Increased burden on German employers

How social security contributions are financed in Germany and why employees will benefit from upcoming legislative changes

By Pauline Moritz

As of January 2019, the laws governing the social security system in Germany will be fundamentally amended. This is the result of a long-planned major prestige project of the Social Democratic Party. The upcoming changes will lead back to full parity financing of health insurance contributions, as was the case until 2005. At that time, under the social democratic leadership of former chancellor Gerhard Schröder, parity financing was abandoned in order to lower non — wage labor costs and combat a crisis in the labor market. The labor market has improved since then — in harsh contrast to the current status of the Social Democratic Party's poll results. In response, with an eye to the good condition of the labor market, the Social Democratic Party is trying to regain ground with the upcoming reform. In truth, there will be no real innovation, but rather a return to old principles.

The German social security system provides five pillars of social security: health insurance, long-term care insurance, pension insurance, unemployment insurance and accident insurance.

Above all, the reform concerns the additional contribution *(Zusatzbeitrag)* to health insurance currently paid solely by the employee. The cost of the additional contribution is determined by the employee's health insurance provider and based on an annual assessment of its financial situation. In 2018, the amount collected in this context averaged about 1% of the eligible in-come of the employee. Following the reform, the additional contribution itself will remain un-changed, but it will be shared equally by employer and employee. Thus, according to recent estimates, employers are facing an additional overall burden of €5 billion per year.

This extra burden — which seems high at first glance — provides a good opportunity to take a closer look at Germany's social security system and employers' obligations.

General overview of the social security system in Germany

The German social security system provides five pillars of social security: health insurance, long-term care insurance, pension insurance, unemployment insurance and accident insurance.

The system is financed collectively through redistribution and paid for directly by means of contributions by employees and employers. Generally speaking, the burden of social security contributions is shared roughly equally by employer and employee. There are →

only two exceptions to this underlying equal financing plan: the costs for accident insurance are borne solely by the employer, while the cost of the additional contribution to statutory health insurance — now subject to the upcoming changes — is currently borne by the employee alone. In total, the employer's share of social security contributions amounts to approximately 21% of the employee's gross salary.

The contributions are proportional to the individual employee's salary, up to statutorily determined contribution ceilings *(Beitragsbemessungsgrenzen)*. If an employee's income exceeds these contribution ceilings, the portion of the income above the ceiling will not be taken into account for the calculation of contributions. There are two different contribution ceilings: one for statutory pension insurance and unemployment insurance, and one for statutory health insurance and long-term-care insurance. Both contribution ceilings are usually raised every year.

In practice, employees in Germany receive a net salary from which taxes and social security contributions have already been deducted automatically. The social security contributions are withheld by the employer after calculation of the employee's gross wages and transferred to the employee's health insurance company (which then distributes all the contributions — excepting the accident insurance contributions — to the respective insurance carriers). Separately from that, the employer must pay the contributions for accident insurance to the appropriate Employers' Liability Insurance Association *(Berufsgenossenschaft)*.

Pension insurance

With only a few exceptions for what is termed the "free professions" (such as lawyers, doctors, pharmacists, etc.), the German state pension insurance is compulsory for all employees. The carrier of the German state pension is the Federal German Pension Fund *(Deutsche Rentenversicherung Bund)*. The mandatory contribution amounts to 18.6% of an employee's gross salary and is divided equally between employee and employer. The employee's health insurance company is responsible for collecting these contributions.

Health insurance

Employees earning an annual gross salary of up to €59,400 are compulsorily insured by one of the public health insurance providers *(gesetzliche Krankenversicherung)*. Employees with earnings above this income threshold can opt out of the public health insurance system and choose a private insurance provider. These private providers are generally believed to provide better services — whether true or not.

Health insurance is intended to cover medical services for rehabilitation following illness, as well as services for the prevention of illness. In the latter case, individual health insurance providers differ slightly in their coverage. In addition, insurance providers provide sickness benefits *(Krankengeld)* if the employee has been sick for more than six weeks, as the employer will then suspend payment unless otherwise agreed in the employment contract. Sickness benefits usually amount to approximately 70% of the employee's previous base salary.

The basic flat health insurance contribution rate (to public health insurance) amounts to 14.6% of the employee's gross salary and is equally shared between employer and employee. The additional contribution, which is set individually by each public health insurance provider, will also be shared equally as part of the upcoming reform as of January 2019. The employer and employee also share the premiums for private health insurance plans if the employee opts out of insurance within the public health insurance system.

Unemployment insurance

The Federal Employment Agency *(Bundesagentur für Arbeit)* is the carrier for unemployment insurance. Unemployment insurance offers a wide range of benefits. Employees who fulfill the respective statutory requirements can receive unemployment benefits and short-term working benefits, among others. Unemployment benefits are time-limited and may be suspended if, for example, the employee does not cooperate sufficiently with the Federal Employment Agency. When the unemployment benefit period expires, the unemployed person is entitled to basic social insurance benefits. The premium for mandatory unemployment insurance is 3% of the employee's gross salary and is shared equally by employer and employee.

Long-term care insurance

Benefiting a growing population of elderly individuals, long-term care insurance provides financial support for those in need of care. Employees who are mandatory members of the statutory health insurance system are generally →

also subject to compulsory long-term-care insurance, at a contribution rate of 2.55% of the employee's gross salary. Employer and employee both pay half the contribution rate, while childless employees pay an extra 0.25% on top of their contribution. Those who are voluntarily insured under a statutory health insurance plan may be exempted from long-term-care insurance under certain circumstances, but if they opt against the public plan, they must join a private nursing care insurance plan.

Accident insurance

Statutory accident insurance provides coverage if an employee suffers an accident at the workplace or on the way to work. In contrast to the other four obligatory insurances, the costs for accident insurance are exclusively borne by the employer. The accident insurance rate depends on several criteria, especially the level of risk in the company's working environment (as determined by the corresponding Employers' Liability Insurance Association) and the total remuneration paid by the company.

Benefits may involve, for example, treatment of illness or injury, rehabilitation, and payment of compensation and pensions. In the statutory accident insurance system, employers are privileged, as they can only be held liable by employees under very limited circumstances. Employers are, however, liable to pay social insurance funds for expenses arising from insured injuries caused by gross negligence and intentional misconduct, up to the respective amount of a claim for damages.

Conclusion

While employer associations understandably protest against the extra financial burden, 56 million members of the German social security system will benefit from the planned return to parity financing of health insurance contributions. Average annual savings of €120 per employee are to be expected. <-

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