



UNTERSTÜTZUNGSKASSE

A FORM OF GERMAN COMPANY PENSION ARRANGEMENT



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A “Unterstützungskasse”, also called “U-Kasse”, is a legally independent construction that organises occupational pension schemes for different employers. For this purpose, the employer becomes a member of the “U-Kasse”. The legal structure of such an “U-Kasse” is almost 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.

1. “U-KASSE” OR “DIREKTVERSICHERUNG”?

The German “U-Kasse”, first mentioned in the 1920’s, has evolved historically and is today widely accepted by employers and their employees. This growth is an ongoing process. Given the latest changes in law, the “U-Kasse” is likely to continue to expand.

Advantages of a “U-Kasse” compared with a “Direktversicherung”

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. They also both qualify as business expenses. But whereas the contributions towards a “Direktversicherung” are limited to 520¹ € per month per person from a tax point of view, this is not so for the “U-Kasse”.

520 € per month should be sufficient for most employees, but managers or members of executive staff are likely to be in need of a different form of retirement arrangement. Here, the “U-Kasse” plays an important role: There are no limitations on premiums, making the “U-Kasse” highly attractive for these clients.

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

2. FINANCING A “U-KASSE”

Similarly 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 salary sacrifice).

Salary sacrifice arrangement: Contributions are exempt from income tax and are therefore paid from the employee’s gross rather than net income.

¹ 8 % of the BBG (Beitragsbemessungsgrenze) in 2018

Employer contributions are also tax exempt, so the monthly 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 labour 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.

3. WHY SHOULD A MEMBER OF STAFF WANT SUCH A PLAN?

a) People in Germany need to save for their old age pension. The state pension on its own will not be sufficient to support them.

b) Tax and social security contribution advantages: The employee pays out of gross income rather than net income. A monthly payment of 100 € will cost him only round about 50 €. A company financed plan is even more attractive.

c) The money remains safe and can only be used for old age pensions: In the event of unemployment the plan is protected from creditors and may not be made use of by the state or the insured person (except as a retirement pension).

4. DISCLAIMER

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