Investment Guide to Germany

The German Social Security System

Components of Social Security Insurance

In contrast to some other industrialized countries, the core social security in Germany is financed collectively by means of a process of redistribution. The current costs (for pensioners, sick people or those in need of nursing care, and unemployed people) are paid directly from contributions by employees and employers.

Social security contributions are made up of:

- Health insurance
- Nursing care insurance
- Pension insurance
- Unemployment insurance
- Accident insurance

Generally speaking, social security contributions are roughly shared equally by employer and employee. Only the costs for accident insurance are exclusively borne by the employer. In total, the employer’s share of social insurance contributions amounts to approximately 21 percent of the employees gross wage.

Social Security Contributions in Germany

<table>
<thead>
<tr>
<th>Social Security Insurance Components</th>
<th>Employer/Employee Share</th>
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</thead>
<tbody>
<tr>
<td><strong>(in % of gross wage)</strong></td>
<td><strong>(in % of gross wage)</strong></td>
</tr>
<tr>
<td>18.6% pension insurance</td>
<td>9.3% employer</td>
</tr>
<tr>
<td></td>
<td>9.3% employee</td>
</tr>
<tr>
<td>14.6% health insurance²</td>
<td>7.3% employer²</td>
</tr>
<tr>
<td></td>
<td>7.3% employee²</td>
</tr>
<tr>
<td>2.4% unemployment insurance</td>
<td>1.2% employer</td>
</tr>
<tr>
<td></td>
<td>1.2% employee</td>
</tr>
<tr>
<td>3.05% nursing care insurance</td>
<td>1.525% employer</td>
</tr>
<tr>
<td></td>
<td>1.525% employee²</td>
</tr>
<tr>
<td>1.1% accident insurance</td>
<td>1.1% employer²</td>
</tr>
</tbody>
</table>
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1) plus minor allocations
2) plus additional contribution which each health insurance company individually may impose on employer and employee (equal shares). The average additional contribution for 2020 defined by the Federal Ministry of Health is 1.1%.
3) childless employees aged above 23 years pay an extra 0.25% nursing care insurance. Specific regulations apply in the federal state of Saxony.
4) average accident insurance contribution 2018 according to the German Social Accident Insurance (DGUV)

Allocation of Contributions

A common fund exists for all social security components. Only the health insurance provider can be chosen individually by the employee.

Pension Insurance

Pension insurance is compulsory for employees. The premium is 18.6 percent of the gross wage and is divided equally between employee and employer. The employee’s health insurance company is responsible for collecting these contributions.

Health Insurance

Employees earning a gross wage of up to EUR 62,550 (2020) per year are compulsorily insured by one of the public health insurance providers (Gesetzliche Krankenversicherung, GKV). Employees whose earnings are above this income threshold can choose from both public and private insurance companies (Private Krankenversicherung, PKV).

The basic flat health insurance contribution rate (public health insurance) amounts to 14.6 percent of the employee’s gross income and is equally shared between employer and employee. Employees and employer pay equal shares of an additional contribution set individually by each public health insurance provider. The average rate of additional contributions for 2020 has been set at 1.1 percent by the Federal Ministry of Health. The German National Association of Statutory Health Insurance Funds (GKV-Spitzenverband) provides a list of all public health insurance providers and their additional contribution rates online.

- Public health insurance providers and their additional contribution rates (in German only)

Employee and employer also share the premiums for private health insurance plans.

Unemployment Insurance

The premium for the mandatory unemployment insurance is 2.4 percent of the gross wage and is shared equally by the employer and employee. Contributions for unemployment insurance are collected by the health insurance company of the employee, which transfers the money to the Federal Employment Agency (Bundesagentur für Arbeit).

Nursing Care Insurance

Nursing care insurance is organized in more or less the same way as health insurance, with a contribution rate of 3.05 percent of the gross wage. Employer and employee both pay half of the contribution rate, with childless employees paying an extra 0.25 percent on top of their contribution. The premiums are deducted in the course of payroll accounting and transferred to the nursing care insurance company via the health insurance company. Specific regulations apply in the federal state of Saxony.
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 (health, nursing, pension, and unemployment), the costs for accident insurance are exclusively borne by the employer.

Every employer must inform the relevant trading association about the establishment of his or her business and register with this organization. The accident insurance rate is determined on the basis of the company’s total remuneration sum and the hazard category of the work concerned (the hazard category is determined by the relevant employers’ liability insurance association). According to the German Social Accident Insurance (DGUV), the average accident insurance contribution in 2018 was 1.1 percent.

Payroll Accounting and Social Security Contributions

Employees in Germany receive a net wage or salary from which tax and social security contributions have already been deducted. The employer withholds the tax that the employee is required to pay and transfers the money directly to the tax office (Finanzamt). Therefore, all employees must be registered with the local tax office.

Social security contributions are also withheld by the employer after calculation of the gross wage and transferred to the employee’s health insurance company (which then distributes all of the contributions excluding accident insurance to all relevant parties). The employer separately has to pay the contributions for the accident insurance to the relevant Employers’ Liability Insurance Association (Berufsgenossenschaft).

Regulations for Foreign Employees

In order to facilitate the international transfer of employees, Germany has signed social insurance agreements with countries including e.g. Australia, Brazil, Canada, China, India, Israel, Japan, South Korea, Turkey, and the USA.

Within the EU, the dispatch of employees is facilitated by EU regulations. This allows transferred employees to remain within the national social insurance of their home country, if they are posted to Germany for a certain time. In this case, the employer does not have to pay German social security contributions for the employees temporarily located in Germany.