

Market and Benchmark Insight Report for Germany – 2020

Competitive benefit norms for industries with discernible skills shortages (tech, life sciences, management consulting) in Germany

Introduction

Profion has been providing employee benefits advice for over 20 years. Our 200 plus multinational clients with over 30,000 employees provide us with a rich source of market data, which we utilize as benchmarking to help our clients and new prospects understand the German benefits market. Every country is unique when it comes to the balance of state versus employer sponsored benefits. With its in-depth knowledge and experience, Profion is able to provide sound guidance and benchmarking to help navigate the unique benefits market in Germany. This document is meant to serve as an introduction to the German market.

This document highlights:

- The German Benefits Landscape
- Mandatory Requirements and Employment Law
- Typical Benefit Design and Cost

We are proud to be an Asinta partner, and hope this document is of use to you.

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1. German Benefits Landscape

Employee benefits are a critical differentiator in Germany, especially in the highly skilled sectors where there is a war for talent and in which sectors salaries already tend to be high. These include the IT/high-tech, biotech & life sciences, engineering, consulting and financial services. Therefore, it is critical for employers to have a strong benefits package to further separate themselves from their competition.



1.1 Industry Sector

In sectors with a highly competitive hiring market, it is common to see strong occupational benefits offered. This is the case in the industries mentioned above. However, in blue collar and lower skilled industries in which employees are easy to acquire and replace, benefits in addition to the state system are often non-existent or far lower. We can provide sector specific benchmarking and advice on appropriate benefit designs, including fringe benefits.

1.2 Location

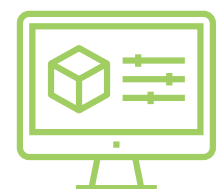
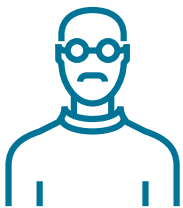
There are five main cities in which multinational companies tend to settle in Germany; Berlin, Frankfurt, Hamburg, Munich, and Stuttgart.

2. Mandatory Benefits – Benefits and Costs

Germans still rely heavily on five pillars of the social security system:

1. Old age retirement pension
2. Unemployment insurance
3. Healthcare
4. Long-term nursing care
5. Accident insurance (workers' compensation)

All of these benefits, except for workers' compensation, are funded through employee and employer contributions and collected via payroll. Contributions for workers' compensation are paid only by the employer – please see table below for more details on contributions to the mandatory social security system.





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Contributions 2020 (% of salary, max. ceiling)	Employee	Employer	Social Security Contribution Ceiling (SSLC)	
			Former West Germany	Former East Germany
	May be tax deductible	Tax deductible	82,800 €	77,400 €
State Pension System (retirement, survivors', LTD)	9.3%	9.3%	82,800 €	77,400 €
Unemployment	1.2%	1.2%	82,800 €	77,400 €
Health insurance	7.3%	7.3%	56,250 €	56,250 €
Long-term nursing care	1.525% (1.775%*)	1.525%	56,250 €	56,250 €
Industrial Injury / Workers' Comp.	May be tax deductible	May be tax deductible		
	19.325% - 19.575%	19.925% - 21.325%		

*=Childless employees have to pay a surcharge of 0.25% as of their completion of age 23, no surcharge for the employer

Currently, Germany's pay-as-you-go system is experiencing a crisis in funding due to the aging population and extremely low birthrate.

Retirement Pensions – Retirement financing is the biggest concern for employees, as the state pension amounts continue to decrease and the retirement age increases. Every employer is required, by law, to transfer minimum contributions into the state pension system for both the employer and employee as shown above.

Contributions to the state pension do not accumulate into a cash-backed fund on behalf of the employee but are paid from current income from pension insurance by means of an allocation process (pay-as-you-go system). Due to the funding crisis, the monthly gross normal retirement pension amount is approximately €1,154 based on 45 yrs. of contribution and an average income. Early retirement is possible from age 62, albeit with reductions of 0.3% per month. Due to changes in the pension law, pension payments are now subject to tax. This is applied on a gradual basis for pensions already being paid in order to avoid undue hardship for the pensioners.

The maximum normal gross monthly retirement pension amounts to approximately €3,000. This is however a theoretical figure since it is almost unachievable.

Unemployment insurance – Every person in gainful employment working at least 18 hours a week is insured against unemployment. Benefits are payable from the first day of unemployment due to involuntary termination (dismissal), and after 12 weeks for voluntary termination (resignation), provided the unemployed person has been employed gainfully for at least 12 months during the previous two years.

The benefit amounts to 60% of net earnings in the last 12 months, or 67% if there are children. The duration of payment also depends on the length of the period during which contributions have been paid and on the claimant's age. The benefit is paid for a minimum of six months and up to a maximum of 18 months. After this period the benefit continues at a reduced rate of about €374 per month with an additional child allowance which varies depending on the child's age. The benefits are tax-free.



Healthcare – All employees are obliged to have health insurance. Ninety percent of people in Germany have public health insurance as the government mandated plans still provide a broad spectrum of excellent services. Healthcare contributions are shared equally between the employer and the employee and deducted via payroll. Private insurance is available for individuals earning more than a threshold prescribed by the government annually (€5,213 per month in 2020). However, this is all handled privately and NOT via an employer sponsored benefit, even though these benefits are funded via payroll.

Long term nursing care – This is mandatory for all members of public health insurers. Employees who are members of a private health insurance scheme are required to purchase coverage for long term care. Benefits include home and long-term inpatient care depending on the level of care required. Benefits are tax-free.

Workers' Compensation – Any new business in Germany with employees must register with the Social Accident Insurance, i.e., Workers' Compensation Fund. Therefore, it does not matter whether or not it has a registered office or a branch in Germany. This insurance covers all employees against occupational accidents, i.e., on-the-job accidents, accidents on business trips, accidents on the way to and from work and occupational illnesses. Employers, self-employed persons, freelancers and persons of similar status are not insured.

The statutory accident insurance covers all work-related incidents. This usually also applies to employees who are on business travels abroad, as long as their stay abroad is only for a limited period determined before their departure. For longer or unlimited business travels abroad, companies are recommended to clarify the situation with their fund and possibly take out an additional accident insurance.

3. Wider Benefit Provision

Germany has complex employment laws which make setting up benefits programs complicated. The generally pro-employee laws require all staff to be treated equally, irrespective of gender or disability. Employment contracts are a critical component and must be handled by skilled German labor law attorneys.

In addition, it is crucial to be aware of the demographics, needs, and preferences of the workforce before implementing new benefits. Perks are only effective if the added value is perceivable and matching the employees' needs. When designing a benefit plan, it is essential to consider the sector, employee demographics and objectives. We at Profion can help design benefit plans which suit clients' needs, are within their budgets, and meet or exceed industry standards, especially in industries with a high demand for talent.

It is also worth bearing in mind that some benefits and perks can be offered tax-free, while others may entail tax liability for the employee. As with legal advice, Profion is not in the position to provide tax advice. We thus strongly recommend working closely with a tax advisor in Germany during the decision-making process. This not only ensures compliance with German tax laws, but also ensures that the intended perks are designed in a way that is most valuable for the employees, and is aligned to the company's philosophy.





That said, as a result of demographic changes, occupational pensions have become the most important benefit for German employers to offer. Here are some key points:

- Employer contributions are the primary benefit and most attractive.
- Some employers require a match but this is not as attractive to employees and often results in a very low adoption rate by employees.
- Pre-tax employee contributions up to an annual maximum set by law (€552 per month in 2020 are possible).
- The retirement vehicle is like a whole life policy. There are no investment options based on risk tolerance, the investment is quite conservative with some plans having a guaranteed minimum return of premiums paid plus 1% (with an option to earn more should the economic market conditions be positive).
- The benefit option at retirement age (currently 67) is a lump sum or annuity for life.

Below is an overview of the most attractive insured benefits, followed by the fringe benefits and perks currently trending.



3.1 Insured Benefits – Typical Plan Design and Cost

These are the most popular insured employee benefits in Germany and typical levels of coverage.

Benefit	Comment/Cost	Lower Quartiles Approach	Medium Quartile Approach	Upper Quartile Approach
Retirement Pension	Retirement plans are based on defined contribution or so-called hybrid defined contribution approaches. Contribution rates range between 2% and 5% of pensionable pay, depending on industry, company size and employee's hierarchical level. Matching contribution plans are often designed as 1:1 or 1:½ matches with a maximum employer contribution according to the given employer contribution limit. Retirement benefits can be in the form of an annuity or as retirement lump sums normally paid out at age 67. Benefits are subject to income tax for the employee on payment. Contributions to a pension plan are tax-deductible. From January 1, 2018, the legal vesting period reduces from five to three years; however, immediate or contractual vesting after one or two years of plan membership is quite common. For salary sacrifice arrangements, benefit entitlements are immediately vested. Both part- and full-time employees may join a pension plan. A six-month waiting period is sometimes a precondition; however, very few employers have such requirement.	2% of pensionable pay	3-4% pensionable pay	5-8% of pensionable pay or more is provided in some sectors.
Life Insurance	Benefits usually amount to one or two times pensionable pay or a fixed amount that is paid as a lump sum to the employee's survivors. Life insurance benefits are subject to income tax for the beneficiaries on payment. Premiums paid to cover the life insurance benefits are however tax-deductible.	None	2 x basic salary capped at a certain level – no medical underwriting	2 x basic salary uncapped – requires medical underwriting
TPD Lump Sum (Disability)	Most occupational supplementary plans provide LTD or TPD benefits. The TPD benefit, usually a lump sum, is typically two times pensionable pay, while the LTD benefit is an annuity. The LTD annuity is payable until recovery or completion of the normal retirement age or death, whichever case occurs first. LTD/TPD benefits are subject to income tax for the employee on payment. Premiums for LTD/TPD benefits are tax-deductible.	None	All employees	All employees

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Insured Benefits – Design and Typical Costs continued:

Benefit	Comment/cost	Lower Quartiles Approach	Medium Quartile Approach	Upper Quartile Approach
Medical Insurance	Most employees have public insurance and supplemental health and dental plans are very uncommon due to them not being necessary and taxable to the employee. Moreover, in the case of illness where employment has been in existence for at least four weeks, the employer is required to continue pay at 100% for the first six weeks of illness. From the 7th week the employer's obligation to continue pay ceases and the respective state sickness fund takes over the payment of the so-called sickness benefit. This benefit amounts to 70% of the gross pay. The public health insurer pays a maximum of 78 weeks of benefits in a 3-year period for the same illness (including related illnesses). If the employee is classified as permanently disabled, the disability pension takes over from the health insurer.	Not necessary	None	Allowance towards senior employees' private insurance – taxable benefit
Dental Insurance	Rarely provided in the Germany as even the public health insurers provide dental benefits. Dental insurance is a taxable benefit.	Not provided	Not provided	None
Eye Tests	Public health insurance also includes dental and vision, however, employers are required to pay the costs for special computer glasses if these are prescribed by an ophthalmologist or a company doctor. Such special glasses are considered a 'working tool' and therefore, necessary for the employee to do their job properly and prevent further deterioration of their sight.			
Maternity Pay	All German nationals and foreigners (including dependents) living in Germany are required to have health insurance that includes pediatric and OB/GYN medical care at no additional cost. This Asinta article about German maternity benefits outlines these benefits in greater detail.			



3.2 Fringe Benefits and Perks

In addition to the mandatory benefits previously shown, employers will often provide a range of benefits to help recruit and retain employees. The most common benefits are shown below:

Benefit	Comment/cost
Company Cars/Company Allowance	Employers typically offer company cars or an allowance to executive management and technical and sales employees. The car allowance is paid out via payroll and is subject to tax – 1% of the list price – and social security contributions.
Job Bikes	The employer concludes a framework agreement with a provider of choice and can then lease a bike to the employee by way of a salary sacrifice pre-tax (that is, the monthly contributions are deducted from the employee's salary by payroll). Company bikes are essentially treated the same way as company cars, i.e., taxed at 1% of the list price, exceptions may apply for certain e-bikes.
Transport Allowance or Job Tickets	Job tickets are common in larger cities and among employers with high headcount as the providers require a minimum number of employees. Employers can also provide a transport allowance. Benefit is tax and social security contribution free if paid in addition to salary, nevertheless, it is possible for employer to take over the tax.
Childcare Vouchers/ Allowance	Government supported, tax-efficient childcare schemes are available in various states. Employers also offer childcare allowances whereby they refund the costs for childcare to the employee, either partly or completely.
Gym Memberships	Very large employers can provide 'gym on site' facilities whereas smaller employers may offer gym subsidies or access to a gym with lower corporate rates.
Lunch Vouchers	These can be provided by way of paper vouchers, monetary refunds or prepaid cards. They are quite common among employers without a cafeteria, i.e., too small to have a cafeteria. Depending on the amount, the benefit may be taxable but it is possible for employer to bear the taxes.
Free Snacks & Drinks in the Office	Can range from fresh fruit, candy, cereal and baked goods to coffee, fruit juices, water or even alcoholic beverages. These may be tax free but depending on scope, tax may become due.



4. Setting Up Policies

Trust/Support Fund

Using a trust provides several critical advantages: A fully reinsured, legally independent support fund (trust) guarantees the safe harbor status of plan benefits and pension assets and thus mitigates financial liabilities locally as well internationally. In addition to the tax advantages for employee contributions up to certain limits, employer contributions are also tax free until the benefit becomes due.

For these reasons, Profion set up its own multi-employer reinsured support fund, Euro-BetriebsPensionsFonds e.V., EPF, for its clients. Membership to the trust is also open for foreign corporations such as limited liability corporations, limited liability partnerships and public limited companies. Becoming a member of the EPF allows companies to design, finance and communicate the pension plan according to their specific needs and requirements.

The EPF administers the pension plan, provides bilingual detailed annual reports and all other plan documents, such as contribution invoices and benefits statements, and supervises the performance of the investment fund.

5. Onboarding and Policy Administration

Onboarding

Employee communication

We provide the following benefit communication presentations and materials:

- Staff presentations on roll out and as required
- Benefit information pack including Welcome Packages
- Individual sessions to ensure thorough implementation and tailoring.

Policy Administration

Profion provides ongoing service to employees from benefits setup until the payout of retirement benefits. In addition to ongoing service at employer and employee level throughout the plan year, personalized benefit statements are issued each year, which provide beneficiaries with information on their accrued benefits.

Profion Team

We would love to help you. Feel free to reach out to Michael or Anne.



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