

→| Unterstützungskasse
A Type Of German Company Pension Arrangement

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01| Unterstützungskasse or Direktversicherung?

A **Unterstützungskasse**, also called **U-Kasse**, is a legally independent organisation that manages occupational pension schemes on behalf of employers. The legal structure of such a U-Kasse is almost always that of a “registered association” (eingetragener Verein). When an employer chooses to become a member of the U-Kasse, his employees are granted retirement benefits on reaching a specified age – usually 67.

The U-Kasse, first mentioned in the 1920's, has evolved historically and is today widely accepted by employers and their employees. This process is still ongoing. Given the latest changes in law, the U-Kasse is likely to continue to gain importance.

Advantages of a U-Kasse compared with a Direktversicherung

Both are independent providers of occupational pension schemes. Contributions can be funded either by the employer or the employee or both together.

Neither U-Kasse nor Direktversicherung affect the company's balance sheet. Contributions towards a Direktversicherung as well as towards a U-Kasse are tax-free for the employee. They also qualify as business expenses, while contributions towards a Direktversicherung are limited to € 604* per month per person from a tax point of view.

€ 604 per month might be sufficient for most employees. However, people on higher income such as (senior) managers are likely to require a different type of pension arrangement. Since with U-Kasse there are no tax limitations on premiums U-Kasse is considered highly attractive especially for senior staff.

Our recommendation

We recommend to ask your financial adviser to support you in working out the best possible combination of Direktversicherung and U-Kasse. No matter which type of occupational pension is chosen, GENERATION business is a good product solution. It was specifically designed to meet the needs of the occupational pension market in Germany.

02| Funding a Unterstützungskasse

Similar to pension systems in other countries, contributions to a U-Kasse can be funded by the employer (in addition to the employee's salary) or by the employee (so-called deferred compensation). Deferred compensation is often used as contributions are exempted from income tax and therefore paid from the employee's gross rather than net income.

Employer contributions are also tax-free, so any payments towards the employee's plan will not be taxed as additional income. Furthermore, contributions towards this type of plan will not be taken into account in determining the employer's contributions to the compulsory German social system. This means that indirect labor costs can be reduced by setting up a pension arrangement.

By the way: No matter how the plan is financed, the premiums always qualify as business expenses.

* 8 % of the BBG (Beitragsbemessungsgrenze) 2024

03 Advantages not just for employers but also for employees/Managing Directors (GGF)

Due to the almost unlimited payment amounts, higher pension gaps can also be closed via a Unterstützungskasse, and without affecting the balance sheet. The Unterstützungskasse takes out a pension saving policy with a life insurer on the basis of the pension commitment and the employer's contributions. If a benefit event occurs in accordance with the benefit plan, the benefits are paid to the employee by the Unterstützungskasse from the reinsurance policy.

Contributions to the Unterstützungskasse can also be made by way of deferred compensation. This means that parts of the salary are allocated to the pension scheme. These amounts are deducted directly from the gross salary by the employer. This reduction of the gross salary reduces the income subject to tax and social security contributions and – depending on the personal earnings situation – less income tax and social security contributions are due.

Advantages for the employer

Outsourcing of pension risks to the Unterstützungskasse

- Low administrative costs
- Attractive benefits for “GGF” and qualified staff on high income
- No impact on the balance sheet
- Choice between lump-sum or pension commitment
- Largely unlimited contribution amount
- Increased motivation
- Outsourcing of external risks (death, disability, longevity) _ Reduction of wage costs
- Reduction of payroll costs
- Business expense allowance

Advantages for the “GGF”/employees

- Choice of life-long guaranteed annuity or once-only lump-sum payment
- Largely unlimited contribution amount (almost unlimited allocation)
- Unlimited tax exemption of contributions
- Savings on social security contributions
- High level of security through pledging of the reinsurance policy or insolvency protection (PSVaG)
- Financial security for family members
- Ideal to close larger pension gaps

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