Effects of life courses on women’s pensions

Federal Ministry for Family Affairs,
Senior Citizens, Women and Youth

1. Introduction

Although there seems to be a trend towards convergence, male and female life courses in Germany today still differ in major respects. While men continue to adhere to the model of full-time work and the breadwinner role, women still interrupt their careers to raise children or care for relatives, and frequently do so for years. After such a family phase, rejoicing the workforce tends to be difficult and frequently involves substantial shortfalls in terms of salary, career objectives and, possibly, the accumulation of individual pension entitlements. On this background, this Peer Review pursues the following objectives:

(1) The first step is to analyse typical female and male life courses in the various countries. The aim is not only to discuss the causes underlying these differences, but mainly to identify the implications they have on pension benefits of men and women.

(2) Based on this discussion, proposals shall be drafted for an active life course policy, i.e. a coherent policy to ensure fair and autonomous income prospects to women and men - not only in the labour market but also in terms of their provision for old age.

In preparation for the Peer Review discussion this paper will outline the concepts of the life course perspective (Section 2), explore the gender pension gap in Germany and the gender gap in old-age benefits in the EU-15 States (Section 3.1) and present gender-specific biographical patterns in Germany, describing their impacts on the gender pension gap (Section 3.2). Then it will ask how fair income perspectives may be achieved for women and men during their life course by means of a coherent life course policy (Section 4). For background information an outline of the main aspects of the German old-age pension scheme is annexed.

2. Outlines of the life course perspective

The life course perspective is a longitudinal perspective. This means that the analysis of social inequality is not based on ‘snap shots’ but focuses on long-term biographical developments. In regarding the consequences of decisions made conjointly by women and men at crucial landmark-events in their life courses (e.g. birth of children) the life course perspective reveals that these decisions (e.g. how to reconcile work and family duties) often have unforeseen and unintended implications that are not only mutually reinforcing or accumulative but also are gender relevant as they have different effects for men and women. Applying a life course perspective this Peer Review shall take a close look at vital transitions that assign women’s and men’s subsequent life spans.
The life course perspective conforms to a shift towards a sustainable political approach that is driven by a look at long-term effects and that seeks to coordinate policies in order to achieve an integrated policy on gender equality (BMFSFJ 2011: 233). In a society of longevity, gender policy (of equal opportunities) needs to develop novel standards in order to effectively ensure fair and equitable life course opportunities for both women and men.

The life course perspective is gaining acceptance increasingly. In Germany, the First Gender Equality Report called ‘Erster Gleichststellungsbericht’, published in June 2011, (BMFSFJ 2011a), and the seventh Family Report (Siebter Familienbericht; BMFSFJ 2006) were guided by a life course perspective. In fact, this approach has become an important policy guideline on EU level, as well. It is not only reflected in the European Employment Strategy (‘Europe 2020’ strategy, cf. European Commission 2010a), but is also a central element of the European Pact for Gender Equality 2011-2020 (cf. European Commission 2011). Even beyond Europe, the life course perspective has meanwhile been included as a new paradigm in the work of the United Nations (cf. United Nations 2010) and the World Bank with its recent World Development Report 2012 on gender equality and development (cf. World Bank 2011).

Looking at the German old-age pension scheme, indispensably the life course perspective is considered: In Germany, statutory pension insurance is the only social benefit system that is explicitly linked to the life course. Besides wage level, interruptions and limitations to working careers – i.e. factors that mainly distinguish the employment paths of women from those of men – do have direct consequences on the old-age income situation (BMFSFJ 2011: 238f.). Therefore, only a systematic analysis of life and employment trajectories will allow to identify causes of the gender-specific pension gap and to develop effective policies to achieve fair income prospects for women and men.

The First Gender Equality Report on Germany explicitly is based on the paradigms of the life course theory (cf. BMFSFJ 2011a, p. 30f.). Elder et al. (2003: 10 ff.) formulate five such paradigmatic principles in life course theory that can be understood as constituting the framework for possible political action:

1. The principle of life-span development: Human development and aging are lifelong processes.
2. The principle of agency: Individuals construct their own life course through the choices and actions they take within the opportunities and constraints of history and social circumstances.
3. The principle of time and place: The life course of individuals is embedded in and shaped by the specific historical times and places they experience over their life-time.
4. The principle of timing: The developmental impact of a succession of life transitions or events is contingent on when they occur in a person’s life and behavioural patterns vary according to their timing in a person’s life course.
5. The principle of linked lives: Lives are lived interdependently and socio-historical influences are expressed through this network of shared relationships.
Drawing on the First Gender Equality Report (cf. BMFSFJ 2011a, p. 31), a further principle is introduced:

(6) The principle of active life course policy: The possibilities to shape one’s own life course are influenced by institutions that can be changed.

The foregoing principles are intended to form the theoretical basis and the point of reference for discussions within the Peer Review on the ‘Effects of Life Courses on Women’s Pensions’.

3. Life courses and women’s pensions

Women’s and men’s life courses still tend to clearly differ and ultimately cause unequal opportunities for participating in the labour market and the social security systems. Especially in West Germany women interrupt working for some years to take on family responsibilities and – after re-entering the labour market – restrict themselves to part-time work. The price they pay often are lower wages per working hour, inferior career opportunities and lower cumulated earnings. This regularly results in lower individual pension entitlements\(^1\). In other words: While couples mutually agree on biographical decisions, the risks for future income prospects resulting from these decisions will – in most cases – have to be borne predominantly by the women. This becomes of special relevance if the partnership does not last.

3.1. Gender pension gap

Background situation

In recent years, the gender pay gap has been intensively discussed both in Germany and in Europe. The European Commission defines the gender pay gap as the average difference between men’s and women’s hourly earnings.\(^2\) In Germany, it currently stands at 23.2%; the EU average is 17.5%.

While these figures alone provide ample food for discussion, they say nothing about how this pay gap adds up over an entire working life and their likely impacts on female and male retirement pensions. In order to explore these effects, on behalf of the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth the gender pension gap has been calculated (BMFSFJ 2011b).

Definition of gender pay gap and data base

From its very concept, the German pension system reflects the individual’s employment history, since it is based on an approximate equivalence between accumulated pension insurance contributions paid from professional income on the one hand and pension insurance benefits paid out during retirement on the other (see also Annex II). The gender pension gap is defined as the percentage difference between the average female individual pension benefits and the average male individual pension benefits. The formula is:

\[^1\] The pension system awards pension entitlements for child rearing see Annex II Section C.

Gender Pension Gap $\% = \frac{100\% - \text{average female individual pension benefits}}{\text{average male individual pension benefits}} \%$

Reference benefits are the monthly gross benefits. If, for instance, women's individual pension benefits amount to 600 Euros per month and men's to a monthly 1,000 Euros, the gender pension gap is 40%.

The index takes into account individual pension benefits from all three pillars of the pensions system (statutory, occupational and private). And while all old-age benefits a person has accumulated individually are taken into consideration, derived old age pension entitlements, especially survivor's pensions, are excluded.³

The gender pension gap looks at individual persons aged 65 or older⁴ so that, unlike with other analyses of retirement income, it does not refer to the household as an economic unit. Accordingly, these figures do not allow any conclusions to be drawn on the actual income situation of elderly women or men. The data base for calculating the gender pension gap are the studies on old age provision in Germany (Studien zur Alterssicherung in Deutschland – ASID), that have been carried out since 1986 at roughly four year intervals.

**The gender pension gap in Germany**

In 2007, the gender pension gap was 59.6%, i.e. female pensioners received individual pension benefits that were 59.6% lower than those of male pensioners (cf. Fig. 1). Moreover, there were clear differences between West and East Germany: The relatively wide gap in the West (63.8%) contrasted with a clearly narrower gap in the East (36.7%).⁵

³ Due to the important role of derived pensions in the German pension system the Gender Pension Gap as it is defined here does not generally imply a poverty problem for women.

⁴ Persons without individual pension entitlements are not taken into consideration. In 2007, 10.9% of all West German women and 0.7% of all East German women did not receive any individual pension benefits, while 2.1% of West German men and 3.3% of East German men did not receive any such benefits.

⁵ West Germany comprises the Federal Republic of Germany before reunification in 1990; East Germany comprises the former German Democratic Republic. The similarity of the figures for Germany as a whole and West Germany is due the population in the West accounting for a large share of Germany’s overall population.
Figure 1: The gender pension gap in Germany (total), East and West (2007)

<table>
<thead>
<tr>
<th>Region</th>
<th>Gender Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany (total)</td>
<td>59.6%</td>
</tr>
<tr>
<td>West</td>
<td>63.8%</td>
</tr>
<tr>
<td>East</td>
<td>36.7%</td>
</tr>
</tbody>
</table>

Note: Only individual pension entitlements were taken into consideration.

The gender gap in old-age benefits in the EU-15 countries

The calculation is based on data from the statistics of the European Union Statistics on Income and Living Conditions (EU-SILC). From this data, a gender pension gap in the EU-15 countries can only be approximated, since the EU-SILC statistics also includes some derived entitlements that cannot be extricated from entitlements a person has accumulated individually. It is possible, however, to show by means of the EU-SILC how Germany’s gender gap in old-age benefits compares with other EU countries. Moreover, it can give an initial impression of the scale of Germany’s pension gap that is identified through this approach compared with the more specific ASID-calculations.
Figure 2 shows clear differences among the EU-15 countries with Germany ranking towards the high end:

**Figure 2: Gender gap in old-age benefits in the EU-15 countries (2007)**

![Figure 2: Gender gap in old-age benefits in the EU-15 countries (2007)](image)

Notes: Derived retirement pension entitlements were considered in some cases.

### 3.2. Biographical patterns and retirement income perspectives of women in Germany

How can these enormous gender gaps be explained? One characteristic feature of female – in contrast to male – work biographies are family-related employment breaks, mainly for child-raising, but also to care for frail or elderly relatives. The question of how and under what conditions such breaks occur and what long-term consequences result from them – mainly for the pensions women accumulate individually – is the subject of the second study presented here (BMFSFJ 2011c).

This study was also carried out on behalf of the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth. It focuses on work biographies and identifies the rates and structures of family-related non-employment periods among the birth cohorts 1942 to 1961 between the ages of 15 and 65 years. It describes typical patterns of withdrawal from and re-entry to the labour market and provides a differentiated analysis of the interaction between family-related non-employment periods and individual pension entitlements.

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6 The underlying data base is the survey ‘Altersvorsorge in Deutschland 2005’ (AVID - `pensions in Germany 2005`) that had been commissioned by the Deutsche Rentenversicherung Bund (the German Federal Pension Insurance) and the Federal Ministry of Labour and Social Affairs (BMAS) and carried out by the social research company TNS Infratest Sozialforschung (cf. TNS Infratest Sozialforschung 2007).
Family-related career breaks have a female face

Family-related non-employment periods (in which gainful employment is completely given up for child-raising or care-giving responsibilities) play a major part in women’s work biographies that, however, vary considerably by region: in the West, women of the birth cohorts 1942 to 1961 took an average 9.1 years off, while in the East it was only 2.8 years. The bulk of these periods (ca. 90%) is accounted for by child-raising and only a small number of women have taken care leaves, at all (West Germany: 14%; East Germany: 10%). By contrast to the women’s life courses, men’s family-related non-employment periods are virtually nil.

Careers are interrupted at different ages

Non-employment periods due to child-raising are of decisive relevance for gender equality, not only because of their longer average duration, but also due to their earlier onset which impacts more strongly on these women’s future biographies: While in case of child-raising the first period of interruption starts at an average age of 25, in case of giving care to frail or older persons most female care givers are aged 50 and over. In this context, analyses show that women with long-term interruptions for child raising never recover to the income level they had prior to their first child’s birth. On this background, the focus of the analyses here is on child raising drop-out periods.

Child-raising affects gainful employment stronger in West than in East Germany

In West Germany, the women of the birth cohorts 1942 to 1961 having one child took six years off paid work, but only 1.4 years in East Germany. As the number of children rises, the overall duration of breaks increases both in the West and in the East, although the respective rates still differ: With three or more children, the overall duration of work breaks was 13.7 years in the West, while it was only 4.6 years in the East.

Child-raising periods as far-reaching biographical events

While the majority of women worked (full-time) right up to their first child-raising period, the situation afterwards is more heterogeneous: in East Germany, approx. 90% of women resume full-time work; after two years, approx. 70% still are full-time workers and only a minor percentage go on to be child-raisers for a longer period of time. In West Germany, the rate of women working full-time after their first child-raising period is just over 50% and drops to approx. 25% over the next two years. These decreases are due, both in the East and in the West, to another child-raising period.

Child-raising and types of career breaks

If similar biographical patterns of the women of the birth cohorts 1942 to 1961 with child-raising periods are grouped into various types, we find but marked differences between West and East Germany (cf. tables 1 and 2 in Annex I).

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7 All of the periods mentioned here can, in the individual instance, be made up of several and temporally separated spells.
In the West, the ‘long-term child-raiser’ predominates at more than 40%, the representatives of which only re-enter the labour market after a very long child-raising period - if at all. Second come the ‘part-time returners’ (20%), followed by the ‘late returners’ (16%), who work in various forms of employment following a child-raising period. The type of ‘full-time returner’ who resumes full-time work after a relatively short child-raising period accounts for 13% in West Germany while almost one in ten women (9%) return to the labour force through marginal employment, the so-called mini-jobs.8

The predominant type in the East is that of ‘full-time returners’ (53%) and ‘late returners’ (42%). In the East, the latter mainly return to full-time work following a relatively long child-raising period. Finally, the type of ‘part-time returner’ can also be found in the East, although it accounts for a mere 5%.

Looking at the number of years worked, full-time and part-time types (in West Germany even returners via marginal employment) hardly differ: Their biographies between the ages of 15 and 65 years reveal that their years of working accumulate to about 40 years, while late returners have a work record of just under 30 years and long-term child-raisers as few as approx. 20 years.

Across cohorts, the trend is on a convergence between the female biographical patterns in West and East Germany. Specifically, in West Germany a clear decrease – about one third – can be observed in the rates of long-term child-raisers. Conversely, the importance of part-time returners and returners via marginal employment is rising. In East Germany, by contrast, the share of full-time returners in the youngest cohort (women born from 1957 to 1961) is clearly falling while, on the other hand, the rate of late returners is doubling.

Opinion polls show: Boosting their retirement income situation is currently the most important reason why women return to work after a family-related career break. Over recent years, this motive has even eclipsed others, such as raising the family’s income. (cf. BMFSFJ 2011d: 19ff.).

**Employment continuity at near full-time level strengthens women’s individual pension entitlements**

Throughout Germany, the analyses shows, that for women of the birth cohorts 1942 to 1961 full-time returners achieve the highest individual pension incomes that, in West Germany, exceed the average amount of all women with child-raising periods by more than half (cf. tables 1 and 2 in Annex I) and even those of childless women. In so far, the foregoing could be considered a ‘biographical model of success’, at least with respect to women’s individual pension entitlements. Higher than average, however, these ‘achievers’ were women with only one child.

The individual pension incomes of returners who pursued long-term marginal employment and long-term child-raisers are consistently below average.

**Bridging the retirement income gaps between spouses**

With respect to the pension incomes of married couples, a more varied picture emerges in West Germany with its large number of long-term child-raisers. The on average low pension

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8 For pension crediting of mini-jobs see Annex II.
entitlements of married women are made up for by their husbands’ above-average entitlements. With respect to ‘linked lives’ this especially improves the old-age income situation of couples with long-term child-raisers and returners via marginal employment compared to their individual pensions.

The results of this analysis get dramatic given the soaring divorce rates of recent decades. Though in case of divorce the spouse that earned higher entitlements has to transfer half of the difference in entitlements to her/his spouse, this cannot make up for the usually widely different baseline situations of the former husband and wife at the time of divorce. After all, men continue to work full-time after divorce, replenish their individual pension entitlements account and need no longer share the resulting entitlements with their ex-wives. Women, by contrast, who remained absent from the labour market for years - common mainly in the West - or had a so called mini-job at most, frequently stand no chance of rejoining the workforce with good career prospects. This adversely affects not only their current income situation, but, more importantly, also their opportunities for substantially raising their individual pension income by working from the time of divorce.

Pension entitlement splitting

While the two spouses conjointly work out their major work-life decisions, they do not equally share the consequences in terms of pensions, as shown above. The option of pension splitting introduced in 2002, thanks to which women equally share in their husbands’ pension account, got stuck half-way: Pension splitting is only a ‘delayed option’ that partners explicitly have to agree upon when the first of them qualifies for her or his retirement pension. As an alternative to the standard regulation – individual pension plus survivor’s pension – the decision for or against the splitting of entitlements is largely determined by expectations regarding the spouse’s probability of survival (see also Annex II).

According to many experts, a changeover to a continuous pension entitlement splitting between spouses that, on the one hand would equally split the retirement income risk following jointly taken life decisions, on the other hand cannot, for various reasons, be easily reconciled with German family law (marital property regime) as it stands. Nevertheless, introducing a continuous pension entitlement splitting, combined with a reform of marital property regime, would be a major step towards the idea of a matrimony that awards both spouses equal rights and duties and, especially the non-working wife, an independent and equal legal position. (cf. BMFSFJ 2011a, p. 76 and BMFSFJ 2011e).

9 A survey of this discussion is included in the annual report Jahreswirtschaftsgutachten 2006/2007 (German Council of Economic Experts - Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung 2005, S. 258ff.).

10 The First Equality Report of the Federal Government ‘Neue Wege – gleiche Chancen’ (novel approaches - equal opportunities) (BMFSFJ 2011a) takes the principle of linked lives to make a case for the reform of the German marital property regime and the introduction of the communal estate e.g. based on the French model. For the relevant background see also BMFSFJ (2010).
4. Fair income perspectives for women and men throughout the life course – questions for the peer country discussion

The gender pension gap in Germany is considerable, indeed one of the highest among the EU-15 countries. The previous chapter showed that, under the existing pension system, women’s pension level in Germany largely depends on the career record and/or the amount of time taken off work due to family reasons. Therefore, the question of what an effective life course policy should look like should be at the centre of the peer country discussion:

*What action should be taken with respect to women’s biographical patterns to reduce the gender pension gap and thus to ensure women a sufficient individual pension?*

This central question cannot be answered in isolation from the specific context of the country concerned. Therefore, related questions in the following areas must be included:

- **Comparison of female and male biographical patterns:**
  - In what respects do typical female and male biographies differ in the peer countries?
  - What changes have been observed in female and male biographies in recent years?

- **Impacts of various biographical patterns on retirement income:**
  - How do crucial family life events (childbirth, caregiving, widowhood) impact on pension entitlements?

- **Marital property regime and divorce regulations:**
  - In case of a marriage break-up: To what extent do the consequences for the ex-spouses’ pension entitlements differ according to (a) gender (hierarchy)?
  - At the time of divorce: Are different baseline situations of women and men in the labour market considered under aspects of the future accumulation of pension entitlements?
  - How can the marital property regime promote the harmonisation of equal property sharing and pension sharing?

And finally, the social policy context shall be discussed as well:

- Have there been reforms in recent years that are seen to have a gender-specific impact on retirement pensions?

- If yes, did these reforms aim to integrate women/mothers into the labour market or modify the retirement pension systems?

- Have these reforms achieved their aim?
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ANNEX I – Tables and figures

Table 1: Types of work biographies of women of birth cohorts 1942 to 1961 with child-raising periods and projected retirement income at age 65 years (West Germany)

<table>
<thead>
<tr>
<th>Type of work biography</th>
<th>Full-time re-entry</th>
<th>Part-time re-entry</th>
<th>Late re-entry</th>
<th>Re-entry via minjob/marginal employment</th>
<th>Long-term child-raiser</th>
<th>All women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (in %)</td>
<td>13</td>
<td>20</td>
<td>16</td>
<td>9</td>
<td>42</td>
<td>100</td>
</tr>
<tr>
<td>a) Employment/Non-employment periods (in years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment periods</td>
<td>39.6</td>
<td>36.8</td>
<td>29.6</td>
<td>36.9</td>
<td>20.7</td>
<td>29.2</td>
</tr>
<tr>
<td>Child-raising periods</td>
<td>2.5</td>
<td>5.3</td>
<td>7.8</td>
<td>4.8</td>
<td>17.8</td>
<td>10.6</td>
</tr>
<tr>
<td>Other periods</td>
<td>7.9</td>
<td>7.8</td>
<td>12.5</td>
<td>8.3</td>
<td>11.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Periods overall</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>b) Projected retirement income (in EUR/month)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- married</td>
<td>1,109</td>
<td>867</td>
<td>892</td>
<td>585</td>
<td>427</td>
<td>668</td>
</tr>
<tr>
<td>- single</td>
<td>1,211</td>
<td>1,117</td>
<td>944</td>
<td>842</td>
<td>776</td>
<td>969</td>
</tr>
<tr>
<td>Personal and partner's net income per capita (only married couples)</td>
<td>1,275</td>
<td>1,272</td>
<td>1,232</td>
<td>1,141</td>
<td>1,157</td>
<td>1,202</td>
</tr>
</tbody>
</table>

Note (1): Net amount per capita; the calculations for the entire simulation period are based on the current pension figures of 2005; the model does not consider approximation of pension rules between East and West.

Table 2: Types of work biographies of women of birth cohorts 1942 to 1961 with child-raising periods and projected retirement income at age 65 years (East Germany)

<table>
<thead>
<tr>
<th>Type of work biography</th>
<th>Full-time re-entry</th>
<th>Part-time re-entry</th>
<th>Late re-entry</th>
<th>All women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (in %)</td>
<td>53</td>
<td>5</td>
<td>42</td>
<td>100</td>
</tr>
<tr>
<td>a) Employment/Non-employment periods (in years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment periods</td>
<td>37.5</td>
<td>39.3</td>
<td>28.7</td>
<td>33.9</td>
</tr>
<tr>
<td>Child-raising periods</td>
<td>1.6</td>
<td>3.0</td>
<td>5.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Other periods</td>
<td>10.9</td>
<td>7.7</td>
<td>16.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Periods overall</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>b) Projected retirement income (in EUR/month)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- married</td>
<td>1,018</td>
<td>792</td>
<td>824</td>
<td>923</td>
</tr>
<tr>
<td>- single</td>
<td>949</td>
<td>–</td>
<td>734</td>
<td>851</td>
</tr>
<tr>
<td>Personal and partner's net income per capita (only married couples)</td>
<td>1,049</td>
<td>940</td>
<td>970</td>
<td>1,009</td>
</tr>
</tbody>
</table>

Note (1): Net amount per capita; the calculations for the entire simulation period are based on the current pension figures of 2005; the model does not consider approximation of pension rules between East and West.
Note (2): Due to inadequate case numbers (n < 10) this category is not shown separately.
ANNEX II - Structure of the German pension system

A. Overview

As early as 1891 the first pillar statutory pension scheme was introduced in Germany and was thus the very first formal pension system in the world. The occupational as well as the personal pension schemes (second and third pillar) are not obligatory in Germany, but are partly state supported.

The first pillar statutory pension insurance scheme, called Deutsche Rentenversicherung (German Pension Insurance) covered around 16.8 million beneficiaries aged 65 and older in 2007. With about 77% of all old-age benefits paid in 2008, the statutory pension insurance scheme continues to be the most important old-age insurance scheme in Germany. Civil servants are not insured in the statutory pension scheme. Pensions for retired civil servants are paid directly from public budgets (around one million beneficiaries). Furthermore, special schemes exist for farmers (around 600,000 beneficiaries) and the liberal professions (e.g. for medical doctors, lawyers, architects – around 135,000 beneficiaries).

As an income replacement, pensions are designed to offer a decent income after their retirement to insured persons. The decisive factor determining the level of annuities is the income earned during the entire contribution-paying period and thus the amount of contributions paid (equivalency principle). However, complete equivalence between contributions and annuities is not foreseen in the German statutory pension scheme.

B. The functioning of the statutory pension scheme in detail

Calculation of pensions

For each year of contributions, an insured person in the statutory pension scheme receives earnings points depending on the individual income in relation to the average earned income which is set at EUR 30,268 in 2011. A year’s contribution at the average earns one earning point. Contributions based on lower or higher income earn proportionately fewer or more earning points. The contribution rate is currently at 19.9% of gross wages.

On retirement, the accumulated earning points are multiplied with the pension value, which is set EUR 27.20 in the West and EUR 24.13 in the East in 2011. The pension value is adjusted annually by a formula which is based on gross earnings development but curbed by the sustainability factor (which reflects the ratio of pensioners to contributors) and the increase in the pension contribution rate.\(^{11}\)

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* The following section is partly based on European Commission (2010b) and OECD (2011).

\(^{11}\) For data see Deutsche Rentenversicherung Bund (2011).
Special conditions for so-called ‘mini-jobs’

Persons in marginal employment with monthly earnings of not more than EUR 400 (so-called ‘mini-jobs’) do not pay contributions and are therefore not fully insured in the statutory public pension scheme. The employer, however, has to pay 15% of the monthly earnings towards the pension scheme. The employed person has the possibility to voluntarily contribute another 4.9% of her or his earnings in order to be fully insured in the pension scheme.12

In 2010, 4.9 million people were exclusively employed on a mini-job contract, 66.2% of which were women. Another 2.5 million people had a mini-job as a side job, 57.3% of which were women. In 2008, voluntary contributions towards the statutory pension scheme were paid by 4.0% of all mini-job employees (by 5.6% of all male employees and by 1.3% of all female employees).13

Minimum income

For people on low income there is social assistance which is also available for pensioners. In 2009 this scheme covered about 400,000 people aged 65 and older, 140,000 of which were male and 260,000 of which were female. This amounts to 2.4% of the whole population over age 65 years, as well as 2.0% of men and 2.7% of women.14

Social policy and redistributive aspects

The German Statutory Pension scheme includes benefits that are used to implement social policy objectives by means of redistributive measures which are financed from the federal budget. This kind of redistribution is designed to offset periods during which no contribution payments are made by the insured person, or during which contributions are insufficient (e.g. periods of care work). Furthermore, the federal government pays contributions for periods of childcare (see below). Other branches of social security pay contributions for periods of unemployment and sickness. Approximately one third of the benefits paid by the statutory pension scheme are based on social policy objectives.

Retirement age

At present the regular old-age pension is payable from age 65 and requires a minimum of five years of contributions. The statutory retirement age will be gradually increased to 67 during the next two decades. For those born 1964 or later, the statutory retirement age will be 67.

12 Private households who employ mini job contractors only pay 5% towards the public pension scheme. Hence, an employee in this sector has to contribute another 14.9% of a month’s wages in order to qualify for full pension insurance coverage. In 2010, 3.3% of all mini job contractors worked in private households, 92% of which were women.
14 Federal Statistical Office (http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/Sozialleistungen/Sozialhilfe/Grundsicherung/Tabellen/Content100/UnterbringungsaufEmpfaengern,templateId=renderPrint.psml)
Recent reforms: strengthening the second and third pillar

Recent reforms within the first pillar system like the introduction of the sustainability factor will lead to a gradual reduction of the net replacement rate in the coming years. To offset this reduction, reforms have promoted the development of supplementary second and third pillar pension schemes: Beside various types of occupational pension schemes a new private and voluntary, scheme, the so-called Riester-Rente, was set up in 2002.

C. Provisions that mainly affect women’s pensions

Childcare credits

The pension system awards pension entitlements for child rearing. For children born prior to 1992, one parent (usually the mother) receives one earning point per child (i.e. a year’s contribution at the average earnings of contributors). For all children born thereafter, the childcare credits have been increased to three earning points per child. The entitlements can help to achieve the minimum contribution period in order to receive pension payments, which is very important for women with very short periods of employment over the life-course. Entitlements from employment during these three years are added to the childcare credits up to the salary cap of the contribution assessment ceiling.

There are also credits for periods of caring for children up to age of 10: If a parent’s earnings are below the overall average earnings when she or he is working between ages 4 and 10 of her or his children, the pension insurance contributions are upgraded by up to 0.33 earning points per year. In order to qualify for the upgrading, the parent must prove 25 years of contribution payments. However, this cannot result in a total accrual exceeding one pension point per year.

Care credits

The pension system awards pension entitlements for caring for family members in need of care in the form of care credits. If a person works more than 14 hours a week for the care of a family member, contributions will be paid out of the long-term care insurance into the pension system. Care credits amount to 75% of the average earnings and are considered in the calculation of pension benefits when the caring person retires. The recognition of care periods depends on the duration of care and the degree of need for care of family members.

Maintenance settlement in case of divorce

The entitlements that have been acquired during the marriage will be split in case of a divorce. The spouse that earned higher entitlements has to transfer half of the difference in entitlements to her/his spouse. Women are the primary beneficiaries of this regulation.
Survivor’s pension

Widows and widowers are entitled to a survivor’s pension upon the death of their spouse if they are above age 45, incapable of gainful employment, or if they are raising a child below the age of 18. The survivor’s pension amounts to 55% of the deceased spouse’s pension. The upbringing of children entitles women to additional earning points in the calculation of their survivor’s pension benefit. They receive two earning points for the first child and an additional point for each subsequent child. If a widow or a widower marries again the entitlements from the survivor’s pension are lost.

Pension splitting

Couples can opt out of the survivor’s pension by splitting their pension entitlements. Their entitlements are first added and then split in half as soon as both partners have retired. If for example the husband has higher pension entitlements than the wife (which is usually the case), half of the difference in entitlements is transferred to the wife, which increases her pension benefit. These pension benefits do not expire if one partner marries again. With the survivor’s pension still existing, there are very few income constellations where pension splitting renders higher benefits than the survivor’s pension.