

GERMANY - AN OVERVIEW OF EMPLOYEE BENEFITS

| | |
|-----------------------------------|---|
| State and Mandatory Benefits | The normal retirement age is 65, increasing to 67 between 2012 and 2029. The full state pension is based on the number of pension points accrued each year and the present point value (a benefit of EUR 27.47 a month from July 2011). The pension point represents the ratio between the employees' earnings and national average earnings. The state pension after a full working career is typically 40% to 45% of final gross earnings up to the social security contribution ceiling for pensions. Comprehensive medical care is provided. Employees earning over EUR 50.850 a year can contract out of the mandatory health insurance if they have a suitable private medical insurance. |
| Typical New Pension Plan | Typically, contributions are paid to a defined contribution or hybrid pension plan. Employees are entitled to divert part of their earnings into a salary sacrifice plan, and employers may add a further contribution. A death or disability pension must also be provided. Lump sum death benefits are less common. A small minority of employees have private medical insurance. |
| Typical Costs | Both employers and employees contribute 9.8% of earnings each for state retirement, survivors' and disability pensions, and 15.5% of earnings for medical care and other benefits (8.2% employee, 7.3% employer). The maximum annual earnings for contributions are EUR 67,200 for retirement benefits and EUR 45,900 for medical care (2012). Combined contributions to private pension plans are typically between 4% and 12% of earnings, depending on the industry. |
| Tax Implications | The taxation of social security contributions and benefits is in transition. From 2025 combined employer and employee contributions up to EUR 20,000 a year will be deductible and from 2040 benefits will be fully taxed as income. The taxation of private plans depends on the method of financing. Five different financing vehicles are available: direct pension promises (using a book reserve), direct insurances and pension funds (Pensionskasse, Pensionsfonds and support funds). Employer allocations to book reserves are tax deductible and benefits are taxed as income. Combined employer and employee contributions to direct insurances and pension funds are tax deductible up to 4% of the social security contribution ceiling. |
| Labour Law Issues | Benefits secured by employer contributions are vested after a maximum period of five years if the employee is 25 years or older. Employee contributions vest immediately. Employers must review pensions from defined benefit company pension plans every three years to see if they need to be adjusted in line with the increase the cost of living or earnings, or by a standard annual increase of 1%. |
| Pooling Potential | High pooling potential for employer financed risk insurances. |
| International Financial Reporting | EU/EEA rules apply. For listed companies, International Financial Reporting Standards apply in both consolidated and separate company statements. Unlisted companies may use IFRS in both consolidated and separate statements. Statutory accounts that conform to national GAAP are also required. |
| Local IBN Contact | Robert Heiligers, Head of International Employee Benefits, robert.heiligers@hdi-gerling.de Joerg Liely, International Consultant, joerg.liely@hdi-gerling.de HDI-Gerling Pensionsmanagement AG Christophstrasse 2-12 50670 Cologne Germany Tel: +49-221-144-61561 www.hdi-gerling-pm.de |