

Employees and Social Security

Germany is internationally known for its highly qualified, motivated, and conscientious workforce. Employers are free to tailor the recruiting process to their individual needs. Only a few guidelines need to be observed; such as offering jobs in a non-discriminatory manner (meaning that employers are required to hire on an equal opportunity basis without discrimination in terms of race, ethnicity, gender, religion, conviction, disability, age, or sexual orientation). Recruitment services are offered by the Federal Employment Agency (*Bundesagentur für Arbeit*). There are several programs offering extensive public support for hiring employees.

Employment Models

Regular Employment

Regular employment contracts are unrestricted and can be terminated by a written letter of termination, provided a mandatory notice period has been observed. In companies with more than 10 employees, a justified reason is required for regular termination. In a regular employment contract, employer and employee usually agree upon a six-month probationary period during which the contract may be terminated by either party at any time with two weeks' notice.

Fixed-term Contracts

Fixed-term contracts expire automatically on a specified date without a formal dismissal requirement. It is for the employer to decide whether to renew the contract or not. Fixed-term contracts are generally limited to a maximum of two years and may be extended up to three times provided the total duration of contract does not exceed the maximum of two years. During the first four years of a company's existence in Germany, employment contracts may be limited or extended several times up to a total duration of four years.

Temporary Employment

Temporary employment means that a company leases employees from a temporary employment agency. The employee is legally employed by the temporary employment agency and receives the salary from them – as no contractual relationship exists between leasing company and employee. General working conditions such as weekly working hours and wages are usually determined in collective agreements. They can modify the "equal treatment"-principle of leased employees and permanent staff to a limited degree. The service contract between the hiring company and the temporary employment agency regulates the duration and terms of termination of service of the employee in the hiring company. The statutory maximum hiring term for the same leased employee at the same company generally is 18 months.

Wage Level

Wages are generally subject to individual negotiations. It must be noted that a general minimum wage of EUR 13.90 an hour is applicable from January 2026. Higher minimum wages may be set in certain industries (e.g. those with universally applicable collective wage agreements).

There are also general exemptions from the national minimum wage. For instance, the following group categories are not covered by the minimum wage regulation:

- young people under 18 years of age,
- students completing compulsory internships/ internships up to three months,
- long term unemployed (one year or longer) for the first six months in employment.

Working Times and Vacation

Working hours in Germany are in line with the EU Working Time Directive. Employees are allowed to work eight hours per day - 48 hours per week. Saturday is considered to be a normal working day. With a five-day week, the permitted weekly working time totals 40 hours. Most business is conducted from Monday to Friday but retailers and manufacturing industries usually operate on Saturdays as well. Sundays and public holidays in contrast, are generally considered to be days off. However there are numerous exceptions from this general rule, permitting Sundays and public holiday work. An extension of the working time to a maximum of ten hours per day is possible under certain conditions.

The statutory amount of work breaks depends on the total number of hours worked per day. Employees are entitled to a break of 30 minutes when working between six and nine working hours per day. Employees are entitled to 45 minutes break when working more than nine hours a day.

Full-time employees working six days per week are entitled to a minimum of 24 paid vacation days (the equivalent of four weeks) per year. Accordingly, full-time employees working five days per week are entitled to a minimum of 20 days per year.

- ➔ Our Economic Overview Germany provides detailed information and statistics on the German labor market, the high qualification and productivity of the workforce in Germany. www.gtai.com/economic-overview-germany

INVESTOR'S BASICS

Social Security

In Germany, core social security provision is collectively financed by means of a process of redistribution. The current costs for pensioners, sick people, those in need of nursing care, and unemployed people are paid directly from contributions by employees and employers alike. The contributions are roughly shared equally by employer and employee with the exception of accident insurance costs which are solely borne by the employer. Each share corresponds to approximately 20 percent of the employee's gross wage.

Components of Social Security Insurance

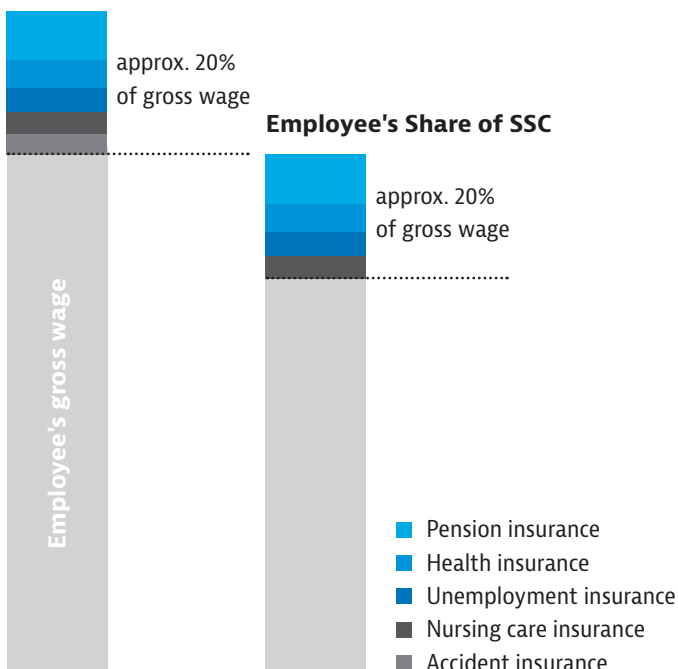
The German social security insurance system consists of:

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

Common funds exist for all social security components. Only the statutory public health insurance provider can be chosen individually by the employee. Employees can also choose to opt out of the statutory health insurance in favor of a private health insurance scheme subject to satisfaction of a minimum monthly gross salary level.

Allocation of Social Security Contributions (SSC)

Employer's Share of SSC



Payroll Accounting

Employees in Germany receive a net wage – meaning a salary from which tax and social security contributions have already been deducted.

Wage Tax

Employees pay wage tax (*Lohnsteuer*) – a special term for the income tax paid by employees. The employer is obliged to deduct the wage tax due directly from the salary of the employee and to pay it to the tax office. This must be completed electronically with authentication on a monthly, quarterly or annual basis depending on the amount of total wage tax. To obtain the electronic certificate required for authentication, the employer has to register him or herself and all employees electronically at the "Elster" online tax portal (www.elster.de).

Social Security Contributions

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 passes on the contributions excluding accident insurance to all relevant parties). The employer must register each individual employee with their respective health insurance company. The company number (*Betriebsnummer*) is a prerequisite for registration. Employers must apply for a company number at the Federal Employment Agency Saarbrücken.

Statutory accident insurance contributions have to be transferred separately by the employer to the statutory accident insurance association (*Berufsgenossenschaft*). To do so, the employer has to register separately with the *Berufsgenossenschaft* in advance.

International Social Security Agreements

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

Within the EU, the posting of employees is facilitated by EU regulations. This allows transferred employees to remain within the national social insurance system of their home country if they are relocated 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.

The EU has concluded special agreements on social security topics with countries including Switzerland and the UK.