

FAQ on interim employment companies

1. What is an interim employment company (Transfergesellschaft)?

An interim employment company is a labor market policy instrument designed to delay collective redundancies by moving workers from employment into employment and avoiding an intermediate phase of unemployment.

For this purpose, employees facing unemployment are transferred for a limited period of time to an independent business unit that is usually provided by an external specialist (“the interim employment company”). A tripartite contract concluded by the former employer, the interim employment company and the employee terminates the employment relationship with the former employer and establishes a fixed-term employment relationship with the interim employment company. The time in the interim employment company is used for professional training and searching for a new job. The financial basis for operating an interim employment company is the support provided for participating in interim employment measures in accordance with section 110 of the German Social Code Book III (SGB III) and the short-time working allowance (Kurzarbeitergeld) available to promote integration during company restructuring (short-time allowance during employment in an interim employment company) in accordance with section 111 of the German Social Code Book III (SGB III).

2. How is an interim employment company installed?

The interim employment company must have a licence as an approved provider in accordance with section 178 of the German Social Code Book III (SGB III) in order for the measures to be funded by the Employment Agency. There are basically two different models: interim employment companies can be formed outside the company or internally within the company.

In most cases, an external interim employment company established by a specialist provider is used. An internal unit that is independent in terms of business organisation and established as a separate operation or department within a company, and thus legally belongs to the employer's company, is chosen less frequently. It is important in this latter case that there is a clear separation from the other employees in terms of organisation and location and that the affected employees are not posted to their previous workplace.

3. What benefits do employees in the interim employment company receive?

While they are employed by the interim employment company, the employees do not “work”. They benefit from qualification and training measures and are supported in their search for new jobs. Nevertheless, this is a “genuine” employment relationship. This means that employees can apply for jobs while they are in employment, the drawing of unemployment benefits is deferred for the duration of their time with the interim employment company and they receive uninterrupted pension points towards their pension insurance. The specific qualification and training measures offered depend on the respective interim employment company.

For the duration of their employment with the interim employment company, but for a maximum of 12 months, the employees receive a special short-time allowance which is funded by the Employment Agency. Depending on whether there are dependent children, the short-time allowance during employment in an interim employment company amounts to 60 % or 67 % of the last regular net monthly salary, which is capped at the income limit for the assessment of contributions to national pension insurance. The employer frequently tops up the short-time allowance, usually to 80 % of the last regular monthly salary.

4. What are the costs for the employer?

The financial resources of the interim employment company must be set out in a social compensation plan, because this arrangement is designed to compensate for the disadvantages associated with losing one’s job. An important cornerstone is the special short-time allowance provided by the Employment Agency. In addition, social security contributions (both employer and employee elements), payment of wages on public holidays and during leave, costs for employee training (50 % of the costs are usually reimbursed by the Employment Agency) and, last but not least, the interim employment company’s administrative costs are incurred.

The actual costs incurred depend largely on the length of time employees remain in the interim employment company. As a rough rule of thumb, however, two months in an interim employment company are equivalent to the costs involved in giving one month’s notice.

5. What are the advantages and disadvantages of an interim employment company?

A major advantage for the employer is legally compliant handling of the staff reduction process. Employees who leave the company under a termination agreement cannot bring an action for protection against dismissal, so the risk of litigation is eliminated.

Especially in cases where the selection of employees to be made redundant based on social criteria is difficult, this can contribute to a significant reduction in costs. The involvement of an interim employment company also allows for faster staff reduction because the employees concerned usually take all or part of their individual notice period with them to the interim employment company. If this is the case, there is also a positive financing effect.

The advantages for the employee are initially the support provided by specialists in the search for new employment and, in an ideal scenario, the seamless move to a new job. In addition, they benefit from upskilling or further training which is made possible and financed or at least supported by the interim employment company. The risk of unemployment is also delayed through joining the interim employment company. If the employee has not been placed in employment by the end of the period in the interim employment company, calculation of unemployment benefit is not based on the reduced remuneration received during interim employment but on the remuneration that formed the basis for calculating the short-time allowance during employment in the interim employment company under the tripartite agreement.

Ultimately, potential investors can also benefit from the interim employment company since they have the opportunity to hire employees selectively while avoiding a transfer of business pursuant to section 613a of the German Civil Code (BGB).

A disadvantage of interim employment companies, apart from the often somewhat higher costs for the employer, is that the risk of unemployment still exists. Not all employees manage a seamless transition from the interim employment company to new employment. The quality of the interim employment company is crucial in this respect.

6. Which employees are eligible to be transferred to an interim employment company?

As a general rule, an interim employment company should be open to all employees affected by staff reductions. The use of the interim employment company to enable only employees close to retirement age to make a smooth transition to retirement, for example, is not permitted.

Before transferring to the interim employment company, employees must have registered as job-seekers and taken part in a process known as “profiling” to determine their prospects of integration. The provider of the interim employment company must carry out this profiling of the employee prior to transfer to the interim employment company, and report the result to the Employment Agency.