



LIFE SITUATIONS IN GERMANY

The German Federal Government's
4th Report on Poverty and Wealth

EXECUTIVE SUMMARY CREATING OPPORTUNITIES, ENABLING SOCIAL MOBILITY



Federal Ministry
of Labour and Social Affairs

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The German Federal Government's 4th Report on Poverty and Wealth

Executive Summary:

Creating Opportunities, Enabling Social Mobility

Content Summary

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Executive Summary: **Creating opportunities, enabling social mobility**

I. The task, goal and available data

The Bundestag resolutions of 27 January 2000 and 19 October 2001 require the Federal Government to submit a Report on Poverty and Wealth at the middle of each legislative period. Accordingly, in the 4th Report on Poverty and Wealth the Federal Government continues the stock-taking of the social situation in Germany begun in 2001. Data and analyses provide guidance and create the basis for empirical policies. Developments over the last four years are the main focus of the presentation and analysis, and therefore this is not a report on trends with scenarios and prognoses based on model calculations.

Rather, the 4th Report on Poverty and Wealth is a time series update with headline indicators. It generally covers the time period from 2007 to 2011 and - on occasion - to 2012, where data are available. In the case of data that are available only periodically with gaps of several years, for example data on assets, it is not always possible to be as up-to-date as one would wish. And with some data, such as those relating to macroeconomic considerations, it is necessary to go back further, as changes are evident only after longer periods of time. Other facts (e.g. rate of recipients of minimum social security benefits) are only available from the time of their introduction. The analyses therefore have a heterogeneous time spectrum.

The executive summary of the 4th Report on Poverty and Wealth presented here summarises the analyses' important findings and describes the measures that have already been taken in each context and identifies steps that still need to be taken. The structure of the executive summary is not identical to that of the Report. Footnotes have been dispensed with in order to make it an easier read. The analyses are presented in full with citations in the long version of the Report.

II. Federal Government guidelines

For more than sixty years now Germany has been successful in combining economic dynamism with real opportunities for the vast majority of the population to play their part. This has meant that social equity, social cohesion and a vibrant democracy have been created and strengthened. The basis for this now, as in the past, is the model of a social market economy which demands that competition and economic achievement always be combined with social equity and economic and social participation.

The economic and social participation of citizens flows from the social state principle enshrined in the German constitution. Its concrete embodiment is reflected most clearly in social legislation.

In principle, differences in income and inequalities in living standards in a market economy characterised by freedom and competition should be an expression of varying individual achievements, capabilities and qualifications. They are also an important incentive for economic activity. Inequality can result in acceptability issues however if it exceeds a level society can tolerate. This is particularly the case if inequalities are not primarily based on personal abilities and individual achievements. Identifying this socially-acceptable level is extremely difficult. Politicians are tasked with ensuring that the threat of poverty for certain social groups does not become entrenched over generations and that there are ample opportunities for social mobility, i.e. to improve one's living standards. That is why the social market economy concept combines market freedom with the principle of social equity.

State measures come into play where there are too few opportunities for the individual to achieve an acceptable level of participation through their own efforts. The state provides subsidies to help individuals and the smaller groupings in society (families, neighbourhoods, municipalities, companies, for example) achieve things that are otherwise beyond them. An effective social policy is characterised by the way it gives all members of society an equal way of playing their part (access, infrastructure) and thereby encourages social mobility and helps stop the threat of poverty becoming entrenched. Ultimately each individual is responsible for actually seizing the opportunities made available to them. As a general rule: following redundancy, the best way to protect against a decline in living standards is to find another job quickly. A high-level professional qualification makes this easier, while conversely the lack of a professional qualification has a very negative effect on the new job search and represents a risk factor.

Socio-political institutions need to measure their strategies against a constantly-changing reality and ensure their activities are fit for purpose in everyday life. When economic and socio-political recommendations are being formulated, one should consider the inter-generational connection. Against a background of demographic change, future generations must not be overburdened. The cross-generational sustainability of public budgets and social security systems represent crucial prerequisites for political activity. The analyses in this Report are intended to help everyone involved in socio-political activity, at whatever level of responsibility, to find their way towards a policy of social mobility. And it behoves everyone to observe the development of the most important indicators in the longer term.

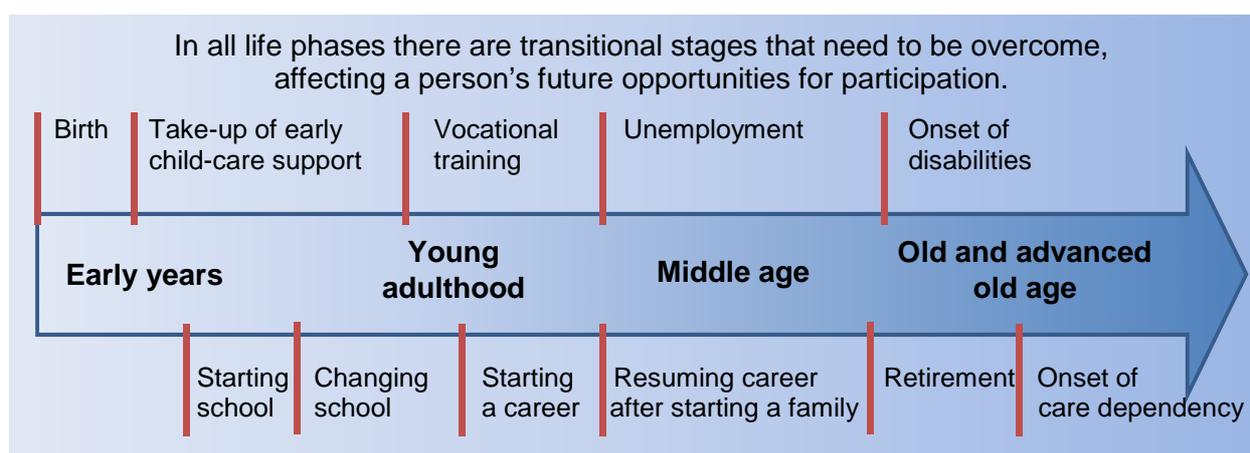
III. What the analysis tells us about social mobility throughout a lifetime

Against the backdrop of the Federal Government's socio-political aims, the Report focuses its analysis on social mobility. By this we mean the change of living circumstances and the dynamics of social participation occurring within an individual's lifetime (intra-generational mobility). It does not consider the poverty risks to be static but sees them as a changing process and illustrates this with research findings, as well as listing the most important factors in increasing the

risks to one's place in society and identifying approaches for successfully organising opportunities to overcome risk situations.

As the factors governing success and risk in the various phases of a person's life (early years, young adulthood, middle age, old and advanced old age) vary, and the earlier phases affect opportunities in the later ones, the Report - in line with scientific recommendations - is orientated on these life phases. Particular attention is paid to decisive watersheds (transitions such as e.g. starting school, moving to secondary school, or leaving school to take up training) in the various life phases for playing a successful part in the education system and labour market, and in society in general. Risk and success factors have a particular effect during these transitions and affect participation results in later life. Subjective viewpoints within both the population at large and particular groups of people are included in the Report alongside objective findings, because expectations and attitudes influence people's behaviour and their life situations too.

Crucial transitional stages affecting participation over a lifetime

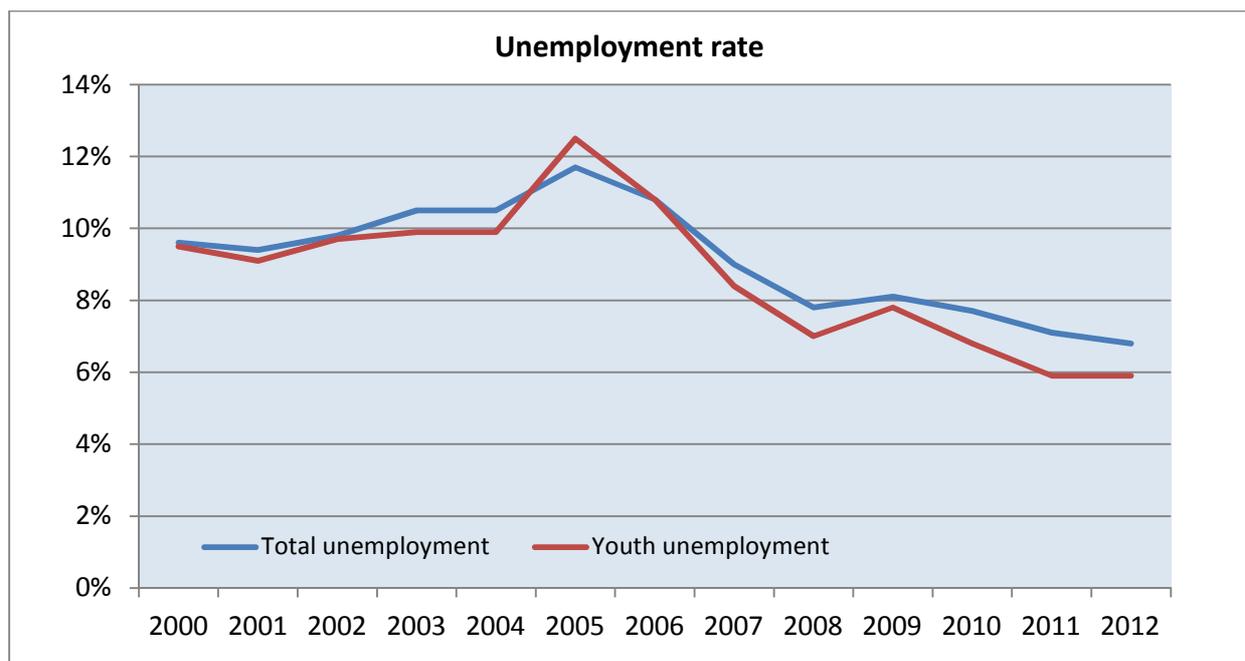


Source: German Ministry of Labour and Social Affairs (BMAS).

The following therefore lays out the development of the most important labour market and distribution indicators, and summarises the crucial success and risk factors for improvements to one's way of life alongside the Federal Government's proposals for tackling these factors.

III.1 Development of the most important labour market and distribution indicators

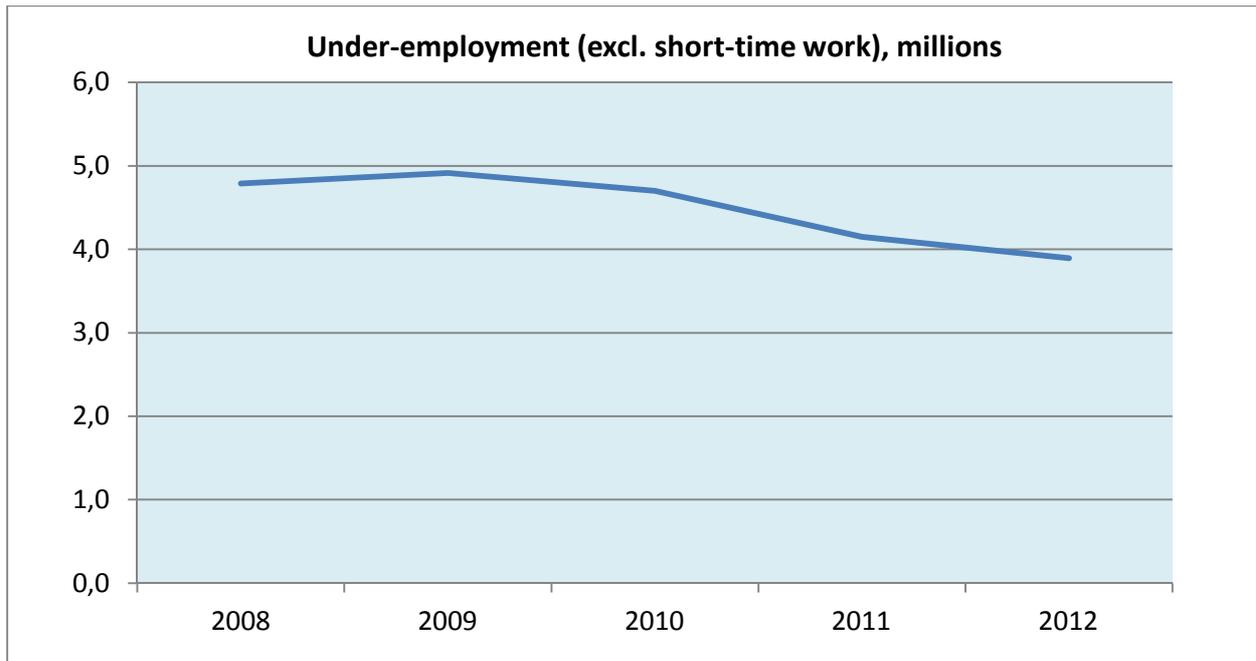
The available data confirm the positive development of living standards in Germany. In recent years the labour market has grown extremely well. Proof of the success of labour market reforms in particular comes in the shape of the jobs being created in Germany today even in times of subdued economic activity. This is a noticeably positive development against the backdrop of the financial and economic crisis.



Source: German Federal Employment Agency

Despite cyclical and seasonal variations the unemployment rate has fallen continually since 2005, at one point reaching its lowest level since German reunification. In 2012 the unemployment rate was 6.8 per cent (Federal Employment Agency figures). Of all the age groups the biggest relative drop in unemployment was among people between 15 and 25 years of age. The 2012 yearly average for unemployment among young people was 5.9 per cent and therefore much lower than the overall rate. In December 2012 it reached 5.4 per cent. Germany currently has the lowest rate of youth unemployment in the European Union.

There have also been palpable successes in the fight against long-term unemployment, which is one of the major causes of poverty risk in Germany and represents a major challenge. Alongside the positive development of the labour market, the number of long-term unemployed has fallen dramatically, within the reporting period - between 2007 and 2012 - from 1.73 million to 1.03 million. This is a reduction in long-term unemployment of over 40 per cent within the reporting period alone. Unemployment among foreign-born migrants between 2008 and 2011 has fallen more than in any other OECD country: their employment rate in this time period has even exceeded that of the native population.



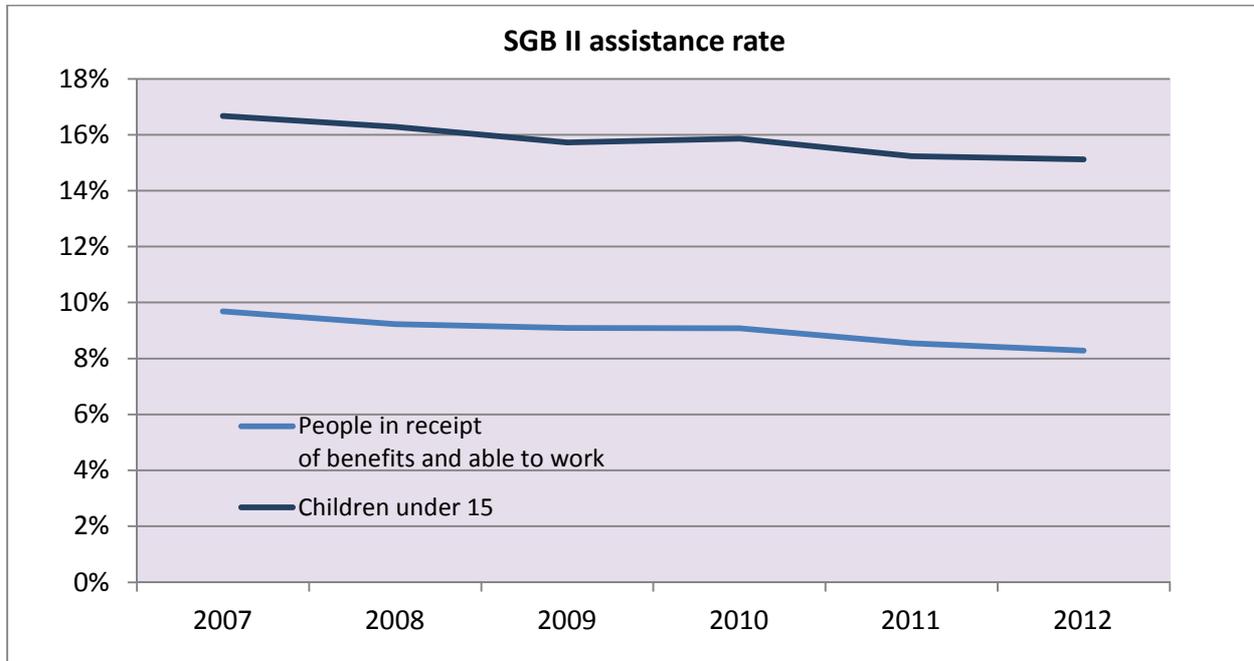
Source: German Federal Employment Agency, data available from 2008 only

The positive development in the labour market during the reporting period is also clear from the reduction in under-employment, which takes into account those people who are not classed as unemployed by active labour market policy measures and for which comparable data are available from 2008. In that year under-employment (without part-time work) stood at a yearly average of 4.8 million, a good 1.5 million above the figure for the registered unemployed. In 2012 under-employment was just 3.9 million on average, the distance to registered unemployment shrinking to less than one million. The substantial fall in unemployment was therefore accompanied by a simultaneous downsizing in active labour market policies.

The demographic trend will also help lower unemployment in the middle and long term. In the next 15 years, assuming that labour market participation and immigration remain unchanged, the number of people of working age will decrease by more than six million. Skilled workers will be in demand and there will be more job opportunities for all, especially for those with an intermediate professional qualification.

Labour market development is also apparent in the reduction in the number of people who are available to work and claiming basic income support for job seekers under Book II of the Social Code (SGB II). Their proportion of the working age population fell from 9.7 to 8.2 per cent in the reporting period. The 2007 yearly average for adults available to work was around 5.3 million and in 2012 (January to September) approximately 4.5 million. The number of children under 15 years of age affected also fell within the reporting period from 1.89 million to 1.63 million. That means there were 270,000 children and over 800,000 fewer job-seekers receiving benefits than in 2007.

Analyses from the Bertelsmann Foundation's 'Community Development - Opportunities for Children' (KECK) project provide confirmation of this positive development for children under three years of age in particular. It shows that their share in households claiming SGB II benefits has fallen by three percentage points to a 2011 yearly average of 18.2 per cent.



* Monthly average from January to September 2012

Source: German Federal Employment Agency

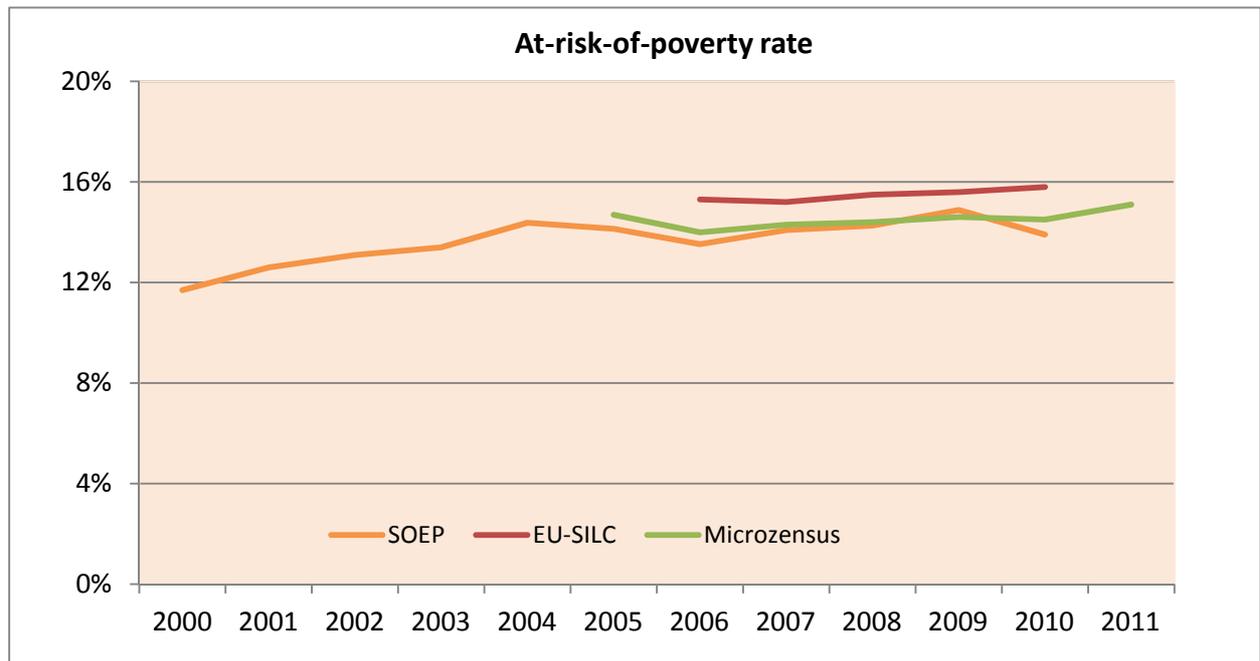
2011 has seen another steep rise in the number of migrants from the EU-8 countries (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia and Hungary) as well as from Bulgaria and Romania. This growth increased the number of people employed in jobs with compulsory social insurance coverage. The number of highly skilled migrants from third countries has also risen substantially from 1,200 in 1998 to 27,800 in 2011. Recognition of foreign qualifications was made easier by the Recognition Act, so that in future migrants will have a better chance of being able to work in the field they are qualified for.

The encouraging trend in labour market indicators is also apparent in real disposable incomes. These have improved as a whole since 2005. Germany has succeeded like few other countries in limiting the effects of the 2008/2009 economic and financial crisis and stabilising private households' disposable incomes. According to the latest analyses from the German Institute of Economic Research (DIW), inflation-adjusted disposable incomes rose by a healthy 700 euros or four per cent between 2005 and 2010, and it is the 40 per cent of the population with the lowest incomes that were able to benefit from this trend. The DIW predicts however that this posi-

tive development could slow down again as a result of the euro crisis and the current economic cycle.

The relative income and poverty indicators are not continuously reflecting the positive development; however these are not fully available for the entire reporting period. What is clear is that, alongside the considerable fall in SGB II claimants mentioned above, income inequality has been decreasing in Germany since 2007. The proportion of low-wage earners remains largely stable. In line with this, the at-risk-of-poverty rate has also remained more or less constant throughout the reporting period.

The at-risk-of-poverty rate is an indicator of a relatively low position on the scale of income distribution. It measures the proportion of people whose needs-weighted net income is less than 60 per cent of average incomes. The effects of benefits in kind and services are not taken into account, even when they are making lasting improvements to the lives of the individuals affected. The at-risk-of-poverty rate is also widely criticised for responding to relative change only and ignores general welfare gains. Therefore the trends over time and the differences between economic groups are of more significance than the level of the rates themselves.

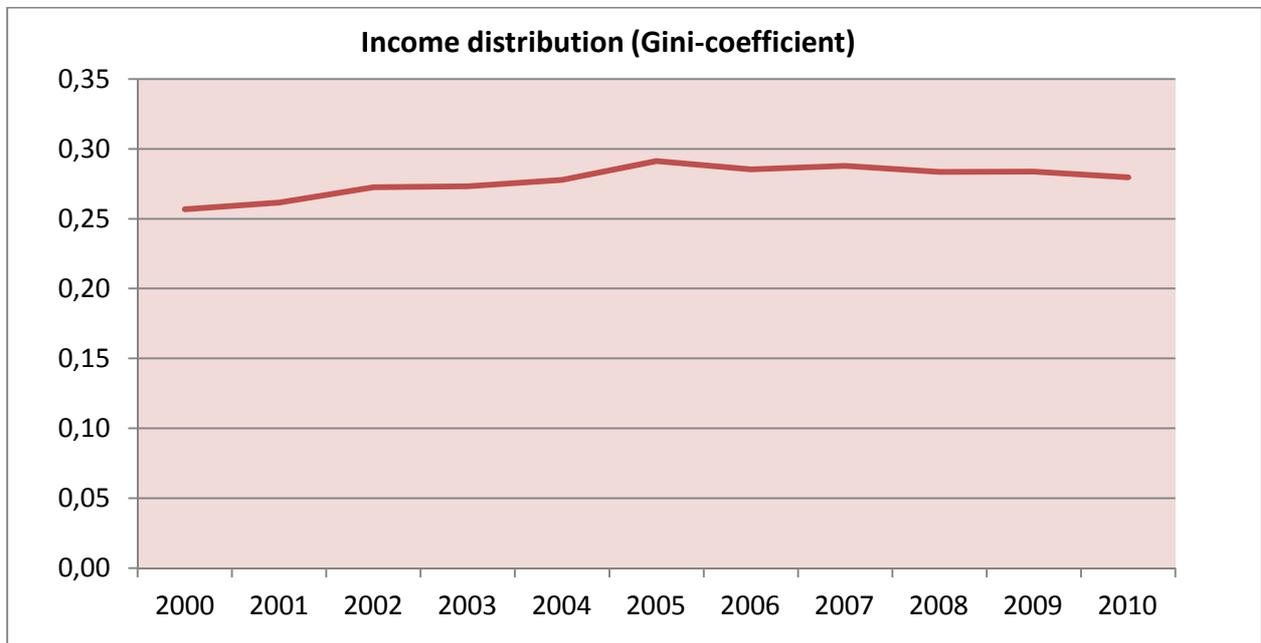


Source: Calculations by DIW Berlin; Eurostat; German Federal Statistical Office

The at-risk-of-poverty rate gives no information about the level of individual need (the socio-cultural subsistence minimum). Other resources too (assets, education, health etc.) are disregarded. This rate rose until 2005 and was, according to available data, relatively constant in the reporting period after 2007 - between around 14 and 16 per cent. In its October 2012 analysis of the latest German Socio-Economic Panel (SOEP) data, the German institute for Economic Re-

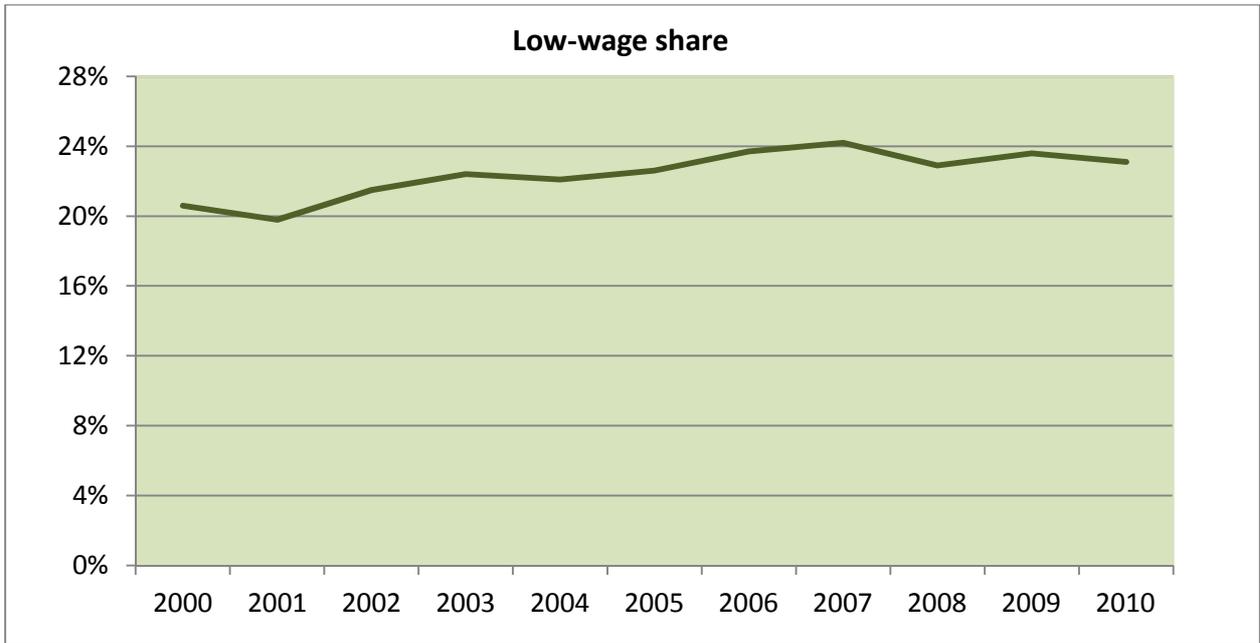
search (DIW Berlin) has conclusively shown how favourable developments in employment and incomes have noticeably reduced income inequality and brought down the at-risk-of-poverty rate. Current calculations show that those most affected by relatively low wages were teenagers, young adults and people in single parent households.

The Gini coefficient is another distribution measure. It measures income inequality on a scale from zero to one. The higher the value, the more unequal the distribution. This measure shows that net equivalent income at household level has become more equal since 2007. It includes all types of income (especially income from work, pensions, assets and social transfers). Therefore the rising trend between 2000 and 2005 reversed in subsequent years. Income inequality is currently decreasing.



Source: Calculations by DIW Berlin based on SOEP 2011

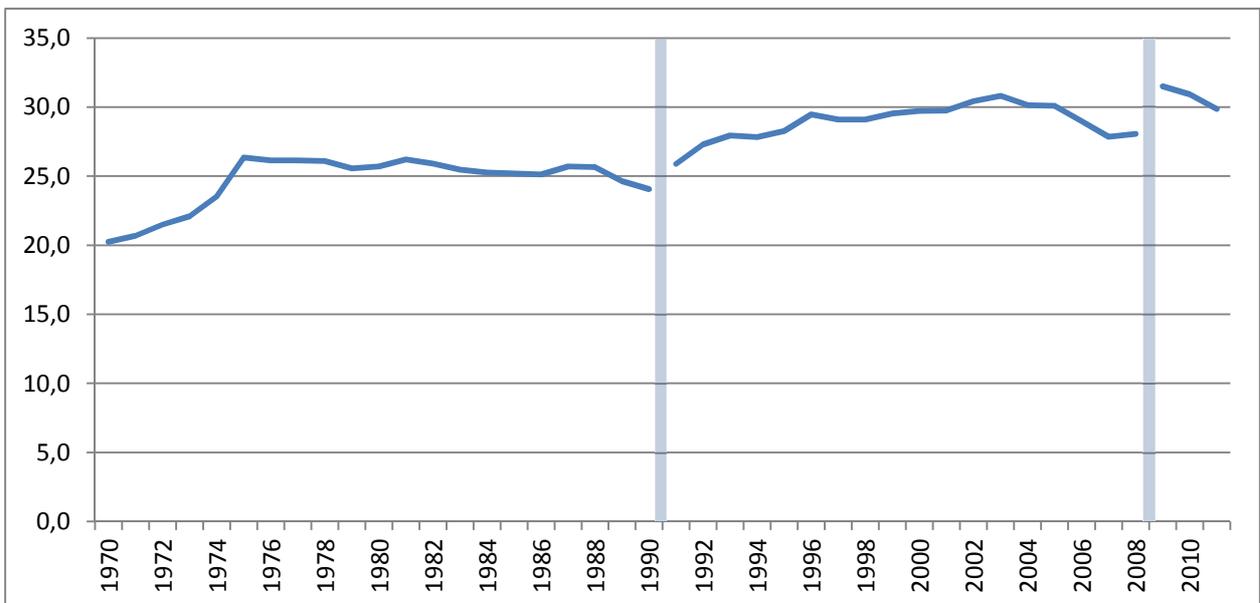
Employment is the major source of income for private households. Almost a quarter of employees is paid a relatively low gross hourly rate that is less than two thirds of the average hourly rate. According to figures from the Institute for Work, Skills and Training this share grew between 2000 and 2007 from 20 per cent to approximately 24 per cent and has fluctuated since then around the 23 per cent mark. On the basis of the structure of earnings survey carried out every four years, the Federal Statistical Office has calculated a low-wage share of 20.6 per cent for 2010, which is an increase of 1.9 percentage points over the previous survey in 2006. The deviations are caused by the various methodical differences between the two surveys.



Source: Calculations by the Institute for Work, Skills and Training (IAQ) based on SOEP 2010.

The social expenditure ratio is about 30 per cent in Germany and therefore above the EU average. Social expenditure thus makes up almost one third of German GDP. The social expenditure ratio rose during German reunification, but fell between 2004 and 2007. It rose sharply during the economic and financial crises, and normalized once the crisis had passed.

Evolution of the social expenditure ratio in Germany, 1970-2012

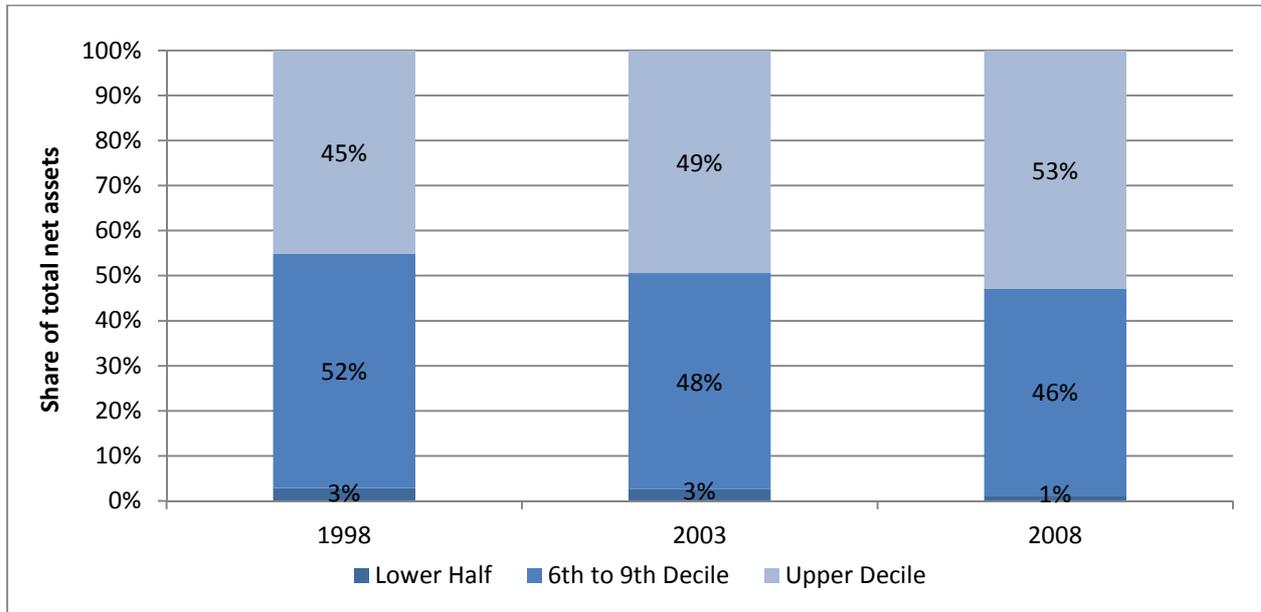


Statistical structural changes in 1991 (German re-unification) and 2009 (inclusion of contributions for private health insurance) limit comparability between social expenditure ratios over time. 2010 value provisional, estimated value for 2011.

Source: 2011 Social Welfare Budget

As far as the distribution of private wealth is concerned, data for this reporting period are from 2008. They show that households in the lower half of the distribution range account for just over one per cent of total net assets, while the asset-rich ten per cent of households own over half of total net assets. The proportion of assets belonging to the upper decile has constantly risen over time.

Distribution of Private Net Assets in Germany



Source: German Federal Statistical Office based on the Sample Survey of Income and Expenditure (EVS)

III.2 Every child needs proper educational opportunities

Family is the first natural environment for a child's education. The family bears initial responsibility for offering a good start to life and ensuring a successful transition to the various educational stages in a child's life, as well as providing proper support on its way to becoming an adult. The parental home can also contribute to and stimulate formal and informal education. However, not all children start life with the same stable foundations within their social environment. There are cases where some parents - for whatever reason - are not in a position to support their child as well as others, and this is where institutional services are required to provide such children with a fair opportunity for education.

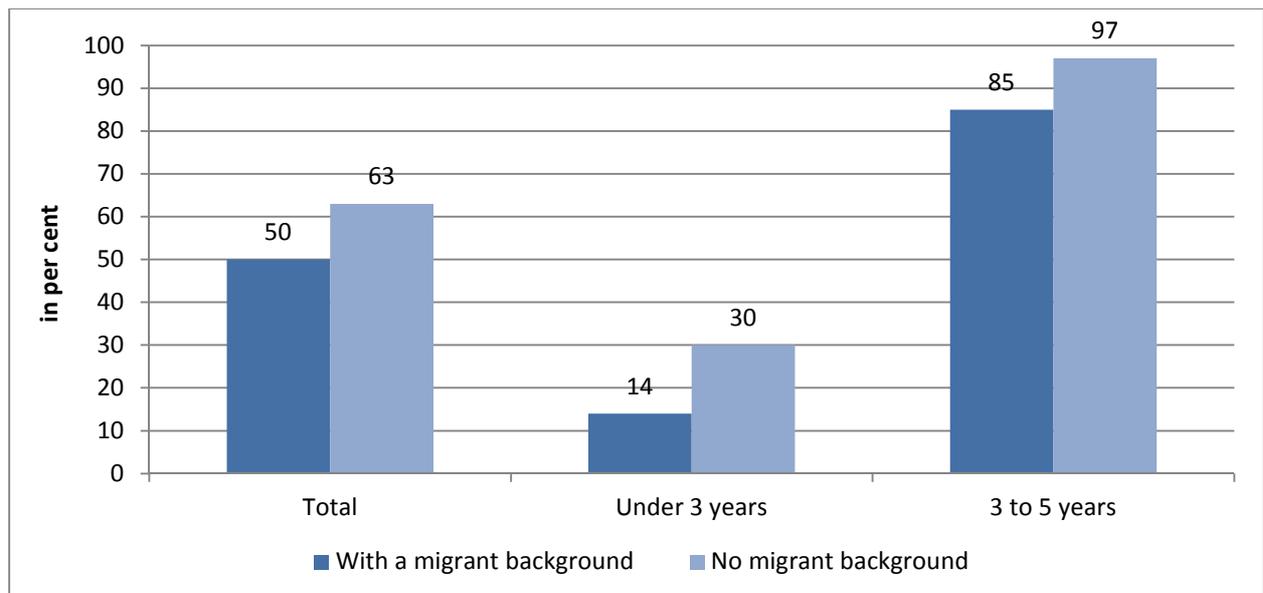
Early childcare and education experiences are in themselves an influencing factor in terms of a good start to school life, the child's reading skills at the end of primary and its opportunities for progressing to a higher-level school. In turn, obtaining a school-leaving certificate influences a young person's opportunities for moving on to vocational training, what position they obtain on the labour market, whether they undertake further training and education and therefore how frequent and how long periods of unemployment and relatively low income, including old-age income, are. Moreover, a person's level of education influences their ability to respond to diffi-

cult stages in life. A person's behaviour with regard to their health, their civic engagement and social network are all determined, too, by the level of education they have attained.

Children from low-income homes which are out of reach of the educational process, as well as children with a migrant background, in particular, do not attend a daycare centre as often or as long as children from a non-migrant background. The employment status and educational qualifications of parents and number of children to be looked after within the family home are factors which affect the take-up of childcare services. Additional factors are the lack of information regarding childcare options, language barriers and intercultural openness on the part of the daycare centres. An adequate number of local childcare places is a prerequisite for ensuring such services are taken up - as such, the regional lack of daycare centre places for under three-year-olds and younger nursery children is one of the causes for lower attendance rates. Since children of gainfully employed parents are given preference when places are awarded, children of unemployed parents (families with a migrant background are overrepresented here) are often denied access to daycare centres.

This situation is changing with the enforcement of the legal entitlement to childcare for every child one year or older in August 2013. From 2008 to 2012 the attendance rate of under-3s rose from 17.8 to 27.6 per cent. However, what makes learning a language in everyday life more difficult is that one in every three children from a non-German speaking household attend a daycare centre in which German-speaking children of the same age are in the minority.

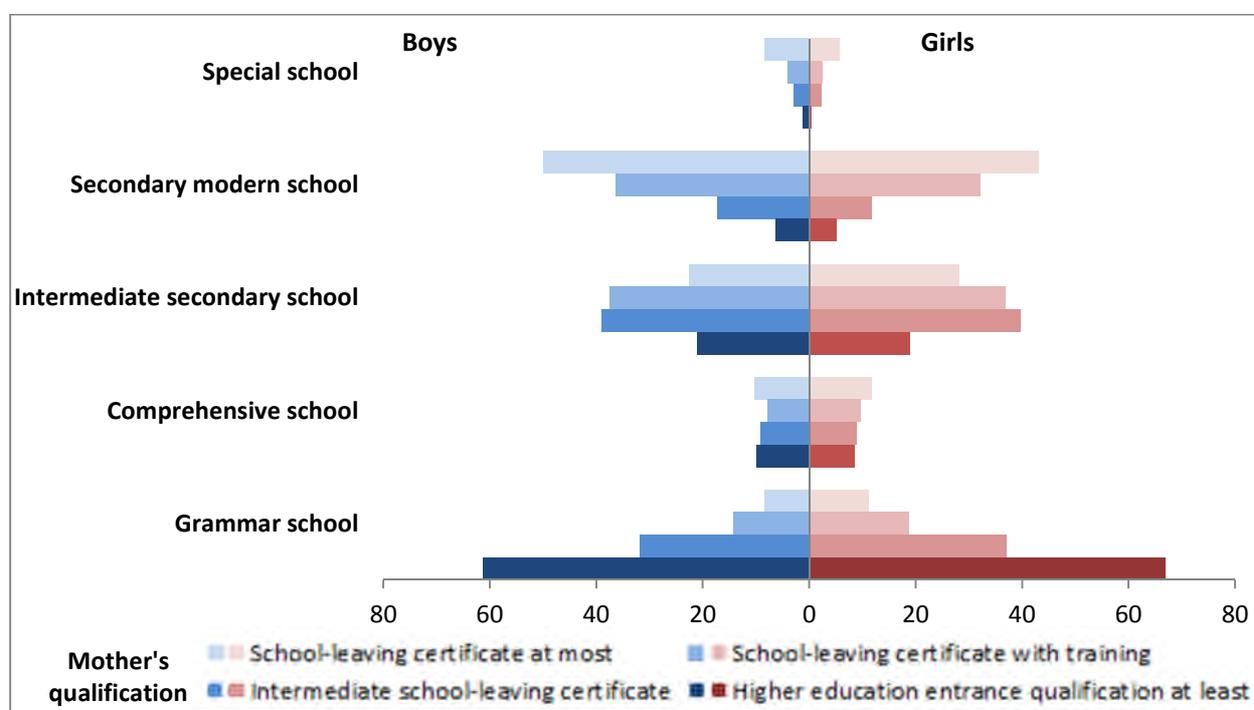
Daycare attendance rate of children under six from a migrant and non-migrant background as of 1 March 2011



Source: German Federal Statistical Office.

When it comes to the transition to school life, children from families with a low socio-economic status and children with a migrant background are more often held back from starting school as a result of language or speech problems, psychomotor disorders as well as intellectual development disorders. In most cases children who start school late are not able to make up their shortfalls during the primary school stage. An international comparison shows that Germany is less successful in supporting children in their current classes, for example through co-teaching at primary schools, whereas in Sweden, England and the Netherlands this option is available twice as much. Conversely, a child's success at primary school and later progression to a grammar school is helped if the parents have a good level of education and by the latter's educational expectations and potential to provide support.

School attendance of 12 to 15 year-olds according to the mother's level of education



Source: Social Science Research Centre Berlin (WZB) and Institute for Employment Research (IAB) based on the German Mikrozensus 2008.

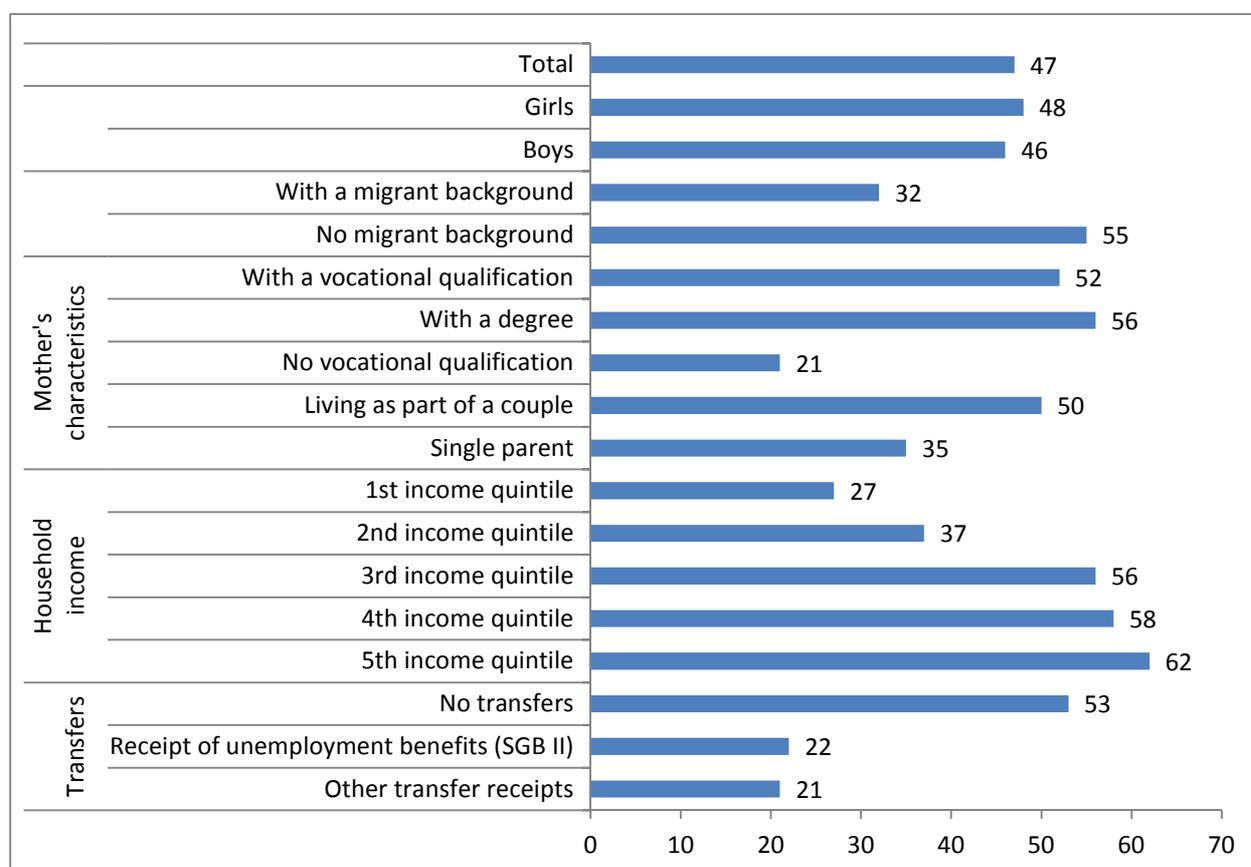
The PISA 2000 and PISA 2009 reading skills results show that the proportion of 15 year-olds with very poor reading skills - corresponding to the lowest competence level at best - has been roughly halved since PISA 2000. Furthermore, there was a significant and substantial improvement in reading skills among young people with a migrant background. Nevertheless, in 2009 three times as many young people with parents who were unskilled and semi-skilled blue-collar workers still demonstrated weak reading skills compared to young people with parents from the highest social group. In 2000 it was four times as many. In total, almost one in five young persons can manage only the very basic reading requirements of simply structured texts on familiar

topics (competence level I) and is therefore inadequately prepared for a training and career path in the knowledge society.

The German education system is still faced with the task of increasing social mobility and enabling educational advancement. The expansion of childcare and the quantitative and qualitative development of all-day schooling are required to achieve this. Particularly in the case of children who seldom receive support within the family, the long-term use of daycare services is shown to provide supplementary education which can increase a child's level of competence considerably. Regular, permanent attendance of high-quality services offered at an all-day school has a positive effect on the development of social behaviour, motivation to learn and scholastic achievements. Furthermore, the mixture of school children with and without a migrant background in primary school classes also plays a role here.

Yet it is not just the formal, i.e. pre-school and school education which is influenced by origin and socio-economic background. The leisure behaviour of children even before they start school is heavily influenced by the opportunities available to the parents.

Participation of children under six years of age in external activities based on various socio-demographic and personal characteristics



Source: Adapted from Schmiade, N./Spiess, C.K. (2010): 'Einkommen und Bildung beeinflussen die Nutzung frühkindlicher Angebote außer Haus', in: DIW Weekly Report 45/2010, p. 17.

Children from disadvantaged families participate far less often in external activities, i.e. activities outside the home, than children from better-off families. The leisure behaviour of six to eleven year-olds also varies considerably between one-sided media consumption and diverse leisure activities and interests, depending on both social background and disposable income. Analyses show that socially disadvantaged children and young people are most likely to participate in school leisure activities if they are free of charge.

What is already being done:

- With the enactment in August 2013 of the legal entitlement to needs-based daycare for children one year and older in mind, the Länder and local authorities - with federal support - are significantly expanding the places in institutions and child daycare facilities. In 2006 there were 286,905 childcare places, corresponding to a rate of 13.6 per cent. By March 2012 the **attendance rate had almost doubled to 27.6 per cent** (558,000 children). In 2010 96 per cent of four year-olds attended a pre-school education facility or daycare centre. Germany is therefore above the OECD average (79 per cent). Among three year-olds, too, Germany is above the international average with a rate of 89 per cent (OECD average: 66 per cent).
- Alongside this the Federal Government has also launched the 'Early Opportunities' offensive, the aim of which is to offer early support to socially disadvantaged children - from a migrant or non-migrant background - and thereby improve their future prospects. Between 2011 and 2014 around 400 million euros will be invested in up to 4,000 key daycare centres for the **promotion of language and integration**. Furthermore, the Federal Government is promoting mandatory, nationally comparable **procedures for language proficiency testing and language promotion**.
- All-day schooling has also been expanded: The number of all-day schools almost trebled between 2002 and 2010; by 2010 already a total of 51 per cent of all scholastic institutions offered all-day schooling. This positive trend is also reflected in primary schools: Between 2006 and 2010 the number of pupils in **primary schools with all-day services doubled (2010: 22.8 per cent)**. What predominates here is open all-day schooling, where the pupils register for individual all-day activities for the duration of a school semester or year.
- With the legal entitlement to the **education and participation package**, the Federal Government is fulfilling its particular responsibility towards approx. 2.5 million entitled children and young people in Germany in terms of welfare provision for job seekers, social assistance and for families in receipt of children's allowance or housing benefit.
- The interlinking of urban development policies and education services as part of the urban renewal promotion programme 'Town and city - Investments in the neighbourhood' with the aid of **neighbourhood management** plays an important role in disadvantaged urban districts.

- Successful municipal examples of **prevention programmes** set up "from birth to vocational training" demonstrate that networks of local and regional social service providers, educational institutions, public offices and welfare organisations are having an effect.
- The expansion of daycare centres into **family and parent/child centres** has also proved to be a successful approach towards improving children's and parents' opportunities for participation.

What remains to be done:

- The efforts being made by all stakeholders with regard to the necessary **qualitative and quantitative expansion** of **needs-based** daycare and all-day schools beyond 2013 are to be stepped up.
- In October 2012 the Federal Government and Länder launched, for the first time, a joint **initiative for the further development of language promotion, language diagnostics and the promotion of reading** across all educational sectors, the aim of which is to examine the effectiveness and efficiency of the various measures for overcoming language deficiencies in this field, as well as to develop innovative techniques and tools.
- Implementation of the Federal Government's **ten-point programme** for a needs-based range of child daycare services.
- The permeability of the school system as well as the opportunity to catch up on school qualifications at a later point in time must be further improved. Analyses indicate that an **education system geared towards individual support** would open up greater educational opportunities for disadvantaged children. The efforts being made by the Länder and local authorities right through to the further development of the school system in terms of inclusion, too, are therefore heading in the right direction.
- As part of its National Action Plan to implement the UN Convention on the Rights of Persons with Disabilities, the Federal Government is taking steps to ensure that **inclusive learning** becomes a matter of course in Germany. Every child is entitled to individual support, development and education. The existing differentiated system of support needs to be utilised in order to teach all children in one class and under one roof.
- **Civic engagement** must be mobilised beyond the educational package (e.g. trusts) for school-related cultural and sports as well as varied leisure activities, in particular for disadvantaged children.
- Since 2009, as part of the **Local Learning** programme, county and town councils have been encouraged to develop management models and structures for an effective education system at municipal level. The joint initiative between the BMBF (Federal Ministry of Education and Research) and over 180 German foundations has been extended to 31 August 2014.
- With its **'Culture is Strength. Education Alliances'** programme the BMBF will, from 2013, be supporting local alliances for education which will offer extracurricular educa-

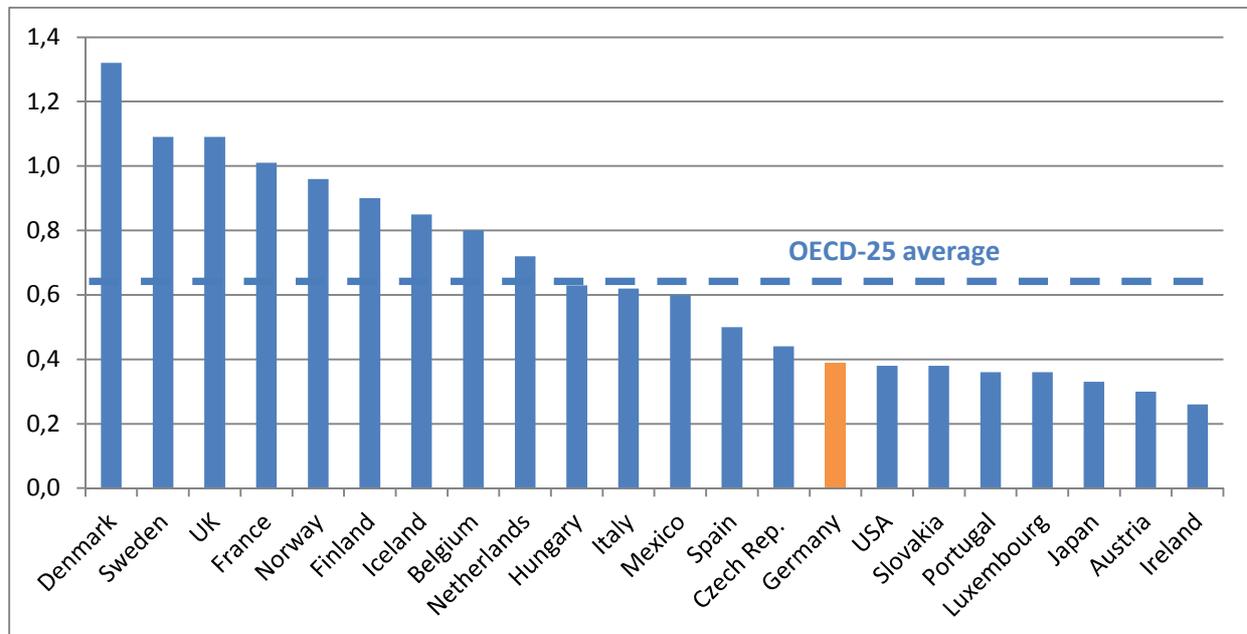
tional measures, particularly cultural education, at a local level. 230 million euros in total have been earmarked for this over the next five years.

III.3 Targeting funds effectively

In recent years the major importance of early-years education has impressed itself more and more on the public consciousness, and now research findings are unambiguous: a good level of educational care in the first years of life can have a significantly positive influence on children's chances of development, participation and progress in life, as well as on future academic achievements. By the same token: skills gaps resulting from a child's lack of encouragement and learning in early years become more severe later on and can only be remedied by repeated resource input. Assistance to help disadvantaged or overburdened parents improve their interpersonal competence and child-raising skills means that babies receive preventative protection from neglect and support for developing their learning skills.

Despite recent investments however, the amount of money Germany spends on early-years care and education for children under six years of age - running between 2003 and 2008 at a stable 0.4 per cent of gross domestic product (GDP) and at 0.5 per cent in 2009 - remains far below average in comparison with other countries. In countries like Denmark and Sweden the proportion is three times higher.

Public expenditure on care for children under six years in international comparison



Data for 2009 in % of nominal GDP.
Source: OECD Social Expenditure Database 2012.

To guarantee an adequate number of childcare places for children over one year of age, Western Germany in particular has to expand the supply of nurseries and daycare provision and to recruit trained staff and child-minders before the legal entitlement enters into force in August 2013. Given that the year between March 2011 and March 2012 saw a rise of around 44,000 places, the task facing the Länder and local authorities is clear.

Early funding saves high costs later, and 'Early Help' is a good example of this. The National Centre for Early Help (NZFH) has shown that early intervention to prevent children being put at risk is a worthwhile investment for both the children in question and society at large. The costs of funding preventative child protection measures are many times lower than those involved in dealing retrospectively with child welfare issues when children are of kindergarten or school age.

A lack of educational achievement in early years also leads to much higher costs later for both individuals and society whether relating to transition issues, catching up on missed qualifications, labour potential and higher unemployment. One major cause of follow-up costs is a young person's failure to gain a training qualification. German spending per head for pupils in primary and secondary schools is less than the average in other OECD countries (2008).

A study by the Social Science Research Centre Berlin (WZB) estimated the follow-up costs of wasted learning potential, characterised by the lack of a professional qualification.

Employment rates acc. to formal vocational qualification

Age	No vocational qualification	With a vocational qualification
20-29 years	49.4	81.6
30-39 years	60.6	84.9
40-49 years	66.1	86.7
50-59 years	57.3	78.8
60-64 years	26.1	41.5
65-69 years	5.3	9.1

Source: German Federal Statistical Office, 2009 Mikrozensus, scientific use file, BIBB calculations.

This study shows that over a 35-year working life follow-up costs for the public purse resulting from lost income tax and unemployment insurance contributions together with claims for minimum social security benefits total 1.5 billion euros for each new cohort of young people. 22,000 euros per person could be cost-neutrally spent on providing an advanced school and vocational

qualification. Other estimates of the follow-up costs of missed education are even higher, when factors such as consumer trends, economic growth and old age provision are taken into account.

Policies to maintain the fight against poverty risks and create better opportunities for social mobility therefore need to make more targeted investments in individual support for children, because this is where we lay the vital foundations for future social inclusion.

What is already being done:

- During the education summit in Dresden in autumn 2008, the Federal Government and Länder **agreed on the goal** to increase the spending share on education and research to ten per cent of gross domestic product. The share grew from 8.6 per cent in 2008 to 9.5 per cent in 2009 and remained constant in 2010 despite a substantially higher GDP. Education alone accounted for seven per cent of spending in 2010.
- The Federal Government has made four billion euros available to **improve the quality and quantity of daycare for children by 2013**, in order to fund the legal entitlement to an appropriate childcare place for children over the age of one which comes into force in August 2013. The Federal Government will subsequently give 770 million euros every year towards the **running costs of childcare facilities**. The additional eight billion euros estimated to be needed for this expansion to 2013 have yet to be made available in many of the Länder.
- As part of the fiscal pact, the Federal Government has approved **further investment grants** totalling 580.5 million euros to enable Länder and local authorities to create the 30,000 additional childcare places needed to satisfy demand. The Federal Government will continue to support these additional places with an extra 75 million euros per year. The Federal Government's investment grants and running-costs subsidies should enable the Länder and municipalities to create and maintain a total of 780,000 childcare places for children under three years of age.
- The Federal Government gave four billion euros through its 'The Future of Education and Care' investment programme to help the Länder **expand all-day schooling** up to 2009. Begun in 2011, the interdisciplinary research programme 'Equal opportunities and participation, social change and support strategies' aims to provide greater understanding of the forms and causes of inequalities in educational participation.
- Coming into force on 1 January, the Federal Child Protection Act has enshrined 'Frühe Hilfen' (Early Help) in law and most importantly codified children and young people's services in Book VIII of the Social Code (SGB VIII). 2012 saw the start of the **Federal Government initiative to develop and expand 'Early Help' and the provision of family midwives**, for which the Federal Government is making 30 million euros' worth of funding available in 2012, rising to 51 million euros a year by 2014.

- The **Federal Government is making the necessary funds available for the education and participation package** which from 2011 includes an increased Federal contribution to relieve local authorities of the accommodation and heating costs (currently plus 5.4 percentage points) in the basic income support for job seekers. In 2011 this required funding of approximately 950 million euros. School social work and communal lunches for pupils in after-school centres are not part of the education package. Funding for this at a flat yearly rate of 400 million euros has been made available until 2013.

What remains to be done:

- All levels of government must work more than ever to improve every child's chances of a better life. Therefore both Federal Government and the Länder must follow through on their agreed **goal** to devote ten per cent of gross domestic product (GDP) to education and research by 2015.
- **Careers in education need to be made more attractive** without delay. The Federal Government is promoting educator roles in a common initiative with professional bodies and trade unions.
- The National Integration Action Plan aims to recruit **more teaching staff with a migrant background** as well as staff with improved intercultural skills.
- The Federal Government has offered the Länder a common **qualifications offensive to improve teacher training**, which should also help to improve cross-Länder recognition of teacher-training components and certificates, and to facilitate the mobility of trainee and fully-qualified teachers alike.

III.4 Creating work, reducing unemployment

Employment is the basis for the general level of prosperity in Germany. It represents private households' main way of earning a living and is therefore an essential prerequisite for social participation. Redundancy and long-term unemployment are the main risk factors for a relatively low income, a lower standard of living or dependence on state benefits. Unemployment is detrimental to one's health and sense of well-being. If parents are long-term unemployed, this cannot help but paint a negative picture for their children, whose educational and training chances can also be adversely affected. A new job is normally the way out of this situation and benefits the children too.

The current positive state of the labour market and emerging skills shortages are creating a healthy starting point for further falls in unemployment and lasting reductions in poverty risks. It is a guiding principle of the social market economy that achievement is rewarded.

So when we consider the low-wage sector, there are two aspects to bear in mind. On the one hand, the disproportionate spread of low-productivity jobs and corresponding wages that are no

longer sufficient to cover living costs, even when working full-time, should be viewed with a critical eye. On the other hand, it is clear that the low-pay sector has made a significant contribution to employment growth in recent years and has helped many lowly-qualified people get a foothold on the labour market.

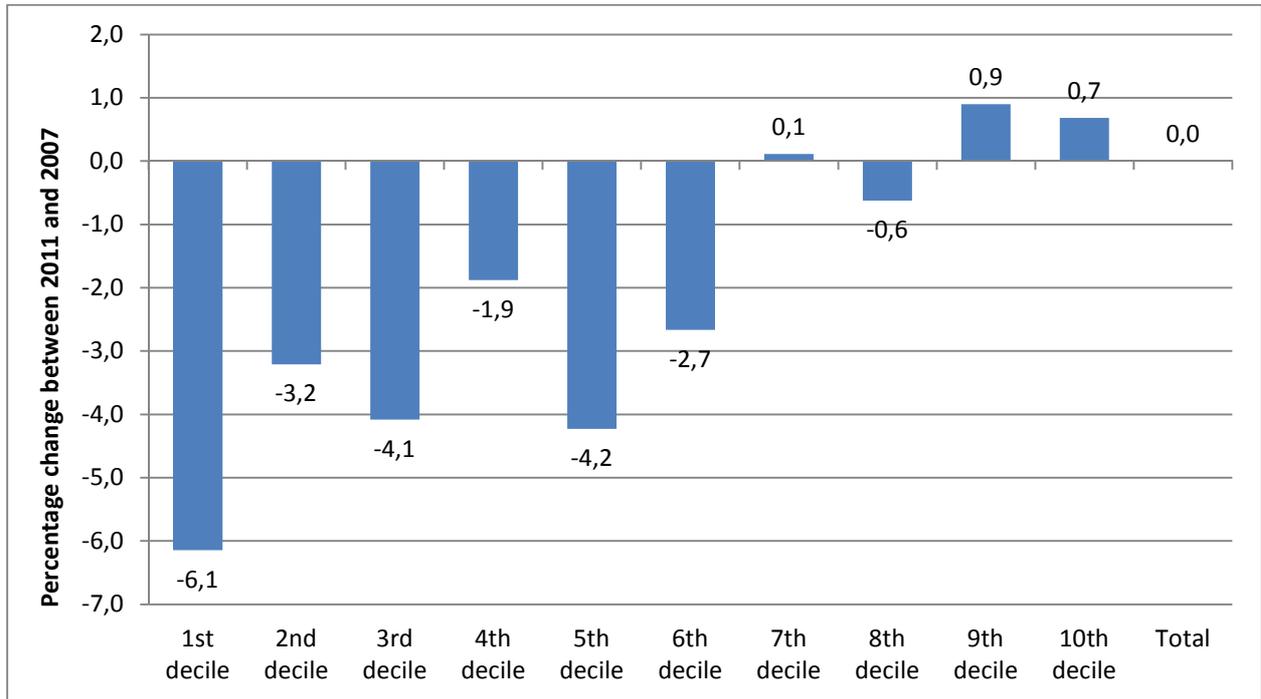
Certain sectors of the economy, under strict conditions, could see the introduction of generally-binding minimum wages agreed through collective bargaining. The minimum wages already in place in accordance to the Posted Workers Act and the wage floor stipulated in the Provision of Labour (Temporary Staff) Act are currently set between 7 and 13.40 euros. Around four million people are currently employed in sectors with minimum wages. There is an ongoing debate in Germany at the moment as to whether and to what extent sector-specific minimum wages should be accompanied by a statutory wage floor that is both generally binding and adequate. A decision on a general statutory wage floor remains the subject of much discussion within the governing coalition.

The skills shortages emerging in the next few years can improve job opportunities in the low-wage sector too. Once the labour market ceases having a labour surplus and increasingly becomes demand-led, this ought to have a positive effect on job opportunities and pay development in the current low-wage sector.

The income gap has not widened further since 2006, i.e. including the reporting period. Furthermore OECD calculations show that Germany remains one of the countries where wage inequality is most reduced through taxes and social transfers.

If we consider actual wage trends during the reporting period on the basis of SOEP survey data, we see that in 2011 the average monthly gross salary for full-time employees (median) was, in real terms, at the same level as in 2007. Actual gross incomes in this time period, up to the 8th decile, fell or stayed the same. However, these are cross-sectional analyses which do not take into account the fact that between 2007 and 2011 there were many unemployed or underemployed workers who started to work full-time in the low-wage sector. The fall in real incomes in the lower decile groups during the period under review is therefore also the result of structural improvements.

Development of real gross wage incomes of full-time employees by income decile, 2007 to 2011

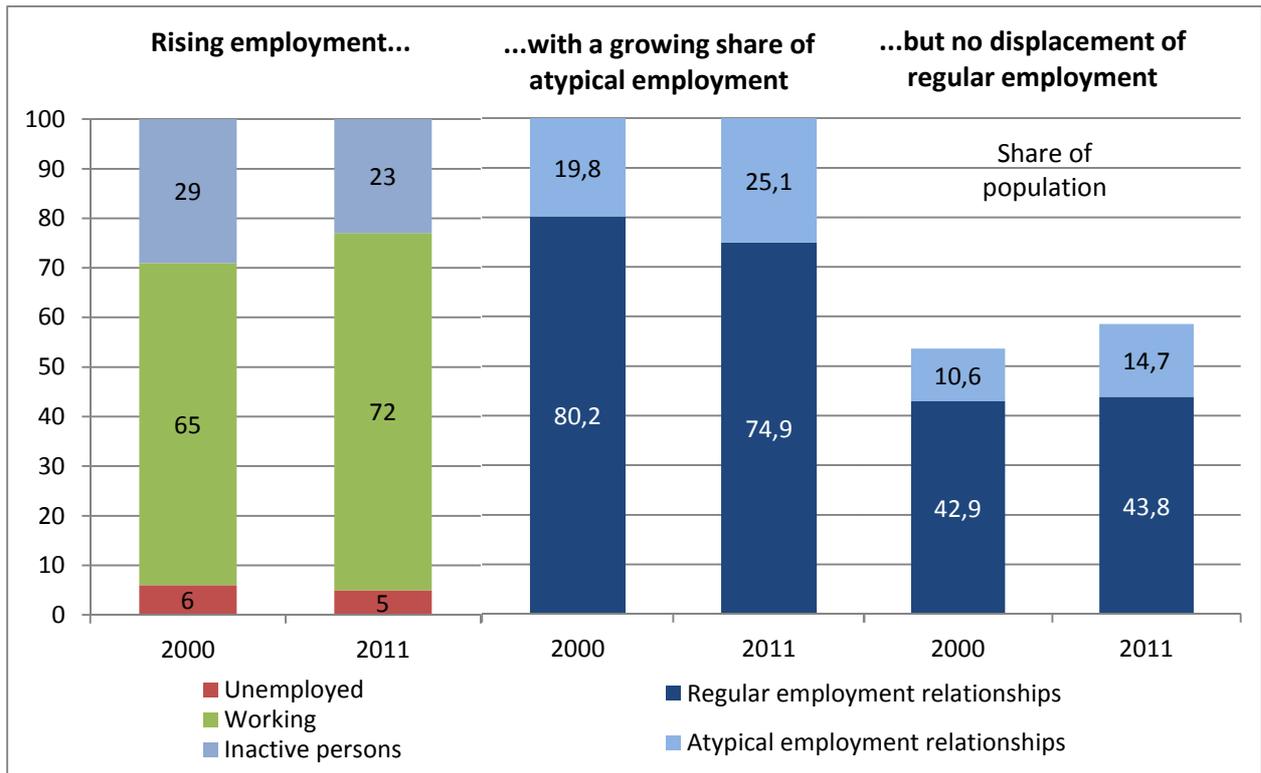


Source: Calculations by DIW Berlin based on SOEP 2012.

If we take 2010 and 2011 in isolation, in 2011 full-time workers' gross incomes, in real terms, were on average 1.0 per cent higher than in the previous year. This is mainly due to further reductions in short-time work as well as higher wage agreements and special payments. Incomes had already risen by 1.5 per cent in 2010.

The labour market reforms that have been introduced in Germany since 2003 were a major factor in the positive developments on the labour market. The continued developments in what is known as "atypical" employment have played a key role in the rise of employment levels in recent years. These developments did not come at the expense of what we would call conventional or regular employment. There is nothing to suggest that normal, full-time jobs are being eroded.

Development of employment and employment types since 2000



Standard and atypical employment relationships based on core workers (excl. those in education or training, temporary and professional military personnel and basic military or civilian service personnel), aged between 15 and 64, percentage shares.

Source: German Federal Statistical Office, 2000-2011 Mikrozensus

It is true that between 2000 and 2011 the proportion of non-standard jobs has increased from around 20 per cent to 25 per cent. But this is overwhelmingly due to additional employment, and therefore the number of “regular” jobs has hardly changed between 2000 (23.8 million) and 2011 (23.7 million), despite an intervening fall to 22.1 million in 2005. As for atypical employment however - and the same is true of conventional working within the reporting period - there has been a rise in job numbers. This occurred both in the first half of the decade between 2000 and 2005 (plus 0.9 million people) and in the second half up to 2011 (plus 1.2 million people).

The reform of the Act on Temporary Employment (2002), the statutory regulations on marginal 'sideline' employment and the raising of the earnings limit from 325 euros to 400 euros (2003) have been particularly important in increasing the opportunities for non-standard employment, as has the growing trend for part-time work. According to Federal Employment Agency statistics, the number of mini-jobbers (low-paid work up to 400 euros gross) doing an additional job jumped to 1.2 million after being introduced in 2003 and rose again to 1.7 million in 2004. The total has grown more or less constantly since then, reaching 2.5 million people by 2011. Following the reform, the number of people working exclusively in low-paid jobs rose by 400,000 to 4.8 million between 2003 and 2004. It has been relatively constant since then.

Low wages can be linked to material poverty risks, which can, however, only be assessed in the household context and by taking a general view of the personal circumstances of both the individuals affected and their families. According to figures from the Cologne Institute for Economic Research (IW), some 16 per cent of low-pay workers receive an income below the at-risk-of-poverty threshold. The decisive factors are the volume of hours worked and the household make-up. Even a low wage can contribute to a sufficient household income, and a low-paid job can be a step towards or back into better-paid work.

What is already being done:

- With its **rigorous policies of growth, employment and stability**, the Federal Government has helped Germany become the growth engine of Europe. With job-creation frameworks alongside responsible decisions by businesses and trade unions alike, it has been possible to lower unemployment substantially and to increase the number of those in work.
- With its **labour market policy instruments**, the Federal Government is particularly supporting people threatened by long-term unemployment. The Act to Improve the Chances of Integration in the Labour Market aims to improve the use of available resources and to accelerate integration in employment and particularly in work with compulsory social insurance coverage. Local placement staff now have flexible measures at their disposal which they can tailor to provide more effective support in individual cases.
- **New minimum wage levels** were set or raised during the reporting period. Eleven sectors currently have a minimum wage under the Posted Workers Act (e.g. security services and the care industry, as well as education and training services - at all levels - under Book II or III of the Social Code). As a result of the new regulation with its basis in the Act on Temporary Employment, there is now, for the first time, a statutory lower limit for wages paid to temporary workers, of whom there were around 882,000 (yearly average) in 2011.
- The Federal Government has made it more appealing to work in a job with compulsory social insurance coverage through the **new regulation on deductions or exemptions for gainfully employed persons** in Book II of the Social Code.
- On 1 January 2013 the Federal Government will raise the **mini and midi job threshold** from 400 to 450 euros and from 800 to 850 euros for marginal employment within the transition zone. These workers have compulsory pension insurance coverage with the chance to opt out.

What remains to be done:

- The Federal Government's growth-orientated policies have brought about increasing prosperity and new jobs in Germany during the reporting period. We need to stay on the

course of economic strength if we are to overcome the current economic weakness in Europe. Economic reforms and solid budgetary policies are indispensable for a stable euro, prosperity and growth within Europe. The Federal Government is therefore playing an active role on the **European stage**. The competitive German economy has much to gain from economic recovery in Europe.

- In view of the current staff shortages in certain professions, e.g. health care, and future shifts caused by demographic change, Federal Government policy is focused on **securing skilled workers**. Its 'Skilled Workers - Federal Government Goals and Measures' strategy was adopted in June 2011. The strategy details ways of avoiding a skills shortage in future and summarises the measures to secure skilled workers along five specific paths: Labour market activation and employment security; Better combination of family and career; Education for all from the outset; Skills development: initial and further training; Integration and qualified immigration. Here, as part of the demographic strategy, supplementary measures are also being developed in conjunction with the relevant partners to tap into the potential pool of skilled workers at home and abroad.
- Other regions might learn from measures such as **Joboffensive Berlin**. Berlin has seen improvements in staff-client ratios in job placement, and job centres have proved more successful as a result.

III.5 Encouraging women to work, reducing poverty risks within families

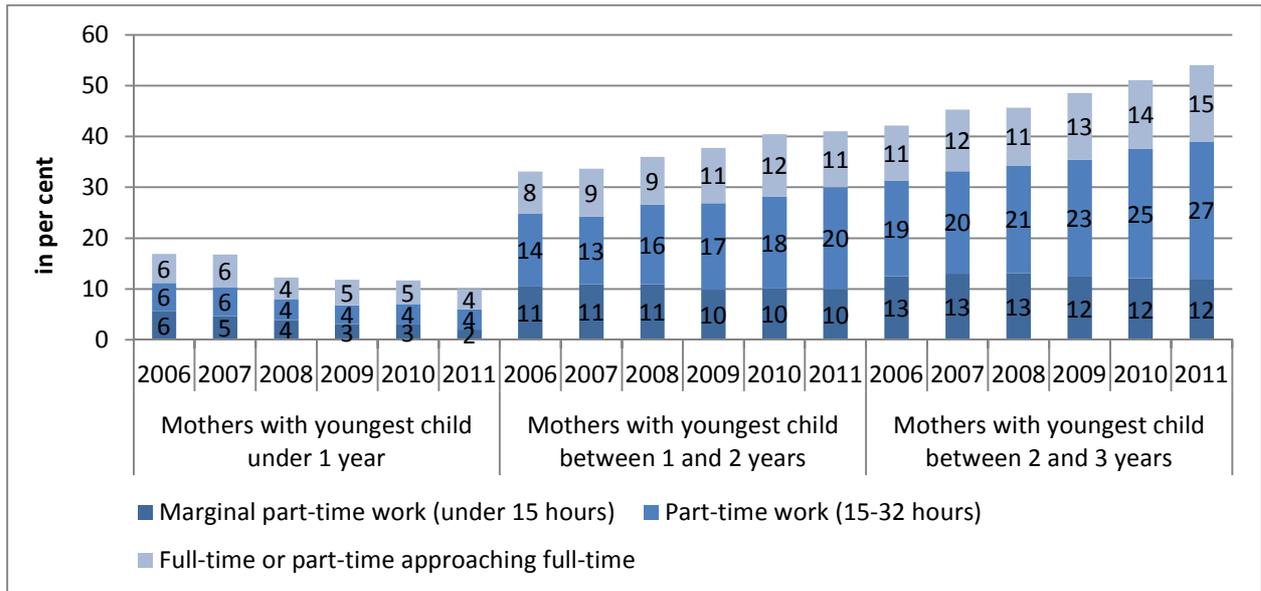
When mothers work, even on a part-time basis, it greatly reduces the family's poverty risk and helps secure its economic stability both now and in the future. Shorter work breaks after the birth of a child and a more balanced distribution of paid work and unpaid family work between partners in the years afterwards lead to a substantial reduction in wage disparities and the risk of women receiving a relatively low retirement income.

The problem in this context is that women, and mothers in particular, are still much less likely to be working, or working as many hours, as men. For one thing, it is much more likely for women to take career breaks or reductions in hours to care for close relatives. Most importantly though, women with young children take more time off from work than in other European countries, while fathers work even longer hours than men without children.

The introduction of the parental allowance has however succeeded in supporting mothers' early return to work and making it possible for fathers to take a career break or reduce their working hours in the first 14 months after the birth of a child. After the breathing space that the parental allowance offers to families in the first twelve months of their new baby's life, in the child's second year the parental allowance starts to encourage all parents to return to work, especially mothers on a low income. 35 per cent of mothers, whose youngest child is older than twelve months, are now working; compared to 27 per cent before the parental allowance was intro-

duced. And here we see the important supporting role played by hands-on fathers: current parental allowance monitoring shows, as did previous studies, that mothers whose partner is on parental leave are more than twice as likely to be working (36 per cent) than mothers whose partner is not (at the moment) on parental leave (17 per cent). This significant difference indicates that many mothers with a partner on parental leave use this time to return to work and both partners support each other.

Development of employment rates (employment undertaken) of mothers with children under three years of age, Germany, 2006 - 2011



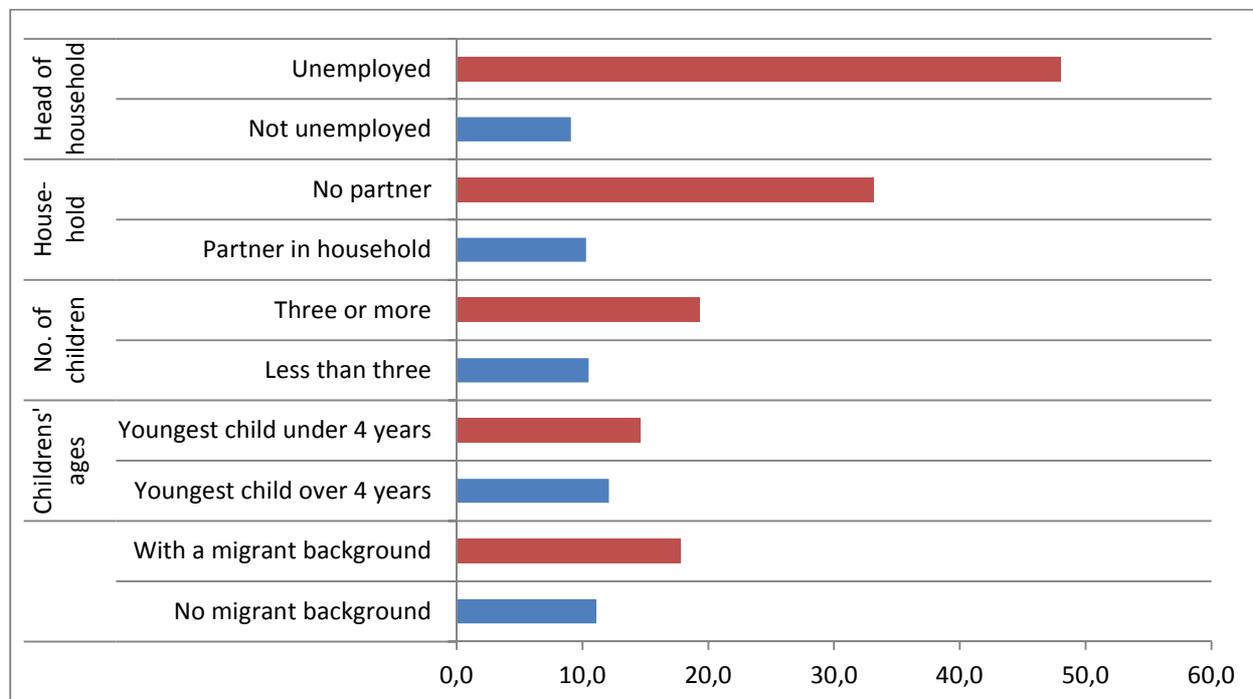
Source: Federal Ministry of Family Affairs, Senior Citizens, Women and Youth, 'Family Council', special analysis of Mikrozensus.

Many women with families are very keen to go out to work. But even if mothers at home or those working part-time are clearly interested in returning to work or increasing their part-time work to something approaching full-time, they often lack the support to be able to fulfil their employment wishes. The main cause of this disparity in working is a continuing lack of opportunities to combine family and career. In the periods after a return to work following a career break due to family commitments, it is important that we pay more attention to the wishes of those mothers working part-time who would like to work longer hours.

Studies agree: children are not a poverty risk in themselves. Their parents' working lives are a much more decisive factor. Circumstances particular to families with children, such as parents either not working at all or working too little due to a lack of care provision for toddlers and school children or crises like separation or divorce, are more often the cause of families having a relatively low income. When various factors coincide, poverty risks in a range of circumstances can amplify each other and the situation becomes more difficult to manage. Single par-

ents and their children and families with a migrant background are affected by poverty risks more often than the average.

Proportion of children below 15 years in households with a relatively low income by different characteristics



Relatively low household income here means: net equivalent income (new OECD scale) below 60 per cent of median income (EU convention for at-risk-of-poverty rate).

Source: SOEP 1995 to 2009, Social Science Research Center Berlin (WZB).

Single parents find it particularly difficult to combine child care and work. This is the reason single parents and their children (approximately 949,000 of them) have tended to be in receipt of SGB II basic income support for job-seekers for longer than normal. However, as there are also many older single parents, with children between 10 and 17 years of age, receiving this benefit, insufficient childcare cannot be the only reason why they are not working. Other factors include a lack of qualifications, a work break lasting years, and also the income threshold, which must be crossed before wages give a real incentive to work in comparison to benefits (including additional earnings).

What is already being done:

- The Federal Government is continuing its all-round efforts to **improve the family/career balance**. It is committed to ongoing measures such as the **'Family-friendly Working Hours' initiative**, the **'Back to Work Perspective' action programme** and the **'Success Factor - Family' business programme**. Additionally **660 'Local Alliances for Families'** bring together partners in business, administration and civil society to improve living and working conditions.

- The **parental allowance** encourages an early return to work. Five years after its introduction an evaluation study by the German Institute for Economic Research (DIW Berlin) confirms: parental allowance has helped fathers spend more time looking after their children and helped mothers do more paid work in their child's second year. The Act is having the desired effect.
- The **bodies responsible for employment promotion and basic income support for job seekers** are legally bound to support women in particular. Active labour market policy measures should be applied in such a way as to help improve the professional situation of women. To this end employment agency placement and counselling staff, and job centres, too, since January 2011, are supported in their work by commissioners for equal opportunities in the labour market.
- More support opportunities became available when the Act to Improve the Chances of Integration in the Labour Market came into force on 1 April 2012. Periods of bringing up children and caring for family members are now equated with time spent in unskilled or semi-skilled work, so that these women's need for **further career training** can be acknowledged earlier than before.
- To help young mothers and fathers in particular achieve a vocational qualification in the dual system, since 2005 the amended Vocational Training Act has offered new opportunities for **part-time vocational training** in companies.
- 1 January 2009 saw the enforcement of regulations to improve the general framework for safeguarding flexible rules on working hours in accordance with Book IV of the Social Code ('Flexi-II Act'). If employees take leave from work as a result of working time credits accumulated on the basis of a **time-credit agreement**, their employment relationship with social insurance coverage is not disrupted.
- Regulations to improve the balance between career and family care came into effect on 1 January 2012 as part of the **Family Care Time Act**. This temporary part-time option - with state-supported advance payments as partial compensation for a wage reduced due to care commitments - opens a new application field for time-credit agreements.
- 77 projects from the ideas competition '**Good Work for Single Parents**' were launched from autumn 2009. Up to the end of 2012 they will receive funding of 60 million euros in total from the European Social Fund and the Federal Government. The projects complement job centre activities to help single parents take their place in the professional world.
- The Federal Government, Federal Employment Agency and most Länder have identified **single parents as a distinct target group** deserving renewed focus. Target agreements in the context of the basic income support for job seekers are used as a control mechanism to achieve an improved integration rate. For 2012, the Federal Employment Agency, together with the Federal Ministry of Labour and Social Affairs, made a first-time commitment to increase the single parent integration rate.

- From the summer of 2011 to 2013 the Federal Ministry of Labour and Social Affairs has been backing the Federal Employment Agency, the Länder and local authority partners in their increased efforts to improve integration by supporting 102 '**Networks of Real Help for Single Parents**'. A total of 20 million euros has been made available for this work from the European Social Fund and the Federal Government.

What remains to be done:

- The **Part-time Work and Fixed-Term Employment Act** will be reviewed with the aim of further improving the balance between family and career.
- From 1 January 2013 women returning to work can expect support from the Federal Employment Agency in the form of a combination of measures based on section 45 in Book III of the Social Code which focus on the return to work. Accordingly, **support for the return to work** will acquire the sustainability necessary to continue to provide active assistance to those returning to work after a career break due to family commitments.
- To strengthen the combination of family and career, the Federal Government is currently considering new approaches to provide better support and to relieve families with working parents or carers - in particular those on lower and middle incomes - through the simpler, more effective use of household-related services.
- To relieve the pressure of time conflicts within families that arise when combining both career and the care of children or family members, new measures are to be developed as part of a dialogue on the **demographic strategy** in conjunction with the relevant partners.

III.6 Giving people a second chance and encouraging life-long learning

Of all young people, those with the least chance of playing their part in society in terms of vocational training and the labour market are those who left school without a school-leaving certificate. It is encouraging that fewer and fewer pupils between the age of 15 and 17 leave school without a certificate. Their proportion amongst their peers fell from eight per cent in 2006 to 6.5 per cent in 2010. It is also the case that many young people get their school leaving certificate retrospectively, usually when they are in the transition zone or the dual system of vocational training.

Teenagers and young adults also have fewer good training and career prospects if they only have the school-leaving certificate. According to data from the 2007 Mikrozensus, in the 24-34 age group of those not in education or training, there were around 1.5 million young people still without a training qualification, despite half of them having a secondary modern school certificate: roughly a quarter did not have a lower-secondary school certificate; another quarter had an intermediate school certificate. In 2011, too, 295,000 young people went straight from school into the transition zone and not into training. There has been success in supporting young peo-

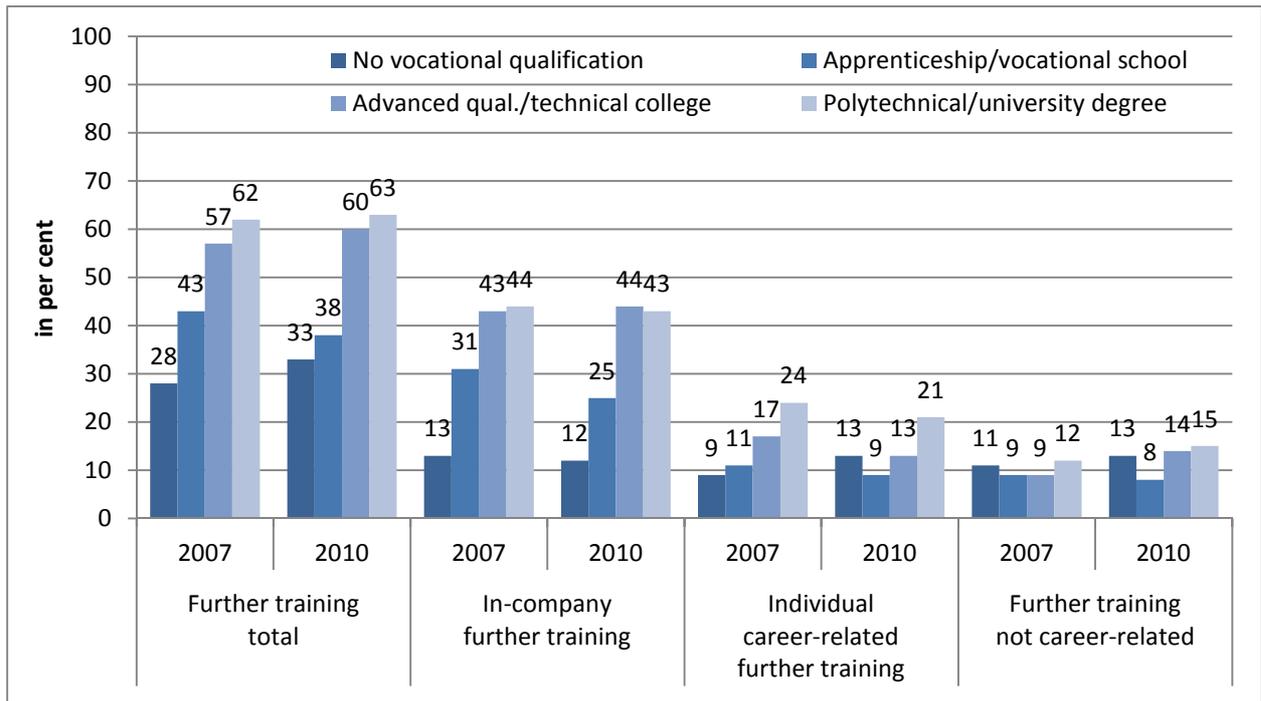
ple who catch up on (higher) school certificates through the Federal Education and Training Assistance Act (BAföG). It was proved that this did indeed lead to vocational training later for many teenagers and young adults. A comparison of 20-24 year olds with 25-29 years olds shows, for example, that in Germany the upper secondary level II certificates (university entrance level or professional training) are often being attained in later years. While in 2010 the proportion of 20-24 year olds without this qualification level stood at 25.6 per cent, in the 25-29 age group it was just 13.5 per cent. Prospects of a "second chance" like this help to steady young adults at a difficult time in their lives.

It has become clear that timely systematic careers counselling and vocational guidance plus the promotion of transferable key skills while the youngsters are still in school are essential for a successful transition from school into training and professional life. There is also a pressing need for more educational efforts to be made on behalf of people who are deficient in reading and writing. 7.5 million people in Germany between the ages of 18 and 64 are unable to read or write coherent texts and are therefore what is termed functionally illiterate.

As a result of changing working conditions even a training qualification can be insufficient to meet the demands of an entire working life. It is against this backdrop that the concept of life-long learning has become more important in recent years. This approach considers the individual's whole educational and training life and replaces the old-fashioned focus on periods in education with a view of specific times in one's life with defined learning goals. It is vital to adapt one's skills and capabilities to a lifetime of new developments in order to keep up with the ever-changing demands of the working environment for as long as possible. Studies show that participation in continuing education reduces the risk of unemployment. In-company training is particularly important in this regard, alongside other further training courses, career-related or not.

The fact remains, however, that workers with no professional qualification or only one at a low-level participate far less in in-company training measures. Temporary workers or people with a migrant background are also less likely to continue their training within their company than permanent employees or people who do not come from a migrant background. We need to focus much more on these people in future and provide them with access to continuing education or training and life-long learning. Older people between the ages of 50 and 64 also remain less likely to participate in further training at work than 35 to 49 year olds. It is encouraging though that older people who have continued their education or training have caught up in much the same way as the younger age groups.

Participation in further training programmes acc. to vocational qualification



Source: German Federal Ministry of Education and Research (ed.) (2011): 'Weiterbildungsverhalten in Deutschland' - AES 2010 Trendbericht, p. 31

What is already being done:

- To integrate young people, some three billion euros (Books II and III of the Social Code) were spent in 2011 on the **transition from school to vocational training**. This means that we were able to support a yearly average of around 430,000 young people. In addition, approximately 300 million euros was spent on Federal Government programmes.
- The Act to Improve the **Chances of Integration in the Labour Market** (instrument reform) made further improvements to young people's professional integration, amongst other things. Essentially it is about making the support available to young people more transparent, so as to identify the specific personal support required when taking up vocational training or employment, and to do this in a timely and tailor-made fashion.
- Since April 2012 **Career Entry Support** - which has so far been trialled at 1,000 schools - has been permanently enshrined in law as a policy instrument. The Federal Government is investing around 460 million euros in the **vocational preparation year**.
- Youngsters who cannot be reached through school or Federal Employment Agency (FEA) measures are being encouraged and guided back into the formal education and training system through '**Empowering Young People**', i.e. two programmes: the youth migration service and Truancy: a 2nd Chance, as well as by the competence agencies.
- Through the Federal Ministry of Education and Research (BMBF) initiative '**Leaving and Joining - Stepping Stones to a Training Qualification**' young people are mentored during the critical transition from school to employment (an additional 1,000 vocational

training coaches to 2013). This is working to prevent youngsters dropping out of school without a leaving certificate and reducing the numbers dropping out of training courses.

- Since August 2008 a range of **professional language promotion courses** and career training courses have been supported as part of the 'Programme of Professional Language Development for People with a Migrant Background in the Federal Republic'.
- The Federal Government will ensure more jobs for disabled people with 100 million euros from the national rehabilitation fund for the '**Inclusion Initiative**' programme. This initiative began in 2011 with the aim of giving intensive career guidance to 20,000 severely disabled schoolchildren with special educational needs. Furthermore, in the next four to five years 1,300 **new in-company training places** are to be created for these youngsters on the general labour market, plus 4,000 jobs for older people with disabilities who are unemployed or looking for a new job.
- **Promoting further professional training** in line with Books II and III of the Social Code is an important labour market policy instrument, to improve job chances by getting a professional qualification. The Act to Improve the Chances of Integration in the Labour Market came into force on 1 April 2012 and as a result the promotion of further training for **older employees** in small and medium-sized businesses is no longer time-restricted and now flexible in terms of its scope.
- With its **continuing education grant** the Federal Ministry of Education and Research (BMBF) is targeting support at workers with little further training experience. Up to 50 per cent of the costs of further training (500 euros maximum) are paid by the continuing education grant. 134,000 further training vouchers were issued to 2012.
- The Federal Employment Agency made 250 million euros available in 2011 for the 'Further Training for Low-Skilled and Older Workers in Business' (**WeGebAU**) programme, and it continued in 2012 with 280 million euros.
- The FEA's special programme 'Initiative to Support Structural Change (IFlaS)' gives targeted support to **low-skilled people without work** to gain professional qualifications or recognised modules towards a professional qualification in order to fill regional skills gaps. Individuals with a migrant background and people returning to work after a break are among those targeted. As part of IFlaS, those returning to work can be supported with training to help them adapt, and in 2012 there is around 400 million euros of available funding (in 2010 this was 250 million euros; in 2011 - 350 million euros).
- With its '**Community Work**' **pilot scheme**, the Federal Ministry of Labour and Social Affairs is trialling a new approach to bringing into the general labour market those people who are unemployed, able to work and eligible for benefits. By the middle of 2012 a total of approximately 133,000 participants had been signed up by the Federal Employment Agency. Around 33,000 'community jobs' were established.

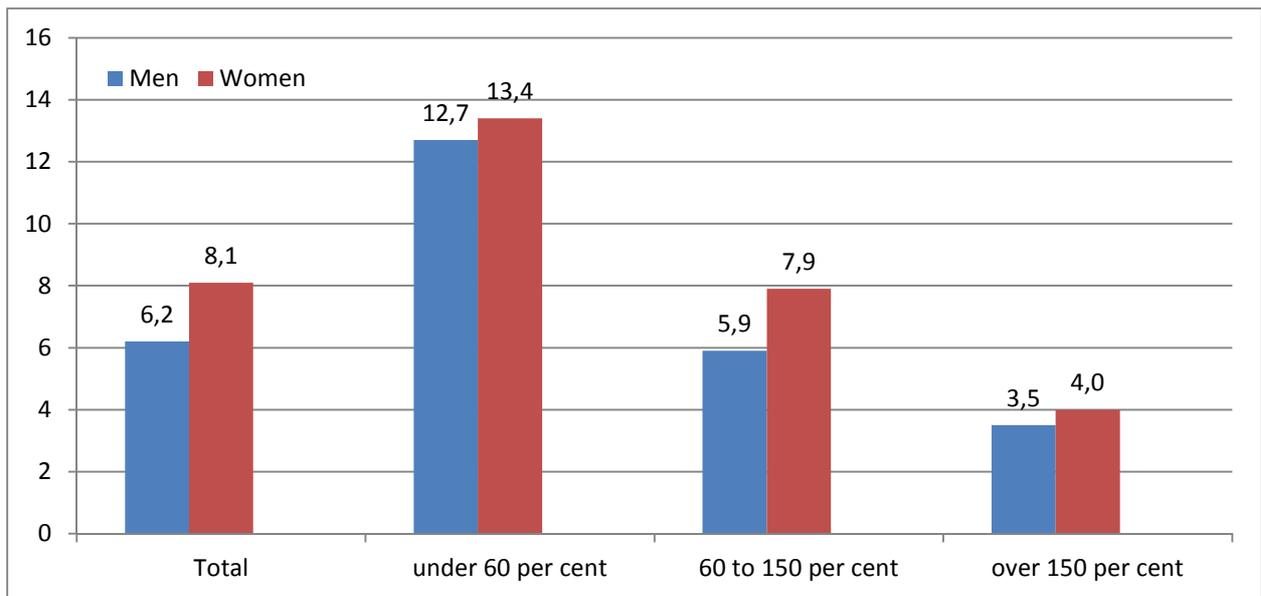
What remains to be done:

- In December 2011 the Federal Government and Länder initiated a **joint national strategy for workplace literacy and basic education for adults in Germany**. More partners have come on board in 2012. As a first step 2012 saw the start of a public awareness campaign which addresses the people concerned, their family and friends, and simultaneously helps bring the issue to the general public and break the taboos associated with it. Co-ordination and contact points are being set up, where the people concerned, their family and friends can get advice on literacy issues.
- **Work on further training** needs to be stepped up for all age groups and for all formal educational and training requirements. We are aiming to increase the proportion of working people who are undertaking further training from the 2006 figure of 43 per cent to 50 per cent by 2015. Businesses need to do most of the work here.
- The option, time-limited to 2013, for expanded **vocational guidance measures** from the Employment Agency with co-financing from third parties, mainly the Länder, is to be made a permanent part of **policy arrangements**. As a result the vocational guidance measures should become more flexible over time and there will be preventative support for the transition from school to the workplace.
- In creating a stand-alone **youth policy** we are hoping to build a direct link between the various services on local, state and national levels to give people that second chance.
- To promote educational careers a working group on **demographic strategy** is pushing for more cooperation across all levels.

III.7 Playing an active part by maintaining a healthy lifestyle

Disadvantaged circumstances do not have to be linked with poor health or a lifestyle that is detrimental to one's health. Children and teenagers from families at the lower end of the social spectrum, who have good social and personal resources, are less likely to suffer from issues affecting their health. Certain personality traits such as high self esteem, an optimistic outlook on life or a marked sense of coherence (the feeling of perception, manageability and meaningfulness of one's surroundings) benefit an adolescent's healthy development, which can be seen in a reduced risk of behavioural difficulties and less of a desire to take up smoking, amongst other things. All the same it is undeniable that people in the lower income bracket are more susceptible to negative health factors and less likely to value their health than people on middle or high incomes.

Health impairments according to relative income position, 2010



Incidence in per cent. Relative income positions: under 60 per cent, 60-150 per cent and over 150 per cent equivalent net income based on the society average (median).

Source: SOEP 2011.

The extent of health inequalities is considerably influenced in middle age by one's job and working conditions. The unequal distribution of demands and stresses across the various sectors and job types result in the fact that it is largely unskilled workers who retire early due to illness or accident. Compared to men with a university or college degree, men without a vocational training qualification are 5.6 times more likely to retire early due to illness or accident and qualify for a disability pension. With unskilled women the risk is 2.8 times higher. Low-wage earners are also more likely to lead an unhealthy lifestyle and have fewer medical check-ups. This often explains why in this group of people there is an increased incidence of certain cancers, heart attacks, diabetes and chronic bronchitis.

Ill health increases the risk of poverty and social exclusion still further: as a result, unemployment reduces one's chances of getting another job. Depending on one's work history and insurance coverage, becoming unable to work can result in a relatively low income. Against this backdrop we need to use every measure at our disposal to prevent ill health, to safeguard people's health for as long as possible and to get them back on their feet again as far as is possible after an accident or illness. Demographic development and the associated fact that working lives are necessarily becoming longer are making it more important than ever to prevent ill health, to avoid poverty risks in future. Prevention measures must therefore begin in childhood, continue through to adulthood and be fostered throughout a whole lifetime.

What is already being done:

- Improving health opportunities in childhood is one of the central aims of the Federal Government's **child health promotion** strategy adopted in May 2008. It brings together the Federal Government's essential child health activities and focuses on strengthening the health awareness of both children and parents.
- Since the 3rd Report on Poverty and Wealth, **quality standards for health promotion measures** for socially-disadvantaged people have been enhanced and a total of 112 good practice projects, programmes and networks of health promotion for the socially-deprived have been documented and expanded.
- **Prevention and participation services** should minimise the consequences of illness or disability on the ability to work with a view to achieving the longest possible (re)integration in working life.

What remains to be done:

- To improve health promotion and preventative standards, the following measures are envisaged: 'Workplace Health Promotion' is a focal point of the **prevention strategy** and is to be accompanied by a review of the statutory framework in order to increase the proportion of businesses engaged in workplace health promotion. The health insurance funds will be persuaded to develop more health projects in association with business.
- The sponsors of the **Joint German Occupational Safety and Health Strategy** (GDA) - the Federal Government, the Länder and accident insurance companies - will increase occupational safety for businesses and employees over the next five-year target period. Particular importance will be laid on protecting and strengthening health in case of work-related psychological stress.

III.8 Creating security in old age - promoting social participation and accessibility

Old age sees the reflection of the education, working life and overall health of earlier years. Therefore the best protection against low income and a lack of social participation in later years begins in one's youth and includes education, employment and the creation of social networks, as well as health awareness and healthy living.

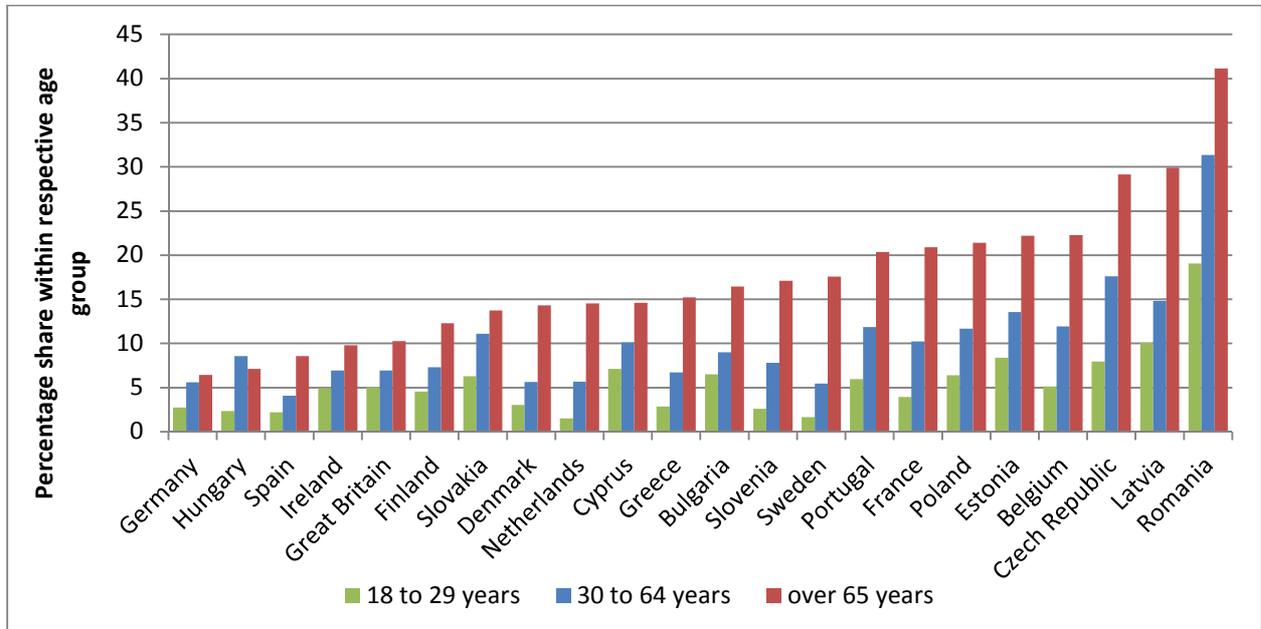
Elderly people today enjoy a level of income and prosperity that is above average. At the end of 2011 just 436,210 people aged 65 and older were eligible for basic income support in old age and in the case of reduced earning capacity (welfare under Book XII of the Social Code). This corresponds to 2.6 per cent of the population in this age group. The rate of recipients of minimum social security benefits, which shows the proportion of minimum social security benefit recipients across all age groups in the general population, stood at 8.9 per cent in 2011.

This low proportion proves that poverty in old age is not a problem at the current time. Poverty risks in future are largely dependent on long-term economic, employment and income development as well as individuals' family circumstances, job histories and retirement provision. Low earners in particular can be hit by relatively low pension entitlements even after many years of making statutory pension contributions. Shorter employment periods as a result of bringing up children or caring for family members have the same effect. Additional provision will become more important in future, to make up for a lowering of the statutory pension level caused by the need to spread the burden fairly across generations.

It is possible for poverty to arise in old age, even after a long working life, in cases where there are no additional private savings. There is further risk if there have been many years of self employment with no provision for old age. In contrast to most other countries in Europe, self-employed people in Germany are free to decide whether to make provision and how to do so. Self-employed people who for whatever reason find themselves at the end of their working life with inadequate old age provision are more likely to fall into need.

Elderly people in Germany have very good levels of social participation: only six per cent of elderly people say that they do not have anyone with whom they can discuss their personal affairs. This rate is just 0.8 percentage points higher than in the 30-64 age group and the lowest rate in the EU.

Social isolation of people by age group



Source: European Social Survey 2008.

Once we have passed our 75th birthday health limitations become more marked and there are an increasing number of things that we cannot do. 1.4 million people in Germany are currently suffering from dementia. Most disabilities are first acquired in old age. Social networks - in terms

of social contact - become particularly important then, as failing health leads to increasing reliance on support from other people. Family can be very supportive if there are good relationships with children or grandchildren. And although so-called "young seniors" with spare time can be heavily involved in voluntary work or looking after grandchildren, this activity decreases as they get older.

But even years of limited health can be spent productively and rewardingly, as long as there are sufficient resources to help manage failing health (medicines and equipment, care services) and support independent living (accessible living area, sufficient public transport links). However, an investigation carried out in 2009 by the 'Living After Retirement' commission of experts found that only seven per cent of pensioners with mobility problems had homes that were fully-accessible or had just a few accessibility issues. And steps to improve accessibility in public spaces have only just begun. There is also a need for accessible and inclusive leisure and cultural activities.

Once a person reaches 85 years of age they become increasingly limited in their ability to perform basic tasks such as eating, getting dressed and undressed, and personal hygiene. More than two thirds of people needing care, around 1.62 million, are cared for at home by relatives and mobile services. Recent surveys show that many people needing care do not want to be looked after by strangers.

What is already being done:

- **Encouraging older people to stay active:** multi-generational housing offer attractive training programmes and participatory structures that provide good opportunities for retirement-age men in particular to engage in voluntary activities.
- The **KfW 'Age-Appropriate Conversion' programme** was a Federal Government scheme to attract investment to make our housing stock more accessible. For each year between 2009 and 2011 it made around 80 to 100 million euros of funding available to subsidise interest on loans and for investment grants.
- Under the banner of 'Social Living - At home with old age' the Federal Government is promoting **life in one's own home** in later years with various projects to enable elderly people to live independently and continue living in a familiar environment. The promoted measures take into account both rural and urban areas with their different demographic make-up.
- The 2002 Care Services Amendment Act introduced what is known as **Care Level Zero**. As part of the 2008 care reform, this has made it easier for insured persons experiencing substantial difficulties in daily living but not yet qualifying for care benefits to claim financial relief.

- The **Restructuring of Care Act** shows the Federal Government taking into account demographic developments and making care more future-proof. It comprises important building blocks such as: improved services for dementia patients in particular, providing non-cash care services, support for carers, better advice and information for people needing care and for their families, and the promotion of new residential groups with external assistance. The long-term care insurance will also be made more flexible to help those in need of care. To finance these benefit improvements the contribution rate will be increased by 0.1 percentage points on 1 January 2013. Private care provision will also be promoted.
- The Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) has set up the **Dementia Guide**, a dementia portal to provide information and advice, and to enable people to share their experiences. In cooperation with the German Alzheimer Society there is support for measures that counteract the social exclusion of people with dementia.

What remains to be done:

- Within the current legislative period, specific improvements are to be made for a **life-work pension** to be financed not by contributions but by tax revenue. The Federal Government will improve the value of contribution periods for women who have brought up children and/or cared for relatives, for those with reduced earnings capacity and those on low wages. The up-valuation threshold is just above basic income support. The regulations are designed so that it pays for people insured in the statutory pension insurance to make additional private retirement provision. These improvements are granted to persons who have at least 40 contribution years in the statutory pension insurance and have made private provision. The Federal Government will also investigate how much financial leeway there is for additional payments to mothers with several children born before 1992.
- **Self-employed people** who have no compulsory coverage can run the risk of poverty in old age, if they have not made sufficient provision for later years. Therefore the Federal Government will initiate reforms to ensure that self-employed people also make provision so that they are not reliant on basic income support in old age or benefits under Book XII of the Social Code.
- The Federal Government considers the creation of framework conditions for self-determined old age and for active ageing to be one of the most pressing challenges to its **demographic strategy**. One good example of its work in this area is the development of its long-term 'Self-determination in Old Age' strategy, which deals with a number of issues including the promotion of age-appropriate housing. Another crucial way of making it possible for elderly people to stay socially active is to **unlock the potential for social engagement** locally. The introduction of Volun-

tary Service for all ages has created the ideal conditions to release the potential and abilities in everyone irrespective of age.

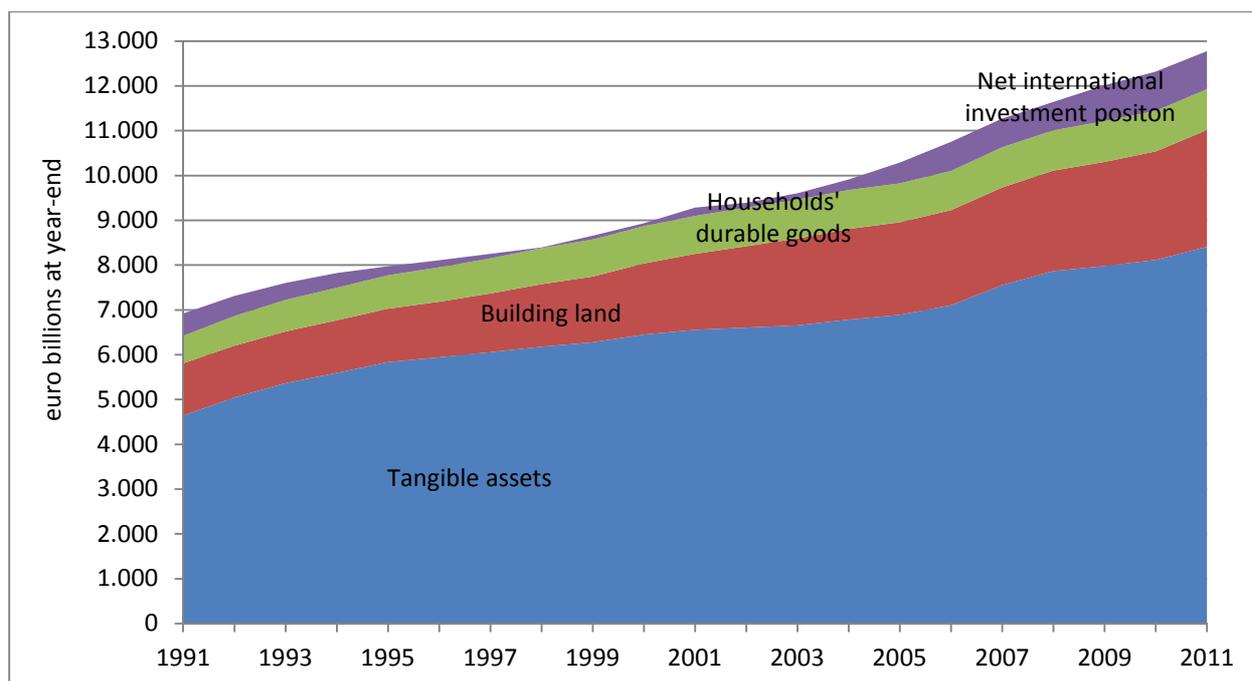
- The **Alliance for People with Dementia** was founded under the auspices of the Federal Ministry of Family Affairs, Senior Citizens and Youth and the Federal Ministry of Health. The Alliance counts Länder representatives amongst its members, as well as representatives of associations and organisations responsible for people with dementia throughout Germany. By the end of 2013 the Alliance will have drawn up a list of measures, for example to improve dementia sufferers' participation in society and to provide more targeted support to patients and their families. At the same time neighbourhood help networks will be on hand as "local alliances" to increase social participation and assistance. The Alliance for People with Dementia is an integral part of the Federal Government's demographic strategy.
- The Federal Government has a national action plan to implement the UN Convention on the Rights of Persons with Disabilities and is thereby placing great importance on creating an inclusive social environment. Public and private areas are **quickly being made accessible to all**, and this is giving people with a temporary or permanent disability more opportunities for social participation.

III.9 Removing the burden from working people; consolidating public budgets

The Federal Government's poverty and wealth reporting is also helping to develop wealth analysis in other sections of society. The Federal Statistical Office and the Deutsche Bundesbank published integrated balance sheets for the first time in 2010. These make it possible to gain a comprehensive picture of the current state and development of financial and material assets across the German economy and in its individual sectors.

A growing economy goes hand in hand with increasing prosperity overall, which is reflected over time in rising assets, for example. At the end of 2011 national wealth (including the assets belonging to private households) totalled 13 billion euros. Much the greater part of this national wealth was made up of fixed assets (in particular real estate and land for construction). The image of the German economy as a whole on the international stage is that of a creditor: the Bundesbank calculates that the difference between what Germans are owed and what they owe abroad is a surplus of around 930 billion euros. It is clear that the lion's share of national wealth is tied up in long-term commitments.

Evolution and breakdown of total net assets, Germany, 1991-2011



Source: German Federal Statistical Office, German Bundesbank

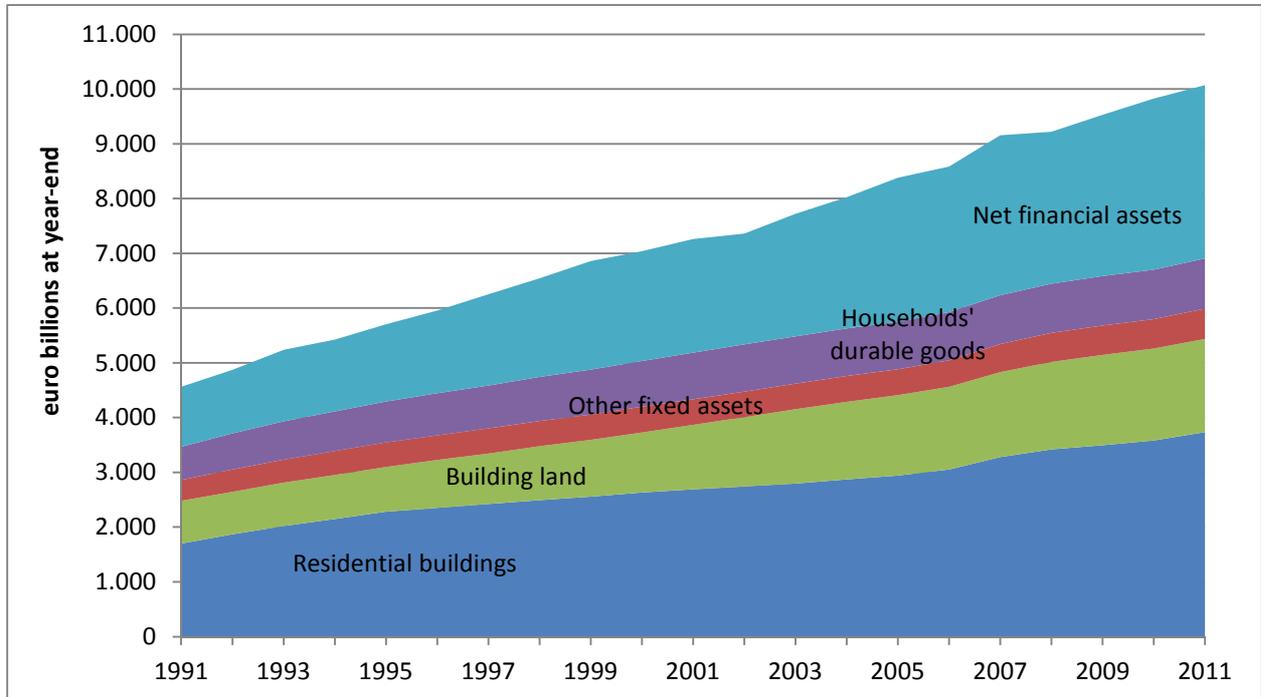
Private net assets (including those belonging to private non-profit organisations) rose in the reporting period between the end of 2006 and the end of 2011 by a nominal amount of around one and a half billion euros to ten billion euros. Of all asset types, it was net financial assets which increased most in the reporting period. Those are financial assets (including corporate shares) after the deduction of loans and other financial liabilities.

In a national economy financial assets and debts between nationals cancel each other out. So the economy as a whole can only build up net liabilities and positive net assets in relation to other countries. In the last decade, in which the German business sector as a whole funded its investment activity almost exclusively with current profits, it was other countries in particular - alongside the German state - that became increasingly indebted to domestic sectors and were the impetus for the continued increase in net financial assets owned by private households above all. Before one sector's net financial assets can grow sustainably, other sectors must take out loans and ideally use them to invest. In view of the fact that the debt brake - biting since 2011 - has imposed strict limits on new German debt, it is imperative that the framework conditions for entrepreneurial investment at home remain as attractive as possible.

According to calculations by the Federal Statistical Office and the Bundesbank, net German state assets fell in the reporting period from 186.4 billion euros in 2007 to approximately 11.5 billion euros in 2011. This has been caused in part by measures to tackle the financial and economic crisis and the European debt crisis. These vital measures led to a further rise in the

national debt in 2011, to around 80.5 per cent of gross domestic product. Without the crises management measures the 2011 figure would have been 68.4 per cent.

Evolution and breakdown of private households' net assets, 1991-2011



Source: German Federal Statistical Office, German Bundesbank

What is already being done:

- The Federal Government aims to remove the burden from private income and thereby support wealth creation. For example, the **Citizens Relief Act** is linked to around ten billion euros of relief yearly and benefits workers in particular.
- To ease the burden on workers and employers, **social security contributions** in Germany fell by nearly two percentage points (1.95) between 2006 and 2012.
- While it was right and proper to use all available measures to ease the crisis, now that better times have come we need to walk the **path of consolidation**. The Federal Government is determined on this course and emphatically applying the debt brake anchored in its Constitution. Germany is consolidating its public budgets and therefore comprehensively fulfilling all national and European fiscal requirements.
- The Federal Government is working to prevent future crises in the financial markets and the associated depreciation of financial assets through a permanent and stringent **regulation of the financial sector**.

What remains to be done:

- Further relief in terms of income tax is to be provided with the increase in the basic tax-free allowance for 2013 and 2014, as laid down in constitutional law.

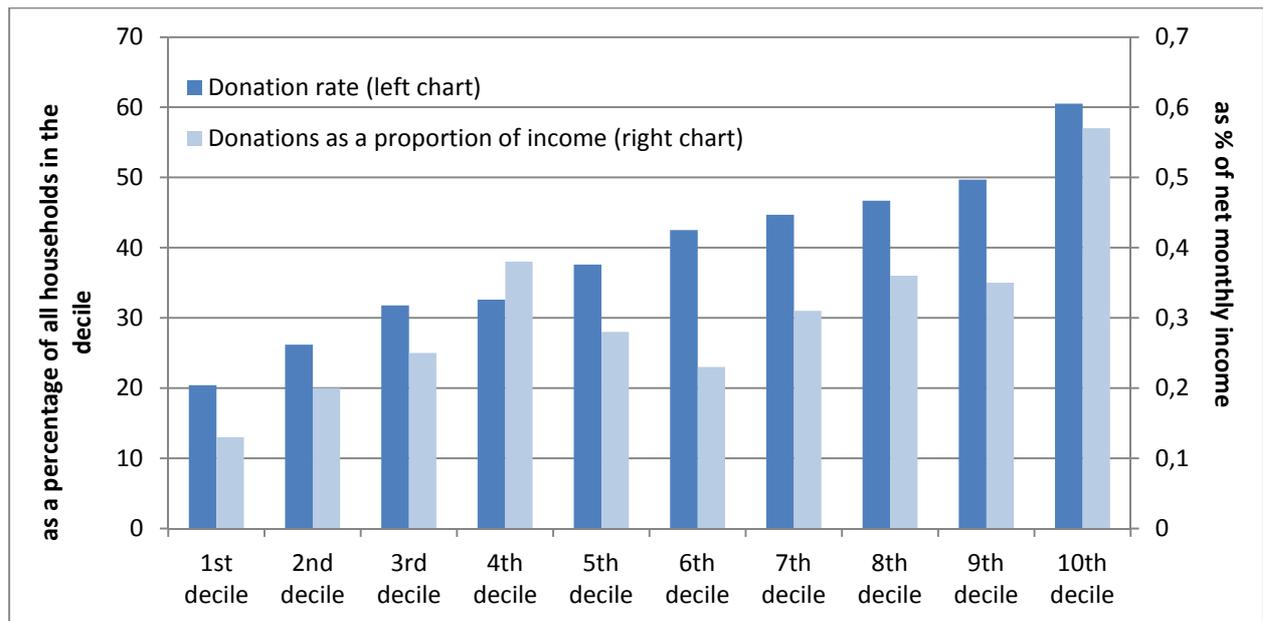
- In line with current statutory requirements, the Federal Government intends to **lower contributions to statutory pension insurance** through the Pension Contribution Rate Act 2013. This will bring the rate down to 18.9 per cent, thereby saving workers and employers around 6.4 billion euros per year starting in 2013.
- The maximum **upper limit** of structural deficit permitted by the debt rule (0.35 per cent of GDP), which must be adhered to, starting from 2016 in line with the Constitution, was already observed by the Federal Government in 2012, i.e. four years **earlier**. The Federal Government intends to present a 2014 Federal budget with no structural deficit, provided that there is stability in Europe and the world economy.

III.10 Supporting commitment to good causes

People use some of their money for charitable causes. In 2009 around 60 per cent of households in the top income decile donated money to charity. Those in the higher income bracket also donate more on average in relation to monthly net income: across all households the average donation amount is 0.36 per cent of net monthly income; in the top income decile it is 0.57 per cent. Wealthier people tend to donate more to cultural causes, and the amount they donate to such causes - and the same goes for science and research - is above average.

In a survey of people with means, the most popular recipients of their time and money were: sport clubs (45.2 per cent), professional associations (25.1 per cent), local heritage and civic organisations (22.6 per cent) and private clubs (21.6 per cent). Five per cent said they supported foundations and social initiatives.

Monetary donations by income group in 2009

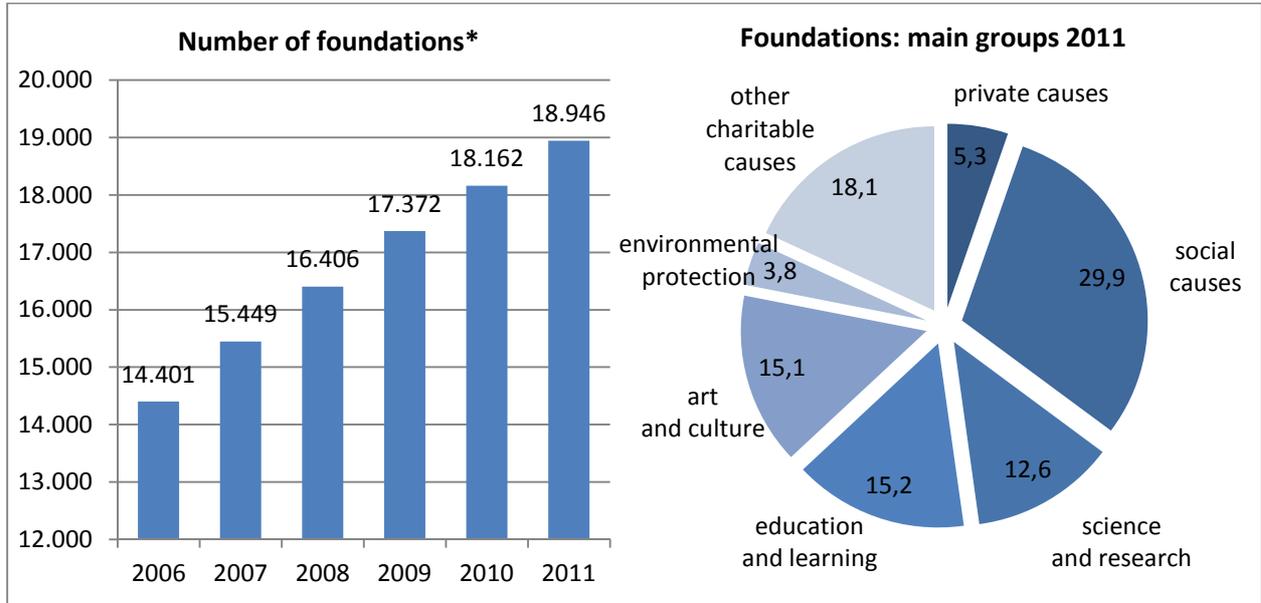


Deciles of equivalence-weighted monthly net household income (2010)

Source: Priller, E./Schupp, J. (2011): Vermögende Vermögen eigentlich mehr - Trotz wachsenden Wohlstands stagniert das Spendenvolumen“, in: WZB-Mitteilungen, Heft 134, Dez. 2011, p. 8.

Foundations too, being the source of much-needed capital investment, are an area where the time and money donated by the wealthier people in society are beneficial to the general good. 96 per cent of foundations make up the civil society stakeholders engaged in non-profit activities including efforts to increase participation opportunities for the disadvantaged.

Foundations and their purposes



* Foundations under civil law as of Dec 31 of each year, excl. trust and church foundations.

Source: Association of German Foundations, Foundation Reports, various years.

The fact that people enjoy volunteering and helping charities is encouraging, whether that means donating time or money. 23 million people in Germany do voluntary work - achieving great things and bringing people together. And this means complementing the state's activities and working in a more flexible, creative, personal and targeted way than the state could ever manage. These people are often making a real difference beyond the reach of state services.

Financial or personal involvement in social causes is always beneficial - in the shape of greater stability and social cohesion, but also personal satisfaction. Those with means are generally willing to help and they need to be encouraged to be even more generous with their time and money. The Federal Government urges more people to volunteer and get involved. The voluntary sector should not replace state services and paid work, but can complement both in a meaningful way.

What is already being done:

- In autumn 2007 the Federal Government made another substantial improvement to the **legal framework conditions for donations** to charitable foundations and also in-

created the tax incentive for non-profit organisations through the Act to promote active citizenship.

- Insofar as charitable foundation payments do not come under the voluntary welfare sector, the Federal Government has improved the legal position (section 11a SGB II para. 5) through the Act of 24 March 2011 on the determination of standard benefits and modification of Books II and XII of the Social Code so that certain donations to foundation beneficiaries are **not classed as income**.

What remains to be done:

- The Federal Government is looking at ways to encourage more voluntary personal and financial **involvement from people with the means** to contribute to the common good.
- More **cooperation initiatives** between public-sector agencies and charitable foundations, to promote education and participation, for example.
- The Federal Government will adopt the **recommendations on how to encourage business to play an active, strategic role in society** given by the expert commission on producing the first report on social engagement, and look at ways to implement them.

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