



# PUBLIKATION

**Benefits in Germany – an Overview and Case Study**

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# BENEFITS IN GERMANY: AN OVERVIEW AND CASE STUDY





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**I**t is important for German companies to position themselves as attractive employer brands, especially when competing for young talent in the job market. In today's tight job market, factors that once promised reliable success in attracting new employees – remuneration, the number of leave days, pensions, company cars – are no longer the only things younger generations are looking for. Instead, non-monetary issues such as work-life balance, working atmosphere, and identification are of prime concern. These are the issues that companies should be projecting in their branding and benefits strategies.

HR strategy consultancy Lurse recently carried out a study of hundreds of benefit programs of medium-sized companies, looking at their work-life balance, health, mobility, and social protection policies, in order to identify the most promising benefits in this broad, heterogeneous field. This article will present the findings of the study and offer a case study of how one company successfully introduced new benefits in line with its employer branding strategy.

#### **WORK STRUCTURING – A VAST FIELD**

Many companies in Germany already are meeting the new demands. In addition to traditional offers such as home office, individual professional training, sabbaticals, and

flexible working hours, many now have climbing walls, tree houses, or star-rated canteens. In single offices, organic, round shapes are installed under feng shui aspects. In open-plan offices, temperature-controlled partitions provide individualized climates while integrated nanoparticles offer acoustic insulation. A 24/7 concierge service cleans shirts, and the park service also handles refueling and vehicle repairs. There are bicycle repair and postal services, daycare and dog sitting areas. Occasionally, companies become real wellness oases: you can take a power nap or get a massage, go to the gym, to badminton or yoga.

But what practices really benefit the employer and the employee?

## CLASSICAL HR TOOLS IN A CULTURAL CONTEXT

There are three prominent topics when it comes to an employer branding strategy: work-life balance (93%), family and work (86%), and personal development opportunities (86%).

For more than two-thirds of all companies, performance orientation, health, and social issues play a major role; for more than 50% pay and mobility were key concerns. Younger employees no longer want to subordinate everything to their jobs. In response, companies are integrating traditional HR tools such as working hours, compensation, and benefit schemes into a consistent cultural framework.

For example, an employer brand that has a performance orientation as a value no longer reflects this only in the employee's salary. Instead, the performance orientation value is incorporated into the design of the overall compensation, perhaps in a performance-based contribution in the company pension scheme, for example.

## BENEFITS PACKAGES ARE CORE COMPONENTS OF THE STRATEGY

More than 50% of companies consider benefits to be important or very important for the employer branding strategy, and more than 80% consider the future significance of benefits to be relevant or very relevant. Not surprisingly, more than 90% of companies see the existing benefits at least partially as part of their employer branding strategy. Their approach is as follows: First, they define subject areas that are to be positioned as a "cultural element" that is suitable to the company. These thematic blocks are then used to combine benefits that were previously offered and communicated only as single services. The benefit packages then

focus on the topics with which the companies want to present themselves – for example, work-life balance.

## CARE ASPECTS ARE A FOCAL AREA

One notable contrast was found: although the areas of work-life balance and reconciliation of work and family life are very important, almost 50% of companies do not plan to make any adjustments here. This may be an indication that many companies have already adequately developed their work-life balance measures. Interestingly, even classical services such as company pension schemes retain their importance for companies as elements of the employer branding strategy. Not only do they convey the value of caring; they also are attractive benefits for both existing employees and experienced applicants, as an integral part of the overall compensation package.

## A PRACTICAL EXAMPLE: INTRODUCING A NEW BENEFITS SYSTEM

Based on these findings, the question arises of how to proceed to expediently and efficiently target benefits to the needs of the company. The following practical example provides some answers and shows that it is not necessary to reinvent the wheel every time to achieve sustainable success in line with the employer branding strategy.

### Initial Situation

A German medium-sized company wants to transfer from a classical hierachic nine-to-five culture to a performance-driven culture of flexibility and appreciation of the employees' work and personal needs. The benefits, and particularly the company car, are arranged according to the "old" culture; executive

employees can opt for either a company car or a car allowance, but non-executive employees are not eligible for either. All employees are eligible for the company pension plan and other lower-value benefits, such as vouchers.

The administration of benefits is not automated. Employees apply for benefits directly to the HR department (via e-mail, for example).

## **Target**

The company seeks to offer attractive benefits but to eliminate the executive company car as a visible symbol of the old hierarchic culture. Instead it wants to offer mobility benefits to all employees for cultural as well as ecological reasons ("Green Company"). Moreover, it wants the new benefits system to reflect the employer branding and support aspects of the new culture, such as flexibility and appreciation of employees' performance and commitment.

## **Solution**

A new benefits system was introduced that still consisted of a small number of benefits. These benefits are financed from the executive car allowance (executives) or other salary conversion (non-executives). Employees can opt for one more of the following:

- *Company bicycle*
- *"Bahncard" (a card sold by the main German railroad company that offers rail tickets at a discount of 25%, 50%, or 100%)*
- *Company car up to a CO<sub>2</sub> emission of 130g/km*
- *Additional contribution to the occupational pension plan*
- *Additional leave days.*

The contributions can be made from the monthly paid base salary (or car allowance) and/or the annually paid variable salary (pension plan, vacation days and Bahncard).

The company grants a voluntary benefits budget as an award for achieving corporate objectives (based on KPI or qualitative objectives). The budget is provided on a monthly basis for the following year.

The budget is offset against the salary conversion for the selected benefits. If no selection is made, the budget is paid as an additional contribution to the occupational pension plan.

## **Administration/Processes**

The employee selects the benefit from an intranet site that is linked to a platform for each benefit. These linked platforms are run by an external provider (for company bicycle, company car, and the occupational pension plan) or internally by the company (for Bahncard and vacation days).

Orders for company cars and bicycles are placed via the external platforms by the employee. After verification and approval by the HR department, the order is valid and further steps are initiated:

- *Order of a company bicycle or car (externally), "increase" of vacation days/contribution (internally)*
- *Update of payroll data due to the salary conversion and taxation of the selected benefits (company bicycle and car).*
- *Update of employee files due to the salary conversion and assignment agreement (company car and bicycle).*

The administration is semi-automated, as permission has to be granted by the HR department. Data is transferred between the platforms and the internal HR-systems of the company via export/import files.

## SEMI-AUTOMATION OF THE ADMINISTRATION:

Although the number of benefits and the flexibility have increased, the administrative effort has been reduced (or at least not increased) compared to the old benefits system.

## Outcome

The company achieved a much more efficient and attractive benefits system due to these slight improvements.

**ELIGIBILITY:** All employees are eligible for the benefits of the new system (except for the car allowance). On its own, this fact leads to more transparency and to an additional transport of the new non-hierarchic culture.

**FLEXIBILITY:** Besides the cultural issues, employees can select benefits according to their personal needs. As the employees have to decide which benefits to choose, they are getting familiar with the benefits, which in turn increases the appreciation and hence the effect of the benefits (regarding the defined targets).

**SALARY CONVERSION:** No additional costs arise from the new benefits, as they are efficiently financed by the employee tax (except for the benefits budget, if granted). Hence the benefits are financially attractive for the employees, although they are not employer financed. The additional costs of the new benefits budget always correspond to appropriate corporate earnings.

**RELATION TO PERFORMANCE:** The success of the company and hence the performance of the employees is rewarded. On one hand, the culture is transported and on the other hand the benefits system is even more attractive for the employee.

## CONCLUSION

Obtaining a benefits system that is tailored to the requirements of the company does not necessarily result in a huge number of benefits, an extraordinary increase of benefits costs, or a complex administration.

Slight modifications of the current benefits coupled with a small number of new benefits selected and arranged according to the HR targets and strategy can lead to a significant improvement of the benefits system from the company as well as the employee's perspective.

The degree of impact of slight modifications depends on the HR strategy, the targets to be obtained by changing the benefits system, the benefits currently in place and how they are arranged (are changes possible from legal and personnel political point of view?), and the place of work and type of job (e.g., rural area or city center, blue or white collar). Hence we recommend as a first step that companies define the targets to be achieved or supported by the benefits, and the requirements resulting from these targets. The second step is then an overview of the current

status (eligible employee groups, location of offices/facilities, the design, legal basis and current administration of the benefits currently in place). The third step is a concept for change, a new benefits system resulting from step 1 and step 2.

A concept derived from these three steps ensures that the installation of new benefits or a new benefits system is in line with the company's intention and motivation for the changes, and also reveals the slight changes that could lead to large improvements.

## OLD BENEFITS SYSTEM



## NEW BENEFITS SYSTEM



\* except the car allowance

# FUNDAMENTALS OF THE SOCIAL SECURITY SYSTEM IN GERMANY AND THEIR EFFECT ON OCCUPATIONAL BENEFITS

## WHO HAS TO PAY FOR WHAT?

The national social security system provides a minimum financial and medical standard for German residents employed by a German corporation. This includes retirement pension, health insurance, accident insurance, and state benefits in case of long-term care or unemployment. All statutory social benefits are financed by the employer and the employee, with the premiums split 50/50 between the two parties. The employee's contribution is deducted automatically from the payroll; the employer's contribution is paid together with the employee's amount into the national social security system, a state institution. Premiums are based on the annual gross income and the individual family status.

The following percentages are applicable in 2019 (employer/employee):

- *Old-age pension: 9.3%/9.3% (up to €80,400 annual income)*
- *Health: 7.3%/7.3% (up to €54,450 annual income)*
- *Long-term care: 1.525%/1.525% (up to €54,450 annual income)*
- *Unemployment: 1.25%/1.25% (up to €80,400 annual income)*
- *Accident: Employer only (according to the annual income and job risk category)*

The national system covers benefits only up to a certain annual income level, so high-level earners have greater demand for supplemental insurances.

## MEDICAL CARE FOR EVERY EMPLOYEE

The wide range of services covered by the statutory health and care insurances provides very comprehensive insurance for every employee in Germany. Many medical treatments and medication are subsidized and first aid is always included. The national medical insurance through the social security system is mandatory for all employees with an income below € 54,450. Higher-paid employees have the choice of private medical insurance or the statutory medical insurance. In all instances, health insurance, as opposed to pension benefits, is not part of occupational benefits in Germany.

## OLD-AGE PENSION

At the statutory retirement age of 67, workers receive the state pension of about 48% of average lifetime income for earnings up to a social security contribution ceiling of €80,400 per year. Future projections predict continuous reductions of the state pension, for reasons of longevity and the pay-as-you-go system in Germany. Therefore, there is a growing need for supplemental occupational pensions.

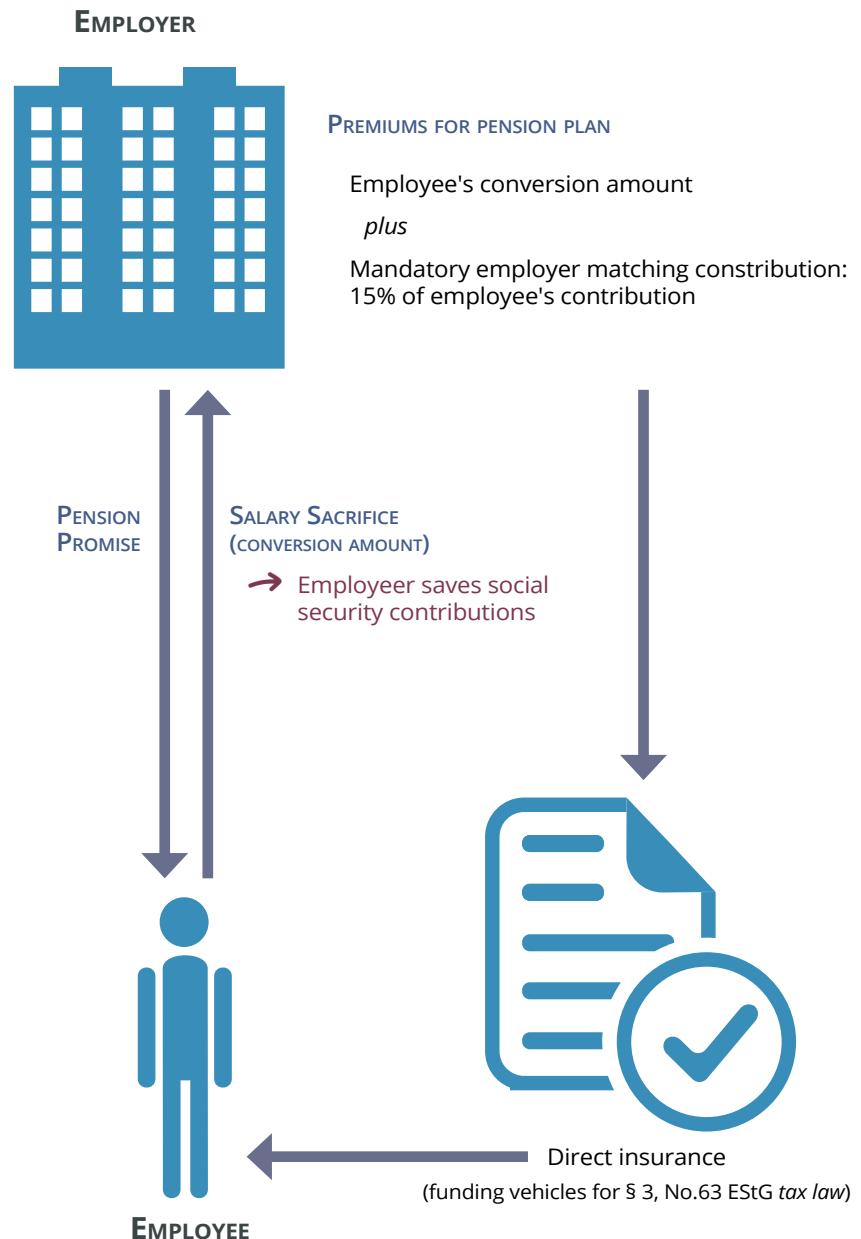
Every employee is allowed to pay premiums that are exempt from tax and social security contributions into an occupational pension contract (within certain ceilings). This opportunity provides many more advantages compared to private retirement saving options.

### HOW IT WORKS:

#### Current big changes

Under a law that took effect January 1, 2018, all employers are obligated to pay a mandatory contribution matching the employee's conversion amount into an occupational pension account, starting in 2019 (for existing contracts obligatory from 2022 onwards). This is the first time there are mandatory employer contributions to occupational pension plans.

The matching contribution paid on conversion amounts is not a "new" cost for employers; it is only the transfer of savings generated by the employee's salary waiver. The employer is obligated to transfer the actual saved amount, but only a maximum 15% of the conversion amount. Overall it is recommended and common practice to pay the 15% flat rate instead of individual calculation because the savings amount to about 20% for employees with incomes below €54,450.



### Example:

	In EUR per month
Employee contribution out of gross salary	100
Employee matching contribution	15
Total premium for occupational pension plan	115
Employer savings through employee's contribution	+20
Employee's actual net cost	50



## Benefits in Germany: An Overview and Case Study

BENEFIT	DESCRIPTION
COMPANY CAR	Cars assigned by the company for business trips and personal usage. A common and very important benefit for executive and traveling employees. Company cars can be assigned tax efficiently. Financing via salary conversion is possible.
OCCUPATIONAL PENSION	The company promises old age, spouse, and/or disability benefits via one or more out of six funding vehicles. The occupational pension in Germany is regulated by the Occupational Pension Act and affected by the Income Tax Act and other laws. It is by far the most complex benefit in Germany. Employees are legally entitled to convert salary to an occupational pension plan.
SICKNESS LEAVE	Six weeks of fully-paid sickness leave are mandatory. Many companies in Germany provide salary payments if the sickness leave extends to more than six weeks (between 3 and 12 months is common).
24/7 AD&D INSURANCE	Executive and exempt employees in particular are often covered by AD&D insurance. Coverage includes accidents at work and leisure (hence 24/7). Insurance premiums are paid by the company.
FAMILY SERVICE	An internal or external service, paid by the company, provides advice regarding family affairs and obtaining other services, such as child care. The family service is paid by the company; arranged services are paid by the employee (from net income).
COMPANY BICYCLE	The company assigns a bicycle to the employees. Usually financed via salary conversion and (almost) the whole staff is eligible. Company bikes can be assigned tax efficiently.
HEALTH CARE MANAGEMENT	A combination of measures and benefits to keep employees healthy, including prevention measures (courses to improve physical abilities, sports, preventive health care, advice on healthy lifestyles, etc.). Many of these benefits can be provided tax efficiently.
VOUCHERS	Many companies provide vouchers up to an amount of 44 EUR a month for consumer goods or gas. Vouchers up to 44 EUR per employee per month are tax free.
SUBSIDIZED MEALS	Meals are often subsidized via a company canteen or restaurant checks. Employees pay the price of the meals (reduced by company grant) from net income. Grants for meals can be provided tax efficiently.
LONG-TIME ACCOUNTS	The employee can save time or money for a sabbatical or a pre-retirement leave. Any time saved (through overtime, vacation days exceeding the legal minimum of vacation days) is converted to money and transferred to the account. Long-term accounts are regulated by social legislation, which sets special requirements regarding payments from the accounts and insolvency protection.



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Anika is Senior Consultant at Lurse and Managing Director of MRH Trowe & Lurse GmbH, a Joint Venture for insurance related corporate benefits consulting.

After she studied business economics in Frankfurt, Anika became a graduate with diploma in International Employee Benefits at the Pension Management Institute in London. She started at Lurse in 2013 and manages the international relationships with business partners worldwide. For Abelica Global, an international network of pension consultants and actuaries, she leads the Employee Benefits Working Group for strategic growth and international collaborations. As project manager for local and international clients, Anika advises employers regarding options for action regarding pension systems. Her consulting expertise includes the evaluation of German pension liabilities, especially in M&A transactions, the optimization of pension schemes as well as the communication strategies for new occupational pension systems in German companies.



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Philipp Dienstbühl began his career after his graduation (diploma in mathematics) in 2009 at Bode Hewitt GmbH as consultant and actuary. Focusing more on general consulting and sales he moved to the “*Pensionskasse der Mitarbeiter der Höchstgruppe VVaG*” (a Pensionskasse is special form of an insurer for occupational pension plans in Germany) where he was responsible to represent the Pensionskasse towards its employers.

He also managed the implementation of new clients. Turning towards a wider field of consulting he moved to Lurse in 2013. At Lurse he is responsible for the provision of consulting services in the field of employee benefits and its business development. In particular he advises national and international clients concerning the strategy and the arrangement of their benefits in order to obtain a consistent benefits- / total compensation system.



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