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## **Unemployment Compensation in Germany**

Provisions and Institutional Changes since the 1980s\*

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## Abstract

Social protection in case of unemployment has always been a particularly contentious issue. This paper focuses on institutional changes in the unemployment compensation system in Germany since the 1980s. It starts with a description of key features and the structure of the unemployment insurance system. The paper goes on to show how insurance coverage, benefit generosity (in terms of amount and duration of benefits), and eligibility requirements for drawing on unemployment benefits have evolved over time.

Nearly all aspects of unemployment benefits have been reduced since the 1980s. An exception to this rule can be seen in the duration of benefits; they were first extended and then subsequently reduced. Elsewhere, the pattern has been of cut-backs. For example, the scope of insurance (measured as the proportion of the labour force being insured) was reduced. This decline, however, was due more to changes in the labour force than to direct government intervention. Replacement rates for unemployment benefits and assistance were cut. In the case of the latter these were transformed into a flat-rate benefit. Finally, regulations regarding eligibility and criteria for qualification and disqualification became increasingly strict.



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# 1 Introduction

Until the mid 1970s and the beginning of the first oil crisis there was virtual full employment in Germany so that unemployment as a life risk played only a marginal role. Things changed since then and the last 35 years saw not only the rise of mass unemployment but also a continuous increase in the average duration of unemployment. As outlined in more detail below unemployment insurance is the primary institution to deal with the risk of job loss and because of the increasing weight of joblessness it was to an increasing degree confronted with challenges. An important difference in relation to the unemployment insurance system of the US is that in Germany its means are also used for active labor market policy. In particular in the first years after German re-unification the extent of active measures was extended to a considerably degree, so that in 1991 expenditure for active labor market policy was even higher than that for passive measures (Hassel & Schiller, 2010: 103). However, in less extraordinary times, the share of active labor market policy is much below that for passive measures e.g. in 1998 expenditure for active labor market policies amounted to about 30% of total labor market expenditure (in 2006 it was only 25%).

The central aim of this working paper<sup>1</sup> is to describe main institutional changes of the German unemployment insurance system since the 1980s in relation to passive unemployment measures. It proceeds as follows. The next section describes key features and the structure of the unemployment insurance system. Then the presentation is concerned with how insurance coverage evolved since the 1980s. Subsequently the same is applied to benefit generosity (in terms of amount and duration of benefits) and eligibility requirements in order to draw unemployment benefits. The following section describes the main legal changes in relation to social provisions for the unemployed. The final section then summarizes and formulates hypotheses for the micro-analyses.

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<sup>1</sup> It is part of a series of working papers, produced for the research project “The economic consequences of key life risks in Germany and the US and their evolution since the 1980s” at the Social Science Research Center Berlin (research unit: Inequality and Social Integration), 2009-2011.

## 2 Key Features and Structure of the Unemployment Insurance System

The German unemployment insurance system dates to the 1927 Job Placement and Unemployment Insurance Act (Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung) with some key elements of the original scheme still in place today. The system is centrally administered by the Federal Employment Agency (Bundesagentur für Arbeit) and managed by tripartite boards representing trade unions, employers' associations and public authorities. It is financed by equal contributions from employers and employees, with the federal government covering deficits (Alber, 1984: 160; Schmidt, 2005: 50). In contrast to the United States, German unemployment compensation is regulated at the federal level and applies uniform federal standards.

In 2004, comprehensive reform legislation known as the “Hartz” Reform (named after the chair of the reform commission) modified many features of the established, unemployment compensation regime (Hinrichs, 2007; Kemmerling & Bruttel, 2006). Until then, a three-tiered benefits system existed (Clasen & Clegg, 2007: 178): an earnings-related unemployment insurance benefit and a more stingy, means-tested, earnings-related, unemployment assistance benefit (both administered by the Federal Employment Agency), and a means-tested, need-based, social assistance benefit administered by the municipalities. The latter was originally designed as a final safety-net for individuals with special needs not covered by standard social security programs. As long-term unemployment spread, however, it increasingly catered to the jobless unable to claim to regular benefits (Alber 1996). While details concerning both the amount and duration of benefits and eligibility criteria were successively altered, the institutional framework remained constant until 2004. Implemented in 2005, the Hartz Reform replaced the three-tiered system with a new, two-tiered system. The insurance benefit remained, but the unemployment and social assistance schemes merged into a single, means-tested, flat-rate benefit which is intended to avoid poverty (see details below). Table 1, following, summarizes the main features of the different programs.

Table 1: From a Three-Tier to a Two-Tier System of Unemployment Compensation in Germany

	2004 and before			2005 and after	
<b>Name of Benefit Program</b>	Unemployment Benefits	Unemployment Assistance	Social Assistance	Unemployment Benefits I	Unemployment Benefits II
<b>Benefit Base</b>	earnings related	earnings related	statutory defined need of the household	earnings related	statutory defined need of the household
<b>Benefit Unit</b>	unemployed	unemployed	all households in need	unemployed	households with at least one member able to work
<b>Duration of Benefits</b>	generally 52 weeks	unlimited	unlimited	generally 52 weeks	unlimited
<b>Eligibility Criteria</b>	defined by federal law	defined by federal law; means-tested	defined by federal law means-tested	defined by federal law	defined by federal law; means-tested
<b>Financing</b>	contributions by employees and employers	taxes	taxes	contributions by employees and employers	taxes

Source: Hinrichs, 2007: 224f.; Koch et al., 2009: 37f.

### 3 Scope of Coverage

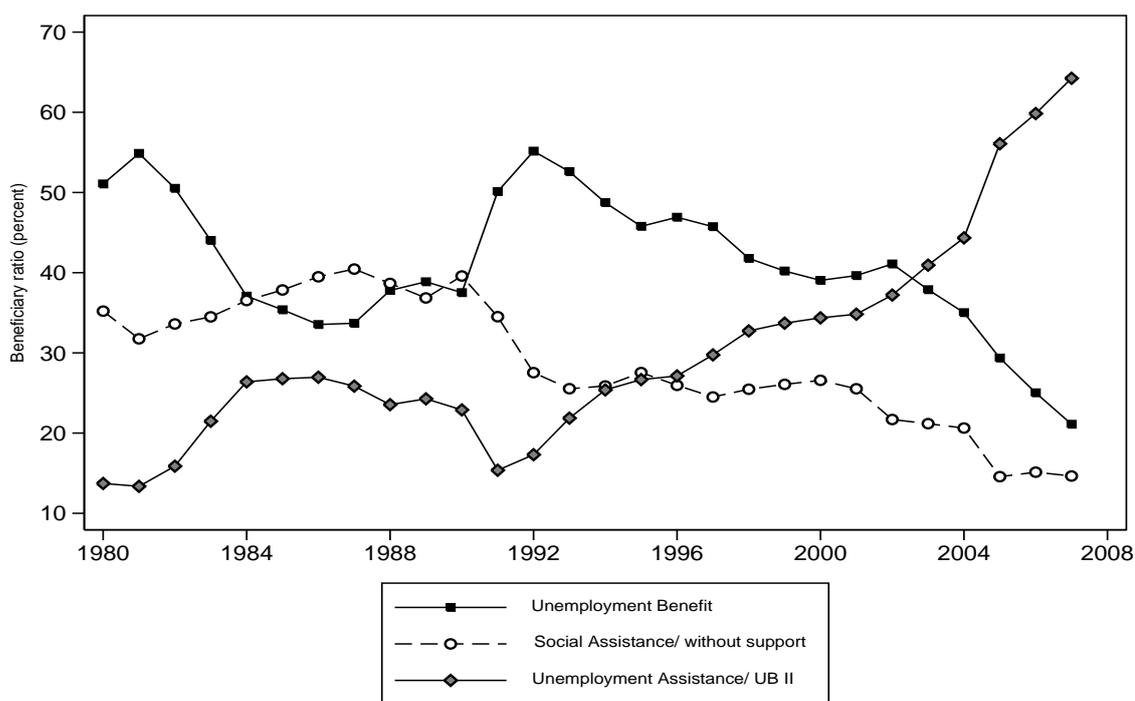
In principle, German unemployment insurance covers all employees with the exception of those in minor employment<sup>2</sup>. Civil servants, the self-employed, and people over 65 are excluded from coverage. Table 3 shows that the coverage ratio - expressing those insured as a proportion of the labor force - declined by about 10 percentage points since 1981. This decrease is due mainly to the changing structure of the labor force with growing numbers of self-employed and persons in minor employment. Public policies also contributed to the increasing number of people in minor employment, however, as the government relaxed the criteria defining minor employment several times starting in 1997 (Statistisches Bundesamt, 2008: 12).

Figure 1 illustrates that the beneficiary ratio - expressing those receiving a particular type of benefit as a proportion of the unemployed - decreased in the insur-

<sup>2</sup> Minor employment is a legal category and means most importantly that the remuneration is below a certain threshold (for example in the year 2007: 400€).

ance sector, but increased in the assistance sector. This owes to growing proportions of the unemployed exhausting their claims to insurance benefits as long-term unemployment proliferated. In 1980, only 17% of all unemployed were long-term unemployed. By 1991, the share had risen to 28% and, in 2006, it peaked at 41% (Bundesminister für Arbeit und Sozialordnung (Hg.), 1981: 67; 1992: 73; Statistik der Bundesagentur für Arbeit, 2009a). Since the duration of unemployment benefits is limited to 12 months (see details below), growing numbers of unemployed must resort to lower, means-tested benefits when long term-unemployment spreads – i.e., to unemployment or social assistance programs pre-Hartz Reform or, since 2005, to Unemployment Benefit II.

Figure 1: Beneficiaries of Unemployment Benefit, Unemployment Assistance (since 2005: UB II) and Persons Drawing Social Assistance or without Support as a Share of the Unemployed 1980-2007 (in %)



Sources: Bundesministerium für Arbeit und Soziales (Hg.), 2008a: Table 2.10; Bundesministerium für Arbeit und Sozialordnung (Hg.), 1997: Table 8.14, 1991-2007: Statistik der Bundesagentur für Arbeit, 2009b; Bundesanstalt für Arbeit, 1994: 39.

## 4 Amount and Duration of Benefits

In principal, the level of unemployment benefits (in the first tier program) is a fixed proportion of the claimant's previous net earnings. The rate also depends on family status. In 2007, the formal replacement rate was 67 percent of lost net income for parents, and 60 percent for non-parents. Both unemployment benefits and unemployment assistance are tax free. There is no waiting period for these benefits. For recipients unemployed longer than a year, benefits were indexed to the development of gross earnings until 2003 (Bäcker et al., 2000: 348; Bäcker et al., 2008: 524). Since the 1980s, benefits have been cut several times. The first cut occurred indirectly, in 1983, when a new accounting procedure went into effect for computable earnings disallowing special payments for holidays and Christmas as part of regular earnings, thereby effectively reducing the replacement rates (Alber, 1986b: 276). The replacement rates were cut directly in 1984 and 1994 (going into effect on January 1<sup>st</sup> of each, respective year). In 1984, the replacement rate was reduced by 5 percentage points (from 68% to 63%) for non-parents; and in 1994, by one percentage point for parents and another 3 percentage points for non-parents (Alber, 1986b: 276; Steffen, 2008: 15, see also Table 3).<sup>3</sup> The ceiling for assessing social insurance contributions also serves as the upper limit for unemployment benefits. In 2007, the ceiling was 5,250€ gross income in West Germany, or about two times the average gross income per month (Bundesministerium für Arbeit und Soziales (Hg.), 2008a).

The amount of unemployment assistance benefits was often reduced along with unemployment benefits. Replacement rates were also cut in 1984 and 1994, respectively, (from 58% to 56% for non-parents, in 1984, and from 58% to 57% for parents and 56% to 53% for non-parents, in 1994). Since 1997, unemployment assistance has been reduced by a small proportion every year.

The new assistance program, Unemployment Benefits II, established by the "Hartz Reforms" in 2005, is flat-rate and, therefore, no longer linked to previous earnings. The amount is determined by the consumption patterns of lower income strata and updated each year. Table 3 shows that it amounted nationwide to 347€, plus allowances for housing and heating, from 1<sup>st</sup> July, 2007, to 30<sup>th</sup> June, 2008. It is estimated that nearly 17% of all unemployment assistance recipients lost their eligibility for UB II due to more restrictive qualifying criteria. The remaining 83% are roughly equally divided between economic winners (53%) and losers (47%) of this reform. Winners are households with incomes near social assistance level, since the cash value of Unemployed Benefit II has been increased compared to that of social assistance (Koch et al., 2009: 39 - 41).

<sup>3</sup> A ruling of the Constitutional Court in 2001 and implemented in the same year that special payments for holidays and Christmas must be considered as computable earnings in fact overturned the policy in effect in 1983 and led to an increase of the statutory defined unemployment benefit (Bundesanstalt für Arbeit, 2001: 77).

Table 2: Benefit System for the Unemployed

<b>With drawing unemployment insurance benefits</b>			
Worker loses job	Unemployment Benefits (generally maximum of 12 months)	If still unemployed	Unemployment Assistance augmented by Social Assistance (in case unemployment assistance does not reach statutory subsistence)
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2005 and after			
Worker loses job	Unemployment Benefits I (generally maximum of 12 months)	If still unemployed	Unemployment Benefits II
<b>Without drawing unemployment insurance benefits</b>			
Person is unemployed (no prior employment, no unemployment insurance or not fulfilling the legal requirements for unemployment benefits)	Unemployment Assistance <sup>4</sup> or Social Assistance		
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2005 and after			
Person is unemployed (no prior employment, no unemployment insurance or not fulfilling the legal requirements for unemployment benefits I)	Unemployment Benefit II		

The maximum duration of unemployment benefits (first tier program) depends on the length of insured employment (duration of contributions) as well as the claimant's age. Today, Unemployment Benefit I is usually paid a maximum of twelve months (given 24 months of insured employment within a five year period), although benefits can be extended to 24 months for persons 58 and older (see appendix and appendix table for details). In principle, unemployment and social assistance and - since 2005 - Unemployment Benefit II are unlimited benefits if recipients do not violate existing rules.

<sup>4</sup> Until 2000, the so-called "original unemployment assistance" (originäre Arbeitslosenhilfe) existed, which one could receive without drawing unemployment benefits in advance. The most important requirement was to have had 150 days of insured employment (Steffen, 2008: 25).

Table 3: Key Dimensions of Unemployment Compensation (1981, 1991, 2000, 2007)

Year	1981	1991	2000	2007
Statutory Coverage (in % of the labour force)	74.0	73.2 <sup>b</sup>	69.0	64.3
Reciency Rate (in %)				
a) Unemployment Benefit	a) 54.9	a) 50.1	a) 39.0	a) 21.1
b) Unemployment Assistance until 2000, (for 2007 UB II)	b) 13.4	b) 15.4	b) 34.4	b) 64.2
Statutory Wage Replacement Rates (in % of net earn- ings)	68	68 with children; 63 without children	67 with children 60 without children	67 with children 60 without children
Unemployment As- sistance until 2000 (in % of net earn- ings), for 2007 UB II	58	58 with children; 56 without	57 with children 53 without	flat rate benefit 347€ for singles <sup>5</sup> (UB II)
Normal duration of benefits in weeks	52	52 (32 for people from 55)	52 (32 for people from 57)	52 (18 for people from 55)
Average duration of unemployment in months/weeks <sup>6</sup>	27.5 weeks <sup>a</sup>	31.4 <sup>b</sup> weeks	39 weeks	42.1 weeks

Notes: W = West Germany, E = East Germany, G = Germany <sup>a</sup>1980, <sup>b</sup>1992, UB = Unemployment Benefit, UA = Unemployment Assistance

Sources: *scope of coverage*: Bundesministerium für Arbeit und Soziales (Hg.), 2008a: Tables 2.3 und 2.6A; *reciency rate*: Bundesministerium für Arbeit und Soziales (Hg.), 2008a: Table 2.10, Bundesministerium für Arbeit und Sozialordnung (Hg.), 1997: Table 8.14, Statistik der Bundesagentur für Arbeit, 2009b, Bundesanstalt für Arbeit, 1994: 39, and own calculations; *statutory wage replacement rate*: Steffen, 2008; *average duration of unemployment*: Bäcker et al., 1989: 218, Bäcker et al., 2000: 330, Bundesagentur für Arbeit, 2008: 37.

<sup>5</sup> This amount is the standard rate of UB II (from 1st of July 2007 until 30th of June 2008, in contrast to the social assistance standard rate this is the same in all Federal States) and for costs of accommodation and heating. These are estimated to be 275€ and 59€ respectively so that the total monetary value of UB II is about 681€ (Bundesregierung, 2008: 333).

<sup>6</sup> Statistical recording of the Federal Agency of employment changed from months to weeks in the 1990s. the values for 1980 and 1992 were derived by multiplying the months by 4.3.

## 5 Eligibility Requirements

In Germany, as in the US, there are several main, eligibility criteria for receiving unemployment benefits: One must be unemployed and register with the unemployment office, below age 65, available for employment placement services and willing to accept suitable work. Since 1998, the unemployed are required more strictly to actively look for work (Clasen & Clegg, 2007: 189). As a basic rule, eligibility criteria are less strict for the first tier of unemployment compensation than for the second (and, prior to 2005, the third tier, as well). While most criteria have remained unaltered since the 1980s, the definition of what constitutes “suitable” employment has changed over time. The concept of suitable employment centres around three elements: The unemployed’s previous income; the qualification standard of the previous job; and the potential travel time to the new job. In 1997, rules for accepting suitable employment were tightened. Beginning with the seventh month of unemployment, every job whose net earnings equal the amount of the unemployment benefit is considered “suitable” (Steffen, 2008: 19). For beneficiaries of Unemployment Benefit II, the Hartz Reforms made every legal employment suitable. If the unemployed refuses suitable employment, the employment agency can impose a disqualification period. A disqualification period is the standard sanctioning instrument of the employment agency if the unemployed person does not act according to the rules. Alongside refusal of suitable work, the following are the main reasons for imposing a disqualification period: Voluntarily leaving a job; not actively seeking work; uncooperative behaviour with the employment agency. The length of the disqualification period depends on the reasons for – and the number of – infractions and is generally between three to twelve weeks. In certain cases, during disqualification periods, the unemployed is not covered by either health or pension insurance and, therefore, must look for voluntary health insurance in order to remain insured during this time (Bäcker et al., 2008: 525; Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 78).

## 6 Other Social Provisions Available for Unemployed Workers

Third-tier social assistance wasn't designed as a programme for the unemployed but as a safety net of last resort to fight poverty. Every citizen in need and without sufficient resources to maintain themselves has a legal right to benefits under the Federal Social Assistance Programme (Alber, 1996: 13).<sup>7</sup> This programme, however, became increasingly important for the unemployed. A 1981 survey by the Federal Statistical Office found that 10.5% of social assistance recipients indicated unemployment as the primary reason for requiring aid (Alber, 1986a: 56). In 1994, official statistics showed that 24.5% of social assistance recipients were registered as unemployed and, by 2004, it was roughly half (49.9%) (Statistisches Bundesamt, 2009 and own calculations).<sup>8</sup> These figures show clearly that social assistance became increasingly important as a social protection mechanism for the unemployed.

Social protection for the unemployed in Germany is more comprehensive compared to the USA since the unemployed in Germany are also covered by statutory health and pension insurance. Since 1983, the Federal Employment Agency makes contributions for the unemployed to statutory pension insurance based on the applicable unemployment benefit (prior to 1983, contributions were paid on the basis of the unemployed's previous, gross earnings; Alber, 1986b: 276). This alleviates the negative consequences of unemployment as relates to the accrual of pension benefits.

Another benefit scheme assisting the unemployed is housing allowance (Wohngeld), a tax-free benefit for tenants and owner-occupiers. The benefit amount depends on family income, the number of persons in the household, and the rent obligation ("zu berücksichtigende Miete"), which, among other factors, depends on the local rent levels. In 2006, the average housing allowance payment was 91€, underscoring that this benefit is merely a partial payment and that full-payment for housing depends on other sources of income (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 899ff.). Because the new Unemployment Benefit II excludes beneficiaries from receiving housing allowances, the proportion of unemployed

<sup>7</sup> As already noted an important contrast to the USA is that social programmes are federally regulated. In some instances, however, the federal states (Bundesländer) have some small leeway in some social policies. For example, federal states were able to set their own standard rates in social assistance levels. However, the range was small, e.g. in 2004, the highest standard rate (Regelsatz) was 297€ and the lowest 282€ (Bundesministerium für Gesundheit und Soziale Sicherheit (Hg.), 2004: 721).

<sup>8</sup> It is unclear, however, how many recipients got social assistance and unemployment assistance at the same time, since sometimes the rate of the unemployment assistance did not reach statutory subsistence (see Table 2) and they therefore have to (or are eligible to) apply for social assistance.

among all housing allowance beneficiaries declined from 39.3%, in 2004, to 8.3%, in 2006 (Bundesministerium für Arbeit und Soziales (Hg.), 2008b: 898).

## 7 Major Statutory Changes since the 1980s<sup>9</sup>

The Hartz Reforms, which passed in 2004 and went into effect in 2005, constitute a fundamental change in German, unemployment compensation policies. They were preceded, however, by many reforms which gradually reduced benefits and tightened eligibility criteria.

### 1980s

In the early 1980s, the unemployment rate increased dramatically from 3.8, in 1980, to 9.1, in 1983 (Bundesministerium für Arbeit und Soziales (Hg.), 2008a: Table 2.10). This second economic recession, along with parallel budget deficits, caused several retrenchment acts (Alber, 1986a: 114; Clasen, 2005: 64). Three laws – the Employment Promotion and Consolidation Law, and two laws both titled, Supplementary Budget Law (passed in 1981, 1982 and 1983, respectively) – reduced unemployment benefits by several measures and limited, both directly and indirectly, the monetary value of unemployment benefits. Moreover, benefits rather than previous earnings became the basis for contributions to pension insurance, thus reducing the value of future pension claims. Additionally, qualifications for receiving benefits were restricted by increasing the qualification period from 6 to 12 months; tightening the definition of “suitable” employment; and, extending disqualification periods.

The 1980s, however, were not just about reducing unemployment benefit. Since the mid-1980s, in fact, the duration of benefits gradually increased for senior unemployed with long contribution records – a policy change that was part of the federal government’s plan to promote early exit from the labour market. (Alber, 2003: 50; Ebbinghaus, 2006).

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<sup>9</sup> If not stated otherwise the following described changes were derived from: Alber, 1986b: 276; Clasen & Clegg, 2007; Steffen, 2008.

## 1990s

German unification saw the transfer of West German institutions to the new federal states (Länder). There were no immediate changes to unemployment insurance, but active, labor market policies were expanded to unprecedented levels (Manow & Seils, 2000: 284/292f.). The most penetrating legislative changes regarding unemployment insurance were passed in 1997 and 1998 - basically the same types of measures as in the 1980s. Once again, replacement rates were reduced for both unemployment benefits and assistance; criteria for suitable employment became more restrictive and defined only in monetary terms; and, age limits for extending the duration of benefits for senior unemployed increased. The 1990s also saw more emphasis on activation measures for unemployed, social assistance recipients. (Alber, 2003: 54f.). Since 1995, those able to work were obliged to accept any sort of broadly-defined, "suitable work". Following these activation policies, the number of people participating in so-called assistance-to-work programs almost tripled from 110,000, in 1993, to 300,000, in 1998.

## 2000 - 2007

As described at the beginning of this section, the "Hartz Reforms", in 2005, under Chancellor Schröder and the Social Democratic/Green Government, created a sea change in unemployment insurance. The two, former, separate benefit schemes - social assistance and unemployment assistance - were merged into a single program (Unemployment Benefit II). For recipients of this new benefit, virtually every legal form of employment was considered "suitable" employment. Additionally, activation became a central tenet of the reform. Active labour market policies were also expanded in several ways, e.g., the old, assistance-to-work programs were transformed into so-called "one euro jobs", which constitute work opportunities for recipients of Unemployment Benefit II. Moreover, the Hartz Reforms eliminated the use of unemployment insurance as a means of promoting early retirement since the maximum duration of benefits was reduced considerably from 32 to 18 months.

## 8 Summary and Hypotheses

A most remarkable trend regarding social protection for the unemployed is the declining importance of first-tier unemployment compensation: While, in 1991, one out of two unemployed received benefits, only one in five received them in 2007 (related to Unemployment Benefit I). Since the 1980s, an increasing number of unemployed must rely on other programs as a social safety-net (unemployment and social assistance, as well as Unemployment Benefit II). As shown, however, this development is primarily caused by increasing numbers of long-term unemployed.

Beginning in 1985, the duration of benefits was extended for senior unemployed (given sufficient contributions), but later these extensions were largely withdrawn (see Appendix Figure 1). The duration of benefits can be seen as an exception, where unemployment policies are concerned, since they were extended and subsequently reduced. All other aspects of unemployment benefits have been fully reduced since the 1980s. First the scope of insurance (measured as the proportion of the labour force being insured) declined. This decline is due much more to changes in the labour force than to government intervention. Replacement rates for unemployment benefits and assistance have been reduced with the latter, most importantly, being transformed into a flat rate benefit in order to avoid poverty. Regulations regarding eligibility and criteria for qualification and disqualification have become increasingly strict. A prime example is the requirement to accept suitable employment, which, after several modifications, eventually culminated in the Hartz Reforms, where virtually every legal employment was declared suitable irrespective of the unemployed person's previous qualifications or earnings.

### Hypotheses for the micro analyses

#### Group specific

1. Beginning with the extension of the duration of insurance benefit in 1985 for older workers older long term unemployed (with an adequate employment history) fare better than the younger unemployed.
2. Since women are more often in atypical employment relationships and earn less they fare worse than men after becoming unemployed

Over time

1. Because of the increasing duration of unemployment and the concomitantly increasing importance of unemployment assistance income losses get more severe.
2. Because of the decline of the statutory coverage rate, new entrants into unemployment lead more often to no benefit claims.
3. Whereas new unemployed after 1994 experience deeper cuts than before (reduction of replacement ratio), new unemployed after 2001 fare better than before because of the new recognition of special payments for unemployment benefits.

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## Appendix

Appendix Figure 1<sup>10</sup> shows how the relationship between the length of insured employment and the duration of benefits has changed since 1982. If one compares conditions in the years 1982 and 2008, they look similar; but in fact, in the year 2008, the regulations are more generous to the unemployed compared to 1982. In both years, the regular duration of benefits is 12 months, and the ratio between the length of insured employment and the duration of benefits is 2:1. However, in 2008, unemployed over age 50 are eligible for an extended duration of benefits, reaching a maximum of 24 months for persons aged 58. The Figure also illustrates that there was a period when unemployment insurance was particularly a means for early retirement (for an encompassing analysis see: Ebbinghaus, 2006) and an extended duration of benefits for senior unemployed, in particular, between 1987 and 2005.

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<sup>10</sup> An example of how to read this rather complex Figure: A length of insured employment of 12 months leads to a duration of benefits of six months (if the insured employment has been maintained within a contribution period of three years) in 1982.

Appendix Figure 1: Changes in the Relationship of Length of Insured Employment and Duration of Benefit 1969 to 2008



Sources: Alber, 1989: 301; Boss, 2008: 50; Bundesministerium für Arbeit und Soziales (Hg.), 2008b:75; Bundesministerium für Arbeit und Sozialordnung (Hg.), 1998: 90; Cramer, 1986: 203; Schmid et al., 1987: 154; Steffen, 2008; Würz, 1999: 43.

Appendix Table 1: Major Statutory Changes in Unemployment Insurance and Social Assistance Programs, 1981-2007

Programs	Unemployment Insurance Benefit	Unemployment Assistance/ Unemployment Benefit II	Social Assistance (Changes particularly relevant to the unemployed)
1980s	<p><b>Employment Promotion and Consolidation Law (1981)</b> (Arbeitsförderungs-Konsolidierungsgesetz) Prolongation of qualifying period for receipt of unemployment benefits from six to twelve months of employment</p> <p><b>Supplementary Budget Law (1983)</b> (Haushaltsbegleitgesetz 1983) Tighter coupling of contribution payment duration to benefit duration: 3 months of contributions lead to 1 month of benefit (before that 2 months of contributions sufficed).</p> <p><b>Supplementary Budget Law (1984)</b> (Haushaltsbegleitgesetz 1984) Reduction of replacement rate of benefits from 68% to 63% for non parents.</p> <p><b>Law to Modify the Employment Promotion Law and Statutory Pension Insurance (1985)</b> (Gesetz zur Änderung von Vorschriften des Arbeitsförderungsgesetzes und der gesetzlichen Rentenversicherung) Extension of unemployment benefit duration for people older than 49 years to max. 18 months (instead of 12 months, depending on previous employment record)</p> <p><b>7th Law to Modify the Employment Promotion Act 1986</b></p>	<p><b>Employment Promotion and Consolidation Law (1981)</b> (Arbeitsförderungs-Konsolidierungsgesetz) Prolongation of qualifying period for original unemployment assistance from 70 to 150 days of employment</p> <p><b>Supplementary Budget Law (1984)</b> (Haushaltsbegleitgesetz 1984) Reduction of replacement rate of unemployment insurance benefits from 58% to 56% for non parents.</p>	<p><b>Second Budget Structure Law (1981)</b> (Zweites Haushaltstrukturgesetz) Fixed standard benefit increase to 3%. Abolishment of claim for social assistance for apprentices</p> <p><b>Supplementary Budget Law (1983)</b> (Haushaltsbegleitgesetz 1983) Delay of adjustment of the standard rate (Regelsatz) from 1<sup>st</sup> of January to 1<sup>st</sup> of July. Cut of adjustment from 3% to 2% from July 1983 to June 1984</p> <p><b>Supplementary Budget Law (1984)</b> (Haushaltsbegleitgesetz 1984) Fixed adjustment of the standard rate to increases of consumer price index between July 1984 to June 1985</p> <p><b>Law to Implement the Savings Program 1993</b> (Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms FKPG) local authorities can demand the participation in “assistance to work” programs (in particular from unemployed young people). Abolition of benefit supplement for employed social assistance recipients.</p> <p>Intensification of sanctions: benefits can be withheld temporarily if recipients decline offer to participate in assistance to work programme</p>

	<p>(7. Gesetz zur Änderung des AFG)</p> <p>Further extensions of benefit duration to 24 months (depending on age and employment record). Unemployed as of 58 years don't have to look for work any more provided that they apply for statutory pension as soon as possible</p> <p><b>Law for the Extension of Insurance Benefits 1987</b> (Gesetz zur Verlängerung des Versicherungsschutzes bei Arbeitslosigkeit und Kurzarbeit) Further extensions of benefit duration to 32 months (depending on age and employment record).</p> <p>Looser coupling of contribution payment duration to benefit duration: 3 months of contributions lead to 2 months of benefit (therefore reversing the measure of the Supplementary Budget Law from 1983)</p>		
1990s	<p><b>First Law to Implement the Savings, Consolidation and Growth Program 1994</b> (Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (1. SKWPG)</p> <p>Reduction of the replacement rate of benefits from 63% to 60% for non parents and from 68% to 67% for parents.</p> <p><b>Employment Promotion Reform Law 1997 (Arbeitsförderungs-Reformgesetz)</b> Increases of age limits in order to get increased benefit duration. More restrictive criteria what constitutes <i>suitable employment</i></p>	<p><b>First Law to Implement the Savings, Consolidation and Growth program 1994</b> (Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (1. SKWPG)</p> <p>Reduction of the replacement rate of benefits from 56% to 53% for non parents and from 58% to 57% for parents.</p> <p>Duration of original unemployment assistance is limited to one year</p> <p><b>Unemployment Assistance Reform Law (1996)</b> Arbeit-sloshilfe-Reformgesetz Unemployment assistance is reduced by 3% every year</p>	<p><b>Second Law to Implement the Savings, Consolidation and Growth Program 1994</b> (Zweites Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (2. SKWPG)</p> <p>As a basic rule all unemployed social assistance recipients are obliged to participate in assistance to work programs</p>

2000s	<p><b>Law to Reform the Labor Market 2004</b> (Gesetz zu Reformen am Arbeitsmarkt) Normal duration of benefits is set to 12 months (for people as of 55 years 18 months).</p> <p><b>Third Law for Modern Services on the Labour Market ("Hartz III") (2004)</b> Drittes Gesetz für moderne Dienstleistungen am Arbeitsmarkt</p> <p>Qualifying period for receipt of unemployment benefit of twelve months of employment has to be fulfilled within a time frame of two years (before 3 years)</p>	<p><b>Third Social Code Book III Modification Law 2000</b> (3. SGB III Änderungsgesetz) Abolishment of original social assistance</p> <p><b>Fourth Law for Modern Services on the Labour Market ("Hartz IV") (2004)</b> Viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt</p> <p>Abolishment of unemployment assistance. Introduction of the new flat rate Unemployment Benefit II. Virtually every legal employment is considered suitable employment.</p>	
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Sources: Alber, 1986b: 272-276, 285; Steffen, 2008; and own compilations.



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