PAYROLL SYSTEM AND SOCIAL PROTECTION IN GERMANY

PHD. NĂSTASIE MIHAELA – ANDREEA
ROMANIAN ACADEMY, INSTITUTE OF WORLD ECONOMY
BUCHAREST, ROMANIA
e-mail: nastasiemihaela@yahoo.com

Abstract
Any payment system must establish a connection between the entity and the revenue performance of employees between the financial balance of the entity and needs to satisfy some needs of the individuals.
A goal is not always easy to follow is to establish fairness in the workplace in relation to the report results. Even if the system is a fair wage, it is necessary that employees perceive and understand this.
German economic success was achieved thanks to a competent management and an effort from employees, which is characterized by more order, competent and highly skilled, resulting in a competition between the management and the german economy. German management uses the tools of the pay system and the welfare system.

Keywords: payroll, social security, management, income, social contributions, tax.

JEL Classification: M21, M41

1. Introduction

Managing payroll is often regarded as an economic entity specialized function, however, some researchers see as a core area of human resources management and development wage policy is considered a complex activity that requires consideration of all sides of the essence of salary, its basic functions, its correlations with various social and economic variables, and the implications of salary expenses on economic performance. [4]

In Germany, the pay is influenced by many factors, but among the most important, and bringing added value to employees or job candidates qualifications and experience.

German wage system based on the following principles:
• salary incentives is considered the most important;
• the salary is different from region to region and even from one company to another;
• the remuneration is considered an important component of individual labor contract.

In Germany, with base salary, practice and other forms of incentive revenue growth represented by:
• managers / shareholders is envisaged participation in profit sharing;
• the allocation of shares to employees encouraged to become shareholders;
• awards of merit and performance;
• the form of cash bonuses leave money on holidays, Christmas and Easter;
• money for work performance or employee loyalty.

Remuneration is determined, in some companies, based on collective agreements negotiated between representatives of employees and employers. In other companies, salary is negotiated at interview.

2. Social protection

The social protection system is characterized by the following features:
• is considered one of the most solid and generous systems in the world;
• is based on equal contributions from employers and employees, providing full fund allocated accidents is borne by the employer;
• employees with incomes higher than the limit set by law do not benefit from the welfare system.

The social protection system is based on four components, shown schematically in Figure no. 1.
Source: own interpretation

Figure no. 1. Components of social protection

In Germany, social contributions (Sozialversicherungsbeiträge) are supported, in principle, equally the employee and the employer, health insurance except where the employee paying into more than his employer.

Social contributions and their percentage of gross monthly salary, for the year 2013 are presented in Table no. 1.

Table no. 1. Social contributions from Germany

<table>
<thead>
<tr>
<th>Social contribution</th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Insurance pension (Gesetzliche Rentenversicherung)</td>
<td>9.45%</td>
<td>9.45%</td>
</tr>
<tr>
<td>Health insurance (Gesetzliche Krankenversicherung)</td>
<td>8.20%</td>
<td>7.30%</td>
</tr>
<tr>
<td>Unemployment insurance (Arbeitslosenversicherung)</td>
<td>1.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Providing care (Gesetzliche Pflegeversicherung)</td>
<td>1,025% (+0.25% if the employee has reached the age of 23 years and has no children)</td>
<td>1,025%</td>
</tr>
<tr>
<td>Work accident insurance (Unfallversicherung Gesetzliche)</td>
<td></td>
<td>1.60%</td>
</tr>
</tbody>
</table>

Source: www.stern.de

From the literature review we noted that most social security contributions payable by employers and employees in Germany have undergone significant changes, only pension contributions and the provision of care showed a downward trend, the rate applied to other subject remains constant during analysis, that in the past three years. Thus, as of January 1, 2012 Germany's contribution to pension insurance decreased from 19.9% (9.95% and 9.95% employer contribution employee contribution) recorded in 2011, to 19.6% (9.80% 9.80% employer contribution and employee's contribution), and it followed the downward trend in 2013, reaching 18.90% percentage (9.45% and 9.45% employer contribution employee contribution). Contribution for the provision of care owed by employers and employees, distributed in equal proportions, experienced a cap on the period 2011-2012, the level of 1.95%, but from 2013, shows an increase of 0.1 percentage points to 2.05%.

In Germany, employees who achieved a gross monthly salary of more than 4125 euro can choose through a written application to the House of Health Services (Befreiung von der gesetzlichen Krankenversicherung) and can provide a private insurance company (Private Krankenversicherung) where they contribute and will contribute to compulsory care (Private Pflegepflichtversicherung). Fee retained by the private insurance company has as a basis the gross income of the employee, but is calculated based on the age and state of health.
Once opted for this form of insurance, the employee is forced to conclude besides health insurance policy and a salary (Krankentagegeldversicherung), which would replace the salary for a medical leave from the 42nd day of illness. In this insurance the employer contributes 50% of the contribution, but no more than 271 Euros, this amount including wage insurance contributions to the care or the one or more children of the employee make it.

The advantages of private health insurance are usually considerably lower contributions to social insurance that health and better care and customization ability of the coating, while the major disadvantage is the individual insurance levies children and husband / wife if they do not work and are not insured by salary.

To highlight these issues, we presented a calculation example.

An employee at age 35 has gross monthly salary of 4,200 euros, is unmarried, childless and insured private medical insurance from a private company. Contribution for medical fee is 200 euro per month for providing care 22 per month, and for providing salary 70 euro per month. The total contribution is 292 million, of which the employer bear half.

The employee pays 146 per month for insurance required, while the house provided health insurance would have paid 8.3% + 1.235% of gross salary (maximum of Euro 3712.50) = 354 euro

Once opted for private health insurance, the employee can not return to the social health insurance only if an income below 4,125 Euros.

In Germany, gross income is not always the same as the taxable gross income for calculating the social security contributions. Some parts salary or bonuses are partially taxed or untaxed entirely if these parts salary or bonuses from work at night or weekends like Saturdays, Sundays and holidays. Per diems are generally exempt from tax and social contributions. Taxable gross salary may be different from that to which social tax is calculated as gross monthly limit of duty social (Beitragsbemessungsgrenze) is 5,500 Euros for National House of Pensions and unemployment insurance, and 3712.50 Euros Health Insurance Houses.

Essential rules to be observed in the pension system are:

• establishing retirement fund is made with the participation of all employees, the contribution rate is fixed at 9.45% (except for those on low incomes);
• retirement age is 65;
• there are additional pension scheme through the establishment of funds for capitalization insurance companies, which in the case of bankruptcy are guaranteed by the state;
• the ratio of retired and active workforce is 1-3.

For unemployment aid observe the following rules:

• unemployment fund is established by the participation of all staff who work at least 18 hours / week;
• the amount of unemployment benefit is 67% of the last net income of the employee for those with dependent children and 60% for employees without dependent children;
• unemployment benefits are granted for a period of 180-960 days, taking into account the duration of contributions and the age of the employee.

Regarding health insurance, subject to the following rules considered essential:

• is based on the 1994 regulations on long-term care;
• the contribution of employees and employers is 15.50%;
• where an employee becomes ill, the employer is obliged to pay the full salary for a period of six weeks, after which for a period of 78 weeks health insurance system pays the 70% of gross salary.

In Germany, along with systems of social contributions above, there are specific provisions in respect of accidents, of which we consider useful to present the most important:

• staff compulsorily insured against accidents;
• costs are paid only by the employer;
• accidents, employers and granted additional compensation for fatal accidents followers receive a fixed aid.
3. **Tax system**

The tax system is complicated, many formalities relating to it can be solved online or by post. Income tax is classified into six classes fiscal different tax shown in *Figure no. 2*

*Source: own interpretation*

*Figure no. 2. Classes tax used in Germany*

German tax system is progressive, so the income tax to be paid to the IRS increases to wages. It starts at 16% and can reach a share of 45% applied to gross income. It is a tax that can be overwhelming at first weighing on employees, but in Germany there are many ways regarding deductibility from income tax calculation.

Expenses deductible income tax may take the following forms:

- relocation expenses (for immigrants);
- rental expenses (for immigrants);
- the cost of German language courses (for immigrants);
- costs of transport employees from home to corporate headquarters.

In Germany there is a minimum taxable amount, which may be around 8,000 per year. For single people this amount is not taxable, but which exceeds this amount is taxed progressively. Another feature of the tax system in Germany is that it makes the distinction between married and unmarried employee, if his / her spouse or income realized between employee taking care of children or not. The salaries, benefits and other facilities in Germany is shown in *Figure no. 3.*
4. Conclusions

Regardless of how payroll practiced every economic entity in part, a fair and equitable policy in this field involves the principles of domestic and foreign equity and capacity to motivate wage. A pay system, the correct balance is an important factor in relations between employers and employees, a lever of economic stability and also a possibility to increase organizational performance.

We note that labor taxation consists primarily of income tax and social security contributions. As a result of the crisis faced by most member states of the European Union, one can see a trend of increasing income tax rates.

ACKNOWLEDGEMENT

This paper has been financially supported within the project entitled “Horizon 2020 -Doctoral and Postdoctoral Studies: Promoting the National Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research”, contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!

References