

Riester-Rente

2nd Layer



BLACKTOWER
EXPAT SOLUTIONS GMBH

GENERAL FACTS

- The Riester-Rente was introduced in 2002.
- Depending on what is most beneficial to the individual scenario, either the tax rebate or the subsidy will be used by the tax office in their yearly income tax calculations.
- Everybody paying into the state pension scheme is entitled to a Riester-Rente. People who are not entitled but are, however, married to or the register partner of someone who is, are also eligible for a Riester policy. They will receive the full subsidy but can only pay €120 per year in contributions.
- The government also subsidizes the contributions. To obtain the full subsidy, 4% of the gross income has to be paid into the scheme. The subsidies obtained count towards the 4%. A maximum of €2,100 per year can be paid into the scheme and the full €2,100 (including the subsidy) can be offset against tax.
- The full subsidy is €175/year for adults and €300/year for children born after 2008. For children born before 2008 the subsidy is €185/year. The subsidy is always immediately used to lower the monthly premium.
- It is necessary to submit a tax return every year to receive the full benefits available.
- The monthly pension received is taxable at the personal tax rate for a pensioner. As a pensioner in Germany you have different tax regulations compared to when you are working.
- Most Riester-Rente products are funds-based. The products themselves offer a wide range of funds to choose from including managed portfolios. The advantage that insurance based products have is that you can switch funds up to 12 times a year free of charge and that there are no taxes to be paid on the profits until the pension draw phase.
- The contributions including the subsidies are guaranteed to 100%.
- Capital cannot be borrowed against a Riester-Rente.
- The minimum duration of the contract is 12 years.
- It is possible to have a 30% capitalization of the balance at the start of the pension draw phase. The capitalization affects taxes in the year it is drawn.
- It is possible at any time to withdraw all the capital if it is to finance a house that will be occupied by the Riester-Rente policy holder (Wohnriester).

- A pension can be first drawn at the age of 62.
- The pension is guaranteed for the rest of the beneficiary's life.
- In case of death during the paying-in phase the amassed amount will be paid in the Riester policy of the partner of the deceased. It is also possible to receive the amassed capital but without subsidies and tax benefits.
- In case of death whilst drawing the pension, the pension will be paid out to the beneficiary for the arranged amount of time (Garantiezeit). The guaranteed payout time can vary between 5 and 18 years, obviously it has a small affect on the amount of monthly pension that can be drawn. It is also possible to receive the remaining capital but without subsidies and tax benefits.
- The only beneficiary in case of death can be the spouse (or registered partner) or the children until they have finished their first education (max. up to the age of 25).
- Should the policy holder leave Germany, his Riester-Rente policy will be set to non-contributory. 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 down the pension the policy holder will need a bank account in Germany.

EXAMPLE CALCULATIONS

Man earns €50,000/year

He receives a subsidy of €154/year

He has one child of 11

He has one child of 7

4% = €2,000

- €175

- €185

- €300

Total amount he has to pay to receive full subsidy

€1,340

His monthly contribution is /12

€111.67 (2,000€ can be offset against tax)

Estimated tax rebate - €2,000 x 25% = €500

In this case the subsidies of €660 are more beneficial to him

Man earns €75,000/year

To obtain full subsidy his contribution must be

He has no children

4% = €3,000

€2,100

- €175

The net sum he has to pay to receive full subsidy

€1,925 (the full €2,100 can be set against tax)

His monthly contribution is /12

€160.42

Estimated tax rebate - €2,100 x 35% = €735

In this case the tax rebate will be €735 minus the already received €175 subsidy