DIW Weekly Report 17+18 2023

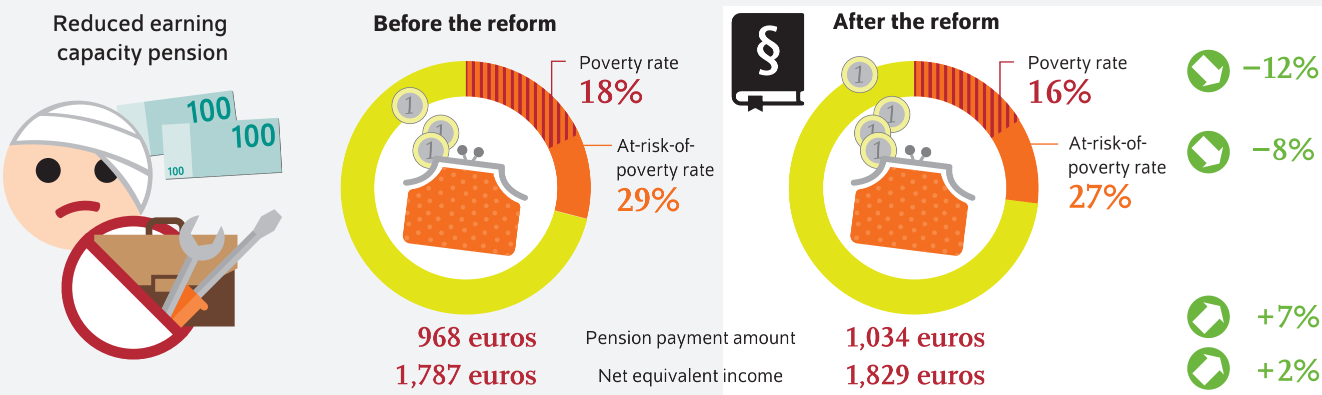
AT A GLANCE

Reform of reduced earning capacity pension cuts risk of poverty, but comes late

By Sebastian Becker, Annica Gehlen, Johannes Geyer und Peter Haan

- At 26 percent, the risk of poverty among people with reduced earning capacity is considerably higher than in the population as a whole; for those under 65, this figure is as high as 34 percent
- A new pension calculation to come into effect from July 2024 will improve existing disability pensions of people with reduced earning capacity by either 7.5 or 4.5 percent
- Expected effects on income modelled using SOEP and pension insurance data
- Despite cutting the risk of poverty among individuals with reduced earning capacity by up to eight percent, it remains high; for many, the reform has also come too late
- In addition to improvements in coverage, greater focus should be placed on prevention and return to the labor market

Reform of reduced earning capacity pension cuts risk of poverty; net incomes only increase slightly



Note: Values for the beneficiaries of the reform 2024 with net income data from 2019. At-risk-of-poverty rate (poverty rate): the share of individuals with a net equivalent income of less than 60 (50) percent of the median. Pension payment amount: gross pension less contributions for health and long-term care insurance. Net equivalent income: total disposable income taking into account the size of the household.
Source: SOEPv37, own calculations based on the STSM microsimulation model.

FROM THE AUTHORS

*“Crucially, many of those with low incomes are on reduced earning capacity pensions, which are so small that they also depend on basic income support. As well as increasing their payments, the best way to prevent poverty would be to take preventive measures to ensure these individuals remain able to work—particularly considering Germany’s current labor shortages.” — **Johannes Geyer** —*

MEDIA

Audio Interview with Johannes Geyer (in German)
www.diw.de/mediathek

Reform of reduced earning capacity pension cuts risk of poverty, but comes late

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ABSTRACT

An accident, a chronic illness, or even a congenital disability are common causes of a loss of earning capacity. Although the loss of earned income is insured through the reduced earning capacity pension in the statutory pension insurance scheme, the amount received is so low that people with reduced earning capacity are at very high risk of poverty and there is a higher-than-average likelihood of them claiming basic income support. Since the 2001 pension reform, there has been a general decrease in average benefit payments. Reforms in 2014 and 2019 introduced improvements to new pensions but existing pensions did not benefit. The reform aims to correct this from July 2024. Calculations show that although this reform could potentially reduce the risk of poverty by around eight percent, there continues to be an above-average likelihood of people with reduced earning capacity being affected by poverty. In addition, those affected have a low life expectancy, meaning that a significant portion of those who could potentially benefit from the reform will no longer be alive when it comes into force. The findings show that the changes need to be implemented quickly and other measures are required to minimize the risk of poverty among those with reduced earning capacity.

The reduced earning capacity pension is a key benefit from Germany's statutory pension insurance scheme (*Gesetzliche Rentenversicherung*, GRV). It provides a replacement income in the event of a loss of earning capacity before an individual reaches pensionable age, when certain legal requirements are met. At the end of 2021, around 1.8 million people were drawing a pension due to a reduction in earning capacity. In 2022, there were around 165,000 new reduced earning capacity pensions, accounting for a good 16 percent of all new pensions. On top of this, an estimated 2.7 million pensioners drew a reduced earning capacity pension before retirement.[1]

Individuals who are still able to work from three to six hours per day receive half a reduced earning capacity pension; if their capacity is less than three hours per day, they receive a full reduced earning capacity pension. The type of job an individual does is not relevant.

For the purpose of calculating their pension in the event of a claim, it is assumed the insured person would have continued to work and pay contributions up to a particular reference age (the end of the credited period, referred to as the *Zurechnungszeit* in German) (see Box 1). Until July 1, 2014, this reference age was 60, but was subsequently raised to 62 for new pensions. The reference age for pensions starting from 2018 was increased to 62 and three months, and from 2019 to 65 and eight months. Since then, the reference age has been rising in line with the increase in the standard retirement age and will be 67 from 2031. This improvement in the pension calculation has so far only benefitted new pensioners.[2]

This deficit will now be partially addressed in the German act to adjust pensions and improve existing reduced

1 Reduced earning capacity pensions are converted into old-age pension when the individual reaches the standard retirement age. The figure of 1.8 million only refers to those whose pensions have not been converted from a reduced earning capacity pension. Based on all old-age and reduced earning pensions, the share of those that were originally reduced earning capacity pensions is around 22 percent.

2 On the effects of these reform packages, see Johannes Geyer, "Der Einfluss von Rentenreformen auf Zugänge und Zahlbeträge in Erwerbsminderungsrenten – Modellrechnungen bis 2050: Forschungsbericht; Forschungsprojekt gefördert durch die Hans-Böckler-Stiftung," *DIW Politikberatung Kompakt* 164 (2021) (in German; available online, accessed on April 12, 2023).

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Box 1

Calculating the reduced earning capacity pension

The reduced earning capacity pension is calculated in a similar way to the old-age pension. The pension is essentially determined according to entitlements arising from contributions paid during the individual's working life. However, since reduced earning capacity means that an individual prematurely stops work, the active insurance period is shortened. This generally results in the pension being very low. In order to counter this, legislators introduced a credited period (Zurechnungszeit) in Section 59 of the German Social Security Code VI. During this credited period no contributions are paid and it replaces the years in which there was no insurance coverage due to the reduction in earning capacity. The credited period begins when the relevant reduction in earning capacity applies and ends at a particular reference age. This period is calculated according to the total benefit assessment. In simple terms, this means that the credited period is based on the average number of pension points the individual has accumulated up to that date. The end of the credited period was 60 years of age up to June 2014 and was raised by two years to 62 as of July 2014.[1] In addition, it was decided that the pension points of the last four years prior to the onset of reduced earning capacity would not be taken into account in the assessment of the credited period if this led to a more favorable overall benefit assessment. Individuals often have to limit the amount of time they work for health reasons, even before officially claiming reduced earning capacity, and this will allow that to be taken into account so that it does not have a negative effect on the assessment of the credited period. In 2018, the reference age for the credited period was raised to 62 years and three months.[2] In another reform in 2019, the credited period was raised again, this time significantly, aligning it with the standard retirement age, which will gradually increase to 67 by 2031.[3] Only new pensioners benefitted from the reforms implemented in 2014 and 2019, pensions were not increased for existing pensioners.

According to the pension adjustment and reduced earning capacity pension improvement act (Rentenanpassungs- und Erwerbsminderungsrenten-Bestandsverbesserungsgesetz), which will be implemented on July 1, 2024, pensioners whose reduced earning capacity pensions began between 2001 and 2018 will now receive a supplement to their pension. The adjustment is a percentage increase, which is based on the date existing pensioners first began drawing their pensions. Those who started drawing their pensions between January 2001 and June 2014 receive a one-off supplement of 7.5 percent. Those whose pensions began between July 2014 and December 2018 benefitted from the 2014 pension increase and therefore receive a lower supplement of only 4.5 percent. Those who began to draw their reduced earning capacity pension after December 2018 receive no adjustment to their pensions.

1 Pension insurance benefit improvement act (*RV-Leistungsverbesserungsgesetz*). Federal Law Gazette Part I, no. 27 (2014): 787ff (available online).

2 Act to improve pension benefits for reduced earning capacity and to amend other Acts (*EM-Leistungsverbesserungsgesetz*). Federal Law Gazette Part I, no. 48 (2017): 2509ff (available online).

3 Act to improve and stabilize pension benefits (*RV-Leistungsverbesserungs- und -Stabilisierungsgesetz*). Federal Law Gazette Part I, no. 40 (2018): 2016ff (available online).

earning capacity pensions (*Rentenanpassungs- und Erwerbsminderungsrenten-Bestandsverbesserungsgesetz*) from July 1, 2024.[3] This means that the pensions of individuals who had a reduced earning capacity after the first reform, that is after December 31, 2000 and before July 1, 2014, will be increased by 7.5 percent. Those individuals who were claiming a reduced earning capacity pension after June 30, 2014 and before January 1, 2019 will receive an extra 4.5 percent. The 2014 and 2019 reforms resulted in different amounts of supplementary payments for individuals' pensions due to the increase in the credited period. The flat-rate supplementary payment tends to be around 50 percent lower than would be expected from an equivalent increase in the credited period for this group. Around 2.6 million individuals with reduced earning capacity will benefit from the current reform.

This Weekly Report estimates the improvements in earnings for the relevant group and examines the impact on the risk of poverty. The empirical analyses are based largely on data from the German Socio-Economic Panel (SOEP) which is based at DIW Berlin[4] and process-generated data from the pension insurance scheme.[5]

Reduced earning capacity pensions showed weak development

The rules on reduced earning capacity were fundamentally reformed in 2000 through the German act to reform pensions for reduced earning capacity (*Gesetz zur Reform der Renten wegen verminderter Erwerbsfähigkeit*).[6] Following the reform, the pension payment amounts[7] for new pensions fell considerably (see Figure 1). Using the year 2000 as the base year

3 Federal Law Gazette Part I, no. 22 (2022): 975 (in German; available online, accessed on March 28, 2023. This applies to all other online sources in this report unless stated otherwise).

4 Jan Goebel et al., "The German Socio-Economic Panel (SOEP)," *Annual of Economics and Statistics* 239, no. 2, (2019): 345–360 (available online).

5 Funding by the Joint Programming Initiative More Years Better Lives through the project PENSINEQ (Unequal ageing: life-expectancy, care needs and reforms to the welfare state) is gratefully acknowledged.

6 Federal Law Gazette Part I, no. 57, (2000): 1827–1845 (in German; available online).

7 The pension payment amount describes the gross pension less contributions for long-term care and health insurance. These contributions have risen over the period being considered here and partly explain the weak development of pension payments amounts. The contribution rate for long-term care insurance that pensioners must pay themselves had risen from 1.7 to 3.05 percent by 2021.

Figure 1

Development of nominal and real pension payment amount
Indexed (year 2000 = 100)[1]

1 For new pensions, the payment amount in 2000 was 706 euros, for existing pensions it was 718 euros.

Source: Time series analysis of pension insurance, Federal Statistical Office (Destatis).

The payment amount for reduced earning capacity pensions in real terms is far lower than it was 20 years ago.

for comparison, existing and new pensions did not return to the base year's level of over 700 euros in nominal terms until 2014 and 2017, respectively. In recent years, however, the development has been more positive due to the latest pension reforms. On average, the pension payment amount in 2021 was around 30 percent (new pensions) and 22 percent (existing pensions) higher than in 2000. Nevertheless, despite the recent improvements, the purchasing power of pension payments fell over time. According to the consumer price index of the Federal Statistical Office of Germany (*Statistisches Bundesamt*), prices have risen by around 37 percent since 2000 and, therefore, considerably more than pension payment amounts.

Transfer dependency has risen sharply

Disproportionately more people with reduced earning capacity have a low socio-economic status. As a result, the risk of reduced earning capacity is considerably higher for the low qualified than it is for people with higher educational attainment and this difference increases with age.[8] In addition, the poor health status of those affected frequently leads to erratic employment histories with low levels of earned income.[9]

Alongside this weak development of pension payments, the share of those with reduced earning capacity (for existing pensions) who claim basic income support, has risen. In 2003,[10] the proportion was still around four percent and by 2014 it had risen to around 15 percent (see Figure 2).[11] By comparison, among individuals aged 65 and over, the share of those claiming basic income support was over three percent and for those receiving a pension from the statutory pension scheme, this figure was below three percent. In 2021, the share of the population with long-term reduced earning capacity who receive basic income support was 18 percent for men and 12 percent for women. The loss of income for the household is presumably greater, on average, when it is the man who is no longer earning.

Those with reduced earning capacity are at greater risk of poverty

It is no surprise that statistical metrics for poverty are also higher than average among people with reduced earning capacity (see Table).[12] In 2019, rate of poverty risk for those with reduced earning capacity was around 26 percent.[13] This group also includes individuals over the age of 65 whose pensions have been converted into old-age pensions. When considering only those up to the age of 65, the at-risk-of-poverty rate rises to 34 percent. According to the analysis, around 22 percent of those aged up to 65 were considered extremely poor as they earn less than half of the median income in Germany. Among people with reduced earning capacity who are aged 65 or older, this rate was far lower at either 21 or eleven percent. In the group of those who have benefitted from the current reform, the at-risk-of-poverty rate was 29 percent and the poverty rate was 18 percent. By comparison, in the general population, the at-risk-of-poverty rate was 16 percent, and the poverty rate was ten percent.[14]

8 Daniel Kemptner, "Erwerbsminderung als Armutsrisiko," *DIW Roundup*, no. 8 (2014) (in German; available online).

9 Janina Söhn and Tatjana Mika, "Die erwerbsbiografische Vorgeschichte der Frühverrentung wegen Erwerbsminderung," *Zeitschrift für Sozialreform*, no. 4 (2016): 461–492 (in German; available online).

10 The basic income support scheme for old age and reduced earning capacity was introduced in 2003, replacing the social assistance scheme for certain groups. In the case of income support, close relatives are not expected to contribute unless they earn more than 100,000 euros per year.

11 As only individuals receiving a pension for a permanent and full reduction in earning capacity are entitled to basic income support benefits, the proportion of transfer recipients is likely to be even higher. In 2021, a good 27 percent were drawing a temporary reduced earning capacity pension or a pension for partial reduced earning capacity. Where needed, these individuals were able to apply for benefits in accordance with the German social security code (*Sozialgesetzbuch*, SGB II).

12 Previous studies have already indicated the high risk of poverty among this group, for example, Stefanie Märtin, Pia Zollmann, and Rolf Buschmann-Steinhage, "Sozioökonomische Situation von Personen mit Erwerbsminderung: Projektbericht I zur Studie," *DRV Schriften* no. 99 (2012): 46ff (in German; available online).

13 The at-risk-of-poverty rate measures the share of individuals whose income is less than 60 percent of the median net equivalent income. The poverty rate measures the share of individuals whose income is less than 50 percent of the median. The net equivalent income is derived from total disposable income taking into account the size of the household. For this purpose, it is divided by the weighted number of household members using the modified OECD scale, see DIW Glossary on equivalent income (in German; available online).

14 One reason for this negative development, alongside general benefit restrictions, was the decline in average pension entitlements in this group. Nevertheless, in 2000, pensioners with reduced earning capacity were still awarded 0.9 pension points per insurance year. By 2014, this average value had fallen by almost 20 percent to 0.73 pension points. Since then, this figure has recovered somewhat and in 2021 was 0.789 pension points. See also Deutsche Rentenversicherung Bund, "Rentenversicherung in Zeitreihen," *DRV-Schriften Band* 22 (2022): 128 (in German; available online).

Nearly three million people will be better off because of the reform

According to SOEP data, in 2019, around 2.6 million individuals were entitled to a one-off increase to their reduced earning capacity pensions—nearly two million of whom will be entitled to the one-off adjustment of 7.5 percent (pensions which started between January 2001 and June 2014) and around 650,000 of whom will be entitled to the one-off adjustment of 4.5 percent (pensions which started between July 2014 and December 2018).[15] The increase in gross pensions does not necessarily mean an equivalent increase in the net income of these households. Gross pensions do not cover the cost of social security contributions for long-term care and health insurance, taxes if applicable, and, if the individuals are in receipt of basic income support, their income is offset against these benefits.[16] Added to which, the pension is only one component of household income.

Pensions rise by almost seven percent, but disposable incomes by only two percent

The change to disposable net income can be modelled using the microsimulation model STSM (see Box 2). The pensions of those who benefitted from the reform rose by an average of around 66 euros, corresponding to a relative increase of almost seven percent (see Table). This was to be expected as the majority benefitted from the higher pension increase of 7.5 percent. However, net equivalent income in this group rose by only around 42 euros, corresponding to an increase in income of around two percent. If we consider not only the beneficiaries but all individuals with reduced earning capacity, the effects are correspondingly smaller. In the population as a whole, the change in income of this small group has no impact on average income or poverty risk.

The risk of poverty falls by eight percent

As a result of the reform, the at-risk-of-poverty rate for this group of beneficiaries declines by two percentage points, from 29 to 27 percent, and the poverty rate falls from 18 to 16 percent. This still corresponds to a relative decrease in poverty risk of eight percent and as much as 12 percent in the poverty rate. Somewhat smaller absolute changes can be seen for young and older individuals with reduced earning capacity, which also include those with reduced earning capacity who did not benefit from the recent reform. This means that, even after the reform, the risk of poverty is still very high at 32 percent, particularly for under 65-year-olds with reduced earning capacity.

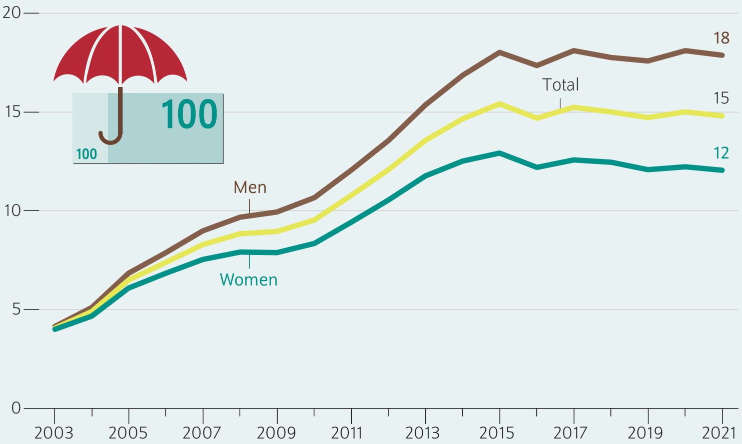
15 In its draft legislation, the German Federal Government estimates that around three million pensions would be increased as a result (*Bundestagsdrucksache* 20/1680 from May 6, 2022 (in German; available online). It should be noted that no foreign pensions or survivors' pensions are taken into account in the extrapolated figure from SOEP. In addition, there is a certain degree of sampling uncertainty.

16 Although there are allowances for income from the statutory pension insurance scheme from 2021 if individuals have paid into their basic pension for at least 33 years (so called *Grundrente*), since the credited period does not count toward the basic pension, only a small minority is likely to qualify for these allowances.

Figure 2

Rate of those with reduced earning capacity receiving basic income support

Share of those receiving basic income support in percent



Note: Takes into account the number of recipients of a full, unlimited reduced earning capacity pension who get basic income support as a percentage of the number of all recipients of statutory reduced earning capacity pensions living in Germany (not including those on temporary pensions).

Source: Time series analysis of pension insurance.

The share of those with a reduced earning capacity that receive basic income support has risen sharply since 2003 and only began to stabilize at a high level after 2014.

Table

Income and risk of poverty before and after the reform

Income and payment amount in euros, at-risk-of-poverty and poverty rates in percent

Income/Rates	Reduced earning capacity				Entire population
	Beneficiaries[1]	Under 65	65 and older	Total	
Before the reform					
Net equivalent income	1,769	1,787	1,717	1,808	2,289
Pension payment amount	1,038	968	868	1,166	281
At-risk-of-poverty rate	26	29	34	21	16
Poverty rate	15	18	22	11	10
After the reform					
Net equivalent income	1,794	1,829	1,740	1,834	2,291
Pension payment amount	1,078	1,034	912	1,204	284
At-risk-of-poverty rate	25	27	32	19	16
Poverty rate	14	16	21	9	10

1 Beneficiaries are those with a reduced earning capacity that drew a reduced earning capacity pension between 2001 and 2018 and still receive a pension.

Notes: The income data refer to 2019. The at-risk-of-poverty rate measures the share of individuals with a net equivalent income of less than 60 percent of the median; the poverty rate measures the share with less than 50 percent of the median. The pension payment amount describes the gross pension less contributions for health and long-term care insurance. Weighted figures.

Source: SOEPv37, own calculations based on the STSM microsimulation model.

Box 2

Data basis and model

The data basis of this Weekly Report is the Socio-Economic Panel (SOEP), an annual representative household survey of around 30,000 individuals, which has been implemented since 1984. The survey data include the status of the individual under social law. This information is self-reported. The indicator used to identify reduced earning capacity is the pension entitlement and the age of the person at the time of the survey. Also included were retrospectively surveyed biographical data which allowed us to identify those who retired before participating in the SOEP survey. It was thus possible to estimate the group with reduced earning capacity among existing pensioners.[1] However, the data do not show whether a pension paid out to a surviving dependent was based on a previous reduced earning capacity pension. These pensions also benefit from the adjustments and improve the income of the individuals concerned. The data basis for the present study is the 2020 wave of the SOEP (v37).

The microsimulation model STSM models income tax, social security contributions, and social transfers.[2] To achieve this, the STSM contains complex simulation modules on income tax and the solidarity surcharge, on social security contributions, as well as on the main social transfers. In addition to data from the SOEP, administrative data from the Research Data Center of the Pension Insurance Fund (Forschungsdatenzentrum der Rentenversicherung, FDZ-RV) were used. The data contain information about when reduced earning capacity pensions begin and end in Germany.[3]

1 A similar procedure was also used in earlier analyses on reduced earning capacity with SOEP data, see Geyer, "Einfluss von Rentenreformen," 21ff.

2 Viktor Steiner et al., "Documentation of the Tax-Benefit Microsimulation Model STSM. Version 2012," *DIW Data Documentation* no. 63 (2012) (available online).

3 More information about the data is available on the website of *Deutsche Rentenversicherung*.

A large proportion of people with reduced earning capacity will not benefit from changes

One important aspect of the reform is its late implementation. Reforms in 2014, 2018, and again in 2019 only improved benefits for new pensions. For existing pensions, the improved benefits will only last until July 2024 for administrative reasons. At the same time, this means that the group of beneficiaries will have decreased by then. The reform only benefits individuals who entered reduced earning capacity retirement for health reasons between January 2001 and December 2018. According to pension statistics, around 3.1 million individuals qualified for a reduced earning capacity pension in this period. According to SOEP data collected in the first half of 2020, this group is estimated to consist of 2.6 million individuals. This means that the number of people in this group fell by around 500,000 over that period and will continue to fall up to mid-2024.

The life expectancy of individuals with reduced earning capacity is well below average. Moreover, around half of all new pensions are only granted for a limited period. As a result, not all of those who are currently eligible will continue to enjoy the pension increase from July 2024.

A significant proportion of reduced earning capacity pensions will cease to exist again just a few years after they begin (see Figure 3). This can be seen in data related to new pensions for men in 2013, for example.[17] Around 90,000 men entered into reduced earning capacity pensions in that year. Under current law, they would be entitled to a 7.5-percent increase to the value of their pension entitlements from July 2024 onwards. However, eight years after starting to draw their pensions, only around 56,000 beneficiaries (62 percent) are still receiving a reduced earning capacity pension. Just under a third no longer benefit from the reform, either because they have died (this applies to 17 percent or 15,000 individuals) or because the reduced earning capacity pension was only granted for a limited period. For example, in 2013, a total of 54 percent of new reduced earning capacity pensions received by men were granted for a fixed term. In the case of fixed-term reduced earning capacity pensions, the entitlement to such pensions often expires or is otherwise discontinued. However, a considerable percentage of pensions end due to the death of the relevant person.[18] For fixed-term pensions, this is the reason the pension is discontinued in 44 percent of cases. Unlimited pensions almost always end due to the death of the relevant person.[19]

Conclusion: Lower risk of reduced earning capacity and make it easier for individuals to return to work

Alongside health limitations, reduced earning capacity is also a key income risk for people of working age. The risk of poverty among those with reduced earning capacity is significantly higher than the average for the population, and despite reasonable adjustments made to benefits from the statutory pension scheme in recent years, the risk of poverty will only decline moderately because of the reform.

The increase in the qualifying period for the reduced earning capacity pension is an important step, albeit one that has come far too late. If these improvements had been transferred to new pensions in 2014 and to existing pensions in 2019, pensions would actually have had to be adjusted by around twice the increase now planned. However, the scope for further benefit improvements, particularly for reduced earning capacity pensions, is limited. Even today, it can already be financially more advantageous for many older employees to

17 Comparable patterns can be observed for women, but mortality is lower. For a detailed analysis, see Sascha Drahs, Tino Krickl, and Edgar Kruse (2022): Rückkehr von Erwerbsminderungsrentnern ins Erwerbsleben: Ergebnisse aus Längsschnittuntersuchungen der Statistikdatensätze der Deutschen Rentenversicherung. RVaktuell 3, 4-18 (in German; available online).

18 This is particularly common among people who receive a reduced earning capacity pension due to neoplasms (cancer) or due to circulatory diseases.

19 This may give rise to entitlements to survivors' benefits, which are not considered in this report.

claim reduced earning capacity pension shortly before reaching the age limit, than to retire and draw an old-age pension with actuarial deductions.

Another problem with the reduced earning capacity pension is that its beneficiaries tend to be among the low-income groups in society. Changes to the statutory pension scheme are not therefore enough to mitigate the risk of poverty. In the short term, there are no simple solutions to the high risk of poverty among those affected. The rates of basic income support could be increased or the requirements for the basic pension supplement could be amended to enable those with reduced earning capacity to qualify more easily.[20] However, a more effective step would be first, to take more preventive measures to further reduce the risk of reduced earning capacity and, second, to give people more incentive to return to work. It would therefore make sense to reduce the risks for individuals to return to work. Applying for a reduced earning capacity pension is often a long and difficult process for those involved. If they resume employment, there is a risk that they will lose this status, but they may not manage to successfully return to the labor market. This lack of incentive does not make sense considering Germany's growing demand for labor.

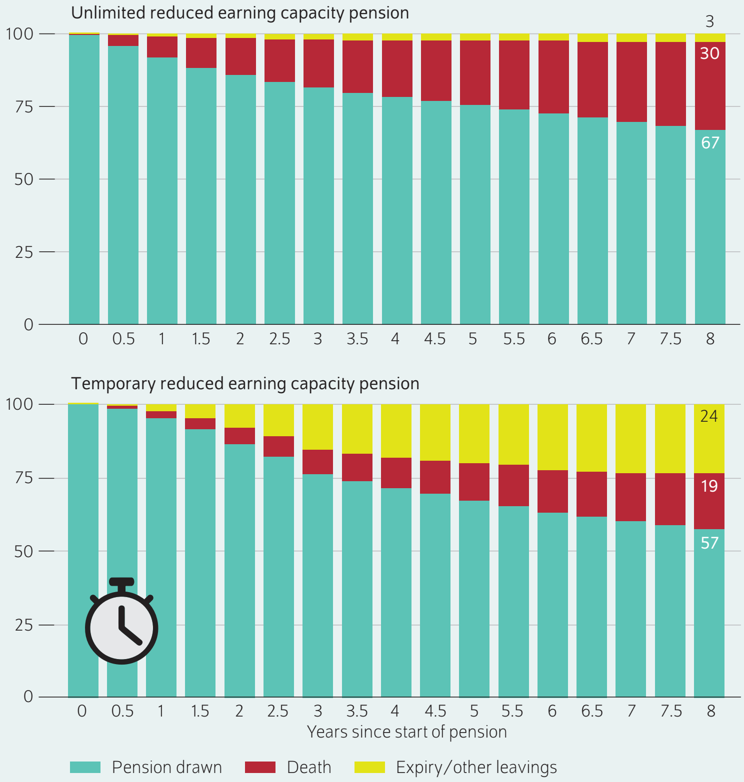
In view of the multi-pillar system envisaged by policymakers, the risk of disability must be covered more comprehensively in private or occupational pension plans. How this can be achieved affordably has not yet been sufficiently explored. It is, however, a very relevant question worth discussing in more detail in debates about the future of Germany's old-age social security system.

20 The basic pension supplement (*Grundrente*) was introduced in 2021. The supplement is granted for pensions where the recipient has paid into the basic pension scheme for at least 33 years (Section 76(g) of the German social security code, SGB VI). Compulsory contribution periods and contribution periods for child rearing and care both count toward the 33 years, but credited periods do not, which means that many individuals with reduced earning capacity do not qualify for the supplement. The supplement itself is calculated using a complicated method based on the individual's contribution history. For more details, see Johannes Geyer, Peter Haan, and Michelle Harnisch, "Zur Wirkung der Grundrente und der Mütterrente auf die Altersarmut," Working paper 07/2020, Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, 2020 (in German; available online).

Figure 3

Receipt of reduced earning capacity pensions by men up to eight years after retirement in 2013

Share in percent



Notes: The data refer to men who began receiving a reduced earning capacity pension in 2013 and who made no contributions to the pension insurance scheme for people working in the mining industry (knappschaftliche Rentenversicherung).

Source: Research Data Center of the German Pension Insurance Scheme (FDZ-RV), own calculations.

Many reduced earning capacity pensions end after just a few years due to the death of the individual concerned or expiry of the pension.

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