

# Private Rente (Private Pension Plan) 3rd Layer



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## GENERAL FACTS

- A private pension plan is the most popular form of pension provision in Germany because of its flexibility.
- A private pension contribution gets paid out of the net income and the monthly amount can be set as low as €25 up to several thousand, depending on the insurance company.
- It is possible to pay a lump sum in to a monthly contribution policy. Single payment lump sums are also possible and the pension draw can either start immediately or at a later date.
- Most of the products are fund-based. The products themselves offer a wide range of funds to choose from including managed portfolios. The advantage that insurance products have is that you can switch funds at least 12 times a year free of charge.
- A classic scheme is also available. This has a guaranteed return of 0.9% plus a surplus participation which lies between 1.25% and 1.5% with most companies at the moment.
- It is possible to borrow against a Private Rente and it can also be seized and used in the calculation of unemployment benefits.
- The minimum length of contract is 5 years and a pension can be drawn at any time.
- It is possible to make part extractions at any time, normally the extraction has to be a minimum of €1,000 and at least €2,500 have to remain in the policy.
- It is possible to cancel the contract at any time. The balance will be paid out. It is not advisable to cancel the contract during the first few years as the balance is still negatively affected by the costs.
- An additional occupation disability insurance can be arranged.
- At the end of the paying-in phase, there is a choice between capitalization, a lifelong pension or a combination of both.
- If the contract runs for at least 12 years and is drawn at the earliest with age 62, then there are 2 different models of taxation. If capitalization is chosen then the tax is paid (with a personal tax rate) on 50% of the returns. If a lifelong pension is chosen, then only the 'Ertragsanteil' gets taxed. The 'Ertragsanteil' is a set value depending on the age which the pension is drawn (62=21%, 63=20%, 64=19%, 65-66=18%, 67=17%). If you for example draw a pension of €1,000 at age 65 you will only be taxed (with your personal tax rate) on €180.

- Should the above criteria not be met then the total amount will be taxed with the 'Abgeltungssteuer' (with-holding tax), this rate lies at 25%.
- The pension is guaranteed for the rest of the beneficiary's life.
- In case of death during the paying-in phase, the amassed amount is paid to the named beneficiary.
- In case of death whilst drawing the pension, the pension will be paid out to the named beneficiary for the arranged amount of time (Garantiezeit).
- The guaranteed payout time can vary between 5 and 18 years, obviously it has a small effect on the amount of monthly pension that can be drawn.
- Should the policy holder leave Germany, his policy can carry on running or can be set to contribution free.
- The balance will still work for the policy holder as his investment in funds continues.
- Ideally the policy holder will still have a post forwarding address in Germany.
- To draw the pension the policy holder will need a bank account in Germany.