



Arbeitsgemeinschaft für
betriebliche Altersversorgung e. V.



Law strengthening occupational pensions („Betriebsrentenstärkungsgesetz“)

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A law strengthening occupational pensions

- With declining first pillar pension benefit levels from the 1990s onwards, the coalition government (2013-2017) consisting of center-right Union and center-left SPD came to the conclusion that the coverage rate of occupational pensions needs to be increased
- After more than three years of intensive debate, a very extensive reform introducing key changes to occupational pensions in Germany was passed in July 2017
- The Law strengthening occupational pensions (“Betriebsrentenstärkungsgesetz”) entered into force on 01 January 2018.

Overview

- Key features that remain unchanged
- Coverage: Room for improvement
- The reform: Government approaches to address these issues
- Structural Innovation
- Tax and social insurance
- Low-income individuals
- Where do we stand now?



Key features that remain unchanged 1/3: Definition of occupational pensions



- Occupational retirement provision encompasses benefits

which employers
grant to their
employees

as part of their
employment
relationship

for old-age,
survivors' or
disability pensions.

(Translated from the Law on occupational pensions (“Betriebsrentengesetz”), Art. 1)

Key features that remain unchanged 2/3: Participation



Participation is essentially voluntary for employees, but some sectors and companies are covered by collective agreements that make participation mandatory



All employees subject to social insurance contributions have a right to an occupational pension through deferred compensation (**Riester reform 2001**)



Contributions can be financed by the employer and / or the employee (through deferred compensation („Entgeltumwandlung“))

Key features that remain unchanged 3/3: Five vehicles

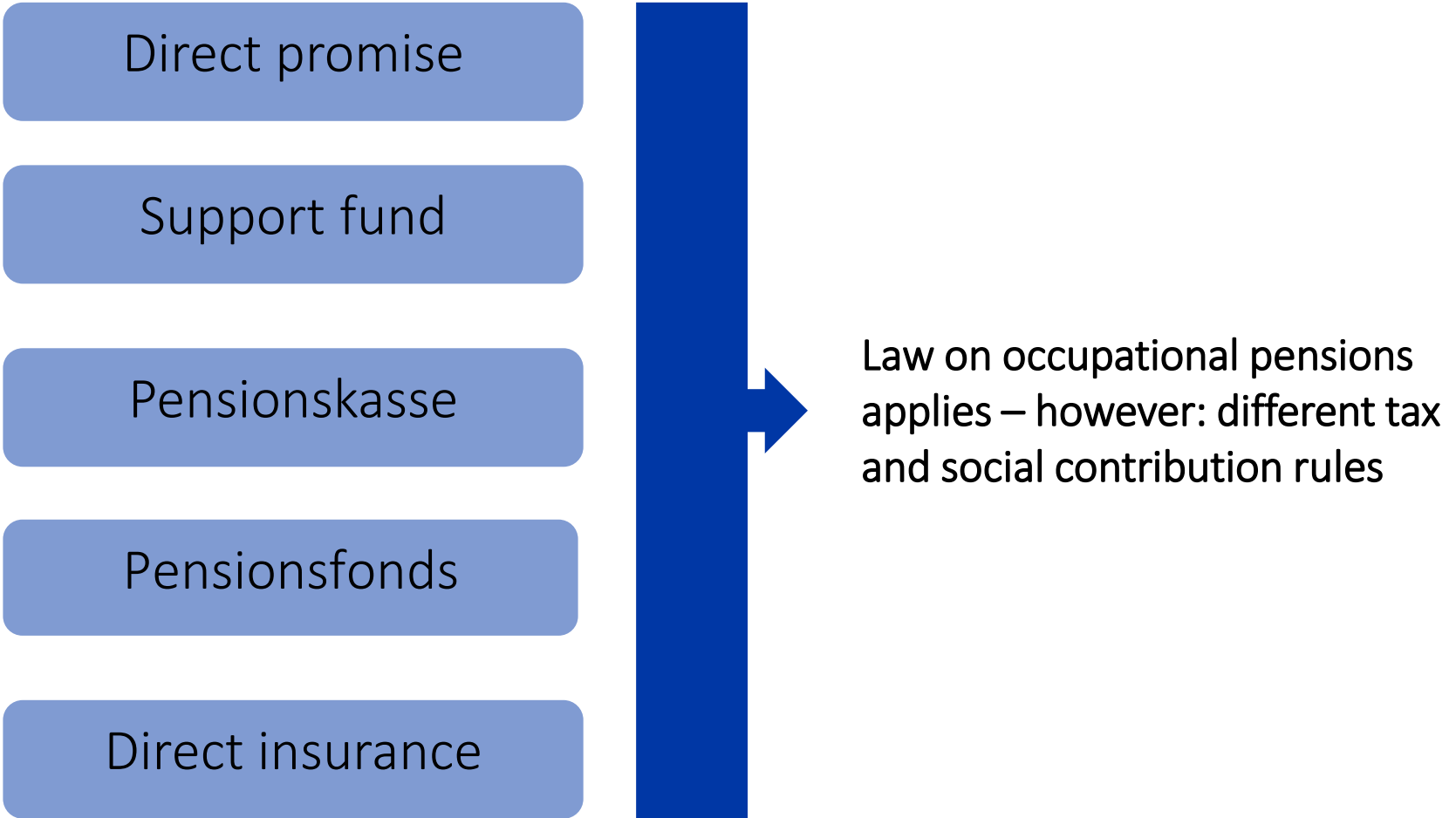
Direct promise

Support fund

Pensionskasse

Pensionsfonds

Direct insurance

A diagram illustrating that five different pension vehicles all fall under the same legal framework. On the left, five light blue rounded rectangular boxes are stacked vertically, each containing a pension vehicle name. A thick, dark blue vertical bar runs to the right of these boxes, with a dark blue arrow pointing from its right side towards the text on the right.

Law on occupational pensions
applies – however: different tax
and social contribution rules

Coverage: Room for improvement

- As of 2021, 18.4m employees are active members of an occupational pension scheme, that is almost 53,5% of those employed and subject to social insurance contributions

- Coverage is particularly low in certain areas:
 - ◆ In **companies with less than 10 employees**, only 29% are active members of an occupational pension scheme
 - ◆ More than half (53,5%) of those **earning less than 1,500 Euro per month** neither have an active occupational pension membership nor a Riester plan (personal pension)

Sources: [BAV 2021](#), [Alterssicherungsbericht 2020](#)

The reform: Government approach to address these issues



- Government wanted to create new opportunities for social partners to provide occupational pensions which are simple, efficient and stable in terms of cost for employers and meet the needs of employees.

- Main areas of reform:
 - ◆ Structural innovation
 - ◆ Tax and social insurance
 - ◆ Low-income individuals



Structural innovation 1/3: Introduction of the social partner model („Sozialpartnermodell“)



Defined Contribution
through IORPs and direct
insurance

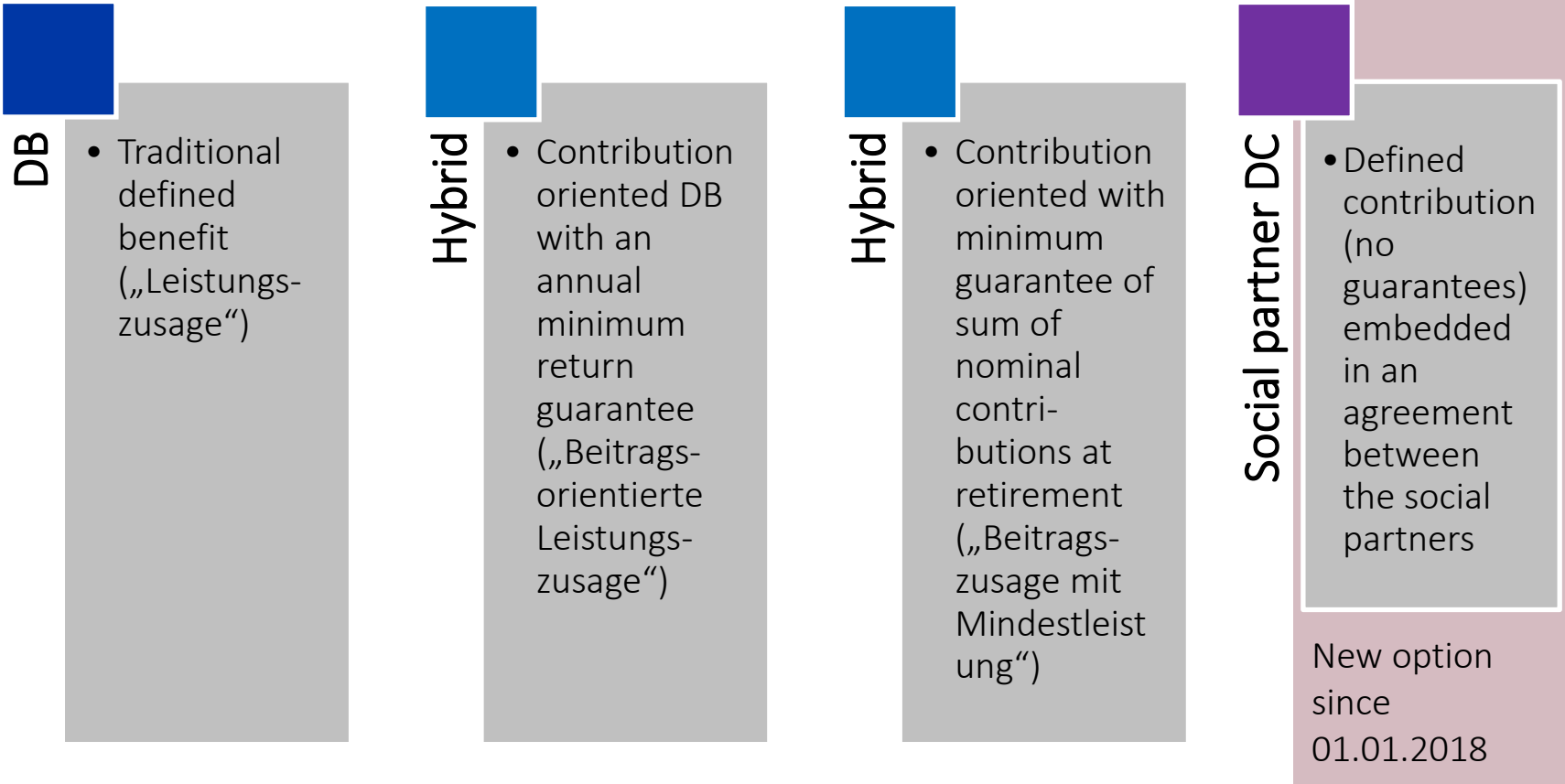
Making auto-enrolment
legally watertight

Structural innovation:
new role for social
partners

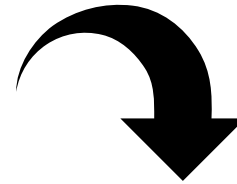
Ban of guarantees

Can be used by employers
with a reference to the
relevant collective
agreement

Structural innovation 2/3: The pension promise – now four types



Structural innovation 3/3: The benefit promise made by the employer



Role of the employer (traditional):

A benefit promise is **given by an employer** (but may be financed / administered through an external vehicle) - the **employer is liable** for the benefit that has been promised

New **option** since 01.01.2018: Embedded in an agreement between social partners, the employer can offer a **pure defined contribution** pension (“Social Partner DC”).

Tax and social insurance

- Extending the EET system (doubling the maximum tax free contribution per year from 4% to 8% of the statutory pensions system's contribution assessment ceiling (2024: 7.248 EUR)).
- Making EET more flexible

Included



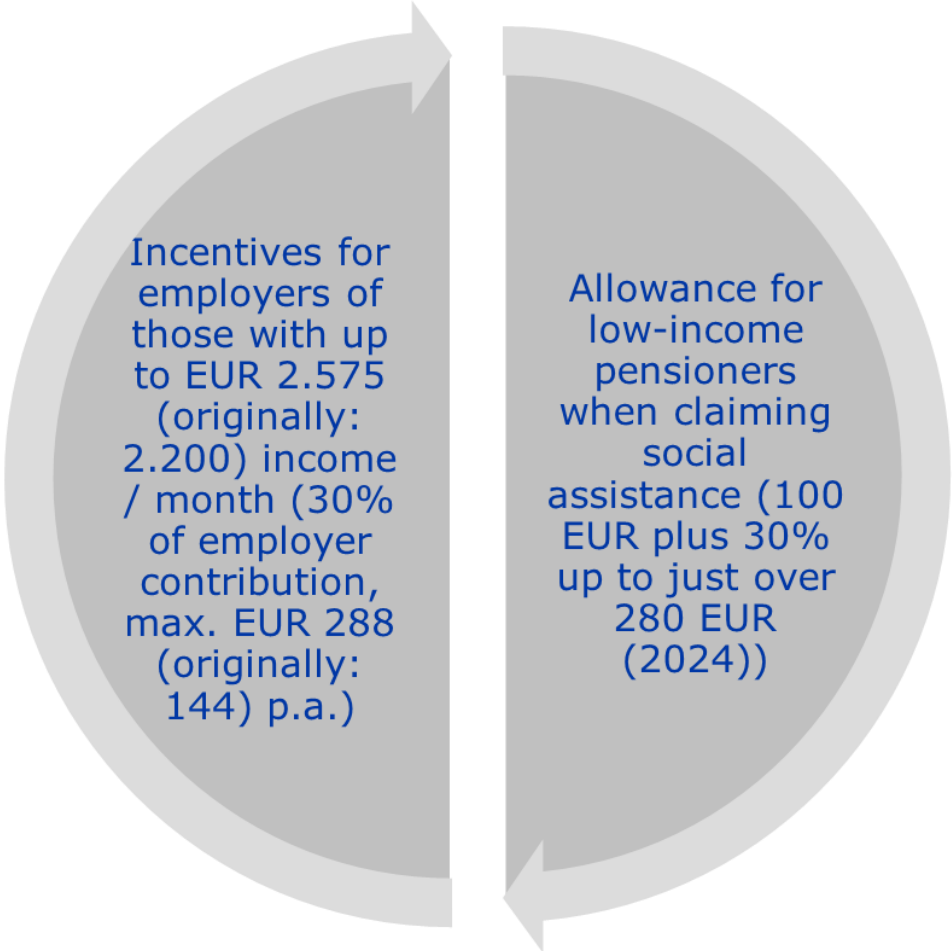
- Changes to statutory health and long-term care insurance contributions in the pay-out phase

**Discussed, but not included
(exception: occupational
Riester)**



Low-income individuals 1/2: Reform

Accumulation



Decumulation

Allowance for low-income pensioners when claiming social assistance (100 EUR plus 30% up to just over 280 EUR (2024))

Low-income individuals 2/2: Effects



Subsidization of employers paying contributions to the pension schemes of their low-income employees has proven to be highly effective: more than 1m low-wage earners have benefitted



However: wage increases have led to fewer employees being eligible for subsidization



aba-proposal: Dynamizing the income limit from the currently EUR 2,575 and raising the subsidy rate from 30 to 50% could lead to even better results

Where do we stand now?

- The first two social partner models started operating in late 2022
- Expert Dialogue on Occupational Pensions initiated by the German Government took place from December 2022 to May 2023. A draft bill implementing the results of the Dialogue (e. g. dynamizing the subsidization of low-income earners) is expected during 2024.
- National Pensions Tracking System (“Digitale Rentenübersicht”) covering all three pillars was publicly launched in July 2023 and started its regular operation in December 2023. Participation will become mandatory for Pensionskassen, Pensionsfonds and Direct insurances of January 2025.
- EU level has a significant influence on occupational pensions, concerns that this could undermine national efforts to strengthen occupational pensions (i.e. IORP II Review, SFDR, DORA, FIDA)

Thank you for your interest in German occupational pensions!

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