PRIVATE PENSION PLANS AND INSOLVENCY INSURANCE IN GERMANY

George Heubeck and Klaus Heubeck
(Germany)

I.

The Act for the Improvement of Companies' Pension Plans of December 19, 1974, provides for a number of improvements from which both persons entitled to pensions and pensioners benefit, e.g.

1) **Nonforfeiture** of pension rights upon completion of the 35th year of life if such right has been in existence for at least 10 years or if the person concerned has been employed for at least 12 years and the right has been in existence for 3 years.
2) The right to receive the pension at an earlier date if the preconditions for a receipt of the social insurance pension have been fulfilled and this pension is called.
3) The prohibition to reduce the pension, for instance because of an increase in social insurance pensions, once pension payments have been started.
4) The right to cause the employer, after payments have been started, to review the pension every 3 years in view of an adjustment.

Another major improvement is that the unforfeitable pension rights and current pensions under para. (1) above will even survive an insolvency of the company as they are insured against insolvency.

II

This insolvency insurance is effected by a mutual insurance company under private law. It is a compulsory insurance which has to be taken out with the Pensions-Sicherungs-Verein (pension insurance association), a mutual insurance company holding the monopoly of this type of insurance. The funding system is of particular interest to the companies, as it is a compromise between the claims for security and tying up as little capital as possible. Financing is effected by means of the so-called "pension-value contribution system", a middle course between pay as you go and full funding of the expected costs by single premium. Within this system, the new pensions which set in are taken over and administered by a life insurance syndicate by way of a single premium.

Cover is extended to the unforfeitable rights (cf. (1)) as well as to current pensions from pension agreements, provident funds and direct insurance.

Pension funds and their benefits could be excluded from insolvency insurance because of the inherent security as a result of the State Insurance Board. The same applies to direct insurance contracts on which no loans have been granted and which provide the employee with an irrevocable title towards the insurance company.

For each calendar year, an advance premium is collected before the final premium is established on the basis of the insolvencies which have occurred. For 1975, the advance and the final premium of DM1.5 for every DM1,000 of "contribution assessment basis" were sufficient, as had been estimated. For 1976, a greater burden is anticipated as a result of greater insolvencies. Even with an unchanging amount of loss, the rate of premium will increase in the course of time to approximately three times the original amount, due to the financing system adopted.

The "contribution assessment basis" with regard to pension liabilities of companies is the partial value which is recognized as a pension reserve by the inland revenue authorities; this is the capital value for current pensions and the value calculated by entry age normal method for expectations.

The values have to be calculated with a technical rate of interest of 5.5%.

In the case of provident funds, expectations have to be based on a fictitious partial value (20 times the maximum annual addition to the fund which will be recognized as reducing profits; current pensions have to be based on the capital value at a technical rate of interest of 5.5%).

What has to be insured and is thus considered as contribution assessment basis in the case of insurance contracts is the entire capital required as cover if the right to benefits is revocable, and the loan if the right to benefits is irrevocable but the company has been granted a loan on the contract.

III

The approximate 32,000 members of the Pensions-Sicherungs-Verein paid approximately DM110 million in contributions during the first year (1975). A single premium of approximately DM75 million was required for the 4,800 current pensions with an annual benefit of DM6,288,000 which had to be taken over from 225 insolvencies.

According to the adopted financing system, the unforfeitable pension rights of the 7,000 future pensioners whose companies became insolvent will not be funded before pension payments set in.

In 1975, and in the first 6 months of 1976, the several types of pension plans are responsible for the following shares of the premiums:

direct benefit promises	– 80%
provident funds	– 19%
revocable direct insurance or contracts on which loans have been granted	– 1%
	100%

Since it is in particular big companies that have well-established pension plans, 4% of the members (= 1,300 out of 32,000) pay approximately 80% of the total premiums.