

01/2024

OCCUPATIONAL PENSION SCHEMES

an overview



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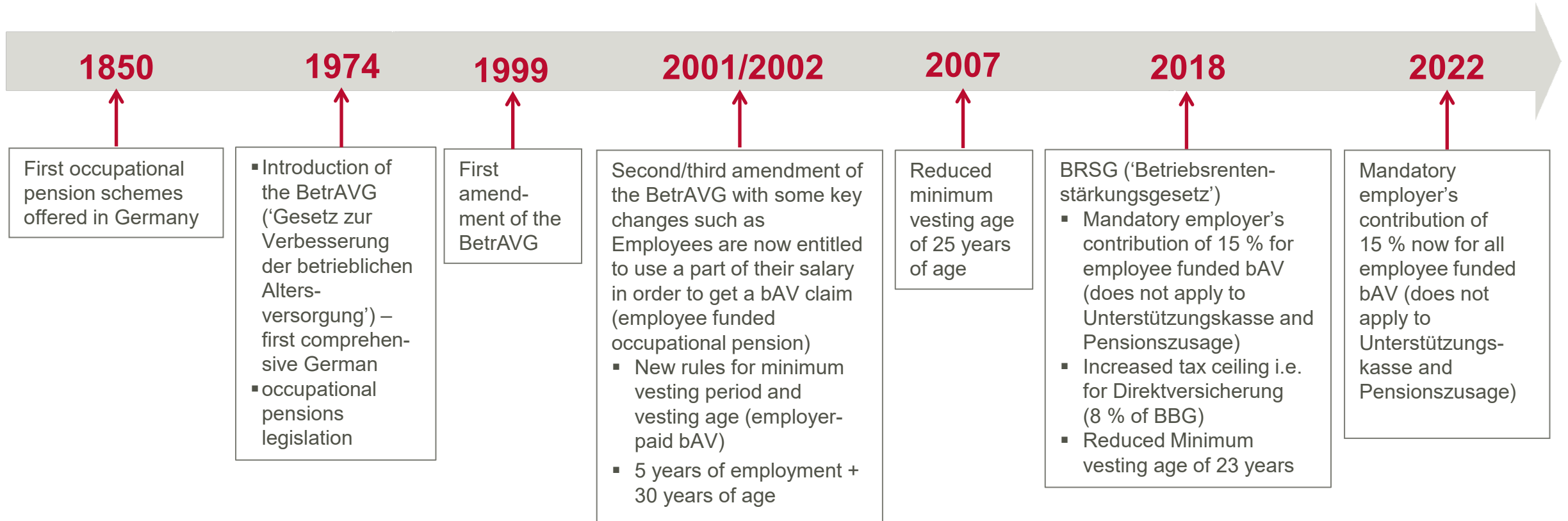
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History of occupational pension schemes in Germany



History of bAV



Definition of bAV



Definition of bAV § 1 (1) BetrAVG

An employee

- has got a promise for benefits, such as old age provision, disability benefits or survivors' benefits
- from his employer
- because of the employment relationship.

Unlike other EU countries defined contribution schemes are relatively new and not commonly used in Germany yet*.

Traditionally there is always a guaranteed benefit to be provided, although a scheme can be based on contribution levels. Therefore, employers tend to use appropriate pension saving/risk products offered by the insurance industry.



* Pure defined contribution plans require a collective agreement

bAV types
offered
by
Canada Life



Pensionszusage, Unterstützungskasse und Direktversicherung

Pensionszusage/ Direktzusage

The employee has got a legal right against the employer based on the bAV commitment given by the employer. There is not necessarily any type of external funding involved (e.g. life insurance policies, mutual funds etc.).

Unterstützungskasse

An institution with it's own legal entity separated from the employer. The Unterstützungskasse manages bAV commitments on behalf of the employer and pays out any benefits to the employee. For historic reasons employees do not have a formal legal right against an Unterstützungskasse – although there is a jurisdiction protecting employees rights. Ultimately, the employer is liable for the bAV commitment.

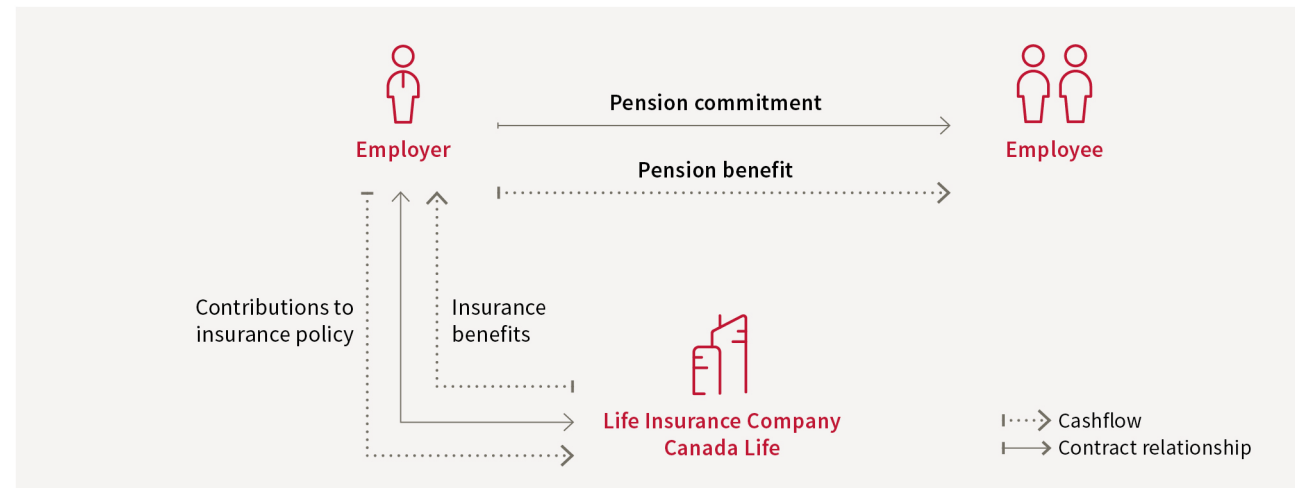
Direktversicherung

A pension saving policy is taken up by the employer (policy holder) for the employee (insured person). The employee as the beneficiary has got a legal right against the insurance company. However, that does not take away the employers' liability if the pension saving policy does not fulfil the employers' bAV commitment.

Pensionszusage

Pensionszusage/Direktzusage The employee has got a direct legal claim against the employer based on the bAV commitment given by the employer.

There is not necessarily an external funding (e.g. pension saving policy) involved.

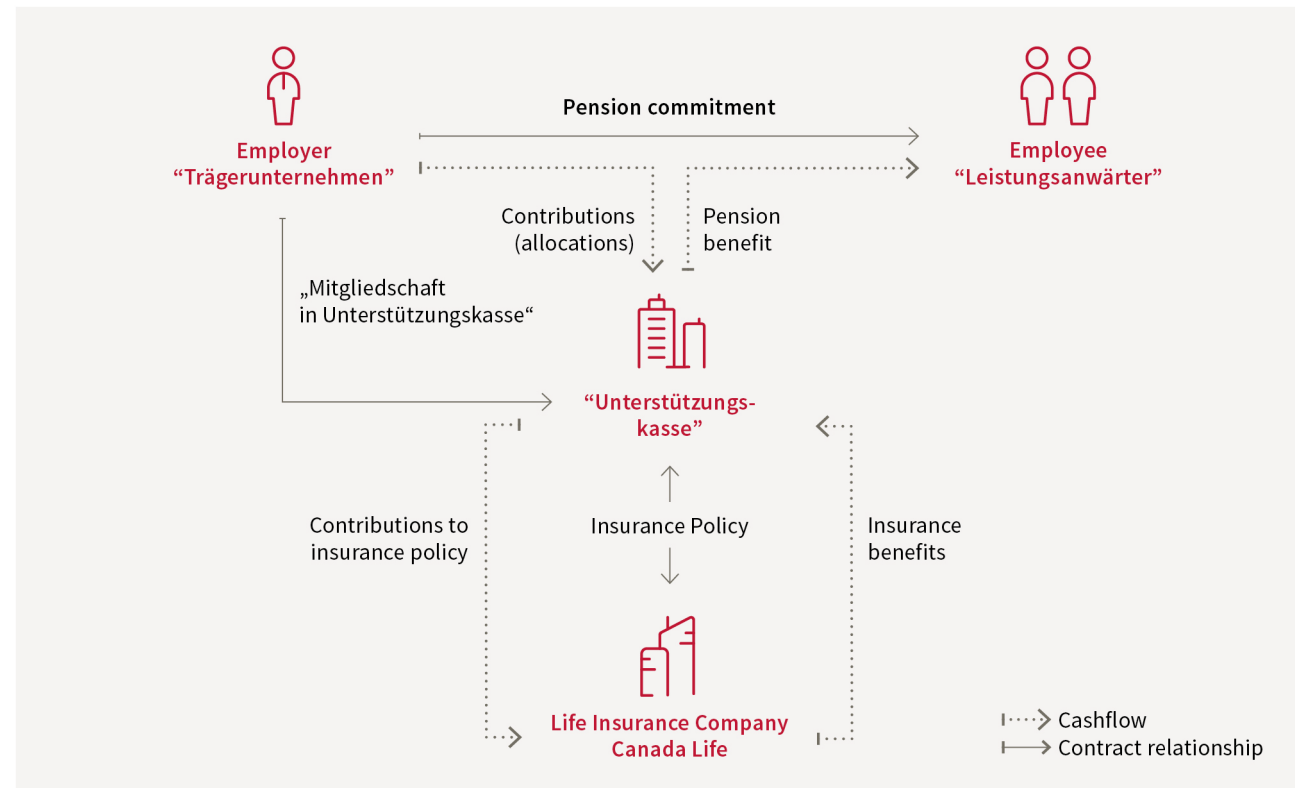


Pensionszusage (PZ) / Direktzusage – some key facts

- this is by far the most flexible type of bAV in terms of defining/managing the pension scheme (how to calculate the defined contributions/defined benefits)
- the pension obligations must be shown in the balance sheets (liabilities) → reducing the company's profits/taxes (improving the internal financial capability)
- during the pay-out phase of an annuity the accrued liabilities must be reduced each year → increasing the company's profit/taxes
- in practice there are no limits for the contributions, except for Managing Directors (Gesellschafter-Geschäftsführer) as a specific target group
- the employer must pay contributions to the PSVaG (Insolvency fund)
- there is no 'Übertragungsabkommen' existing for Pensionszusage
- if there is a policy taken up by the employer there are very limited options to transfer the policy to the employee when leaving the company with a preserved benefit – it even makes no sense as the employer has got a legal obligation to fulfill and the policy has been taken up in order to fund that obligation

Unterstützungskasse

Unterstützungskasse is a legal entity separated from the employer in order to manage the bAV obligations on behalf of the employer.

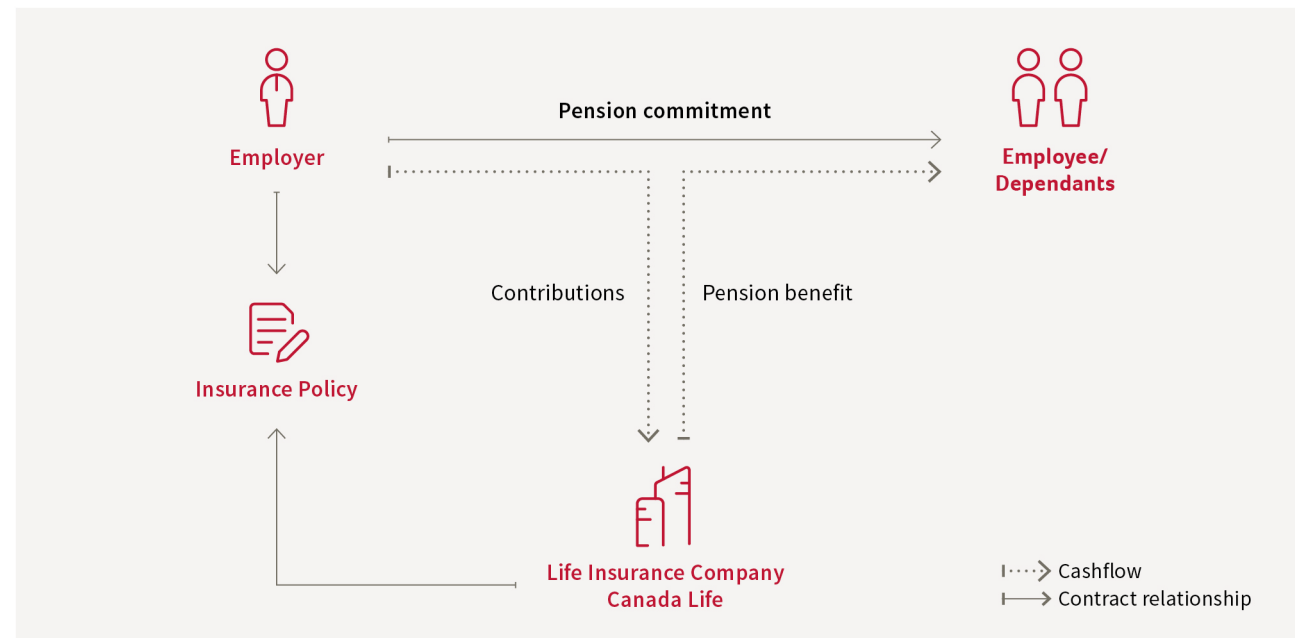


Unterstützungskasse (U-Kasse) – some key facts

- there is no defined limit for tax free premiums. U-Kasse is often used by people with high incomes/high taxes (e.g. Senior Manager)
- employee paid premiums are free of social contributions up to € 3.624 (4 % of the Beitragsbemessungsgrenze in 2024), for employer funded premiums there is no such limit
- the employer must pay contributions to the PSVaG (insolvency fund)
- no single premiums allowed for employees (for tax reasons) – only allowed for pensioners
- the employer must pay a comparatively small fee for the administration of the U-Kasse
- there is no ‚Übertragungsabkommen‘ for U-Kassen. When an employee leaves the company with a vested claim there are very limited options to continue with the policy. It is usually made a paid-up-policy.
- for historic reasons employees do not have a formal legal claim against an Unterstützungskasse. However, there is a jurisdiction protecting employees rights. Ultimately, the employer is liable for the bAV commitment as with each of the other types of bAV.
- if the bAV (scheme) was set up correctly, in practice the latter is more a theoretic risk if modern type insurance products are used for premium oriented pension commitments

Direktversicherung

Direktversicherung is a pension saving policy which is taken up by the employer for an employee and where the employee is the beneficiary.



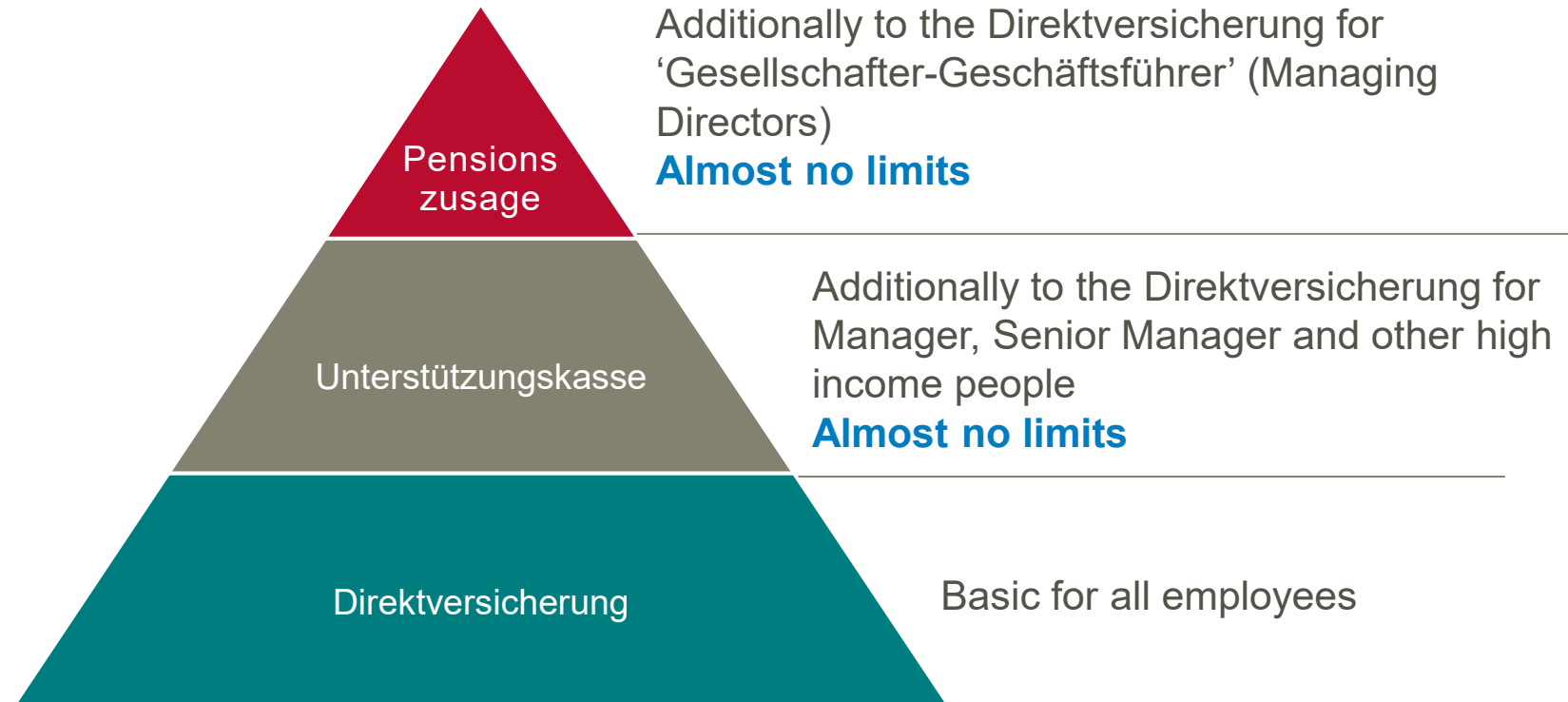
Direktversicherung (DV) – some key facts

- premiums of up to € 604* per month / € 7.248* per year are tax free and € 302* per month / € 3.624* per year are free of social security contributions
- all benefits are fully taxable
- an employee leaving the company with a vested claim can either continue with the policy on a private basis, transfer the value to another employer (e.g. 'Übertragungsabkommen') or transfer the ownership of the policy to the new employer
- in general no contributions to the PSVaG (insolvency fund)
- all benefits must be planned to be paid as an annuity, optional lump sums are possible

A basic concept for setting up a bAV scheme in Germany



bAV scheme concept – Example



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