or she works in, the employer must give a reasoned response. This approach is intended as an incentive to create part-time jobs.

◆ Who can choose to draw a partial pension?

Since 1 January 1992, anyone can choose to draw a partial pension, even if their pension is awarded under the law in force since 1 January 1992 because they have reached the age of 65 (standard old-age pension).

◆ What are the partial pension rates?

When applying to draw a partial pension you can choose one of three rates:

- 1/3 pension
- 1/2 pension
- 2/3 pension

◆ How much may you earn on top of a partial pension?

The limit on additional earnings for an old-age pension (payable from March 2000) drawn as a partial pension depends on the pension rate you choose and is calculated in two stages. First, the current pension value (the national average pension) is multiplied by a factor as follows:

- 1/3 pension: 23.3 times the current pension value
- 1/2 pension: 17.5 times the current pension value
- 2/3 pension: 11.7 times the current pension value

This figure is then multiplied by your total earnings points from the last

three calendar years before you started drawing your old-age pension - or by 1.5, if you gained 1.5 earnings points or less in that time.

In effect, then, there are two earnings limits: A general one, which is a minimum limit for all, and a personal one that depends on the last year's income you paid contributions on.

The general earnings limit applies if, on average, you earned less than 50 per cent of the national average income in the last three calendar years before your pension payments started - that is, if you earned less than 0.5 earnings points in that time. See the table on page 47 for the individual amounts.

The personal earnings limit applies if, on average, you earned more than 50 per cent of the national average income in the last three calendar years before your pension started. For example, your monthly earnings limit would be as follows if you earned the national average income:

- 1/3 pension:
  EUR 888.52 (DM 1,737.80) (west)
  EUR 774.39 (DM 1,514,57) (east)
- 1/2 pension:
  EUR 1,328.99 (DM 2,599.28) (west)
  EUR 1,158.27 (DM 2,265.38) (east)
- 2/3 pension:
  EUR 1,769.45 (DM 3,460,75) (west)
  EUR 1,542.15 (DM 3,016.19) (east)

You may exceed the monthly earnings limit and earn up to double the limit twice in any calendar year (for example as a result of payments such as Christmas or holiday bonuses).

◆ Changing to a Different Rate of Partial Pension

Even if you overstep the earnings limit for the rate of partial pension you are currently drawing, you will not necessarily lose your pension entitlement. Your earnings are checked to see if you are below the limit for the next lower rate of partial pension. You only lose your full pension entitlement when your earnings exceed the limit for the lowest rate of partial pension (1/3 pension).

◆ Pension Contributions while Drawing a Partial Pension

As a recipient of a partial pension, you need to pay pension contributions on any earnings that would be subject to compulsory contributions if you were not drawing the pension. The contributions you pay will count later towards your full pension, but do not increase the partial pension you are already receiving. Your partial pension is based solely on contributions made before you first started receiving an old-age pension.

Drawing a partial pension allows you to offset deductions made on pensions drawn early. If you draw your full pension upon reaching your 65th birthday, the contributions you pay during partial retirement are not subject to deduction. If you don't draw your full pension until after you have reached the standard pension age, you will be entitled to a bonus on those contributions due to your delayed pension claim.

Pensions on account of reduced earning capacity

These pensions make up for lost earnings if your earning capacity is reduced or you can no longer work at all. To claim, you need to have paid compulsory contributions for at least three of the preceding five years (including child-raising and other credited periods), and to have completed a five-year qualifying period before your loss of earning capacity - unless your reduced earning capacity results from circumstances, such as an accident at work, that exempt you from the qualifying period.

You also qualify if you completed the five-year qualifying period before 1984 and satisfied the pension credit requirements for each month from then until the time you began to suffer loss of earnings.

A reduced-earning-capacity pension is paid up to your 65th birthday. You can then claim the standard old-age pension in at least the same amount.

Supplementary income limits were introduced for invalidity pensions on 1 January 1996. Under a transitional arrangement, they do not apply until January 2001 for people who were already able to claim an occupational disability or invalidity pension on 31 December 1995.

The unwarranted cuts planned by the last government with the reorganization of reduced-earning-capacity pensions under the Pensions Reform Act of 1999 have now been reversed by the Gesetz zur Reform der Renten wegen verminderter Erwerbsfähigkeit (Reduced Earning Capacity Pensions Reform Act), which came into force on 1 January 2001.

The existing division of pensions on account of reduced earning capacity into occupational disability pensions and invalidity pensions has been replaced with a two-level reduced-earning-capacity pension:

- Full-rate reduced-earning-capacity pension for contributors with a residual working capacity of less than three hours a day on the general labour market.
- Half-rate reduced-earning-capacity pension for contributors with a residual working capacity of between three and not more than six hours a day on the general labour market.

The policy of taking labour market conditions into account when assessing claims to pensions on account of reduced earning capacity – a policy which the last government planned to abolish – has been retained in view of the unfavourable labour market situation. Contributors who are capable of working at least three but not more than six hours a day receive the full-rate reduced-earning-capacity pension if they are unable to use their free capacity for gainful employment because no job is available.

Contributors aged 40 or over when the reform came into force can still claim a partial pension on account of invalidity. They can still claim the half-rate reduced-earning-capacity pension if they are unable to work more than six hours a day in their existing occupation or in other work they can reasonably be expected to accept. The last government had planned to abolish the occupational criterion without any transitional provisions.

The maximum 10.8% actuarial reduction that already applied to reduced-earning-capacity pensions after the 1999 pensions reform has been retained. Its effects have been lessened, however, by extending added periods to age 60.

The reform provisions apply to reduced-earning-capacity pensions whose date of commencement is on or after 1 January 2001, when the reform entered into force. Contributors who

were already receiving a pension on account of reduced earnings capacity on 31 December 2000 remain subject to the prior law.

The individual pension benefits are as follows:

1. Pension on account of partial reduced earning capacity: Contributors who are prevented indefinitely by illness or disability from doing at least than six hours of paid work a day under the conditions usual on the general labour market are considered to have partial reduced earning capacity. Such contributors receive a pension on account of partial reduced earning capacity, at half the rate of an old-age pension or pension on account of full reduced earning capacity.

2. Pension on account of full reduced earning capacity: Contributors who are prevented indefinitely by illness or disability from doing at least three hours of paid work a day under the conditions usual on the general labour market are considered to have full reduced earning capacity. A pension on account of full reduced earning capacity is paid in the amount of an old-age pension.

3. Pension on account of partial reduced earning capacity with occupational disability: This is paid out in the same amount as for partial reduced earning capacity to contributors who have an occupational disability and were born before 2 January 1961. Contributors are considered to have an occupational disability if they are unable to work six hours or more a day in their existing occupation or in other work they can reasonably be expected to accept.

4. Pension on account of full reduced earning capacity for disabled persons: Contributors who were classed as having full reduced earning capacity before completing the five-year qualifying period and have remained so since can claim a pension on account of full reduced earning capacity after a qualifying period of 20 years. Alternatively, this pension entitlement can be made up with voluntary contributions.

◆ Fixed-term pension:

Pensions on account of reduced earning capacity are generally paid on a fixed-term basis. They are paid on an indefinite basis, however, if the reduction in earning capacity is unlikely to be reversed; this is assumed to be the case after a total of 9 years of fixed-term pension payments.

Supplementary Earnings Limits: January-June 2001

Type of pension	Monthly Earnings Limit			
	Western Germany		Eastern Germany	
	DM	EUR from 1/1/2002	DM	EUR from 1/1/2002
Old-age pensions				
Standard old age pension from age 65				
Up to age 65	no limit			
- Full pension	630.00	325.00	630.00	325.00
- 2/3 pension	868.90	444.26	757.28	387.19
	866.43*	443.00	755.13*	386.09
- 1/2 pension	1,299.64	664.49	1,132.69	579.13
- 1/3 pension	1,730.37	884.73	1,508.09	771.08
	1,732.85*	885.99	1,510.25*	772.18
Pensions on account of reduced earning capacity (commencing before 1 January 2001)				
Invalidity pensions				
- Full pension	630.00	325.00	630.00	325.00
- 3/4 pension	1,158.53	592.35	1,009.71	516.26
- 1/2 pension	1,537.29	786.00	1,339.81	685.03
- 1/4 pension	1,916.04	979.65	1,669.91	853.81
Occupational disability pensions				
- Full pension	1,537.29	786.00	1,339.81	685.03
- 1/2 pension	1,916.04	979.65	1,669.91	853.81
Pensions on account of reduced earning capacity (commencing from 1 January 2001)				
Invalidity pensions	630.00	325.00	630.00	325.00
Occupational disability pensions				
- Full pension	1,299.64	664.49	1,132.69	579.13
- 2/3 pension	1,732.85	885.99	1,510.25	772.18
- 1/3 pension	2,166.06	1,107.49	1,887.81	965.22

With the exception of the DM 630 (from 1/1/2002: EUR 325) additional earnings limits, all stated amounts are general limits that are the minimum that may be earned in addition to a pension. Higher, personal limits apply if pre-pension earnings exceeded half the national average income, and are based on the last year's income on which contributions were paid.

Pensions on account of the insured person's death				
Widows' and widowers' pensions	Monthly lump sum**)			
	1,307.06	668.29	1,139.16	582.44
	plus, for each child entitled to an orphan's pension:			
	277.26141,76	241.64	123.55	
Orphan's pensions	Monthly lump sum**)			
	871.38	445.53	759.44	388.30
Child-raising pensions	As for widows' and widowers' pensions			

*) *For pensions commencing from 2000 onwards*
**) *40 per cent of the excess amount is deducted from the pension*

5. Miner's Pension: You can claim a miner's pension if you are a miner and:

- can no longer perform your previous work or a comparable job in the mining industry due to illness or a disability;
- have completed the five-year qualifying period in the mining industry;
- and have paid compulsory contributions as a miner for at least three of the last five years, or completed the five-year qualifying period before 1984 and have satisfied the pension credit requirements for each month from then until the time you began to suffer loss of earning capacity.

You cannot claim a miner's pension if you are able to do work outside the mining industry that is comparable to your past employment.

Alternatively, you can claim a miner's pension if you:

- have reached your 50th birthday;
- are unable to do work comparable to your past employment in the mining industry;
- and have been employed underground and paying contributions for a qualifying period of 25 years.

Pensions on account of the insured person's death

1. Widow's or Widower's Pension

These pensions are paid out to surviving spouses of contributors, provided they have not remarried and the deceased spouse completed a generally applicable qualifying period of five years. Widow's or widower's pensions amount to at least 25 per cent of the deceased spouse's full pension (minimum widow's/widower's pension). If the surviving spouse has reached the age of 45 or is rearing a child under 18 or cares for a dependent child who for reasons of physical, mental or psychological disability is unable to fend for itself or has reduced earning capacity then the widow's or widower's pension amounts to 60 per cent of the deceased spouse's full pension (maximum widow's/widower's pension). The widow's or widower's income is offset against these pensions.

The general rules remain valid for couples who married before 1 January 2002 and where one of the spouses is older than 40 on that date. For newly weds and younger married couples, the following changes apply:

Women today usually earn their own income and make their own contributions to the state pensions system. As a result, they are becoming increasingly less dependent on receiving part of their deceased husband's pension. For this reason, the rate for the maximum widow's or widower's pension has been slightly reduced from 60 per cent to 55 per cent. At the same time, people in this group who have reared a child receive additional consideration in that the pension is supplemented by the addition of two earnings points for the first child and one earnings point for each additional child. This rule means that young surviving spouses who receive an average widow's or widower's pension and who have reared a child are slightly better off than they were under the old rule.

For those to whom this new rule applies, the minimum widow's or widower's pension is limited to 24 months.

2. Orphan's Pension

This pension is paid out to the dependent children of a deceased contributor up to the age of 18. Children still in vocational training or who are severely disabled may claim orphan's pension up to the age of 27. Claims made by older children will only be considered in cases where education or vocational training was disrupted by military or civilian service. Orphans who have lost both parents receive one fifth and orphans who have lost one parent receive one tenth of the full pension plus a supplement. Orphan's pension is subject to income-related deductions.

3. Child-raising Pension

This is another type of pension that is paid out in the event of the insured person's death. It is an independent source of income for people who are divorced and are raising children, and aims to replace the child maintenance lost as a result of the divorced spouse's death.

You can claim child-raising pension if:

- Your divorced husband or wife has died
- If you are raising a child of your own or a child of your former husband or wife
- You have not remarried
- You completed the five-year qualifying period before the death of your divorced partner
- You were legally divorced (for former eastern Germany: only for divorces after 30 June 1977).

The child-raising pension is calculated in the same way as old-age pension. It is not paid out of the

The new pension formula

Three factors determine the amount of a pension:

P Personal earnings points

Insured income (up to the contribution assessment limit) for each calendar year, divided by the average income of all insured persons, then totalled over all years during which contributions have been paid, and multiplied by the age factor.

T Pension type factor

A factor depending on the intended purpose of the pension.

C Current pension value

The monthly pension that an average earner would receive after paying contributions for one calendar year (currently EUR 25.31406 in western Germany and EUR 22.06224 in eastern Germany).

P x T x C = Monthly Pension

deceased person's insurance, but out of a combination of the claimant's insurance contributions and the transferred entitlements after pension splitting. Child-raising pension is also subject to income-related deductions.

4. Offsetting of Income

40 per cent of any income you earn above the exemption limit (as for widows' and widowers' pensions) is deducted from your child-raising pension. The current exemption limits for widow's/widower's pensions and child-raising pensions are as follows:

Western Germany	EUR 668.29
Eastern Germany	EUR 582.44

The pension is supplemented for each child that is entitled to an orphan's pension as follows:

Western Germany	EUR 141.76
Eastern Germany	EUR 123.55

The exemption limits for orphan's pensions for orphan's over the age of 18 are:

Western Germany	EUR 445.53
Eastern Germany	EUR 388.30

The exemption limits are adjusted each year in line with income developments.

5. Splitting pensions between spouses

Couples now have the option to split their pensions. In recognition of the changes in the way people perceive partnerships, married couples who have paid insurance contributions for 25 years may jointly declare that the pension entitlements accrued during their marriage be split between them (pension splitting). This rule applies for all marriages entered into after 31 December 2001. Additionally, couples who married before 1 January 2002 may opt to have their pensions split if they are both under the age of 40 on that date. The right to opt for pension splitting may only be exercised once both spouses are entitled to claim old-age pension. If one of the spouses dies before an opportunity to apply for pension splitting arises, the surviving spouse may make the declaration.

Once the decision on pension splitting comes into effect, any entitlement to widow's/widower's pension ceases. Whether or not pension splitting turns out to be more advantageous than the outcome under the new widow's/widower's pension rulings depends on individual circumstances. Thus, the spouse's income in particular must be taken into account because income – in future all income, including that from capital assets – will be offset against the widow's/widower's pension, whereas the split portion of a pension is exempt from income-related deductions and is not forfeited in the event of remarriage.

Credit for Child-raising Periods

Under the new pension law, pension entitlements that mothers accrue directly after a three-year child-raising period may be used to secure their pension up to the time the child is ten years of age. This new rule comes into effect once the child reaches the age of three. The woman's income is increased by 50 per cent to a maximum of 100 per cent of the average income, provided that she has paid pension contributions for 25 years – this includes child-raising periods.

How pensions are calculated

◆ Qualifying Periods

You can only claim a pension if you have been insured for a set length of time. The general five-year qualifying period can be made up with contribution periods and substitute qualifying periods (see below). The 15-year qualifying period on old-age pensions for unemployed people, after partial retirement, and for women over 60 can be made up in the same way. The 35-year qualifying period on long-service pensions and old-age pensions for severely disabled persons or persons with full reduced earning capacity can additionally be made up with exempt periods. Exempt periods include certain periods of education and training, and periods of illness or unemployment.

◆ Early Qualification

As a rule, you must complete the five-year qualifying period to claim an invalidity pension or a pension on account of the insured person's death, but earlier qualification is allowed for in certain cases - in particular on invalidity or death following an occupational accident or an accident on military or civilian service. Contributors can also claim a pension on account of full reduced earning capacity, or surviving dependants on the insured person's death, within six years of completing education or training if compulsory contributions were paid for at least one of the two years before claiming.

◆ Contribution Periods

The value of your pension mainly depends on the earnings for which you pay insurance contributions. Periods you spend raising children or, from April 1995 onwards, providing unpaid home nursing care count as contribution periods.

How much each contribution period counts towards your pension depends on how your annual income before deductions compares with the average income of all insured persons. Of course, there are times in life when your income and hence your contributions are lower. Special rules apply, for example for the first 36 months after your 25th birthday and for periods in education and training or on military or civilian service.

◆ Substitute Periods

These are periods when special circumstances such as military service prevent you from paying contributions.

◆ Child-raising Periods

For births on or before 31 December 1991, the child-raising period was the first year following the birth of the child. For children born on or since 1 January 1992 the child-raising period lasts until the child's third birthday.

◆ Periods Providing Home Nursing Care

A new system of long-term care insurance has improved the pensions situation of people who provide unpaid home nursing care. Periods spent providing unpaid home nursing care (for at least 14 hours a week) can be credited on application as contribution periods. The person providing the care may not be in employment for more than 30 hours a week.

◆ Credit for Child-raising Periods

Periods you spend raising children up to the age of ten secure your pension entitlement if you do not pay pension

contributions during this time. This makes it easier for you to gain entitlement for certain benefits, including invalidity pensions, early retirement pensions and minimum income pensions.

◆ Other Credited Periods

These primarily include periods when incapacitated, unemployed or in full-time education from the 18th birthday onwards up to a maximum of three years. From 2002 under the pensions reform, full-time education is credited from the 18th birthday up to a maximum of eight years. Any time from the fourth to the eighth year does not directly increase the pension; instead, it is taken into consideration in order to maintain the pension entitlement.

◆ Added Periods to Age 60

These apply to pensions on account of either reduced earning capacity or the death of the insured person to provide that person or his/her surviving dependents with adequate security despite a low pension entitlement. The younger the insured person was at the time of reduced earning capacity or death, the fewer the years of contributions and the lower the pension entitlement. Thus, pensions are calculated as though the claim was first made in later life and after a relatively long insurance period had been accrued. In other words, the missing years are added to the years that contributions were actually paid.

For pensions that begin in December 2003, the number of years between the year you ceased to be able to work and your 60th birthday are added. If you receive your first pension between January 2001 and November 2003, the missing years will be added in steps from the age of 56 years and eight months, which was the qualifying age at the end of 2000, to age 60.

◆ Minimum Income Pension

In the case of people with low compulsory contributions, all contributions made in the full amount in the period before 1992 are adjusted up to the lesser of 1.5 times their paid value or 75 per cent of the value of contributions levied on the average level of income. For your contributions to be revalued in this way, you must have completed the qualifying period of 35 years.

◆ Minimum Value of Contributions Paid in Certain Periods

First three years of contributions:

The first 36 months' compulsory contributions you pay before your 25th birthday are adjusted up to the lesser of 75 per cent of your total entitlement or 75 per cent of your average pay. Vocational training periods completed at other times are treated in the same way.

Lower compulsory contributions for disabled people:

The minimum income used to assess contributions for disabled people employed at approved workshops and equivalent facilities is 80 per cent of a reference figure which is adjusted each year. The reference figure for 2002 is EUR 2,345 a month in western Germany and EUR 1,960 in eastern Germany.

Compulsory contributions for people on military or civilian service:

Contributions paid for people on military or civilian service are usually assessed at 60 per cent of the reference figure mentioned above.

The pension formula

The guiding principle behind income-based, or rather contribution-based, pensions is that the amount of your pension mainly depends on the amount of earned income you insure through contributions over your working life. The earned income that you insure through contributions each year is converted into earnings points. You are also credited with earnings points during exempt periods - at a rate that depends on the income you paid contributions on at other times. Next, a pension type factor determines the insured amount of the respective pension in comparison with the standard old-age pension.

If you claim an old-age pension early or have not started claiming it by your 65th birthday, any loss or gain resulting from the longer or shorter pay-out period is compensated by an age factor.

The current pension value is an average figure that is adjusted each year. It ensures that pensions remain index-linked. It is the monthly pension that an average earner would receive after paying contributions for one year. It is also part of the pensions formula (see the box entitled The New Pension Formula.)

The formula used to calculate the monthly amount of a pension is as follows: Multiply your total earnings points (P) by the age factor times the pension type factor (T) and the current pension value (C).

P x T x C = Monthly Pension

◆ Total Entitlement

The amount of your pension does not only depend on how much you earned while working. You can also be credited for exempt periods and periods of reduced contributions (exempt periods include periods that are credited in full, plus added and substitute periods, as explained earlier under Contribution Periods). Your total entitlement is calculated as the average of all (compulsory and voluntary) contribution periods. Although gaps in your contribution history reduce your total entitlement, exempt periods or periods of reduced contributions do not. Credited child-raising periods increase the value of exempt periods and periods of reduced contributions.

Pension adjustment

Pensions are adjusted on 1 July each year. Wage-indexed adjustment ensures that pensioners share in economic growth as reflected in rising wages.

Pension credits obtained abroad

Under the law on pension credits obtained abroad, repatriated ethnic Germans are integrated into the statutory pensions system. Under this legislation, repatriated ethnic Germans from eastern Europe are treated as if they had spent their working lives in structurally weak areas of Germany. The pension entitlement gained abroad by ethnic Germans repatriated since 6 May 1996 is limited to the current rate of integration assistance in the case of single people or 1.6 times that rate in the case of married couples.

Organization

There are various statutory pension funds in Germany:

1. For wage-earners

- Regional insurance funds (these are also responsible for tradespeople)
- The railways insurance fund
- The maritime insurance fund

2. For salaried employees

- The federal insurance fund for salaried employees in Berlin

3. For workers in the mining industry

- The federal insurance fund for miners

4. For farmers

- The agricultural pension funds incorporated in the agricultural employers' liability funds

The pension funds are supervised by the state.

Funding

Pension payments are mainly funded out of contributions. Employers and employees each pay half of the current contribution rate (19.1 per cent of the employee's gross monthly pay as of 1 January 2002), up to a contribution assessment limit of EUR 4,500 a month in western Germany or EUR 3,750 in eastern Germany. Pension payments are also partially subsidized by the state.

Information

Information on the new pensions legislation is provided in a German language pamphlet, Die Rente, published by the Federal Ministry of Labour and Social Affairs, Referat Information, Publikation, Redaktion, Postfach 500, 53107 Bonn, Germany.

PENSIONS IN FORMER EAST GERMANY

The merging of Germany's pensions systems on 1 January 1992 reestablished a cohesive system of pension provision throughout Germany, securing the rights, claims - and of course ongoing pension payments - of former East German citizens in a system that has proved itself over more than 100 years. Various special features apply in eastern Germany:

- The contribution assessment limit for 2002 is EUR 3,750 a month.

Self-employed artists and members of the publishing professions are subject to compulsory insurance under the Artists Social Welfare Act. The income threshold for compulsory insurance is EUR 3,360 in 2002. All artists and members of publishing professions are subject to compulsory insurance, regardless of their income, in the first five years of their career.

Since 1 January 1995, most self-employed farmers have been subject to compulsory insurance in the farmers' old-age pension fund. The established agricultural sector insurance system of western Germany was introduced in eastern Germany as part of the 1995 agricultural sector welfare reform. Under a transitional ruling, farmers above a certain age who meet specific requirements may choose to remain in the general old-age pension scheme instead of joining the new agricultural sector scheme.