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Dr. Johannes Fiala
PhD, MBA, MM
Law Firm

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Cancelling an Occupational Pension (bAV): What You Lose and the Better Alternatives

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The decision to cancel an **occupational pension (bAV – betriebliche Altersversorgung)** requires careful consideration and a sound understanding of the legal framework. In this guide we set out the key steps and consequences of cancelling a bAV. You will find comprehensive information on notice periods, tax consequences and the legal aspects that must be taken into account when terminating an occupational pension.

So what exactly happens to the accumulated **capital** when you **cancel** an occupational pension? Many people ask whether they can receive their **money** directly as a one-off **lump-sum payment**, or whether there are **alternatives**. One option is a **premium waiver (Beitragsfreistellung)**, under which the **contract** continues but no further contributions are paid. The precise **conditions** for a premium waiver may depend on the provider. Some employees consider investing their **capital** in **ETFs** in the hope of higher returns. However, they should first check whether their current **contract** allows for such flexibility. What **conditions** apply to an early **payout**? This too depends heavily on the specific terms of the contract. A well-considered **premium waiver** can be a sensible **alternative** to outright **cancellation** where the **capital** is to be preserved.

Key points at a glance

The **occupational pension** (bAV) is an important pillar of retirement provision in Germany. However, you can cancel your bAV under certain conditions. **Cancelling** an occupational pension is usually only necessary if you need the paid-in *capital* immediately or when changing jobs. Before cancelling, you should consider the option of a **premium waiver**, as this can be a sensible **alternative** to cancellation. Companies often offer settlements where early cancellation takes place. On cancellation you receive a payout of the **money** saved so far, but fees and taxes may apply. Consider carefully whether cancelling an occupational pension makes sense, as it can have disadvantages for both **employers** and **employees**. Be sure to inform yourself about the particularities of the **support fund (Unterstützungskasse)** and the direct commitment (Direktzusage). It is important to weigh up all options before submitting a cancellation. Speak to your adviser to make the best decision for your financial situation.

Can you cancel an occupational pension?

The question of whether you can **cancel an occupational pension** concerns many employees. In principle it is difficult to cancel a *bAV*, because in many cases the contract is structured for the long term and specific cancellation rules apply. Nonetheless there are options, such as the **premium waiver**. Here the contract is placed on hold, so that no further contributions are paid, but the capital already accumulated and any returns earned are preserved. An actual payout of the capital is usually only possible under certain conditions, such as a change of job or reaching retirement age. Bear in mind, too, that cancelling an occupational pension is often associated with financial disadvantages and should therefore be carefully considered. There are clear rules that must be observed on cancellation. Employees should therefore inform themselves precisely and, where appropriate, seek legal advice before cancelling their bAV. A thorough look at the contract will also clarify all the important details concerning cancellation.

Cancelling an occupational pension: when a settlement is possible

Cancelling an occupational pension is a complex process that raises many questions, in particular as to when a settlement is possible. In certain cases a payout of the accumulated capital can take place where cancellation of the contract is being considered. This often depends on the employee's age and on the specific terms agreed in the contract. In some cases a settlement can be a sensible *alternative*, especially where the money saved is needed at an earlier point. However, the payout of the capital does not happen automatically and clear rules must be observed. A precise analysis of the individual case is essential here in order to determine the best options. Employers and employees must weigh up the respective disadvantages and advantages, in particular the consequences such a cancellation can have for the occupational pension. Cancellation is not always the best route, which is why detailed advice and review are necessary.

What does cancelling an occupational pension cost?

Cancelling an occupational pension can be associated with various costs. In addition to the direct financial impact on the **capital** and the **money** you have already paid in, there are also indirect costs that must be taken into account. One such cost component arises from the possible need to repay state subsidies or tax concessions that were previously claimed. In addition, cancellation can reduce the entitlement to an agreed *payout*. Administrative costs for handling the *cancellation* may also be charged by the *company*. An attractive alternative to cancellation is the premium waiver, under which you pause your *contributions* without losing the amounts already paid in. It is important to weigh up these options carefully, especially if you are considering a planned *premium waiver* for the year *2024*. The exact costs and effects depend heavily on the specific terms of your bAV contract and on the respective *company*.

Does cancelling an occupational pension make sense?

The decision as to whether **cancelling** an occupational pension (bAV) makes sense depends on various factors. It is important to note that such cancellation can often lead to financial disadvantages. For one thing, you lose the accumulated **capital** and the money it contains. A full payout of the company pension is generally only possible in exceptional cases and often leads to high tax burdens. It can therefore be advantageous to consider alternatives such as ETFs in order to continue benefiting from long-term returns. Contributions that have already been paid into the contract should be carefully weighed up before any cancellation. In some cases it may be more sensible to let the contract rest and make no further payments. Before you make a final decision, however, you should check whether there are other, better options, such as the premium waiver.

Cancelling an occupational pension: disadvantages for employers and employees

Cancelling an occupational pension (bAV) entails considerable disadvantages for both employers and employees. First, employees lose the accumulated **capital**, which means less money for retirement provision in the long term. This results in a lower **payout** at retirement age. Employers, in turn, have to deal with the administration of the cancellation, which causes additional effort and costs. A *premium waiver* could be a sensible alternative to cancellation, as it offers the possibility of suspending contribution payments without giving up the benefits of the occupational pension altogether. Employers and employees should weigh up the consequences carefully before deciding on a cancellation. Not only the financial security of the employees, but also employee retention can be jeopardised as a result. Ultimately, a well-founded decision should be made that takes into account the interests of both the employer and the employee and considers any existing alternatives such as the premium waiver. A hasty cancellation can do more harm than good in the long run.

What applies to support funds and direct commitments?

When cancelling an occupational pension (bAV), different rules apply depending on the type of commitment. **Employees** who hold a bAV through a support fund (Unterstützungskasse) or a direct commitment (Direktzusage) should inform themselves thoroughly. With a support fund, the **capital** is often paid out as a single payment or in instalments. Early **cancellation** can be difficult here, as the entitlement to the **money** only arises at the contractually agreed **age**. As an alternative, there is the option of a premium waiver, under which contributions are stopped without dissolving the **contract**. With a direct commitment, financed by the **employer** itself, paying out the accumulated **capital** is likewise complicated and expensive. The **employer** has a direct obligation to make the later payout. For employees, the premium waiver here too represents a sensible **alternative** to **cancellation**, particularly since early dissolution can have adverse financial consequences.

Cancellation when changing jobs

When changing employer, many employees ask whether they can cancel their occupational pension (bAV). Cancelling the bAV is generally not envisaged, as it can be associated with considerable disadvantages. An alternative to cancellation is the premium waiver. Here the accumulated capital and monetary amounts are preserved, but no further contributions are paid into the bAV. Under certain conditions, employees also have the option of continuing the accumulated capital with a new employer. This avoids the loss of the savings built up so far and ensures that the bAV payout is secured in old age. It is important to check the **conditions** of the old and new employment contracts in order to find the best possible solution. Direct cancellation should be regarded as a last resort, as employers often offer alternative options for continuing the bAV. In the case of a premium waiver, the bAV can be reactivated later, as soon as the employee is in a better financial position.

Cancelling an occupational pension: exceptions and rules

When cancelling an occupational pension (bAV), different rules apply depending on the type of commitment. **Employees** who hold a bAV through a support fund (Unterstützungskasse) or a direct commitment (Direktzusage) should inform themselves thoroughly. With a support fund, the **capital** is often paid out as a single payment or in instalments. Early **cancellation** can be difficult here, as the entitlement to the **money** only arises at the contractually agreed **age**. Alternatively, there is the option of a premium waiver, under which contributions are stopped without dissolving the **contract**. With a direct commitment, financed by the **employer** itself, paying out the accumulated **capital** is likewise complicated and expensive. The **employer** has a direct obligation to make the later payout. For employees, the premium waiver here too represents a sensible **alternative** to **cancellation**, particularly since early dissolution can have adverse financial consequences. Careful review and advice are therefore essential in order to make the best decision regarding your own retirement provision.

Cancelling an occupational pension: exceptions and rules

Cancelling an occupational pension (bAV) is often linked to certain exceptions and rules. Before you decide to cancel the bAV, you should inform yourself about the current **conditions**. In many cases it can be more sensible to consider alternatives such as the premium waiver. With a premium waiver, no further contributions are paid into the bAV, but the accumulated capital remains in place. A direct payout of the capital is not possible in most cases, unless special exceptions apply. In addition, the relationship with the current employer must be taken into account, as cancelling the bAV can also have effects on the employment relationship. Instead of a complete cancellation, other solutions could be found in order to access the invested money.

Can employers cancel an occupational pension?

Cancellation of an occupational pension (bAV) by the **employer** is a complex matter that must be examined carefully. In principle, in many cases **employers** do not have the right to unilaterally cancel an occupational pension contract. This is because such contracts often represent long-term obligations borne by both employees and **employers**. An exception may exist, however, where certain contractual conditions or extraordinary circumstances apply that justify cancellation. This may concern, among other things, the financial **payout** of the accumulated capital that the employee has paid into the bAV so far. As an alternative to cancellation, other solutions, such as a premium waiver, may be considered. This enables the employee to make use of the **alternative** without fully dissolving the existing contract. It should be noted that the **alternatives** may vary depending on the contractual basis and the specific conditions.

The premium waiver as an alternative to cancelling an occupational pension

When it comes to the occupational pension (bAV), the premium waiver is often a sensible alternative to full cancellation. With a premium waiver, the contract is temporarily suspended and no further contributions are paid. However, the capital already saved remains in place and continues to earn interest. This alternative enables employees to counter short-term financial bottlenecks without having to accept long-term disadvantages. The money already paid in remains saved and can be paid out at a later point. It is also possible to invest the capital in an ETF in order to benefit from potential gains. A full cancellation should be weighed up carefully, as in addition to the payout of the accumulated assets, costs and tax consequences may also arise. The premium waiver thus offers a flexible solution, under which employees can temporarily suspend their contributions without affecting the contract.

7 advantages of not cancelling your retirement provision

- Preservation of the entitlements already accrued
- Contribution payments can be resumed at any time
- Avoidance of surrender charges or losses
- Continued use of tax advantages
- Continuation of insurance cover
- Preservation of long-term compound-interest effects
- Flexibility in the event of financial bottlenecks

What consequences arise for employers in the event of a bAV cancellation

In the event of a cancellation of an occupational pension (bAV), employers face various consequences that must be taken into account. One of the primary considerations concerns the capital. The capital saved under the bAV must, on cancellation, generally be paid out, which can lead to considerable financial burdens for the employer. In addition, paying out a prematurely cancelled contract means that the company has less money available for other investments.

Furthermore, the employer must observe the **conditions** under which a cancellation is legally possible, in order to avoid any legal disputes. An alternative to cancellation could be the premium waiver, under which contribution payments are temporarily suspended but not fully discontinued; this preserves the accumulated capital and minimises financial losses. With regard to employee retention, the employer should also critically examine how a cancellation affects the trust and satisfaction of employees. Ultimately, such measures could have a negative impact on the company's attractiveness as an employer and, in the long run, impair its competitiveness. Employers should therefore weigh up all factors carefully before considering a cancellation.

Cancelling a bAV usually does not make sense

Cancelling an occupational pension (bAV) usually does not make sense, as it can entail considerable **disadvantages**. On cancellation, the accumulated capital is generally not paid out in full; instead, high losses can occur. In addition, employees often receive only a fraction of the contributions they have paid in. A better alternative to cancellation can be the premium waiver, under which the contract remains in place but no further contributions are paid in. This preserves the company pension and continues to provide financial security in old age. A further alternative could be reallocating into ETFs in the hope of a higher return, instead of cancelling the bAV. It is important to consider thoroughly whether cancellation really is the best solution. In many cases it turns out that the long-term advantages of remaining in the occupational pension can outweigh the short-term financial bottlenecks.

FAQ: Frequently asked questions and answers on cancelling a bAV

FAQ on cancelling an occupational pension (bAV)

What are the key steps to cancelling an occupational pension (bAV)?

Cancelling a bAV requires several key steps that must be carefully coordinated. These include:

1. Reviewing the contract terms and notice periods.
2. Analysing the tax consequences and possible fees.
3. Submitting a written cancellation request to the bAV provider.
4. Incorporating alternatives such as a premium waiver.
5. Advice from a specialist lawyer or financial adviser to ensure legal certainty and minimise financial disadvantages.

What tax and financial consequences can arise from cancelling an occupational pension?

Cancelling a bAV can have considerable tax and financial consequences, including:

1. Repayment of state subsidies or tax concessions previously claimed.
2. High tax burdens on the payout of the accumulated capital.
3. Possible administrative or cancellation fees charged by the provider.
4. Loss of accumulated capital and thus a reduction in retirement provision.

What is a premium waiver and how does it differ from cancelling the bAV?

A premium waiver means that the bAV contract is temporarily put on hold, without any further contributions being paid. In contrast to cancellation, the capital saved so far is preserved and continues to earn interest. This offers a flexible way to bridge financial bottlenecks without causing long-term disadvantages for retirement provision.

What conditions apply to an early payout of the accumulated capital when cancelling a bAV?

The conditions for an early payout of the capital vary depending on the contract and provider. Typical requirements include:

1. Reaching a certain age.
2. A change of job, combined with the need for a new provision arrangement.
3. Serious financial hardship.
   Particularly in the case of an early payout, the financial and tax consequences should be examined precisely.

What are the disadvantages for employers when cancelling a bAV?

Cancelling a bAV can give rise to various disadvantages for employers:

1. Additional financial burdens through the reimbursement of the accumulated capital.
2. Increased administrative effort and possible legal challenges.
3. Loss of employee trust and satisfaction, which can weaken employee retention.
4. Negative impact on the long-term attractiveness and competitiveness of the company.

What alternatives to cancelling the bAV are there and how can they be used?

Alternatives to cancelling a bAV include the premium waiver and continuing the contract with the new employer. A premium waiver makes it possible to suspend payments temporarily while the accumulated capital is preserved. When changing employer, the accumulated capital can often be transferred into the new bAV contract in order to ensure continuity in retirement provision.

How can an employee be supported by legal advice when deciding whether to cancel the bAV?

Lawyers and financial advisers can:

1. Provide detailed analyses of the contracts and legal framework.
2. Make individual recommendations in order to minimise financial and tax disadvantages.
3. Examine alternatives such as a premium waiver or continuation of the contract.
4. Offer support with the proper submission of the cancellation and the associated applications. Before any final decisions, professional advice should always be sought in order to find the optimal solution for your individual financial circumstances.

About the author: Dr. Johannes Fiala PhD, MBA, MM

Dr. Johannes Fiala has worked as a lawyer with his own law firm in Munich for more than 25 years. Among other things, he focuses intensively on real estate, financial law, and tax and insurance law. The many stages of his professional career enable him to provide holistic advice to his clients and to represent them legally in the event of a dispute.
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