

# The German unemployment insurance system

December 2019

## SUMMARY

Germany's unemployment insurance is part of the compulsory social protection system. Funded equally by the employers' and employees' social contributions, it is managed by the State as far as payment of unemployment benefits to job-seekers, support and definition of the rules are concerned. The unemployment benefit guarantees to salaried employees without a job a replacement income if they meet the conditions of allocation of the benefit, and notably the minimum condition of affiliation, i.e.; twelve months of employment during the last two years. The amount of the benefit, which varies depending on the job-seeker's family situation, is equal to 60 % or 67 % of the reference wage. The length of time during which unemployment benefits are paid varies between 6 and 24 months, depending on the length of time for which the beneficiary has been previously affiliated and the job-seeker's age. Job-seekers who are not, or no longer, entitled to receive the contributive unemployment benefit may, under certain conditions, have access to an assistance-type of unemployment benefit.

## TABLE OF CONTENTS

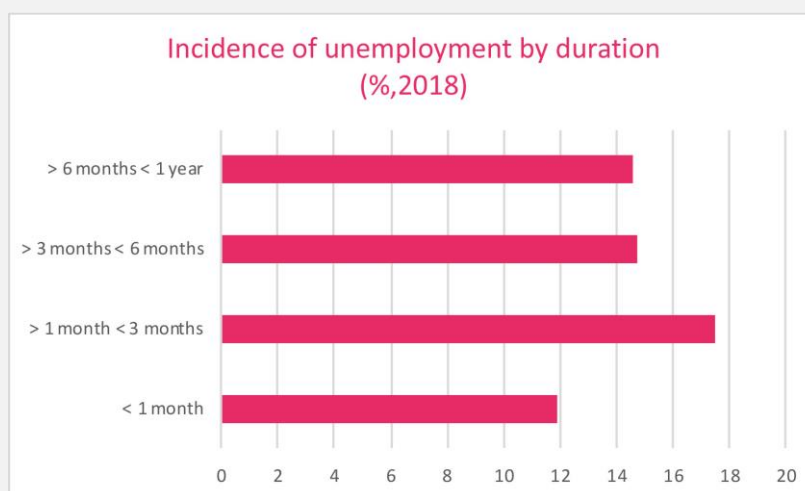
- ▶ General presentation of the German system
- ▶ Historical background
- ▶ The unemployment insurance scheme
- ▶ The assistance scheme

## Data related to the employment market<sup>1</sup>

<b>Total population</b>	83 019 213 (2019)
<b>Unemployment rate</b>	3.1 % (August 2019)
<b>Employment</b>	79.9 % (2018)
<b>Legal minimum wage</b>	€ 1 557 / month (as at January 1st, 2019) € 1 584 / month (as at January 1st, 2020)
<b>Average wage</b>	\$ 49 813 (i.e.; approximatively € 45 225)

In the 2nd quarter of 2019, Germany had the lowest unemployment rate (3.1%) in the European Union, just behind the Czech Republic (2%). The European average, over this same period, coming out at 6.3% (7.64% in 2009).

Long-term unemployment rate (1 year and over) has slightly decreased in Germany since the beginning of the crisis, going down from 45.48 % in 2009, to 41.4% in 2018. The European average was 43.4% in 2018.



Analysis: 11.9% of the job-seekers remain unemployed for less than a month.  
Source: OECD

An even more pronounced tendency is observed with respect to youth unemployment which went down from 11.25 % to 6.2 % over the 2009-2018 period. This is the lowest rate in Europe, nine points below the European average which is 15.2%.

In 2018, the percentage of salaried employees with a temporary employment contract was 12.6%, below the European average of 14.2 %.

The percentage of employees with a full-time job was, for this same year, 78 %, and 22 % of the total of employees having a part-time job, that is, 5.4 points above the European average (16.6% in 2018).

<sup>1</sup>Eurostat / Statistics on the employment market, OECD / German customs

## GENERAL PRESENTATION OF THE GERMAN SYSTEM

The German social protection system was developed at the end of the 19th century based on a contributive social insurance logic. At the beginning of the 1880s, the chancellor Otto Von Bismarck had initiated a policy of social reforms and given Germany an income security system based on the principles of social insurance. This social protection system aimed at protecting the workers by guaranteeing them an income in the event of an illness (1883), work accident (1884), incapacity or old age (1889). It was only about thirty years later, at the beginning of the 1920s, that the first features of an unemployment insurance were outlined.

### A social protection model created by Bismarck

The Bismarckian model is a model of interprofessional solidarity against social risks. The fundamental novelty lies in the compulsory and national nature of the insurances, which specificity can also be found in the following characteristics:

- ▶ With respect to the beneficiaries: the acquired rights derive from the salaried employee status, as contributor to the financing of the system (initially, all the workers and employees of the industrial sector whose salaries were below a certain amount, and then extension to insured categories and creation of derivative rights to the benefit of the worker's family members). The protection is, as a result, limited to the salaried employees, who, via their work, become entitled to rights;
- ▶ With respect to the objectives pursued and the technique used: the social insurances aim at compensating the loss of wage and at safeguarding the standard of life. The contributions and the benefits are proportional to the salaries of the affiliated. In terms of organisation, the system is self-administered by the social partners which are jointly in charge of the management of the funds. The expenses are allocated between the insured and the employers, along variable terms depending on the sectors (the state participates to the financing only for the pensions).

The implementation of this public scheme by Bismarck, starting from a private initiative, bases unemployment insurance on the two principles which still prevail in the current system:

- ▶ the principle of equivalence which might be said to bear resemblance with the notion of actuarial system: each person shall have the right to be indemnified based on what he/she paid to the system (insurance-based logic);
- ▶ the principle of necessity which seeks to secure people who are without job and resources (assistance-based logic).

The articulation of these two logics organizes the architecture of the German system around two levels.

### Coexistence of two unemployment benefit payment schemes

Two separate schemes currently coexist for job-seekers in Germany:

- ▶ the unemployment insurance scheme (SGB III<sup>2</sup>), which is funded by the contributions and intended for job-seekers who have sufficiently contributed;
- ▶ the assistance scheme (SGB II), funded by taxes, which is intended for job-seekers who are not entitled to the insurance scheme and for the persons who live with them.

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<sup>2</sup> German social code (chapter III)

These insurance and assistance schemes, which require from the beneficiaries that they actively seek a job in return, are accompanied by a large variety of measures designed to help the latter get back into employment<sup>3</sup>.

In addition to the social protection system against unemployment, the active employment policy<sup>4</sup>, has, since the employment market reforms, enabled to focus on the prevention of unemployment by favoring the use of partial unemployment and by softening certain rules related to atypical jobs.

### **A partially decentralized employment public service**

Because of the coexistence of these two unemployment benefit schemes, the German employment public service is run jointly by a federal operator and regional authorities.

### **The Federal Employment Agency**

The main operator of the employment public service, the Federal Employment Agency (Bundesagentur für Arbeit) is the body that manages the unemployment insurance system. Run in a tripartite manner (public authorities, employers' representatives, employees' representatives), the Federal Employment Agency thus has authority over the insurance scheme accessible under the condition of contribution.

Autonomous from an administrative and budget point of view, the Agency carries out its assignments in an independent manner, and is in charge, in this respect, of accompanying and paying benefits to the job-seekers, as well as of the services intended for companies.

The Federal Employment Agency also plays a major role in funding and organizing initial and continuing professional training.

### **The Länders**

At the Länder level, the Federal Employment Agency relies on 10 regional directorates which are in charge of transposing the federal objectives at the regional and local levels. To this end, these regional directorates coordinate 156 employment offices, which are themselves composed of 600 local sites.

### **The Municipalities**

The assistance scheme is co-managed by the Federal Employment Agency and by the local authorities. The Bundesagentur für Arbeit is thus in charge of accompanying, and paying unemployment benefits to, the beneficiaries, whilst the cities are in charge of social assistance and payment of additional aid.

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<sup>3</sup> Not discussed in the context of this study.

<sup>4</sup> Not discussed in the context of this study.

## HISTORICAL BACKGROUND

### The creation of social protection

The German social system was set up under Bismarck in the 1880's. Funded by compulsory contributions based on earned income, this distribution system was precursory in Europe and reflected from the start a philosophy of public order prevention. The auto-administration scheme applicable to the funds was thus mirroring the joint responsibility of the social players.

After the First World War, and under the Republic of Weimar, the entire social protection system was strengthened. With respect to unemployment, jointly managed placement offices were set up by the unions and the employers in 1918. An aid funded by the state was also paid to the employees without jobs, in the event of poverty and unemployment due to the war.

In 1927, the compulsory unemployment insurance system was created, funded equally by compulsory social contributions. For the first time, an individual guarantee against economic and social risk associated to job loss was established.

The foundation of a modern social system had thus been laid. However, its financial bases were then destroyed by the crisis of the 1930's and the Second World War.

### 1949: rebuilding of the welfare state

In 1949, the Federal Republic of Germany rebuilt a social protection system on the grounds laid out by Bismarck, and incorporated the welfare state principle into its constitution (Basic Law).

The health insurance, pension insurance and unemployment insurance were thus restored in 1951. The assistance scheme (social aid), for its part, was re-established in 1961 in a context of economic prosperity and full employment.

The recession of 1966-67 then sharply put back the risk of unemployment at the top of the agenda.

The Law on the promotion of employment was thus adopted in 1969. It established an active employment policy and modernised the services of the former Federal placement and unemployment insurance office, which was renamed the Federal Employment Agency (Bundesagentur für Arbeit). The powers of the new institution were extended, including with respect to initial and continuing training. The unemployment benefits were significantly increased. From the 1970s, the length of time during which unemployment benefits are paid, which, until then, was uniform (6 months), progressively evolved towards increased and differentiated periods of time.

### German reunification and the social protection funding

In 1990, the Federal Republic of Germany's social protection system was applicable to the entire reunified Germany. This development involved an important effort from the German social protection as a whole, and raised with a renewed intensity the issue of the sustainability of the method of funding of the German social model.

## "Activation": new paradigm of the employment policy

Confronted with new challenges, the successive governments initiated a series of reforms. In the middle of the 1990s, the employment regulation thus went through a series of amendments to increase the fluidity of the employment market.

In 1997, the Law on the promotion of employment of 1969 was once again amended and incorporated into the social code. Its new chapter III (SGB III) has since been governing the unemployment insurance scheme and the operation of the institutions in charge thereof.

This reform marked a turning point in the way the employment policy was approached : it focused on the prevention of unemployment, on the increased efficiency of the placement approach and on the job-seekers' individual responsibility.

## The reforms implemented by the four "Hartz laws" (2003-2005)

The Hartz laws represented the most important structural reforms since 1969. They were implemented between 2003 and 2005 and introduced the following measures:

### Hartz law I (2003)

- ▶ Required the salaried employees to register as job-seekers as soon as they became aware of the date of termination of their employment agreement;
- ▶ Established job recovery assistance measures, as well as the requalification measure mechanism intended for the older job-seekers;
- ▶ Enabled the job-seekers who hadn't worked long enough to be entitled to the unemployment benefits to receive continuing training aid;
- ▶ Created temporary placement offices;
- ▶ Enabled the employment offices to entrust, by way of contract, the management of back-to-work jobs to third parties;
- ▶ Softened the regulation relating to dismissals;
- ▶ Required from the job-seekers a greater mobility, considered as appropriate.

### Hartz law II (2003)

- ▶ Established business start-up aid (creation of the self-employed status);
- ▶ Created service vouchers for domestic employment jobs;
- ▶ Amended certain provisions relating to mini-jobs and midi-jobs;
- ▶ Set the conditions for creating the future Job-Centers.

### Hartz law III (2004)

- ▶ Reorganized the employment public service

### Hartz law IV (2005)

- ▶ Reformed the unemployment benefit payment system: reduction of the length of time during which unemployment benefits are paid to 12 months (unemployment benefit I);
- ▶ Merged the long term unemployment benefit and the social aid into a single unemployment benefit II;
- ▶ Established a social aid reserved to the job-seekers unable to work.

## THE UNEMPLOYMENT INSURANCE SCHEME

### Bénéficiaries

All persons benefiting from the social security are affiliated to the unemployment insurance scheme. As a result, all salaried employees in both private and public sectors<sup>5</sup> who receive a remuneration equal to, or exceeding, €450 per month, are automatically affiliated to the unemployment insurance scheme.

Below €450 (mini-jobs), the salaried employees may ask to be exempted from the obligation to pay contributions to the health/maternity, care, pensions (disability, old age and survivors) and unemployment insurances. In these cases, the salaried employee has no social coverage. However, the employer is under the obligation to pay a fixed contribution with respect to the pensions-related insurance, corresponding to 15 % of the revenue (5 % for the mini-jobs at an individual's).

Between €450.01 and €850 (midi-jobs), the wage is subject to employee's contributions, at a progressive rate of between 11% and 21 % (all sectors combined), and the relevant person benefits from a full social protection.

It should be noted that persons carrying out an independent activity for at least 15 hours per week may, under certain conditions, be affiliated to the unemployment insurance scheme.

### Funding of the mechanism

The unemployment insurance scheme is funded by social contributions paid equally by the employers and the salaried employees. A public subsidy (zero-interest loan) complements, if necessary, the financing of the scheme.

Contribution rates	
Employers	1.25%
Salaried employees	1.25%

It is important to note that separate caps are applied in the former Länders (ex-West Germany) and new Länders (ex-East Germany). In 2019, these amounted to:

- ▶ €80 400/year, that is, € 6 700/month, in the former Länders;
- ▶ €73 800 /year, that is, €6 150/month, in the new Länders.

<sup>5</sup> The apprentices are also concerned.

## Eligibility conditions

The conditions for granting the unemployment insurance are the following:

- ▶ Be unemployed (is considered as unemployed any person who is deprived of employment against his/her will<sup>6</sup> and who makes the appropriate efforts to find another job);
- ▶ Justify at least 12 months of affiliation during the 2 years preceding the registration;
- ▶ Be available for employment, i.e. ;
  - be able to work at least 15 hours per week;
  - be in a position to respond to any offer to be integrated into employment submitted by the employment public service;
  - be ready to accept any suitable job;
  - agree to take part in the proposed integration into employment measures;
- ▶ Be registered with the employment public service;
- ▶ Not having reached the retirement age;
- ▶ Reside in Germany.

## Benefit amount (ALG I<sup>7</sup>)

### Reference basis for calculation

The amount of the gross monthly reference wage (average of the remunerations received during the past 12 months) is multiplied by 12 and divided by 365 to determine the gross daily wage, and then the net daily reference wage. The net daily wage is equal to the gross daily wage, minus the social expenses, income tax and solidarity contribution.

### Determination of the amount of the benefit

The daily amount of the ALG corresponds to:

- ▶ 60 % of the former net daily wage if the beneficiary has no children;
- ▶ 67 % of the former net daily wage if the beneficiary has one/several dependent child/children;

The monthly amount of the unemployment benefit is equal to 30 times the amount of the daily benefit thus determined. In 2019, the maximum amount of the benefit was €2 805 per month for the former Länders, and €2 625 per month for the new Länders.

## Benefit duration

The length of time during which unemployment benefits are paid is determined depending on the prior length of time during which the relevant person has been affiliated (during the 5 last years) and on the person's age.

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<sup>6</sup>In the event of a dismissal for misconduct, The Federal Employment Agency assesses the nature of the misconduct and decides whether the person concerned is entitled to receive unemployment benefits and the starting point of the payments. In the event of a resignation, where said resignation is considered legitimate, it may give rise to unemployment benefits without any delay. If there is no legitimate reason to resign, it is for the Federal Employment Agency to decide the period during which the job-seeker will not be entitled to receive unemployment benefits (12 weeks at a maximum), being specified that this waiting period is deducted from the duration of the rights.

<sup>7</sup> Arbeitslosengeld



Length of time during which the beneficiary has been affiliated	Length of time during which unemployment benefits are paid
12 months	6 months
16 months	8 months
20 months	10 months
24 months	12 months
30 months of affiliation (50+ years)	15 months
36 months of affiliation (55+ years)	18 months
48 months of affiliation (58+ years)	24 months

### Specific mechanism

The "kurze Anwartschaftszeit", first implemented in 2009 on a temporary basis and extended until 31 December 2022 by the law of 18 December 2018, aims at strengthening the chances of qualification and reinforcing the protection of the unemployment insurance. This mechanism enables the persons who meet the following conditions to be entitled to unemployment benefits:

#### Eligibility conditions

- ▶ Not meet the affiliation condition of the general scheme;
- ▶ Justify a period of employment of at least 6 months during the last 2 years;
- ▶ Justify an affiliation mainly comprised of fixed-term employment contracts of less than 10 weeks or 70 days;
- ▶ Not having received more than € 37 380 during the last 12 months;

#### Benefit duration

Length of time during which the beneficiary has been affiliated	Length of time during which unemployment benefits are paid
10 months	5 months
8 months	4 months
6 months	3 months

#### Benefit amount

The amount of the benefit corresponds to 60 % or 67 % of the net reference revenue depending on the job-seeker's family situation.

## Conditions of a readmission or resumption of rights

If a person ceases to benefit from the unemployment insurance because they return to work whilst has not exhausted their rights to receive unemployment benefits, and if said person finds themselves unemployed again, they may be again admitted to benefit from unemployment benefits if they meet the conditions of attribution.

In this case, the new length of time during which unemployment benefits are paid corresponds to the remaining length of time during which they are entitled to receive unemployment benefits, increased by the length of time during which they are newly entitled to receive unemployment benefits, within the limit of the applicable maximum length of time during which unemployment benefits are paid based on the beneficiary's age, provided that no more than 5 years shall have lapsed since said the starting date of the beneficiary's last entitlement to unemployment benefits.

If the beneficiary already received a benefit under the unemployment insurance during the last 2 years preceding beneficiary's new entitlement to unemployment benefits, the amount of the unemployment benefits is calculated based on the reference wage of the more favorable entitlement to unemployment benefit. In order to determine the amount of the benefit to be paid to the beneficiary, the employment public service conducts a comparison between the respective amounts of the former entitlement and new entitlement to unemployment benefits.

## Combining benefit receipt and employment / starting a new job

### Reduced activity

The carrying out of a salaried activity, independent activity or activity on behalf of a member of one's family for less than 15 hours per week (reduced activity) is compatible with the job-seeker quality. The amount of the benefit is reduced if the amount of the net wage generated by the reduced activity exceeds €165.

### Retained activity (partial ALG)

If a beneficiary carries out several simultaneous activities giving rise to unemployment insurance benefits (i.e. ; the remuneration of each of said person's activities exceeds €450), and if one (or several) of these activities is/are lost, said beneficiary may benefit from the partial ALG, for a maximum duration of 6 months, provided that the lost activity shall have been carried out for a period of 12 months during the last 2 years, at the same time as another retained activity subject to contribution. The beneficiary shall remain available and able to work for a new part-time job.

## UNEMPLOYMENT INSURANCE SCHEME IN GERMANY

### JOB LOSS

Eligibility conditions						
Job loss	Affiliation	Job search	Registration	Availability	Age	Reidence
Be unemployed against one's will	12 months of affiliation during the last 2 years	Make the appropriate efforts to find another job	Be registered as a job-seeker	Be able to work at least 15h per week	Not have reached the retirement age	Reside in Germany

### PAYMENT OF UNEMPLOYMENT BENEFITS

Benefit duration		Benefit amount	
<b>A minimum:</b> 12 months of affiliation	Affiliation sought within the last 24 months	Reference basis for calculation	
<p style="text-align: center;">↓</p> <b>Length of time during which unemployment benefits are paid</b> comprised between 6 and 24 months depending on the age and prior length of time during which the person was affiliated		<p style="text-align: center;">↓</p> <b>Reference wage</b> Average of the remunerations received during the last 12 months	<p style="text-align: center;">↓</p> <b>Amount</b> 60% of the reference wage 67% if dependent child/children Maximum amount: €2 805 / month (former länders) and € 2 625 / month (new länders)

### Starting point of the payment of unemployment benefits

No waiting period

### Payment of unemployment benefits and resumption of activity

Reduced activity		Retained activity		
↓ Less than 15h per week	↓ Threshold of €165 per month	Loss of an activity in the event of multiple activities		
		↓ <b>Affiliation required</b> 12 months during the last 2 years	↓ <b>Benefit duration</b> 6 months	↓ <b>Amount</b> 60% or 67% of the reference wage

## THE ASSISTANCE SCHEME

### Bénéficiaries

The assistance scheme constitutes a guarantee intended for any job-seeker who may not, or may no longer, benefit from the unemployment insurance scheme, and whose resources are insufficient to cover their own needs and those of the members of their "community of needs". The objective of this aid, which payment is subject to conditions of resources, is to reintegrate the beneficiary into employment as soon as possible and, for the persons living with him/her, to remedy a situation of necessity.

Funded by public contributions and co-managed by the Federal employment office and by the cities, the assistance scheme comprises two types of aid:

- ▶ The unemployment assistance benefit (ALG II), intended for the job-seeker;
- ▶ The social aid (Sozialgeld), intended for the persons living with the job-seeker and unable to work.

### Eligibility conditions

#### Unemployment assistance benefit

May benefit from the unemployment assistance insurance the persons:

- ▶ Who are able to work: is considered able to work any person, deprived of a job or not, who is able to work at least 3 hours per day<sup>8</sup>, and person who is not prevented from working by an illness or a handicap;
- ▶ Whose resources are insufficient: is considered as having insufficient resources any person who cannot support their own means, themselves, nor the members of their "community of needs". All the revenues exceeding a certain cap (earnings, services, incomes from securities and real property, etc.), as well as the assets (real estate, savings, etc.) are taken into account to assess the resources of the beneficiary and of its "community of needs";
- ▶ Whose age is between 15 and the legal retirement age;
- ▶ Who usually reside in Germany.

#### Social aid

As far as social aid is concerned, all persons who are part of the "community of needs" of an unemployment assistance benefit beneficiary (spouse, partner, children under 25 and not married, parents, etc.) can benefit from the social aid if they are unable to work, have not reached the retirement age and do not have the sufficient resources to support themselves.

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<sup>8</sup> Other minimum revenue benefits exist notably in the event of a loss of the ability to work.

## Benefit amount

The unemployment assistance benefit and social aid aim at covering the beneficiaries' basic needs. The amounts of these aid are flat-rate and vary depending on the relevant person's age and ability to work.

The base amount of the flat-rate aid was equal as at 1<sup>st</sup> January 2019, to € 424 / per month.

Person (with or without dependent child/children)	Members of the community of needs				
	Child up to 6	Child between 7 and 14	Child between 15 and 18	Child between 19 and 25	Spouse aged 18 and above
€ 424	€ 245	€ 302	€ 322	€ 339	€ 382

Additional benefits aimed at covering specific needs are also available.

## Benefit duration

The unemployment assistance benefit and the social aid may, in principle, be paid for an unlimited period (until the age of 65-67 maximum). In practice, the aid are granted for 12 months and renewed upon request. The conditions of allocation are re-examined at the time of each renewal request.

## Combining benefit receipt and employment / starting a new job

The flat-rate aid of the unemployment assistance benefit may be combined with all the revenues of a full-time or part-time activity, or of a mini-job or midi-job. However, the amount of the benefit is reduced accordingly.

## UNEMPLOYMENT INSURANCE SCHEME: COMPARISON FRANCE/GERMANY

	Unemployment insurance FRANCE	Unemployment insurance GERMANY
<b>Salaried employees concerned</b>	Salaried employees of the private and public sectors	Salaried employees of the private and public sectors
<b>Qualifying period</b>	6 months (i.e. ; 130 days worked or 910 hours worked) during the last 24 months or during the last 36 months for the salaried employees aged 53 and above.	12 months* during the last 2 years preceding registration (*specific mechanism re. page 10)
<b>Benefit duration</b>	The length of time during which unemployment benefits are paid is determined depending on the length of time during which the beneficiary was affiliated during the last 24 or 36 months. The minimum length of time during which unemployment benefits are paid is 182 days (6 months) and the maximum length of time during which unemployment benefits are paid is 730 days (24 months) for persons under 53, 913 days (30 months) for persons between 53 and 54 and 1095 days (36 months) for persons aged 55 and above.	The length of time during which unemployment benefits are paid is determined depending on the length of time during which the beneficiary was affiliated during the last 5 years and on the job-seeker's age. It ranges from 6 to 12 months for persons under 50, from 6 to 15 months for persons aged 50 and above, from 6 to 18 months for persons aged 55 and above and from 6 and 24 months for persons aged 58 and above.
<b>Benefit amount</b>	The benefit is calculated based on the <b>gross wage</b> (12 last months). Most favorable amount: <ul style="list-style-type: none"> <li>• 40.4% of the reference daily wage + fixed part or,</li> <li>• 57% of the reference daily wage or,</li> <li>• Minimum benefit: €29.26 within the limit of 75% of the reference daily wage</li> </ul>	The benefit is calculated based on the <b>net wage</b> (12 last months) <ul style="list-style-type: none"> <li>• 60% of the former net wage,</li> <li>• 67 % of the former net wage if dependent child/children</li> </ul>
<b>Tax treatment</b>	Benefit subject to the social contributions and income tax	Non taxable
<b>Unemployment insurance contributions</b>	<ul style="list-style-type: none"> <li>• Employer: 4.05%</li> <li>• Salaried employee<sup>9</sup> : -</li> <li>• Total: 4.05%</li> </ul>	<ul style="list-style-type: none"> <li>• Employer: 1.25%</li> <li>• Salaried employee: 1.25 %</li> <li>• Total: 2.5%</li> </ul>

<sup>9</sup> Maintenance of the employee contribution for the intermittent salaried employees in the entertainment business, the salaried employees of Monegasque employers and for certain expatriate salaried employees.