

Buslei, Hermann; Geyer, Johannes; Haan, Peter

## Article

# Midijob reform: Increased redistribution in pension insurance - noticeable costs, relief not well targeted

DIW Weekly Report

## Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Buslei, Hermann; Geyer, Johannes; Haan, Peter (2023) : Midijob reform: Increased redistribution in pension insurance - noticeable costs, relief not well targeted, DIW Weekly Report, ISSN 2568-7697, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 13, Iss. 7, pp. 63-70,  
[https://doi.org/10.18723/diw\\_dwr:2023-7-1](https://doi.org/10.18723/diw_dwr:2023-7-1)

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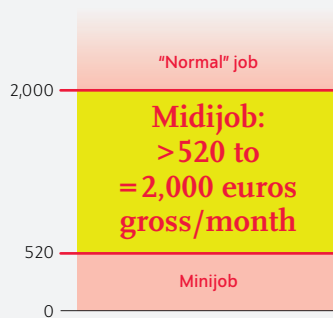
## Midijob Reform: Increased Redistribution in Pension Insurance – Noticeable Costs, Relief Not Well Targeted

By Hermann Buslei, Johannes Geyer, and Peter Haan

- The German government increased the upper earnings limit for midijobs to 2,000 euros and will take over a significant share of the social security contributions
- Nearly 6.4 million people are benefiting from the midijob regulation, in particular women, single parents, and people with migration backgrounds
- Midijob employees pay lower pension contributions but still receive their full pension entitlements like non-subsidized employees
- Subsidizing pension insurance will cost the government about one billion euros, the same sum needed for the basic pension
- People with a high income or high hourly wages still benefit from this redistribution; therefore, the government should provide more targeted support

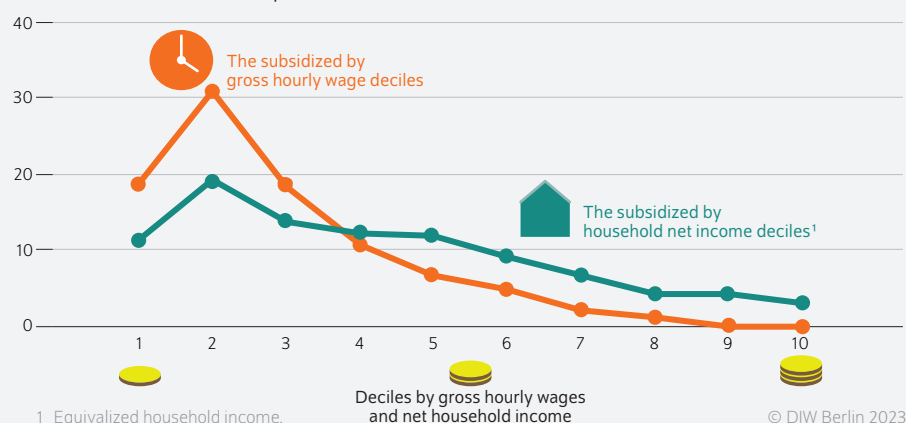
### Reduced pension contributions for midijob employees also relieve middle and high income earners

What is a midijob?



Source: SOEP v37, authors' calculations.

Whose pension contributions are subsidized under the midijob regulation?  
Share of all subsidized in percent



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### FROM THE AUTHORS

*“The goal is not achieved by redistributing one billion euros in the pension insurance system. If the German government wants to protect low-income employees from old-age poverty, they must relocate the support in a targeted manner and, for example, make it easier to receive a basic pension supplement.”*

— Hermann Buslei —

### MEDIA



**Audio Interview** with Hermann Buslei (in German)  
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# Midijob Reform: Increased Redistribution in Pension Insurance – Noticeable Costs, Relief Not Well Targeted

By Hermann Buslei, Johannes Geyer, and Peter Haan

## ABSTRACT

The German Federal Government has expanded subsidies for employees with low gross wages (midijob employees) as of January 1, 2023, and raised the upper earnings limit to 2,000 euros. As a result, around 6.2 million midijob employees will benefit from paying reduced social security contributions while still receiving their full pension entitlements, made possible by a redistribution within the social insurance funds. Such redistribution, however, contradicts the equivalence principle on which the pension insurance system is based. This Weekly Report investigates the financial scope of the additional pension entitlements and how targeted this subsidy is. The statutory pension insurance (Gesetzliche Rentenversicherung, GRV) will lose revenue of around one billion euros per year as a result of the reduced contributions. Due to the midijob regulation, pension contributions are on average twelve euros a month lower per person benefiting from the subsidy. However, when viewing the subsidy by net income or individual gross hourly wages, it can be seen that this policy is poorly targeted: Individuals with high net incomes or high hourly wages but low employment levels also benefit from the subsidy. If policymakers want to redistribute funds in the statutory pension insurance system, they should readjust the redistribution to make it more targeted. To combat old-age poverty more effectively, the pension entitlements of those at risk should be targeted directly or the basic pension supplement should be expanded.

With the future of the German statutory pension system in mind, expanding redistribution within the pension insurance system is under discussion. Among other reasons, it is argued that more redistribution is needed due to the lower life expectancy of people with low lifetime incomes and pension entitlements, as they benefit from pension payments for a shorter amount of time.<sup>1</sup> In principle, however, the equivalence principle applies to pensions, meaning the longer someone pays into the pension insurance system and the higher their income, the larger the pension. This does not provide for income-related redistribution: Higher incomes and continuous employment histories lead to higher pensions, while interruptions in employment and below-average incomes lead to lower pensions. However, this conflicts with other distributional social policy goals, such as preventing old-age poverty.

Therefore, the pension insurance system also contains redistributive elements. For example, the resulting pension is considered too low for people who have employment interruptions due to periods of childcare work. Therefore, additional contributions are paid for one parent, usually the mother, in the first three years of a child's life, regardless of whether or not the parent is employed. Pension contributions are also paid for non-commercial care work. In addition to certain groups with employment interruptions, redistribution also includes people with a low retirement income. A prominent example is the basic pension supplement introduced in 2021, which provides a supplement to pensions for people with low pension entitlements, long insurance periods, and low household incomes.

Less well known is that subsidies for midijob employees have also been available since 2019. Although midijob employees pay reduced social security contributions, they receive the pension entitlements that they would have received had

<sup>1</sup> Peter Haan, Daniel Kemptner, and Holger Lüthen, "Besserverdienende profitieren in der Rentenversicherung zunehmend von höherer Lebenserwartung," *DIW Wochenbericht*, no. 23 (2019): 392–398 (in German; available online. Accessed on February 6, 2023. This applies to all other online sources in this report unless stated otherwise.).

## Box

## Calculation basis

The history of midijobs spans almost 20 years, although the income thresholds and regulations (for example, regarding the formal division between employee and employer, with or without reduction of the pension entitlement) have changed over time. In simplified terms, midijob employees within a certain income range (formerly called the *Gleitzone*, but since July 1, 2019, known as the *Übergangsbereich*, or transition range) pay reduced social security contributions, with the reduction decreasing until the end of the designated income range. An important change regarding acquired pension entitlements was introduced in 2019 with the *Gesetz über Leistungsverbesserungen und Stabilisierung in der Gesetzlichen Rentenversicherung* (Act on Benefit Improvements and Stabilization in the Statutory Pension Insurance). Pension entitlements are now not solely based on the pension contributions actually made, but rather on the contributions that would have been made without the regulation.

The *Gesetz zur Erhöhung des Schutzes durch den gesetzlichen Mindestlohn und zu Änderungen im Bereich der geringfügigen Beschäftigung* (Act on Increasing Statutory Minimum Wage Protection and on Changes in Marginal Employment), which came into force on October 1, 2022, provides for a further reduction in the tax burden for employees in the transition range. At the same time, the burden on employers was increased. The calculation regulation now determines the total burden before determining the burden on employees. The burden on employers is then the difference between the two variables.

## Empirical analysis

The data for the empirical analysis come from the 2020 wave of the SOEP (SOEP v37). Information on gross monthly remuneration from main employment is used to estimate the group of employees in the transition range (reference date information).<sup>1</sup> Self-employed persons not subject to compulsory insurance, civil servants, and persons in training are excluded in accordance with the current legal situation. For individuals aged 66 and over who earn above

<sup>1</sup> Significantly higher figures result if all people who have benefited at some point in a year from the midijob regulation are counted. Compare with Stefan Bach, Hermann Buslei, and Michelle Harnisch, "Midijob-Reform entlastet Geringverdienende, vor allem teilzeiterwerbstätige Frauen," *DIW aktuell*, no. 16 (2018) (in German; available online).

the marginal earnings threshold and receive a government pension, it is assumed that half waive the insurance exemption and pay statutory pension insurance contributions. It is possible that the number of midijob employees is slightly overestimated, as side jobs are not considered. Conversely, there is a slight underestimation as well, as both self-employed persons subject to and not subject to compulsory insurance were excluded. Further, periodic employment tends to be underreported because the survey is conducted at a particular point in time. To derive an estimate for 2023, wage growth is approximated using the assumptions in the 2022 Federal Pension Insurance Report (*Rentenversicherungsbericht 2022*). Accordingly, the remuneration subject to social insurance per insured person will increase by 13.9 percent by 2023.<sup>2</sup> This also reflects, in a generalized manner, the changes resulting from the increase in the minimum wage to 12 euros per hour.<sup>3</sup>

Further SOEP variables are used for the distribution analysis of the midijob regulation. Net household income corresponds to the *Household Post-Government Income* variable, which is available for the previous year 2019 and is used here to approximate the relative income position in 2020. The modified OECD scale is used to determine the equivalized income of household members.<sup>4</sup> Information on the actual hours worked is used to determine the hourly wages. If this is missing from the data while information on wage income is available, the contractual working hours are used to determine the hourly wage. This hourly information was also used to form the part-time variable. For the nationality variable, only information on the first citizenship held is used.

When determining the financial effects, it is assumed that the observed monthly income is received 12.5 times per year. This takes into account that some of the employees receive special payments (such as a 13th month's salary).

<sup>2</sup> Bundesministerium für Arbeit und Soziales, *Rentenversicherungsbericht 2022* (2022): 47 (in German; available online).

<sup>3</sup> If wage incomes are extrapolated to 2021 using a uniform wage growth rate, the number of midijob employees according to the regulation in force as of 2021 will be comparable to the number reported by the Federal Employment Agency for the end of 2021 (approximately three million). Cf. Bundesagentur für Arbeit, *Länderreport über Beschäftigte – Deutschland, West/Ost und Länder* (in German; available online).

<sup>4</sup> Thus, the first person over 14 in the household receives a value of one and all others over 15 receive the value of 0.5. Household members under 14 are weighted with a value of 0.3.

they paid the standard contribution rate.<sup>2</sup> The increase in the upper earnings limit for midijobs from 1,600 to 2,000 euros per month as of January 1, 2023, makes this regulation significantly more important, especially because more employees will benefit from it.

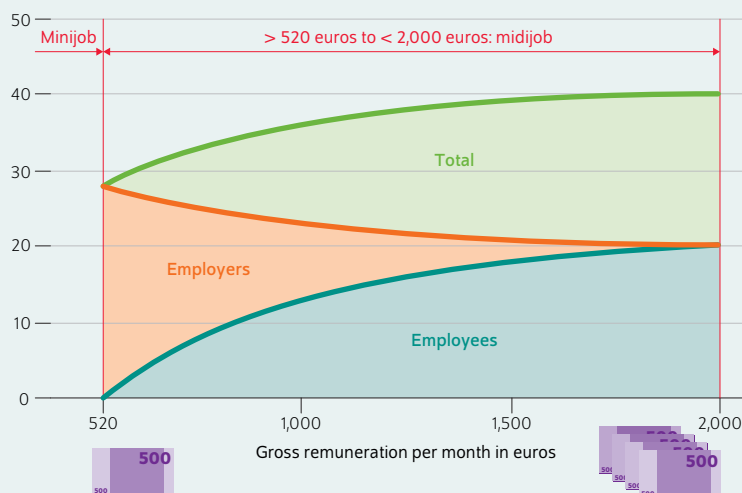
<sup>2</sup> Social insurance includes statutory pension insurance (GRV), statutory health insurance (GKV), statutory long-term care insurance (GPV), and unemployment insurance (AV). Unlike in the other branches, contributions are paid solely by the employees for statutory accident insurance.

Using Socio-Economic Panel (SOEP) data, the financial and distributive effects of this regulation are investigated.<sup>3</sup> The central questions are how well the policy is targeted and whether relief reaches the individuals who are likely at risk of old-age poverty in particular.

<sup>3</sup> The SOEP is an annual representative survey of private households. It began in West Germany in 1984 and expanded its scope to include the new federal states in 1990; cf. Jan Goebel et al., "The German Socio-Economic Panel (SOEP)," *Journal of Economics and Statistics* 239, no. 29 (2018): 345–360 (available online).

Figure 1

### Contribution rates of midjob employees by total remuneration In percent



Source: Authors' calculations.

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Midjob employees pay lower social security contributions that increase as gross remuneration increases.

### Over six million employees will benefit from the subsidy

Due to the increase in the upper earnings limit to 2,000 euros for midjobs at the beginning of 2023, the number of affected employees will rise to around 6.2 million, reaching around 18 percent of all employees in Germany subject to social insurance contributions.<sup>4</sup> On average, the subsidy for all social insurance funds amounts to 27 euros per month per subsidized employee. Due to the reduced contributions, the revenue loss for all social insurance funds will be around two billion euros per year.<sup>5</sup>

The midjob regulation lowers social security contributions for those whose earnings fall into the transition range, which starts at the marginal earnings threshold of 520 euros per month and directly follows minijobs. Following an amendment to the law in 2023, the upper threshold of the transition range ends at a gross monthly wage of 2,000 euros.<sup>6</sup> Above this 2,000-euro threshold, the standard contribution rates of the individual social insurance branches are applied. Contributions are divided equally between employees and employers. Since 2019, this also applies to the additional health insurance contribution. The sum of all social security

contribution rates, or the total social security contribution rate, was 40.45 percent in 2023.<sup>7</sup> These duties are also a justification for subsidizing employees with midjobs, as it makes low-paid employment seem even less attractive.

The reduction in social insurance contributions in the transition range is reduced in line with the gross remuneration earned (Box). At the bottom end of the range—once the marginal earnings threshold of 520 euros is exceeded—the total contribution rate is 28 percent. Over the entire range, it rises to 40.45 percent (Figure 1).<sup>8</sup> While employers pay the entire contribution at the bottom end of the range, employee contributions increase as remuneration increases. With a monthly income of 2,000 euros at the top of the range, there is parity financing between employee and employer (Figure 1).

### Impact on individual pension entitlements is low

Since July 2019, midjob employees have received a higher pension entitlement.<sup>9</sup> Despite their reduced pension contributions, they will receive a full pension entitlement based on the amount of their gross remuneration as a result of redistribution within the pension insurance system.

Pension entitlements are calculated based on the pension insurance contribution that would apply without the midjob regulation, even though only a reduced contribution is paid. This increases the entitlements compared to a situation in which the actual contributions paid are used to calculate pension entitlements. The difference between the full and reduced contribution rates is smaller the higher the income and thus the higher the social security contributions of employees in the transition range (Figure 2).

In concrete terms, this results in a 5.7-percentage-point reduction in the contribution rate in the pension insurance at the beginning of the transition range at 521 euros, which falls to zero by the upper threshold of the transition range.<sup>10</sup> This means that a maximum of just under 31 percent of pension entitlements have no counterpart (or equivalence) in pension contributions and are credited to the insured as additional pension entitlements.<sup>11</sup> This credit is about 0.045

<sup>7</sup> The contribution rates for employers and employees in 2023 were 18.6 percent (GRV), 14.6 percent plus 1.6 percent average additional contribution (GKV), 3.05 percent (GPV, for those without children; for those with children, the rate is 0.35 percent lower), and 2.6 percent (AV).

<sup>8</sup> The calculation of contributions actually builds on a reduced earnings base, which implies in effect a reduced contribution rate. It is this contribution rate that is meant in Figure 1 and further on with "reduced contribution rate."

<sup>9</sup> Pension entitlements based on contributions on remuneration subject to social security are recorded in remuneration points. If a person earns an average income in a year, they are credited exactly one remuneration point. The total of all remuneration points multiplied by the current pension value results in the amount of the pension at retirement (reduced, if applicable, due to deductions for early retirement).

<sup>10</sup> The calculation assumes that the reduction in the contribution rates of the individual social insurance branches corresponds to the reduction in the total social insurance contribution. In Figure 2, the contributions saved were multiplied by the respective remuneration and annualized in relation to the provisional average remuneration (2023: 43,142 euros). This results in the entitlements not based on contributions. No distinction is made between employee contributions and employer contributions.

<sup>11</sup> The future additional expenditure caused by this cannot yet be fully estimated. The pension entitlements only become relevant for expenditure when those affected retire. In the previous laws

<sup>4</sup> Measured by the number of employees subject to social security contributions in 2022 according to the Federal Employment Agency's employment statistics (in German; available online).

<sup>5</sup> Effects of this, for example on income tax due to reduced insurance contributions, are not taken into account here.

<sup>6</sup> The transitional regulation for 2023 is not considered here, according to which a grandfathering applies to individuals who were employed on September 30, 2022, and had a monthly wage of 450.01 euros to 520.00 euros.

remuneration points. The contribution to old-age income security is therefore rather small, even for those who benefit most from the regulation. Assuming that a person earns at this limit for their entire career, or 45 years, a maximum of two additional remuneration points can be expected (in 2023, this would be about 72 euros gross pension per month).<sup>12</sup>

The actual relief for midijob employees is markedly smaller on average, as many earn over the 520-euro threshold. According to SOEP data, the average credit is 0.018 remuneration points, which corresponds to a 60-cent pension increase per month per year of employment, or nearly 29 euros per month for 45 years of consistent dependent employment. Relative to an average 2020 old-age pension, that would be an increase of about three percent.<sup>13</sup>

### Noticeable revenue losses in the pension insurance system

According to SOEP data, there are around 6.2 million midijob employees. This high number of subsidized employees explains the noticeable revenue losses—around one billion euros—of the pension insurance system despite the relatively small individual additional pension entitlements. The one-billion-euro loss is roughly equivalent to two-thirds of the cost of the basic pension supplement, the financing of which became a controversial political issue in 2018.<sup>14</sup> This shows that costs or revenue losses of this magnitude are politically significant.

### Financial support is not very targeted

Subsidizing midijobs is intended to reduce the high tax burden and the marginal burden directly at the transition from minijob to midijob employment. In the case of minijobs, the total contribution rate amounts to 28 percent (of which 15 percent is for statutory pension insurance and 13 percent for health insurance) and are paid by employers alone. Without the midijob relief, there would be an increase in the total contribution rate of over 12 percentage points when switching from a minijob to a midijob. At the same time, the increase in pension entitlements is intended to compensate for negative effects on retirement income as a result of the equivalence principle.<sup>15</sup>

on the introduction and expansion of the transition range, this aspect was not considered or quantified.

<sup>12</sup> The pension value in 2023 is 36.02 euros in western Germany and 35.52 euros in eastern Germany.

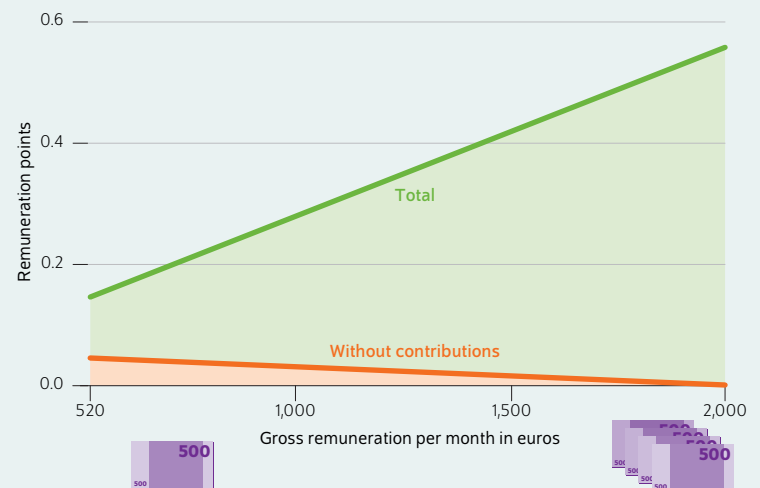
<sup>13</sup> At the end of 2020, the average old-age pension was 989 euros per month (authors' calculations based on data for the new and old federal states in Deutsche Rentenversicherung Bund, *Rentenversicherung in Zahlen 2021* (2021): 35–37 (in German)).

<sup>14</sup> For the costs of the basic pension, compare the estimate in the draft bill: Deutscher Bundestag, *Entwurf eines Gesetzes zur Einführung der Grundrente für langjährige Versicherung in der gesetzlichen Rentenversicherung mit unterdurchschnittlichem Einkommen und für weitere Maßnahmen zur Erhöhung der Alterseinkommen* (2020): 5 (in German; available online).

<sup>15</sup> Remuneration-dependent benefits in the other branches of social insurance, such as sick pay (*Krankengeld*) in the KKV and the unemployment benefit, are unaffected by the contribution reduction for midijob employees. These benefits depend on the remuneration earned and not on the contributions paid on them.

Figure 2

### Development of pension entitlements Remuneration points in the statutory pension insurance



Notes: The "total" line indicates the relationship between the monthly remuneration and the associated pension entitlements, expressed in remuneration points. The "without contributions" line indicates the entitlements that arise in the context of a midijob and that are not based on employer or employee contributions. With a (provisional) average remuneration of 43,142 euros per year, one remuneration point is granted with a monthly wage of 3,595.17 euros (assuming 12 monthly incomes). Minijob-related entitlements are not taken into account in the figure.

Source: Authors' calculations.

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Additional pension entitlements, which are granted irrespective of contributions paid, decrease as midijob income rises.

It remains to be seen what distributional effects are associated with this regulation, which is based solely on individual monthly wage income. To do so, the distribution of the relief according to net equivalized income is first considered, which is relevant for distributional effects and measuring poverty risk.<sup>16</sup> The focus is on whether the reduced contributions predominantly benefit people who have both a low labor income and a low household income.<sup>17</sup> Prime-age individuals (between 18 and 66) are considered here.

It turns out that in addition to people in the lower income segment, as many as 30 percent, have disposable incomes above the median. Even individuals with incomes in the top two deciles benefit from the measure, receiving just under ten percent of the overall relief volume (Table 1).

<sup>16</sup> Cf. for distribution calculations on the midijob regulation in earlier years, Stefan Bach, Peter Haan, and Michelle Harnisch, "Progressive Sozialbeiträge können niedrige Einkommen entlasten," *DIW Wochenbericht*, no. 13/14 (2018): 277–285 (in German; available online). The reform was connected to a significant increase in employees with reduced contributions. In addition to considering the distributional effect by income, studies of midijobs with other focal points have also been conducted in recent years, such as Berndt Keller, Toralf Pusch, and Hartmut Seifert, "Midijobs: Die unbekannte Variante der atypischen Beschäftigung," *WSI Mitteilungen* 14 (2021): 160–170 (in German; available online) and Anna Herget and Regina T. Riphahn, "The Untold Story of Midijobs," in *Journal of Economics and Statistics* 242, no. 3 (2022): 309–341 (available online).

<sup>17</sup> A low individual monthly income is a very vague indicator of a low household income and an even worse indicator for a low retirement income.



Table 1

**Impact of reduced social security contributions for midijob employees on pension contributions by equivalized net household income deciles**

| Decile | Number of those subsidized | Share of all subsidized in percent | Cumulative in percent | (Net) relief volume in thousands of euros per year | Share of relief volume in percent | Cumulative in percent | Net relief per subsidized person and month in euros |
|--------|----------------------------|------------------------------------|-----------------------|--|-----------------------------------|-----------------------|---|
| 1      | 702,650                    | 11.6                               | 11.6                  | 129,897  | 14.1                              | 14.1                  | 15  |
| 2      | 1,186,109                  | 19.6                               | 31.2                  | 180,673  | 19.6                              | 33.8                  | 12  |
| 3      | 849,352                    | 14.0                               | 45.2                  | 135,278  | 14.7                              | 48.5                  | 13  |
| 4      | 757,034                    | 12.5                               | 57.7                  | 109,356  | 11.9                              | 60.4                  | 12  |
| 5      | 748,015                    | 12.3                               | 70.0                  | 95,896   | 10.4                              | 70.8                  | 10  |
| 6      | 573,649                    | 9.5                                | 79.5                  | 77,847   | 8.5                               | 79.3                  | 11  |
| 7      | 442,530                    | 7.3                                | 86.8                  | 61,913   | 6.7                               | 86.0                  | 11  |
| 8      | 284,454                    | 4.7                                | 91.5                  | 39,925   | 4.3                               | 90.3                  | 11  |
| 9      | 284,800                    | 4.7                                | 96.2                  | 48,971   | 5.3                               | 95.6                  | 14  |
| 10     | 220,631                    | 3.6                                | 99.9                  | 39,725   | 4.3                               | 100.0                 | 14  |
| Total  | 6,049,223                  | 99.9                               |                       | 919,482  | 100.0                             | 100.0                 | 12  |

Notes: The distribution calculation is limited to persons aged 18 to 66. Column 3 does not add up to 100 due to observations without information on equivalized household income. Household incomes were sorted from smallest to largest and divided into ten equally sized groups (deciles) based on the number of households. The first decile contains the ten percent of households with the lowest incomes and the tenth decile contains the ten percent of households with the highest incomes.

Source: SOEP v37, authors' calculations.

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Table 2

**Impact of reduced social security contributions for midijob employees on pension contributions by gross hourly wage deciles**

| Decile | Number of those subsidized | Share of all subsidized in percent | Cumulative in percent | (Net) relief volume in thousands of euros per year | Share of relief volume in percent | Cumulative in percent | Net relief per subsidized person and month in euros |
|--------|----------------------------|------------------------------------|-----------------------|--|-----------------------------------|-----------------------|---|
| 1      | 1,147,042                  | 18.9                               | 18.9                  | 246,247  | 27.0                              | 27.0                  | 17  |
| 2      | 1,877,557                  | 31.0                               | 49.9                  | 267,611  | 29.1                              | 56.1                  | 11  |
| 3      | 1,134,912                  | 18.7                               | 68.7                  | 162,278  | 17.5                              | 73.6                  | 11  |
| 4      | 669,074                    | 11.0                               | 79.7                  | 91,303   | 9.8                               | 83.4                  | 11  |
| 5      | 430,466                    | 7.1                                | 86.8                  | 48,394   | 5.2                               | 88.6                  | 9   |
| 6      | 322,616                    | 5.3                                | 92.1                  | 32,120   | 3.5                               | 92.0                  | 8   |
| 7      | 163,208                    | 2.7                                | 94.8                  | 20,405   | 2.2                               | 94.3                  | 10  |
| 8      | 111,096                    | 1.8                                | 96.7                  | 17,143   | 1.9                               | 96.2                  | 12  |
| 9      | 30,176                     | 0.5                                | 97.2                  | 3,741  | 0.4                               | 96.6                  | 10  |
| 10     | 38,007                     | 0.6                                | 97.8                  | 4,429  | 0.5                               | 97.1                  | 9   |
| Total  | 5,924,151                  | 97.8                               |                       | 919,781  | 97.1                              | 97.1                  | 12  |

Notes: The distribution calculation is limited to persons aged 18 to 66. Column 3 does not add up to 100 due to observations without information on equivalized household income. Household incomes were sorted from smallest to largest and divided into ten equally sized groups (deciles) based on the number of households. The first decile contains the ten percent of households with the lowest incomes and the tenth decile contains the ten percent of households with the highest incomes.

Source: SOEP v37, authors' calculations.

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There is also the question of whether the measure relieves those with low hourly wages rather than those with low workloads.<sup>18</sup> To answer this question, the relief is observed according to the gross hourly wage. When viewed this way, it can be seen that the instrument is slightly better targeted: Fewer than 15 percent of the people who earn an hourly wage above the median benefit from an increase in their pension entitlement. In contrast, nearly half of those relieved had an hourly wage in the bottom two hourly wage deciles. These lower two

wage deciles account for more than 50 percent of the total relief (Table 2). Nevertheless, it appears that the relief could be better targeted and the revenue losses would be smaller if the relief was concentrated on low-income employees.

### Women and single parents benefit more

In addition to net income and hourly wages, the distribution of the relief according to other socioeconomic characteristics may be of interest to an evaluation of the relief and the granting of non-contributory pension rights. This applies

<sup>18</sup> A low monthly income can be due to low hourly wages or a low number of hours worked.

to groups with below-average retirement income in particular, including women, single parents, and individuals with a migration background.

The share of women among those benefiting from the mid-job regulation is significantly higher than the share among the entire population. Part-time workers also account for a significantly larger share of those relieved by the measure than of the workforce as a whole. This fits with the finding for women, as a large share of part-time workers are women. The share of single parents, also usually women, is also much higher (3.57 percent) among the subsidized than in the total population aged 18 to 66. There, the share of single parents is only a good two percent.

In contrast, for the other characteristics considered here, there are much smaller differences between the share of the subsidized in a group as a percentage of all those subsidized and the share of this group as a percentage of the total population (aged 18 to 66). People with German citizenship benefit at a somewhat below average rate, while people with foreign citizenship benefit at a slightly higher rate. People living in western Germany (measured by the share of those subsidized) benefit less from the regulation than people residing in eastern Germany. Considering the low wages in eastern Germany, a big difference could be expected here. The main reason for the small difference found is that women in eastern Germany work part-time less frequently. When only considering full-time employees in both parts of the country, then the share of those subsidized of the total population is significantly greater in eastern Germany than in western Germany. Other groups that benefit from the regulation include people in households with children (couples, single parents).

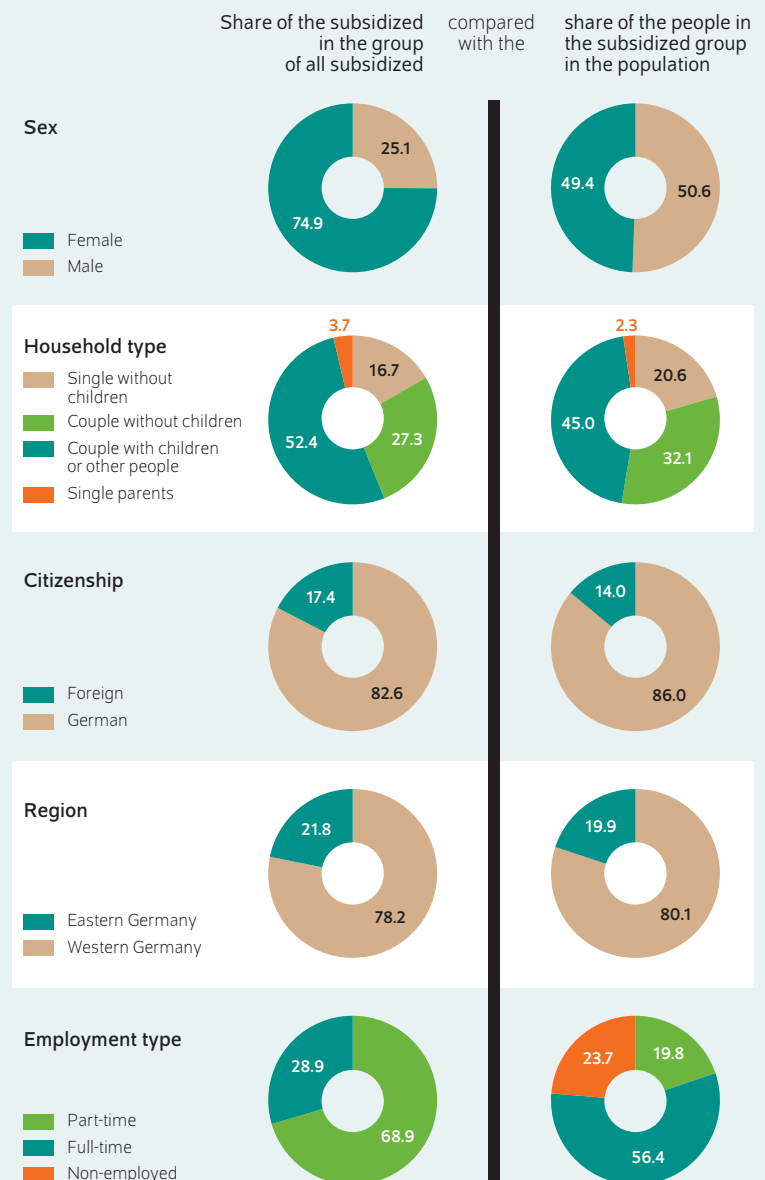
### Conclusion: Pension redistribution must be more targeted

Increasing the upper earnings threshold for midijobs from 1,600 euros to 2,000 euros per month from January 1, 2023, has significantly increased the importance of the mid-job regulation. Over six million employees have since benefited from paying reduced social security contributions. At the same time, they will receive full pension entitlements despite paying reduced pension insurance contributions. This deviates from the equivalence principle that applies to pension insurance.

Despite noticeable revenue losses in the amount of around one billion euros per year in the pension insurance system due to the redistribution, individual retirement incomes increase only slightly. The mid-job regulation also does not provide targeted support for the groups most at risk of old-age poverty. Using SOEP data, it can be shown that while individuals in the lower income deciles in particular benefit from the regulation, there are also individuals in the upper two deciles that are being subsidized. The situation is similar when looking at the distribution by hourly wages: Here, too, people with high hourly wages who work few hours

Figure 3

### Midijob regulation: Impact by further characteristics In percent



Notes: The distribution calculation is limited to persons aged 18 to 66. Only children under 18 are considered for single-parent households. Full-time means a job with over 32 hours of work per week.

Source: SOEP v37, authors' calculations.

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Women, single parents, and part-time midijob employees benefit more from the additional pension entitlements.

benefit from the regulation. The evaluation according to further characteristics shows that women, part-time employees, and single parents benefit more.

If policymakers want redistribution in the statutory pension insurance, they need to readjust the redistribution and make it more targeted. To combat old-age poverty more effectively,



the pension entitlements of the people at risk should be addressed directly in order to increase them. The German government would have to introduce corresponding new regulations to increase entitlements and consider the income situation during retirement. Alternatively, the one billion euros already redistributed could be used to expand or raise the existing basic pension supplement. Then, for example, people who have paid less than 33 years' worth of contributions could benefit from the supplement.

Fundamentally, the financing of such measures in the pension insurance system should be made transparent. The current midijob regulation leads to redistribution within the social insurance funds. This means that pension insurance is currently losing revenue and will incur additional expenses in the future, which will not be financed. It would

therefore make sense to increase the tax subsidy for pension insurance accordingly.

Independent of its impact on pensions, it is important that low-wage employees continue to be subsidized in order to make work financially attractive. Midijobs can continue to contribute to this but without granting additional pension entitlements. In general, when designing the financial attractiveness of low-wage employment, it is important to keep in mind that there is a risk of a part-time employment trap; this also applies to midijobs. For individuals earning wages above the subsidized range, it may be attractive to reduce their hours to take advantage of the subsidy. Therefore, it would make sense to evaluate this regulation on an ongoing basis and, if necessary, fine-tune it if there are visible negative effects on employment.

**Hermann Buslei** is a Research Associate in the Public Economics Department at DIW Berlin | [hbuslei@diw.de](mailto:hbuslei@diw.de)

**Johannes Geyer** is Deputy Head of the Public Economics Department at DIW Berlin | [jgeyer@diw.de](mailto:jgeyer@diw.de)

**Peter Haan** is Head of the Public Economics Department at DIW Berlin | [phaan@diw.de](mailto:phaan@diw.de)

**JEL:** H24, H55, D31

**Keywords:** income distribution, social security contributions, low income

## LEGAL AND EDITORIAL DETAILS

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DIW Berlin — Deutsches Institut für Wirtschaftsforschung e. V.  
Mohrenstraße 58, 10117 Berlin  
[www.diw.de](http://www.diw.de)  
Phone: +49 30 897 89-0 Fax: -200  
Volume 13 February 20, 2023

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### Composition

Satz-Rechen-Zentrum Hartmann + Heenemann GmbH & Co. KG, Berlin

ISSN 2568-7697

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