

The right to retirement pension information (Madrid, 02-03 July 2013)

Germany¹

Silke Parchmann
Federal Ministry of Labour and Social Affairs

Short Introduction to the pension system in Germany

The German pension scheme is a compulsory system that is basically tied to gainful employment. Employees, above all, are subject to compulsory coverage; under certain conditions, however, other persons may also take out coverage.

The statutory pension insurance provides old-age pensions, reduced earning capacity pensions and survivors' pensions. People qualify for benefits from the statutory pension insurance only if they completed a minimum period of insurance. The general qualifying period is five years. The general 5-year qualifying period can be made up with contribution periods and substitute qualifying periods and is a basic condition for claiming a standard old-age pension, a reduced earning capacity pension or a survivors' pension. Basically the contributions paid into the scheme determine the level of the pension (strongly following the equivalence principle).

At present the standard old-age pension is payable at the age 65 and two months. For the birth years 1947 and younger the standard retirement age will be gradually raised to 67 during the period from 2012 to 2029. For people born after 1963 the standard retirement age will be 67. People with an insurance record of at least 45 years of mandatory contributions from employment or care or child-raising periods up to the child's 10th year will still be eligible to claim a pension aged 65. The retirement age of other early pensions will be raised. Pensions that can be claimed early are reduced by 0.3 % for each month of early pension receipt. On the other hand, delayed retirement beyond the standard retirement age leads to pension increments of 0.5 % per month. Such reductions or increments are maintained throughout the entire period of pension receipt.

1. Extent of the information on pension rights

Note: The questions are answered – where possible – both for statutory pension insurance and for company and personal pensions (or in combination as supplementary pension provision). Where, for a specific question, information is provided on statutory pension insurance only, no information is available for the other sectors.

1 Prepared for the Peer Review in Social Protection and Social Inclusion programme coordinated by ÖSB Consulting, the Institute for Employment Studies (IES) and Applica, and funded by the European Commission.
© ÖSB Consulting, 2013



1.1. Which actor(s) provide(s) pension communication (e.g. the government, insurance companies, pension funds, national pension authority,...)? Is this pension information provided on a legal obligatory basis and/or on voluntary basis?

Statutory pension insurance: Responsible pension insurance funds (federal or Länder-level pension funds). The information is provided on a legal obligatory basis.

Company pensions: Employers or external pension institution (pension fund (Pensionskasse/Pensionsfonds) or direct insurance). The information is provided on a legal obligatory basis.

Personal pensions: Pension plan providers (life insurers, banks and building societies, investment funds and cooperatives) are required by law during the accumulation phase to inform investors annually about the size of the accumulated pension assets. At the start of the payout phase, information is provided about the size of the pension benefits payable by the provider.

1.2. What is the content of the communication on pension rights (e.g. name, profession, employer, social security number, acquired rights, deferred rights, etc.)?

Statutory pension insurance:

The pension communication ('Renteninformatiön') provides insured persons who are aged 27 or over (and have completed at least five years of contribution payments) with information as follows:

- Name and insurance number;
- Information on how pensions are calculated;
- The current amount of a full reduced earning capacity pension;
- The projected amount of a standard old age pension (projected on the basis of the average earnings points in the last five calendar years);
- How future pension adjustments could affect the pension;
- Overview of contributions paid in so far, showing employer and employee contributions separately.

From age 55, instead of the pension communication, a pension statement ('Rentenauskunft') is sent out every three years. This includes additional information:

- General information on fulfilling the personal and pension insurance law requirements for pension entitlement;
- An insurance history containing all legally relevant data stored by the pension insurance fund;
- A full pension calculation;
- The amount of a standard old age pension, a full reduced earning capacity pension and a widow's or widower's pension that would result without further contribution payments.



Company pensions:

The employer or pension institution must notify the employee in writing of the amount of the entitlement to an old age pension on reaching the age stipulated in the plan and based on the vested entitlement accrued so far.

External pension institutions provide information on: The expected amount of the benefits to which the plan member is entitled; investment options, the structure of the investment portfolio, and the risk potential, costs of asset management and other costs associated with the investment to the extent that plan members carry the investment risk; whether the pension institution takes ethical, social and environmental concerns into account in the use of the contributions paid in; the condition of the institution and the current funding status of the individual pension entitlements.

Personal pensions:

Pension plan providers are required during the accumulation phase to provide plan members with annual information in writing on the use of the pension contributions paid in, the capital accumulated so far, pro rata acquisition and distribution costs, costs of managing the accumulated capital or any loan granted, and income earned. In annual reports, pension plan providers must also provide information in writing whether ethical, social and environmental concerns are taken into account in the use of the pension contributions paid in.

1.3. What is the periodicity of the communication (e.g. annual, monthly, permanently available through the internet,...)?

Statutory pension insurance: Annually from age 27 (if at least five years of contribution payments have then been completed)

Company pensions: External pension institutions provide a yearly communication; employers are only required to provide information on demand by the employee subject to legitimate interest.

Personal pensions: Pension plan providers normally provide the communication referred to under 1.2 annually.

1.4. Is information general or specific (related to the recipient)?

Statutory pension insurance: Specific.

Supplementary pension provision: Specific.

1.5. How is the retirement pension in the communication calculated?

Statutory pension insurance:

Pension information is always given on the basis of prevailing law. The entitlements accrued up to the time of the communication are multiplied by the pension formula parameters applicable at the time. The communication thus shows the entitlement accrued so far for a full reduced earning capacity pension and for an old age pension (and additionally from age 54 for a widow's/widower's pension). A projection is also provided for the old age pension on the assumption that earnings remain the same as the average in the five years preceding the communication until retirement. As pensions in Germany are regularly adjusted to income growth, two sample calculations are also provided, with an annual rate of increase of 1.0 percent and 2.0 percent



respectively. Reference is made to the loss of purchasing power with inflation but this is not projected in the calculations.

Company pensions: Subject to contractual agreement.

Personal pensions: Pension plan providers provide information about the accumulated pension assets in the annual communication (see 1.3). Information on the amount of the pension benefits to be expected at the beginning of the payout phase is not mandatory. Providers are not required to provide projections in the accumulation phase.

1.5.1. What parameters are established for this calculation?

Statutory pension insurance:

Parameters for calculation of the current pension amount:

- Personal entitlements accrued so far by paying contributions
- Pension type factor (according to prevailing law at the time of the communication)
- Current pension value at the time of the communication

Additional parameters for projection of old age pensions:

- Average personal earnings in the last five years before the communication
- Assumed pension increases of 1.0 and 2.0 percent.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.5.1.1 Which profitability ratios are used?

Statutory pension insurance:

Assumed pension increases of 1.0 and 2.0 percent.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.5.1.2 How are the estimations on the contributory bases calculated for future periods?

Statutory pension insurance:

The pension amount is substantially dependent on personal income. For the projection of future earnings after the time of the communication until the inception of the pension, average earnings are calculated for the last five years before the time of the communication and assumed to apply for the remaining years until retirement.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.



1.5.1.3 How are the future contributory bases updated?

Statutory pension insurance:

The annual communication cycle ensures that average earnings for the five preceding years are recalculated annually and changes in earnings (the contributory base) are taken into account in the projections of future contribution payments.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.5.2. Which entity/entities determine these parameters (e.g. consumers price index)?

Statutory pension insurance:

How pensions are calculated is laid down by law. The current pension value is determined annually in secondary legislation (Verordnung) and exceptionally in some years by primary legislation (Gesetz). The model values for future pension increases in the pension communication (currently 1.0 and 2.0 percent) are stipulated by Deutsche Rentenversicherung Bund, the German statutory pension insurance scheme (self-administration).

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.5.3. Are there any other hypotheses to be taken into account for the calculations?

Statutory pension insurance:

The content and scope of the information provided is laid down by law; there are no other hypotheses to be taken into account.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.6. Are prospects, estimates, simulations,... being made (e.g. information regarding benefits at an earlier or later age than the statutory retirement age)?

Statutory pension insurance:

No further prospects, estimates or simulations are made beyond the projections and model calculations explained in section 1.5. While the more detailed pension statement sent out from age 55 in place of the pension communication includes general information on fulfilment of the personal and pension insurance law requirements for a pension entitlement, and also information on possible pension reductions in the event of early retirement, no personal calculations (i.e., relating to the insured person) are provided.

Supplementary pension provision:

No statutory requirement/see answer to 1.5.



1.6.1. If simulation is possible:

1.6.1.1 *What are the parameters?*

1.6.1.2 *Who establishes these parameters?*

1.6.1.3 *Can the receiver change the simulation by adjusting these parameters?*

1.7. For funded schemes: what assumptions are used with regard to the rate of return, the interest rate and the inflation?

Supplementary pension provision:

No statutory requirement/see answer to 1.5.

1.7.1. Are these assumptions communicated?

1.7.2. Who determines these assumptions?

1.7.3. Are these assumptions checked by the government?

1.8. Is the communication integrated (covers all possible pension schemes, irrespective of pillars or other elements)? If yes, is it also consolidated (information on public and private pension rights are communicated together)?

No. Each old age pension system – statutory pension insurance, company pension plans and personal pension plans – provides information separately.

2. Manner of the communication

2.1. By which means is the information provided to the citizen (e.g. by ordinary mail, internet website, e-mail, mobile phones...)?

Statutory pension insurance:

Deutsche Rentenversicherung sends out approximately 31 million pension communications by letter mail each year.

Supplementary pension provision:

Communications must be in writing, generally by ordinary letter mail. Electronic communication is also possible in the case of private pensions with the consent of the plan member.



2.2. If the information is provided by using the internet, how is the user identified?

2.3. Is extra information or comment on pension rights provided (e.g. by call centre, invitations for personal communication, chat sessions with the pension institution...)?

Statutory pension insurance:

In addition to general information provided on the web or in information leaflets, insured persons can also request information from pension funds at any time in writing or by email. Personal consultation is possible at local information and advice points. Pension funds also operate a free-of-charge service telephone.

Supplementary pension provision:

The Federal Government assumes that large pension plan providers in particular will provide such services. Details are not known, however.

2.4. Is there any control whether the recipient has received and opened the message?

No.

2.5. Is the information provided on request of the person concerned or automatically by the Social Security System itself?

Statutory pension insurance:

All insured persons who have reached the age of 27 and have contributed at least five years of contribution payments receive the information automatically once a year. From age 55, in place of the pension communication, a more detailed pension statement is sent out – likewise automatically – every three years. This is also available at an earlier date, however, on application from the insured person.

2.6. In which language(s) is the information available? Who establishes the language of the communication? On what grounds?

Statutory pension insurance: German (official language)

2.7. Are estimated amounts given in current or future value?

Please see the answers to 1.5.

2.8. Are absolute numbers or percentages used?

Statutory pension insurance:

Pension entitlements are shown as monthly amounts before deductions. It is brought to the attention of the insured person that personal health and long-term care insurance and any tax must be deducted from these amounts.



2.9. Are numbers rounded (no figures after the comma)?

Statutory pension insurance: No, the monthly amounts are accurate to one cent.

2.10. Are visual effects used (e.g. charts, colours, drawings,...)?

Statutory pension insurance: The current contributions to any reduced earning capacity pension and to the old age pension are graphically highlighted in the pension communication, as is the old age pension projected on the basis of the most recent earnings.

2.11. What is the assumed 'level of understanding' of the recipient?

Statutory pension insurance:

Pension communications are straightforward, clearly set out and easily understood. This is confirmed by surveys of the public carried out by Deutsche Rentenversicherung.

2.12. (How) is the financial (il)literacy of the recipient taken into account?

Please see question 2.11.

2.13. Is the communication 'layered' (e.g. the older a person gets or the 'further' one looks into a website, the more detailed the information...)?

Statutory pension insurance:

From age 55, insured persons receive the more detailed pension statement every three years; this includes information on qualifying periods for specific types of pension and the calculation of a widow's/widower's pension (see also questions 1.2 and 1.6).

2.14. Is communication standardized (by various pension actors) relating to terminology, wording of the content, tables and/or graphs? (please specify)

Statutory pension insurance: The content and scope of pension communications and pension statements are laid down by law. The wording and presentation are determined jointly and independently by pension insurance funds as self-administrating entities, and are thus standardised for all funds (both federal and Länder-level).

2.15. Is pension information centralized (retained in one single administration, body or database) and/or decentralized (e.g. cross-roads bank)

Statutory pension insurance: Pension communications are sent out on a decentralised basis by the pension insurance fund (federal or Länder-level) responsible for each insured person.



2.16. Is pension information embedded with other information (e.g. in general social security information, bank or insurance communication...)?

No.

3. Target group of the communication

3.1. To whom is the communication targeted? (e.g. active workers, self-employed, salaried workers, civil servants, deferred beneficiaries meaning so-called 'sleepers' with dormant rights..)?

Statutory pension insurance:

All insured persons (employees, self-employed persons (to the extent they are insured in the statutory pension insurance scheme), other insured persons (e.g. unemployed persons), 'sleepers' (i.e. insured persons currently not paying contributions) from age 27 with at least five years of paying contributions.

Company pensions:

Entitled persons (active and former employees).

Personal pensions:

Pension plan members.

3.2. From what age onwards do citizens receive the communication and how much time prior to the statutory retirement age is the information provided?

Statutory pension insurance: See question 3.1.

3.3. What requirements must the citizens comply with in order to get the information (if any)?

Statutory pension insurance: See question 3.1.

Supplementary pension provision:

Employers must only provide information if employees or entitled persons can demonstrate a legitimate interest. This is the case, for example, if an employee intends to take out supplementary personal pension provision. There are no special requirements in other respects for company and personal pensions.



4. The legal value and authenticity of the communication

4.1. Does the current legislation provide a right to pension information (if so, how is it formulated)?

Statutory pension insurance:

Yes. The content and scope of pension communications are laid down by law. The right to information is mandatory and is not at the discretion of pension insurance funds.

4.2. What future legislation on pension communication is envisaged (if any)?

4.3. What is the material and personal scope of the current and/or future legislation?

Scope of statutory pension insurance: All insured persons.

4.4. How are the necessary data provided to the authority/institution responsible for the information on pension rights?

Statutory pension insurance:

The data on insured persons are stored by the pension insurance funds responsible for them (e.g. on the basis of employer submissions and account clarifications with participation of the insured person); the pension insurance funds also send out the pension communications.

4.5. Who owns the pension data and who validates them?

Statutory pension insurance:

Responsible pension insurance funds (federal or Länder-level)

4.6. Is there a central database or not? And if so, is it solely responsible for the data?

No.

4.7. Is the communication authenticated in one or the other way?

Statutory pension insurance:

The communication is sent to the address recorded under the specific insurance number of the insured person.

4.8. Is the recipient of the information asked to verify the information?

Statutory pension insurance:

Not expressly. Insured persons are, however, asked to give notice of any missing or incorrectly recorded periods in their insurance history.



4.9. In case of wrong communication, who is held responsible (e.g. the owner of the data and/or the provider of the data and/or the communicator)?

Statutory pension insurance:

Pension communications and pension statements are not legally binding and no individually enforceable rights can be derived from them.

4.10. Does the communication create a 'legitimate expectation' whereby a possible beneficiary can have a claim against the pension provider (e.g. in case of a wrong prospect of simulation)?

Statutory pension insurance: No, see answer to 4.9.

Supplementary pension provision:

The communication is merely a statement of information and does not create a new legal basis. Employers or pension funds may be liable for compensation, however, if they provide incorrect information. For personal pension plans, see also the answer to 1.5.

4.11. What are the legal disclaimers used?

4.12. How is the privacy of the recipients respected, in particular when the internet is used as communication channel?

Statutory pension insurance:

Pension communications and pension statements are sent out by letter mail to the address recorded under the personal insurance number of the insured person. It is assumed that a communication or statement will only be opened by that person or someone authorised by them.

