

Pension adequacy of the self-employed

Mika Vidlund

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Finnish Centre for Pensions
ELÄKETURVAKESKUS

Finnish self-employed are happy at work – but at risk of facing insecure retirement

- In Finland almost two-thirds (62%) of the self-employed plan to continue working after they have reached retirement age
 - In EU nearly 50% of self-employed people have indicated they would like to continue working after they reach the retirement age
 - Some of them plan not retiring at all!
- Involuntary self-employment is marginal in Finland (see e.g. Kautonen & Vainio 2019; Eurofound 2017)



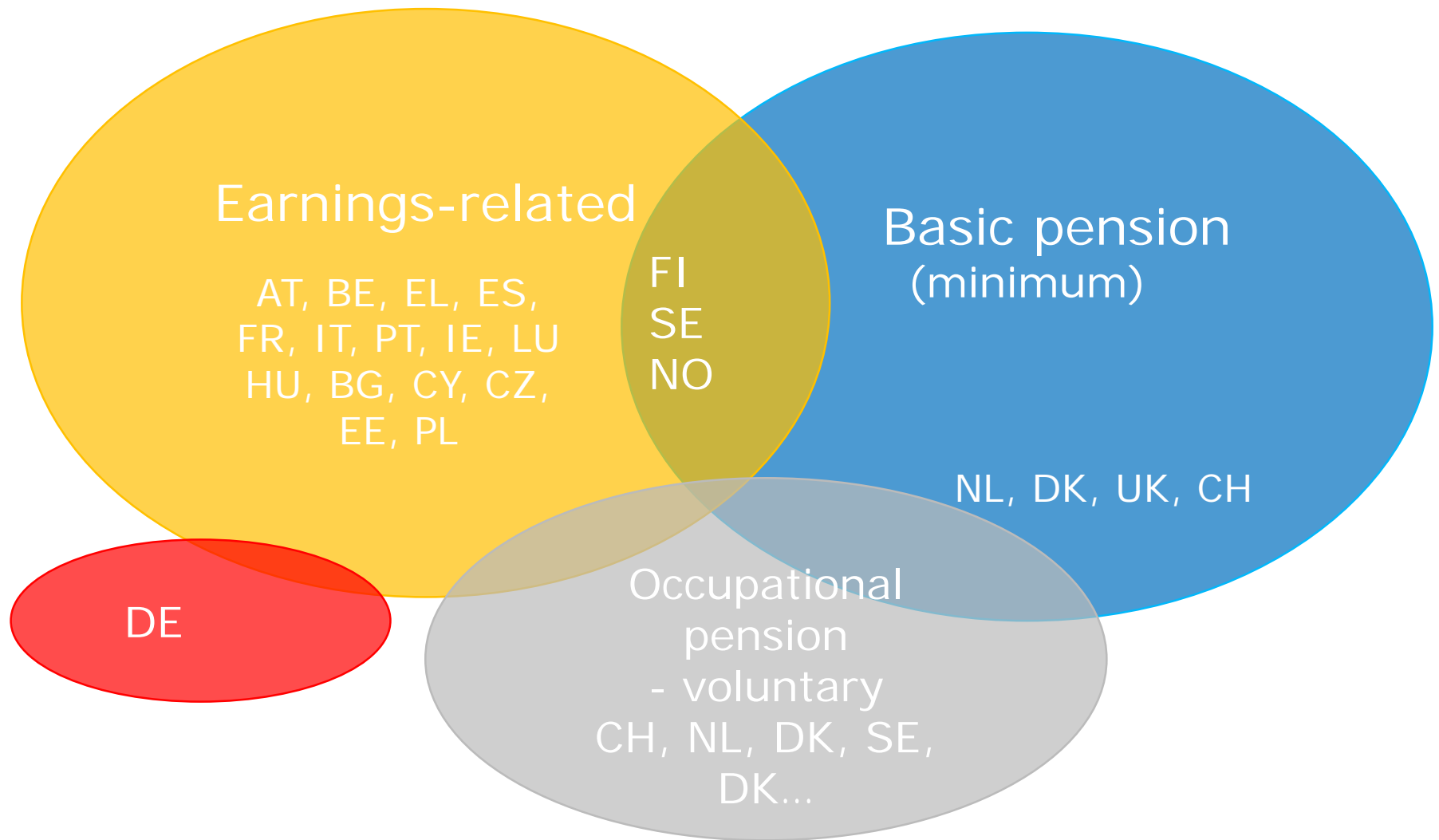
Various motivations for plans to continue working after retirement age



Source: Nivalainen & Tenhunen 2019. Retirement intentions of the self-employed – the role of working conditions and pension security. Finnish Centre for Pensions, Studies



Self-employed pension coverage in Finland is comprehensive



But the adequacy of pension is a challenge

- Self-employed tend to have lower pensions than employees in Finland and many other countries.
- In Finland pension calculation rules are the same for all
 - In some other countries rules may differ, e.g. in Italy NDC-scheme contribution rate is smaller for self-employed
 - As a rule self-employed lack access to occupational supplementary benefits which can be collectively agreed or compulsory for employees.



In Finland pension accrual and contributions are based on self-declared income within given guidelines

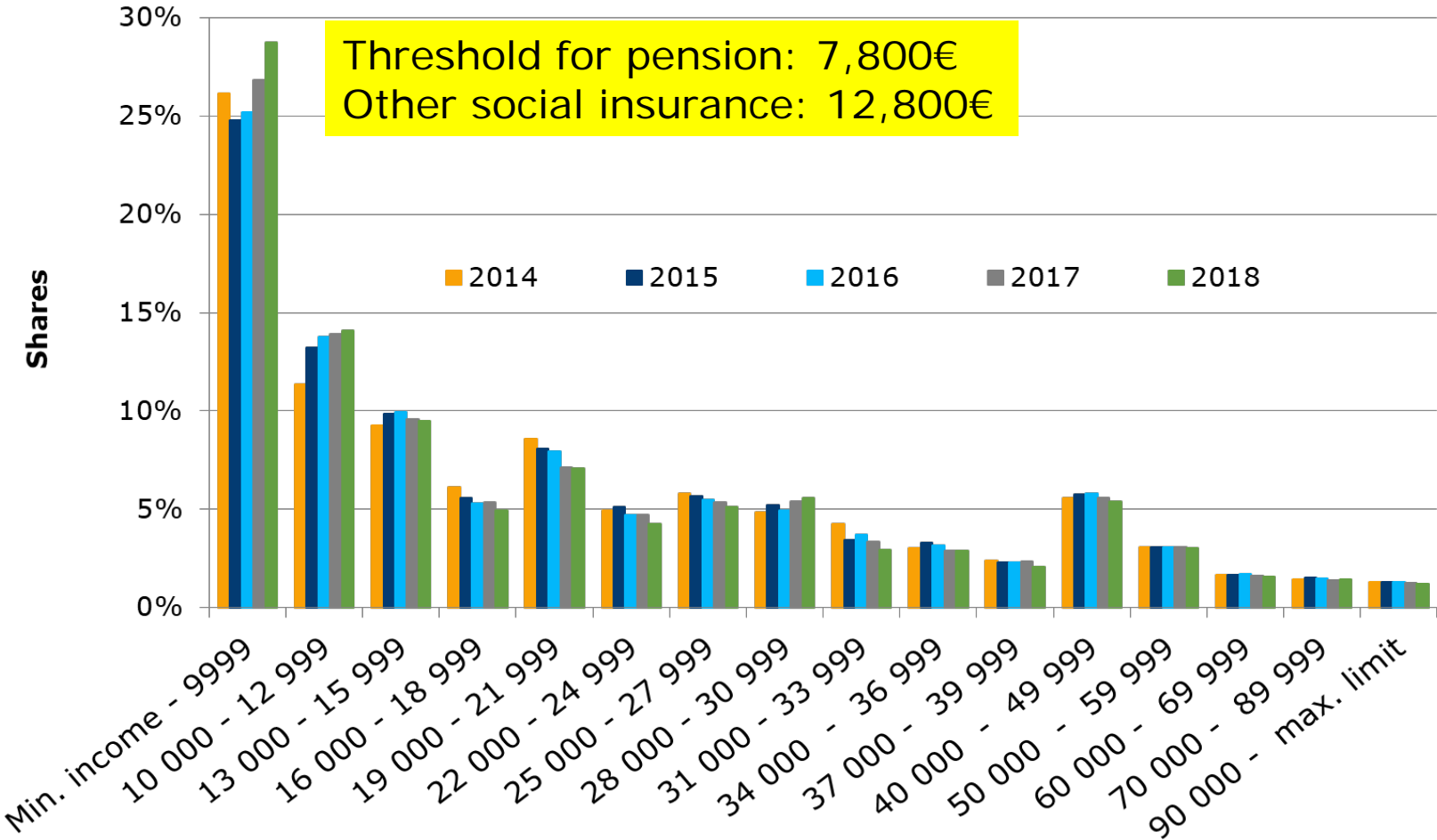
Earnings-related pension		No earnings-related pension
Tax-based income	Self-declared income	National pension
BE UK IT AT NO SE DE* CH CZ EE EL BG	ES FR FI LT LV PL HU	NL DK

* In Germany less than 10% of the self-employed within mandatory pension system



In Finland almost 30% of self-employed set their annual income at or close to the minimum level

Income base of the self-employed 2014 – 2018, euros/year



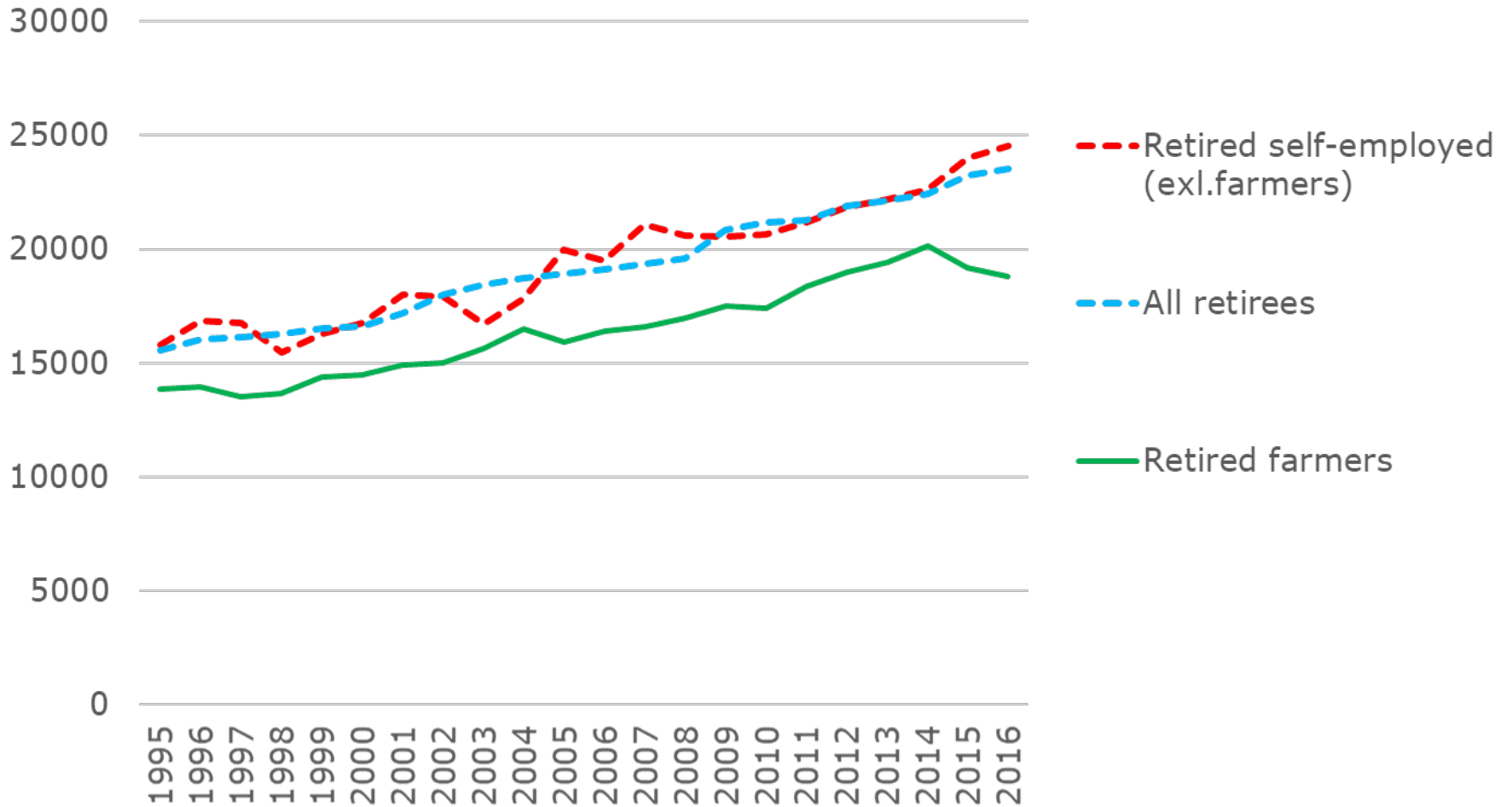
Finland is not alone struggling with the issue of possible under-insurance

- The fact that self-employed frequently insure themselves at the minimum is a challenge in many countries: e.g. BG, CZ, EE, EL, ES, HU, PT, PL, RO, SI, SK
 - In ES and PT over 80% of self-employed insure themselves at minimum level
 - In RO 90% of self-employed are not covered for old-age pensions or social insurance
- Increases the risk of low old-age pension
- “Income poor, but asset rich”
 - Focus should not only be limited on public pensions but on sources of total income
 - Self-employed have more assets than employees at retirement
 - However, the amount of assets varies greatly among the self-employed



Retired self-employed households are at the income level of all retirees

Median disposable income of retirees by the reference person's socio-economic group in 1995 to 2016, EUR in 2016 money



Source: Statistics of Finland: Income distribution statistics



How could we encourage the self-employed to insure themselves better?

- A closer link between the actual incomes of the self-employed and their contribution base
 - High degree of discretion in setting the income base poses a risk for pension adequacy
- Lifting up the income threshold
 - Risk of reducing pension coverage
 - Effective contribution rate may become high for low earners
- Targeted pension information activities and raising pension awareness
 - Developing measures to effectively inform the self-employed about the level of pension they may expect together with their earned pension rights and with variant outlooks for the coming years.
- Other measures concerning assessment, determination and follow-up of the income base level



Conclusion

- Adequacy of the pension among self-employed is a common challenge
- In Finland work for further development of the pension provision for self-employed is to continue
 - Government Programme 6 June 2019: Different models for improving the social security and pension security of entrepreneurs and the self-employed will be reviewed.
- However, it appears that reforms concerning the coverage or insurance level are not at all easy because self-employed themselves may not be in favor of such changes
 - Germany and Netherlands are currently trying to find ways of enrolling self-employed into pension schemes



Thank you!

- **Additional information:** www.etk.fi
- Newsletter: www.etk.fi/en/newsletter/
- E-mail: mika.vidlund@etk.fi
- Twitter: @VidMika

