IGP international group program

IGP Country Profile 2022

Germany

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Preface

This Country Profile has been prepared by **Gothaer Lebensversicherung AG** for the International Group Program (IGP).

The International Group Program (IGP) is a network of major life insurance companies (Network Partners) operating throughout the world, who work together to meet the group insurance and pension needs of international corporations and their affiliates, branches, and subsidiaries.

Since 1967, the International Group Program has been an industry leader in the field of international benefits management, serving more multinational companies than any other network. IGP is represented in around 70 countries throughout the world and is known for the flexibility and quality of service we provide to our clients.

Working closely with our headquarters' staff in Boston, our regional offices in Brussels and Singapore, IGP Network Partners offer corporate clients the advantages of experienced local insurance management coupled with the resources of a professionally trained staff that specializes in international employee benefits.

IGP is managed by John Hancock Life Insurance Company (U.S.A.), the U.S. operation of Manulife Financial Corporation, a leading financial services group based in Toronto, Canada. Manulife offers its clients a diverse range of financial protection products and wealth management services. Both Manulife Financial and John Hancock are internationally recognized brands that have stood for financial strength and integrity for more than a century.

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Your Local Link to IGP in Germany: Gothaer Lebensversicherung AG

Gothaer Lebensversicherung AG
The IGP Network Partner in Germany

Gothaer Lebensversicherung AG was founded in 1827 as Germany's first nationwide life insurance company. It offers a range of insurance and wealth management products and solutions designed to meet the changing needs of employees throughout the various stages of life. Gothaer's first-class risk management and financial products, expert advice, and comprehensive and best-fit solutions position it as one of the leading solution-driven and innovative insurance providers in Germany. Gothaer introduced the first unit-linked long-term care pension insurance product in the German market and offers innovative biometric insurance products as well as flexible retirement pensions. It also offers support in launching and communicating benefits plans to employees.

Gothaer Lebensversicherung AG is part of the Gothaer Group, which has over 4.3 million members and premium income of more than EUR 4.6 billion, making it one of the largest insurance groups in Germany. Other members of the Gothaer Group include Gothaer Allgemeine Versicherung AG (property and casualty) and Gothaer Krankenversicherung AG, a highly regarded provider of health insurance and related services.

Gothaer has been an IGP Network Partner since 2015.

Key Products

Life
- Lump sum Death Benefits
- Survivor's Pension (Widow's & Widower's Pension)
- Dependent Life

Disability
- Long-Term Disability Pensions (LTD) – rider and stand-alone
- Waiver of Premium – rider to a death coverage with supplement disability coverage
- Critical Illness
- Long-term Care Pensions

Pensions
- Old-age Pension / Survivor's Pension

Other
- Private and Group Health Coverages as a supplement to or replacement for the Statutory Health Insurance
- Group Personal Accident (GPA)
- Travel Accident
- Accidental Death and Dismemberment (AD&D)
- Accident & Sickness (A&S)

Introduction:

In Germany, employee benefits are an important supplement to the benefits of the Social Security program.

In 2022, the gross old-age pension paid by the State Pension Scheme amounted to less than 50% of the gross salary (employee with average salary with 45 years of paid contributions to the Social Security System). It can be expected that this amount will decrease in the next years. In order to attain an appropriate target retirement pension, employees have the chance to fill the gap between pre- and post-retirement income, with additional participation in occupational pension plans and/ or private provisions (Three Layer Concept).

In Germany, there are five different “funding vehicles” to arrange occupational pension plans (please see page 11-14).

Social Security Contributions:

EMPLOYER		EMPLOYEE
9.3%	RETIREMENT, DISABILITY AND DEATH BENEFITS	9.3%
1.20%	UNEMPLOYMENT	1.20%
7.3% + average 0.65% additional contribution	MEDICAL BENEFITS	7.3% + average 0.65% additional contribution
1.525%	LONG-TERM CARE INSURANCE	1.525% (+ 0.35% for childless employees)

Contributions to the Social Security System are principally mutually financed 50% by the employer and 50% by the employee. Therefore, rising contribution rates lead to higher payroll costs. It is for this reason that the Government is aiming at reducing or at least stabilizing contribution rates. In order to meet this goal, the principle of mutual financing is partially eliminated in long-term care insurance.

The relevant base of the different Social Security contribution rates is the salary up to the respective social security contribution ceiling (SSCC). Consequently, a salary in excess of the SSCC is not subject to Social Security contributions.

The SSCC amounts in 2022 to EUR 84,600 (old federal states)/EUR 81,000 (new federal states).

DEATH BENEFITS	
Social Security Benefits	**Customary Private Employee Benefits**
Widow's/Widower's Pension A widow/widower aged 45 or older (this will change to age 47 gradually until 2029) is entitled to 55%-60% of the total disability pension or old age pension which would have been due at the date of death. It is also possible to get the widow's/widower's pension, if the widow/widower is disabled, is caring for a disabled child or educating an orphan, who is not older than 18 years. If the conditions mentioned above are not fulfilled, the so-called "Small Widow's/ Widower's Pension" is due (pension factor 0.25; payable max. 24 months). Upon remarriage, the widow's/widower's pension terminates with a lump sum payment. Orphan's Pension If the orphan is younger than age 18, or under certain circumstances maximum age 27, he or she is entitled to 10% (20% if full orphan) of the total disability pension or the old age pension the deceased would have received at the date of death. All paid survivors' pensions combined may not exceed 100% of the pension the deceased was entitled to at the date of death.	In Germany employee benefits are defined as a commitment of the employer to grant old age, disability or dependent's benefits based on an employer-employee relationship. In order to implement an occupational pension scheme there is the possibility to choose out of five different funding vehicles (for details, please see page 11-14).

DISABILITY BENEFITS	
Social Security Benefits	**Customary Private Employee Benefits**
Effective January 1, 2001, there is a new system of disability benefits in Germany: Employees born after January 1, 1961, will no longer get a pension due to their inability to do their work in their current profession, but they receive a pension which is in relation to their reduced earnings capacity. The earning capacity is reduced when the individual is no longer capable of going after any kind of work less than 6 hours a day. If the employee is able to work between 3 and 6 hours a day, 50% of the pension is paid, if the employee is able to work less than 3 hours, the full pension is due. Employees, born prior to that date, will receive a disability pension according to the old regulation if they are unable to work in their current profession. The amount of the new pension is calculated based on social security contributions an employee has paid for the old-age and disability pension.	In Germany employee benefits are defined as a commitment of the employer to grant old age, disability or dependent's benefits based on an employer-employee relationship. In order to implement an occupational pension scheme there is the possibility to choose out of five different funding vehicles (for details, please see page 11-14).

MEDICAL BENEFITS	
Social Security Benefits	**Customary Private Employee Benefits**
Medical benefits are paid out of the Social Security System and are not part of employee benefits in Germany. The compulsory health insurance covers a variety of benefits such as sickness compensation, medical treatment, maternity benefits, etc. Employees, whose earnings do not exceed EUR 62,550 in 2022, are principally liable for contributions to the compulsory health insurance. Generally speaking the employer pays half of the contributions. Long-term Care Insurance Effective January 1, 1995, the long-term care insurance was introduced as a separate mandatory scheme under the umbrella of Social Security. All members of the statutory health insurance program are covered. Voluntary members of the health insurance program may choose whether they want to participate in the State program or take out private coverage. Those with private insurance are required to include private coverage for long-term care. Long-term care insurance provides allowances for nursing care services at home or within nursing homes. With effect from April 1, 1995 this type of benefit covers home care and long term in-patient care from July 1, 1996. The amount of benefit payable depends upon the degree of nursing care needed.	If the income of an employee exceeds the mentioned amount (EUR 62,550), there is either the possibility of voluntary membership in the State health insurance, or the possibility of taking out an insurance policy with a private health insurance company. If the private insurance covers at least the same benefits as the State health insurance, half of the premium has to be paid by the employer, up to a maximum of 50% of the State health insurance contribution. Employees, who cannot take out a full private insurance, have the possibility to upgrade their State health insurance with supplementary private insurances covering e.g.: • The cost for hospitalization in private or semi-private accommodation • The cost for treatment by the chief-physician • Additional costs for dental treatments which are not paid by the State health insurance The employer can take out such a supplementary insurance for its employees under the favorable terms of a group insurance contract.

RETIREMENT BENEFITS	
Social Security Benefits	**Customary Private Employee Benefits**
Normal Retirement Age Age 67 (male and female) and 60 months of contributory or other corresponding attributable periods (waiting period) for persons born after 1963. For persons born prior to 1964 a temporary arrangement applies (retirement age 65 or between 65 and 67). Early Retirement • For persons with 45 attributable years without reduction, at age 63 if born before 1953, rising stepwise to age 65 if born 1964 or later. • For persons born prior to 1964 with 35 attributable years, age 63 with a reduction according to special regulations. • For persons born after 1963 with 35 attributable years, age 63 with a reduction of 14.4% (reduction of 0.3% per month). But special regulations for specific groups (depends on the occupational way of life, etc.). Benefits The benefit formula reads as follows: Monthly pension = number of pension points (1) x present pension value (2) x pension factor (3) x access factor (4) Instead of a full pension, an employee may opt for a partial pension. This pension amounts to 1/3, 1/2, or 2/3 of the full pension depending on the amount of the supplementary income. Adjustment to Pensions in the Course of Payment Pensions in the course of payment are adjusted every July 1. The pension value will be increased as well as in the old federal states and in the new federal states effective July 1, 2022.	In Germany employee benefits are defined as a commitment of the employer to grant old age, disability or dependent's benefits based on an employer-employee relationship. In order to implement an occupational pension scheme there is the possibility to choose out of five different funding vehicles (for details, please see page 11-14). Example of a Common Pension Plan The individual funding vehicles are supported by the authorities through different tax incentives that limit the amount of contribution and/or the benefit level. Furthermore, certain benefits can only be provided by certain funding vehicles. Therefore, the determination of the best funding vehicle should be looked at on a case-by-case basis considering the level of contributions and the type of benefits to be granted. As a result, it is difficult to speak of a "common" pension plan. In the past years, however, there has been a significant trend toward defined contribution orientated benefit plans. Furthermore companies prefer funding vehicles with limited financing risks and a reliable calculation basis. These goals can be attained by using the so-called "external" funding vehicles (e.g. direct insurance, retirement and pension fund) which are run by insurance and asset management companies.

(1) The **pension point** represents the ratio between the amount of an employee's individual salary (maximal up to the SSCC) and the National Average Earnings (NAE). Earnings equaling the NAE will be attributable at 1 pension point. The maximum number of pension points credited for one working year is approximately 2.1.
For non-contributory periods, personal average pension points are used.

(2) The **present pension value** represents the monthly amount of pension payable for each pension point accrued. This pension value is based on average earnings and contributions and is revised every July 1 as shown:
- Old federal states: EUR 36.02 per month (from July 2022)
- New federal states: EUR 35.52 per month (from July 2022)

(3) The following **pension factors** take into account the type of pension paid:

1	For regular retirement (age 65, after a transition period age 67) and total and permanent disability pensions
0.55 - 0.6	For the large widow's/widower's pension (depending on birth date and individual circumstances)
0.5	For partial disability pension
0.25	For small widow's/widower's pension
0.1	For half orphans' pensions
0.2	For full orphans' pensions

(4) The **access factor** takes into account the early or late payment of the retirement pension. In general the factor is 1. The factor is higher, when retirement is deferred beyond the normal retirement age and lower, when retirement is earlier than the normal retirement date.

Retirement Benefits – Additional Information

Labor Law

Introduction:

Major modifications to the “Betriebsrentengesetz” (Company Pension Act) were made in 2001 by the so-called "Altersvermögensgesetz - AVmG" and in 2005 by the “Alterseinkünftegesetz – AltEinkG”. Both reforms targeted the improvement of private and employee capital based retirement plans to supplement the pay-as-you-go Social Security system. Furthermore there are continuous changes in law.

Vesting of Employee Benefits:

Employer Financed Plans

Mandatory vesting takes place if the employee is age 21 or older and has participated in the benefit plan for at least 3 years.

Once this requirement is fulfilled, the employer may not revoke the promised benefits in the event the employee leaves service, but is required to maintain a part of all benefits promised under the plan. The benefit corresponds principally to the ratio of time that the employee actually spent in service to the time he could have spent until normal retirement age.

Salary Conversion Plans

Salary conversion plans are immediately vested. The vested amount equals the entitlement built up until the date of leaving service based on the contributions paid up until this point.

Portability of Benefits in Case of Changing the Employer

In order to avoid gaps in the benefit provision in case of changing employer, the “Alterseinkünftegesetz – AltEinkG” aims at improving the portability of employee benefit plans. In the past, the portability was principally limited to direct insurance. Through the AltEinkG, employees have a legal right to transfer their pension fund, retirement fund, or direct insurance plans to their new employer under certain conditions. This law will facilitate the mobility of employees.

Pension Guarantee Fund - Compulsory coverage of vested benefits against employer's insolvency:

For this purpose, the Pension Guarantee Fund (PSV aG) was founded. It covers all benefits qualifying for legal vesting or already in course of payment.
An employer, who has implemented an employee benefit plan via a direct pension promise, the support or pension fund must contribute towards the Pension Guarantee Fund once the conditions of legal vesting have been met.

Flexible Retirement Age:

If an employee draws the early retirement pension available under the State Pension program as a full pension, the law rules that the employee benefit plan must also provide an early retirement pension.

Adjustment of Current Pensions:

The law requires a regular review and an adjustment of the amount of pensions that are in course of payment. Every three years, the employer must review the amount of the current pensions and decide how to adjust them, taking into consideration both the employer's and the pensioner's economic situation. If the employer adjusted the amount of pension equal to at least the increase in cost of living index or the increase of the net income of comparable groups of employees of the company, then he has fulfilled his duty.

The employer has the possibility to cancel his obligation to future indexation of current pension payments, if he guarantees an annual pension increase of 1% compounded.

In case of pensions financed by direct insurance, retirement or pension fund, the indexation will be principally accepted if all dividends of the insurance contract arising after pension payments are used in favor of the employee.

Funding vehicles

The following five funding vehicles are available in Germany:

Direct Pension Promise/ Book Reserve Plan ("Direktzusage")

Definition and characteristics:

- The employer grants life, death, and/or disability benefits to his employees;
- The company sets up book reserves for these liabilities;
- The pension promise can be reinsured; contributions to the reinsurance contract are tax deductible business expenses and exempted from social security cost; the exemption from social security cost for employee-financed contributions is limited to 4% of SSCC. The employee pays taxes on the benefits (taxation of pensions).
- The building up of book reserves can create positive in-house-financing effects if the pension promise is not reinsured. Without reinsurance however, the risk of higher employer-liability increases due to the relevant national regulations (Betriebsrentengesetz/BetrAVG).
- In order to safeguard the promised benefit in case of insolvency of the employer, the employer has to pay contributions to the Pension Guarantee Fund (PSV aG) for all employees with vested rights and for pensioners.

Advantages for the Employer:

- Compared to other funding vehicles, the direct pension promise allows high contribution and benefit levels and is therefore an effective way to grant benefits to key personnel;
- If the pension promise is not reinsured, positive in-house-financing effects are possible (only during entitlement), as the building up of reserves resembles operative expenses that lower the taxable profit of the company, even though no money is actually set aside;
- If the pension promise is reinsured, the employer faces a lower liability risk, especially with regard to premature risks.

Disadvantages for the Employer:

- Contributions to Pension Guarantee Fund are due;
- Fees for the determination of the amount of book reserves are due;
- Book reserves represent liabilities and can have negative impacts on the balance sheet with regard to national accounting standards (HGB) and IFRS/ IAS19.

Advantages for the Employee:

- High contribution and benefit levels are possible;
- Employees have a legal claim against the employer;
- In case of insolvency of the employer, the benefits are secured by the Pension Guarantee Fund;
- Deferred taxation and possible savings in social security contributions.

Disadvantages for the Employee:

- Contributions to employee financed plans are exempted from social security cost up to 4% of SSCC only;
- No legal entitlement to plan portability;
- No possibility to continue contributing to the plan by paying personal contributions after leaving service.

Support Fund (“Unterstützungskasse”)

Definition and Characteristics:

- The support fund is a legally autonomous entity, segregated from company assets;
- It insures pensions, endowment insurances and term life assurances;
- The employer and the employee agree on a benefit plan; instead of paying out the benefits themselves, employers engage a support fund;
- The employer pays contributions to the support fund to finance the benefits; the support fund can reinsure the benefits via an insurance company;
- The premiums are tax-free if certain benefit levels are not exceeded; they are exempted from social security contributions; the exemption from social security contributions for employee-financed contributions is limited to 4% of contribution assessment ceiling;
- Since contributions are tax-free, benefits are fully taxed.

Advantages for the Employer:

- Similar to the direct pension promise, the support fund allows high contributions and is thus interesting for key personnel;
- No impact on the employer’s balance sheet if support fund is reinsured;
- Possible savings on social security contributions.

Disadvantages for the Employer:

- For claimants only constant or rising contributions are possible;
- Contributions to the Pension Guarantee Fund are due;
- Fees for the administration of claimants and pensioners are due.

Advantages for the Employee:

- High contribution and benefit levels are possible;
- Deferred taxation and possible savings in Social Security Contributions;
- In case of insolvency of the employer, benefits are secured by the Pension Guarantee Fund.

Disadvantages for the Employee:

- Contributions to employee financed plans are exempted from Social Security contributions up to 4% of contribution assessment ceiling only;
- Only constant or rising contributions are possible;
- No legal entitlement to plan portability;
- No option to continue plan with one’s own contributions after leaving service.

Direct Insurance (“Direktversicherung”)

- The pension reform of 2005 eliminated the possibility of flat rate taxation according to §40b EStG (German Income Tax Law) for contracts as of 2005;
- The direct insurance has been included in the tax incentive §3 Nr. 63 EStG, which had originally been limited to the retirement fund (“Pensionskasse”) and the pension fund (“Pensionsfonds”);
- The statements listed under retirement fund (“Pensionskasse”) are therefore also applicable to direct insurance starting in 2005 or later.

Retirement Fund (“Pensionskasse”) and Direct Insurance (“Direktversicherung”)

Definition and Characteristics:

- Retirement benefits must be life-long annuities that can be combined with dependents’ pensions and supplementary disability insurances; also pure disability pensions are applicable.
- Term life assurances and endowment insurances cannot be offered;
- Retirement fund and direct insurance have become the preferred funding vehicles for companies to grant their employees the possibility of making use of their legal right to salary conversion;
- Premiums up to 4% of SSCC (max. contribution in 2022: EUR 3,384) are exempted from tax and from Social Security Contributions;
- Since contributions are tax-free, the benefits are fully taxed;
- An additional amount of another 4% of SSCC p.a. can be paid tax-free (but not exempted from Social Security Contributions) into the retirement fund or into a direct insurance. Contributions to the flat rate taxation according to §40b EStG must be considered.

Advantages for the Employer:

- Possible savings on Social Security contributions;
- Limited liability risk, since the employee has a legal claim against the insurance company maintaining the retirement fund or the direct insurance;
- No balance sheet impact;
- No contributions to the Pension Guarantee Fund;
- Low administration efforts (in contrast to the support fund and the direct pension promise, no additional costs on top of the premium arise).

Disadvantages for the Employer:

- Limited contributions are only basic cover for key personnel;
- Savings of payroll fringe costs up to 4% of SSCC only.

Advantages for the Employee:

- Deferred taxation and possible savings in Social Security Contributions;
- Attractive pension against low net expenditure;
- In case of a change in employment, there is a possibility to continue insurance with one’s own contributions or the right to transfer the benefit plan to a new employer;
- The allowance according to §3 Nr. 63 EStG (article referring specifically to employee benefits in the German Income Tax Law) can be applied per employer. In case of changing employers, the allowance can be used more than once a year;
- In periods without entitlement to a loan (for instance maternity leave, sabbatical etc.), there is a right to continue a salary conversion plan with one’s own contributions.

Disadvantages for the Employee:

- Limited product range (only annuities with the possibility of a lump-sum payment instead of the pension and also pure disability pensions) as described in the characteristics.

Pension Fund

Definition and Characteristics:

- The pension fund is a legally autonomous entity;
- It insures life-long annuities that can be combined with dependents' pensions and a supplementary disability insurance;
- Compared to the retirement fund and the direct insurance, the pension fund is subject to less limited investment regulations and can therefore offer higher non-guaranteed returns;
- Premiums and benefits can be treated according to §3 Nr. 63 EStG (see retirement fund/direct insurance);
- Since the pension fund is liable for contributions to the Pension Guarantee Fund, plans according to §3 Nr. 63 EStG are not that often placed with pension funds.
- Instead, the pension fund offers interesting solutions to outsource existing pension promises on a tax neutral basis (§3 Nr. 66 EStG).

Advantages for Employer:

- Possible savings of Social Security cost (§3 Nr. 63 EStG);
- Employees have a legal claim against the pension fund;
- Possibility of tax-free outsourcing of already existing pension promises (past service) on the pension fund (§3 Nr. 66 EStG) to improve credit rating with regard to national accounting standards (HGB). Prevention of balance sheet impairment when applying IFRS / IAS19.

Disadvantages for Employer:

- Contributions for the Pension Guarantee Fund are due (albeit at a reduced rate); therefore, the pension fund is rarely used for group employee benefit plans according to §3 Nr. 63 EStG;
- Outsourcing of already existing pension promises (past service) requires sufficient cash flow and professional advice.

Advantages for the Employee:

- Deferred taxation and possible savings in Social Security Contributions (§3 Nr. 63 EStG);
- In case of insolvency of the employer, the benefits are secured by the Pension Guarantee Fund;
- Plan portability as a legal entitlement for schemes according to §3 Nr. 63 EStG;
- Due to more liberal investment regulations, the employee has the chance to obtain a better return on investment.

Disadvantages for the Employee:

- Product range is limited to life-long annuities (with the possibility of a lump-sum payment instead of the pension)
- Pension funds ordinarily offer less guarantees in favor of higher capital returns. Due to the dependence on the performance of the capital markets, pension funds allow less planning reliability regarding the income situation at retirement.

Other Social Security Benefits

Workmen's Compensation

Contributions:	The employer pays all contributions (no mutual financing). The contribution rate is calculated on the basis of a pay-as-you-go system. At the end of a calendar year the employers will allocate their expenditure. Basis is the finance requirements, the salaries of the employees and the class of risk of the different industries.
Coverage:	Accidents at work, on the way to and from work, and occupational diseases are covered.
Qualifying Criteria:	Mandatory for all employees.
Benefits:	Dismemberment/Disability: medical, financial and rehabilitation support.
	Death: funeral grant and dependents´ pensions.

Further benefits in form of educational, children and unemployment allowance are granted under specific conditions.

	Income Tax on Premium	Tax Treatment of Benefits	Exemption of Social Security Contributions during entitlement	Benefit
Retirement Fund/ Direct Insurance/ (Pension Fund) according to §3 Nr. 63 EStG	Tax free premium up to 4% of SSCC (2022: EUR 3,384 p.a.) Additional tax-free amount of another 4% of SSCC, as far as the employee does not use the tax incentive according to §40 b EStG (for instance, via a former direct insurance)	Lump sum and pension: completely taxed (§22 EStG)	Yes The exemption is limited to 4% of SSCC. The additional 4% is not exempt from Social Security Contributions	Usually life long annuity Lump Sum is possible Disability pension
Pension Fund according to §3 Nr. 66 EStG	Premiums are tax free	Pension: fully taxed (§22 EStG)	Yes	Life-long annuity and Lump sum possible
Support Fund/ Direct Pension Promise	Contributions principally unlimited tax-free (as long as adequacy of pension promise is assured)	Lump sum and pension: completely taxed (§19 EStG) §19 EStG grants a certain tax-free amount This tax-free amount will be gradually reduced in time.	Employer financed: yes Employee financed: yes, limited to 4% of SSCC	Long life annuity and Lump sum possible

General treatment of contributions and benefits (downstream taxation):

Benefits

Starting in 2005, 50% of the pension is subject to income tax, the percentage reaches 100% in 2040. (In 2022: 82%)

Trends

The Law to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz - BRSG) has come into force on January 1, 2018 and will redefine the occupational pensions landscape in Germany.

Today, five different ways of setting up occupational pension plans are already in existence in Germany. BRSG will amend the current setup and add a new one to an already complex system. One of the core elements of the new law will be the introduction of real defined contribution (DC) schemes, provided these are agreed upon by trade unions and employers. The new DC schemes (also called ‘pay and forget’ schemes as employers are exempted from any liability) will have no benefit guarantees or interest guarantees.
Currently, about 60% of the working population participates in a company pension plan: mainly male workers employed in large companies with an average-to-higher income.

By introducing both comprehensive tax advantages for employers choosing the new legal framework, as well as additional subsidies - especially for lower-income employees - the government expects that the number of employees covered by occupational pension schemes will significantly increase, particularly in small and medium sized companies.
Another new feature is an auto-enrolment clause (with possibility to opt out) that companies can now include in any pension plan. It is expected that only a limited number of employees will actually opt out and that this new clause will thus stimulate a further increase in the number of employees covered by occupational pension schemes.

Furthermore, there will be a new obligation for employers as to how they handle any savings they might generate on payroll fringe costs in their deferred compensation plans (salary-sacrifice-plans). By transferring elements of the salary into a pension plan, employers were in a position to report lower actual payroll charges to the authorities, which meant they paid lower social security and state pension contributions. However, under the new BRSG law, employers will be required to pay at least 15% of these savings as a ‘bonus payment’ into the pension plan, in the following scenario:

- Only if actual social security savings applicable
- Only for pension plans funded via direct insurances, Pensionskassen and pension funds
- As of 1/1/2019 for new contracts
- As of 1/1/2022 for contracts in place prior to 1/1/2019

Tax Incentives

Tax incentives are being introduced via a subsidized contribution to encourage employers to pay occupational pension contributions for lower-income employees (earning until EUR 2,575 per month). If the employer pays an additional contribution of at least EUR 240 (up to a maximum of EUR 960) per calendar year, the employer may withhold 30% of the employee’s payroll tax, which is paid as a type of a “subsidy amount for occupational pensions” through the tax income registration (with a maximum of EUR 288 p.a.). The maximum amount of the tax-free contribution ceiling for direct insurances, Pensionskassen and pension funds is combined and raised from 4% of the annual SSCC plus EUR 1,800 (2017: EUR 4,848) to 8% of the annual SSCC (2022: EUR 6,768). 4% of the SSCC will still be exempt from social security contributions.

DC Schemes

“Social Partner Model”
The new DC plans can only be set up by companies that have opted to join a collective bargaining agreement for their industrial sector; the so-called ‘Tarifverträge’. DC promises can be financed through a Pensionskasse, a pension fund (to be managed jointly by representatives from employer organizations and unions) or direct insurance contracts. Individual employers will be restricted in setting up and designing a DC plan. These so-called “non-tariff” employers and employees can agree that the relevant collective agreements should also apply to them. In the event an employee changes employer, he/she can easily transfer their capital towards a DC scheme. In case an employee changes industry sector, a transfer from one DC scheme to another is also possible. However, they cannot transfer away from the social partner model to another type of scheme.

Das Rentenwerk

When the first drafts of the BRSG were presented in 2016, many raised the question whether a single insurer would be able to meet the challenges of the new occupational pension. Five long-established insurance companies have therefore joined forces, their expertise and experience to set up a new platform: “das Rentenwerk”. Gothaer (the exclusive IGP Network Partner for Germany) and four other mutual insurance companies (Barmenia, Debeka, HUK-COBURG and die Stuttgarter) jointly offer a flexible occupational pension solution that employers and trade unions can adjust to their needs. As a link between the social partners and the employers, Rentenwerk will help them to offer their members a powerful and sustainable collective pension. All parties to the introduced “Das Rentenwerk” or their controlling companies are mutual insurance companies and are therefore first and foremost accountable towards their customers and not to external stockholders or capital markets decisions. Values such as solidarity and fairness shall characterize “Das Rentenwerk” offerings. The aim is to offer a product that is both transparent and cost effective, which allows for attractive returns even in the current context of low interest rates. Already today, the group of the five participating insurance companies manage more than one million occupational pension scheme contracts. Together, they have capital investments of EUR 190 billion at their disposal, a combined experience of over 615 years, and an estimated 26 million clients (the stated statistics are estimates as there is a possiblity that some numbers may have been double counted).

BRSG Highlights

- Effective January 1, 2018
- Pure defined contribution commitment – this is a first in Germany
- Guarantees are abandoned, no secondary liability for employer (any entitlements under a DC plan will vest immediately)
- Financed through a pension fund or direct insurance
- Can only be set up by companies that have opted to join a collective bargaining agreement. Restrictions apply for individual employers.
- Annuity benefits only
- Mandatory transfer of employer’s social security contribution savings through employer matching contribution of 15% on employees’ salary sacrifice (hint: It depends on specific collective labor agreements)
- Tax incentives

With the pension reform of 2002 (Altersvermögensgesetz - AvmG), employees obtained the legal right to convert a part of their salary into employee benefit plans. Thus, employers are encouraged by law to offer salary sacrifice plans.

As a result of this development, the following type of pension plan gained popularity in Germany over the last years:

Sample Pension Plan for Salary Conversion:

Funding Vehicle:	Retirement Fund ("Pensionskasse") or Direct Insurance ("Direktversicherung")
Eligibility:	Employees having accomplished the 6-month probation period.
Contribution:	Defined contribution oriented benefit plan.
	Maximum possible premium in 2022: EUR 3,384 (4% of SSCC); under certain conditions, an additional amount of another 4 % of SSCC can be converted.
Normal Retirement Date (NRD):	Age 67.
Early Retirement Date:	Age 62, with reduced pension, based on the condition that the employee already receives a statutory pension.
Benefits:	Old age pension
	Amount of pension depends mainly on the age of the employee and the amount of salary converted.
	Instead of the old-age pension the employee can choose a lump sum payment at retirement date.
	The old-age pension can be combined with the following additional covers:
Disability Pension (if requested):	100% of old age pension projected to NRD
Widow's/Widower's Pension (if requested):	55% of employee's pension received or projected to NRD
Vesting and Adjustment:	Immediate vesting
	No special adjustments through the employer, as long as surpluses out of the insurance contract are used to increase the pensions insured.

The salary conversion reduces the income base relevant for the calculation of Social Security Contributions. This enables the employer to reduce loan fringe costs. The savings grow, as more employees participate in the conversion plan. In many cases, employers sponsor the salary sacrifice plan with an additional employer financed premium (matching contribution).

Endowment plans with a lump sum benefit payable in case of death or when reaching retirement age, are declining in importance. Due to the pension reform of 2005, which limits tax incentives mainly to pension plans granting life-long annuities, endowment plans will become increasingly rare.

Useful Links

Demographic information:	CIA World Factbook (please select the country to review)
Macro-Economic indicators:	CIA World Factbook (please select the country to review)

More information on the IGP Network Partner:	IGP – Your Local Link in Germany
Gothaer Lebensversicherung AG:	www.gothaer.de