HAMBOORG.CITY

Free platform for foreigners in Germany

✓ 24/7 Assistant in Your Language
✓ Official Document Scanner
✓ Deadline Reminders
✓ Benefit Calculators

hamboorg.city — is and will be FREE

Betriebsrente (bAV) — Occupational Pension Plans Explained

What occupational pensions are, how salary conversion works, and whether Betriebsrente is worth it.

Deutsche Begriffe: Betriebsrente | Betriebliche Altersvorsorge | bAV | Entgeltumwandlung | Pensionskasse | Direktversicherung

What is occupational pension provision (bAV)?

Occupational pension provision (bAV) is an additional pension organized by your employer. It supplements the **statutory pension** and can make an important contribution to retirement security.

Since 2002, every employee in Germany has a **legal right** to salary conversion (§ 1a BetrAVG) — which means you can convert part of your gross salary into a Betriebsrente, and your employer **must enable this**.

Three pillars of retirement provision

Pillar	What?	Examples
1st Pillar	Statutory pension	Deutsche Rentenversicherung
2nd Pillar	Betriebsrente (bAV)	Direktversicherung, Pensionskasse
3rd Pillar	Private provision	Riester pension, ETF savings plans, real estate

How does salary conversion work?

With **salary conversion**, you forego part of your **gross salary** — this is instead paid into a Betriebsrente.

Benefits of salary conversion

• **Tax savings** — contributions up to €302/month (2026) are tax-free

• **Social contributions savings** — contributions up to €302/month are exempt from social contributions

• **Employer subsidy** — since 2022, the employer must pay at least **15% subsidy** (where social contribution savings apply)

Calculation example

	Without bAV	With bAV (€200/month)
Gross salary	€3,500	€3,500
bAV contribution	–	-€200
Taxable income	€3,500	€3,300
Taxes + social contributions	approx. €1,250	approx. €1,160
Net income	approx. €2,250	approx. €2,140
Actual cost	–	approx. €110

Result: You pay €200 into the bAV, but it actually costs you only approx. **€110** — thanks to tax and social contribution savings.

Five implementation methods

There are five different bAV models:

1. Direktversicherung (Direct insurance)

• **Most common** in small and medium enterprises

• Employer concludes a **life insurance contract** for you

• You are the **insured person**, the employer is the policyholder

• Simple, transparent, portable (can be transferred to new employer)

2. Pensionskasse (Pension fund)

- Works similarly to direct insurance
- Pension institution established by employers or industry
- Guaranteed benefits, conservative investment strategy

3. Pensionsfonds (Pension fund with equity option)

- **Higher returns**, but also **higher risk** than Pensionskasse
- Can invest in stock markets (up to 100% equity allocation)
- Minimum benefit is guaranteed

4. Unterstützungskasse (Support fund)

- External pension institution, no direct claim against the fund
- Employer is liable for benefits (guarantee obligation)
- Higher contributions possible (no limits like in direct insurance)

5. Direktzusage (Direct commitment/pension promise)

- Employer pays the pension **directly** from its own resources
- Usually found in **large companies** and for executives
- High benefits possible, but dependent on employer's solvency

Employer subsidy — mandatory since 2022

Since January 1, 2022, the rule is: If you use salary conversion, your employer **must pay at least 15% subsidy** — provided they save on social contributions through your salary conversion.

Example: With €200 salary conversion, the employer must pay at least **€30** additionally into your bAV.

Many employers voluntarily pay **more** — ask!

What pension do I receive?

The amount of your Betriebsrente depends on:

- **Contributions made** (yours + employer subsidy)
- **Duration** (the longer, the more)
- **Investment returns**

• **Implementation method** (direct insurance vs. pension fund)

Payout options

• **Monthly pension** — lifelong payment from retirement

• **Lump sum** (capital settlement) — entire capital at once

• **Combination** — partial capital + monthly pension

Taxation of Betriebsrente

Betriebsrente is subject to **deferred taxation**:

• Payment in: **tax-free** (up to the limit)

• Payment out: **fully taxable** + health and long-term care insurance contributions

Allowance: Since 2020, there is an allowance of **€176.75/month** (2026) for health insurance contributions on the Betriebsrente.

What happens when changing employers?

Portability

You can continue your bAV with a new employer **(portability)**:

• **Direct insurance and pension fund** — transfer to new employer possible

• **Support fund and direct commitment** — transfer more difficult, often a new contract is concluded

Vesting

Your claims are **immediately vested** with salary conversion — meaning you lose nothing when changing employers.

For **employer-financed contributions**:

• After **3 years of service** and **minimum age 21**, claims are vested

Is Betriebsrente worth it?

Advantages

• **Tax and social contribution savings** during the accumulation phase

• **Employer subsidy** (at least 15%)

• **Automatic** — contributions are deducted from salary, no action required

• **Insolvency protection** — statutory protection via the Pension Security Association (PSVaG)

Disadvantages

• **Deferred taxation** — pension is fully taxable

• **Health insurance contributions** on pension (approx. 18% above the allowance)

• **Lower statutory pension** — due to lower gross salary, you accumulate fewer pension points

• **Low returns** with traditional insurance products

• **Inflexible** — money is tied up until retirement

Conclusion

Betriebsrente **is particularly worthwhile** if:

• Your employer pays a **high subsidy** (20% or more)

• You are in a **high tax bracket**

• You **stay with the same employer for a long time**

• You view bAV as a **supplement** (not a replacement) to private pension savings

Tips for foreigners

1. Know your rights — you can demand salary conversion

2. Claim employer subsidy — at least 15% is mandatory

3. When returning to your home country — the bAV remains, payout occurs at retirement age (also internationally)

4. Use advice services — Verbraucherzentrale, Deutsche Rentenversicherung (free)

5. Understand the contract — have the terms explained to you in simple language