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SOCIAL INSURANCE UNDER PRESSURE TO REFORM

KEY MESSAGES

↘ Due to demographic change, under current legislation, the total social insurance contribution rate is expected to rise from the current 42.3 % of income subject to contributions to almost 50 % by 2040.

↘ An increase in contribution rates reduces the disposable income of private households and increases labour costs for firms. Both factors dampen overall economic growth.

↘ Stabilising contribution rates could be achieved by limiting expenditure growth and strengthening the revenue base.

EXECUTIVE SUMMARY

In the coming years, the number of benefit recipients in statutory pension (GRV), health (GKV) and social long-term care (SPV) insurance is likely to rise significantly due to demographic change, whilst the number of contributors is set to decline. Projections by the GCEE suggest a significant rise in the total social insurance contribution rate over the coming decades. In the baseline scenario, the contribution rate rises from 42.3 % of income subject to contributions in 2026 to 45.4 % in 2030 under current legislation. By 2040, the contribution rate will rise to 49.7 % if the current upward trend continues. Thereafter, the trend will continue at a slower pace. This will exacerbate the trade-off between an adequate level of benefits and sustainable financing.

In international comparison, the tax wedge on labour income in Germany is high. An increase in social insurance contributions widens the wedge between labour costs and net wages. The burden is shared roughly equally between firms and employees in Germany. For private households, the rise in contributions reduces disposable income and thus private consumption. At the same time, a higher tax wedge can reduce incentives to work and thereby dampen labour supply. For firms, higher social insurance contributions lead to rising labour costs. This weighs on labour and investment demand. Simulations show that the projected increase in the total contribution rate of around 6 to 7 percentage points by 2035 reduces gross domestic product by 0.5 to 0.9 % compared to a scenario without contribution rate increases.

The trend in contribution rates should primarily be curbed by limiting the rise in expenditure. Reform options for the GRV were outlined in the GCEE Annual Report 2023. In the GKV, structural reforms in hospital care, a pricing system for medicines more strongly oriented towards added value, and prevention can limit the rise in expenditure without compromising the quality of care. In the SPV, limiting access to benefits to the level recommended by experts, the withdrawal of certain services that are not particularly targeted, and cohort-specific capital funding could contribute to more sustainable financing.

On the revenue side, non-contributory benefits (NBL) should be fully tax-financed, given they fulfil clearly justified societal tasks. A critical review is needed to determine whether individual NBLs are objectively justified. Extending the contribution-liable tax base to non-wage income appears inappropriate in social insurance branches with a wage replacement function. The contribution-liable tax base can be stabilised through measures and reforms that promote a longer working life, a higher labour volume and increased productivity growth.

I. INTRODUCTION

78. **Social insurance**, covering unemployment (ALV), accident (UV), statutory pension (GRV), statutory health (GKV) and social long-term care (SPV) insurance, forms the **central pillar of social protection** in Germany. ↘ BOX 8 It is designed to protect private households against major life and employment risks by supporting their income when insured risks materialise. In doing so, it helps to smooth consumption over the life cycle (Gruber, 1997a; Gertler and Gruber, 2002) and reduces the risk of poverty (Jacques et al., 2021). For firms, stable and reliable social insurance is beneficial firms, as it helps maintain the employability of the labour force and, for example, support labour market participation and productivity through better health (Miller et al., 2021).

79. In accordance with the **insurance principle**, ↘ BOX 8 this protection is provided through contribution-based insurance firms schemes with corresponding entitlement to benefits. These are linked to the occurrence of specific insured risks. In accordance with **the principle of solidarity**, ↘ BOX 8 individual risks, particularly in health and long-term care insurance, are borne collectively by the working population and firms, with income- and risk-related differences being partially offset within the pool of insured persons. This means that contributions to health and long-term care insurance are based on financial capacity, whilst benefits are granted according to need.

80. **Social insurance schemes are predominantly financed through contributions and via a pay-as-you-go system** ↘ GLOSSARY**.** Under pay-as-you-go financing, contributions are not saved for future benefits but are directly reused for current benefits. In the individual insurance branches, the calculation of contributions is primarily linked to labour income and is limited by contribution assessment ceilings and, depending on the insurance branch, by the varying scope of the insured groups. In addition, federal subsidies are granted, which primarily serve to offset benefits not covered by contributions (NBL). BACKGROUND INFO 6

81. **The trade-off between maintaining an adequate level of benefits of social insurance benefits and ensuring their long-term financial sustainability** is set to intensify in Germany in the coming years as a result of demographic change. ↘ ITEMS 88 FF. ↘ BACKGROUND INFO 4 A demographically driven increase in benefits alongside an unchanged or declining labour volume, as is to be expected in the coming decades, ↘ ITEMS 95 F. requires higher contribution rates or higher public subsidies if the scope of benefits per insured person remains unchanged. Higher contribution rates may reduce consumption and the labour supply of private households due to lower net wages. ↘ ITEMS 123 FF. For firms, higher contributions increase labour costs, which may dampen demand for labour and investment. ↘ ITEMS 137 FF.

↘ BACKGROUND INFO 4

Background: Trade-off between an appropriate level of benefits and sustainable financing in social insurance systems

The adequat level of benefits and the sustainability of finances of social insurance systems are two central, partly competing objectives. An adequate level of benefits means protection against life and employment risks through predictable benefits which, when an insured event occurs, allow to smooth consumption and reduce the poverty risk. ↘ BOX 8 Sustainability is achieved when the level of protection provided for under current law can be maintained in the long term without the higher contribution rates and federal subsidies required for this leading to noticeable distortions in employment and output growth or placing a disproportionate burden on future generations (BMGS, 2003; GCEE Annual Report 2023 item 363).

82. The financial development of the social insurance system is determined by three factors: i) the number of benefit recipients, which is primarily determined by the demographic structure of the insured; ii) the trend in expenditures per benefit claim, which is strongly influenced by wage trends and, in the health and care sectors, also by advances in medical technology; and finally iii) the trend in the contribution-liable tax base, which depends on aggregate labour volume, the wage bill and the employment structure. Contribution rates rise accordingly even if, with the scope of benefits remaining unchanged, the number of benefit recipients increases due to demographic factors, or if the revenue base subject to contributions grows at a slower rate than expenditures.

83. The **total social insurance contribution rate**, i.e. the sum of the contribution rates for pension, health, long-term care and unemployment insurance, has risen significantly since reunification, from 35.6 % in 1990 to 42.3 % in 2026. ↘ CHART 32 This development is attributable both to an expansion of the scope of benefits and improvements in the quality of benefits, as well as to rising needs driven by demographic factors. ↘ ITEMS 105 FF. The contribution rate for the GKV has risen particularly sharply over time. However, the contribution rates for the GRV and, particularly from 2015 onwards, for the SPV have also risen. The contribution rate for the ALV has fallen noticeably since 2007 due to the declining unemployment rate.

84. Against this backdrop, this chapter analyses the future trend in total social insurance contributions ↘ ITEMS 88 FF. and highlights how this trend may influence private consumption, labour supply and demand, investment decisions by private households and firms, and the general government. ↘ ITEMS 113 FF. The following two chapters deal with the development of contributions and benefits in health and long-term care insurance ↘ ITEMS 195 AND 301 and discuss how both systems can be strengthened in view of the impending demographic ageing. In its 2023 GCEE Annual Report, the GCEE discussed reform options for the statutory pension scheme that could help to manage the consequences of demographic change (GCEE Annual Report 2023 items 387 ff.). ↘ ITEM 146

85. A simulation by the GCEE, based on projections of population trends and long-term output growth, shows how the finances of the social insurance system could

develop over the coming decades. ↘ CHART 33 **In the baseline scenario, the total contribution rates for the social insurance branches under consideration will rise from the current 42.3 % to 45.4 % by 2030** and further to around 49.7 % by 2040. Thereafter, the increase will continue at a slower pace.

Sustained higher contribution rates can dampen overall economic activity by reducing disposable income, increasing labour costs and thus weighing on employment, consumption, investments and price competitiveness. An increase in the aggregate contribution rate of around 6 to 7 percentage points by 2035 is associated with a real gross domestic product (GDP) that is approximately 0.5 % to 0.9 % lower than the baseline scenario (Hüther et al., 2025; Ochsner, 2026). ↘ BOX 9

86. To stabilise the social insurance system in the face of demographic change, expenditure growth in GRV, GKV and SPV must be limited in a socially acceptable manner while strengthening the revenue base. Areas for action include increasing labour supply through higher labour force participation and longer working lives, simplifying labour migration ↘ ITEMS 158 F. and improving productivity growth, ↘ ITEM 160 as well as reforms to limit expenditure growth and to clearly delineate contribution- and tax-financed responsibilities. ↘ ITEMS 146, 148, 149 AND 154

II. SOCIAL INSURANCE FINANCES

87. The various branches of the German social insurance system address different life and employment risks. They are closely financially and structurally intertwined. ↘ BOX 8 ↘ ITEM 91 In the long term, their financial development is primarily determined by overall economic growth and demographic ageing. As a result of demographic change, the number of benefit recipients is rising, whilst the number of contributors is increasing at a slower rate. The **key challenge for social insurance financing** in the coming years **will be to ensure an adequate level of benefits while limiting the burden on households and firms associated to a sustainable level**.

88. **In pay-as-you-go systems, rising funding requirements are generally met by adjusting contribution rates.** Contribution rates rise either due to an expansion of the scope of benefits or due to changes in the contribution base. These arise, for example, when the number of benefit recipients increases for demographic reasons, or when the labour volume and growth in income subject to contributions develop more slowly than expenditures. In the short term, social insurance reserves can delay contribution rates adjustments. The amount of federal funding for social insurance schemes, however, is set by law.

In order to assess the impact of future trends in economic growth and demographics on the social insurance system, the GCEE projects the trend in the total social insurance contribution rate based on projections of population growth and potential growth. ↘ BACKGROUND INFO 5 To put the projection results into perspective, sensitivity analyses vary key assumptions regarding demographic trends, net migration, the female labour force participation rate and average annual working. ↘ CHART 40

↘ BOX 8

Background: Social insurance objectives and organisational principles

Social insurance is intended to protect private households against significant life and employment risks that are inadequately covered by private markets due to information asymmetries, incomplete contracts and collective risks. Furthermore, behavioural economic factors such as present-bias, bounded rationality and a systematic underestimation of future risks justify the design of compulsory insurance, as individuals would otherwise often fail to make adequate provision (Anderson, 2003; Rice, 2013). Social insurance stabilises the disposable income of private households when insured risks materialise, thereby helping to smooth consumption over the life cycle (see Gruber, 1997a; Gertler and Gruber, 2002). Furthermore, they fulfil a protective function with regard to the risks of poverty and social exclusion, particularly in the event of long-term illness or very high treatment costs, as well as in the event of reduced earning capacity and in old age.

Social insurance systems also have advantages for firms. By covering health and income risks, they help maintain the employability of the labour force. Evidence shows that better health is associated with higher labour market participation and better labour market outcomes (Currie and Madrian, 1999) and that health insurance coverage may be linked to fewer days of absence or higher productivity (Miller et al., 2021). Furthermore, social insurance systems increase

income security during life transitions and thus support adjustment and mobility processes in the labour market.

The German social insurance system is based on two central organisational principles. The insurance principle ensures that, provided contributions are paid, clearly defined entitlement to benefits exists in the event of an insured event. The solidarity principle determines the level of contributions according to ability to pay and the provision of benefits according to need. The extent to which these two principles are applied varies across different insurance branches. In the GKV and SPV, for example, the needs-based principle applies, meaning that entitlement to benefits is largely independent of the individual contribution level and is determined solely by medical or care needs. ↘ ITEMS 191 AND 299 Conversely, the principle of contribution equivalence in the GRV and the ALV reinforces the logic of insurance by linking entitlement to benefits more closely to the amount and duration of contribution payments (GCEE Annual Report 2023 item 499).

The GRV serves to replace income following the end of the working life due to old age, in the event of premature incapacity for work, or following the death of a spouse with employment. Due to its scale, both in terms of contribution revenue and benefit payments, the GRV plays a major role in the social insurance system.

The GKV ↘ ITEMS 191 FF. guarantees medical care in accordance with the principle of need and protects private households from substantial healthcare costs.

The SPV ↘ ITEMS 287 FF. AND 296 covers the financial risk in the event of need for long-term care and provides benefits for both outpatient and inpatient care.

The ALV covers the risk of temporary unemployment and provides both passive benefits in the form of unemployment benefits and active labour market policy measures, for example support for the reallocation of labour. It thus contributes to the smoothing of household incomes and to the improved functioning of the labour market.

The UV covers the consequences of accidents at work and work-related illnesses. Unlike the other social insurance branches, the UV is financed solely by employers through risk-based contributions. On the one hand, this ensures that costs are distributed in line with the risk of accidents at work and occupational illnesses across different occupations and sectors; on the other hand, it creates incentives for firms to minimise the occupational hazards arising within their organisations.

1. Determining factors

89. The financial development of social insurance systems results from the interplay between i) the trend in the number of benefit recipients, ii) the expenditure dynamics per benefit claim, and iii) the trend in the contribution-liable tax base. The trend in the number of benefit cases is determined, given the legal framework and risk prevalence – i.e. the frequency and duration of unemployment, illness (morbidity ↘ GLOSSARY) or the need for care in relation to a specific population group – primarily by the age structure of the insured. The **contribution-liable revenue base depends largely on the labour volume and on overall economic growth**. Rising productivity increases wages and thus the contribution-liable tax base. Furthermore, wage growth can increase expenditures per claim, as wage replacement benefits for unemployment and old age are adjusted accordingly, and higher wages in labour-intensive sectors such as health and care also lead to higher expenditures. In addition, as income rises, so does the willingness to pay for healthcare expenditures. ↘ ITEMS 97, 98 AND 99

90. The **demographic structure affects both sides of the social insurance budget**. ↘ ITEMS 92 FF. It determines the labour volume in the overall economy and thus economic growth, as well as the revenue subject to tax and social insurance contributions, from which social insurance revenue is generated. At the same time, demographics influence the number of benefit recipients and thus social insurance expenditures. Expenditures also depend on the costs per claim. ↘ ITEMS 223 FF.

91. **Expenditure volumes and structures vary significantly across the different social insurance schemes.** The GRV has the highest expenditure volume. Its expenditure trends are strongly influenced by the demographic structure, which consequently has a significant impact on the long-term development of the overall contribution rate (GCEE Annual Report 2023 items 363 ff.). Expenditure trends in the GKV and SPV are largely shaped by morbidity, the prevalence of care needs and demographic changes. However, the most recent rise in expenditure in the GKV was primarily driven by advances in medical technology. ↘ ITEM 100 The financial weight of the ALV is smaller compared to the other social insurance branches and relatively insensitive to demographic trends. It is, however, of great economic significance as an automatic stabiliser. ↘ GLOSSARY

Diverse interactions between the individual social insurance branches influence both cost structures and benefit claims. Between GKV and SPV, medical care affects the probability of admission and the extent of the need for care, whilst care needs can simultaneously trigger additional medical services.

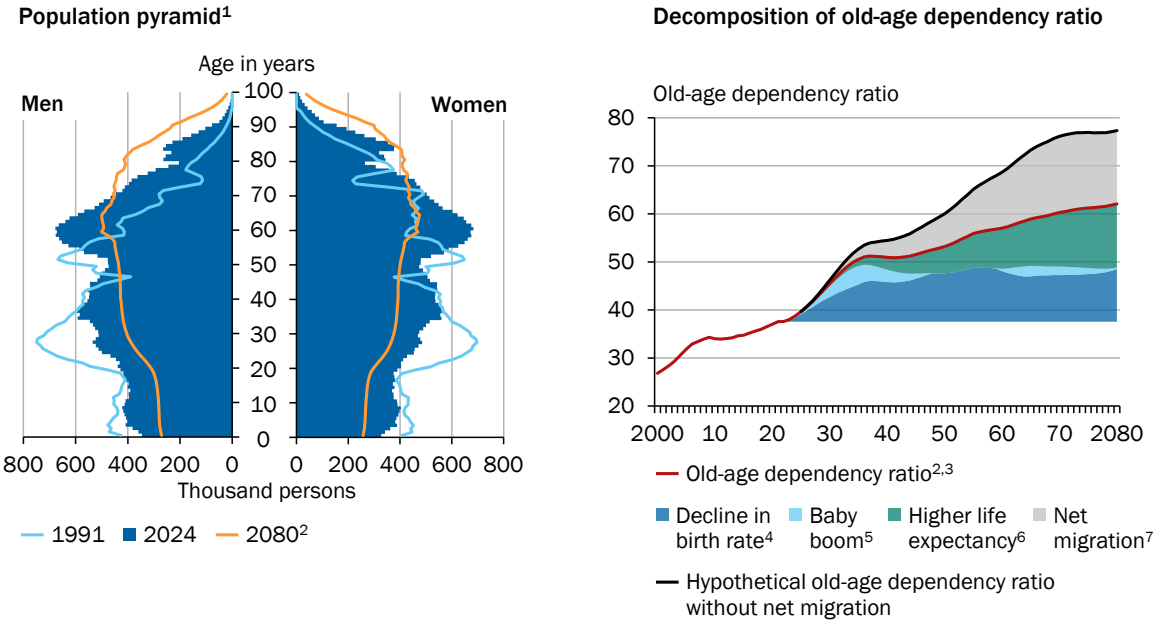
Demographics and labour volume

92. **Between 1990 and 2024, demographic trends in Germany were characterised by population ageing alongside sustained population growth**. ↘ CHART 28 LEFT The population rose from 79.8 million in 1990 to 83.6 million in 2024. The fertility rate stood at around 1.5 children per woman in 1990, fell significantly by the mid-2000s, recovered temporarily to around 1.6 by 2021, and has since declined again. Overall, since 1990, the fertility rate has remained well below the level of 2.1 children per woman that would be necessary to maintain a stable population assuming a balanced net migration (and no changes in life expectancy).

At the same time, life expectancy at birth rose steadily, from 79 (72.5) years for women (men) at the start of the 1990s to 83.5 (78.9) years in 2024. Despite the rise in life expectancy, natural population growth was negative for much of the period. The old-age dependency ratio – the number of people aged 65 and over per 100 people of working age (20 to 64) – ↘ GLOSSARY rose almost continuously from 24 in 1991 to 39 in 2024 as a result of low birth rates and increasing life expectancy. ↘ CHART 28 RIGHT Consequently, the number of benefit recipients has already risen significantly in recent decades as a result of progressive demographic ageing. Net migration has, admittedly, partially offset the decline in the labour force potential in recent years and supported population growth. However, the impact on the long-term trend of ageing is limited in the context of persistent low

↘ CHART 28

Age pyramid and decomposition of the development of the old-age dependency ratio



1 – Reference date 31.12. 2 – Reference scenario based on the composition of the population in 2024 and assumptions of the medium variant on birth rate (G2), life expectancy (L2) based on the 16th Coordinated Population Projection, as well as net immigration of 200,000 people on average across all years in the projection period. 3 – The old-age dependency ratio is the ratio of people aged 65 and older to 100 people aged 20 to 64. 4 – Effect of the decline in the birth rate in the 1970s. 5 – Additional effect of baby boom. First spike represents additional population due to baby boom, and second spike represents their offspring. 6 – Effect of the increase in life expectancy at birth. 7 – Effect of net immigration.

Sources: Federal Statistical Office, Human Mortality Database, SIM.24

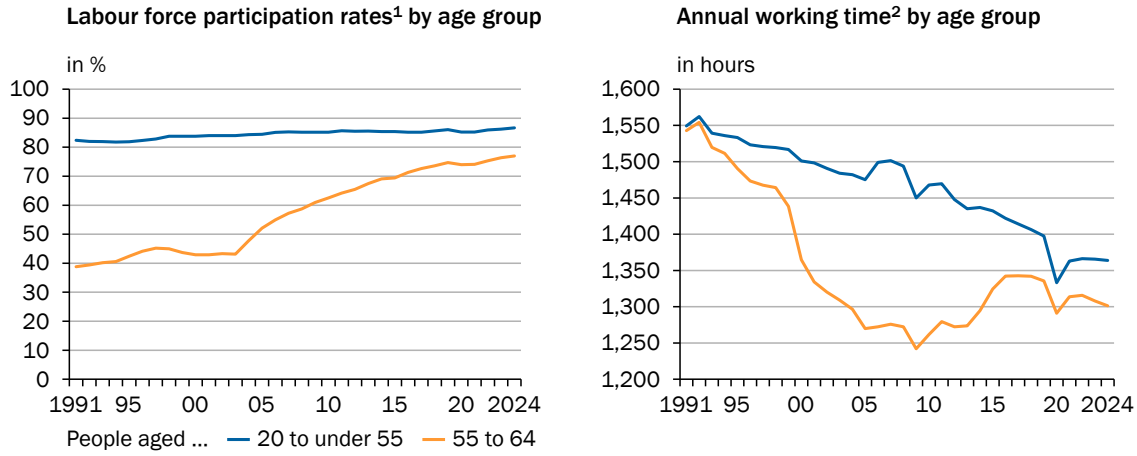
fertility. The observed population growth is largely attributable to positive net migration.

93. **Labour volume**, measured as the total number of hours worked, is central to the social insurance finances because it is a key determinant of the contribution-liable wage bill and thus of the revenue base of pay-as-you-go systems. The development of the labour volume can be broken down into four components: (i) the working-age population, (ii) labour force participation, (iii) unemployment, and (iv) the average working hours per person in employment. ↘ CHART 30 RIGHT

These determinants are influenced in different ways by demographic change. In the long term, the working-age population is the key factor, as it determines the labour force potential and thus sets the upper limit on the possible labour volume. Changes in labour force participation, unemployment and average hours worked per person can dampen or reinforce the demographic trend, but cannot fully offset it.

94. Demographic changes affect the labour volume not only through the size of the labour force, but also through **differences in the age-related employment structure and labour intensity between different age groups**. As the population ages, the share of people in the older working-age group increases; their employment rates are lower than those of the middle-aged groups. ↘ CHART 29 LEFT In 2024, the labour force participation rate for 20- to 55-year-olds stood at 87 %,

↘ CHART 29
Heterogeneity in labour force participation rates and hours worked



1 – Labour force participation rates are defined as the proportion of the labour force in the population of the respective age group. The labour force comprises persons in employment and in unemployment. According to the OECD/ILO definition, those in employment include employees, the self-employed and family workers. The working-age population is defined, in line with the OECD, as the population aged between 20 and 64. 2 – Average annual working hours of all persons in employment.

Sources: Institute for Employment Research, OECD, own calculations

compared with 77 % for those aged 55 to 64 (in 1991: 82 % and 39 % respectively). Furthermore, the average working hours of older employees are lower, ↘ CHART 29 RIGHT partly due to higher rates of part-time work. In 2024, the average annual working hours for those aged 55 to 64 stood at 1,301 hours, compared with 1,364 hours for those aged 20 to 55 (in 1991: 1,543 and 1,549 hours respectively). Demographic change is thus reducing not only the number of people in the labour force but also the average number of hours worked per person. The decline in the labour volume is consequently greater than population trends alone would suggest.

95. To estimate **future demographic trends**, the GCEE uses assumptions G2 and L2 from the 16th coordinated population projection (kBv) as its baseline scenario. ↘ BACKGROUND INFO 5 ↘ CHART 28 LEFT This combines the median assumptions within the variants of the 16th kBv regarding fertility (G2) and life expectancy (L2). Based on a combined fertility rate of 1.35 children per woman in 2024, G2 (and its projection ↘ ITEM 176) assumes that the fertility rate will recover in the long term and rise to 1.47 children per woman by 2080. In path L2, life expectancy at birth will increase by 7.2 years for men and 5.5 years for women by 2080 compared with 2024, reaching 86.1 years (men) and 89 years (women). As a result, the population will become older on average. According to the GCEE's assumptions, net migration will fall to 200,000 people by 2030 – a mid-range scenario between variants W1 (150,000 people) and W2 (250,000 people) of the 16th kBv – and will subsequently remain constant. This corresponds to a total net migration of 11.3 million people between 2025 and 2080.

96. **In the baseline scenario, the population declines in the long term** and is expected to fall to 71 million people by 2080, despite the positive effect of

migration. Demographic ageing, caused by the departure of large cohorts (including the baby boomers, born between 1955 and 1969) from the labour force and the lower rate of replacement by younger cohorts, leads to a sharp decline in the proportion of the working-age population. At the same time, the average age of the working-age population (aged 20 to 64) is rising significantly, from 45 in 2024 to 50 in 2080. The old-age dependency ratio is increasing steadily over the projection period. In particular, it will rise sharply to 51 by 2035 and stand at 62 in 2080. ↘ CHART 28 RIGHT The declining number of people in the labour force and the ageing of the population will lead to a reduction in the labour volume and thus in the revenue base of the social insurance system, whilst the number of benefit recipients will rise.

↘ BACKGROUND INFO 5

Background: Projection methods for simulating future trends of the total social insurance contribution rate

The SIM.24 model ('Social Insurance Model', data as of 2024) is a long-term simulation model that projects the financial development of social insurance schemes over many decades under current legislation (Werding et al., 2026). The starting point is a module for demographics which, based on the 16th coordinated population projection, ↘ ITEM 176 extrapolates the size and age structure of the population up to the year 2080. The 16th kBv comprises a total of 27 variants that combine different assumptions regarding the development of birth rates, life expectancy and migration. These are used for sensitivity analyses. For overall economic development, assumptions are based on the potential output projection. ↘ ITEM 177 For the GRV, GKV, SPV and ALV, the model maps out insured groups, revenue subject to contributions, eligibility requirements and benefit provision in close alignment with the respective legal framework, and uses this to calculate the annual expenditures that must be covered by revenue in the long run. Federal subsidies are projected in accordance with current legislation, and no discretionary increases are assumed. The remaining funding requirement is therefore reflected in the model primarily through higher contribution rates.

Long-term trends in productivity and income

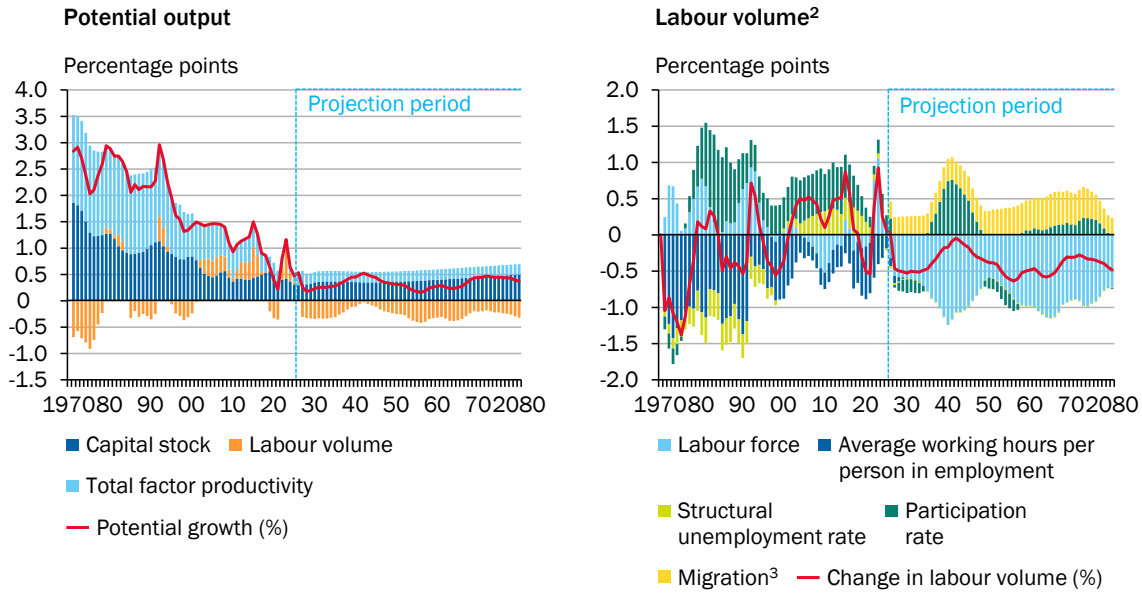
97. **Productivity growth is another determining factor in the financial sustainability of the social insurance system**. It affects both the revenue and expenditure side. On the revenue side, it increases inflows because it determines the rise in real income per hour worked and thus, given fixed contribution rates, increases the contribution-liable tax base. Rising incomes expand the scope for redistribution between private households, firms and the state and make it easier to finance higher benefit requirements without raising contribution rates. In contrast, weak productivity growth exacerbates the trade-off between an adequate level of benefits and the sustainable financing of benefits. ↘ BACKGROUND INFO 4 Against this backdrop, the recent slowdown in productivity growth observed in Germany ↘ CHART 30 LEFT exacerbates the demographic challenges facing the financing of social insurance as real wage growth and thus increases in contribution-based revenue are dampened, while demographically driven expenditure needs for pension, health and long-term care benefits are increasing.

98. **The impact of higher productivity – and thus of higher incomes and wages in the long term – on the finances of the individual social insurance schemes vary across them.** Under current legislation, for example, rising wages have a direct effect on annual pension adjustments in the GRV. This is all the more true if the adjustment formula no longer includes a wage factor and other correction factors, but instead aims directly at a constant level of provision (GCEE Annual Report 2023 item 374). In the case of the GKV, higher incomes may create upward pressure on healthcare expenditure. In theoretical models, healthcare expenditure rises disproportionately to income, as the marginal utility of additional consumption of goods decreases with rising income, whilst the relative value of health and a longer life expectancy increase. Accordingly, the share of private and public healthcare expenditure in the overall economy's final consumption expenditures increases (Hall and Jones, 2007).

A trend consistent with these considerations is also evident in Germany. Health-related consumption expenditures as a share of GDP by private and public households rose from 2.9 % in 1992 to 3.5 % in 2023 (4.1 % in 2022). However, this observation does not allow conclusions to be drawn regarding the income elasticity of health expenditure as the (primary) cause of this increase. Older macroeconomic country comparisons typically find that health expenditure at the national level rises disproportionately with income (Newhouse, 1977). However, the relationship at the individual level may be significantly weaker, for example because insurance systems decouple a large proportion of health costs from individual income differences (Getzen, 2000). A more recent panel data analysis for OECD countries by Baltagi and Moscone (2010) finds lower elasticities of well below one,

↘ CHART 30

Growth contributions of components to potential output and labour volume[1]



1 – Calculations by the GCEE. 2 – The output elasticity of labour is 0.66. 3 – Explicitly modelled from 2025; included in labour force until 2024.

Sources: Federal Statistical Office, own calculations

but confirms a close long-term link between health expenditure and income levels.

99. **Baumol's cost disease is another structural driver of expenditure** that is closely linked to the growth of income and productivity in the overall economy (GCEE Spring Report 2025 box 19). In labour-intensive sectors where automation is limited, such as health and care, labour productivity is rising more slowly than the overall economic average. Nevertheless, wages in these sectors must keep pace with general wage trends in order to attract workers. This leads to a rising share of expenditure in GDP. For the health sector, Hartwig (2008) provides empirical evidence, using panel data for OECD countries, that health expenditure is driven by overall economic wage increases that exceed productivity growth. Colombier (2017) estimates for OECD countries that Baumol's cost disease contributes between around 0.15 and 0.4 percentage points to annual output growth in real per capita health expenditure. Bates and Santerre (2013) document comparable results for US states.

100. **The effect of medical-technical progress on the expenditure dynamics of statutory health insurance is, a priori, ambiguous.** Expenditures may fall if, for example, efficiency gains are realised through digitalisation (process innovations). Cost increases arise primarily from the expansion of indications and treatment options (product innovations), for instance when innovations broaden the range of treatable diseases and additional services are utilised. Empirical studies generally point to a net cost-increasing effect of medical-technical progress. ↘ ITEMS 222 F.

101. The potential of automation and digitalisation remains underused in the social insurance system. In principle, digital process innovations can increase efficiency, improve resource allocation and contribute to service improvements and innovations through the use of data, both in social insurance administration and service delivery. For example, efficiency gains can be achieved through AI-supported automation of administrative processes or through the use of robotic systems for routine logistical tasks. At the same time, digitalisation and automation in social insurance can open up new business areas for firms and provide impetus for new business models and start-ups (Bratan et al., 2022; EFI, 2022). In the care sector, the relief provided to staff through automation has so far been limited. The use of robotics is limited to initial pilot projects. ↘ ITEM 295 Comprehensive data exchange regarding patient data or in the monitoring of care staff is only slowly progressing. ↘ BOX 21 In the field of statutory health insurance, the electronic health record is regarded as a central component of digitalisation with considerable potential for productivity gains and cost reductions. However, the use of electronic health records by both insured persons and medical practices has so far been limited. ↘ ITEMS 221 FF.

102. In the long term, according to estimates by the GCEE, there is a **secular decline in output growth for potential output** (GCEE Annual Report 2023 items 81 ff.). ↘ CHART 30 LEFT Whilst potential output growth averaged around 2.5 % per year between 1970 and 1990, it has trended continuously downwards since reunification. Since 2010, it has averaged 0.9 %. The decline reflects weaker total factor

productivity (TFP) growth and a lower trend contribution from capital input (from around 1.5 percentage points in the 1970s to around 0.4 to 0.6 percentage points since the 2010s).

103. As the trend in TFP is fundamentally uncertain, the GCEE assumes a constant TFP growth rate at the current level of 0.24 percentage points per annum in its projection of potential growth. To contextualise the projection results, sensitivity analyses are carried out in which the TFP growth rate is varied by 0.2 percentage points up and down from the baseline assumption. ↘ CHART 40 Under the baseline scenario, the projection shows potential growth that is low compared to historical standards from 2026 onwards for a long period, as the demographic decline in the labour force is offset by (only modest) positive contributions from capital utilisation and TFP. ↘ CHART 30 **Consequently, expected potential growth at the end of the 2020s and the start of the 2030s is only around 0.2 % per year.** A slight recovery is expected for the 2030s, with potential growth rising to 0.4 %. This improvement is primarily due to the negative contribution from labour input being temporarily less pronounced, whilst the contribution from capital input remains moderate overall during the projection period (around 0.3 percentage points per year in the late 2020s).

A pronounced phase of demographic weakness is expected again in the 2040s. Potential growth falls significantly again during this period, from around 0.5 % in the early 2040s to about 0.3 % at the start of the 2050s. The negative contribution from labour input may at times reach as much as –0.3 percentage points. Potential growth is expected to gradually normalise thereafter.

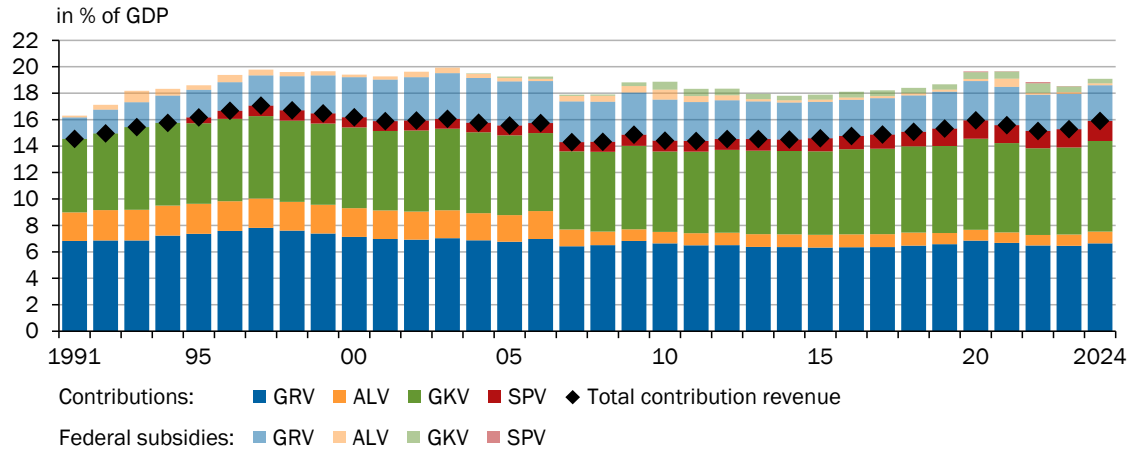
2. Developments to date

104. Contributions and federal subsidies together cover (almost) all social insurance expenditures. Expenditures have risen in recent decades, primarily due to the expansion of benefits and improvements in the quality of services (GCEE Annual Report 2023 items 368 f.). ↘ ITEMS 224 FF. AND 304 Only in the ALV has the favourable economic development of the last two decades led to a declining share of expenditures as a share of GDP.

105. **In the period from 1991 to 2024, contributions and subsidies as a share of GDP ranged between 16 % and 20 %.** ↘ CHART 31 shows that for the year 2024, this amounted to 19.1 % of GDP. The revenue structure was predominantly shaped by the revenues of the GRV and GKV throughout the entire period. ↘ CHART 31 Thus, in the 2010s, GRV revenue stood between 9 % and just under 10% of GDP, whilst GKV revenue was around 7 % of GDP. SPV revenue remained the smallest component among all insurance branches throughout the entire period, but increased noticeably over time. Following its introduction in 1995, the revenues rose from around 0.4 % in 1995 to 1.5 % of GDP in 2024. ALV revenue fluctuated over the long term between around 1 % and 3 % of GDP. UV revenue, most recently at around 0.4 % of GDP, is less significant in terms of the overall economy.

↘ CHART 31

Trend in revenue across the social insurance schemes[1]



1 – Excluding agricultural pension funds and statutory accident insurance; other social insurance revenue not included. GRV-Statutory pension insurance, ALV-Unemployment insurance, GKV-Statutory health insurance, SPV-Social long-term care insurance.

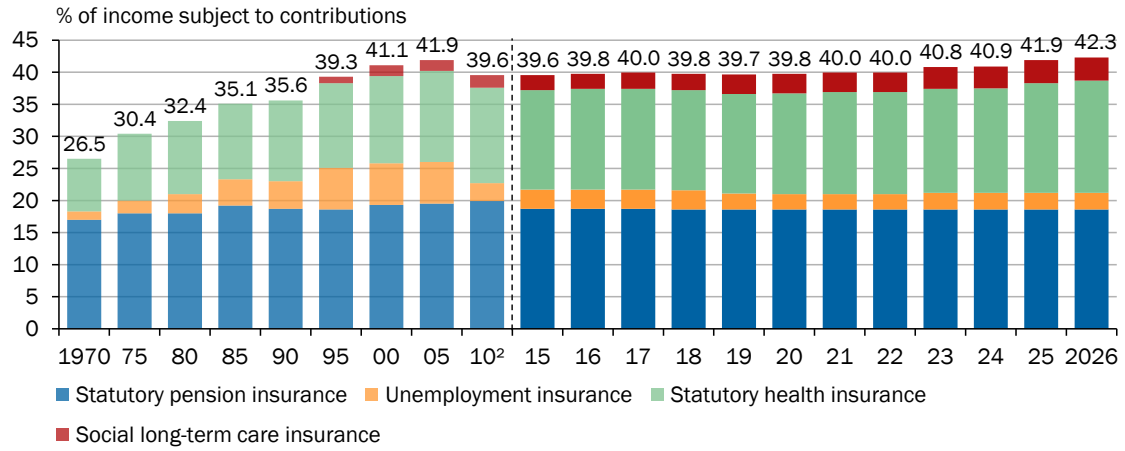
Sources: Federal Statistical Office, SIM.24, own calculations

106. **Contributions account for by far the largest share of aggregate revenue across all social insurance schemes throughout the entire period.** ↘ CHART 31 The total social insurance contribution rate has risen significantly since reunification, from 35.6 % in 1990 to 42.3 % of income subject to contributions in 2026. ↘ CHART 32 Since the 2000s, the majority of contribution rate increases have been driven by rising expenditure in the GKV and SPV. The contribution rate for the GRV remained largely stable, owing to reforms and a very favourable trend in the labour force due to low unemployment and comparatively high labour migration. The share of ALV in the total social insurance contribution rate fell on several occasions following 2005 as a result of favourable labour market developments.

107. **Across all social insurance schemes, federal subsidies amounted to around 3.2 % of GDP in 2024.** ↘ CHART 31 Since 2015, federal subsidies have accounted for an average of around 18 % to 21 % of social insurance revenue. By far the largest share, at around 2.7 % to 3.0 % of GDP, went to the GRV. Federal subsidies are used primarily to finance benefits not covered by contributions and, particularly in the GRV, reduce the need for financing through contributions. ↘ BACKGROUND INFO 6 In the GKV, federal subsidies have so far remained of secondary importance and have generally been well below 1 % of GDP. ↘ ITEM 196 The SPV's revenue is also almost entirely contribution-financed. ↘ ITEM 302

↘ CHART 32

Trends in contribution rates across social insurance schemes[1]



1 – Until 1990, the former Federal Republic of Germany; from 1991, Germany. 2 – Health insurance from July 2010: 15.5 % instead of the previous 14.9 %. 3 – Average contribution rate; from 2009, uniform contribution rate to the Health Fund. Including average health insurance fund-specific supplementary contributions, which were borne solely by the insured until 2018; since 2019, these have been shared equally between the insured and employers. 4 – Excluding contribution surcharges and reductions based on the number of children.

Source: Institute for Work, Skills and Training at the University of Duisburg-Essen

↘ BACKGROUND INFO 6

Background: Non-contributory benefits and federal subsidies for social insurance

In the GRV (GCEE Annual Report 2023 box 23), GKV ↘ BOX 10 and SPV, ↘ BOX 20 there are benefits that do not stem from the purpose of insurance but serve other socio-political objectives. In the GRV in particular, these 'non-insurance-related benefits' do not stem from previous contribution payments, meaning that their financing from current contributions does not correspond to the logic of the pay-as-you-go system.

There is no clear definition of such "non-insurance-related benefits". In the GRV, for example, the crediting of child-rearing periods and the basic pension supplement are included (DRV Bund, 2024). In the context of the GKV, the BMG includes benefits motivated by family policy or justified on the grounds of society as a whole, such as the non-contributory co-insurance of spouses and children, as well as benefits relating to pregnancy and maternity (BMG, 2026).

To cover benefits not funded by contributions, the federal government provides federal subsidies to the social insurance system (or, in the case of child-rearing periods for children born from 1992 onwards, makes its own contributions). For the year 2025, federal subsidies to the GRV amounted to around 94.1 billion euros. These consist of three components (Section 213 SGB VI), which primarily serve to finance non-contributory benefits on a flat-rate basis, i.e. not allocated to individual benefits, and at the same time are intended to curb the rise in contributions (DRV Bund, 2024; GCEE Annual Report 2023 item 370): (1) The general federal subsidy (€60.8 billion) is updated annually in line with wage growth and adjusted proportionally to changes of the contribution rate. (2) The additional federal subsidy (€15.7 billion) is updated annually in line with the change rate in VAT revenue. (3) The increase amount (€17.6 billion) is updated annually in line with the average

development of gross wages and salaries per employee (Section 213(4) SGB VI).

In the GKV, the federal subsidy takes the form of a lump-sum set by law: the federal government contributes €14.5 billion annually to the Health Fund in monthly instalments (Section 221 SGB V). In addition, in recent years, temporary multi-year federal loans have been granted to the Health Fund, amounting to €1 billion in 2023 and €2.3 billion each in 2025 and 2026, intended to stabilise contribution rate developments in the GKV. Since 2022, the SPV has also received a lump-sum federal grant of €1 billion per year. There are no plans for automatic renewal; however, payments are suspended for the years 2024 to 2027 and are to be resumed from 2028 onwards (Section 61a SGB XI).

Future developments

108. The simulations by the GCEE show how contribution rates and federal funding for social insurance are set to develop up to 2080 (Werding et al., 2026). They are based on projections of demographic trends and potential output ↘ BACKGROUND INFO 5, assuming that increased funding requirements will be offset by an increase in contribution rates. Federal subsidies are updated on a rule-based basis, including contribution rate developments. ↘ BACKGROUND INFO 6 Under current legislation, the dynamics of the social insurance financing requirements in the coming decades will essentially be determined by three developments. Firstly, the number of benefit claims in the GRV, GKV and SPV is rising due to demographic factors. Secondly, expenditure per claim is rising. Thirdly, the contribution-liable tax base is growing more slowly than expenditure. The resulting increase in the overall social insurance contribution rate is concentrated in the 2030s and 2040s. Thereafter, it will continue to rise at a slower pace.

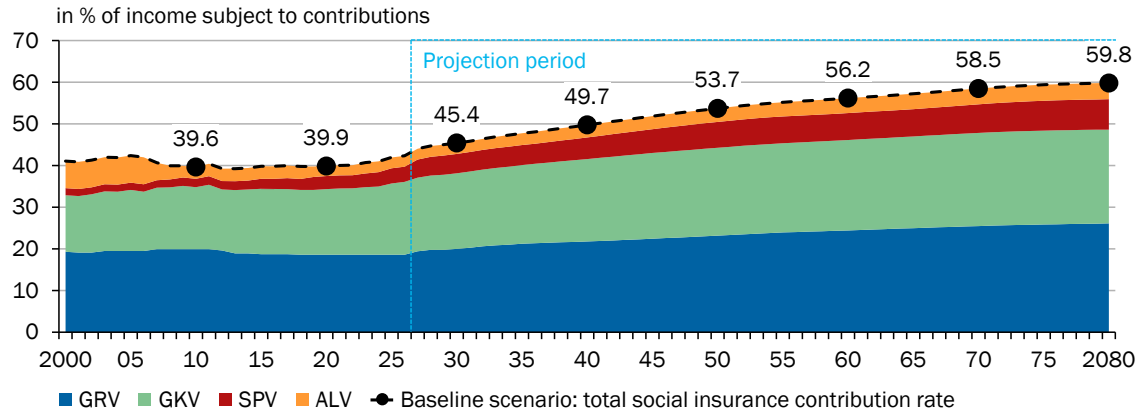
Projection of the total social insurance contribution rate

109. **In the baseline scenario, the total social insurance contribution rate rises from 42.3 % of income subject to contributions in the base year 2026 to 45.4 % in 2030.** ↘ CHART 33 In the following years, the increase continues at a similar pace. By 2040, the contribution rate will rise to 49.7 %. Over a period of 14 years, the tax burden will thus increase by 7.4 percentage points, with the sharpest rise occurring in the 2030s. After 2040, the rise continues, albeit at a slightly slower rate.

The main driver behind the trend in contribution rates in the GRV is demographic ageing. ↘ CHART 28 As the baby boomers reach retirement age, the ratio of contributors to benefit recipients in the GRV will decrease significantly. At the same time, the growing number of older people is also leading to rising expenditures in the GKV and SPV. Medical-technical progress is also likely to continue to contribute significantly to cost increases in the GKV. ↘ ITEM 222

↘ CHART 33

Projected development of the total social insurance contribution rates[1]



1 – GRV-Statutory pension insurance, GKV-Statutory health insurance, SPV-Social long-term care insurance, ALV-Unemployment insurance. Values for GKV and SPV include average supplementary contributions or contribution surcharges and reductions based on the number of children.

Sources: BA, BMAS, BMF, BMG, DRV, Federal Statistical Office, SIM.24

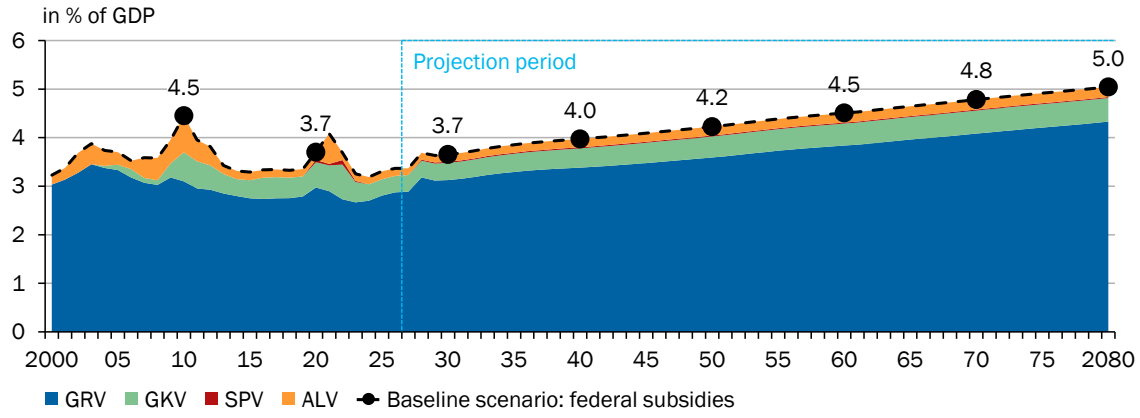
110. **Other simulations suggest that the social insurance contribution rate will rise at a similarly rapid pace until the mid-2030s.** For example, Ochmann et al. (2025) project the development of contribution rates across social insurance schemes up to 2035. In their baseline scenario, contribution rates rise to around 46 % in 2030 and just under 49 % in 2035. This means that contribution rates will rise slightly faster over the next ten years than in the simulations by the GCEE (45.4 % in 2030 and 47.7 % in 2035).

Projection of federal subsidies

111. **In the baseline scenario, federal subsidies to social insurance rise significantly to 3.7 % of GDP in 2030** (Werding et al., 2026). The rise continues into the 2030s. By 2040, they reach 4.0 % of GDP. ↘ CHART 34 The increase is driven almost entirely by subsidies to the GRV. Federal subsidies to the GRV amounted to 2.7 % of GDP in 2024 and, in the baseline scenario, rise to 3.1 % by 2030 and to 3.4 % by 2040. By contrast, federal subsidies to the GKV are rising moderately. After standing at 0.3 % of GDP in 2024, they will increase to 0.4 % by 2030 and remain at this level until 2040. Subsidies to the SPV remain very low throughout the projection period at around 0.02 % of GDP. Federal funding for unemployment insurance (SGB III) remains at around 0.2 % of GDP after 2024 and does not contribute significantly to the growth trend. From 2030 onwards, federal subsidies rise steadily. The majority of the long-term increase in federal subsidies is also attributable to the GRV.

↘ CHART 34

Projected development of federal subsidies to the social insurance schemes[1]



1 – GRV-Statutory pension insurance, GKV-Statutory health insurance, SPV-Social long-term care insurance, ALV-Unemployment insurance.

Sources: BA, BMG, DRV, SIM.24, own calculations
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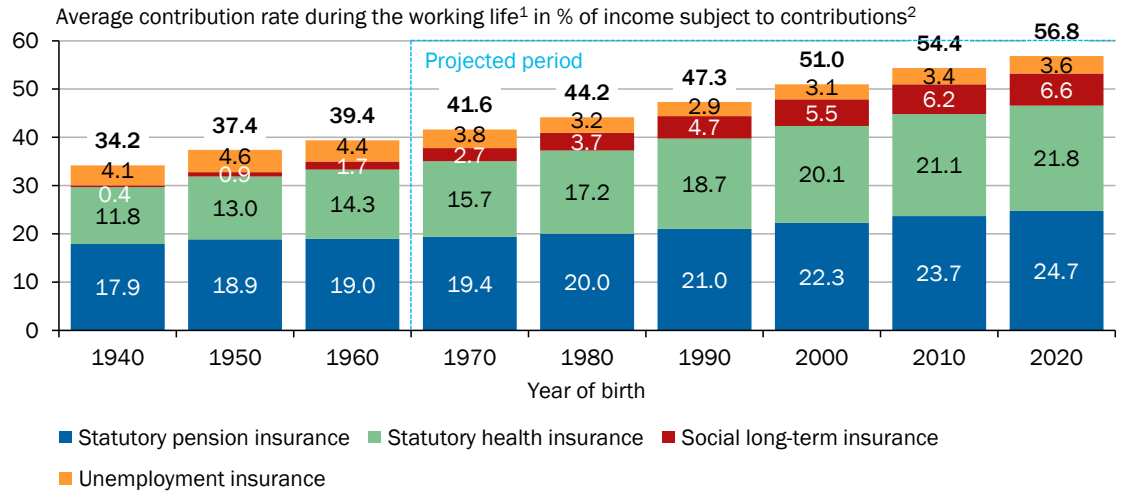
Distribution of the intergenerational contribution burden

112. Using the simulations of the GCEE for social insurance contribution rates, Werding et al. (2026) calculate the average contribution rates as a percentage of lifetime income for different birth cohorts. ↘ CHART 35 The average burden on lifetime income from the sum of social insurance contribution rates was 39.4 % for the 1960 birth cohort. For the 2020 birth cohort, it is projected to increase by 17.4

↘ CHART 35

Projected development of the contribution rates across social insurance schemes by birth cohort



1 – For the 1940 and 1950 birth cohorts, working age corresponds to the age of 20 to 65; for those born in 1960, it is 20 to 66; and for those born between 1970 and 2020, it is 20 to 67. 2 – The calculations neutralise changes in the average earnings of insured persons over the course of their working lives.

Source: SIM.24
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percentage points to 56.8 %. Rising social insurance contributions may affect the employment prospects of considered cohorts. ↘ ITEMS 113 FF.

III. EFFECTS OF CHANGES IN CONTRIBUTION RATES

113. The tax and social insurance burden on labour income in Germany is high compared in international comparison and, for average earners, is largely accounted for by social insurance contributions**. Permanently higher contribution rates widen the gap between labour costs and net wages.** In Germany, the additional burden is borne almost equally by employers and employees. For private households, lower net wage growth dampens the growth of disposable income and thus private consumption. Furthermore, higher contribution rates can weaken incentives to work and thereby reduce the labour supply. For firms, labour costs rise, which can weigh on labour demand and investment. **The increases in contribution rates projected for the coming decades could thus significantly dampen GDP growth.**

1. The tax wedge in an international comparison

114. **In international comparison, Germany has a relatively high tax wedge.** ↘ CHART 36 shows that in 2024 it stood at 47.9 % of labour costs for single worker without children earning the average wage. ↘ CHART 36 LEFT In a comparison of the 38 OECD countries, Germany thus ranked second, immediately behind Belgium. The average for the EU 14 countries was 42.2 %, and the OECD average was 34.9 %.

↘ BACKGROUND INFO 7

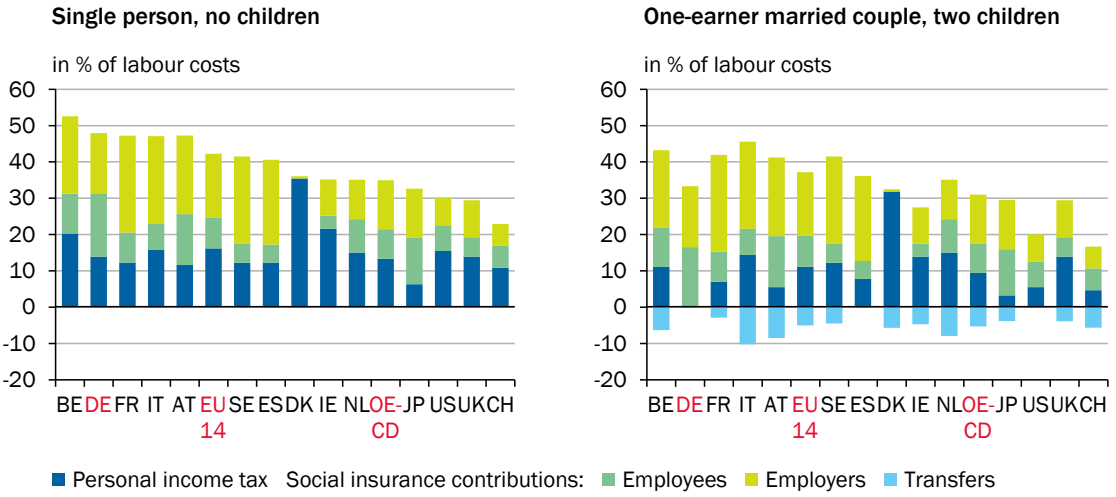
Background: The tax wedge

The tax wedge measures the burden on labour income through taxes and social insurance contributions as the difference between the employer's labour costs and the employee's net take-home pay, expressed as a percentage of total labour costs. It comprises personal income taxes as well as employee and employer social insurance contributions, net of cash benefits.

115. The comparatively high tax wedge for single workers without children earning the average wage in Germany is primarily attributable to social insurance contributions. Employee contributions amount to 17.3 % of labour costs and are thus significantly above the EU 14 average of 8.6 %. At 16.8 %, employer contributions are slightly below the EU 14 average of 17.5 %. The personal income tax burden in Germany, at 13.9 %, is below the EU-14 average of 16.2 %. By contrast, Germany lies above the OECD average for all components, which stands at 8.1 % of labour

↘ CHART 36

Tax wedge for average incomes in international comparison[1]



1 – BE-Belgium, DE-Germany, FR-France, IT-Italy, AT-Austria, EU14-average of shown member states and Finland, Greece, Luxemburg, and Portugal, SE-Sweden, ES-Spain, DK-Denmark, IE-Ireland, NL-Netherlands, OECD-average of member states, JP-Japan, US-USA, UK-United Kingdom, CH-Switzerland.

Sources: OECD, own calculations
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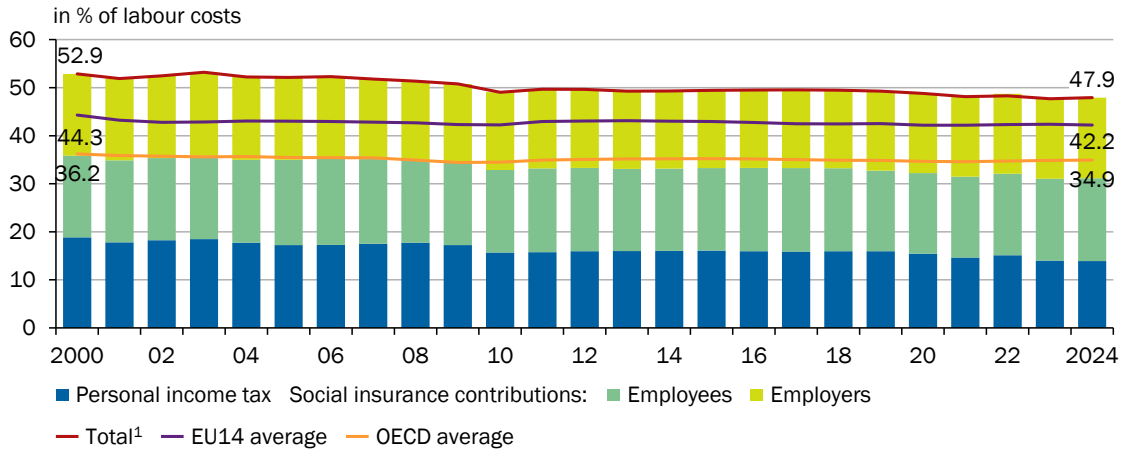
costs for employee contributions, 13.4 % for employer contributions and 13.4 % for personal income taxes (OECD, 2025a).

This comparison takes into account only compulsory taxes and social insurance contributions to public schemes. This allows for a comparison of the total tax and contribution burden across systems with different funding mechanisms. However, the individual components are only comparable to a limited extent, as the role of social insurance contributions and personal income taxes in the financing of public services varies between countries. With a similar tax wedge, the burden can therefore shift between the components – for example, when comparing Denmark and Germany. Furthermore, compulsory private insurance firms are not included. Taking private compulsory contributions into account increases the tax wedge by more than 5 percentage points in 9 out of 34 OECD countries (OECD, 2025b). Even then, Germany remains a country with a high tax wedge and ranks third in the OECD comparison, behind Belgium and the Netherlands.

116. **The international comparison of the tax and contribution burden varies significantly across different household types.** For single-earner couples with two children earning the average wage, the tax wedge was significantly lower, at 33.3 %, than for single earners without children, corresponding to rank 10 in the OECD comparison rather than rank 2 for single earners without children. ↘ CHART 36 The reason for this is that the personal income tax for average earners is almost entirely eliminated as a result of child- and spouse-related tax reliefs, whilst social insurance contributions remain largely unchanged. However, this does not take into account the benefit of non-contributory family insurance, ↘ ITEM 260 as the OECD indicator only records the amount of contributions paid, but not how many people are thereby entitled to benefits or can claim them.

↘ CHART 37

Average tax wedge in Germany over the time
Single person with average income, no children



1 – The tax wedge also includes transfer payments, which are included in the calculation as a negative value. For the household type shown, these amounted to 0.44 % of labour costs in 2022 and were zero for the remaining years.

Sources: OECD, own calculations
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117. **Since 2000, the tax wedge in Germany** ↘ BACKGROUND INFO 7 for single persons earning the average wage **has fallen** from 52.9 % to 47.9 %. The lower EU-14 and OECD averages have declined less sharply over the same period. ↘ CHART 37 On the legislative front, the main impact came from the gradual reductions in personal income tax rates (Tax Relief Act 1999/2000/2002; Tax Reduction Act 2000). The revenue generated by the ecological tax reform between 1999 and 2003, with higher energy tax rates and the introduction of an electricity tax, was used to finance higher federal subsidies to the GRV, thereby mitigating the rise in pension contribution rates (Bach et al., 2019). ↘ ITEM 106 From 2007 onwards, there was a significant reduction in the contribution rate to the ALV, made possible by the favourable labour market situation and higher federal subsidies (GCEE Annual Report 2008 items 497 and 705).

2. Long-term and short-term incidence

118. The tax wedge reflects the total burden on labour income and shows employee and employer social insurance contributions in accordance with **statutory incidence**, i.e. according to who formally finances contributions to the social insurance system. Under current legislation in Germany, contributions are split roughly equally between employees and employers. The **economic incidence** describes the actual distributional effect of taxes and social insurance contributions, i.e. who bears the burden regardless of the statutory obligation to pay (Fullerton and Metcalf, 2002).

119. In theoretical models featuring a competitive labour market with flexible wages and no binding institutional constraints (such as collective agreements), the economic incidence of changes in contribution rates is determined solely by the elasticities of labour supply and demand, i.e. by the extent to which labour supply and

demand respond to changes in wages. In labour market equilibrium, the greater share of the burden falls on the less elastic ↘ GLOSSARY side of the market, whose labour supply or demand reacts only weakly to changes in wages. If the supply of labour is relatively inelastic and firms' demand for labour reacts strongly to changes in labour costs, firms do not fully offset contribution rate increases through higher gross wages, so that employees' net wages rise only slightly or even fall (Gruber, 2022). Empirical studies of economies with weak labour market institutions support this and show that changes in contribution rates are passed on to wages, but have little effect on labour demand (Gruber, 1997b; Kim et al., 2022). Conversely, where labour demand is relatively inelastic – for instance in heavily regulated sectors or those with little international exposure or low levels of competition – a larger share of the burden falls on firms. ↘ ITEMS 135 FF. Only when labour demand and labour supply are equally elastic or inelastic are the burdens distributed equally in the medium to long term.

120. Due to the institutional framework, wage determination in many countries depends largely on wage rigidities and the rules governing wage setting. Collective agreements limit the scope for company-specific wage adjustments. In 2024, around 49 % of employees in Germany worked in firms covered by sectoral or in-house collective agreements (Hohendanner and Kohaut, 2025). Furthermore, collective agreements are often multi-year contracts. For 81.1 % of the employees surveyed, the duration of the collective agreements valid in 2024 was 24 months or longer (Schulten, 2025). **In the short term, particularly as long as gross wages can only be adjusted to a limited extent, the economic incidence of changes in contribution rates is largely determined by the statutory incidence** (Adam et al., 2019).

As collective agreements expire, firms may attempt to offset higher non-wage labour costs through more moderate wage settlements. The economic incidence may thus shift at the expense of employees in the medium term. The extent to which this succeeds depends on the bargaining power of the parties to the collective agreement and the degree to which wage determination is regulated. Studies show that the statutory allocation of employer and employee contributions in such institutionally shaped wage-setting systems also influences the economic incidence in the medium to long term (Saez et al., 2012; Carloni, 2021).

121. In the lower wage segment, the statutory minimum wage also limits the possibility of passing on higher contributions via lower (net) wages. In this segment in particular, part of the burden can be permanently offset through firms' adjustments to employment and prices (Kramarz and Philippon, 2001).

122. **For Germany, studies show that the economic and statutory incidence converge in the long term.** Neumann (2017) and Müller and Neumann (2017) estimate this using microeconometric methods for the years 1997 to 2001 and 1975 to 2010, respectively. More recent calculations by Ochsner (2026), based on a Bayesian macroeconometric model for Germany, support this finding. The simulations show that, following a permanent, unexpected increase of 1 percentage point in the total social insurance contribution rate, after twelve quarters the median incidence is 47 % om employees and 53 % on firms. However, the 68 % and

90 % credible intervals include one half of the overall burden for both households and firms. This appears plausible given Germany's strong labour market institutions by international standards, as well as low elasticities of labour supply and demand. However, the existing literature does not allow for clear conclusions regarding the incidence across different segments of the wage distribution.

3. Effects on consumer demand and labour supply of private households

123. **A permanent increase in contribution rates dampens the growth** of private households' disposable income. With a constant savings rate, this reduces the output growth of private consumption. Furthermore, private households may respond to lower net incomes by altering their labour supply. The labour volume depends on how the tax and contribution burden varies across the income distribution and between household types, and affects groups that react to changes in net wages to varying degrees. In the empirical literature, these effects are typically captured via labour supply elasticities at the extensive and intensive margins, which quantify how labour force participation and working hours respond to changes in (net) wages.↘ ITEMS 181 F. Furthermore, high taxes on labour income may reduce Germany's attractiveness as a destination for labour migration, particularly for internationally mobile highly skilled workers.

124. A **permanent increase in contribution rates can dampen private household consumption demand** because it weakens output growth for net disposable income. With the savings rate remaining largely stable in the short term, this is accompanied by lower consumption demand (Hayo and Uhl, 2017; Gechert et al., 2021). In economic downturns, however, social insurance contributions and contribution-financed transfers have a stabilising effect: falling contribution payments and rising transfer payments partially cushion income losses and thus support consumption, particularly among private households with low incomes and a high propensity to consume (Auerbach and Feenberg, 2000; Dolls et al., 2012).

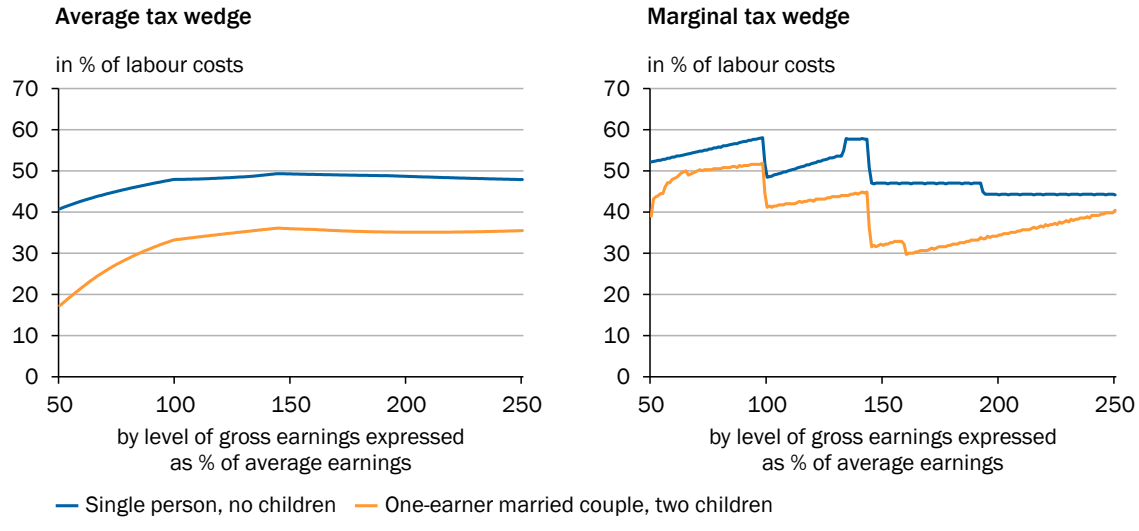
125. **Social insurance contributions differ from income taxes in their effect on labour supply because they establish entitlement to benefits** and can thus be interpreted in part as deferred remuneration. It is therefore not the total contribution that is relevant for labour supply responses, but only the implicit tax component – that is, the portion of contributions that is not matched by a corresponding future entitlement to benefits. The stronger and more transparent the link between contributions and subsequent benefits, the smaller the implicit tax wedge relevant to labour supply and incidence compared to an equivalent tax. Changes in contribution rates then have a less distorting effect on work incentives as a larger proportion of the contributions can be perceived as deferred remuneration (Bozio et al., 2025). Across social insurance schemes, a close link between contributions and benefits is likely to exist primarily in the GRV. GRV contributions contain an implicit taxe component as their internal rate of return falls short of that offered by other, funded forms of retirement provision. In the ALV, the link between contributions and benefits is likely to be weaker, as the latter are paid

only upon the onset of unemployment and for a limited period. In the GKV and SPV, the implicit tax component is likely to be highest, as benefits depend primarily on health status or care needs and hardly at all on the level of individual contributions (Komamura and Yamada, 2004; Bozio et al., 2025).

126. **The tax and social insurance burden on additional income is significant in terms of incentives to work.** The average burden on this income (participation burden) influences the decision to take up paid work. The marginal burden determines the incentives to increase working hours. ↘ ITEM 123 The marginal burden from social insurance contributions is influenced by contribution assessment ceilings and interactions with other provisions in social and tax law, including the withdrawal of benefits in the lower income bracket and the spousal income splitting .

127. Due to the **contribution assessment ceilings** ↘ BACKGROUND INFO 8 of the individual social insurance branches, the high marginal burden is concentrated on middle incomes. Above the assessment ceilings, it decreases. The marginal tax and contribution burden falls significantly at two points in the income distribution. ↘ CHART 38 RIGHT The first inflection point occurs at the contribution assessment ceiling for GKV and SPV at around €62,000 gross annual income in 2024; the second at the contribution assessment ceiling for GRV and ALV at around €90,000. Above this second threshold, no further social insurance contributions need to be payed, meaning that the marginal tax burden there is essentially determined by the progression of the personal income tax. Around 30 % of full-time employees are above the contribution assessment ceilings for the GKV and SPV, but fewer than 10 % are above those for the GRV and ALV (Federal Statistical Office, 2026). For the GRV, the proportion of people with annual earnings above the contribution assessment ceiling stood at 5 % in 2023 (DRV Bund, 2025).

↘ CHART 38
Tax wedge selected household types in 2024



Source: OECD
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↘ BACKGROUND INFO 8

Background: Social insurance contribution assessment ceilings

Contribution assessment ceilings (BBG) are the statutory income limits up to which earnings are taken into account for the calculation of contributions in the individual social insurance branches. Income above these limits is exempt from contributions, so that the relative contribution burden decreases as income rises. In 2026, the contribution assessment ceiling in the GKV and SPV is set at an annual gross income of €69,750, and in the GRV and ALV at an annual gross income of €101,400. Their annual adjustment is based on income developments.

Raising the contribution assessment ceiling can increase social insurance revenue and result in income above the previous ceiling being included more extensively in financing. However, if the annual income threshold remains unchanged – which in 2026 stands at €77,400 gross income, above which compulsory insurance for the GKV and SPV ceases – an increase in the BBG could increase the incentive for voluntarily insured persons to switch to private health and long-term care insurance. This would reduce the additional contribution revenue for the GKV and SPV. Furthermore, an increase in the BBG could lead to tax revenue losses, as taxable income for earnings above the BBG decreases given unchanged gross income, due to the deductibility of social insurance contributions.

128. **For very low earned incomes, the marginal burden is determined by transfer withdrawal rates; as income rises, it is determined by social insurance contributions and personal income tax** (GCEE Annual Report 2023 item 311 and background info 14). The effective marginal burden is particularly high when transfer withdrawal and tax or contribution burdens act simultaneously. Once the entitlement to transfers ceases entirely, the marginal burden ultimately corresponds to the burden from taxes and social insurance contributions (Blömer and Peichl, 2020). For second earners, spousal income splitting as well as mini- and midi-job regulations also influence net incentives (Blömer and Peichl, 2020; GCEE Annual Report 2023 items 312 ff. and 319 ff.). The extent to which the marginal burden resulting from the design of social insurance and tax law translates into actual changes in labour market behaviour depends on how sensitively different groups react to changes in net income.

129. Labour supply incentive effects manifest themselves along two dimensions. The extensive margin refers to the decision to enter employment. The intensive margin refers to the extent of working hours. Cross-country studies show that the wage elasticities of the total labour supply response (extensive and intensive) tend to be rather moderate. **The labour supply response occurs predominantly via the extensive margin, i.e. through changes in labour force participation**, whilst adjustments via the intensive margin, i.e. through changes in the working hours of those already employed, are usually significantly smaller. Responses along both margins can be empirically summarised in the elasticity of total hours worked (Bargain et al., 2014).

130. Potentially **adverse incentives to work arise particularly in the lower part of the income distribution, where high marginal tax rates meet comparatively high labour supply elasticities**. ↘ CHART 38 RIGHT For single

people, labour supply elasticities are highest in the lower income quintiles and decrease as income rises. In contrast, for married women, the elasticity profile tends to be flat to rising across the household income quintiles, whilst married men exhibit significantly lower elasticities and a flat to falling profile of elasticities (Bargain et al., 2014).

131. In addition to income, gender and marital status, other characteristics play a role in the responsiveness of labour supply. In Germany, as in many other countries, second earners, low-skilled and single parents react particularly strongly to changes in the tax burden, whilst full-time employees on average exhibit low elasticities (Bargain et al., 2014). This can make the transition into employment – and, to a lesser extent, the extension of working hours – noticeably more difficult for the former groups. For married women, a 1 % decline in net wages is associated, on average, with a reduction of just under 0.3 % in total working hours. For married men, the elasticities are significantly lower, at an average of 0.1, and the variation around this value is smaller. For single people, the elasticity of total hours ranges between 0 and 0.4 for men and between 0.1 and 0.5 for women. High elasticities of labour force participation (extensive margin) are found primarily among second earners. Gender differences can largely be explained by whether individuals are primary or secondary earners in the household. These responses are particularly pronounced in cases of weak labour market integration (Bastani et al., 2021; Bartels and Shupe, 2023).

The estimated elasticities should be viewed in the context of women's lower labour force participation rates and shorter working hours in Germany. The labour force participation rate for women is lower than that for men (80 % compared with 88 % of 20–64-year-olds in 2024), with an upward trend since the 1990s (OECD, 2026). Women's annual working hours remain significantly lower than men's, primarily due to high rates of part-time employment, often associated with care responsibilities, although this gap has narrowed over the last 30 years (IAB, 2026).

132. Incentives to work are also influenced by the institutional design of the systems. For instance, **the non-contributory co-insurance of spouses in the GKV** ↘ ITEM 260 **and tax relief for single-earner couples** ↘ ITEM 116 **may discourage second earners in particular from taking up employment**, as contributions become due upon taking up employment without any significant change in entitlement to benefits, while also resulting in high marginal tax burdens. In the GRV, provisions on early retirement may encourage an earlier withdrawal from the work force (GCEE Annual Report 2023 items 416 ff.).

133. **Mini-jobs**, which are **exempt from GKV, SPV and ALV contributions**, present a particular problem. There is a compulsory insurance requirement for **pension insurance**, from which **exemption** is **possible**. Above the mini-job threshold of €603 in 2026, the so-called sliding scale zone (mid-jobs) begins, in which the social insurance contribution burden increases gradually. Furthermore, mini-jobs are generally tax-free for employees. A mini-job is particularly attractive for second earners due to the lower individual tax and contribution burden compared to regular employment, whilst additional income above the mini-job

threshold are often financially unattractive. This creates incentives for only marginal employment (Blömer and Peichl, 2020). As a result, both the labour volume in the overall economy and the income subject to contributions are limited. Accordingly, marginal employed workers contribute only to a very limited extent to the financing of the social insurance system, yet are entitled to benefits, for example through the non-contributory co-insurance of spouses under the GKV.

134. **High tax burdens on labour income can also reduce Germany's international attractiveness as a destination for internationally mobile workers, particularly highly skilled individuals,** as they lower net pay. The empirical literature shows that, above all, high-income earners and occupations with little location-specific human capital adjust their location and migration decisions in response to differences in labour taxation (Kleven et al., 2020). High-income migrant professionals respond to tax changes by relocating in order to reduce their tax burden, whereas citizens are significantly less mobile. A comparatively high marginal tax wedge for high labour incomes that is high compared to international standards may thus reduce Germany's attractiveness for labour migration, even though such migration would be beneficial for the country for demographic reasons (GCEE Annual Report 2022 items 412 ff.).

4. Effects on labour demand and firms' location decision

135. **A high incidence of social insurance contributions borne by employers increases non-wage labour costs and thus overall labour costs.** For firms, this acts as an increase in the effective wage rate. In the short term, given a fixed level of product demand, firms respond to this with lower labour demand, constrained by adjustment costs, such as regulations on protection against dismissal. In the medium term, high non-wage labour costs influence firms' location and investment decisions. In the long term, increasing contributions may lead to increased substitution of labour by capital (Lichter et al., 2015).

136. A meta-analysis of the wage elasticity of labour demand shows a wide range of elasticities. Most estimates lie between 0 and –1, with a mean wage elasticity of labour demand of –0.55 and a median of –0.42. This means that a 1 % increase in wages is associated with a decline in labour demand of around 0.4 % at the median and of around 0.6 % on average. Since the 1970s, labour demand has become more elastic due to technological progress and increasing globalisation (Lichter et al., 2015).

137. **Labour demand elasticities vary across sectors and countries, with lower employment protection leading to higher elasticities** (Saez et al., 2019). Firms with lower liquidity, small firms and firms with less market power tend to have higher labour demand elasticities, as they cannot cushion rising non-wage labour costs through reserves, internal reallocations or pricing (Saez et al., 2019; Johnston, 2021; Guo, 2024; Lobel, 2024). More pronounced reactions are also observed in labour-intensive industries and in sectors facing strong international competition, as the ability to pass on higher labour costs via price

adjustments is similarly limited there. For export-oriented firms engaged in labour-intensive activities, rising non-wage labour costs worsen their competitive position vis-à-vis foreign competitors and lead to declining exports (Muñoz, 2025). However, the most important German export industries, such as the automotive, mechanical engineering and chemical sectors, are predominantly capital-intensive. Furthermore, labour demand is more elastic for low-skilled workers (Lichter et al., 2015) and younger employees (Guo, 2024). Possible reasons for this include weaker protection against dismissal or fixed-term contracts. The often greater substitutability of low-skilled jobs by capital in the long run is another explanatory factor (Lichter et al., 2015).

138. Empirical studies on firms' location decisions show that the **level of labour taxes** is **a relevant factor in the location choice** (Egger et al., 2013; Guo, 2023). The level of labour costs also influences the attractiveness of a location for foreign direct investment, as labour costs affect investment costs and thus the net return (Egger and Radulescu, 2011; Hansson and Olofsdotter, 2014). During economic downturns, the likelihood increases that firms with multiple locations will respond to regional differences in labour costs by closing plants or sites in regions with high non-wage labour costs (Guo, 2023).

139. **Increases in social insurance contribution rates – and thus in non-wage labour costs for employers – can also dampen business start-ups and the momentum of growing firms**, as wage-related levies must be paid regardless of profitability, thereby restricting labour demand and associated output growth. Accordingly, high non-wage labour costs can also increase the likelihood of young firms exiting the market (Cockx and Desiere, 2024; Guo and Wallskog, 2025).

5. General equilibrium effects

140. **The behavioural responses of private households and firms to increases in social insurance contribution rates affect public finances.** Rising contribution rates increase revenue for the social insurance system in the short term, but reduce the disposable income of private households and increase labour costs for firms. This can dampen wage and employment growth, thereby leading to lower revenue from payroll and personal income tax as well as the Solidarity Surcharge. At the corporate level, lower profit margins and reduced investment can shrink the corporate and local business tax base. Furthermore, falling net wages and higher labour costs weaken private consumption, which reduces VAT revenue. On the other hand, the tax and transfer system stabilises disposable income during downturns, which in turn can limit the economic downturn and thus a heavier fiscal burden.

141. **For Germany, there are only few studies that quantify the response of the overall economy to changes in the financing of the social insurance system.** For instance, Gechert et al. (2021) estimate the macroeconomic effects of changes in social insurance contributions and benefits in Germany based on legislative amendments. An exogenous reduction in social insurance

contributions of 1 % of GDP increases real GDP by around 0.4 % in the short term, but the effect fades relatively quickly. Higher benefits have a significantly stronger and more persistent effect, with a multiplier of around 1.1, primarily through a strong consumption response from benefit recipients. The response in GDP declines slowly and approaches 0.4 % five years after the shock. Ochsner (2026) estimates, using a Bayesian error correction model, that a permanent, unexpected increase in the contribution rate of 1 percentage point (corresponding to around 0.5 % of GDP in the model) reduces GDP in the long run (10 years) by around 0.2 % due to a permanent income adjustment. ↘ BOX 9 Enders et al. (2020) use a DSGE model to examine the reintroduction of parity financing of the statutory health insurance and the associated reduction in the employee contribution rate by 0.5 percentage points, along with an increase in the employer contribution by the same amount. In the long term, GDP rises slightly by around 0.03 %, employment also increases slightly and unemployment falls by around 0.02 percentage points. However, the magnitude and direction of the effects depend on the type of counter-financing used to offset any revenue shortfalls.

142. Three studies focus specifically on an increase in contribution rates, as is to be expected in the coming decades. ↘ BOX 9 IfW Kiel (2026) analyses the effects on the overall economy of a 6-percentage-point increase in the total social insurance contribution rate, using a DSGE model. Rising contribution rates have a dampening effect on net wages, employment and labour demand, and reduce GDP in the new equilibrium by 0.6 %. Hüther et al. (2025) estimate that, with a linear increase in the contribution rate to 48.6 % by 2035, private consumption would decline by 1.2 % (2.3 %) compared to a scenario with constant contribution rates of 41.7 % after 5 (10) years, by 1.2 % (2.3 %), while real GDP would decrease by0.5 % (0.5 %). Ochsner (2026) estimates, based on a fully anticipated increase in contribution rates of around 6 percentage points by 2035, that GDP will decrease by around 0.9 % compared to a scenario with constant contribution rates. This is attributable to a permanent decline in disposable income and a related fall in consumption of 1.9 %. Consequently, employment falls by 0.7 %, investment by 0.3 % and exports by 0.3 %. ↘ BOX 9 ↘ CHART 39

143. The rise in social insurance contributions would hit the German economy at a time of weak overall economic momentum. With an output gap of around −0.8% in 2026 ↘ ITEM 48 and average potential output growth of only around 0.3 % per year until 2031, ↘ ITEM 76 a higher tax wedge not only weighs on potential output but may also hamper the recovery from underutilisation in the short term. The GDP level effects of −0.5 % to −0.9 % are significant against this backdrop, as they correspond to potential growth of just under two to three years.

Fiscal policy is more strongly geared towards boosting economic growth with the fiscal package. However, this does not mitigate the negative effects of higher social insurance contributions. The potential growth effects are offset by higher public debt and the future interest burden. Furthermore, the combination of rising social insurance contributions and debt-financed fiscal policy shifts the burden disproportionately onto younger generations: they will be burdened in the short and medium term by higher contributions and, in the long term, by servicing the debt incurred for the fiscal package.

↘ BOX 9

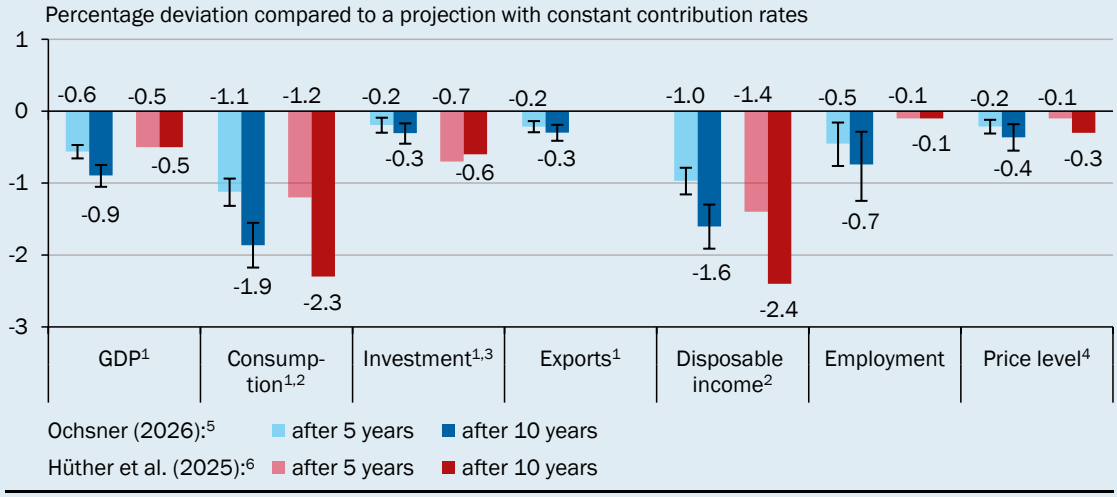
Analysis: Macroeconomic effects of the increase in contribution rates up to 2035

Hüther et al. (2025) and Ochsner (2026) present empirical analyses of the macroeconomic impact of the expected increases in contribution rates. Hüther et al. (2025) use the Oxford Economics model for this purpose and, based on Ochmann and Albrecht (2024), assume a linear increase in contribution rates from 41.7 % of contributory income in 2025 to 48.6 % by 2035. Ochsner (2026) assumes the increase in the contribution rate simulated by Werding et al. (2026) from 42.3 % of income subject to contributions in 2026 to 47.7 % in 2035 and uses a Bayesian-estimated hybrid error correction model. The results of both studies should be understood as projections rather than forecasts (Ochsner and Werding, 2026).

Both studies find qualitatively comparable effects for the key economic aggregates, ↘ CHART 39 but in quantitative terms they differ, in some cases significantly. In Ochsner (2026), the economic adjustment takes place primarily via the disposable income of private households. As a result, imports and private consumption fall relatively sharply. A large part of the decline in investment is accordingly attributable to a fall in residential construction investment due to lower household incomes. The adjustment via investment in equipment and non-residential construction, as well as via exports, is relatively small, by contrast. Taken as a whole, this suggests that an increase in social insurance contributions has a significantly stronger impact via direct demand than via the economy's price competitiveness.

↘ CHART 39

Macroeconomic effects of rising total social insurance contribution rates



1 – In 2020 prices. 2 – Private consumption only. 3 – Private investment only. 4 – Measured using the GDP deflator. 5 – Medians with 90 % confidence intervals are shown. 6 – No data available for exports; no measures of uncertainty are provided.

Sources: Hüther et al. (2025), Ochsner (2026)

IV. FIELDS OF ACTION

144. **The long-term financial sustainability of the social insurance system is under pressure in several branches due to demographic ageing.** In the long term, it will be crucial whether it proves possible to limit the rise in expenditure in the GRV, GKV and SPV in a socially equitable manner, whilst at the same time stabilising the revenue base. The need for reform and options for action must be discussed separately for the different branches. As the implementation of specific reform proposals depends on political opportunities and obstacles, the informative value of combined reform scenarios across several social insurance branches is likely to be limited. The GCEE therefore refrains from discussing combined reform scenarios and focuses below on fundamental considerations regarding the most important areas of action for stabilising social insurance finances.

145. **There are numerous interdependencies between the individual social insurance schemes**, both in terms of cost structures and benefit claims. ↘ ITEM 91 Reforms in one scheme can therefore also influence the financial situation of other schemes. For instance, a reduction in contribution to the GKV would also relieve the GRV, as the GRV bears half of the health insurance contributions attributable to pension payments for compulsorily insured pensioners. In 2024, the corresponding expenditures of the GRV amounted to €28.7 billion, with an average GKV contribution rate of 16.3 % (DRV Bund, 2025). A reduction in the GKV contribution rate by 1 percentage point would thus reduce the GRV's expenditures by just under €1.8 billion.

1. Expenditure side

146. **To curb the expenditures of the social insurance system, reforms should be implemented that mitigate the impact of demographic ageing on the expenditures of the social insurance system.** This includes, for example, reinstating and strengthening the sustainability factor in the GRV, which distributes the costs of demographic ageing between contributors and pensioners. For instance, raising the parameter α in the sustainability factor from 0.25 to 0.5 would distribute the costs evenly between pensioners and the working population (GCEE Annual Report 2023 items 421 ff.). Alternatively, pension adjustments for existing pensions could in future be linked to inflation rather than, as has been the case to date, to wage growth. This would safeguard the purchasing power of existing pensioners; however, they would no longer benefit from the often higher increases in real wages.

147. Due to demographic change, the objectives of the social insurance system, particularly the smoothing of consumption and the reduction of poverty risks, ↘ BOX 8 can only be achieved through a rebalancing of pay-as-you-go financing and funded schemes. To partially decouple the finances of the GRV from demographics in the medium to long term, the **expansion of capital-funded pension provision** is a suitable option. In this regard, the GCEE has proposed, among other things, the introduction of a state-subsidised long-term investment

account, in which high-yield, broadly diversified fund investments form the central element (GCEE Annual Report 2025 items 422 ff.), as has now been decided in broad terms by the German Bundestag. Automatic enrolment of all economically active persons, with an opt-out option, would increase the commitment to participation, especially among low-income households (Malmendier et al., 2025; GCEE Annual Report 2025 items 422 ff.).

148. **In the GKV, priority should be given to measures that limit the rise in expenditure without compromising the provision of medically necessary services.** In hospital care, structural reforms, greater specialisation, binding quality standards and adapted remuneration mechanisms should help to unlock efficiency gains. ↘ ITEM 250 For pharmaceuticals, pricing should be aligned more closely with added therapeutic value. ↘ ITEM 256 In addition, binding standards for healthy nutrition in nurseries and schools, advertising restrictions on products harmful to health, and health-oriented price signals – such as higher taxes on tobacco, alcohol and foods high in sugar and fat – are appropriate measures. ↘ ITEMS 239 FF. Higher general co-payments by insured persons, on the other hand, are only of limited suitability, as they may also reduce the use of necessary services by insured persons. ↘ ITEM 244

149. The SPV should remain a partial insurance scheme. The rise in expenditure should be curbed by **restricting access to SPV benefits to the level recommended by the Expert Advisory Board in 2013**. ↘ ITEMS 339 FF. The benefit surcharge for full-time institutional care ↘ ITEM 343 and the relief allowance ↘ ITEM 342 should be abolished. The **introduction of cohort-specific capital funding** within the SPV could stabilise the level of benefits and make the distribution of the financial burden more equitable across generations. ↘ ITEMS 354 FF.

2. Revenue side

150. When it comes to the financing of the social insurance system, a distinction must be made between contribution-based and tax-based financing. The decisive factor for the financing of specific benefits is whether what is being financed is a specific insurance benefit for insured persons or a broader societal task. ↘ BOX 15 The **German system is a hybrid of contribution-based and tax-based financing**: contributions are appropriate where benefits have a sufficiently insurance-like character. Taxes are appropriate where benefits serve general redistribution or other broader societal objectives.

151. Where contribution-based financing appears appropriate, the question arises as to which types of income should be used as the contribution-liable tax base. Under discussion is the levying of social insurance contributions on income beyond labour income, such as investment income. **However**, **contributions on non-wage income generally do not appear appropriate for ALV and GRV**, as protection through wage replacement benefits in the event of unemployment and in old age is coherently financed by wage-related contributions. Investment income or rental income often constitutes a form of supplementary pension provision and does not need to be replaced in old age, so it should not be subject to

contributions in the same way. In the GKV and SPV, apart from sick pay, benefits are not wage replacement benefits, but primarily benefits in-kind in the event of illness and when care is required. Against this background, extending the contribution-liable tax base to include further types of income is more feasible in the GKV and SPV schemes than in the ALV and GRV. However, this requires a thorough examination of the regulatory framework in these sectors, as well as any resulting distributional effects.

152. The distinction between insurance benefits and tasks of general societal interest is also decisive for the demarcation of NBL within social insurance schemes. In this context, it should first be examined whether individual benefit elements are objectively justified and can be classified as tasks of general societal interest. NBLs must therefore be critically reviewed not only in terms of their scope, but also in principle. Where appropriate, certain NBLs should be reduced or abolished (GCEE Annual Report 2023 item 371). **Insofar as the remaining NBLs fulfil tasks of general societal interest, these should be fully tax-financed** so as not to burden the insured with their financing.

153. The demarcation of NBL is often not clearly defined, making it difficult to assess any potential imbalance in relation to federal subsidies (GCEE Annual Report 2023 item 371). The DRV estimates the amount of NBL in 2023 at between €68.2 billion (narrow definition) and €124.1 billion (broad definition), whilst the federal subsidy in the same year amounted to €84.3 billion (DRV Bund, 2024). Boysen-Hogrefe (2025) argues, using a different approach, that for the GRV – the insurance scheme receiving the most substantial federal subsidies – there is full coverage through federal subsidies.

154. Calls for retroactive coverage of NBL from years far in the past appear neither appropriate nor practicable. Compensation within a few years, provided that past additional expenditure has only affected the reserves, may be appropriate. In the case of pay-as-you-go social insurance schemes, however, the inappropriate use of contribution revenues should be limited as far as possible within the respective year. If this is achieved, current benefits will be higher or current contribution rates lower. Without the long-term accumulation of capital reserves, there are generally neither advantages nor disadvantages for future insured persons. Retrospective funding would not specifically compensate the insured persons who bore the burden at the time, but would primarily improve the current financial situation of the social insurance system.

155. The levying of contributions for spouses who have so far been co-insured free of charge would relieve the burden on the statutory health insurance scheme and strengthen the incentives to work for second earners. For households with children, however, the contribution-free co-insurance should continue to apply, at least during the first years of child-rearing. ↘ ITEM 260 Furthermore, index-linking the federal subsidy to cover the NBL appears worth considering, as its share of total revenue would otherwise continue to decline. ↘ ITEM 258

156. In addition to increasing federal subsidies to cover the NBL, there is discussion of supporting social insurance schemes with additional tax revenue in order to limit the rise in wage-related contributions. This would primarily constitute a shift in

financing and would lead neither to a lasting reduction in expenditures nor to a reduction in the average tax and contribution burden. The distributional effects and behavioural adjustments by households and firms under this form of financing depend on whether and which types of tax would be altered to provide counter-financing, or whether an expansion of tax financing would be offset by cuts elsewhere. At the same time, transparency and political accountability regarding the use of funds would decline compared to a contribution-financed system.

157. From a budgetary perspective, it should be noted that tax revenues are, in principle, not earmarked (principle of universality) and that earmarking requires specific justification**. The use of tax revenues should therefore remain limited to clearly justified broader societal tasks within the framework of the NBL.** More extensive tax funding that benefits only insured persons would require justification and would be viewed critically from the perspective of budgetary principles.

158. **To strengthen social insurance revenues, reforms aimed at increasing the labour volume are particularly suitable**, such as extending working lives. A further increase in the standard retirement age beyond 2031 would therefore be sensible. If two-thirds of additional years of life are attributed to the working life and one-third to the pension phase, the ratio of pension duration to years of insurance could be largely stabilised (GCEE Annual Report 2023 items 405 ff.). In addition, abolishing the option of early retirement without benefit reductions would raise the average retirement age (GCEE Annual Report 2023 items 416 ff.).

159. The demographically driven decline in the labour volume can also be mitigated by improving incentives and opportunities to take up employment or to extend working hours. In the past, the GCEE has proposed reforms to achieve these objectives, such as smoothing the rates of transfer withdrawal in the tax-transfer system, the abolition of joint taxation for married couples and mini-jobs, and improved childcare (see GCEE Annual Report 2021 items 317 ff.; GCEE Annual Report 2023 items 321, 338 ff. and 347 ff.). In addition, human capital should be strengthened through further training, retraining and lifelong learning in order to preserve employment potential and facilitate reallocation (GCEE Annual Report 2022 items 370 ff. and 392 f.). Labour migration is also a key lever: access to the labour market and the integration of immigrants should be simplified and accelerated, and administrative procedures improved (GCEE Annual Report 2022 items 412 ff., 446 ff. and 452 ff.).

160. In recent years, the GCEE has regularly highlighted policy options that could boost **productivity growth**. These include investments in the area of human capital (GCEE Annual Report 2021 items 342 ff.), in fixed assets and in new general-purpose technologies such as artificial intelligence (GCEE Annual Report 2023 items 77, 158 ff. and 167 ff.) and the deepening of the European single market and capital market (GCEE Annual Report 2025 items 186 ff.). The growth-inhibiting consequences of a declining labour volume can be mitigated in particular through skilled immigration, stronger incentives to work and increased substitution of labour by new capital goods (GCEE Annual Report 2022 items 358 ff.; GCEE Annual Report 2023 items 163 ff.). An improved tax framework,

particularly for research and development, better conditions for start-ups and scale-ups, as well as the reduction of bureaucratic costs and the modernisation of public administration can also contribute (GCEE Annual Report 2025 items 200 ff., 331 ff., 609 ff. and 617 ff.). The provision of digital and physical infrastructure also plays a central role. The Special Fund for Infrastructure and Climate Neutrality can make a significant contribution to this if designed with an impact-oriented approach (GCEE Annual Report 2025 items 116 ff.).

A differing opinion

161. One member of the Council, Achim Truger, cannot concur with the majority position of the GCEE on several points in the chapter 'Social insurance under pressure to reform'. **Firstly**, **the dissenting opinion** concerns the **abandonment or reweighting** of **key objectives** of the Statutory Pension Insurance (GRV) and Social Care Insurance (SPV) undertaken by the Council majority due to the primacy of contribution rate moderation. **Secondly**, it concerns the **neglect** of potentially **serious distributional side effects** and **social hardship** arising from the policy options proposed by the Council majority. **Thirdly,** the Council majority systematically overestimates the potential **of funded pension provision** in the context of demographic change and neglects **risks and side effects**.

No need to prioritise contribution rate restraint

162. The Council majority largely abandons the objective of securing living standards in old age for the GRV and, for the SPV, largely abandons the objective of predominantly avoiding the need for care-related social assistance. This is justified by a trade-off between the adequacy of benefits and the sustainability of financing. It considers the latter to be the case "if the level of security provided for in current law can be maintained in the long term without the higher contribution rates and federal subsidies required for this leading to noticeable Distortions in employment and output growth or placing a disproportionate burden on future generations ". ↘ BACKGROUND INFO 4 The Council majority emphasises repeatedly and at length the negative effects on the overall economy of the foreseeable sharp rise in the overall social insurance contribution rate or in contribution rates in individual social insurance branches, as well as problems regarding intergenerational equity. In doing so, the sustainability objective is interpreted in terms of a primacy of contribution rate moderation, which justifies the restriction of objectives serving the adequacy of benefits.

163. **However, such a primacy of contribution rate moderation does not appear necessary from a perspective of the overall economy.** In Section III, the GCEE examines the effects of **changes in contribution rates** in detail and, in Section III.5, presents empirical findings on the macroeconomic impacts in general equilibrium. The two studies described in detail conclude that **the** overall **macroeconomic impacts** are only **moderate**. For instance, a sharp increase in the total contribution rate of 6 to 7 percentage points over the next 10 years would, after 10 years, result in a reduction in GDP of only 0.5 % to 0.9 %. GDP output growth would thus be dampened by less than 0.05 or 0.1 percentage points per year. Such a growth loss can easily be more than offset by the potential-enhancing economic policy measures listed in ↘ ITEM 159. Despite the suboptimal design of the fiscal package, the GCEE estimates the resulting long-term GDP effect at around 1 %; if a genuine additional public investment drive were to be achieved, then in the long term a 5 % higher GDP and, over longer periods, significantly higher potential growth would even be possible without this being accompanied

by an excessive rise in public debt (GCEE Annual Report 2025 items 109 ff. and table 14).

On this basis, the GCEE could also have concluded that, whilst the foreseeable increase in the overall social insurance contribution rate is in itself associated with moderately negative effects on the overall economy, these would be of little significance in the context of an economic policy geared towards growth and are therefore ultimately manageable. In any case, **far-reaching reforms** that would force the abandonment of existing objectives for the social insurance system **cannot** be **justified** on the basis of the **empirical evidence**.

164. **Far-reaching shifts in objectives cannot readily be derived on grounds of intergenerational justice either.** In its deliberations, the Council majority focuses on projections of the distribution of the intergenerational contribution rate burden. ↘ ITEM 112 It can be observed that the average total social insurance contribution rate over the working life rises very sharply for younger cohorts. For example, the cohort born in 1940 paid an average total contribution rate of 34.2 % over their working lives, whereas a contribution rate of 56.8 % is projected for the cohort born in 2020.

165. However, this does not automatically imply that younger cohorts are systematically disadvantaged. For a more comprehensive analysis, the benefits received over the course of a lifetime would need to be taken into account in addition to the contributions paid. To this end, Blank et al. (2026) calculate cohort-specific returns for those insured under the GRV using a method already employed by the GCEE (GCEE Annual Report 2016 items 667 ff.). This shows that, whilst the return for those born before 1950 is significantly higher than for all subsequent cohorts, **However, the expected return for parts of the baby-boomer generation is no higher than for those born in 2000 or 2010.** Furthermore, common reform proposals, such as raising the retirement age, lead to a deterioration in the return for all cohorts from around the mid-1970s onwards. The returns for those born around 2000 or 2010 also deteriorate noticeably. Blank et al. (2026, p. 18) state: “The frequently stated aim of relieving the burden on younger generations by raising the standard retirement age is, measured by the implicit returns, not achieved”.

Neglect of serious distributional and social hardship

166. The intergenerational distributional effects over long periods are important, and it is right that the majority of the Council addresses them. However, there are also distributional effects in cross-sectional terms, i.e. in the here and now, which are at least as important, and to which the GCEE devotes a separate chapter in its GCEE Annual Report every two years. These may concern, for example, the **distribution of income and wealth** or the **at-risk-of-poverty rate**.

In the context of reform of the social insurance system, the Council majority apparently attaches only very limited importance to the impact of its policy proposals on such distributional indicators. For example, there is no mention of the fact that capping pension and, where applicable, long-term care insurance

benefits and closing the resulting gap by building up a capital stock, the financing of which is borne solely by employees, represents a **massive shift of costs and risks in favour of employers**. Although the final economic incidence is unclear; ↘ ITEMS 118 FF. a significant redistribution in favour of employers is to be expected, at least for a transitional period.

167. Ownership of firms is heavily concentrated in the upper income bracket. Bach (2025), for instance, estimates that 87 % of the relief resulting from a corporate tax cut accrues to the top decile of the income distribution. The top 1 % alone accounts for 72 %. A reduction in the burden on employers from, or an increase in the burden of, social insurance contributions is therefore likely to be accompanied by noticeable distributional effects on labour. A reduction in the burden is likely to noticeably increase inequality in disposable income, whilst an increase in the burden is likely to have a correspondingly progressive effect and reduce inequality. Admittedly, in the context of contribution rate increases, the majority of the Council is concerned about the relatively greater burden on insured persons below the contribution assessment ceiling compared to those above it. **However, the highly progressive distributional effect resulting from the portion of the contribution rate increase borne by employers is not taken into account.**

At least for equal changes to the contribution rate, a roughly equal economic incidence can be assumed on the basis of the empirical evidence cited by the GCEE. ↘ ITEM 122 **In this respect, an equal increase in the contribution rate is likely to have a clearly progressive effect.**

168. The **majority** of the **Council disregards** the **serious negative effects** of the reform measures it advocates, particularly at the lower end of the income distribution, and **the** associated potential **social hardship**: the proposals for long-term care insurance are accompanied by a **drastic increase in the long-term care assistance rate**; ↘ ITEMS 367 FF. The relatively high additional contribution rates for PVF II for pensioners are likely to significantly increase the at-risk-of-poverty rate and the basic security rate in old age. The proposals by the Council majority to allow only inflation adjustment or a higher sustainability factor to be used in the GRV to curb pension expenditure would also lead to an **increase in the risk of poverty in old age** (GCEE Annual Report 2023 items 424 ff.).

Risks and side effects of funded pension schemes neglected

169. **Funded pension provision plays a central role in the Council majority's reform proposals for the GRV and the SPV.** The assumed high-yield asset is expected to generate substantial financial assets in the long term, which are then to be used to finance pensions and care. The reported effects appear particularly impressive in the case of the GRV (GCEE Annual Report 2023 items 454 ff.): if all employees were to invest 4 % of their gross monthly wages from now on in international capital market funds with a strong equity component, they would accumulate personal private capital, thereby increasing the achievable level of provision over the years. According to the SVR's calculations, this would amount to an impressive 26.9 percentage points by 2080, which would more than

compensate for the reduction in the pension level under the GRV by just under 8 percentage points.

170. However, such a reform would **increase** the **total burden on employees** for pension provision **by a full 4 percentage points in one fell swoop**, which, unlike in the GRV, they would have to bear entirely on their own **without any employer contribution**. It may be argued that it ultimately does not matter who formally pays the levy, as the economic distribution of the burden is determined by the market regardless (GCEE Annual Report 2023 box 20). In that case, however, one could also propose that employers should cover 100 per cent of the contribution to private pension provision or, where applicable, the additional contribution to PVF II for their employees. Furthermore, it does not seem consistent to express concern, from an overall economic perspective, about the projected increase in the total social insurance contribution rate of 6 to 7 percentage points by 2035, whilst at the same time considering an immediate additional burden of 4 contribution points on private pensions to be unproblematic.

171. The **return assumptions** of **5 % in real terms, after deduction of costs, adopted** by the majority of the Council in the context of funded pension provision, **are optimistic**. The argument that such a figure appears entirely realistic based on the experience of past decades with corresponding global investment products is problematic. For that past was characterised by strong global output growth and a massive expansion of global capital markets, with corresponding price gains. Whether this can be repeated over the next 50 years – against a backdrop of ageing societies worldwide and economies likely to grow at a slower pace – is entirely unpredictable – which is precisely what John Maynard Keynes meant when he spoke of fundamental uncertainty.

Added to this are the **geopolitical risks**, which are currently being brought into particularly sharp relief by Donald Trump's escapades in trade and alliance policy. It is simply impossible to predict what the global economic order will look like in 30 years' time and whether it will still offer access to international capital investments. It is also unclear whether developing countries will be economically strong enough in the future to meet the financial demands of the ageing populations in industrialised nations through exports, or whether, even if they do grow stronger economically and politically, they will be willing to do so at all. **Given such risks in particular, a more cautious approach to capital funding and return assumptions would have been advisable.** Furthermore, there are further fundamental doubts as to whether systematic relief for the younger generation through capital funding can be achieved (Truger, 2025).

Strengthening the GRV and focusing on the SPV is necessary

172. Social insurance fund reforms should keep an eye on the burdens arising from rising contribution rates and, ideally, avoid them as far as possible. However, this does not require abandoning the central objectives of the social insurance system – in the GRV, safeguarding living standards, and in the SPV, preventing an increase in the long-term care dependency ratio. **The negative effects of contribution rate increases on the overall economy are moderate and can be**

more than offset by growth-promoting economic policies and high levels of public investment.

173. **The GRV should be strengthened as the central pillar of old-age provision.** This can be achieved through a pragmatic package of measures. This includes a mix of, for example, higher contribution rates in the medium to long term, greater tax funding of non-contributory benefits, a prospective increase in the effective retirement age, an increase in employment, particularly among women, the immigration of skilled workers, and the inclusion of previously uninsured self-employed persons in the GRV (Truger, 2025).

174. A reform of long-term care insurance should return to its original objective and effectively prevent a further rise in the care dependency ratio. A variant of the 'base-to-peak swap' – i.e. capping personal contributions – which was rejected by the council majority, would be suitable for this purpose. This measure would entail high costs and a corresponding rise in contribution rates. However, this can be avoided if the expenditure side of the SPV is refocused in line with its original function and, at the same time, the revenue side of the SPV is strengthened through the federal government's financing of non-insurance-related benefits and an increase in the contribution assessment ceiling. ↘ ITEMS 377 FF.

APPENDIX

1. Assumptions and methods underlying the projected development of the total social insurance contribution rate

175. Long-term projections make intertemporal relationships – budget constraints, generational burdens, path dependencies – visible under explicit assumptions and thus open to criticism (Ochsner and Werding, 2026). Their conclusions are conditional: they show what follows consistently under certain assumptions and are judged not by their accuracy but by the transparency and theoretical soundness of their premises. All models used in this chapter are macroeconomic models in so-called reduced form. This means that, in particular, behavioural adjustments and macroeconomic feedback from exogenous developments are not fully taken into account. The results should therefore not be read as a precise forecast, but as a structured analysis of directions of change and order of magnitude – as a disclosure of assumptions about the future that would otherwise feed implicitly and unchecked into political decisions.

176. The 16th coordinated population projection is the official projection of population trends in Germany and its federal states up to the year 2070, coordinated between the Federal Statistical Office and the statistical offices of the Länder (Federal Statistical Office, 2025). It comprises a total of 27 variants, which combine different assumptions regarding trends in birth rates, life expectancy and migration. Werding et al. (2026) extend this trend up to the year 2080 based on the medium assumptions regarding birth rates (G2) and life expectancy (L2) as well as a medium scenario derived from the Federal Statistical Office's assumptions on migration (W1 and W2).

177. The projection of potential output – that is, the level of GDP that the German economy can achieve when labour and capital are utilised at normal capacity (without cyclical over- or underutilisation) – is based on a Cobb-Douglas production function (Ochsner et al., 2024). ↘ GLOSSARY Potential output results from the interaction of (i) potential productivity (total factor productivity), (ii) potential labour input (measured in hours worked) and (iii) capital input.

2. Results of the sensitivity analyses

178. Sensitivity analyses put the projection results of the baseline scenario for the total social insurance contribution rate ↘ ITEMS 109 FF. and for federal subsidies into perspective. ↘ ITEM 111 In these analyses, key assumptions regarding demographic trends, net migration, the unemployment rate, the female labour force participation rate and the average annual working hours of all employed persons are varied.

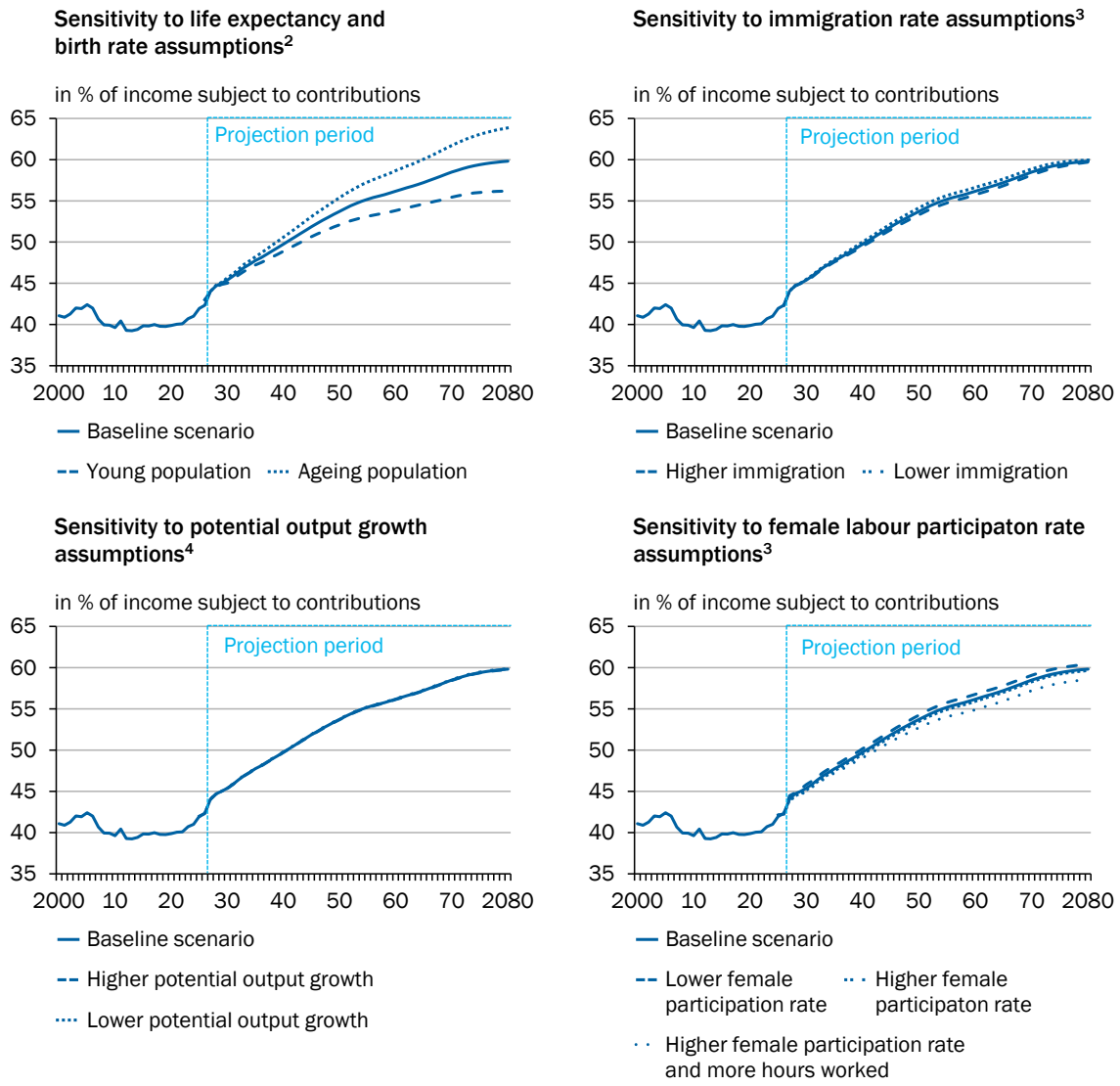
179. For the year 2030, sensitivity analyses of the projection of the total social insurance contribution rate still show comparatively small deviations from the baseline scenario. ↘ CHART 40 The contribution rate ranges from 45.0 % in the case of a more favourable age structure ('young population') to 45.7 % in the case of more pronounced ageing. Differences in immigration result in figures of 45.3 % under higher immigration and 45.5 % under lower immigration. A higher increase in the female labour force participation rate reduces the contribution rate in 2030 to 45.2 %, whilst a more moderate trend in the female labour force participation rate raises it to 45.8 %. Variations in productivity growth have little effect: the contribution rate here ranges between 45.3 % and 45.4 %.

In 2040, the differences become more pronounced. With a younger population structure, the contribution rate is 48.9 %, whereas with a more ageing population it is 50.6 %. The demographic assumptions thus result in a difference of 1.7 percentage points. Differences in immigration alone lead to 49.5 % in 2040 under higher immigration and 50.0 % under lower immigration. Labour market assumptions also have a substantial impact: 49.5 % under a more dynamic trend in the female labour force participation rate contrasts with 50.2 % under a stagnating female labour force participation rate. With a higher increase in the female labour force participation rate and a simultaneous expansion of working hours, the contribution rate could decrease to 49.1 %. Additional scenarios regarding the unemployment rate suggest that higher unemployment rates are associated with higher projected contribution rates (Werding et al., 2026). By contrast, differences in productivity growth remain small even in the long term: the contribution rate stands at 49.7 % and 49.8 % respectively in 2040.

180. Sensitivity analyses of the projection of federal subsidies show that this result varies only within a limited range under alternative assumptions (Werding et al., 2026). Depending on demographic trends, particularly regarding immigration, unemployment, female labour force participation and productivity growth, federal subsidies in 2040 will range from 3.9 % to 4.1 % of GDP. A younger population, higher immigration, lower unemployment or a greater increase in female labour force participation (in terms of both numbers of people and hours worked) would slightly dampen the rise. Conversely, greater ageing, lower immigration, a higher unemployment rate or a constant female labour force participation rate lead to slightly higher funding requirements and thus to higher contribution rates, which are also reflected in higher federal subsidies to the GRV via the contribution rate factor. Alternative assumptions regarding medical-technical progress also alter the result only to a limited extent. Overall, federal subsidies in 2040 prove to be comparatively robust in the face of plausible parameter changes. The structural upward trend up to 2040 is thus primarily driven by fundamental demographic trends and not determined by individual model assumptions.

↘ CHART 40

Projected development of the total social insurance contribution rates under alternative assumptions[1]



1 – Values for GKV and SPV includeg average supplementary contributions and contribution surcharges and reductions based on the number of children. 2 – The baseline scenario is based on variant G2L2 of the 16th Coordinated Population Projection and assumes a moderate recovery in fertility and a moderate increase in life expectancy at birth up to the year 2070. The "young population" scenario is based on variant G3L1 and assumes a significantly stronger increase in fertility alongside a smaller rise in life expectancy. The "ageing population" scenario follows G1L3 and assumes persistently low fertility alongside a sharp rise in life expectancy up to the year 2070. 3 – The baseline scenario assumes an annual net migration of 200,000 people in the long term. The sensitivity analyses assume a net migration that is 100,000 people higher or lower, respectively. 4 – The baseline scenario is based on a long-term constant TFP growth rate of 0.24 % per annum. This results in an average potential growth rate of 0.7 % for the years 2026 to 2080 and of 0.5 % in the final year, 2080. In the sensitivity scenarios, the TFP growth rate is set 0.2 percentage points higher or lower in each case. This results in average potential growth rates of 1.0 % (0.5 %) for the years 2026 to 2080 and 0.8 % (0.2 %) in the final year 2080 in the high-growth scenario (low-growth scenario). The impact on contribution rates remains minimal. 5 – In the baseline scenario, the labour force participation rate for women aged 15 to 64 rises from the current level of around 93 % of that of men of the same age to 97.5 % by 2060, and remains largely constant thereafter. In the low scenario, it remains at 93 %, whilst in the high scenario it rises to 99 % by 2060. In an additional scenario, the annual working hours of the entire labour force increase by 5 % by 2060.

Sources: DRV, Federal Employment Agency, Federal Ministry of Health, SIM.24, own calculations

3. Methodological approaches to estimating labour supply elasticities

181. Labour supply elasticities measure the extent to which labour force participation and working hours respond to changes in (net) wages, e.g. due to an increase in social insurance contributions. Empirically, they are often estimated using structural household labour supply models that jointly capture labour force participation and working hour decisions, and derive identification primarily from the kinks and discontinuities in tax and transfer systems. Labour supply elasticities are only comparable to a limited extent across studies due to differing identification approaches, data sources and model assumptions (Bargain et al., 2014; Bartels and Shupe, 2023).

182. Bargain et al. (2014) address this problem by applying a uniform, flexible modelling approach across countries and systematically testing the robustness of their results across alternative specifications. Compared to earlier studies, they find smaller elasticities and, internationally, a narrower range of wage elasticities. More recent studies more frequently use quasi-experimental reform variations or instrumental variable strategies to causally identify labour supply incentives. On average, they report small to moderate labour supply elasticities, although responses are highly heterogeneous (Bartels and Shupe, 2023). Empirical studies estimating labour demand elasticity also vary in their theoretical elasticities, empirical approaches and data sources, which limits their comparability (Lichter et al., 2015).

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