Direktversicherung
A Type Of German Company Pension Arrangement

01 Introduction

There are five different implementation methods in occupational pension schemes (bAV). Direktversicherung is the most popular and simplest of those, as it is flexible and easy to implement.

Direktversicherung is a pension plan that the employer takes out on the life of his employee for benefits in case of retirement, occupational invalidity or death according to § 1b paragraph 2 of the Occupational Pensions Act (BetrAVG).

The employee is the insured person and (possibly on a limited basis) irrevocably entitled to claim the maturity benefit. He determines the person entitled to death benefits within the scope of possible surviving dependants.

There are different ways of financing contributions: Either parts of the employee's taxable salary are converted for the direct insurance (deferred compensation), or the employer pays the contributions in addition to the salary (employer financing). Similarly, contributions can be paid jointly from deferred compensation and employer financing (mixed financing).

Furthermore, the employees have the right to continue the insurance with their own contributions.

02 Deferred compensation versus employer-funded Direktversicherung

The employee and his employer agree that part of the employee's future income will be used to build up a company pension pot. This is done by means of the Direktversicherung, which is basically an pension saving policy. Canada Life's GENERATION business product was specifically designed to meet the needs of the occupational pension market.

If an employee wants to take advantage of this offer, the employer uses part of the employee's monthly income and invests the agreed amount in a suitable policy. In Germany, the amount invested is tax-free within the above mentioned limits, so the employee's tax liability is reduced. As a result of this advantageous tax treatment the amount available for the premium is higher.

By the way: Contributions to a company pension scheme funded by the employee or his employer are not only tax-free; they are also free of any obligation to pay into the compulsory German social insurance ("Sozialversicherungsfreiheit"). So for a company, paying a certain amount (e. g. 100 €) into such a DV is cheaper than paying 100 € more salary, as the additional salary would lead to tax and social insurance contributions. Due to the effect described above (no obligation to pay social insurance contributions) the company will also save money whenever an employee sacrifices part of his salary.

Deferred compensation: Due to the above mentioned advantages a monthly premium of for example 100 € will cost the employee only around 50 € of his monthly net salary. Furthermore, he or she would gain from **an additional payment of 15 % resulting from the employer's savings** in terms of social security contributions.

Employer-funded: Thanks to the effects described above, paying 100 € into the plan will cost the company 100 € whereas paying 100 € more income would cost about 120-130 € (because of the employer's liability to social insurance contributions), while at the same time the employee would find himself with no more than about 60 € additional net income.

03 What are the advantages to the company?

- Monthly contributions qualify as business expenses
- Reduction of indirect labour costs
- No balance sheet impact
- Minimal complexity, as “Direktversicherung” is the most common pension scheme type in Germany. When leaving the company, the employee simply takes the plan with him (change of policyholder).
- Fulfills obligation under German law to set up a pension arrangement if requested by employees.
- Employee motivation, especially with a plan funded by the company
- Employees become highly engaged within the company
- Increased employee loyalty

Employer funded plans reduce staff turnover as the employee has to stay with the company for at least 3 years in order to have a vested claim, unless the employer is willing to waive that minimum term. Otherwise the plan stays with the company and can be surrendered by the company.

04 Let’s look at some figures

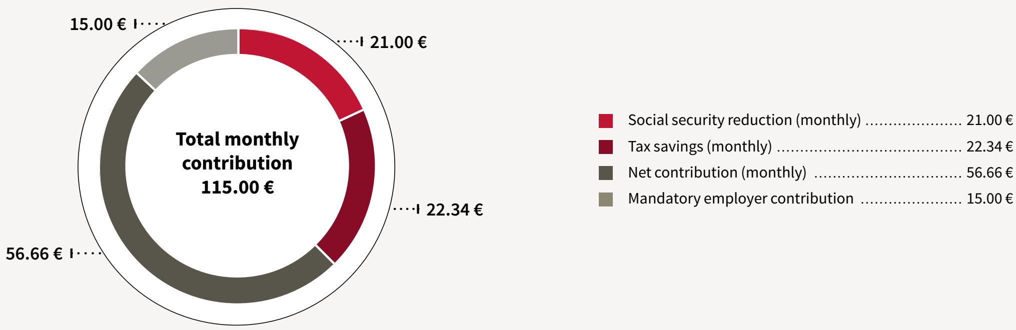
Assumptions:

- Single,
- 35 years old,
- gross monthly income 3,000.00 €,
- surcharge health insurance: 1.6 %,
- monthly contribution to a Direktversicherung 100 €,
- 15 % mandatory employer contribution,
- tax rate I,
- no children,
- no church tax,
- Hessen

a) Employee’s view (Deferred compensation)

	Without Direktversicherung	With Direktversicherung 100 € monthly
Gross Income (basis for calculating tax deductions)	3,000.00 €	2,900.00 €
Employer financed premium	–	15.00 €
Employee financed premium	–	100.00 €
Tax deductions	317.50 €	295.16 €
Social security deductions	630.00 €	609.00 €
Salary paid out	2,052.50 €	1,995.84 €

Components of total contribution



b) Employer's view (Deferred compensation)

	Without Direktversicherung	With Direktversicherung 100 € monthly
Gross Income	**3,000.00 €**	**3,000.00 €**
Mandatory employer contribution	—	15.00 €
Total contribution (exempt from social insurance fees)	—	115.00 €
Gross Income (basis for calculating social security contributions)	**3,000.00 €**	**2,900.00 €**
Health insurance	243.00 €	234.90 €
State pension	279.00 €	269.70 €
Unemployment insurance	39.00 €	37.70 €
Compulsory care insurance	51.00 €	49.30 €
Overall costs	**3,612.00 €**	**3,606.60 €**
Monthly savings per employee		**5.40 €**
Annual savings per employee		64.80 €
Annual savings assuming 20 employees		1,296.00 €
Savings within the next 5 years		6,480.00 €

Conclusion: In practice, deferred compensation remains neutral for the employer. Currently, there is even an advantage, as a flat-rate transfer of 15 % as mandatory employer contribution is offset by savings in social security contributions of around 20 % for the employer.

05 Why should an employer introduce a company funded pension arrangement?

- Instrument of Employee motivation
- Ties top performers to the company
- Balance sheet not affected
- Employees' legal entitlement to deferred compensation is fulfilled[1]
- As a general rule, no obligation to pay contributions to the pension guarantee association (PSVaG)
- Contributions qualify as business expenses
- No additional administrative costs

06 Why should a member of staff want such a plan?

- Building up a pension pot
- Savings through tax-free payments up to 8% of the contribution assessment ceiling in the general pension insurance scheme West (BBG) in accordance with § 3 no. 63 EStG
- Savings on social security contributions up to 4 % of the BBG
- Attractive return due to tax and social security benefits
- Guaranteed pension for life, lump-sum payment also possible on request
- Certain dependants can be included in the cover

In the case of deferred compensation, the employer is obliged to additionally transfer 15% of the converted salary as an employer's allowance into the Direktversicherung.

This obligation only applies if the employer saves social security contributions through the deferred compensation. (§ 1a paragraph 1a BetrAVG). The employer's contribution may be claimed up to a maximum of up to 4% of the BBG. However, the employer is of course welcome to add more. Important: Anything above this 4 % of the BBG is then subject to social security contributions for the employee.

07 Disclaimer

Please note carefully that this is a translation of German documents and not in any case binding for Canada Life. The documents provided are translated marketing literature and not under any circumstances substituting or altering the policy conditions or literature to be given as per German legal requirements. This booklet/flyer/brochure has been carefully translated by Canada Life in order to give a nonbinding indication of some key principles of workplace pension plans to an English speaking audience.

1 There is also an entitlement to Riester funding in accordance with Sections 10a and 82 (1) of the German Income Tax Act (EStG). However, Canada Life does not offer a Riester-compliant product.

Information published in this booklet/flyer/brochure is supplied by Canada Life and, where indicated, by certain third parties. Canada Life takes every care and precaution to ensure that the information published in this booklet/flyer/brochure is accurate, but cannot guarantee or be held liable for its accuracy or timeliness and Canada Life may change the information at any time without notice. You must not rely on the information in this booklet/flyer/brochure and you acknowledge that you must take appropriate steps to verify this information before acting on it.

Canada Life publishes this booklet/flyer/brochure 'as is' without any warranty of any kind, express or implied, as to the accuracy of the information or the products or services referred to in this booklet/flyer/brochure (in so far as such warranties may be excluded under any relevant law) and to the extent permitted by law, neither Canada Life shall be liable for any losses or damage whether direct or indirect (including, without limitation direct or indirect loss of profits), consequential, special or otherwise incidental that may result from use of this booklet/flyer/brochure howsoever arising.

The past performance of Canada Life or any other company referred to in this booklet/flyer/brochure cannot be relied upon as a guide to its future performance. The price of shares and the income derived from them can go down as well as up and investors may not recoup the amount originally invested.

Any reference to any product or service which has been or may be provided by Canada Life or any other company does not amount to a promise that such product or service will be available at any time. Changes to or improvements in such products or services may be made at any time without notice.

Canada Life owns the copyright in the content published in this booklet/flyer/brochure except where otherwise indicated by a third party's proprietary notice. Images, trademarks and brands are also protected by other intellectual property laws and may not be reproduced or appropriated in any manner without written permission of their respective owners. Unless specifically prohibited by a notice published on any page, you may make a print copy of such parts of this booklet/flyer/brochure as you may reasonably require for your own personal use provided that any copy has attached to it any relevant proprietary notices and/or disclaimers. All other use is prohibited.

Any policy taken up with Canada Life Assurance Europe will be entirely documented in German language and German law applies.

MI bAV 18 01/2024