The German social security system has a long tradition dating back to the industrial revolution. Extended and sophisticated over the centuries and decades, the German statutory social insurance system today covers over 90 percent of the German population; providing financial protection against the major risks in life and their consequences, including illness, unemployment, old age, industrial accidents and the need for long-term care. This update provides for a brief overview of German social insurance law.

1. Elements of German Social Insurance Law
The German social security system consists of:
- Health insurance (see 3 below)
- Home care and nursing coverage (see 4 below)
- Social security pension insurance (see 5 below)
- Unemployment insurance (see 6 below)
- Accident insurance (see 7 below).

2. Applicability of German Social Insurance
- Employees (regardless of whether they are German nationals or not) working in Germany must be insured under the German social security system. Independent entrepreneurs, however, are generally not required to be insured (subject to certain exceptions).
- As interpreted by the German social security courts and by the authorities charged with overseeing the system, a person is deemed to be an employee and not an independent entrepreneur if he/she is “personally dependent” upon the contractual partner.
  - In general, such personal dependence is deemed to exist if the contractual partner has – according to the provisions of the contract or the course of conduct of the parties – the right to give instructions, in particular with respect to the place, duration, content, execution and time of performance, and if the engaged person is integrated in the contractual partner’s business. An essential element of determining the personal dependence is whether or not the person is free to choose if and when he/she will render his/her services (“time sovereignty”).
  - If it is later determined that the individual is not an independent entrepreneur but an employee, the employer has to pay all contributions to social insurance (employer’s and employee’s shares, which can be up to 40% of the employee’s gross salary) retrospectively for the full period of the employment term (but with the retrospective effect being limited to a maximum period of four years; in the event of intentional non-payment of contributions, however, retrospective payments may be due for up to thirty years).

The ability to recover the employee’s share from the individual (i.e., the employee) is very limited.

- In general, the obligation of employees to be insured under the German social security system (and the corresponding duty for employer and employee to pay contributions) continues to exist where an employee is seconded to an affiliate abroad under his/her German employment relationship, for a predetermined time. Correspondingly, a temporary secondment of an individual employed by an employer abroad, to a German affiliate, within the scope of the employee’s foreign employment relationship, in general, does not result in an obligation to be insured under the German social security system.

3. Health Insurance
- Employees must be insured by social health insurance if their annual income does not exceed EUR 53,550 (for calendar year 2014). If the employee’s income exceeds this limit, social health insurance obtained through public health insurance funds is not mandatory. The employee can obtain voluntary social health insurance from one of the public health insurance funds or be insured through a private health insurance fund.
- Where there is an obligation to insure, the employer and the employee must each pay certain shares of the contribution to health insurance. The contribution is based on the employee’s income; if the monthly income exceeds EUR 4,050 (for calendar year 2014) the excess income is not subject to contributions.
  - Contribution level: 15.5% of the employee’s income (8.2% for the employee and 7.3% for the employer).

4. Home Care and Nursing Coverage
- Employees who are subject to mandatory social health insurance are also subject to mandatory home care and nursing coverage.
  - Contribution level: 2.05% (1.025% each for the employee and the employer) of monthly income up to EUR 4,050 (calendar year 2014); income which exceeds this amount is not subject to contributions. Childless employees older than 23 years bear an additional 0.25% (1.275% for the employee and 1.025% for the employer).
5. Social Security Pension Insurance

- All employees are subject to mandatory social security pension insurance.
- Contribution level (calendar year 2014): 18.9% (9.45% each for the employee and the employer) of monthly income up to EUR 5,950 (EUR 5,000 in the German Eastern Federal States); income which exceeds this amount is not subject to contributions.

6. Unemployment Insurance

- All employees are subject to mandatory unemployment insurance.
- Contribution level (calendar year 2014): 3.0% (1.5% each for the employee and the employer) of monthly income up to EUR 5,950 (EUR 5,000 in the German Eastern Federal States); income which exceeds this amount is not subject to contributions.

7. Accident Insurance

An employer is also obligated to make contributions to accident insurance. The coverage level depends on the number of employees and on the level of accident risk for the employer’s type of business.

8. Contribution to the Insolvency Fund

To protect (at least to some extent) employees from the consequences of an insolvency of their employer, in case of insolvency, employees may be entitled to governmental payments. In order to finance such payments, employers must pay into the governmental insolvency fund. Even though not an integral part of the German social security system, contribution to the governmental insolvency fund is levied together with the other social security contributions (see 3 – 6 above). All employers must pay a contribution of 0.15% of monthly income up to EUR 5,950 (EUR 5,000 in the German Eastern Federal States).

9. Example

The following example shows the insurance payments that would apply to a typical employee in Germany:

For an employee (with one child) who receives a monthly gross salary of EUR 3,000, the following contributions to the social insurance would have to be paid by the employer:

- contributions to health insurance (7.3%): EUR 219
- contributions to home care and nursing home coverage (1.025%): EUR 30.75
- contributions to social security pension insurance (9.45%): EUR 283.50
- contributions to unemployment insurance (1.5%): EUR 45.00
- contribution to insolvency fund (0.15%): EUR 4.50.

Total contributions paid by the employer are therefore EUR 582.75 per month (in addition to the employee’s monthly salary of EUR 3,000).