Pension adequacy of the self-employed

Mika Vidlund
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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

- Enjoy my work!
- Have not accumulated enough pension!
- Highly educated and in good health
- Being my own boss
- Financial necessity

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

- **Basic pension (minimum)**
  - NL, DK, UK, CH

- **Earnings-related**
  - AT, BE, EL, ES, FR, IT, PT, IE, LU HU, BG, CY, CZ, EE, PL

- **Occupational pension**
  - voluntary
  - CH, NL, DK, SE, DK...

- DE
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.

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<tr>
<th>Earnings-related pension</th>
<th>No earnings-related pension</th>
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<td><strong>Tax-based income</strong></td>
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* 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

Threshold for pension: 7,800€
Other social insurance: 12,800€
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