Financing statutory pension insurance – Consequences for the federal budget of Germany
Statutory pension insurance in Germany

• **In general: compulsory insurance**
  – exceptions include judges, civil servants and self-employed persons

• **Pensions**
  – Type of pensions: old-age pensions, disability pensions, survivors’ pensions
  – Pensions are adjusted every year
    (in line with changes in average gross wages, taking into account a demographic factor)
  – Replacement rate in 2019: 48,2 %
    (standard net pension in relation to average net wage)

• **Financing: pay-as-you-go system**

• **Contribution**
  – Contribution rate: 18.6 % in 2019
  – 50% paid by employee, 50% paid by employer
Revenues and expenditures of the statutory pension insurance in Germany

<table>
<thead>
<tr>
<th>Revenues and Expenditures in billion Euro (2017)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditures</strong></td>
<td>298,9</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>299,5</td>
</tr>
<tr>
<td>- contributions</td>
<td>212,0</td>
</tr>
<tr>
<td>- federal government financing</td>
<td>90,9</td>
</tr>
<tr>
<td>- Federal subsidies</td>
<td>77,7</td>
</tr>
<tr>
<td>- general federal subsidy</td>
<td>48,5</td>
</tr>
<tr>
<td>- supplementary federal subsidy</td>
<td>24,0</td>
</tr>
<tr>
<td>- subsidy for miners’ pension insurance</td>
<td>5,2</td>
</tr>
<tr>
<td>- Federal government contributions for child-raising periods</td>
<td>13,2</td>
</tr>
</tbody>
</table>

*Source: Haushaltsgesetz 2019*
Revenues and expenditures of the statutory pension insurance in Germany

Source: Rentenversicherungsbericht 2018
Federal Subsidies
share of the total federal budget

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>pension insurance benefits provided by the federal government</td>
<td>94.0</td>
<td>98.1</td>
<td>102.0</td>
<td>105.9</td>
<td>110.0</td>
</tr>
<tr>
<td>total expenditure federal budget</td>
<td>343.6</td>
<td>356.8</td>
<td>363.2</td>
<td>369.3</td>
<td>375.5</td>
</tr>
<tr>
<td>in percent of the federal budget</td>
<td>27.4%</td>
<td>27.5%</td>
<td>28.1%</td>
<td>28.7%</td>
<td>29.3%</td>
</tr>
</tbody>
</table>

Source: Finanzplan bis 2022
Rules for updating federal subsidies

Rule based federal subsidies
General federal subsidy: adjusted in line with changes
⇒ in average gross wages and salaries per employee
⇒ in contribution rates
Supplementary federal subsidy:
⇒ adjusted in line with changes in VAT revenue

Discretionary subsidies
⇒ „three steps“

Covering deficits
⇒ miners’ pension insurance
⇒ ensure 20% contribution rate ceiling (until 2025)
Rule based federal subsidies

Rule based federal subsidies in billion euro and growth per year and the share of the growth rate of average gross wage

Source: Finanzplan 2022 und eigene Berechnungen
Discretionary federal subsidies

„Three steps“ in billion Euro

- 1. step: RV-Leistungsverbesserungs-gesetz von 2013
- 2. step: Ost-West-Rentenangleichung von 2017
- 3. step: RV-Leistungsverbesserungs- und -Stabilisierungs-gesetz 2018

Dr. Jürgen Ehler, Financing statutory pension insurance - Consequences for the federal budget of Germany, Beijing, 17.01.2019
Contribution rate statutory pension insurance and 20% ceiling

Source: Rentenversicherungsbericht 2018
Deficit covering federal subsidies

Rule based and deficit covering federal subsidies

additional federal expenditure caused by legal acts in 2018

- 2019: 0.85 billion EUR
- 2020: 0.86 billion EUR
- 2021: 0.87 billion EUR
- 2022: 1.42 billion EUR
- 2023: 1.18 billion EUR
- 2024: 2.00 billion EUR
- 2025: 3.31 billion EUR

Dr. Jürgen Ehler, Financing statutory pension insurance - Consequences for the federal budget of Germany, Beijing, 17.01.2019 | 10
Role of federal subsidies in financing the statutory pension system

What role do federal subsidies play in financing the statutory pension system?

• Contribute to the financial stability of the system
• Mitigate and balance the cost burdens for employees and employers
• Mitigate the burdens facing the statutory pension system caused by demographic trends
• Provide lump-sum compensation for pension benefits not covered by contributions
Contact

Federal Ministry of Finance
Department II – Federal Budget
Wilhelmstrasse 97
10117 Berlin

Dr. Jürgen Ehler
juergen.ehler@bmf.bund.de
www.bundesfinanzministerium.de
Tel. +49 (0) 30 18 682 2701