

Agreement on the conversion of compensation (deferred compensation)

Agreement made between _____ (employer)
And Mr. / Mrs. / Ms. _____ Personnel no. _____ (employee)

Whereby it is agreed as follows: By way of amendment of the existing employment contract, portions of compensation shall be converted in exchange for receiving the right to an occupational pension plan.

If an agreement on conversion of compensation is already in effect:

- ☐ This conversion of compensation scheme will be concluded in addition to the agreement on conversion of compensation in effect.
- ☐ This conversion of compensation scheme will replace the previous agreement on conversion of compensation.

I. General information

This agreement specifies the funding of an occupational pension plan implemented through direct insurance / pension fund. The premium invested in direct insurance / pension funds consists of the following elements:

- ☐ Amount converted
- ☐ Employer contribution to the salary conversion scheme

The premium consisting of the amount converted and the employer contribution shall remain level as a rule for as long as the employment relationship is in effect.

The employer contribution at least corresponds to our legally or collectively agreed obligation. If a future change of the bases for calculating the employer contribution results in a different amount of employer contribution, the previously agreed amount converted will increase or decrease accordingly. The same applies if upon conclusion of the agreement, we are not required to pay a contribution, and such obligation arises later or, vice versa, the obligation to make a contribution lapses and we are no longer required to pay the contribution. A supplementary agreement shall not be necessary in this respect.

The bases for calculating the employer contribution are, for example, the requirements of the Company Pension Plans Act (Betriebsrentengesetz), the contribution assessment ceiling, the social security contribution rates or the amount of salary.

Notwithstanding the above, the contribution can be increased if a dynamic increase has been agreed.

II. Amount converted

The following components of compensation are converted into a right to occupational pension:

- ☐ **Regular compensation,**
for the first time on _____, for the last time on _____, amounting to EUR _____ 1/____ annually
 - ☐ **Capital-forming payments,**
for the first time on _____, for the last time on _____, amounting to EUR _____ 1/____ annually
 - ☐ _____ (bonus payments, e. g. Christmas bonus),
for the first time on _____, for the last time on _____, amounting to EUR _____ 1/____ annually
- And, if applicable, **in addition**
- ☐ **Overtime pay,**
for the first time on _____, for the last time on _____, amounting to EUR _____ or
_____ % of monthly overtime pay (at least EUR 200 annually – overtime module)¹

¹ A prerequisite for the conversion of overtime pay is that beforehand a minimum amount of EUR 500 is invested in the pension plan (employer-sponsored or via conversion of compensation). If the amount of overtime does not suffice to attain the specified minimum

III. Employer contribution to the salary conversion scheme

The amount converted will increase by an employer contribution if the salary conversion scheme results in saving social security contributions. The amount of employer contribution then corresponds to the actually saved social security contributions. The employer contribution is limited to maximum 4% of the contribution assessment ceiling stipulated for West German statutory pension insurance and amounts to maximum 15% of the amount converted.

IV. Employer contribution

In addition to the amount converted and the employer contribution, we will provide a purely employer-sponsored contribution in the amount of monthly/annually EUR _____. Other details are included in the individual or collective promise (company agreement, pension scheme regulations).

The employee irrevocably waives his/her right to capital-forming payments.

V. Dynamic increase

The total contribution resulting from the amount converted, employer contribution and, if applicable, employer sponsored contribution increases automatically every year as follows²

- ☐ in the same amount as the applicable social security contribution ceiling stipulated for West German statutory pension insurance.
- ☐ by EUR _____ or _____ % of previous year's amount.

The increase is borne jointly by the employer and the employee in proportion to the financing rate (ratio of amount converted – employer contribution / employer sponsored contribution). The employee additionally converts current compensation.

VI. Pension vehicle, tax incentive and pension concept

The converted portion of compensation will be invested in the following pension vehicle:

- ☐ Direct insurance concluded with Allianz Lebensversicherungs-AG
- ☐ Pension fund set up through Allianz Pensionsfonds AG

The premiums paid to the pension provider are to be taxed as follows:

- ☐ § 3(63) EStG (Income Tax Act) ☐ § 3(63) EStG (multiplication rule) ☐ § 3(63) EStG (subsequent funding)
 - ☐ § 40b EStG ☐ § 40b (2) sentence 3 EStG (multiplication rule)
- Flat-rate wage tax, church tax, if applicable, and solidarity surcharge will be borne by
- ☐ The employee
 - ☐ The employer

All essential information on the modalities of the pension concepts chosen by us is available at www.firmenonline.de/dokumente-allianz or by scanning the QR Code:



amount to be converted, the regular compensation will be reduced by the relevant amount. The conversion of overtime can only be made through the direct insurance pension vehicles.

² The group insurance contract must provide for such dynamic increase. Fiscal subsidization limits must be observed (cf. tax information).

VII. Pension modalities

1. The employee has an irrevocable right (beneficiary's right) to the part of insurance/pension benefits funded by conversion of compensation and the statutory employer contribution to the conversion of compensation scheme. For further details regarding the type and scope of insurance/pension benefits, premium payment, beneficiary's right concerning the employer-sponsored portion of the pension plan and the beneficiaries upon death please, refer to the insurance/pension promise, supplemented by the pension/insurance certificate the employee receives from the employer upon conclusion of insurance/implementation of the pension plan.
2. Premiums paid to the pension provider – to include any employer contribution – will be paid for as long as the employee is entitled to compensation and conversion of compensation can be made. The employer's obligation to pay contributions shall in particular be suspended if the employment continues without claim to compensation (e.g., during parental leave or continued payment of compensation has ceased due to illness). The insurance can also be converted into paid-up insurance. In order to fully maintain the insurance/pension coverage the employee may fund premiums by own means, through the employer as a rule; otherwise the insurance will be converted into paid-up insurance. If a contractual option to temporary waiver of premium upon discontinuation of remuneration payment in case of illness exists and the employer exercises this option, the insurance coverage will be fully maintained even without premium payment. For more details, please refer to the terms and conditions of insurance. Upon expiry of the non-remunerated period of service conversion of compensation will be resumed in the agreed amount.
3. This agreement on conversion of compensation can be terminated by each contracting party with future effect by giving _____ months' notice. Unless the employee assumes premium payment after the cancellation has become effective or the contracting parties have made other arrangements, the insurance will be converted into paid-up insurance.
4. Salary increases and the calculation of pay-related benefits (e.g. Christmas bonus, anniversary award, pension entitlement, allowances) shall continue to be based on the employee's cash compensation plus the agreed portion of compensation withheld.
5. Any previous pension arrangement existing between the contracting parties shall remain unaffected by this agreement. If a term of this agreement is held invalid, the remainder of this agreement shall remain in full force and the invalid portion shall be replaced by a provision that corresponds as close as possible to the economic intention of the parties.

VIII. Special employee declarations

With his/her signature, the employee acknowledges having taken note of the following:

1. Upon early termination of the insurance contract – upon change of employer - or upon waiver of premium, the insurance value may be lower than the premiums paid or no insurance value at all may exist. This is due to the fact that acquisition costs are spread over at least the five initial policy years in line with the provisions of the Insurance Contract Law (VVG) and that an appropriate deduction will be made upon termination (§ 168,169 VVG) or waiver of premium (§ 165 VVG).
2. If the insurance is converted into paid-up insurance (e.g. non-remunerated periods of service or private continuation of the contract), the insurance benefits will be reduced in line with the insurance contract; coverage of certain risks can lapse entirely (e.g. disability, physical and mental abilities (Functional Impairment Policy)).
3. If the pension plan is implemented through the Pensionsfonds, the employee agrees with his/her signature to the withdrawal of insolvency insurance contributions to the Pension Guarantee Fund (Pensions-Sicherungs-Verein a.G. (PSVaG)) from the gains generated by the Pensionsfonds³.

³ In accordance with § 10 Company Pension Plans Act (BetrAVG) the employer undertakes to pay insolvency insurance contributions to the PSVaG. It is contractually agreed with the Pensionsfonds and the Pensionsfonds is authorized to pay insolvency insurance contributions. **During the accrual period, contributions will be paid by the Pensionsfonds through the sale of fund units to the extent the minimum benefit is not affected and premiums intended for biometric risk balancing can be paid. During the pension payout phase, the profit generated by the Pensionsfonds, which will be distributed among the plan member in line with the pension plan provisions, will be determined by taking into account the cost of insolvency insurance.** Further details are laid down in the pension plan.

4. Upon leaving service the employee can always continue the pension plan via the new employer or by paying own premiums (continuation as individual policy) (any special terms previously applicable (e.g., group insurance contract / outline agreement with the former employer) will then lapse if the conditions for such special terms no longer exist). However, cancellation of the contract or other early use of the accrued values is not permitted (§ 2 (2) Company Pension Plans Act (BetrAVG)). The employer exercises the option of limiting claims in line with § 2 (2) sentence 2 Company Pension Plans Act (BetrAVG).
5. Depending on the selected premium rate, the insurance will provide for benefits in the event of death. If tax advantages in accordance with § 3 no. 63 EStG apply, the designation of beneficiaries is limited to certain persons (German Federal Ministry of Finance circular of 12.08.2021 margin no. 4).
If no co-insured persons exist, death benefits will be paid to the persons set out below in the following order: spouses or registered partners, children within the meaning of the Income Tax Act up to a certain age, or companions or non-registered partners who live in a common domicile and share a common household with the employee and have been **designated by name** in a **separate agreement** with the employer. If no fiscally recognized survivors exist, third parties may receive an appropriate one-off death grant for all policies (max. EUR 8,000) implemented through direct insurance, Pensionskasse and Pensionsfonds. For further details regarding survivor's provision please refer to the insurance/pension certificate.
6. Since January 01, 2004, pensioners who are mandatory members of pensioners' health insurance are required to pay the **full** general contribution rate of their health insurance fund on all lump sum and pension benefits. As concerns lump sum payments, 1/120th of the lump sum over a period of maximum 10 years is considered as monthly income subject to health insurance contributions. The same applies to pensioners who are voluntary members of statutory health insurance; in principle, no special features apply. In accordance with pensioners' health insurance, contributions to statutory long-term care insurance are to be borne by the pensioners alone.
7. Conversion of compensation results in a reduced contribution assessment ceiling for social security benefits (old age, health, unemployment and accident insurance) and, if applicable, other social benefits (e.g., parenting benefit). As a result, subsequent benefits under these systems may be lower. Voluntary members of statutory health insurance (or members of private health insurance) may again become subject to statutory health insurance as a result of conversion of compensation.
8. There are different types of participation in profits for pensions in payment. If direct insurance provides for "**profit annuity**", the following applies: Under this use of profits projected, non-guaranteed profits are included in the pension at commencement of pension payout. If participation in profits does not develop as forecasted the pension may temporarily remain at the attained level or even decrease, however, not below the benefits guaranteed at commencement of pension payout. The amount of profits depends above all on the capital market performance, the development of risk, and costs.
9. If a capital market-based pension plan has been set up ('InvestFlex', 'KomfortDynamik' or 'IndexSelect'), the following applies: Compared to classic annuity insurance, these products offer higher investment returns due to a higher portfolio share of dynamic assets; on the other hand, the risk is higher. The employee has the opportunity to achieve a higher pension than under classic annuity insurance, however, he/she also bears the risk to only receive the guaranteed minimum pension in case of a declining market. As a rule, the employer accepts no responsibility with respect to a positive performance or returns being higher than under classic annuity insurance. This applies in particular if the employer has authorized the employee to make the investment decision under the product rate Invest alpha-Balance or decide between secure interest rate and index participation under product rate 'IndexSelect'. The employee is aware of the chances and risks arising from a capital market-based pension plan in accordance with product rate 'InvestFlex', 'KomfortDynamik' or 'IndexSelect'.

10. The employee has taken note of the general legal information (tax information and notes included in the proposal).

 Place/date

 Signature of employer

 Place/date

 Signature of employee

Tax information

The following information addresses the most frequent cases arising in practice. It is not exhaustive. In case of doubt, a tax consultant should be contacted.

§ 3 (63) EStG

Premiums paid by the employer to a Pensionskasse, Pensionsfonds or direct insurance are tax-free on the employee's side, provided they are paid within the framework of a first employment (as a rule tax class I-V) and if, in the calendar year, they do not exceed a total of 8 % of the social security contribution ceiling stipulated for the German statutory pension insurance in the old federal states (BBG DRV/West). The maximum amount is reduced by the allocations subject to flat-rate taxation in accordance with § 40b EStG (old version) in the same calendar year. Premiums up to 4 % of the social security contribution ceiling stipulated for the West German statutory pension insurance (BBG DRV/West) are exempt from social security contributions. Amounts exceeding this limit are not exempt from social security contributions. Benefits based on incentivized premiums have to be fully taxed as other income in accordance with § 22 (5) sentence 1 EStG.

§ 40b EStG

Direct insurance or Pensionskasse premiums are subject to flat-rate wage tax in accordance with § 40b EStG, amounting to 20 % of the insurance premium. Individual church tax is not fixed at a federal level; depending on the federal state, it amounts to 8 % or 9 % of flat-rate wage tax. Solidarity surcharge of 5.5 % is levied on flat-rate wage tax. With an individual church tax of 8 % or 9 %, the total tax burden of the insurance premium amounts to 22.7 % or 22.9 %. **§ 40b EStG can be applied on condition that at least one premium invested for the employee prior to 01.01.2018 has been subject to flat-rate taxation in accordance with § 40b EStG.**

"Standard clause": It is irrevocably agreed in the insurance contract that, while the employment is in effect, any transfer of the capacity of policyholder or assignment of rights under such contract to the insured employee until completion of age 59 is insofar excluded as premiums have been paid by the employer. It is also agreed that the irrevocable beneficiary's right cannot be assigned or used as collateral by the insured employee.

Our General Terms and Conditions for Insurance Contracts apply.
 Providing this information in English is a special service for you. All
 policy documents sent to you shall be in German. All communications
 on your policy relationship shall also be in German.