



Germany: Social Security and Health-Care Contributions

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SOCIAL SECURITY AND HEALTH-CARE CONTRIBUTIONS

Summary

The German equivalent to the U.S. wage earner's taxes for social security plus medicare would be the German contributions for social pension insurance plus social long-term care insurance, plus 29% of the German contributions for social health insurance.

In 1995, the average wage in Germany was DM 48,500 per year before taxes.¹ From this income, the wage earner's social insurance contribution for pension insurance (old age and disability) was withheld at a rate of 9.3% of income² and his or her long-term care insurance contribution at a rate of 0.5% of income. By adding 1.94% of the wage, (29% of the average social health care contribution of 6.7% of the wage), the wage earner's total social security contribution attributable to old age care was 11.74% of the wage, amounting to DM 5,694 per year (then US \$3,416). These employees' contributions were matched by equal contributions of the employers.

In 1995, the average annual pension of someone retiring after a full working life of 45 years at a pension of roughly 70% of net income was then estimated at DM 23,040 [then US \$13,824].³

By 1996, the average German wage appears to have increased to an estimated DM 51,108 [currently US \$35,776] per year.⁴ The wage earner's social insurance contribution for pension insurance was 9.6%⁵ and for long-term care insurance it was 0.7%.⁶ By adding 1.93% of the wage (29% of the average health insurance contribution of 6.65%), the average wage earners' total social security contribution that is attributable to old age care is 12.23% of the wage, amounting to DM 6,251

¹ STATISTICAL YEARBOOK 1996 FOR THE FEDERAL REPUBLIC OF GERMANY 655 (Wiesbaden, 1996).

² A. Kappler & A. Grevel, FACTS ABOUT GERMANY 348 (Frankfurt, 1995).

³ *Id.* at 349.

⁴ According to a figure of the social insurance offices [Bundesversicherungsanstalt für Angestellte, SGB SOZIALGESETZBUCH 608 (Berlin, 1996)] which tends to run slightly higher than the figures in the STATISTICAL YEARBOOK.

⁵ Beitragsverordnung 1996, Dec. 4, 1995, BGBl. I, p. 1584.

⁶ 0.5% for the first half of 1996 and 0.8.5% for the second half of 1996.

(currently US \$4,375). In addition, the employer paid the same amount for this coverage.

For 1996, the average annual pension of someone retiring after a full working life of 45 years was DM 23,184 (currently US \$ 16,229).⁷

By 1997, the average German wage is estimated at DM 53,806 (currently DM 37,664).

The wage earner's social security contribution has risen to 10.15%, the long-term care contribution to 0.85%, and the health care contribution attributable to the care of the elderly could be figured at 1.93% (29% of the average health care contribution of 6.65%). Consequently, the wage earners' social security contributions that benefit old age care could amount to 12.93% of the average wage, or DM 6,957 (currently US \$4,870). This amount is also matched by the employer.

Analysis

Germany prides itself on a dense social net that provides from the cradle to the grave security for the population. This system, however, comes at a cost to industry as well as the individual wage earner. Currently the non-wage benefits relating to social insurance amount to 41.9% of the nominal wage.⁸ This percentage consists of contributions to the following branches of the social insurance system:

Pension insurance, which is roughly comparably to U.S. social security⁹ is funded through contributions of currently 20.3%¹⁰ of wage income, up to an income of DM 98,400 per year. Half of this contribution is made by the employer and half by the employee.

Health insurance is compulsory for wage earners who in the western part of Germany earn less than DM 73,800 per year. The contribution rate varies among the more than 800 health insurance funds, but the average contribution is 13.3%,¹¹ half of which is born by the employer and half by the employee. In 1995 and 1996, 29% of the contributions of the current wage earners were spent on the health care of the retirees (*see below*).

Accident insurance is comparable to workmen's compensation in the United States. It is funded by the employers, largely through industry-wide insurance carriers.¹²

⁷ A. Kapler & S. Reichert, *FACTS ABOUT GERMANY* 400 (Frankfurt, 1996).

⁸ N. Sturm, *Von einem Minusrekord zum Anderen*, *SÜDDEUTSCHE ZEITUNG* 1 (July 31, 1997).

⁹ Sozialgesetzbuch Gesetzliche Rentenversicherung, Dec. 18, 1989, BGBl. I, p. 2261, as amended.

¹⁰ Beitragssatzverordnung, Dec. 19, 1996, BGBl. I, p. 2085.

¹¹ Sturm, *supra* note 8.

¹² Siebtes Sozialgesetzbuch, Gesetzliche Unfallversicherung, Aug. 7, 1996, BGBl. I, p. 1255.

Unemployment insurance is similar to U.S. schemes, albeit more generous. It is funded by the employers who currently contribute 6.5% of the wage of each worker.¹³

Long-term care insurance has been phased in since 1994. Contributions are currently made at the rate of 1.7% of the wage, borne in equal parts by employers and employees.¹⁴

Germany does not have a system comparable to U.S. medicare. Instead, the health care needs of elderly Germans are provided by long-term care insurance, for those in need of such benefits, and by the individual's social health insurance carrier for strictly medical expenses. For retired persons, health insurance coverage is funded through equal contributions of the social pension fund and of the retirees -- the latter are deducted from the individual's pension.

Although this system implies that health care for the aged is funded through current contributions from the pensions currently paid out (under the pay as you go system of social security), this is not the entire picture. The current contributions to health insurance of those still employed also benefit the elderly. The health insurance carriers are funded through current contributions of wage earners and retirees, and all the contributions are lumped together to take care of all the needs of the fund. Given the fact that the elderly incur higher health care costs while making lower contributions than current wage earners, the latter also contribute to the health care of the elderly.¹⁵

In 1995, the average individual contribution of a wage earner (including students who are subsidized by the government) was DM 5,152. However, the average individual benefit only amounted to DM 3,676. Consequently, DM 1,476 of the average contribution, or 29% thereof, financed the health care of the elderly. During that same year, the average contribution of a retired person was DM 2,825, while the average amount of benefits granted to the retired person was DM 6,529.¹⁶

In 1996, the average individual contribution of a wage earner (including students) was DM 5,363 while the average expenditures for this wage earner were only DM 3,794. Consequently, of the average wage earner contributed DM 1569, or 29% of his contribution to the health care of the retired. During that same year, the contribution of the average retiree was DM 2,846, while the average retiree's benefit amounted to DM 6,690.¹⁷

¹³ Arbeitsförderungsgesetz, June 25, 1969, BGBl. I, p. 582, as amended; Sturm, *supra* note 8.

¹⁴ Pflege-Versicherungsgesetz, May 26, 1994, BGBl. I, p. 2797, as amended.

¹⁵ E. Palmer, *Germany*, in HEALTH CARE UNDER INTERNATIONAL LAW AND THE LAWS OF SELECTED FOREIGN NATIONS 77 (Washington, Law Library of Congress, 1997); A copy of this comparative study is included as an *Appendix*.

¹⁶ These figures have been provided by telephone by the German Federal Ministry of Health in Bonn.

¹⁷ *Id.*

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