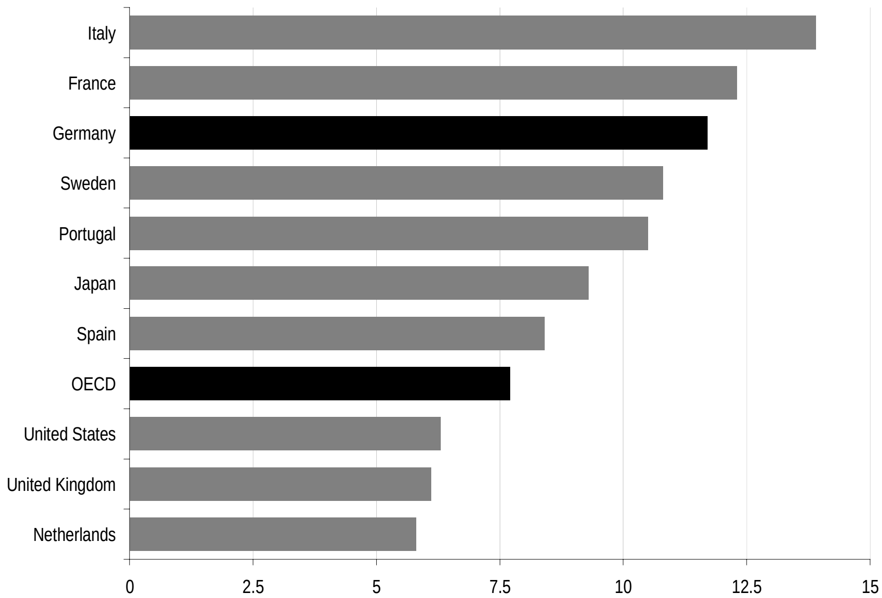
- Germany currently has one of the highest levels of public spending on pensions in the 30 OECD countries.

- But recent changes to the pension system have lowered target pensions and Germany is one of the few OECD countries that have moved the retirement age beyond age 65.

- Coverage of the new private pension plans is the highest for any voluntary pension scheme in the OECD but contributions are comparatively low. The level, however, will be sufficient to compensate for the reduction of benefits after the reforms.

The recent pension reforms in Germany are among the most substantial and comprehensive among OECD countries. They have lowered future pension entitlements and introduced an innovative adjustment mechanism of pension benefits that incorporates life expectancy and the labour market situation. Germany has also been one of pioneer countries in the OECD to increase the standard retirement age to 67.

Figure 1. **Public spending on pensions in 10 European countries, 2003**



Source: OECD Social Expenditure database; OECD *Pensions at a Glance*

The reforms have improved the long-term financial sustainability of the pension system. The target gross replacement rate – pension in retirement relative to earnings when working – for average earners who enter the labour market now was reduced from 48.7% to 39.9%; only 5 OECD countries have lower target replacement rates for average earners. The OECD average amounts to 58.7%.

The replacement rate is constant at different levels of earnings in Germany while in most of the 30 OECD countries replacement rates are higher for low earners and vice versa. Germany's 40% replacement rate is far below the OECD average of 73% for low earners (on half average earnings). This means that in the future Germany will have to pay particular attention to low-income pensioners in order to prevent an increase of pensioner poverty.

For higher earners (150% of average) the German and the OECD average replacement rates are much closer together at 40% in Germany versus 49% for the OECD.

Table 1. **Gross replacement rate in 10 European countries at 50%, 100% and 150% of average earnings**

	50%	100%	150%
Austria	80.1	80.1	78.5
France	51.2	51.2	46.9
Germany	**39.9**	**39.9**	**39.9**
Hungary	76.9	76.9	76.9
Italy	67.9	67.9	67.9
Netherlands	80.6	81.9	82.4
Slovak Republic	56.7	56.7	56.7
Sweden	79.1	62.1	64.7
Switzerland	62.5	58.4	40.7
United Kingdom	53.4	30.8	22.6
OECD 30	**73.0**	**58.7**	**49.2**

Source: OECD *Pensions at a Glance*