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## betriebliche Altersvorsorge (bAV) — Betriebsrente Explained Simply

What betriebliche Altersvorsorge is, how Entgeltumwandlung works, and why bAV is particularly worthwhile for employees in Germany.

**Deutsche Begriffe:** betriebliche Altersvorsorge | bAV | Direktversicherung | Pensionskasse | Entgeltumwandlung | Betriebsrente | Arbeitgeberzuschuss

### What is betriebliche Altersvorsorge?

**betriebliche Altersvorsorge** (shorthand: **bAV**) is the second pillar of old-age provision in Germany — alongside the **statutory pension** (pillar 1) and **private provision** (pillar 3). In bAV, the employee saves for retirement through their employer. The major advantage: there are **tax benefits** and often an **employer contribution**.

Since 2002, **every employee** in Germany has a **legal right** to betriebliche Altersvorsorge through Entgeltumwandlung (§ 1a BetrAVG). This also applies to **foreign employees** with an employment contract in Germany.

### How does Entgeltumwandlung work?

With **Entgeltumwandlung** (also called: salary conversion), you forego a portion of your **gross salary**. This amount is instead paid into a retirement savings contract. The advantage: the converted amount incurs **lower taxes** and **lower social insurance contributions**.

Example calculation (2026)

	Without bAV	With bAV (€200/month)
<b>Gross salary</b>	€3,500	€3,500
<b>Conversion</b>	€0	€200

	Without bAV	With bAV (€200/month)
<b>Taxable gross income</b>	€3,500	€3,300
<b>Net salary</b> (approx.)	€2,300	€2,190
<b>Actual costs</b>	—	approx. €110

**Result:** You pay €200 into bAV, but your net salary only drops by approx. **€110**. You save the remaining €90 through lower taxes and social contributions. It's like a **discount from the state**.

## Employer contribution — Mandatory since 2022

Since **January 1, 2022**, the employer must provide a **contribution of at least 15%** of the converted amount when Entgeltumwandlung is used — provided the employer saves social insurance contributions through the conversion (§ 1a Abs. 1a BetrAVG). This applies to **all pension schemes**.

Example:

- You convert **€200/month**
- Your employer pays at least **€30/month** (15% of €200)
- **Total contribution:** €230/month to your Betriebsrente
- Many employers voluntarily pay **more** (20–50% or even 100%)

**Tip:** Ask your employer about the **specific contribution**. Some companies offer more generous terms than the statutory minimum.

## Tax-free allowances and limits (2026)

Limit	Amount (monthly)	Amount (annually)
<b>Tax-free Entgeltumwandlung</b>	up to €604	up to €7,248
<b>Social insurance-free Entgeltumwandlung</b>	up to €302	up to €3,624
<b>Recommended minimum</b>	€100–200	€1,200–2,400

The tax-free and social insurance-free limits are based on the **contribution assessment ceiling** of the statutory pension insurance (West) and are adjusted annually.

## The 5 pension schemes of bAV

There are five different ways to implement betriebliche Altersvorsorge. The employer chooses the pension scheme:

### 1. Direktversicherung (most common form)

- The employer concludes a **life insurance policy** on the employee's life
- **Advantages:** Simple, transparent, claims belong to the employee
- **Disadvantages:** Returns often low (guaranteed interest rate), limited flexibility
- **Best for:** Small and medium-sized enterprises

### 2. Pensionskasse

- Similar to Direktversicherung, but through a **pension fund**
- **Advantages:** Often higher returns than Direktversicherung
- **Disadvantages:** Less common, depends on industry
- **Best for:** Large enterprises and specific sectors (e.g., chemicals, metalwork)

### 3. Pensionsfonds

- Invests more strongly in **stocks** and other investment forms
- **Advantages:** Higher return potential
- **Disadvantages:** Higher risk, more complex
- **Best for:** Companies seeking higher returns

### 4. Unterstützungskasse

- External pension institution financed by the employer
- **Advantages:** No upper limit for tax-free contributions (§ 4d EStG)
- **Disadvantages:** No direct claim for the employee, insolvency protection via PSVaG
- **Best for:** Higher earners wanting to contribute more than the allowance

### 5. Direktzusage (Pension commitment)

- The employer pays the pension **directly from their assets**
- **Advantages:** Flexible design, no upper limit
- **Disadvantages:** Depends on employer solvency
- **Best for:** Managing directors and executives

## What happens if you change jobs?

This is one of the most important questions — especially for foreigners who may change employers or leave Germany:

Portability (transferability)

- **Direktversicherung and Pensionskasse:** The contract can usually be **transferred** to a new employer or **continued privately**
- **Pensionsfonds:** Transfer is possible, but not guaranteed
- **Unterstützungskasse and Direktzusage:** Usually **not transferable** — the claim remains with the old employer

Vesting

Your claims from bAV are immediately **vested** if they are financed through **Entgeltumwandlung**. This means: even if you leave the company, you retain your claim.

For **employer-financed** commitments: claims become vested after **3 years of employment** and from age **21**.

Return to home country

If you leave Germany:

- Your bAV claims **remain** — you will receive the pension later
- **Payment** is made abroad (upon reaching retirement age)
- **Early termination** is generally **not possible** (unlike private pension insurance)
- In some cases, a **settlement payment** may be made if the monthly pension falls below a minimum amount

## Payout — What do I receive in old age?

The Betriebsrente is paid from **retirement age** (currently 67) as either:

- **Monthly pension** (for life)
- **Lump-sum capital payment** (depending on contract)
- **Mixed form** (partial capital + pension)

## Taxes and contributions on Betriebsrente

**Important:** The Betriebsrente is **fully taxable** in old age and **health and long-term care insurance contributions** apply:

- **Income tax** according to individual tax rate (usually lower in old age)
- **Health insurance:** full contribution rate (employee + employer share)
- **Long-term care insurance:** full contribution rate
- Since 2020, there is a **tax-free allowance** for Betriebsrente in health insurance (2026: approx. **€176.75/month**)

## Tips for foreign employees

- **Actively ask** your employer about bAV — many foreigners don't know they have a legal right
- **Utilize employer contribution:** Take at least the 15% — better still if your employer pays more
- **Use tax benefits:** Through Entgeltumwandlung you save taxes and contributions
- **Check transferability:** Before changing jobs, clarify whether the contract can be transferred
- **Combination:** bAV supplements the statutory pension — combined with private provision (e.g., ETF savings plans), you create solid retirement security

--- As of: March 2026. All information without guarantee.