

# Well-intentioned gesture or risk for the economy?

Increases in minimum wage and marginal earnings threshold - well-intentioned gesture or risk for the economy?

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## Introduction

At the start of its legislative period, the new federal government set itself ambitious goals of reforming the labor market and the social system. One of the key points of the election campaign was that more justice and respect should be shown to working people, especially those with lower incomes.

On 23 February 2022, the draft legislation to increase the minimum wage and the maximum monthly amount for marginally employed individuals proposed by the old and new Federal Minister of Labor, Hubertus Heil, passed the

federal cabinet. Once executed and published, it will enter into force on 1 October 2022.

In the following, we will show what consequences will arise for both employees and employers.

## Increase in minimum wage

The statutory minimum wage applies to all employees of full age, with the exception of the long-term unemployed after taking up work in the first six months, as well as

trainees and people in internships of less than three months.

With the start of the new year, it is becoming apparent that the most prominent election promise is already being implemented. The draft legislation for this as presented by the Ministry of Labor has now passed the federal cabinet and is about to be executed and published. From 1 October 2022, the minimum wage shall rise to EUR 12 an hour. On 1 January 2022, it had risen from EUR 9.60 to EUR 9.82. The fact that the government is increasing the minimum wage in this way is a unique step, because until now it was up to the employers or employers' associations and the trade unions to negotiate employees' wages. This is to be the case again in the future, starting in 2024. Until the targeted increase to EUR 12 in October 2022, another increase to EUR 10.45 will take place in July 2022. The subsequent raise to EUR 12 will be the last increase until 2024.

Trade unions applaud the plans for increasing the minimum wage. Nevertheless, there is a lot of criticism from employers and other stakeholders alike. They see the autonomy of collective bargaining at risk and no reason for political interference in the decision-making of the so-called minimum wage commission, which is made up of representatives of employees and employers. The increase in the minimum wage would interfere with more than 190 collective bargaining agreements throughout Germany, and more than 570 wage groups would become obsolete. After all, more than six million people and 54% of businesses will be affected. In the service sector, the figure is as high as 42.5%. Also, employers point out economic ten-

sion due to the ongoing COVID-19 pandemic, which will not necessarily simplify coping with the expected 25% increase in labor costs for employers. The metal workers union, however, does not see any impairment of the fundamental competence of the minimum wage commission and argues that the planned step is merely a one-off and does not change anything about the known distribution of roles in the minimum wage commission.

This step is also receiving a lot of criticism from political circles. For example, the opposing parties argue that not enough attention is being paid to the issue of old-age provision, as the higher minimum wage is unlikely to result in a pension level above the planned minimum pension.

### Effects of the increase of minimum wages on marginal employment relationships

So-called mini-jobs are marginal employment relationships that provide for a gross remuneration of not more than EUR 450 per month or for a maximum of 70 working days per calendar year (the latter regardless of the remuneration as long as the average does not exceed EUR 450 gross per month). The maximum gross remuneration of EUR 450 for marginal employees is a cap, so that the number of working hours is limited and depends on the applicable minimum or agreed hourly wage. There are two important aspects to mini-jobs: on the one hand, the maximum gross remuneration of EUR 450 may not be exceeded. The number of working hours is thereby linked to the agreed hourly wage; however, this must be at least the statutory minimum wage. On the other hand, short-term

mini-jobs may not exceed the duration of three months or 70 working days per calendar year, whereby the monthly remuneration may fluctuate below the maximum limit. Mini-jobbers are considered part-time employees within the meaning of the Part-Time and Fixed-Term Employment Act (TzBfG). This means that they basically have the same rights as full-time employees; in particular, they enjoy protection against dismissal, remuneration for work on Sundays and public holidays, maternity pay or even statutory accident insurance in the event of accidents at work or on the way to work, or an entitlement to vacation. The amount of vacation days depends on the number of days they work per week. On the other hand, mini-jobbers are not automatically covered by health and nursing care insurance, although lump-sum social security contributions are deducted. Only from monthly remuneration of EUR 450 employees pay into health and long-term care insurance, thereby acquiring the corresponding insurance coverage.

The increase in the minimum wage to EUR 12 per hour also poses practical problems. At the current minimum wage of EUR 9.82, a maximum of 45.82 hours per month may be worked so that the so-called "marginal earnings threshold" is not exceeded. At a minimum wage of EUR 12 per hour, the maximum number of working hours employees could have worked up to the monthly ceiling amount of EUR 450 per month would only be 37.5 hours per month. In order to allow employees to continue to work more than 10 hours a week, the maximum remuneration limit for marginal employees will also be increased from EUR 450 to EUR 520 per month, in effect from 1 October 2022.

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In addition, for so-called "midi-jobs", the maximum limit will be raised from EUR 1,300 to EUR 1,600 per month. Midi-jobs provide for a monthly gross remuneration that is higher than the remuneration ceiling for mini-jobs (i.e., from 1 October 2022, at least EUR 520.01) up to the aforementioned maximum. They are subject to a sliding contribution scale whereby the employer's share is fixed and the employee's contribution percentage is lower for those whose remuneration is at the lower end of the transition zone (Übergangsbereich) and higher for those with remuneration closer to the higher end of the zone.

Even though mini-jobbers do not have to pay unemployment insurance contributions and thus have more net income, they have the disadvantage of not being entitled to unemployment benefits. After all, mini-jobbers are insured with the German pension insurance, although an exemption is possible. For employees making use of the exemption option, it means that there is no entitlement to pension payments even in retirement, which greatly increases the risk of poverty in old age. Nevertheless, a stable statutory pension cannot be expected if a mini-job is the only gainful employment, since the compulsory contribu-

tion is also very low due to the low pay. The risk of poverty in old age remains. Contribution payments on the basis of a monthly gross income of EUR 450 (or EUR 520 going forward) do not result in a relevant pension expectancy.

Although, in light of the higher remuneration ceiling, employees have more money available during their period of employment, the drop is all the deeper when they retire, since unlike low-income earners with full social security contributions, mini-jobbers receive even less pension. Most mini-jobbers still decide to be exempted from pension insurance, so that they would have no pension entitlements at all after their period of employment.

On the other hand, the increased minimum wage is planned to enable a living wage, at least for those in full employment, and improve social participation through greater purchasing power. The German liberal party emphasizes that, especially for pupils, students or pensioners, a mini-job is now the "ideal way to earn some extra money". Unfortunately, this short-sighted view of higher wages alone misses the fact that policymakers initially tried to prevent the low-wage sector, and mini-jobs in particular, from growing any further.

In addition, a risk also arises, for example, for regular part-time employees. It could now become more attractive for employers not to offer part-time work or not to extend temporary employment contracts and instead hire low-wage employees. In this way, employers save on social security contributions and employees are placed in an even stronger position of social and societal dependence.

## Comment

It is clear that both those in favor and those opposed have valid arguments regarding the increase in the minimum wage.

The logical step after raising the minimum wage is to also increase the marginal earnings threshold to EUR 520 per month. On the one hand, this is advantageous for employees, as they receive higher pay. On the other hand, employers also benefit, because they would otherwise have had to hire new employees, since employees with an hourly wage of EUR 12 would only have been able to work about 38 hours a month. The fact that, despite the exclusive competence of the minimum wage commission, wages in the low-wage sector are still at a precarious level speaks rather less for high efficiency, which should not be expected from 2025 on either.

In addition to that, employers will still have to accept much higher wage and production costs, even though the Covid-19 pandemic and the associated economic burdens are still ongoing. Even if previous experience with the minimum wage has shown that companies have largely succeeded in adapting to the higher wage cost level, this political step is still a risky bet at the expense of the employment level and the economic existence of employers. Against this backdrop, it is also questionable whether the EU Commission will stick with its plans for a framework for European minimum wages at present or postpone them until after the Covid-19 pandemic.

It is a fallacy to justify the rising minimum wage primarily on the grounds that more remuneration boosts worker productivity. As a result of the rising hourly wage, the maximum monthly earnings of marginally employed individuals also increases to EUR 520 for the same number of hours worked. Because of the maximum limit, higher productivity cannot be rewarded by more pay for mini- and midi-jobbers, so higher motivation is less likely.

The criticism from practitioners, that instead of social inclusion, there is more of a risk of expanding precarious employment, can be heard. This is because, due to significantly lower social security contributions, it now becomes more attractive for employers to employ marginal employees, whose higher pay of EUR 520 per month brings them closer, in terms of pay, to the rest of the full-time workforce whose pay level is already higher and not to be increased further in the wake of the implementation of a higher minimum wage. To improve the social position of employees, a reform of pension and unemployment benefits would be more beneficial instead of, or at least in addition to, a higher minimum wage. The accusation of violating collective bargaining autonomy is loud, but not necessarily convincing. In low-wage sectors, for example, often only a minority of employees are protected by collective bargaining agreements. ←

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