



Research Office  
Legislative Council Secretariat

## Fact Sheet

# Social security system in Germany

FSC11/14-15

## 1. Introduction

1.1 In Germany, the social security system features the implementation of various statutory social insurance and tax-financed social welfare schemes to provide comprehensive support to the citizens from birth to old age. Germany's social insurance schemes comprise five major schemes, namely (a) unemployment insurance, (b) pension insurance, (c) health insurance, (d) long-term care insurance, and (e) occupational accident insurance schemes. This fact sheet provides an overview of the major social insurance and social assistance schemes under the social security system in Germany.

## 2. Responsible authorities

2.1 At the federal level, the German Federal Insurance Authority ("GFIA") is responsible for supervising social insurance providers offering statutory pension, health, long-term care and/or occupational accident insurance in more than three federal states.<sup>1</sup> As a legal supervisory authority for statutory pension and occupational accident insurance, GFIA is responsible to the Federal Ministry of Labour and Social Affairs ("BMAS<sup>2</sup>"). With regard to the supervision of health and long-term care insurance providers, GFIA works with the Federal Ministry of Health.<sup>3</sup> Meanwhile, the Federal Employment Agency, which is supervised by BMAS, is responsible for administering the unemployment insurance scheme and the tax-financed unemployment benefit scheme.

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<sup>1</sup> When a social insurance provider is responsible for more than three federal states, it becomes part of the federal administration system and is subject to the federal supervision. Otherwise, it is under the supervision of the federal state in which they are located. In Germany, more than half of the persons insured under the statutory social security insurance system are covered by funds supervised by GFIA.

<sup>2</sup> BMAS is responsible for formulating policies relating to, amongst others, labour market, occupational safety and health, pensions and social security.

<sup>3</sup> The Federal Ministry of Health is tasked with formulating health, prevention and long-term care policies.

### 3. Social insurance schemes

#### Unemployment insurance scheme

3.1 The unemployment insurance scheme is a mandatory scheme covering all employed persons and trainees in Germany. Under the scheme, an unemployed person is entitled to unemployment benefit if he or she has registered with the local employment office, has worked and paid contributions for at least 12 months in the two years prior to registration, and has been actively seeking work. The amount of payment is 67% of the net assessed earnings<sup>4</sup> for unemployed persons with at least one child and 60% for other unemployed persons. The duration of benefit payment ranges from six to 24 months depending on age and length of contribution of the beneficiary.

3.2 The unemployment insurance scheme is funded by contributions shared equally between employees and employers. In 2015, the contribution rate is 3% of gross salary of the employees, subject to contribution assessment limits<sup>5</sup> of €72,600 (HK\$654,850) per year in western Germany and €62,400 (HK\$562,850) per year in eastern Germany.

#### Pension insurance scheme

3.3 The statutory pension insurance scheme covers almost all employees<sup>6</sup> in Germany. Selected groups among the self-employed, e.g. tradespeople and freelance artists, are also required to contribute to the scheme. Other people such as housewives can join the scheme on a voluntary basis. Types of pension payment provided under the scheme include: (a) standard old-age pension for insured persons reaching the statutory retirement age, (b) long service pension for eligible insured persons before they reach the statutory retirement age, (c) old-age pension for persons with severe disabilities, and (d) old-age pension on account of unemployment or

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<sup>4</sup> Net assessed earnings of an unemployed person refers to the average weekly salary on which statutory insurance contributions were levied in the last year before becoming eligible to claim unemployment benefit, reduced by a standard deduction rate for expenses such as social insurance contributions.

<sup>5</sup> The contribution assessment limit is the maximum amount of income per month used to determine an insured person's insurance contribution.

<sup>6</sup> Employees who are exempted from the scheme include persons who are in short-term employment, civil servants and judges.

after partial retirement. In order to enhance the sustainability of the pension insurance scheme, the Federal government announced as early as in 2007 to increase the statutory retirement age for standard old-age pension gradually from 65 to 67, starting in 2012 with people born in 1947 or after.

3.4 Pension payments are funded by contributions shared equally between employers and employees. The contribution rate is 18.7% in 2015, subject to contribution assessment limits of €72,600 (HK\$654,850) per year in western Germany and €62,400 (HK\$562,850) per year in eastern Germany. In addition, pension payments are partially subsidized by the state.

### Health insurance scheme

3.5 Germany has a reputation for having one of the best healthcare systems in the world, providing its residents with comprehensive health insurance coverage. Approximately 85% of the population are mandatory or voluntary members of the public health insurance scheme while the rest have private health insurance.

3.6 In Germany, employees with annual income below the threshold<sup>7</sup> set by the government each year are required to join the statutory health insurance scheme. Employees with income above the specified threshold may join the statutory health insurance scheme on a voluntary basis or opt for a private insurance scheme. Self-employed persons, German civil servants and those persons working part-time and earning less than €450 (HK\$4,060) per month are also eligible to join the scheme.

3.7 The statutory health insurance scheme also covers family members of the insured employees at no extra charge in case their combined income does not exceed a specified limit and they do not have their own insurance cover. In addition, the scheme covers other groups of individuals including old-age pensioners, persons receiving vocational training, farmers and unemployed persons receiving unemployment benefit.

3.8 The benefits provided under the scheme include preventive medical examinations, medical and dental treatment, in-patient treatment, medicines, sickness cash benefit, home nursing care and maternity benefit. Nonetheless, the scheme members have to bear co-payments for certain types of benefits,

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<sup>7</sup> The threshold is set at €54,900 (HK\$495,200) in 2015.

such as drugs, therapies, hospital treatment and rehabilitation treatment. The annual limit for patient cost sharing is 2% of annual assessed gross disposable income, and the limit is reduced to 1% for those with chronic illness.

3.9 At present, the basic flat health insurance contribution rate is 14.6% of the employee's gross income and is shared equally between employer and employee. Employees pay an additional contribution set individually by each public health insurance provider which is 0.9% on average.

#### Long-term care insurance scheme

3.10 All members of the statutory health insurance scheme are automatically covered under the statutory long-term care insurance scheme. Members of private insurance schemes are also required to take up private long-term care insurance. An insured person is eligible for benefits under the scheme if he or she requires frequent or substantial help with normal day-to-day activities such as personal hygiene, eating, mobility and housekeeping for six months or longer. Benefits in kind (such as home care and institutional care services) and/or benefits in cash will be provided in accordance with the level of care required by the beneficiary. The long-term care insurance scheme is financed through contributions shared equally between employers and employees. The contribution rate in 2015 is 2.35%, subject to a contribution assessment limit. Childless contribution payers are required to pay a supplement of 0.25%.

#### Occupational accident insurance scheme

3.11 The statutory occupational accident insurance scheme covers employees, trainees, and other groups of individuals including children attending nursery school or in the care of day-care providers, students, home carers and emergency rescue workers. Under the scheme, the insured will receive benefits such as payment for full medical treatment, occupational integration assistance, social integration assistance and cash benefits in case of an occupational accident or occupational illness. The scheme is funded by industrial, agricultural and public sector employers' liability insurance funds. Contributions to the funds are paid by employers only, and the amount of which depends on the sum total of annual pay to employees and the hazard level of the occupation concerned.

## 4. Tax-financed social welfare schemes

4.1 In addition to the statutory social insurance schemes, the Federal government has implemented a number of tax-financed social welfare schemes to support its citizens and protect needy ones against poverty and social exclusion. These schemes include the unemployment benefit, social assistance, and child and parental benefits schemes. According to the latest figure from the Federal Statistical Office, the number of citizens receiving social welfare benefits for protecting their basic livelihood, including unemployment benefit and social assistance, reached 7.38 million at end-2013, accounting for 9.1% of the total population.<sup>8</sup>

### Unemployment benefit scheme

4.2 The unemployment benefit scheme provides means-tested income support for citizens aged between 15 and 64 who are fit for employment but are unable to find a job, or are not earning enough income to cover their basic living costs. Under the scheme, standard rates are paid to different categories of recipients to meet their basic needs. Besides, additional needs allowance will be provided for special needs such as pregnancy, single parenting and expensive nutrition required for health reasons.

### Social assistance scheme

4.3 The social assistance scheme provides a safety net to citizens who are unable and lack the resources to meet their own needs and have insufficient entitlement under other insurance and welfare schemes to ensure they can live in dignity.<sup>9</sup> The types of means-tested assistance provided under the scheme include: (a) assistance towards living expenses, (b) needs-based pension supplement for the elderly, (c) assistance towards healthcare, and (d) integration assistance for disabled persons.

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<sup>8</sup> Statistisches Bundesamt (2014).

<sup>9</sup> The social assistance scheme does not cover citizens who are protected by the unemployment benefit scheme.

## Child and parental benefits

4.4 Every person living in Germany is entitled to receive child benefit in the form of tax refund for their children aged below 18 and those above 18 under specified circumstances. At present, child benefit is €184 (HK\$1,660) for each of the first two children, €190 (HK\$1,710) for the third child and €215 (HK\$1,940) for the fourth and each additional child. Eligible parents with income below a specified level before claiming the benefit are provided with parental benefit to cover their loss of earnings because of taking a break from or cutting down on paid work for looking after their newly-born child.

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25 February 2015  
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