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Germany enacts basic pension law to benefit low-wage earners

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A new supplementary state basic pension law (“Grundrente”) was finalized for low wage earners who contribute to the German social security system for at least 33 years. In addition, the subsidy amount paid to employers that contribute to occupational pension schemes for low wage earners will increase. The changes are expected to take effect on 1 Jan 2021.

Basic pension

To be eligible for the basic pension, low-wage earners must contribute to the social security insurance system for a minimum of 33 years, and their annual earnings must not exceed 80% of average earnings over that entire period. The basic pension amount will be linked to the number of years the individual contributed, up to a maximum of €418.83 per month.

The full pension is payable if the individual has contributed for 35 years, and it will be reduced proportionately between 33 and 35 years. Individuals with other sources of monthly income — for example, occupational pension benefits — will receive a reduced basic pension if their income exceeds certain thresholds: €1250 (singles) and €1950 (couples).

If an individual’s income exceeds the threshold allowance, the basic pension is reduced — initially by 60% of the amount that exceeds the allowance and then by 100% for income above €1600 (singles) and €2300 (couples). The basic pension will be paid for by the taxation system and won’t be funded by additional contributions.

Occupational pension contribution subsidy

Employers will receive subsidies of up to 30% for occupational pension scheme contributions on behalf of employees whose salary doesn’t exceed €2,575 per month. Under the new law, the maximum amount

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of employer contributions eligible for the subsidy will double to €960 per year — up from €480. The maximum subsidy amount an employer could receive will also double — to €288 — up from €144. Employers must meet the following conditions to receive the subsidy:

- Contributions are paid only by the employer.
- Contributions must be at least €240 each year.
- The scheme must be insurance-based.
- Scheme benefits must be paid as an annuity.

Related resources

- [Information on the basic pension](#) (German) (Bundesrat, 3 Jul 2020)
- [Decision paper on the basic pension](#) (German) (Bundesrat, 27 Mar 2020)

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