

Social protection of the self-employed

Country analysis

Bulgaria

Czech Republic

Estonia

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Poland

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Comparative analysis

General principles

The social security schemes for self-employed people are incorporated in the general social security system. This system covers both wage earners and self-employed people for the risks of health care, sickness, maternity and parental leave (the sickness system) and old age, invalidity and survivorship pensions (the pension system). Self-employed enjoy a specific treatment in the sphere of the contributions collection. With regard to the risks, they are not covered for unemployment, nor do they have access in case of work incapacity to the preferential treatment of the employment injuries and occupational diseases scheme. Self-employed are only compulsory insured for old age, survivorship and invalidity in the pension scheme and for the health care risk. The remaining risks, sickness, maternity and parental leave, are to be entered on a voluntarily basis. From January 2002 onwards the complementary pension insurance scheme ("second pillar") is being implemented. It is compulsory for all employed and self-employed born after December 31, 1959. Private pension companies under the supervision of the State Insurance Supervision Agency administer this second pillar. All self-employed people can participate on a voluntary basis in the private "third pillar" of the funded pension schemes.

From 2002 the family benefit scheme is of a universal type and covers in principle all residents of the country. Before that date family benefits were together with the sickness, maternity and parental benefits, part of the social insurance package to which self-employed could enter on a voluntarily basis. Now the scheme does not differentiate anymore amongst professional categories. The benefits are means tested and paid out by the social assistance services at municipality level. In general self-employed people benefit from the general non-contributory schemes, which are in place for the entire population.

In general self-employed people are professionally active people who pay themselves the contributions for social security purposes. They include single merchants, craftsmen, farmers, free professionals, as well as (active) shareholders and owners of businesses. More precisely the self-employed persons comprise notaries, lawyers, certified

accountants, licensed property assessors, experts to courts, patent holders, insurance agents, registered farmers and all professionals acting on their own risk and account. As a rule, the self-employed person registers his or her activity with the competent authority.

Amongst the self-employed, the farmers enjoy some preferential treatment with regard to the financing. This is mainly due to the specific risks this group is facing with the seasonal realization of their products. For this group a lower minimum income is taken as a basis for social insurance and they enjoy a longer final term to pay their contributions. The different religious servants enjoy a specific treatment under the Health Insurance Act. The financial basis upon which contributions are calculated is equal to one minimum working salary. Although these persons are not to be considered as wage earners the responsibility of the contribution payment lies with the central management body of the respective church.

Financing

The social insurance of self-employed persons is financed by individual contributions. As a rule the contributions are paid over any earnings from lucrative activities, which remain after deduction of relevant production costs as being stipulated by the taxation law.

The general social insurance system is financed through contributions of employers, employed and self-employed. The deficit is covered through a subsidy from the central budget. The family benefit scheme is paid by financial means of the general state budget.

The rates of contributions in the compulsory social insurance schemes for the self-employed are 29% for pension insurance and 6% for health insurance. The self-employed persons who are insured voluntarily for sickness, maternity and parental leave pay an additional 3% contribution. The due amount for health insurance contribution increases by 0,5% for any uninsured member of the family.

The second pillar pension is fully funded and based on the "defined-contributions" principle. From 2002 the current

29% contribution for pension insurance is shared between the state pay-as-you-go pension system (27% of the rate) and the private funds for complementary pension insurance (2%).

Due to their specific position the social legislation had to provide more flexible instruments in order to collect the contributions from the self-employed people. The contributions of the self-employed are paid monthly on the basis of a declared insurance income. The declared income cannot be lower than two times the minimum working salary, which is in place for the whole country. More in general the insurance income to be used as contribution basis varies from 2 to 10 minimum wages. The self-employed person can contribute until the 10th day of the month following the preceding one. At the end of the year the self-employed person declares the earned net income and the final amount of contributions due for the year is recalculated. The final insurance basis shall be established on the basis of the declared annual tax income by comparing on a monthly basis the difference between the monthly income chosen by the insured person and the average revenues calculated on the basis of the declared annual income. The final recalculated contribution should be paid the latest on the 31 March of the next year. Recent amendments in the financial legislation from 1st January 2002 replaced the relative limits as a percentage of the minimum wage by absolute limits in Bulgarian Leva. In 2002 the insurance income varies from 170 to 850 Bulgarian Leva (89 – 447 EURO). The fixed absolute limits aim at preventing a rise of the fiscal burden for the self-employed persons when the minimum wage would start to increase.

Self-employed people who earn less than the minimum income (170 Bulgarian Leva) must pay contributions calculated on the basis of this minimum income.

Farmers do enjoy a specific treatment in the financing of social security. The insurance income basis from which farmers start to pay contributions is four times lower than the minimum amount which is applicable for other the self-employed people. Further on the farmers can pay

pension contribution once per year (before May 31 of the next year).

Pensioners who pursue self-employed activities might opt to insure themselves under the condition that their net earnings are equal to or above one standard minimum wage per month.

There are no specific rules for self-employed people who start up activity or for self-employed in financial problems. However, the status of temporary incapacity can be invoked to postpone the payment of contributions until the 10th day of the month following the end of the incapacity. Moreover, self-employed persons shall not contribute when they enjoy an income replacement benefit for raising a child and when they attend without reimbursement a sick family member under condition that permission for attendance is being granted by the doctor.

Self-employed who combine their activities with wage earner activities pay contributions on both incomes. The ceiling of the compound insurance basis shall however not exceed ten standard minimum wages.

In the Income Tax Act some specific rules are foreseen for disabled persons performing professional activities (including self-employed activities). They enjoy a double amount of exempted non-taxable minimum income and 50% deduction of the Patent Tax when they provide as self-employed people registered services. They are also entitled to lower local taxes for personal dwelling and possession of a car.

Health care and maternity (benefits in kind)

All insured persons have access to medical services provided by practitioners or health facilities who have been contracted by the National Health Insurance Fund or one of its regional branches. There is no specific regulation for self-employed persons.

Sickness and maternity (benefits in cash)

Self-employed who opted for the voluntary social insurance package are entitled to sickness benefits. The period of insurance required to open the entitlement is 6 months. The amount of benefits is equal to 80% of the insurance income during the last 6 months before the incapacity took place. The incapacity has to be established by a medical doctor. The first three days of sickness are not being paid. In case of the wage earner this first period is covered by the employer.

Besides sickness the voluntary package includes maternity benefits and child-care leave as well. Maternity leave is paid at the amount of 90% of the insurance income for 135 days, of which 45 before the birth. The benefit is paid to those who contributed to the system and are

- becoming a mother (or alternatively father);
- an adopting parent;
- an ascending family member who takes substitute care of the child until the expiration of the birth leave.

Child care leave is paid at the level of the minimum wage and can be paid until the child reaches 2 years. It is granted to the person who following the maternity period continues to take care of the child.

Care

No specific treatment is foreseen for the self-employed people in the long-term care scheme.

Invalidity

Since self-employed persons are compulsory insured in the pension scheme, the same rules for the entitlement and amount of disability pensions are applied for employees and self-employed persons.

Invalidity pensions are provided for persons who lost at least 50% of their working capacity. In order to qualify for the benefit a minimum insurance period is required for persons aged 20 and above. It is differentiated according to the age: one year up to 25 years of age, 3 years for peo-

ple aged 25-30 years and the maximum insurance period is 5 years for persons aged 30 years or more.

The benefits are disbursed during the actual duration of incapacity. The amount of disability pension is calculated on the basis of the average insurance income for the country, the individual coefficient and the length of insurance. The reference basis for the calculation of the pension for invalidity shall be determined by multiplying the average monthly insurance income for the country for the preceding year by the individual coefficient of the claimant. The reference income is multiplied by a coefficient equal to the number of years of the insurance record (see as well the old age pension). For persons who didn't reach the standard retirement age and hence risk to be confronted with a limited insurance record, an "adopted insurance record" will be provided reflecting the difference between the age upon which the invalidity occurred and the age of retirement. This "adopted insurance record" is adapted as well by the following coefficients:

- incapacity of more than 90%: coefficient of 0,9;
- incapacity ranging between 71% to 90%: coefficient of 0,7; and
- incapacity ranging between 50% to 70%: coefficient of 0,5.

The minimum amount of disability pension is as follows: 150% of the social pension for people with incapacity for work higher than 90%; 140% of social pension for those with 71-90% incapacity for work and 105% for those with 50-77% incapacity for work.

A partially invalid person can continue to exercise his/her self-employed activity to the extent to which this is physically possible. As such there are no legal restrictions or other specific provisions in this respect.

Old age

From 1st January 2002 the retirement age is 61 years and 6 months for men and 56 years and 6 months for women. A step-by-step increase of retirement age is previewed till 2009 when it will be 60 for women and 63 for men. However access to old-age pension doesn't depend on the

retirement age alone. The total sum of the years of age and the length of service is taken into account. This is being calculated in a way that each year stands for one point. The eligibility condition to open the old age pension require a total sum of 90 points (or 94 points in 2009) for women and 100 for men.

In case the individual does not meet the required sum, a minimum pension will nevertheless be provided to the person who turned 65 years of age and can prove an insurance record of 15 years of which 12 were real contributing years (and thus not being credited periods).

Early retirement is not permitted for self-employed persons. Deferring the pension on the other hand is allowed. Increases for deferment are in such a case reflected in the pension calculation provided that an additional working record has been built up and a higher reference earning has been achieved. Persons on retirement can combine professional activities with pension benefit without any restrictions.

The amount of the old age pension shall be calculated by multiplying the reference income by the sum of one percent for every full year of insurance record and the respective part of any remaining months.

The reference income is determined as follows: the national average monthly insured income for the previous year is multiplied by the individual coefficient of the claimant. The individual coefficient is calculated on the basis of the individual's income on which insurance contributions are paid for three consecutive years in the 15 years of participation in the insurance scheme before 1997, as chosen by the person, and for the period after that date until the moment of retirement. For both periods the ratio between the average monthly insured income and the national average income is being established. Each ratio is multiplied by the number of months for which it has been established, and the sum of the results achieved in this way is divided by the total number of months included in the two periods.

A ceiling (maximum pension) equal to 4 times the amount of minimum social pension defined by the government

(42 Bulgarian Leva (22 EURO) in January 2002) is applied. The amount of the individual pension for old age may not be less than 105% of this social pension.

From 2002 onwards, the insured persons participate on a mandatory basis in a 2nd pillar pension scheme to which part of the social security contributions are being directed. The paid sums are being capitalised and the amount of the eventual benefit depends upon the performance of the investments undertaken by the chosen pension fund (defined contribution). The capital is returned at the moment of retirement.

Survivorship

Survivor's pensions are granted to the members of family of the insured person after his/her death. The surviving members are entitled to a pension on condition that the deceased was member of the compulsory insurance scheme and in receipt of a contributory old age or invalidity pension at the time of his/her death. A pension is thus not granted when the self-employed person was not in possession of a pension yet. This is contrary to the situation of the wage earners. Here a survivor's pension is granted as well in case the wage earner at the moment of his/her death, fulfilled the conditions for an invalidity pension for employment injuries and occupational diseases.

The surviving spouse is entitled to the pension five years before retirement or earlier if handicapped. The benefit terminates upon remarriage. Children are entitled to the benefit until 18 years of age (or 26 years when being a full-time student or doing army service). In case the child is handicapped no age limit is being applied. Ascendants depending upon the deceased person may be entitled to a survivor's pension if there is no other entitlement to a pension.

The amount varies from 50% to 100% of the pension depending on the number of survivors (50% in case of one survivor; 75% for two survivors and 100% for three or more surviving family members). The pension amount is

equally divided among all entitled survivors. The minimum amount per survivor is 90% of the social pension.

Employment injuries and occupational diseases

Self-employed people do not have access, not even on a voluntary basis, to the scheme of employment injuries and occupational diseases.

Family benefits

Up till 2002 only the self-employed persons who had taken up the full insurance coverage were entitled to child allowances. In that case a fixed amount of 8,5 Bulgarian Leva per child was granted. With the introduction of the Family Child Benefits Act in 2002 a universal income-tested family allowance has been introduced. The threshold is 150 Bulgarian Leva monthly income per family member. In case one doesn't exceed this limit, the family unit will receive 15 Bulgarian Leva paid by the local social assistance centre. Benefits are only to be granted for children with permanent residence in Bulgaria.

Unemployment

Self-employed are not covered for the risk of unemployment. They cannot enter the scheme on a voluntary basis. In case the self-employed person has registered a seizure of his activity, he is entitled to a means tested benefit for low-income families paid by the social assistance system. The amount of the benefits is differentiated according to the number of family members and the income out of other sources.

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The social security system consists of the following schemes:

- the pension insurance scheme (including supplementary pension insurance), covering old age, invalidity and survivorship;
- the sickness insurance scheme, covering short term incapacity of work, and maternity
- the health insurance, covering health care;
- the state employment scheme, including amongst others the unemployment benefits
- the state social support, including besides the social assistance benefits, family benefits as well.

The pension, sickness, and unemployment insurances are general professional schemes to which the self-employed people have in the same way access as the employees. As to the benefits no distinction is in principle made between the professional groups. The health insurance and the family benefit scheme (as part of the state social support scheme) target at all persons residing in the country. Here as well, self-employed people are not treated differently in principle as to the scope of the benefits.

The personal scope of the unemployment benefit scheme (as part of the state employment scheme) follows with regard to the self-employed people similar rules as the ones in place for the pension insurance.

The social security system in the Czech Republic is now of a general type and is rather unified in its applications for employees (wage-earners) and self-employed people. With respect to the self-employed, differences however are to be found in the assessment basis used for calculation of contributions paid to social insurances (pension, health, sickness and unemployment). As to the benefits, the sickness insurance is not compulsory for the self-employed and the specific provisions related to the employment injuries and occupational diseases are not applicable upon them. They can access the sickness scheme on a voluntary basis. However, contrary to the wage earners, the self-employed cannot be insured, even

not on a voluntary basis, for the wage reduction resulting from pregnancy or maternity and the impediment to work caused by care of a sick family member. The statutory provisions of the employment injury and occupational disease scheme cannot be accessed at all by self-employed.

With regard to the pension and the unemployment insurances, only the self-employed who have an income that reaches a defined amount are obligatory insured. The defined level is stipulated to be at least six times the amount, which is used for the indication of personal assessment basis in the pension insurance (see under old age) and establishes as well the calculation basis for the purpose of the financing (the “six-times amount” in 2002 amounts to 42 600 CZK); Self-employed having an income below this level, can enter the pension insurance on a voluntary basis.

Financing

Self-employed people are obliged to pay contributions for the pension insurance and the unemployment insurance (as belonging to the general state employment scheme) provided they participate on a compulsory basis in the pension insurance. If not, they can enter on a voluntary basis the pension insurance for which the due contributions are to be paid. They pay contributions for the sickness insurance only if they opted to participate in this insurance.

The contribution rates are calculated from the assessment basis. For the self-employed people the contribution of the pension insurance and the state employment scheme, and the contribution of the sickness insurance equal to 29,6% and 4,4% of the assessment basis.

Contrary to the employees, the self-employed person determines himself the assessment basis upon which the contributions for the pension and unemployment insurance are being calculated. This should be done in a range between the applicable minimal and maximal amount. The minimal assessment basis equals to 35 % of the difference between the gross income generated from the self-employed activity and the expenses that occurred in rela-

tion to this activity (as being determined for Income Tax purposes). However, the minimal assessment basis cannot be lower than the threefold of the amount of the personal assessment basis (that is being used for the determining the calculation basis of the pension benefit) as of 1st January of the respective calendar year. If the declared income goes below this minimum level, then the minimal assessment basis equals the mentioned threefold (in 2002 it is 21 300 CZK). The maximal assessment basis is 486 000 CZK.

The self-employed person is obliged to pay contribution for the pension and the unemployment insurance in the form of advance payments. In principle an advance payment is to be made for each calendar month during which the self-employed activity is going to take place. Once the income is being determined for tax purposes, an additional charge can be executed if the advance payments were not sufficient.

For the sickness insurance the calculation of the contributions and the determination of the assessment basis is done in a rather similar way as for the pension and the unemployment insurance. The sickness insurance contribution is paid together with the advance contributions of the pension insurance and the state employment scheme.

Contributors to the health insurance are the insured persons themselves (employees, self-employed people, persons with permanent residence in the Czech Republic with no income for whom the state does not pay the insurance), employers and the state through the state budget. The state also takes its share in financing the health care, particularly by financing the wage and operational costs and, as the case may be, by capital expenditures of medical establishments (except for private establishments).

The level of the health insurance contribution is unified for all payers: 13,5 % of the assessment basis for the applicable period. The applicable period is a calendar month for which the premium is paid; in the case of self-employed people the applicable period is the calendar year for which the premium is paid.

The assessment basis of a self-employed person is 35 % of the income generated by the self-employed activity minus the expenses incurred in relation to this income (as being determined for the purpose of the Tax law). It should not be less than twenty-times the minimum wage and not more than a fixed amount (486 000 CZK).

The minimal assessment basis does not apply to a self-employed person who:

- is disabled and enjoys advantages of the second or third grade in compliance with social security legislation (see below under invalidity),
- has achieved the age entitling an old-age pension but does not meet conditions of its granting;
- cares of one child under 7 years of age or two children under 15 years of age,
- is, simultaneously with its self-employed activity, employed and pays insurance contribution at least from the minimal assessment basis determined for employees (wage-earners).

In these cases the self-employed person's minimal assessment basis is proportionally reduced.

A self-employed person pays premium in the form of advance payments and an additional charge for the whole calendar year. The due dates are the same as in the case of advance payments of the pension insurance premium. Advance payments are not paid for months during which the self-employed person was recognized as incapable to work or was in quarantine.

For the purpose of both the pension and health insurance specific rules have been established for self-employed persons facing financial problems. Provided a self-employed person's income in the last three calendar months decreased by at least a third, as compared to the income of the previous calendar year, the District Social Security Administration shall, based on the self-employed person's request, proportionally reduce the assessment basis for advance payments of premium for a period of at least three calendar months. Still the amount of the minimal assessment basis applies in this case. For the health insurance this reduction of contributions is being granted

by the respective health insurance company (chosen by the self-employed)

In the first year of the self-employed activity the self-employed person pays advances calculated from the minimal assessment basis unless he determines a higher advance payment.

Costs of benefits of the state social support (including family benefits) are financed from the state budget (generally, from taxes); these benefits are non-contributory.

Health care and maternity (benefits in kind)

No specific rules have been established for the self-employed. They enjoy similar benefits in kind as the other insured persons.

Sickness and maternity (benefits in cash)

The insurance is voluntary for the group of self-employed people.

Sickness benefits are paid to a self-employed person who has been recognised as incapable of practising the professional activity (short-term incapacity of work). It is the self-employed person not allowed to practice the independent activity during the term of the short-term incapacity of work.

The sickness benefit is determined from a daily assessment basis by a respective percentage rate. The sickness benefit per calendar day is 69 % of the daily assessment basis. In the first three calendar days of the short-term incapacity of work, however, the sickness benefit equals to 50 % of the daily assessment basis. Contrary to the employees, the self-employed do not enjoy the additional wage compensation, which is to be paid by the employer during the first period of work incapacity.

The assessment basis is the sum of monthly assessment bases, which has been used for determining the advanced contribution payment.

In the case of self-employed people the assessment basis for the applicable period is divided by the number of calendar days of the applicable period.

The daily assessment basis is reduced on the basis of fixed limits in the following way: if the daily assessment basis exceeds a first reduction limit, the amount below this limit is counted fully, the amount between the first and the second reduction limits is counted by 60 % and the amount exceeding the second reduction limit is disregarded. (Since 1st January 2002 the first reduction limit is 480 CZK and the second reduction limit is 690 CZK. In 2002 the daily assessment basis may not be higher than 606 CZK).

The sickness benefits are paid since the first day of the short-term incapacity of work until its end or until recognition of partial or full disability, but not longer than for a year since the commencement of the short-term incapacity of work. After expiry of the one-year period the sickness benefits may be provided for another year if the sick person is expected to regain his/her capacity of work shortly.

The entitlement conditions for maternity benefits paid out of the sickness insurance of self-employed people are the following:

- as of the day of commencement of the maternity benefit, the person is covered by sickness insurance or finds herself in protective period or is a beneficiary of sickness benefits,
- the pregnancy results in childbirth,
- the woman does not practice her self-employed activity during the maternity leave,
- the contribution for the sickness insurance has been paid (as in the case of entitlement to sickness benefits),
- the person has been insured (in the sickness scheme) for at least 270 days in the period of two years preceding the date of childbirth,
- the person has been insured (in the sickness scheme) for at least 180 days in the period of one year preceding the date of childbirth.

The maternity benefit is calculated in the same manner as the sickness benefit. The rate is 69 % of the daily assess-

ment basis. The benefit is paid out from the first day onwards. The maternity benefit is provided for the period of 28 weeks of the maternity leave, i.e. since the beginning of the sixth (or eighth) week before the expected childbirth.

Longer periods are foreseen for a woman who has given birth to two or more children simultaneously and the woman, who is unmarried, divorced or a widow and who does not cohabit. Special rules exist as well in case of giving too early birth of a (still-born) child.

In specified cases the same type of benefit is provided to a man if he is unmarried, divorced or widowed or otherwise single, does not cohabit and takes care of a child based on a ruling of the respective authority or of a child whose mother died. The benefit is also provided to a man who takes care of a child if his wife is not a beneficiary of the maternity benefit and cannot or must not care of the child by herself because of a serious long-term disease.

Care

No specific rules are in place for the self-employed.

Invalidity

The self-employed person is entitled to a permanent invalidity pension if he has become fully disabled and has been insured for the required period of time and if he has not fulfilled, as of the date of the full disability, the conditions for the entitlement to an old-age pension.

An insured person is fully disabled if the capacity to pursue permanent occupation (or gainful activity) has reduced by at least 66 % because of long-term unfavourable state of health.

The required term of insurance is dependent upon the age of the insured person and amounts from less than one year (under 20 years of age) to five years (over 28 years of age).

The calculation of the permanent disability pension is similar to that of the old-age pension. The term of insurance however includes also the period from the date of the entitlement to the permanent disability pension to the date of the retirement age.

An insured person is entitled to the partial disability pension if he has become partially disabled and has been insured for the required period of time. An insured person is partially disabled if, because of the long-term unfavourable state of health, the capacity to pursue permanent occupation (gainful activity) has reduced by at least 33 %, or when the long-term unfavourable state of health aggravates significantly the general life conditions.

The level of the partial disability pension is determined in a similar manner as the level of the permanent disability pension. The percentage rate, however, is in the case of the partial disability pension 0,75 % of the calculation basis per each year of insurance (the percentage rate of this type of pension cannot be lower than 385 CZK a month).

Old age

The insured person is entitled to an old-age pension if one has been insured for the requested period of time and reached the retirement age. The required term of insurance is 25 years completed any time during the person's life. A minimum pension is however granted to the person who reached 65 years of age and fulfilled an insurance record of at least 15 years.

The retirement age is differentiated for males and females and according to the period when it was reached. The retirement age is 60 years for men and 53 to 57 years for women depending on the number of raised children when this age was reached before 31st December 1995. These are the former retirement age limits in force until 31st December 1995, which serve as a basis from which the actual ages are being calculated. Following the 1st January 1996 the retirement age is increased by 2 months (for men) or 4 months (for women) for each calendar year. On the 1st January of 2007 the retirement age will be 62 years

for men and 57 to 61 years for women depending on the number of raised children.

An old-age pension is composed of two elements: the "basic rate" and the "percentage rate". The basic rate of an old-age pension represents a fixed amount that is unified for all types of pensions (since the 1st July 1998 the basic rate is 1310 CZK per month). The percentage rate is determined by applying a percentage on the calculation basis. The percentage depends upon the period of insurance. The percentage rate of an old-age pension amounts to 1,5 % of the calculation basis per each completed year of the insurance counting from the pension entitlement; it cannot be less than a defined amount (770 CZK) per month.

The calculation basis is the personal assessment basis as long as it does not exceed a defined amount (7100 CZK). Once the personal assessment basis exceeds this, only a part of the exceeding income will be taken into account for the determination of the personal assessment basis.

The personal assessment basis, which serves for the purpose of determining the calculation basis, represents a monthly average of the total sum of the insured person's yearly assessment bases for the applicable period. The average is calculated as the product of a coefficient 30,4167 and the sum of yearly assessment bases for the applicable period and the number of calendar days falling in the applicable period.

A yearly assessment basis is determined as the product of the sum of the insured person's assessment bases for the respective calendar year and the coefficient of increase of the general assessment basis. The purpose of the coefficient is to update the value of the yearly assessment basis of the insured person depending on the pace of growth of an average wage in the national economy.

Entitlement to an early retirement pension may occur under specified conditions.

A pension can be accumulated with earnings out of professional activities in a restricted way. During the first two years the pension is being suspended if the earnings are

above two times the amount of the minimum subsistence allowance. After two years, any earnings are allowed.

The pension can be deferred as well. For every 90 days of economic activity during which the claim for an old-age pension is being postponed, an increase of 1% of the calculation basis is provided.

Survivorship

The surviving spouse is entitled to a survivor's pension in case

- the deceased insured person was beneficiary of an old age, permanent disability or partial disability pension or
- when, at the date of the death, the deceased person met the conditions of entitlement to a permanent disability pension or an old-age pension or
- when the insured person died because of a labour accidents or an occupational disease (the latter is not applicable upon self-employed people).

The pension is paid for the period of one year after the insured person's death. Afterwards the pension is granted if the surviving spouse:

- a) cares for a dependent child,
- b) cares for a minor who has been seriously disabled and requires extraordinary care, or cares for a predominantly or completely handicapped (adult) child,
- c) cares for a predominantly or completely handicapped parent or takes over the care for such a person from the deceased person;
- d) takes care of a person who is partly handicapped and over 80 years of age,
- e) is fully disabled,
- f) has reached the age of 55 years (58 years in case of a widower) or the retirement age if the latter is lower.

A dependent child is entitled to the orphan's pension in the case of death of a parent (adoptive parent) or a person who has taken the child in foster care provided the child was predominantly depending on this person and support could not be ensured by his own parents.

The deceased was either a beneficiary of the old age, permanent or partial disability pension or, at the time of the death, met the condition of the required insurance term for entitlement to a permanent disability pension or conditions of entitlement to an old-age pension, or died because of labour accident. The last ground of entitlement is not applicable upon the self-employed persons as they are not covered for the employment injuries and occupational diseases.

In the case of death of both parents the child is entitled to the orphan's pension after each of them.

The entitlement to the orphan's pension expires if the child is not longer dependent, either by reaching 26 years of age, or by terminating the preparation for the future occupation. Children in compulsory school attendance are always regarded as dependent. The entitlement ends as well in case of adoption.

The basic rate of the orphan's pension is fixed (1310 CZK per month) and the percentage rate is 40 % of the pension to which the deceased parent was or would have been entitled. A child who has lost both parents is entitled to one basic rate and 40 % of the percentage rate of each parent's pension.

Employment injuries and occupational diseases

In case of employment injuries and occupational diseases no regulation has been foreseen for self-employed people. The preferential treatment with regard to survivorship and invalidity pension that have a cause in an employment injury or an occupational disease is not applicable upon the self-employed persons. In the case of self-employed people the insurance is possible only within the scope of private (commercial) insurance.

Family benefits

The most significant benefits of the state social support are child benefits, paternal allowances and the social conditions allowances. They are applicable to self-employed people in a similar way as for all the other covered per-

sons. However, some specific rules apply for the grant of the parental allowance. Entitled to the parental allowance is a parent who personally, permanently and regularly cares of at least one child under 4 years of age or under seven years of age if the child is disabled. The entitlement conditions for the allowance to be paid in a month is that the parent does not have income from gainful activity in the Czech Republic exceeding 1.5 times the subsistence level, is not entitled to benefits paid out of the sickness insurance or to job seekers' material welfare or to allowances paid to citizens with modified working capacity during rehabilitation.

The parental allowance may be drawn since the birth of the child by a parent who is not entitled to the maternity benefit paid out of the sickness insurance (if the amount of the maternity benefit is lower than that of the parental allowance, the difference is paid out). If a parent is entitled to the maternity benefit, the parental allowance is paid out after the expiry of the maternity benefit payment term.

The parental allowance equals to 1.1 fold the subsistence level for the needs of a parent and is paid monthly in arrears. (In 2002 the parental allowance equals to 2552 CZK a month).

If a parent is a self-employed person, the parental allowance is paid (in the form of advance payments) in those calendar months during which the income was lower than 1,5 fold of the subsistence level for personal needs of the concerned parent (3480 CZK in 2002). In the end of the calendar year, during which the advance payments of the parental allowance were made, the entitlement to the parental benefit is reviewed for individual months according to the average monthly income of the self-employed person. The average monthly income is determined for those months during which the parent was practising the self-employed activity. If the income exceeds the subsistence level for the parent, he is obliged to return the advance payments of the parental allowance. For the purpose of the parental allowance settlement the parent is obliged to submit a certificate of income from a self-employed activity for the year concerned until 30th June of the subsequent calendar year.

Unemployment

The state employment scheme covers all persons who are unemployed and looking for a job. Besides the active labour measures, the scheme grants unemployment benefits under certain conditions. More precisely, a citizen who is not in employment or similar relationship, does not practice a self-employed activity, is not preparing for a future occupation and who is personally seeking a job through the labour office based on a written application (hereinafter “the job seeker”) is registered in the record of job seekers.

A job seeker is provided information, counselling, employment or retraining. A job seeker, for whom suitable employment is not found or retraining ensured within seven days after the date of the application, is provided material welfare. The job seeker is entitled to the material welfare if specified conditions have been met since the date of being registered as a job seeker.

The material welfare (unemployment benefit) is provided to a job seeker who meets the condition of the duration of previous employment (self-employed activity) of at least 12 months in the past three years preceding the date of the application. The benefit is provided to a job seeker for a period not exceeding six months (hereinafter “the support period”). A job seeker in retraining is provided the material welfare for the whole term of the retraining.

In the case of a job seeker who had practised a self-employed activity before being registered as a job seeker and who had been participating in the pension insurance as a self-employed person, the level of the material welfare is fixed in relation to the last assessment basis, which was used for the contribution calculation in the pension insurance and the state employment scheme. During the first three months 50% of the assessment basis is granted; for the rest of the period this is reduced to 40%. A job seeker in retraining is provided the material welfare amounting to 60% during the whole retraining period.

The material welfare is provided to the maximum amount of 2.5 times the individual’s subsistence level (or 2,8 times during the retraining).

If a job seeker is not entitled to the material welfare from the labour office or the level of the material welfare is not sufficient to satisfy basic needs, he may receive social assistance benefits.

Social protection of the self-employed

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Estonia

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Latvia

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Poland

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Slovenia

Comparative analysis

General principles

The social security system of Estonia comprises of the following schemes:

- pension insurance (covering old age, survivorship and invalidity);
- health insurance (covering health care, sickness and maternity);
- unemployment insurance;
- state unemployment allowances;
- family benefits;
- social benefits for disabled;
- funeral grants.

The first three schemes (pension insurance, health insurance and unemployment insurance) are contributory schemes, while the four latter schemes are non-contributory. The pension and health schemes are of a general nature in the sense that they cover all professionally active persons. The non-contributory schemes are universal and include all persons residing in Estonia. Only the unemployment insurance is developed for the group of the wage earners alone. The self-employed cannot join this scheme, even not on a voluntary basis. In respect of the unemployment risk, the self-employed nevertheless are covered within the state unemployment allowance scheme.

All self-employed persons have to pay the so-called “social tax” (contributions), and consequently they are covered under the general schemes of pension insurance (for old age, invalidity and survivors' benefits) and health insurance (for health care and sickness-maternity cash benefits) on a compulsory basis.

In relation to the schemes which are financed from social tax (i.e. pension insurance and health insurance), there are special provisions in respect of the tax base and the payment of social tax by the self-employed.

For benefits under the pension and health insurance, in general, the same conditions apply both for employees and the self-employed. However, for calculation of the earnings-related benefits, there are some special provi-

sions on how to take into account the reference earnings for the self-employed.

The other non-contributory social security schemes (family benefits, social benefits for disabled, funeral grants) cover all residents of Estonia and there are no special provisions in respect of the self-employed.

Financing

According to the Social Tax Act, the income basis for self-employed people upon which contributions are being calculated, is defined as income from the entrepreneurship, subject to deduction of enterprise-related expenditures permitted by the Income Tax Act.

The Social Tax Act stipulates a minimum amount of contributions and a ceiling on the social tax, which is to be paid by the self-employed. The same minimum applies also to social tax paid by employers on behalf of their employees, but there is no ceiling on the social tax paid by employers.

The amount of contribution to be paid by the self-employed person can not be smaller than the amount of tax calculated from the rate established by the state in the annual state budget, and shall not be higher than the amount of tax calculated from the amount of 15 times the minimum wage. In 2002, the monthly rate established in the state budget is 700 EEK and the minimum wage is 1850 EEK. Accordingly, the minimum amount of social tax to be paid by the self-employed is 231 EEK (0,33 x 700) per month, while the ceiling is 9158 EEK per month.

In case of a person being simultaneously employed and self-employed, the minimum amount of social tax applies to the total of wage income and income from self-employment.

For the payment of social tax, the period over which the self-employed has to pay contributions, is a calendar year (for other tax-payers it is a calendar month). However, self-employed are required to pay advance payments once a quarter (by the 15th day of the third month of each quar-

ter) at least in the amount calculated on the basis of triple the monthly rate established by the state budget (i.e. 3 times 231 EEK = 693 EEK). Self-employed persons, who at the same time are recipients of a state pension, are exempted from the advance payments.

By 31 March of the calendar year following the taxation period, the self-employed have to present a tax declaration to the Tax Board, indicating all their income from the entrepreneurship and provide documentary evidence of business expenditures. Thereafter the Tax Board calculates the additional amount of social tax to be paid and issues a tax notice concerning the amount of social tax due. The self-employed person has to pay to the Tax Board the additional amount of social tax by 1 October.

Health care and maternity (benefits in kind)

Self-employed people enjoy an equivalent health care protection as the wage earners.

Sickness and maternity (benefits in cash)

According to the health insurance act, sickness cash benefits are paid at the following rates:

- 60% of the reference income in cases of:
 - hospital treatment;
 - in-patient medical rehabilitation (including sanatoriums).
- 80% of the reference income in cases of:
 - out-patient treatment;
 - out-patient medical rehabilitation.
- 100% of the reference income in cases of:
 - work injury, occupational disease or other health impairment connected to work caused by the fault of the employer (not applicable upon self-employed);
 - incapacity for work caused in the course of defence of the state, interests of society or in the course of preventing a crime.

Further on the following replacement income is foreseen:

- 60% of the reference wage up to 14 calendar days for nursing a sick child up to 14 years of age in hospital

- 80% of the reference wage for:
 - up to 14 calendar days for nursing a child up to 3 years of age or a disabled child up to 16 years of age at home when the regular carer is sick or in hospital due to confinement
 - up to 7 calendar days for nursing a sick family member over 14 years of age at home
- 100% of the reference wage for 14 calendar days for nursing a child up to 14 years of age at home.

In case of maternity a replacement income amounting to 100% of the previously earned income is granted. The confinement benefit is paid:

- during pregnancy and confinement leave: up to 126 days. In cases of multiple birth or birth complications: up to 140 days;
- in case of adoption of a child aged less than 1 year: up to 70 days.

The reference wage for both sickness and maternity is in principle the average gross daily wage over last six months calculated on the basis of wage liable to social tax.

However, under the health insurance, the determination of reference earnings for the calculation of sickness and maternity cash benefits is different for employees and the self-employed. In case of employees, as reference earnings the average daily wage over the last six months preceding sickness or maternity is taken into account. For self-employed persons the reference earnings are calculated as follows:

1. in case of contingency occurring from 1 July to 31 December, earnings upon which social tax has been paid over the previous calendar year, divided by 365;
2. in case of contingency occurring from 1 January to 30 June, earnings upon which social tax has been paid over the pre-previous calendar year, divided by 365.

There are also stipulated minimum reference earnings, which in case of self-employed persons is the monthly rate established in the state budget (in 2002, 700 EEK) divided by 30 (i.e. 23 EEK 33 cents per day). The minimum reference earnings are used in case the self-employed person did not receive income from entrepre-

neurship over the reference period. However, the sickness or maternity benefit is not paid, if the self-employed person has not paid advance payments of social tax. At the same time, for employees, the minimum reference earnings is the minimum wage (in 2002, 1850 EEK) divided by 30 (i.e. 61 EEK 97 cents per day).

The payment of sickness benefit starts from the calendar day following the day the temporary work incapacity started to take place. In other words a waiting period of 1 day is being applied. The waiting period is not applicable in cases of pregnancy and nursing of a sick family member. This rule applies both to employees and to the self-employed people.

Care

No specific treatment is being foreseen for the self-employed people in respect of the long-term care.

Invalidity

In case of invalidity a pension is being granted. The determining factors of the pension are the years of pensionable age service acquired before 1999, the registered social tax payments after 1999 and the percentage of loss of the working capacity.

The work incapacity is certified by a medical commission and expressed by a decimal figure ending with zero – 10%, 20%, 30% and so on, up to 100%.

Permanent work incapacity has 2 degrees:

- Total incapacity – serious functional impairment caused by illness or injury due to which a person is unable to work in order to support himself or herself. A loss of 100% of working capacity is required for total incapacity for work;
- Partial incapacity – capability to work in order to support himself or herself, but due to a functional impairment caused by an illness or injury, a person is not able to perform suitable work corresponding to the general national working time (40 hours per week). A loss of

10-90% of working capacity is required for partial incapacity for work.

A 40% incapacity of work gives entitlement to a state pension. The pension is granted for the period of work incapacity, which could be determined for 6 months, 1 year, 2 years, 5 years or until attaining the pensionable age depending upon the claimant's condition. The periods are renewable if the condition requires so.

In order to open entitlement a qualification period is applied which is related to the years of age of the concerned person. The period ranges from no years of services required (16 to 20 years) to 14 years (in case 60 to 62 years of age).

As calculation basis for the invalidity pensions serves the higher of the following two amounts:

- an old age pension calculated on the basis of years of pensionable service and pension insurance coefficient of the applicant; or
- old age pension for a person with 30 years of pensionable service. (see under old age)

The amount of the pension for incapacity for work is the percentage corresponding to the loss of capacity for work of the calculation basis, but not less than the national pension rate (NPR). As of the 1st January 2002 this NPR is EEK 800. The pension can be accumulated with earnings out of income without any restriction.

Old age

In order to open entitlement to an old age pension a 15 years of service record is being required.

The retirement age is gradually increasing and shall be equalised for men and women by 2016 at the age of 63.

In 2002 the retirement age for men is 63 years. For women this is 58 years.

According to the State Pension Insurance Act, the old age pension consists of three additive elements:

- a flat-rate base amount, signifying the solidarity element in the system;
- a length of service component applying to periods of work through 31 December 1998; and
- a pension insurance component applying to periods of work after 1 January 1999.

In mathematical terms, the formula could be expressed as:

$$P = B + s \times S + i \times I,$$

where symbols have the following meaning:

B – base amount,

s – pensionable length of service of the pension applicant,

S – cash value of one year of pensionable length of service,

i – sum of pension insurance coefficients of the pension applicant,

I – cash value of pension insurance coefficient 1,0 (i.e. insurance coefficient when social tax has been paid on an average wage).

Pension insurance coefficients, are calculated from the annual social tax registered on the account of the insured person in the pension insurance. These amounts are divided by the average amount of contribution in the given calendar year. Accordingly, payment of social tax on the average wage in the course of one year would give an insurance coefficient of 1,0.

In case of self-employed persons, the amount of social tax that is actually paid is taken into account for determination of the pension coefficient. In case of employees, the due amount of social tax, which has to be paid by the employer, is taken into account (i.e. the amount of social tax that is calculated on the wages paid, regardless of whether the employer has transferred the amount to the Tax Board or not). Different approaches are explained by the fact, that as the employee is not himself a payer of social tax, the employee should not lose any rights to social security benefits on the reason that his employer has violated his legal obligations. At the same time, the self-employed person is responsible to pay the social tax

himself and accordingly also has to bear the consequences of any underpayment.

Early retirement pension is available up to three years before the legal retirement age. In some specific cases, exceptions are being made to this rule.

For granting of an early retirement pension or old age pension under favourable conditions, the qualification period of 15 years of pensionable service must still be completed.

Survivorship

The benefit amount of the survivor's pension depends on the number of the entitled family members. Entitled persons are the surviving spouse, all dependent children who were raised by the deceased person (including stepchildren and foster children) and brothers, sisters, grandchildren, parents, stepparents, foster-parents and guardians who were being supported by the deceased person.

The qualification period to open the survivorship pension depends upon the age of the deceased person. This period increases gradually from no qualifying period required (16-20 years of age) to 14 years of service (60-62 years).

For the widow(er) and children under 18 years of age (24 in case of full-time students) the survivor's pension is granted regardless of whether one was maintained by the deceased person or not.

The dependant widow(er) is entitled to pension if:

- pregnant (from the 12th week of pregnancy);
- the marriage lasted at least 1 year and if the pension age has been attained or one is permanently incapable to work (with at least 40% work incapacity);
- the surviving spouse is professionally not active and rears the deceased person's child under 3 years of age; or
- one is divorced but became permanently incapable to work before the divorce or one year thereafter or one attained pension age within 3 years after the divorce and the marriage had lasted for at least 25 years.

The other persons should have been dependent upon the deceased person.

As the calculation basis of the survivorship pension serves the higher of the following two amounts:

- an old age pension calculated on the basis of years of pensionable service and pension insurance coefficient of the deceased breadwinner (see under old age) or
- an old age pension for a person with 30 years of pensionable service.

The amount of survivor's pension depends on the number of entitled family members.

Employment injuries and occupational diseases

There is no separate scheme for employment accidents and occupational diseases. These risks are covered also for the self-employed under general health and pension insurance.

Family benefits

The family benefits scheme is of a universal type and covers all residents of Estonia. No differentiation is made between employees and self-employed.

Unemployment

Self-employed persons are not covered under the unemployment insurance scheme. However, a self-employed person who has stopped all professional activities can rely upon the state unemployment allowance.

The unemployment allowance scheme is made dependent upon a fulfilment of a qualification period (being 180 days of employment or equalised activity within the 12 months preceding unemployment). Further on the person should be registered as unemployed and the income should fall below the rate of the state unemployment allowance.

The benefit is paid after a waiting period of seven days. In some cases the waiting period can be increased to 60 days. This happens for students after graduation, in case of a

voluntary termination of the previous work contract or in case of a termination of the previous contract by the employer on the basis of loss of confidence. For self-employed people who seize their business activities on a voluntary basis such kind of sanction is not being foreseen.

For the calculation of the unemployment the previous earnings are not taken into account. The allowance is a flat-rate benefit (in 2002 amounting to 400 EEK per month). An additional retraining grant amounting to 1.5 times the unemployment allowance is paid out if the person attends retraining courses.

The unemployment allowance is paid up to 270 calendar days. In certain cases the payment may be extended.

The payment is discontinued if the person does not turn to the local employment office at least once in 30 calendar days or refuses an offer of suitable work.

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General principles

In principal all self-employed persons are covered for social security in the general system that is composed of the health and sickness scheme (covering health care, sickness, maternity and the specific treatment of the work incapacity when the origin is related to an employment injury or an occupational disease) and the pension scheme (covering old age, survivorship, invalidity and the specific treatment when the risk occurred due to an employment injury or an occupational disease). Self-employed however are not entitled to the income replacement benefits of the unemployment insurance scheme. Basically, the farmers are not compulsory insured in the pension and sickness schemes. The agricultural entrepreneurs can voluntarily sign a contract with the social insurance administration for these schemes. The excluded farmers group can join the statutory insurance schemes in a diversified manner. They can conclude a contract with the Public Health Insurance scheme for a full-scale protection for health care and health insurance benefits and/or contract the Public Pension Insurance Administration for old age pensions.

The family support scheme is of a universal type, which covers every Hungarian citizen, regardless of the employment status. Consequently, every self-employed, including the category of the farmers is covered by family support scheme. The same goes for the universal means tested social assistance schemes.

For self-employed people specific rules have been elaborated in the general social insurance system. Besides the exclusion of income replacement benefits of the unemployment scheme, self-employed are treated differently with regard to the financing of the system. Special rules are developed as well for persons who perform the self-employed activity in a complementary way.

Financing

The social health insurance and the social pension insurance are being mainly financed on the basis of contributions. Self-employed people pay similar contributions as the wage earners. Contrary to the employees, the self-

employed person pays the contribution him/herself on the basis of the income, which is being declared by him/herself. Basically, the self-employed person pays contribution on a quarterly base.

The contribution rate for the health insurance amounts to 14%; the contribution rate for the pension scheme is 26% in 2002. In case of an employee, the employer pays a contribution of 11% for the health insurance and a contribution of 18 % for the pension insurance. The remaining 3%, respectively, 8% are paid by the employee. In practice they are deducted from the wage by the employer and forwarded to the Tax Authority.

The person who is member of private pension fund (see below under old age) pays part of the pension contribution directly to the selected fund. For the moment this is 6%; in other words, the self-employed person pays a contribution of 20% (18+2%) to the Tax Authority for the first pillar pension and (the remaining) 6% to the private Pension Fund of his/her choice.

The self-employed person who performs the activities in a complementary way (*kiegészítő tevékenységet folytató vállalkozó*) pays a contribution of 5% for the employment injuries and occupational disease scheme. A self-employed performs his or her activity in a complementary way when the activity is being performed in addition to a retirement, survivor's or invalidity pension.

The income basis upon which the contributions are being calculated is in principle the taxable income. There is no contribution ceiling applied for the calculation of the health care contribution. For the pension insurance the upper limit on the basis of which the contribution will be calculated, is the double amount of the gross average earnings as being planned in the Budget Law (daily amount is HUF 6490 and yearly amount is HUF 2 368 850).

For the employee the income basis is the wage as it is being paid in application of the labour contract. The "self-employed entrepreneur" is paying contributions on the basis of the income earned within the framework of the

independent activity, i.e. the venture withdrawal. In case the self-employed entrepreneur is a lump-sum taxpayer, the latter income is being used as contribution base.

The entrepreneur however shall pay the minimum contribution calculated upon the minimum wage, valid at the first date of the month preceding the subject month, even if the personal withdrawal was lower than the set minimum or no personal income was being earned. However, if the self-employed entrepreneur is simultaneously employed for a working time of at least 36 hours weekly or is regular student of an institution of secondary or higher education the actually achieved income is considered to be the base of payment for pension contributions.

If the employment of the insured in any legal relation reaches 36 hours weekly or if the self-employed is a regular full-time student that person shall not pay any health insurance contribution from his/her income deriving from other legal relations forming the base of contribution.

For the farmers who voluntary entered the insurance schemes, the contracted amount, but at least the minimum wage will be used as income basis. In case of pension insurance there is a contribution ceiling.

The family support scheme and the social assistance schemes are being tax financed.

Health care and maternity (benefits in kind)

The health care scheme is applicable in a similar way to self-employed and to other groups of professionally active persons.

Sickness and maternity (benefits in cash)

In case of sickness, the employer is obliged to pay 80% of the employee's normal earnings for a period of 15 working days per year. After this period entitlement to sickness benefits under the social health insurance begins. During the short-term incapacity of work, the self-employed persons do not receive any income replacement benefit the first two weeks. The amount paid by the social insurance

scheme depends on the claimant's service record and daily average earnings over the previous twelve months. For those who have been insured for less than two years, 60% of the daily average wage is paid. For those with more than two years of service record, 70% of daily average earnings are paid. All those receiving in-patient treatment receive 60% of their previous average earnings regardless of their service record. Victims of employment injuries and occupational diseases are entitled to a periodic benefit equal to 100% of their average earnings for a period of at least one year (with the possibility of an extension to 2 years).

There are strict limits on the amount of time that can be taken off in order to care for sick children. The periods depend upon the age of the child and are being increased for single mothers. The amounts paid during these periods are the same as those paid to insured persons missing work due to sickness with the difference that they are being granted from the first day onwards.

The maternity benefit is an income-substituting allowance paid during the period of maternity leave (24 weeks) to insured women who have lost their working capacity because of pregnancy and childbirth. Entitlement depends upon the completion of 180 days of insurance over the two years preceding maternity leave. The benefit is paid under the system of social health insurance provisions. It is due for the period of maternity leave and amounts to 70% of the daily average earnings.

The child-care fee was reintroduced on the 1st of January 2000. The objective of the child-care fee is to make up for the lost income for insured parents who are working and should expect a significant drop in income because of child-raising. The allowance could be established for parents raising their children below two years of age in their own household. Those parents are eligible who have been insured for 180 days in a period of two years prior to the application for the child-care allowance, or in the case of mothers giving birth to a child, before the date of birth. The benefit can be paid until the child's second birthday. The amount of the fee is 70 % of the daily average wages

but it cannot be higher than a fixed amount (83 000 HUF per month in 2002).

Care

No specific treatment is being foreseen for self-employed people in the assistance scheme related to long-term care.

Invalidity

A person is classified as permanently incapable of work if he/she has lost at least two-thirds of his/her working capacity, has no regular employment or is only capable of earning a significantly lower wage and no improvement is expected for at least one year. Entitlement to an invalidity pension then depends upon the incapacitated person satisfying the necessary service record (period of insurance). The required service record varies according to the age and to the type of the work of the person concerned. Those who began to work before 22 years of age must have completed at least two years of service before their incapacity. This period gradually increases until those aged 55 years and over have to demonstrate 20 years of service.

The size of the invalidity pension depends on the following factors: the average earnings, the invalidity degree, the service record (period of insurance) and age. The average earnings that are used for this purpose are usually the same as those applied for retirement pensions. The measure of disability relates to three categories:

Class III: persons who are disabled but retain a limited measure of working capacity.

- Class II: persons who have lost all their working capacity but do not need to be taken care of by others.
- Class I: persons who have lost all their working capacity and need to be taken care of by others.

Those in Class II receive 5% more than those in Class III and those in Class I receive 10% more than those in Class III.

If a person suffers from an employment injury or occupational disease, there is no minimum service requirement, although the level of the pension still depends on the length of service. The categories of accident-related invalidity pensions coincide with those for invalidity pensions. As a rule, pensions payable in cases of accident-related disability are higher than those paid in case of disability.

Old age

The Hungarian old age pension system has recently undergone considerable reforms. As from early 1998, the Hungarian old age pension system consists of three components:

- a conventional, pay as you go social insurance pension from the Pension Insurance Fund, (hereinafter the "first pillar")
- a private pension provided by private pension funds, (hereinafter the "second pillar")
- a pension service provided by voluntary pension funds (hereinafter the "third pillar").

Under the system the first and second pillars were mandatory for all new entrants into the labour force as of 1 July 1998. However, from January 1, 2002, the new entrants are not obliged anymore to enter the 2nd pillar. Workers, who had already acquired pension rights under the old system and those who entered the labour market before July 1998, had the option of either staying in the (reformed) first pillar, or switching to the new system comprising of the first and second pillars. Workers were given two years to exercise their right to switch to the new system (until August 1999). Those who initially opt for the new system will be free to return to the first pillar until December 2002. After that date, workers will be permanently affiliated either with just the first pillar or with the new, mixed system of the first and second pillars.

The first pillar of old age pension forms the backbone of the social insurance pension system. In this system the retirement age is gradually being increased from 60 (men) or 55 (women) to 62 years for both sexes. This gradual process will be completed by 2009. Until 2009 one has to accumulate 20 years of service record (periods of insur-

ance) to be entitled to a full pension and 15 years to a partial one.

The amount of the pension is calculated according to the claimant's service record and the average monthly gross earnings upon which contributions have been paid. The calculation of average earnings takes into account all earnings received between 1 January 1988 and the day of retirement. Until 2009 the full pension may not be less than the minimum pension (20.100 HUF in 2002), which is set annually. For a service record of 20 years the pensioner will receive 53% of his/her average monthly earnings (up to the contribution ceiling). He/she will receive an extra 2% for each year of service between 21 and 25 years of service record, 1% for each year of service between 26 and 36, 1,5% for each year of service between 36 and 40, and 1,5% for each year he/she works after 40 years of service.

The second pillar pension is derived from the sum that has been accumulated from the insured person's contributions plus the interest borne therefrom. Since 2002 there is no minimum guaranteed private pension annuity paid under the second pillar. The Guarantee Fund of the private insurance scheme guarantees only the sum which has been accumulated from the insured person's contributions plus the interest of this amount.

The second pillar pension fund provides annuities (pension) and/or lump sum payments for its members.

Since December 1993 Hungarian law has allowed the establishment of voluntary pension funds of the third pillar. They enable the pension fund members to complement their pension with voluntary savings.

Survivorship

Survivor's pensions will only be paid when the deceased person giving entitlement was either actually in receipt of a retirement or invalidity pension at the time of his/her death or had accumulated a sufficient service record to claim one of these pensions.

A temporary widow's or widower's pension may be paid to the surviving spouse or partner. The benefit is paid to unmarried partners provided that they have a child and have co-habited for at least one year or have no children but have lived together for at least ten years. Divorced and separated spouses are also entitled provided that they received alimony from their ex-spouse; the amount of their benefit can never exceed the amount of alimony to which they were legally entitled. Temporary widow(er's) pension is usually paid for one year. However, its duration is extended to 18 months if the survivor cares for a child of the deceased or up until the child's third birthday if that child is disabled. The temporary widow(er's) pension is 50% of the pension that was (or should have been) due to the deceased spouse. If the surviving partner is entitled to his/her own pension the permanent pension equals to 20% of the deceased person's pension. The temporary widow(er's) (or widower's) pension may thus be combined with the pension of the widow(er).

Following the expiry of the temporary pension the surviving spouse is entitled to a permanent pension if he/she has reached retirement age, or is disabled or takes care of at least two orphaned children of the deceased. The pension that is paid to the surviving partners who do not receive an old age or invalidity pension in their own right is set at 50% of the pension that was actually (or should have been) paid to the deceased. However, if he/she receives his/her own pension, the amount of widow(er's) pension is 20% of the pension that was actually (or should have been) paid to the deceased.

Orphan's allowance may be drawn until a child reaches 16 years of age (or maximum 25 years for full time students). If the child becomes disabled whilst receiving the allowance, it is paid indefinitely. The sum of the orphan's allowance is 30% of the pension of the person who obtained entitlement. If both parents have died, or the remaining parent is disabled this is increased to 60% of that pension. If both of the orphan's parents gave entitlement to a pension, then the higher of the two is used for calculating the benefit. The orphan's allowance never falls below a certain minimum, which is fixed annually.

The parents' (grandparents') pension is also part of the survivors' benefits system and is paid if the deceased's parents or grandparents were either disabled before his/her death or aged 65 years or over and primarily supported by the deceased for at least a year before his/her death.

If the deceased died as a result of an employment injury or occupational disease entitlement to benefits exists even if the insured person did not have a sufficient service record to obtain an old age or invalidity pension. The widow(er) of a victim of an employment injury or occupational disease receives a pension even if she is below retirement age and there are no dependant children.

Employment injuries and occupational diseases

The preferential coverage, which is in place for the persons who are victim of a employment injury or occupational disease, is granted as well to the self-employed persons. As such there are no specific rules developed for applying this scheme upon the self-employed group. The additional treatment for incapacity work relates to the already indicated preferential qualifying period and the higher level of the benefits; also for health care a better protection is provided for victims of an employment injury or occupational disease.

Family benefits

The family benefits scheme is of a universal type. No specific treatment is being foreseen for self-employed people.

Basically, family allowance is paid until the child reaches school age and from that moment onwards education support is granted.

The amount of family allowance and educational support depends upon the number of children in the family. Increased amounts are paid to single parents, disabled children and children in foster home.

Other benefits paid under the family support scheme are: the birth grant, the child home care allowance and the child raising support.

Unemployment

Self-employed persons and their relatives are excluded from the so-called passive type unemployment scheme (income replacement benefits).

Citizens, who, for some reason, cannot be protected adequately by the unemployment insurance, may receive help from a set of social assistance provisions. These include social assistance and services. The common characteristic of provisions belonging to the social assistance system is that they are designed to grant support to the needy, only to an extent if the persons in question are unable to furnish sufficient means of existence for themselves from any other resources. When awarding the social assistance the focus is on the family, but the responsibility of individuals and local communities is also emphasised.

There is no general scheme providing a guaranteed minimum subsistence level to everyone, instead social assistance is organised along categorical lines with specific provisions for (inter alia) the unemployed people.

Are considered to be unemployed person of active age:

Those who

- have used the disbursement term of the unemployment benefit or the income subsidy, or
- during the last two years prior to the submission of the application for regular social allowance, co-operated for at least one year with the competent local government,

and are not engaged in income earning activities except the employment organised by the local government or work performed on the basis of occasional employment permit.

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All socially insured persons are subject to a single social security system. With regard to the income replacement benefits wage-earners and self-employed people belong to the same general professional system. Provisions on tax-financed social protection services (health-care, family benefits, social assistance) make no reference to the employment status of a person at all. These universal schemes apply to the self-employed on par with all other residents.

In the general social insurance a differentiation is made between wage-earners and self-employed with regard to the financing and the entitlement conditions for some benefits. For example self-employed people are left out of the ambit of the unemployment scheme. As to the financial side, self-employed people pay the contributions themselves. Hence, in contrast to wage earners self-employed persons are considered socially insured only if contributions have actually been made.

In order to take part in Social Insurance, it is required that self-employed earn at least an income equal to the minimum contribution base (see further on financing). If not, they are completely excluded from social insurance. Self-employed people who are subject to compulsory (professional) insurance are in general covered for the risks of old-age, survivorship, invalidity, maternity and sickness.

Self-employed people who perform their activities while having reached retirement age or receiving a disability pension of categories I or II, are made subject to a restricted social insurance. In such a case they are not insured for the invalidity risk.

Persons who gain income in the capacity of both self-employed and wage earner are socially insured in both capacities, except recipients of author's remuneration, for whom social insurance in self-employed capacity is voluntary.

Financing

The self-employed persons themselves declare the contribution basis. The Cabinet of Ministers set the minimum and maximum amounts of the contribution basis. The minimum amount of earnings subject to contributions is 480 LVL per year. Maximum amount taken into account is 17.300 LVL per year.

The social insurance contribution rates differ amongst the categories of self-employed persons. The contribution is levied upon the declared gross earnings. They are the following:

- self-employed persons insured for the risks of old-age, death, sickness, maternity and invalidity: 32,27%;
- self-employed persons over retirement age and/or invalids of category I and II who are insured for the risks of old age, death, maternity and sickness: 28,47%;
- individuals carrying out management of real estate and registered as tax payers for income gained from economic activity who are insured for the risks of old age, death and invalidity: 30,86%.

A self-employed person declares the yearly contribution base when registering with the Taxpayer Register, and no later than on 1 februari every following year. The contribution base is declared on the basis of the income during the previous year or the expected income until the end of the year in progress. In the latter case, the sum can be adjusted to the actual income later on. The payment is made every 3 months. The payment is made to the local branch of the State Revenue Service (according to the self-employed's place of residence).

The state funded pension (2nd tier pension) is financed by transferring a part of the participants' contributions to this scheme (see further under old age). At the moment, this share is 2% of the contribution base, however, it will be gradually raised and will reach 10% by 2010.

Health care, family benefits and social assistance are financed from state budget. The health-care budget is also financed with co-payments of the patients.

Health care and maternity (benefits in kind)

The health care system provides access to a specified range of health care services. It is tax-financed with patients' co-payments. The system is of a universal type and no specific treatment is foreseen for self-employed persons.

Sickness and maternity (benefits in cash)

Sickness benefit is an insurance-based, earnings-related benefit, amounting to 80% of the gross average insurance contributions earnings, calculated from the insured person's insurance contributions earnings for a period of twelve calendar months terminating three calendar months preceding the yearly quarter of the insurance case. There is no qualifying period. A doctor should certify the work incapacity. Sickness benefit is paid only from the 15th day of incapacity for work for self-employed people. The maximum duration of payment of sickness benefit is 52 weeks from first day of incapacity if the incapacity for work has been continuous, or 78 weeks over a three-year period if incapacity has been repetitive with interruptions. While receiving the benefit, the claimant is refused to carry out professional activities.

Maternity benefit amounts to 100% of the gross average insurance contributions earnings. As with sickness, the maternity benefit is paid without considering the longevity of the contribution record. The incapacity for work is to be certified by a doctor. The benefit is normally paid for a period of 112 calendar days: it is the sum of 56 days for pregnancy leave and 56 calendar days for childbirth leave. It can be extended by 14 additional days for women who have received continuous medical care commencing before the 12th week of pregnancy. Further 14 days are also available if there are complications during pregnancy, delivery or postnatal period and in case of multiple births. Maternity benefit for the period of childbirth leave can also be awarded to the father or another person who actually takes care of the child.

A paternity benefit is also foreseen in the legislation. It is a benefit amounting to 80% of gross average insurance

contributions earnings and paid for a period of up to 10 days to fathers taking a duty leave related to the birth of a child, as certified by their employer. As the conditions to take up paternity benefits are mainly shaped around the employee-employer relationship, it is legally far from clear whether this provision might be applied to self-employed persons as well. Legislative amendments dealing with this issue are currently under preparation.

Care

No scheme in place.

Invalidity

A socially insured person is entitled to an invalidity pension, provided that the insurance record is not less than 3 years and the invalidity has been established by the Health and Working Capacity Medical Expert Commission. Persons whose disability has been caused by employment injury or occupational disease are dealt with by a separated insurance. As self-employed are not part of the latter insurance, they are in case of work incapacity always referred to the general invalidity insurance.

The amount of invalidity pension is related to three categories of incapacity:

- Group I: high degree of incapacity and need for care from another;
- Group II: high degree of incapacity;
- Group III: medium degree of incapacity (minimum 25% reduction in working capacity).

The calculation of the invalidity pension is made according to the following formula:

Group I:

$$P = 0,45 \times Vi + (ASi / ASie) \times Vi \times 0,1$$

Group II:

$$P = 0,4 \times Vi + (ASi / ASie) \times Vi \times 0,1$$

where

"P" is the pension;

"Vi" stands for the individual's gross average insurance contribution earnings;

"Asi" is individual insurance record in years; and

"Asie" is the maximum possible insurance record from the age of 15 until legal retirement age.

For disabled persons of group III the benefit is fixed at the amount of the state social security benefit (30 LVL) per month. The latter benefit is also the basis for the calculation of the minimum pensions for both group I (1.6 X state social security benefit) and group II (1.4X state social security benefit) invalidity.

In order to establish the amount of "Vi" the individual's gross average are taken insurance contribution earnings of any consecutive 36 month period chosen from the five years preceding entitlement to pension. If professionally active for less than 36 months during the five years prior to pension entitlement, the average earnings shall be calculated according to the actual number of months the claimant was working.

An individual who continues to make social insurance contributions after being granted an invalidity pension, has the right to a recalculation of the pension, but no more often than once in 3 years. Under the same conditions as under old age, the pension can be combined with income out of professional activities.

Old age

The old age pension insurance consists of 3 tiers: state solidarity pension scheme;

state funded pension scheme;

private funded pension insurance.

The first tier includes all socially insured persons and is based upon a pay-as-you-go financing. Second and third tiers are being capitalised.

Socially insured persons aged under 30 on 1 July 2001 were obliged to join the second tier, while those aged 30-49 were free to do the same or, alternatively, keep the whole of their contribution to the first tier pension scheme. People over 50 are required to remain in the first tier.

Participation in the private pension funds is voluntary.

The insured persons are eligible for an old age pension when attaining the age of 62 (to be phased in by 2003 for men and 2009 for women). The actual retirement age (as of the 1st of January 2002) is 61,5 years for men and 58,5 years for women. Persons with an insurance record of at least 30 years, who have raised 5 or more children or at least one disabled child until the age of 8, are entitled to a full old-age pension 5 years before the general retirement age.

The pension amount is determined by the sum of the social insurance contributions paid in. On retirement, this pension capital - pension capital is conditional in the 1st tier that is based upon PAYG, and real in the capitalised 2nd tier - is divided by the average remaining life expectancy at the time of retirement. Thus, the old-age pension is calculated according to the following formula:

$$P = K / G$$

where

- "P" stands for annual pension;
 - "K" is pension capital of the insured person, which is composed of the amount of social insurance contributions registered on the personal account and the annual capital growth, which is dependant on the social insurance contributions earnings index;
- "G" is the time period (in years) calculated on basis of the life expectancy of the years of the allotment of the retirement pension. This period is to be determined by the Cabinet of Ministers based on data from the Central Statistical Board and calculations made by the Ministry of Welfare. "G" depends on the age at which the individual wishes to retire and also on the life expectancy forecast in that period.

The minimum insurance record giving entitlement to an old-age pension is 10 years. For self-employed persons, insurance record consists of periods for which social insurance contributions have been made.

If the insurance period is at least 20 years a minimum pension is granted to 1,1 x the amount of the “state social security benefit”. The latter benefit is a fixed amount (30 LVL) provided for those in need who do not receive the compulsory state social insurance benefits. The amount increases to 1,3 and 1,5 of the state social security benefit for persons with an insurance period of respectively 20-30 years and more than 30 years.

Deferment of taking up the old age pension is unlimited. Working beyond the pensionable age is reflected in the pension calculation formula and more precisely in the factor (“G”) which stands for the envisaged period during which the pension will be paid. Besides deferring its pension, it is also possible that the individual continues to make social insurance contributions after being granted an old age pension. In such a case one has the right to a recalculation of the pension, but no more often than every 3 years. More in general and barring the situation of an early retirement, the pensioner can combine his old age benefit with income out of professional activities.

When a participant of the 2nd tier pension insurance has reached retirement age and claims an old-age pension, he has 2 options:

- either he adds the accrued funded pension capital to the 1st tier pension capital and a pension is calculated from the total amount according to the formula described above;
- or the participant may, for the accrued funded pension capital, purchase a life annuity from an insurance company.

Survivorship

Survivor’s pensions are granted to the following categories of persons considered they were financially dependant on the deceased socially insured person:

- children under the age of 18 and children, irrespective of their age, who have become disabled under the age of 18;
- brothers, sisters, grandchildren under the age of 18 provided they do not have parents capable of work;
- brothers, sisters, grandchildren irrespective of their age provided they have no parents capable of work, and if they have become disabled under the age of 18.

All those persons are entitled to a survivor’s pension until the age of 23, if they are full-time students at a secondary or higher educational establishment.

The surviving spouse is not entitled to a pension.

The survivor’s pension is calculated on the basis of the real and the potential insurance record that the insured obtained or would have obtained at the pensionable age. If the deceased breadwinner was insured in the state funded pension insurance, the 2nd tier pension capital is added to the 1st tier pension capital. From the (potential) old age pension of the deceased, is granted:

- 50% in case of one beneficiary;
- 75% in case of two beneficiaries;
- 90% in case of three or more beneficiaries.

Maximum 90% of the old age pension is to be provided for all those who are entitled to benefits. In case both parents are lost the pension is calculated by taking into account the (potential) old age pension of both persons.

The minimum pension equals the state social security benefit for all beneficiaries. For full orphans the minimum pension is 50% of the state social security benefit per deceased parent.

Employment injuries and occupational diseases

Self-employed are not covered by this scheme.

Family benefits

All the Latvian citizens, non-citizens and foreigners who have received their personal identification code, except

persons who have received temporary residence permits, are entitled to family benefits. The scheme is composed of several benefits and makes no differentiation between professional groups.

Unemployment

Self-employed persons are excluded from this kind of insurance providing mainly for an income replacement in case of loss of work.

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Lithuanian social security law has no special (socio-professional) categories of self-employed with an own social security statute. There are no special schemes for craftsmen or any other self-employed groups. Insured self-employed people belong in principle to the general schemes that are in place. However there exist specific rules for self-employed in some areas of the social security system.

All self-employed groups, except some, are subject to the pension insurance in an equal way as wage earners. License holders, farmers and their family members are only included in the pension scheme for the basic benefit. For the other categories the pension insurance provides on top of the basic benefit an income replacement for the risks of old age, survivorship and invalidity. Small land users and their family members and persons working under an authorship agreement are not compulsory insured for pension at all.

Self-employed people who are insured for pensions are also covered by unemployment insurance.

Health insurance (benefits in kind), as defined by the law, is compulsory for all residents in the country. The scheme of benefits is in other words common for all; contributions however still differ across the groups of self-employed people (see further).

The self-employed are not obliged to insure themselves for sickness and maternity (cash benefits). They cannot adhere at all to the scheme of employment injuries and occupational diseases.

Under specific rules non-insured persons (i.e. the persons working under an authorship agreement and the small land users) may join the full pension insurance scheme (both tiers). All self-employed people can enter voluntarily the scheme for sickness and maternity.

Social insurance is only one part of the Lithuanian social security system. The residents are covered as well by the

non-contributory schemes, such as social assistance in the broad sense and family benefits.

Financing

The pension insurance is financed by contributions and is based on a pay-as-you-go principle. Contributions of wage earners and self-employed are collected in the State Social Insurance Fund and are directly used for the benefits.

Health insurance is also financed by contributions. As in the case of pension insurance all contributions are collected into one Health Insurance Fund.

The pension insurance contributions are collected on the following basis:

Owners and tenants of personal enterprises (sole proprietorship), members of partnerships and limited partnerships, barristers and utter barristers, notaries contribute the following amount per month: 50% of the official amount of the basic pension plus 15% of the professional income declared by themselves. They are allowed to declare any amount of income, but, in a full year, not less than the yearly income that is subject to income tax.

Self-employed owners of license and farmers (and the members of the farm) contribute 50% of the official amount of basic pension.

Health insurance contributions are calculated in the following way:

Contribution of owners of personal enterprises (sole proprietorship) and members of partnerships is calculated as 30% of their personal income tax. Tax authorities direct this contribution into the Health insurance Fund. However, this contribution should be not lower than 1/12 of the yearly State contribution for people insured by State.

Self-employed holders of license contribute 30% of the cost of license. This contribution is the integral part of the cost of the license and is directed into Health Insurance

Fund by tax authorities who collect the payment for the license. Minimal contribution is 5% of the official minimal wage.

Farmers and their family members employed in the farm contribute 3,5% of the official minimal wage. Small land users and their family members contribute 1,5% of official minimal wage. All other self-employed groups contribute 10% of the average wage in the country.

Self-employed in financial problems may have certain exemptions from full contributions payment.

In the case of pension insurance, if the income per year of owners and tenants of personal enterprises (sole proprietorship), members of partnerships and limited partnerships, barristers and utter barristers, notaries are lower than 3 times official insured income per month (see below under old age), they contribute obligatory only 50% of basic pension. Economically weak farmers contribute 20% of the basic pension (additional 30% is added by State).

In the case of health insurance small land users and their family members contribute 125% of official minimal wage (as mentioned already).

Farmers and members of the farm working at the farm and owners of licenses are exempted from payment of pension insurance contributions if they are insured by pension insurance due to another professional activity. Also in the case of health insurance owners of personal enterprises (sole proprietorship) and members of partnerships are exempted from the payment of contributions if they are insured by health insurance due to the another reason, and their enterprise have no income or is in the process of dissolution (liquidation).

No special rules are applied for self-employed people who start up their professional activity.

Health care and maternity (benefits in kind)

All health care benefits are available for insured persons with no difference whether the person is employed or self-employed.

Sickness and maternity (benefits in cash)

In case of sickness and maternity there is no mandatory participation of the self-employed in the concerned social insurance schemes. As such they are not eligible for the cash benefits. Non-contributory benefits in the case of maternity (family benefits, social assistance, etc.) but also health services are nevertheless available for self-employed according to the same principles as for all other residents. For the cash benefits self-employed do have the possibility to opt in on a voluntarily basis. If so they can enjoy a similar entitlement to the benefits that are in place for the employees. The self-employed person has to prove that he was insured for sickness at least three months during the last 12 months, or alternatively, at least 6 months during the last two years. In case of sickness an income replacement of 85% of the previously earned income is being guaranteed from the third day onwards. The income basis ("compensatory income") upon which the benefit is calculated is the average income from which contributions to sickness and maternity insurance have been collected during the last but one quarter before sickness. This income cannot be lower than 25% of the official insured income and it cannot exceed 3.5 times the official insured income (see under old age).

In the maternity scheme, the insured person can be entitled to a "maternity benefit", that aims at replacing the income from work of the insured person. A similar qualifying period to the sickness benefit is applicable. Besides this benefit a "parental benefit" will be paid to the parent who takes care of the child during the first two years of age. The minimum insurance period for this benefit amounts to 7 months in the last two years before the beginning of the maternity leave.

The insured woman can take up the maternity benefit after 28 weeks (or more) of pregnancy. She receives benefits for 70 calendar days preceding delivery and 56 days after the delivery. In cases of complicated deliveries or multiple births the benefits are payable for 70 days after delivery. Women who go deliver the child after 22 weeks of pregnancy are paid benefits for 28 days after the birth. If the

child is living after these 28 days, benefits are continued to be paid for 70 days.

The parental benefit is paid after the period of maternity leave until the first birthday of the child; the benefit is paid to the parent who resumes from work to care for the child. The benefit is paid to the parent who cares for the child at 60% of the compensatory income, but not less than 1/3 of official insured income (see for the latter income under old age).

Care

No specific treatment is foreseen in the scheme related to long-term care.

Invalidity

In the case of long-term incapacity of work (invalidity) the same rules for the entitlement and amount of disability pensions are in principle applied for employees and self-employed persons.

A person who, as result of prolonged sickness, physical or mental illness or disability, has lost working capacity receives a disability pension or a social benefit.

There are 3 groups of disability. Group 1 is characterised by the incapability of a person to take care by himself of his personal and social life and who is in need of permanent care of others. Group 2 is characterised by a partial incapability of a person to take care by himself of his personal and social life and who is in need of impermanent care of others. Group 3-invalidity is defined by partial (not less than one third) loss of work capacity. Assessment of the loss of working capacity is usually based on medical criteria, and does not differ much for employees and self-employed.

The person is entitled to a disability pension if he has the required minimal pension insurance record. This minimal record depends on the age of insured person and varies from 0 to 5 years. The full disability pension is paid when a person has fulfilled the complete obligatory insurance

record for disability pension. This record also depends upon the age of disabled person and varies from 0 to 30 years.

Disability pension like an old age pension consists of two parts: the main part and supplementary part.

The main part is equal to 1,5 times the basic social insurance pension for Group 1 (the totally disabled persons); it amounts to the basic pension for Group 2. This amount is proportionally reduced for those who do not have the obligatory state social pension insurance period.

The supplementary part of the pension is only paid to those who have fulfilled the social insurance period while working under an employment contract or, from January 2002 onwards, while performing one of the listed self-employed activities (see old age). This period is calculated until the date that the invalidity occurred and is added to the number of years remaining before the claimant reaches pensionable age. If the person does not have the obligatory state social pension insurance period for disability pension, the number of remaining years is proportionately reduced.

Having calculated the insurance period in such a manner, the regular formula for the calculation of the old age pension is applied.

Only 50% of the disability pension for Group 2 is paid to Group 3 invalids.

Old age

For old age and survivorship a common approach is in place for both insured employees and self-employed people. However, the difference in the amount of benefits may occur because of different mode of mandatory insurance. Self employed holders of license, farmers and their family members contribute only for the basic pension. Before the 1st of January 2002 this was even the case for all self-employed groups. Because of this reason every insured person by pension insurance builds up two insurance records: a general record that is being linked to the payment of contributions as a wage-earner or as a self-employed per-

son, and particular record that is based upon the earnings declared under the labour or self-employed contract, the latter only if the self-employed is an owner or tenant of a personal enterprise, a member of (limited) partnership or a free professional (barrister or notary). This system of two records is designed for those who change their way of activity during the lifetime. Up to the 1st of January 2002 the supplementary part was only available for persons who contributed as employees. From that period onwards, some self-employed groups (owners and tenants of personal enterprises, members of partnerships and limited partnerships, barristers and utter barristers, notaries) will start to earn not only general, but also particular records.

The entitlement for old age pension is determined by two factors: age and earned insurance record.

In 1995 the retirement ages were 55 years for women and 60 years for men. Since then they have been gradually increased by four months a year for women and by two months a year for men. Later the speed of increase was changed into 6 months per year for men and women. This will continue until they reach 62 years and 6 months for men and 60 years for women. Currently (2002) they are 58 years for women and 62 years for men.

Minimal insurance record for old age pension is 15 years.

The mandatory pension insurance record required for a full pension is 30 years for men and 28 years for women. This requirement is being gradually increased for women by one year per year, until it reaches 30 years in 2004.

The old age monthly pension is calculated according to a common formula both for employees and self-employed people:

$P = a*B + 0,005*S*K*D + 0,005*s*k*D$, where the components stand for:

- "B": basic pension, determined by the Government and no less than 110% of minimum standard of-living;
- "a": is the multiplier which reflects the ratio of the number of earned years of pension insurance by a person to the number of mandatory years of pension insur-

ance (actually 30 years for men and 28 years for women). It means that for those who do not have the obligatory period required for a full pension, the flat-rate component of the pension is proportionately reduced (but not increased because the multiplier is never taken bigger than 1),

- "S": the insurance period acquired whilst working under an employment contract up to 1994,
- "s": the insurance period acquired whilst working after 1994;
- "K": the "rate of individual insured income" for the period until 1994, which is calculated by dividing the annual wage of the insured individual by the annual national average wage. As there are no reliable data about the wage of the insured person before 1994 one is allowed to choose the five most favorable consecutive years from 1984 to 1993;
- "k": "rate of individual insured income" for the period from 1994, calculated according to State Social Insurance Fund data on the claimant's insured income. The wage upon which the pension contribution was paid is divided by insured income D of that year (see below) and the average for the whole period from 1994 is calculated. As from 2004 the data prior to 1994 shall be gradually excluded and the middle part of the formula will disappear. Pursuant to the law K cannot be higher than 5 and also k cannot be higher than 5.
- "D": insured income is calculated as the monthly average wage from which pension insurance contributions are collected as well as any state social insurance sickness, maternity, and unemployment contributions. The Government, taking into account the recommendation of the State Social Insurance Fund Council, approves the annual and quarterly average insured income for the whole country. Annual insured income is used in order to calculate the 'rate of the individual insured income' and the quarterly insured income is used as well in the pension formula.
- The coefficient 0,005 means that 0,5% of the average wage earned in each year is added annually to the supplementary part of the future pension of the person.

For the calculation of the pension from 2002 onwards, the declared income of the self-employed will be taken as a substitute of the employees' wage (insured income).

If a person decides to retire later than the official retirement age, the pension is calculated according to the personal data at the time of the factual retirement. It is being increased by 8% for each full year of delayed retirement, but the postponement of the take-up of the pension cannot be more than 5 years (thus the pension amount cannot be increased by more than 40%).

The pension can be combined with earnings out of work within defined limits. This is done in the following way:

- if the insured income is less than 1 minimal wage one is entitled to the full state social insurance old age pension;
- if the insured income is more than 1 minimal wage, but less than 1,5 minimal wages, one is entitled to the main part of the state social insurance old age pension plus an additional part of the supplementary part of the pension calculated according to the following procedure:
 1. 50 % of the supplementary part that is less than LTL 100;
 2. 20 % of the supplementary part that is between LTL 100,01 and LTL 200;
 3. 10 % of the supplementary part that is between LTL 200,01 and LTL 300;
 4. if the supplementary part of the old age pension is more than LTL 300, the person is not entitled to any additional amount from the supplementary part.
- if their insured income is higher than 1,5 minimal wages, they are entitled only to the main part of the state social insurance disability pension.

These rules have been developed for the wage earner. As some groups of the self-employed only recently joined the income related part of the pension scheme, it is for the moment not fully clear whether the said rules related to the combination of pension and (insured) income are to be applied in an identical way upon these new groups.

Survivorship

In case of survivorship the persons eligible for a pension are defined with no difference if the deceased was an employee or a self-employed person. In principle the surviving spouse and the orphan(s) are entitled to receive a pension. The decisive factor is the entitlement of the deceased person to an old age or disability pension at the time of death. If the entitlement is guaranteed, then a pension is available to:

- a widow or widower who takes care of the child(ren) of the deceased where these children qualify for the orphan's pension;
- a widow or widower who reached the retirement age or was recognised as disabled at the time of taking care of the deceased spouse's children where these children qualify for the orphan's pension;
- a widow or widower if at the time of the death of the spouse five years are left before retirement age or who is over the retirement age or who is recognised as a disabled person. If there are no children from the deceased person, five years of marriage before the death are required;
- an actual (not officially married) spouse if there are children by the deceased of whom the surviving partner takes care where these children qualify for the pension provided that there is no formal spouse to whom the survivor's pension may be awarded.

If there are no persons who belong to the categories mentioned above, the pension is awarded to one of the parents of the deceased who takes care of the children or nurses at home the disabled children (of Group 1) of the deceased person provided that they became disabled under the age of 18 and qualify for the orphan's pension.

The orphan's pension is payable to the deceased person's children under the age 18 years. The pension is also paid to children older than 18 if they became disabled before reaching the age of 18 or if they are full time (up to the age of 24) students.

The amount of the survivor's and orphan's pension is based on the invalidity or old age pension that the deceased person actually received or, if the deceased was not in receipt of a pension, the invalidity pension the deceased would have received for a Group 2 disability at the time of his/her death. It is paid to survivors in the following way: 20% for spouse, 25% for each orphan (but no more than 80% for all orphans).

In case the surviving spouse is eligible for an own pension, both pensions are paid without any restriction.

Employment injuries and occupational diseases

Self-employed are not insured for the risk of employment injuries and occupational diseases. They cannot join it on a voluntary basis either.

Family benefits

Family benefits are universal, and there are no differences in eligibility or amount of benefits between self-employed and any other people.

Unemployment

Self-employed are insured against the risk of unemployment due to the fact that they pay contributions for social insurance pension. There are no special provisions for self-employed as it was not intended that they would fall under this scheme.

Like in the case of pensions, self-employed have the same rights for the benefits like employees. The mode of labour activity is not important because the decisive factor is the payment of contributions.

General requirement to get unemployment benefit for registered unemployed person is a minimum state social insurance period, i.e. 24 months within 3 years preceding unemployment.

The monthly amount of unemployment benefit depends on the individual's state social insurance record and the reasons for the loss of work.

Minimum benefit is equal to State Supported Income approved by the Government (135 Litas per month); maximum benefit is two times MLS approved by the Government (250 Litas per month).

The benefit is paid no longer than 6 months. For the unemployed within 5 years before retirement the unemployment benefit is paid during an additional period of two months; for the unemployed who reach the retirement age within 2 years, the benefit is paid until the retirement age provided they have 15 years of insurance.

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General principles

The Act of October 13th 1998 on the system of social insurances reshaped somewhat the social security landscape. From January 1 1999 onwards the self-employed persons who perform non-agricultural activities and their co-operating persons are part of the general social insurance system. They are on a mandatory basis insured in the pension scheme (covering old age, survivorship and invalidity) and in the employment injuries and occupational diseases scheme. On the other hand, the sickness insurance of such persons is voluntary. The scheme on employment and prevention of unemployment is applicable as well to the person who seized their business activities. In the social security schemes there are in principle no specific rules for self-employed persons. Self-employed are entitled to identical benefits of the same amount as those of the workers. With regard to the financing specific rules have been established for self-employed people in order to establish the income basis upon which contributions are being levied.

Farmers and their family members are being socially insured in a specific categorical system, which covers short-term incapacity for work (sickness, maternity and labour accidents) and pensions (old age, invalidity and survivorship). Depending upon the size of the farmed land as well as other specific conditions, the insurance is either compulsorily or voluntarily.

Health care and family benefits are granted in principle to all persons residing legally in the country. In principle no differentiation is made between professional groups, except for the contribution payment with regard to health care. The benefits are provided in the same way to all persons who are entitled to them.

Financing

Contributions of persons engaged in non-agricultural business activities are entirely financed by the insured themselves, with their own funds. The insured self-employed persons also calculate and transfer contributions to the appropriate field office of the competent

administrative body (ZUS). Farmers pay contributions to the administrative body of the farmer's system (KRUS).

Starting from the 30th December 1999, the self-employed person is also paying the contributions for the social insurances of the cooperating persons.

A person engaged in non-agricultural business activity is obliged to make payments for a given month:

- until the 10th day of the next month – if this person pays contributions only for him/herself;
- until the 15th day of the next month – in all other cases (for instance when paying contributions for a cooperating person).

For persons engaged in non-agricultural business activities and cooperating persons, the contribution basis for the pension insurance is a declared amount, however not lower than 60% of the average monthly remuneration for the previous trimester. The new contribution basis becomes applicable starting from the third month of the next trimester. The contribution basis for retirement and pension insurances has been limited. The annual contribution basis for retirement and pension insurances in a given year may not exceed the amount of thirty times the foreseen average monthly remuneration in national economy for the given year.

The same basis as the one for the pension insurance is used as the contribution basis for sickness and accident insurances. However a separate maximum ceiling is being used. The contribution basis for voluntary sickness insurance may not exceed 250% of the average remuneration in the previous trimester monthly. This amount is being determined every month, starting from the third month of the calendar trimester, for a period of three months, on the basis of the average remuneration in the previous trimester.

The amount of pension, accident and sickness insurance contributions is presented in the form of percentages, which are identical for all insured persons. Presently the contribution amount for accident insurance has also become identical for all insured. At a later term, this per-

centage will be different for every payer and determined in connection to the level of professional risks and effects of those risks.

The current percentage rates for various insurance risks for persons engaged in non-agricultural business activities and cooperating persons are as follows:

- for retirement insurance – 19,52% of the contribution basis;
- for pension insurance – 13% of the contribution basis;
- for sickness insurance – 2,45% of the contribution basis;
- for accident insurance – 1,62% of the contribution basis.

Contributions are compulsorily paid for persons engaged in non-agricultural business activities as well as for cooperating persons subject to health insurance obligations. However, there are no contributions to be paid for the (non cooperative) family members of a person who is subject to the health insurance. The health insurance contribution amount is equal for everyone and represents 7,75% of the contribution basis. The contribution basis for health insurance of persons engaged in non-agricultural business activities is the same as for other social insurances; it is a declared amount, however not lower than 60% of the average monthly remuneration for the previous trimester. Starting from the 30th December 1999, the same rule is applied to determine the contribution basis for health insurance of a cooperating person.

Persons engaged in non-agricultural business activities pay a compulsory unemployment (Work Fund) contribution for themselves and cooperating persons. The contributions are calculated on a similar basis as the one used for the pension, sickness and accident insurances but cannot be lower than the minimum remuneration calculated for a one-month period of time. The Work Fund contribution amounts to 2,45% of the contribution basis. The Work Fund contribution for a given month is to be sent to the ZUS in the same delays as social and health insurance contributions (that is until the 10th or 15th day of the next month). The Work Fund contribution for the co-operative

person is financed by the contribution payer, that is the person engaged in non-agricultural business activities.

The financing principles of farmers' social insurance are regulated by the act on the farmers' social insurance (20 December 1990) and by the act on the general health insurance (6 February 1997). The basis of financial management of farmers' social insurance and KRUS activities is constituted by contributions of the insured persons and state subsidies. This subvention for example accounts for approximately 94% of the Farmers' Retirement and Pension Fund.

The amount of the contribution is determined every trimester at a level guaranteeing fluent financing of the Fund's expenses. The Farmers' Social Insurance Council makes decisions relative to the amount of contributions or to the widening of the benefit scope or increase, after detailed analysis of the financial situation of the Fund.

Health care and maternity (benefits in kind)

The health care system provides in benefits in kind to the insured persons who are in need of health treatment. Concerning benefits, no difference is being made between professional groups.

Sickness and maternity (benefits in cash)

Sickness insurance is to be taken on a voluntary basis for self-employed people. The same goes for maternity benefits.

In order to open the entitlement for a sickness benefit the voluntarily insured self-employed person has to prove 180 days of continuous insurance record (whereas the mandatory insured employee has to be insured for 30 days continuously). Former insurance periods can be taken into account if any gap between the insurance periods was not longer than 30 calendar days or the gap was caused by parental leave, military service or other unpaid leave. Further on the self-employed has to submit a medical certificate from a contracted doctor stating the temporary inability to work or the need to stay home to provide care

to a sick member of the family. In case of hospitalisation one assumes that the person is not capable to perform professional activities.

In case of employees, the employer continues to pay the wages during the first 35 calendar days of illness in any calendar year. For any further periods of illness in that calendar year the sickness allowance is paid by the Social Insurance Sickness Allowance Fund (ZUS).

The self-employed person, if insured, receives the sickness allowance, which amounts to 80% of the reference income from the first day of sickness.

The benefit amounts to 100% of the reference income:

- from the 91st day of uninterrupted incapacity for work;
- for an illness caused by an employment injury or occupational disease;
- for an illness occurring during pregnancy.

In the event of hospitalisation it is 70% of reference income. For all other circumstances it amounts to 80% of reference income: The reference income is calculated on the basis of earnings earned during 6 months falling in a period of the last 12 months.

The benefit is paid 6 months, a period which can be extended by a further 3 months where there is a possibility of resumption of work. In case of tuberculosis, the period during which the benefit is being paid, amounts to 9 months from the outset.

An allowance is paid as well to persons who have to stop working in order to look after:

- a child under the age of 8 years (in specified cases);
- a sick child under the age of 14 years (for a maximum 60 days per year);
- another member of the family (for 14 days per year).

The amount in such a case is 80% of the reference wage as being calculated for the sickness benefit (plus a supplement of 50% of the family allowance for children requiring a special diet).

For employees a compensation allowance is paid covering the difference between the current and previous earnings.

As a basis the wage during the last 6 months before the illness is taken. The maximum duration to pay the benefit is 24 months since the start of the incapacity. Self-employed are not entitled to this kind of allowance.

In the farmer's system several income replacement benefits are foreseen in case of short-term work incapacity. Compensation alongside the lines of the general system is foreseen if the work incapacity is caused by an employment injury or an occupational disease. In case of non-work related illness or accident, the farmer is provided with a benefit when he or she is incapable to work for a continuous period of more than 30 days. When the farmer is voluntarily insured the suspension of benefit payment amounts to one year.

Maternity benefit is provided for women taking maternity leave for confinement or for child raising. It is paid during:

- 16 weeks for the first single birth;
- 18 weeks for every next single birth;
- 26 weeks in case of a multiple birth.

At least two weeks of the maternity leave has to be taken before the anticipated date of confinement.

In the farmer system a maternity allowance is only granted for a maximum period of eight weeks.

Care

No specific scheme has been foreseen.

Invalidity

Victims of long-term or permanent invalidity, unlikely to regain working capacity even after rehabilitation, are entitled to an invalidity pension. Self-employed people are compulsorily covered for invalidity. One distinguishes

- total incapacity: in case the person is unable to perform any type of work; and
- partial incapacity: when the insured person is unable to perform his/her usual work but is still capable of a different, lower skilled job.

The invalidity is not defined in percentages or points but described as either 'total' or 'partial' according to remaining working capacity.

A minimum qualifying period is required for entitlement to the pension. The length of the period is related to the age of the insured person and amounts from 1 year of insurance (for persons younger than 20 years) to 5 years of insurance record (for persons older than 30 years). In the last case the five years of the contribution period must be falling in a 10 years period immediately preceding the occurrence of the insured risk.

The calculation in case of total incapacity pension is the same as the one used for the old age pension, with the difference that in this case account is taken as well of the hypothetical period ("oh"). The latter is the number of years short of 25 years' insurance between the insured person's age on submitting the claim and the age of sixty years. The formula is as follows: $R = kb \times (wpw \times os \times 1,3\% + wpw \times on \times 0,7\% + wpw \times oh \times 0,7\% + 24\%)$. The factors are explained under old age.

The partial incapacity pension amounts to 75% of the amount of the pension for total incapacity.

The reference earnings are equal to either the average wage over 10 consecutive years selected from the last twenty years, or the best 20 years of insurance.

The ceiling is 250% of the national average wage.

The minimum pension is defined as a fixed amount per month (PLN 530.26 in case of total incapacity and PLN 407.88 per month in case of partial incapacity).

The invalidity pension can be combined with other social security benefits (among which the pension awarded for an employment injury or occupational disease).

The pension is however suspended or reduced if the beneficiary exercises a professional activity. The amount of the reduction depends upon the earnings:

- earnings below 70% of the national average wage: no effect on pension;

- earnings between 70% and 130% of the national average wage: basic amount of the pension reduced by 24% (18% in case of partial incapacity pension);
- earnings over 130% of the national average wage: pension suspended.

The farmer's system provides an invalidity pension alongside similar principles. As explained under old age, the pension is composed of a contributory part and a supplementary part.

Old age

The traditional pension, based upon a pay-as-you-go system, is gradually being replaced by a mixed system that provides an earnings related benefit to all working population and is composed of two pillars, the first based upon redistribution, the second upon capitalization.

For the calculation of the pension, generally speaking, a differentiation is made between persons who were born before the 1st of January 1949 and those born after this date. For the first group the old pension scheme is still in place; the second group takes part in the renewed two-pillar pension scheme. For the further description of the pension scheme a distinction will consequently have to be made between those two groups of persons.

In order to open entitlement to an old age pension the insured persons (born before the 1st of January 1949, later on referred to as the "first group") will have to fulfil a qualifying period, which amounts to 20 years of (contributory and non-contributory) insurance periods for women and 25 years for men. An old-age pension can be drawn by persons with a smaller contribution period (15 years for women and 20 years for men), but in that case there is no guarantee of a minimum pension.

For persons born after 31st December 1948 (later on referred to as persons of the 2nd group), no minimum period is required as such to open entitlement; however for a guaranteed minimum pension an (contributory and non-contributory) insurance period amounting to 20 years for women and 25 years for men has to be fulfilled.

The retirement age is set at 60 years for women and 65 years for men. For the calculation of the pension, the amount of the reference wage and the number of insurance years are determining factors for the first group of persons. In the new system these factors are the amount of the remuneration that was subject to contributions throughout the insurance period and the age of the insured person at the time of the award of the pension (see as well below with regard to the early pensions and deferment of the pension).

The pension for the first group of persons is composed of the sum of the fixed basic pension amount and an amount which reflects the relation between the insured person's average wage during his or her career and the national average wage during the same period. More precisely the amount of the old-age pension is calculated using the following equation:

$E = kb \times (wpw \times os \times 1,3\% + wpw \times on \times 0,7\% + 24\%)$,
whereas the factors are:

- "kb": "Basic Amount" equal to the national average wage over the quarter preceding that during which the retirement, disability and survivors' pensions were last increased;
- "wpw": "Reference Wage Co-efficient" (showing the relation, as a percentage, between the average reference wage for the pension calculation period and the national average income during that period);
- "os": referring periods during which contributions were paid; and
- "on": periods during which no contributions were paid.

The reference income is either the average income over 10 consecutive years selected from among the previous 20 years, or the best 20 years of any insurance period. The ceiling being applied is 250 % of the national average wage.

For the persons of the second group the amount of the old-age pension is calculated by dividing the total pension assets accumulated by the average remaining life expectancy at the age of application for pension. The accumu-

lated capital being paid from social security contributions on an individual account is used as assets.

The minimum pension amounts to a fixed amount per month (530,26 PLN). The maximum pension amounts to 100% of the reference wage.

For persons of the first group the early retirement pension is granted in the following situations:

- women who are aged at least 55 years and having a qualifying period of at least 30 years;
- totally incapacitated persons may receive pension five years earlier if they have fulfilled the qualifying period requirements;
- persons working in unhealthy conditions or performing a specified type of work (as being officially listed): 5 years earlier (e.g. journalists, glass workers, rail workers), 10 years earlier (miners, persons working with lead, cadmium or asbestos, steel workers, pilots, divers) or 15 years earlier (wind instrument musicians).

For the persons of the second group no specific provisions are in place for drawing an early pension.

In case of deferment of the retirement the increased period of employment is being reflected in the pension formula. There is no maximum period being applied; all periods are taken into account.

The old age pension can be combined with earnings out of professional income. The old age pension is neither suspended nor reduced if the pensioner has reached the legal retirement age.

On the basis of the act of 26 April 2001 on agricultural structural pensions (in binding force since January 1st 2002), the right to an old age pension is granted to a farmer, owner or co-owner of an agricultural farm when he or she :

- reaches pensionable age (from 55 to 60 years for women and from 60 to 65 years for men);
- has been subject to the agricultural retirement and pension insurance for 120 trimesters;

- had agricultural activities as sole or main income source in a continuous period of ten years directly before requesting the structural pension;
- has ceased agricultural activities;
- has transmitted a farm of an area of at least 3 ha.

The transmission of the farm should be done by notary act or live contract to a person having agricultural qualifications. In case there are no candidates, the farm should be transmitted free of charge to the State Treasury Agricultural Agency. The amount of the pension equals to one and a half amount of the minimum old age pension. Entering an activity being subject to compulsory social insurance ceases the payment of the pension, whereas entering agricultural activities causes a definitive loss of rights to this pension.

Survivorship

Are entitled to a survivor's pension: the surviving spouse, the children, adopted children, stepchildren, grandchildren and other children depending on the insured person, and the parents (father, mother, father in law, mother in law) and adoptive parents of the insured person.

The deceased person should have been recipient of an old age or disability pension, or should have been fulfilling the conditions for award of either of these pensions at the moment of death. However, if the insured person died because of an employment injury or an occupational disease the pension is payable regardless of the length of professional activity.

The surviving spouse should be:

- aged 50 years or over, or
- totally incapable of work, or
- raising at least one child who is entitled to a survivor's pension or is under the age of 16 years (18 years if full-time student), or
- raising a disabled child entitled to a survivor's pension, without any age condition.

The insured person's own or adopted children are entitled to a pension, if they are:

- under the age of 16 years (25 years for full-time students), or
- totally incapable of work.

Other children provided for by the insured person, can receive a pension, if they had been living with the insured person for at least one year before his/her death, and are not entitled to a benefit in respect of the death of their own parents or if their own parents cannot provide them with sufficient means for subsistence.

Parents who are dependent on the insured person and fulfil the conditions laid down for widows or widowers are entitled as well upon a survivor's pension.

The pension amount depends on the number of recipients and is paid as a percentage of the old age or invalidity pension to which the deceased was or would have been entitled. The replacement rates are as follows:

- one entitled person: 85%;
- two entitled persons: 90%;
- three or more entitled persons: 95%. The amount is divided equally among all recipients.

The sum of all benefits paid to beneficiaries must not exceed 95% of the amount of the benefit that was or would have been payable to the deceased person. A minimum pension is guaranteed amounting to a fixed sum per month (530,26 PLN). In case the death is caused by an employment injury or an occupational disease, a pension amounting to 120% of the minimum survivor's pension should be guaranteed in any case.

In case of remarriage of the surviving spouse, the benefit is still being paid.

Orphans who lost both parents are entitled to fixed supplement to the pension.

A periodical survivors' grant is payable to widows or widowers who are not entitled to the survivors' pension and are without other resources. It is being provided for one year following the spouse's death or during participation in occupational rehabilitation courses for a maximum 2

years. A funeral grant (200% of the national average wage at the time of death) is provided to the person who paid the funeral costs for a pensioner or a member of his/her family.

The surviving members of the farmer are entitled as well to a pension which is built around the same lines as the old age pension.

Employment injuries and occupational diseases

Self-employed persons are on a compulsory basis covered in the employment accident and occupational disease scheme. Besides the preferential treatment in case of survivorship and health care (see concerned sections) it guarantees the self-employed person as well an income replacement when he or she is victim of work incapacity due to illness or accident that is related to the professional activities.

No waiting or qualifying period is applied for opening up the entitlement to the cash benefit. In case of short-term work incapacity the benefit is paid for a maximum of 6 months, extendable by 3 months where there is a possibility of resumption of work. The amount of the benefit is 100% of the reference wage, the latter being the average income over the three months preceding the first month of entitlement.

In case of long-term incapacity of work the level of incapacity is determined by a medical expert from the Social Insurance Institute (ZUS).

The same formula is used as for disability pension although the amount of the pension cannot be lower than:

- 80% of the basis for calculation in case of total incapacity
- 60% of the basis for calculation in cases of partial incapacity.

The pension amount cannot fall below 120% of the minimum disability pension.

The benefit cannot be accumulated with a disability pension or a survivors' pension.

In cases of accumulation permitted with the old age pension, the beneficiary can choose between:

- employment injury pension and 50% of the old-age pension, or
- old-age pension and 50% of employment injury pension.

Family benefits

The family benefits are integrated in a universal scheme financed by general taxation. The child must be residing in Poland and the beneficiary must be a Polish national and resident in the country. As such, no specific rules apply for self-employed persons.

Unemployment

In order to open entitlement to an unemployment benefit, the person should be insured for at least 365 calendar days during the 18 months preceding the day of registration.

Moreover it is required that the person is:

- permanent resident or refugee;
- involuntary unemployed;
- without work or payment;
- able and willing to work full-time;
- registered with the employment agency;
- aged at least 18 years;
- not entitled to a retirement or a disability pension; and
- not in receipt of a rehabilitation, sickness, maternity or child raising allowance.

The unemployed person is made subject to a six days waiting period.

The benefit is being means tested. More precisely it is looked at whether the person has a monthly income that is below 50% of the national minimum wage or not.

The unemployment benefit is paid monthly as a percentage of the “Basic Allowance” (BA; PLN 476,70 per month from 1.09.2001 to 28.02.2002). The percentage depends upon the length of economic activity before unemployment:

- 1 to 5 years of employment: 80% BA;
- 5 to 20 years of employment: 100% BA;
- more than 20 years of employment: 120%.

Under certain specified conditions the unemployed person can be entitled to an Early Retirement Allowance or an Early Retirement Benefit. The former benefit is linked to a minimum qualifying period during which work was being performed; the latter benefit is granted to unemployed persons who approach retirement.

Social protection of the self-employed

Country analysis

Bulgaria

Czech Republic

Estonia

Hungary

Latvia

Lithuania

Poland

Romania

Slovak Republic

Slovenia

Comparative analysis

General principles

The general system includes the pension insurance (covering old age, survivorship and invalidity), the sickness insurance (covering the risks related to short term work incapacity, being sickness, maternity and work related incapacity) and the unemployment insurance. With regard to the benefits, some minor differences occur in the field of sickness. In conformity with the new legislation on unemployment, which entered into force on March 2002, the self-employed are no longer compulsorily insured. However, they can still on a voluntary basis insure themselves for this risk. This new law also increased the contribution percentage for self-employed people (from 5% to 6%). More in general the contributions basis is being stipulated in a different way for employees and self-employed persons. For the former category contributions are being levied on the basis of their gross wage. The employer withholds directly the contribution from the wages. Self-employed declare themselves the gross income on the basis of which the contributions are being levied.

Are made subject to this system: employees and assimilated persons and all persons who are professionally active when they earn a yearly income which amounts to at least three monthly gross earnings. Other persons may enter (on a voluntary basis) the general social insurance system. This could refer amongst others to (self-employed) persons who earn a professional income below the fixed amount of three monthly gross average earnings.

Separated from the general social insurance system, the lawyers have run their own categorical system since 1978. The Lawyers' Insurance House is the body around which the administration of this categorical system is built. At present the system is in a period of reform. The statute determining the concrete conditions and procedures under which the social insurance rights can be granted and shaping the organisation and the function of the Lawyer's Insurance House, is under preparation. It is expected that the Statute of the Lawyer's Insurance House will be adopted and published by the end of 2002. Until then the social insurance entitlements for lawyers closely follow the principles that are in place in the general system.

The health care insurance and the family benefit scheme are of a universal type as they are applicable upon all persons legally residing in the country. As such no differentiation is made alongside the professional category to which one belongs. For the health care insurance, which is being financed amongst others by contributions, the self-employed group is being singled out again in order to determine the income basis. Contrary to the employees, this is not based upon a (fixed) gross wage but on the declared gross income made subject to taxation.

Financing

The financing, and more precisely the determination of the contribution amount, is carried out according to the regulations of the general social insurance system. Contrary to the employee, where the contribution burden is shared between employee and employer, the self-employed person pays the entire contribution on the basis of the declared income.

For the pension, unemployment and the sickness scheme, the monthly computation base of the individual social insurance contribution represents for the employees and assimilated groups, the gross individual salary that is paid out on a monthly basis. For the other categories (i.e. self-employed) the income basis upon which contributions are calculated is the gross monthly revenue that is being declared or specified in the social insurance contract. The revenue cannot be lower than a quarter of the monthly gross average revenue per economy. The computation base cannot exceed three times the monthly gross average salary per economy.

As to the payment terms for social security contribution for employees, payment has to be effectuated on the date established for paying the salary rights for the respective month, in the case of employers who monthly pay salary rights, but no later than the 20th of the month following the one for which payment is due; or the date established for paying the second fortnight, in the case of employers who fortnightly pay salary rights, but no later than the 20th of the month following the one for which payment is due. For the other (self-employed) categories the payment

term depends upon the professional group to which they belong:

- at the end of the month, for the respective month, in the case of sole shareholders, associates, partners, administrators, managers, members of a family partnership, persons carrying out an authorised independent activity and persons working for international organizations);
- at the latest on the dates settled through the statement or insurance agreement, in the case of land and forest owners or tenants, farmers, members of agricultural companies and persons carrying out activities in the recognised cultural institutions without labour agreement;
- at the date specified in the civil agreement but no later than 20 of the month following the one for which payment is due.

For sickness, maternity, old age, employment injury, invalidity, survivorship the contribution rates differ depending on the working conditions of the insured person (35%, 40%, 45%).

Within the social security legislation three work groups can be distinguished varying with the difficulty of the work performed:

- Group 1, which concerns persons performing most hazardous work like mining activities. The contribution for this group is 45%;
- Group 2, which concerns persons performing hazardous work, like construction work; the contribution for this group is 40%;
- Group 3, concerning persons performing normal work activities. The contribution for this group is 35%.

For unemployment, in conformity with the new legislation entered into force in March 2002, the self-employed pay 6% from the monthly income declared in the contract of insurance for unemployment risk (the old law provided for a contribution of 5%).

For health care the contribution is set at 7% of the gross income. In this universal system, the self-employed are singled out for the purpose of financing, as the

- “persons who have an income from carrying out professional activities on the basis of a liberal profession, intellectual property rights, an assignment, or renting; and
- persons who have an income from services and execution of works, delivery of goods, inventions and innovations, or an income that can be assimilated to one of the above mentioned activities”. The computation basis is the revenue declared for tax reasons and the contribution is to be paid together with the tax.

The family allowances are entirely paid on the basis of the state budget.

Health care and maternity (benefits in kind)

Self-employed are insured under the same universal health system as all the residents. No distinction is made between self-employed persons and employees. The dependent members of the self-employed person’s family are also insured.

Sickness and maternity (benefits in cash)

Are entitled to benefits for temporary working incapacity all the insured persons with a qualifying period of at least 6 months, realised in the last 12 months prior to the contingency. In the case of self employed persons however, this qualifying period amounts to 12 months of paid contribution in the last 24 months prior to the contingency. There are certain exceptions to the compulsory qualifying period, i.e. the insured persons whose temporary working incapacity was caused by employment injuries, occupational diseases, medical and surgical emergencies, tuberculosis and group A infectious and contagious diseases.

The employer pays the indemnity in a first period (beginning with the third day of temporary work incapacity). The length of this period depends upon the number of workforce the employer has and can range from a payment until the 7th day of work incapacity (employer with up to 20 employees) to a payment until the 17th day (employer with over 100 employees). In a second period the benefit is paid from the social insurance budget. For self-

employed people the allowance for temporary inability to work is not granted during the first 3 days. From the fourth day it is paid from the sickness insurance budget. However in case the work incapacity is caused by an employment injury or an occupational disease, the benefit is paid from the first day onwards (whatever the professional status of the worker).

The benefits are paid for a duration of (in principle) 90 days during one year.

When the temporary work incapacity is due to employment injury or occupational disease, medico-surgical emergencies, tuberculosis or infecto-contagious diseases, the indemnity is granted during the entire period of temporary work incapacity.

The total amount of the allowance for temporary inability to work is determined by applying a percentage of 75% on the computation base. The computation base of social security allowances is determined as the monthly revenues from the last 6 months, on the basis of which the individual social security contributions in the respective period were determined.

The allowance for temporary inability to work caused by an occupational disease, employment injury or work related accident, AIDS, cancer of any type and infectious diseases, amounts to 100% of the computation base.

If the contribution period is lower than 6 months the computation base of social security allowances is represented by the monthly revenues on the basis of which contributions were paid or, as the case may be, the monthly revenue from the first month of activity for which it was decided to pay the social security contributions.

A maternity benefit is provided to the insured person fulfilling the qualifying condition (see under sickness). During 126 days the insured person has the right to receive a maternity and confinement benefit amounting to 85% of the calculation basis (see sickness). In principle the maternity leave is provided for a 63 days period prior to the birth and the confinement leave for a 63 days period after birth. These leaves can be compensated between one

another according to medical advice and the option of the beneficiary.

A fixed amount (1 400 000 ROL) is also granted for each baby born alive; this is paid just once from the state budget.

Care

No specific treatment is being foreseen for the self-employed people.

Invalidity

Self-employed persons are principally entitled in the same manner as employees to the invalidity pension. Invalidity is defined as work incapacity, recognised by a medical commission, established by three invalidity grades

- 1st grade: total loss of work capacity, of self-helping capacity, and the need of assistance and care from another person;
- 2nd grade: total loss of work capacity, without necessitating the help of another person;
- 3rd grade: loss of at least half of work capacity, with the possibility for the insured to carry out a professional activity.

The minimum level of incapacity for work is 50%. The risk is covered for a period between the age of 16 and 62 for men or 58 for women.

In order to open entitlement the person has to prove a minimum period of contribution payment. The length of this period depends upon the category of age (amounting from 5 years for person less than 25 years of age to 25 years for persons over 55 years of age). The determining factors to calculate the amount of the pension are the degree of invalidity, the previous earnings and the length of service. This period is not necessary in case the long-term work incapacity finds its origin in an employment injury or in an occupational disease.

The calculation of the benefit is based upon the composition of the old age pension. However, when establishing the invalidity pension, the insured person receives a “potential qualifying period” determined as the difference between the full qualifying period and the qualifying period actually achieved.

The potential qualifying period cannot be larger than the qualifying period that the insured person could have achieved from the date of the contingency until reaching standard retirement age.

For the potential qualifying period the average yearly point is established, by dividing the number of points resulted from the adding up of the yearly scores achieved by the insured person within the qualifying period to the number of years corresponding to the complete qualifying period as stipulated by law. The calculation of the number of points is based on the gross monthly salary and the monthly average salary as announced by the National Institute of Statistics and Economical Studies. The calculation of the value of a pension point is based on a coefficient established annually by the act on the state social insurance budget from the gross average economy-wide salary (see under old age).

For the potential period granted to an insured who has a right to receive a pension for invalidity, the annual score is adapted to:

- 0,75 of the score for an invalidity of first grade, respectively for those with a very severe handicap;
- 0,60 of the score for an invalidity of second grade, respectively for those with a serious handicap;
- 0,40 of the score for an invalidity of third grade, respectively for those with an average (medium) handicap.

Old age

The self-employed are covered by the same compulsory old age and survivors insurance as for the employees.

In order to open entitlement to an old age pension a minimum period of membership amounting to 15 years of social insurance should be obtained. For drawing a full pension the applicant must fulfil cumulatively the condi-

tions regarding the standard retirement age and the minimum period during which the contributions were paid.

The legal retirement age for the standard pension is 60 years for women and 65 years for men. At least this is the standard retirement age, which is to be reached after a transitional period of 13 years starting from the 1st of April 2001. The retirement age at that moment was respectively 57 years for women and 62 years for men. Besides reaching the set age, the insured person should have fulfilled an insurance record amounting to 35 years for men and 30 years for women (standard period to be reached after a transitional period of 13 years calculated from the 1st of April 2001 onwards; on that date it was 25 years for women and 30 years for men).

The calculation of the old age pension is based upon a system of points awarded according to the gross monthly salary or income realised in every month of work and the average monthly gross salary as being communicated by the National Institute of Statistics and Economy Studies. The value of a pension point is calculated based on a coefficient established on an annual base by the law of the state social insurance budget, from the average gross economy salary.

The total amount of the statutory pension at the application date is computed by multiplying the annual average score that the person covered by social security achieved during the subscription period, with the equivalent of a pension point on the month of retirement.

The annual average score achieved by the insured person during the subscription period is determined by dividing the number of points that result from the sum of the annual scores of the insured person, with the number of years corresponding to a complete contribution period.

The monthly average score of the insured person is then determined by dividing to 12 the score resulted in the respective year from summing up the number of points achieved during each month. The number of points achieved each month is computed by relating the monthly individual gross revenue, which represented the computation base of the individual social security contribution, to

the monthly gross average salary from the respective month as being communicated by the National Statistics Commission.

As reference earnings one takes the average earnings over any 5 consecutive years in the last 10 years of economic activity.

The insured who exceeded the complete period of contribution with at least 10 years can apply for an early pension maximum 5 years before the standard retirement age. The amount of early retirement is established under the same conditions as the old-age pension. At the standard retirement age stipulated by law, the early pension becomes an old age pension and is thus recalculated.

The insured persons having full qualifying periods, as well as those who have surpassed the full qualifying period with up to 10 years can request early partial pensions at the earliest 5 years before the standard pension age. The amount of the partial early pension is established from the amount of the old age pension. However a diminution percentage for every month of anticipation is being applied (amounting from 0,5 to 0,05 for a period up to one year to a period between 9 and ten years). At the standard retirement age stipulated by the law, the partial early pension becomes old age pension and it is thus recalculated.

In principle it is not possible to defer an old age pension. On the other hand the old age pension can be cumulated with income gained out of professional activities.

Survivorship

In order to open entitlement to a survivors’ pension the deceased person should have been retired at the time of death, or at least fulfilled the conditions for receiving a pension. The deceased person must fulfil at the time of death at least the requirements of age and work seniority imposed for the 1st degree invalidity pension (see above under incapacity of work).

The surviving spouse should be at least 60 years of age and have been married to the deceased person for at least

15 years. If the marriage lasted less than 15 years but more than 10 years, the benefit is diminished with 0,5 % for each missing month, respectively 6,0 % for each missing year of marriage. The pension is granted as well:

- if the surviving spouse is invalid of the 1st or 2nd grade (see invalidity above) and if the length of marriage is at least 1 year;
- when the death of the insured was caused by an employment injury, occupational disease or tuberculosis and the surviving spouse does not have a monthly income for which one is mandatory insured or the income is less than $\frac{1}{4}$ of the average gross salary per economy; or
- when the surviving spouse is not working at the time of death and cares for one or more children, aged less than 7 years.

Those who do not fulfil these conditions receive the survivors' benefit for up to 6 months (until one is employed).

The children of the deceased person receive pension until the age of 16 years, prolonged to 26 years in case they are full-time students. The benefit is paid without any limit as long as the child is disabled. In case the orphan children lost both parents, they get the total amount of the benefits they could have from them.

The calculation basis of the benefits for the surviving spouse and for the children is the deceased's pension or the one the deceased would have been receiving. The amount of the pension is determined by multiplying the average monthly score realised by the insured person (see under old age) in the qualifying period with the value of a pension point. Further on a percentage is applied on the average score depending on the number of surviving beneficiaries (50% for a single survivor, 75% for two survivors and 100% for three or more survivors)

Employment injuries and occupational diseases

Self-employed people are entitled as well to the specific rules developed for the risks and the injuries, which find their origin in an employment injury or in an occupational disease. The additional coverage relates to a lower quali-

fying period, higher amounts of benefits and more flexible entitlement conditions as being described in the respective survivorship pension, sickness and invalidity benefits.

Family benefits

The regulations of the general system apply to the self-employed, too. As such no specific treatment is being foreseen.

Unemployment

Social protection in case of unemployment does exist for the self-employed people in a similar manner as for the employees. Both groups were compulsorily insured for this risk up till March 2002. From that period onwards, the self-employed people can enter the scheme on a voluntary basis (paying a 6% instead of the previous 5% contribution calculated on the income basis).

In order to be entitled to the benefit, the person should be registered at the unemployment offices, be fit for work, having a work record of 12 months in the last two years before the grant of the benefit, having stopped the professional activity and/or having given up the operational license, and having no income. In conformity with the old law on social protection of unemployed persons, the persons who had in possession or shared with their families a certain surface area (a), or had an income of at least the equivalent of half of the minimum basic net national salary (b) could not benefit from the unemployment allowance. These conditions are not maintained in the latest version of the law; now it is stipulated that the person concerned cannot have an income out of work (that accounts to the level of the unemployment benefit).

Unemployment benefit is paid for 270 days as a percentage of reference income depending upon the length of service:

- 1 to 5 years of work: 50% of reference salary;
- 5 to 15 years of work: 55% of reference salary;
- 15 years + of work: 60% of reference salary.

Minimum: 75% of the national minimum net salary.

Social protection of the self-employed

Country analysis

Bulgaria

Czech Republic

Estonia

Hungary

Latvia

Lithuania

Poland

Romania

Slovak Republic

Slovenia

Comparative analysis

General principles

Self-employed people are for social security purposes integrated into the general systems. In the Slovak Republic no specific categorical systems for self-employed have been introduced. For the traditional social insurances - pension insurance (covering old age, survivorship and invalidity), sickness insurance (sickness and maternity) and unemployment insurance -, wage earners and self-employed people are part of the same general social security system. However, with regard to these social insurances it is meaningful to differentiate between employees and self-employed persons, as specific rules are in place for both categories. The same goes for the rules related to the financing. In the area of state social benefits and social assistance (i.e. the chapters dealing with family benefits and guaranteeing sufficient resources) social security is provided regardless of the fact, whether the recipient is a self-employed person or belongs to another category of population. As such the term of self-employed person does not occur in the arrangement of these areas. The same goes for the health insurance which is of a universal type.

The social security of self-employed persons and employees is generally congruent; the existing differences will be described below. Here it can be mentioned already that self-employed people are structurally speaking not part of the scheme dealing with employment injuries and occupational diseases. Another structural difference concerns the nursing of a family member, an activity for which employees, but not self-employed persons, can claim a financial compensation.

For the application of some social insurance schemes the participation of self-employed persons with low income (below 100 000 SKK per year) is not obligatory. This implies that the self-employed is not obliged to contribute to this type of insurance, as well as it means that in the case of an insurance event the person cannot claim the relevant benefit. However, in all of these cases voluntary participation of a self-employed person on the individual types of insurances is possible.

Financing

In general, the health care insurance scheme and the social insurance schemes (related to sickness and maternity cash benefits, invalidity, old-age and survivors pensions, and unemployment benefits) are financed from contributions that are being paid by the self-employed, co-operating persons, employees, employers, etc. These systems however are also subsidised by the state. Systems of family benefits and guaranteeing sufficient resources (social assistance) are financed fully from the state budget.

Self-employed people pay themselves on a monthly basis the contributions directly to the competent administrative bodies.

The assessment base upon which the contributions are being calculated is for the self-employed person 50% of the average monthly gross taxable income over the previous year.

Some self-employed groups however enjoy a flat-rate income tax. More precisely self-employed are entitled to pay flat-rate income tax if they gain income as independently working farmer or trader (except for some activities enumerated in the law on income taxes), their income did not exceed a certain amount (2 000 000 SKK) over the previous year and they are not registered as VAT or consumption tax payer. As a consequence the assessment basis for social security purposes is being adapted for those groups. It is as follows:

- one sixth of the flat-rate income tax (minimum 4000 SKK per month) for the pension insurance (invalidity, old age and survivorship) and the sickness and maternity insurance (cash benefits);
- for the health insurance this is a determined sum of which the amount depends upon the income earned the year before (a voluntarily determined sum, minimum 4000 SKK per month, if the self-employed has an income below 500 000 SKK per year; 5000 SKK per month, if he/she has an income from 500 001 SKK to 1 000 000 SKK per year, and 6000 SKK per month, if he or she has an income from 1 000 001 SKK to 1 500 000 SKK per year);

- voluntarily determined sum (minimum 3000 SKK per month) for the unemployment insurance.

The assessment base of co-operating persons for health insurance is 50% of average monthly taxable income over the previous year. For the pension (old age, invalidity and survivorship), sickness (short term incapacity for work and maternity) and unemployment insurances the assessment base of the co-operating person is a voluntarily determined sum (minimum 4000 SKK per month and 3000 SKK for the unemployment insurance).

The contribution rates are in principle not differing between employees and self-employed and amount to:

- 28% for the pension insurance (old age, survivorship and invalidity);
- 4,8% for the sickness insurance (sickness and maternity cash benefits);
- 14% for health insurance;
- and 3% for the unemployment insurance is 3%.

There are no specific rules in the field of contributions for self-employed in financial problems.

However for self-employed persons who start up their business a specific assessment base is being used:

- a voluntarily determined sum (minimum 3000 SKK per month) for health insurance;
- a voluntarily determined sum (minimum 4000 SKK per month) for pension (invalidity, old age and survivorship) insurance and sickness and maternity (cash benefits) insurance; and a
- voluntarily determined sum (minimum 3000 SKK per month) for unemployment insurance.

Health care and maternity (benefits in kind)

The health care system in place does not differentiate between the self-employed and other categories of the population. The general system is in the same way applicable upon the self-employed.

Sickness and maternity (benefits in cash)

In order to open entitlement to a sickness benefit, the insured has to make proof of contribution payment and he/she should be declared by a medical doctor to be temporarily incapable to work due to illness, injury or the nursing of a family member.

The amount of the benefits for self-employed people is during the first 3 calendar days 70% of the average daily assessment base; thereafter it becomes 90% of average daily assessment base. The maximum benefit for self-employed people is set lower (250 SKK per month) than for employees (350 SKK per month). For employees the replacement rates are applied upon their net daily wage.

The benefit is paid during the illness or injury with a maximum of 1 year.

Contrary to the employees, self-employed people are not entitled to the specific sickness benefit that can be enjoyed for taking care of a sick relative.

The entitlement conditions for the maternity benefit are:

- 270 days of participation in sickness insurance system over the two years before confinement,
- loss of earnings, and
- a childbirth or taking substitute care of a child (in the event of substitute care, the benefit is also available to a man, all other conditions being met).

The maternity benefit is paid during:

- 28 weeks, with 4 to 6 weeks, which have to be taken before delivery;
- 37 weeks in case of a single mother or multiple births;
- 22 weeks in case of substitute parental care (which can go up to 31 weeks in case of a single parent or multiple births)

If the child dies, the period is shorter, but no less than 14 weeks and it cannot terminate during the period of 6 weeks after delivery.

Only employees can enjoy the so-called “equalisation allowance” during pregnancy and maternity. This allowance is paid when the worker is being transferred to another job due to the pregnancy and as consequence of this transfer has a reduction in earnings.

Care

No specific scheme in place.

Invalidity

In order to open entitlement to an invalidity pension a minimum level of work incapacity should be attained. Generally one differentiates “full” invalidity from “partial” invalidity.

A person is fully invalid if, as a result of long-term adverse health conditions, he/she is unable to engage in regular employment, or he/she is only able to engage in systematic employment under very special circumstances (i.e. they require very specialised equipment or an adapted working environment).

A person is partially invalid if due to prolonged injury or health distress, his/her physical or mental capacity for work falls below half that of a healthy person, with as consequence that he/she is only able to perform his/her current occupation or any other permanent job with specialised equipment or in an adapted working environment; more in general it affects all persons of whom general living conditions have considerably worsened.

A “full” invalidity pension is provided from the first day of the month in which invalidity is diagnosed for as long as the state continues or until the granting of old age pension. The payment of a “partial” invalidity pension is limited to 12 months. After that period the pension is continued to be paid if the earnings are lower than 1/3 of those earned before reduced capacity.

The minimum period of affiliation for entitlement for both “full” invalidity and “partial” invalidity amounts from 1 year (for a person aged less than 20 years) to 5 years (for a

person aged more than 28 years). For those older than 28 years their period of employment must have been completed in the ten years prior to the development of the invalidity.

Determining factors for the amount of benefits are the period of employment added with the period which separates the moment at which the invalidity occurs from the retirement age (the “calculation period”) and the “risk category” of the work performed. As will be mentioned under old age the risk category depends upon the nature of the work which has been performed.

“Full” invalidity benefit is paid to those with a calculation period of at least 25 years (i.e. years of employment plus years remaining to retirement age) and amounts for

- risk category 1: up to 60% of reference earnings plus a supplement of 2% for each year from the 21st year of the calculation period (up to a maximum supplement of 30%);
- risk category 2: up to 55% of the reference earnings plus a supplement of 1,5% for each year from the 21st year of the calculation period (up to a maximum supplement of 25%);
- risk category 3: up to 50% of reference earnings plus a supplement of 1% for each year from the 26th year of the calculation period (up to a maximum supplement of 25%).

If the calculation period amounts to less than 25 years, the pension is calculated as 2% of the average monthly gross earnings of each insurance year.

“Partial” invalidity benefit is defined as 50% of the full invalidity benefit.

As reference earnings for calculating the benefit is taken the average monthly gross earnings over the best five non-consecutive years in the last 10 years. Up to 10 000 SKK these earnings are taken into account as follows:

- up to 2500 SKK: 100 %;
- from 2500 to 6000 SKK: 33,3%;
- from 6000 to 10000 SKK: 10%;
- over 10000 SKK: disregarded.

The minimum pension is set at a fixed amount (550 SKK per month). The maximum pension is defined in the same way as the maximum benefits for old age. Besides income replacement other forms of compensation for reduced ability to fulfil basic domestic needs are foreseen as well, such as home care service and institutional care.

Old age

The main entitlement conditions for drawing an old age benefit under the pension insurance are built around the period of membership and the retirement age. In order to receive a “full” pension the person concerned has to show an employment record of 25 years. For a “partial” pension this is 10 years for men, 20 years for women. In order to be entitled to a pension the legal retirement age should have been reached as well. For the “full” pension this age depends upon the risk category of occupation to which one belongs and the number of years one has worked in this category. The following categories are being discerned:

- First category: occupation under very risky working conditions (e.g. miners, pilots, mariners, divers, workers in foundries, in nuclear power stations and in heavy chemical workings);
- Second category: jobs involving strenuous working environments or procedures;
- Third category: all other jobs.

For risk category 1 the retirement age ranges from 55 to 58 years of age depending upon the number of employed years in this category. For the other two categories the age is put at 60 years.

For women who raised children, special rules are in place, which bring down the retirement age in relation to the number of raised children (e.g. 53 years of age when having raised five or more children).

The retirement age for a “partial” pension is for men set at 65 years, for women at 60 years.

For calculating the pension benefits, the determining factors are the duration of employment (insurance) and the working risk category.

The calculation method or pension formula is the following:

“Full” pension of:

- Risk category 1: 60% of reference earnings plus a supplement of 2% for each year from the 21st year of employment (up to a maximum supplement of 30%) or without restriction;
- Risk category 2: 55% of reference earnings plus a supplement of 1,5% for each year from the 21st year of employment (up to a maximum supplement of 25%);
- Risk category 3: 50% of reference earnings plus a supplement of 1% for each year from the 26th year of employment (up to a maximum supplement of 25%).

“Partial” pension: 2% of average monthly earnings for each year of employment and 4% for each extra year worked after the entitlement to the partial pension took place.

Reference earnings used as calculation basis are the average gross monthly earnings for the best non-consecutive five years during the preceding period of ten years. These earnings are taken into account as follows:

- up to 2500 SKK 100%;
- from 2500 to 6000 SKK 33,3%;
- from 6000 to 10000 SKK 10%; and
- over 10000 SKK disregarded.

The minimum pension is normatively set at a defined amount (550 SKK per month). The maximum pension depends upon the risk category to which one belongs.

It is possible to defer one’s retirement. The “full” pension can be increased with 6% of reference earnings for each additional 360 calendar years of employment (or 1,5% for 90 days) up to the amount of the maximum pension.

Once entitled to an old age pension it is possible to continue professional activities. Accumulation of earnings from self-employed activity and an old age pension is possible without any restrictions.

Survivorship

Survivor’s pension is only paid to the widow and the orphan. The widower receives a flat rate benefit.

In order to open entitlement to a widow’s pension, the (deceased) person must have been insured as an employee or self-employed person. In case of a widow(er)’s benefit and orphan’s benefit there is no compulsory insurance required. These benefits are available to all citizens.

The pension is paid to the person who was married to the deceased at the time of his death. The duration of the benefit is one year and continues after this only if:

- she is an invalid,
- or has at least one dependent child,
- or raised at least 3 children,
- or reached the age of 45 years and raised 2 children,
- or reached the age of 50 years,
- or is over 40 years old and her husband died as a result of an employment injury/ occupational disease while performing work in Risk category 1.

The last situation does not apply upon self-employed persons as they are not covered for employment injuries and occupational diseases. In case of remarriage the pension terminates.

The divorcee is entitled to a pension only if she is in receipt of alimony from the deceased.

A widower's benefit is granted to the surviving husband only if he takes care of at least one dependent child. Surviving children must be a citizen and a dependent child of a deceased parent. The age limit is set at 25 years. The entitled children include adopted children as well.

The pension is determined as 60% of the deceased's pension or of the pension to which he would have been entitled at the time of death.

In case of a divorce, the pension calculation is the same but the amount cannot exceed the former alimony.

The widower's benefit is set at a fixed rate (2116 SKK per month).

Orphan children having lost one parent are entitled to 30% of the (old-age or invalidity) pension to which the deceased parent was entitled at the time of death. In case of having lost both parents the replacement rate increases to 50% of the old-age or invalidity pension(s) to which the deceased parents were entitled at the time of death.

The maximum for all those entitled to benefits is 100% of the sum of the pension to which deceased person was entitled at time of death.

The minimum pension is 450 SKK per month. The orphan's benefit (one parent) is at least 400 SKK per month and is 600 SKK per month in case of loss of the two parents.

Employment injuries and occupational diseases

The scheme for employment injuries and occupational diseases is only applicable upon employees and does not cover those performing self-employed activities.

Family benefits

The family benefit scheme is of a universal type and covers all persons permanently residing in the country. The benefits are provided directly by the state and are means tested. Both the entitling child and parent should be permanent (or at least during a certain defined period) residing in the country. The family income should be falling as well below a defined amount (2,1 times the subsistence minimum). As such no specific rules apply for the self-employed.

Unemployment

The unemployment insurance covers both employees and self-employed people who put an end to their professional activities. Main conditions are no employment relationships or self-employed activity, and a registration at the Labour Office. To open entitlement at least 24 months (6 months for seasonal workers) of paying contributions to the unemployment insurance during the last 3 years is

required. If unemployment is taking an end due to a new employment, contributions must have been made for 6 months before entitlement to the benefit is regained.

The main factor for determining the unemployment benefit are the gross earnings. The assessment basis used for calculating the benefit is the average income over the period of six last months. For some categories the reference income is set at a defined level (3000 SKK per month). More precisely it concerns the following groups:

- those with less than six months of paying contributions,
- the persons finishing military service,
- the persons who were caring for a child, and
- the disabled persons and recipients of sickness or invalidity benefits.

The maximum ceiling used for calculating the assessment basis is 1,5 times the subsistence minimum paid to an adult (5685 SKK per month).

The first three months a benefit of 50% of the assessment basis is paid; for the remaining period the replacement rate decreases to 45%. The benefit is paid during 6 months when the insured paid contribution for a period of up to 15 years. In case the reference period is longer, the benefit will be paid during 9 months.

If an unemployed person terminated the last employment relationship or self-employed activity without important reason, the duration of payment of the unemployment benefit will be halved. This is a kind of sanction for those who have their earnings from an employment relationship or from a self-employed activity and terminated this activity without serious reason. The situation when an average monthly taxable income over the previous year from self-employed activity was below a certain amount (9000 SKK) is e.g. considered as an important reason for termination of self-employed activity.

Social protection of the self-employed

Country analysis

Bulgaria

Czech Republic

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Hungary

Latvia

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Slovenia

Comparative analysis

General principles

The self-employed and farmers were fully integrated after 1983 into the general public pension insurance scheme (covering old age, long term incapacity for work and survivorship) and into the general health insurance scheme (covering health care and short term incapacity of work). They are compulsory insured if their earnings attain a fixed minimum level (linked to the yearly statutory defined minimum salary).

In principle self-employed persons build up equal rights in the social security system as the employed persons. The main differences are related to the insurance rating base that is the basis for the calculation of both contributions and the amount of the pensions and other earnings replacement benefits. Besides this, the self-employed are not insured on a mandatory basis for unemployment. They can enter the scheme on a voluntary basis.

For farmers, specific rules have been implemented with regard to their access to the compulsory insurance. If their earnings do not attain the fixed minimum level, they still have the option to join pension and invalidity insurance on a voluntary basis. They even have the possibility to insure themselves for a narrower scope of benefits and pay consequently lower contributions. The reduced (voluntary) insurance focuses upon the pension and leaves aside all additional allowances paid on top of the pension amounts (see under old age, survivorship and invalidity). With regard to the health insurance a lower threshold for compulsory insurance is set for farmers. In general the compulsory insurance of farmers in both the pension and the health care insurance, depends on the government rules related to the anticipated cadastral income. The higher the threshold, the fewer farmers shall be obligatory insured.

The family benefits and (means tested) social assistance benefits are organised in a universal way covering in principle all legally residing persons in the country. Self-employed and farmers are entitled to family benefits and means tested assistance cash benefits, if they fulfil the conditions.

The recent Pension and Invalidity Insurance Act (December 1999) introduced an individual and collective supplementary pension to which one can adhere on a voluntary basis. Self-employed and farmers have the option to join this second tier on an individual basis.

Financing

The pension and invalidity insurance, health insurance and parental (maternity) insurance are financed by contributions paid by insured persons and employers.

The insurance rating base for self-employed and for farmers is defined in Pension and Invalidity Insurance Act from 1999. The basis is determined according to the achieved profits of the insured person, exclusive of the paid contributions for compulsory insurance of the insured person and the tax base reductions pursuant to the law regulating income tax.

According to the amount of achieved profit in comparison with the annual statutory defined minimum salary or minimum pension rating base, 7 categories of minimum insurance rating basis are defined. The lower base is the minimum salary and the highest is the maximum pension-rating base (for calculation of pension) for employed persons, defined by the law. The insured person must choose the minimum rating of the category he/she belongs to, but has the option to choose a higher rating base, but not higher than the maximum base. Contrary to the self-employed no ceiling is being applied upon the income of the wage earners to calculate the contributions. For the employees the income basis is the wage they receive from the employer.

There are two contribution rates: insured person's contribution and employer's contribution. The self-employed have to pay both contributions. For some top performers in the domain of art and culture, the ministry for culture pays contributions. Farmers pay the contribution of the insured persons; the contribution of the employer is paid by the state.

The contributions paid by the self-employed from the insurance rating base are:

- for old-age, survivors, invalidity pension and other benefits and allowances: 24,5%;
- for health insurance: 12,2%;
- for parental insurance (maternity benefits): 0,2%.

Contributions paid by farmers from the insurance rating base are:

- for old-age, invalidity, survivors pension and other related benefits and allowances: 15,50%;
- for health insurance: 6,36%;
- for parental insurance: 0,2%.

Self-employed and farmers who, due to economic problems, are not able to pay the contributions, may ask to be exempt from pension and invalidity insurance. Exemption is possible provided that the monthly tax rating base for the activity he/she is engaged in is lower than the amount of one half of the statutory defined minimum salary in the period of the last 6 months prior to his/her assertion for exemption from insurance. The self-employed person still has to pay contributions for the restricted insurance (employment injuries and occupational diseases), which amounts to 0,53% of the income basis. The farmer has an option to do so.

Self-employed and farmers can combine their activities with employment. If they work more than half-time in an employment relationship, they do not have the obligation to be insured and pay contributions as self-employed or farmers.

Spouses, children and other persons co-operating with the self-employed person or farmer can join insurance as employed persons or as self-employed or farmers, depending upon their labour status.

In case the self-employed persons opts for a voluntary insurance in the unemployment scheme, a contribution amounting to 0,20% of the insurance basis has to be paid. The unemployment scheme is financially supported by state subsidies as well.

Family benefits are financed entirely from general taxation means.

Health care and maternity (benefits in kind)

Self-employed and farmers, who have the status of insured persons in compulsory health insurance and their family members, have the same rights under the same conditions, as employed persons. They have entitlements to:

- health and medical services;
- medical rehabilitation services;
- pharmaceutical products, and
- orthopaedic and other medical and technical equipment.

Sickness and maternity (benefits in cash)

Self-employed and farmers are entitled to sickness benefit from the 31st day of continuous incapacity for work. The Health Insurance Institute pays the benefit. As a comparison, the first 30 days of an employed person's absence from work are covered for by the employer. The basis for the calculation of the benefit is the insurance rating base from which the contributions are paid.

Benefit amounts are calculated as a percentage of the recipient's average monthly gross income in the calendar year prior to that in which the absence occurs. The benefit amounts to:

- 100% for occupational diseases, industrial injuries, the donation of tissue, organs or blood, quarantine, war invalids and civilian invalids of war;
- 90% for illness;
- 80% for an injury unrelated to work, nursing of an immediate member or accompanying family as a sick person, if prescribed by a physician.

The benefit may be no less than a defined amount ("Statutory Reference Amount" as being used for general non-contributory minima in the social assistance field) and no higher than the gross income the beneficiary would receive if he/she was working.

The benefit is paid until recovery or entitlement to invalidity benefits. Sickness benefit for nursing an immediate family member is paid normally during 7 working days; it can be increased up to 15 working days for children up to 7 years of age and mentally or physically disabled children. Extension of the duration is possible in severe cases.

Self-employed and farmers who have the status of an insured person (not a family member) have the same rights to maternity (cash) benefits as employed persons. They have to pay contributions from the insurance rating base from which they pay contributions for pension and invalidity insurance.

On the ground of parental care insurance the persons are entitled to:

- maternity benefit for 105 days (28 days obligatory before the anticipated date of confinement);
- paternity (fathers') benefit for 90 days, 15 days obligatory during the maternity leave (to be phased in gradually from 1.1.2003);
- child's care benefit for mother or father for 260 days (after the maternity benefit), with prolongation in special cases (entitled mother or father, if both are insured);
- adoptive parents benefit for 150 days for a child aged from 1 to 4, 120 days for a child aged 4 to 10 (entitled mother or father, if both are insured).

The benefits are in most cases calculated as 100% of the insurance rating base from which contributions are paid. There is a minimum and maximum amount of the benefit defined by the law.

Mothers who are not entitled to maternity and child's care benefit as insured persons, are entitled to parental allowance in a fixed amount for 365 days after the birth of the child. This allowance is paid by the family benefit scheme.

Care

The long-term care benefits are included in the Pension and Invalidity Insurance Act and the Social Protection

Act. No specific treatment is being foreseen for the self-employed people.

Invalidity

The rights to the invalidity pension and other benefits on the ground of invalidity are regulated in Pension and Invalidity Insurance Act from 1999. According to the law, invalidity is related to the remaining capacity of the insured person, to work in one's previous occupation or in the profession one was trained for. For the self-employed and farmers the capacity is assessed in relation to the activity on the grounds of which the person concerned has been insured or to one's profession.

In general (work) invalidity is defined as an impaired capacity for work and incapacity to continue working in previous or other adequate occupation as a result of an employment injury or occupational disease or as a result of an injury or illness unrelated to work, and which is irreversible by treatment or by medical rehabilitation.

Recipients are classified into three categories of invalidity (valid from 1.1.2003):

- Category I: if an insured person has lost the capacity to engage in organised gainful employment or has lost the remaining capacity for work, in case one suffers from occupational invalidity;
- Category II: if an insured person's capacity for work in the occupation one was trained for is impaired by 50% or more;
- Category III: if an insured person, either with or without occupational rehabilitation, has lost the capacity to work full-time, but is capable of working in a certain job on at least a half-time basis, or, if an insured person's capacity for work in the occupation one was trained for is impaired by less than 50%, or if one can continue to work in one's occupation on a full-time basis but has lost the capacity for work at the job to which one had been assigned prior to invalidity.

No qualifying period is required if the invalidity is caused by an employment injury or occupational disease. Otherwise the minimum period of insurance depends upon the

age, which the insured person had on the moment the invalidity emerged.

For the calculation one takes into account the “actual pension qualifying period” and the “added qualifying period”. The “actual pension qualifying period” is equal to the years of service that the insured person has actually completed prior to the occurrence of invalidity. The “added qualifying period” is a fictitious qualifying period to be taken into account in the assessment of rights if an insured person did not reach the age of 63 (men) or 61 (women) prior to occurrence of invalidity.

The amount of invalidity pension is assessed according to Pension Rating Basis in basically the same manner as is done for the old age pension, but is for this purpose related to the cause of the invalidity occurred and the total sum of actual qualifying period and added qualifying period. In case of a work related invalidity the entitlement criteria and the calculation of the pension are favourably stipulated.

For the self-employed and farmers there are special rules in the Pension and Invalidity Insurance Act. They have equal rights as employed persons in the case of occurrence of invalidity of category I or of category II. In case of the occurrence of the category III invalidity the self-employed and farmers only have the right to work part-time and to receive partial invalidity pension, but they are not entitled to professional rehabilitation and earnings compensation rights, to which employed persons are entitled and which are provided in most cases by the employer.

The partial pension is calculated from the basis of the invalidity pension to which the insured person would have been entitled if the person were Category I invalid, in a percentage equivalent to the difference between the full time work and the duration of the part time work recognised to the invalid person. For instance, if part time work covers 60% of the full time, the partial pension would amount to 40% of the invalidity pension to which the insured person would have been entitled. Self-employed persons who are partially invalid can combine within defined limits their pension with part-time activities.

Further on, self-employed have - in the same way as employees - access to the means-tested supplementary allowance (see under old age), the disability allowance and the nursing allowance.

The disability allowance covers physical impairment inhibiting one's basic needs. It is being awarded to those who are working or receiving a pension regardless of whether this injury causes reduced working capacity. The amount of disability allowance depends on the cause of physical impairment (work related or unrelated) and its degree.

The nursing allowance is being accorded to the recipients of old age, early retirement, invalidity and survivor's pension, lawfully residing in Slovenia, in case they need constant assistance and attendance of another person to satisfy their vital necessities.

Old age

The Pension and Invalidity Insurance Act from 1999 introduced some important new provisions related to the criteria and the calculation of the pensions; they shall be phased in gradually over a long transitional period.

With regard to old age the compulsory insured self-employed and farmers are entitled to the same kind of benefits, as employed persons, if they fulfil the same statutory conditions.

Minimum conditions for acquisition of the right to old-age pension are:

- 65 years (men) and 63 years (women) when an insurance period of 15 years has been fulfilled;
- 63 years (men) and 61 years (women) when 20 years of pension qualifying period have been fulfilled;
- 58 years when 40 years for men and 38 years for women of pension qualifying period have been fulfilled.

The pensionable age can be lowered to minimum 58 years for men and 56 years for women by virtue of child-upbringing.

In order to calculate the pension the following “earnings replacement system” is being used:

- men: 35% of the “Pension Rating Basis” for 15 insurance years plus 1,5% increase for each additional year of qualifying period;
- women: 38% of the “Pension Rating Basis” for 15 insurance years: plus 1,5% increase for each additional year of qualifying period.

There is no upper limit applied for the percentage.

The pension is paid when professional activities and/or contribution payment has been seized and when the retirement conditions are being fulfilled.

The Pension Rating Basis (PRB) is the monthly average earnings in any consecutive 18 year period (phased-in gradually to be reached on 2008; 12 years in 2002) of insurance following 1 January 1970, whichever is the most favourable for the insured person. Calculation of the PRB is based on earnings (net of tax and other contributions) upon which pension contributions have been paid. The minimum and maximum pension rating basis is determined by law and calculated and published by the Institute for Pension and Invalidity Insurance.

The pension amount is being reduced in case of retirement before the full retirement age of 63 (men) and 61 (women). An increase of the pension amount is granted in case of continuation of employment after 63/61 years of age. Some specific rules increasing the percentage for the calculation of the pension exist as well for men with 40, respectively women with 38 working years.

Within defined limits earnings from work can be deducted from the pension.

An insured person who has fulfilled the conditions for entitlement to old-age pension may acquire the right to a partial pension if he/she is working on a half-time basis. Partial pension is equal to half the old-age pension to which he would have been entitled, had he retired completely.

An insured person entitled to old-age pension is guaranteed the minimum pension in the amount of 35% of the minimum pension rating base.

A supplementary allowance is granted to recipients of a (old-age invalidity, survivor's) pension with permanent residence in Slovenia, whose pension does not attain the amount determined by law, if they and their family members do not have other income that would be sufficient for subsistence.

The amount depends on completed pension qualifying period for old age or invalidity pension and on the number of recipients for survivor's and widow/er's pension.

Survivorship

Survivors of self-employed and farmers are entitled to the same kind of pensions and benefits as survivors of employed persons. The basis for calculation of a survivor's pension is the old-age or invalidity pension to which the deceased insured person would be entitled.

The surviving spouse is entitled to "widow/er's pension". This pension is granted as well to the unmarried partner, who lived with the deceased at least three years before his death. The divorced spouse can be entitled to a pension as well provided that alimony was being received before the deceased spouse's death.

More precisely the surviving spouse is entitled:

- if one has reached 53 years at the time of the spouse's death;
- if one has reached at least 48 years at the time of spouse's death (in which case the payment is postponed until one reaches the age of 53 years);
- irrespective of age, if completely incapable of work at the time of the spouse's death or if such physical state emerged within a year after the spouse's death;
- irrespective of age if left with a child who is entitled to survivor's pension and the mother/father has to provide for them by virtue of the law;
- if aged 48 or over and not insured in pension and invalidity insurance (i.e. not employed or active) at the time of the spouse's death, or

- if one is aged between 45 and 48 years and not insured (in which case the payment is postponed until he/she reaches the age of 48 years).

The widow is entitled if she gives birth to the child of the deceased not later than 300 days after the death.

The unmarried partner is entitled

- if one has spent the last three years prior to the death of the insured person in an unmarried partnership with the said insured person, or
- if one cohabited in the unmarried partnership with the insured person for the last year prior to the death of the insured person and had a common child with the insured person at any time.

The natural and adopted children are entitled to a "family pension" till the age of 15 (prolonged to 18 years if unemployed and registered at the employment office and 26 years in case of regular studying). No age limit is applied if the child is totally incapable for work.

Entitled are as well grandchildren and other children without parents, parents, stepparents and adoptive parents and brothers and sisters when they were maintained by the deceased at the time of death. For the latter group (brothers and sisters) it is looked also at whether they have insufficient personal means.

The deceased person should have fulfilled the following conditions to open entitlement to the survivorship pension:

- completion of at least 5 years of insurance period or at least 10 years of pension qualifying period; or
- fulfilment of conditions for entitlement to old-age or invalidity pension; or
- in receipt of old-age or invalidity pension or the recipient of rights on grounds of invalidity.

In case of death due to an employment (industrial) injury or occupational disease, no pension qualifying period is required.

The "widow(er)'s pension" amounts to 70% of the deceased's pension (old age or invalidity) or the pension

to which the deceased would have been entitled at time of death.

The survivor's "family pension" is assessed according to the deceased's pension (old age or invalidity) or the pension to which the deceased would have been entitled at time of death and the number of family members entitled to such pension. In the event that only members of the nuclear family (children, adopted children) or only the members of the extended family (stepchildren, grandchildren and other orphaned children, brothers and sisters, parents and adoptive parents) are entitled to survivor's pension, the following is assessed:

- for a single member: 70%;
- for two members: 80%;
- for three members: 90%;
- for four or more members: 100%.

In case both members of the nuclear and the extended family are entitled more elaborate rules are applicable.

Each child who lost both parents is entitled, in addition to the survivor's pension from one of the parents, to 30% of the pension rating basis of the second parent. This however cannot exceed a maximum aggregate pension of 100% of the rating basis for the survivor's pension of the second parent.

The maximum amount of benefit that can be paid out to all those entitled to a pension cannot exceed 100% of the deceased person's pension.

Employment injuries and occupational diseases

Self-employed people and farmers are covered as well for employment injury and professional diseases as described under the heading Invalidity.

In the health insurance there are no co-payments required in case of medical care; the sickness benefit is calculated at a higher rate (100% from the base).

Family benefits

Family benefits, regulated in Parental Care and Family Benefits Act from 2001, are financed by the state. For the entitlement the working status of parents is not important. Some benefits are universal and some are being means-tested.

Universal benefits are:

- the new-born allowance, a flat rate benefit in kind or in cash;
- the large family allowance, a flat rate annual allowance for families with three or more children;
- the disabled child nursing benefit, a monthly flat rate benefit for children severely impaired in physical or mental development and in need of home care;
- a partial cover of lost income for a parent who left his/her job or started to work part time to take care of a severely physically or mentally impaired child.

The child benefit is means tested. The amount depends on the earnings pro family member. There are eight levels of benefits. The benefit is increased for each subsequent child.

Unemployment

According to the Employment and Insurance Act in Case of Unemployment from 1992 and revised in 1998, self-employed may be insured in unemployment insurance on a voluntary basis. They have, according to the law, equivalent rights to benefits from the unemployment insurance, as employed persons. The general legal provisions on the voluntary unemployment insurance are not elaborated, so the practical enforcement of the provisions is not clear. For instance there are no special provisions related to the termination of the self-employed activity.

The unemployment cash benefit is calculated on the basis of insurance rating base from which contributions for pension and invalidity are paid (70% for the first 3 months of unemployment and 60% for the subsequent months). The duration of the entitlement depends on the duration of insurance (minimum 3 months, and maximum 12 months with prolongation for older unemployed).

Social protection of the self-employed

Country analysis

Bulgaria

Czech Republic

Estonia

Hungary

Latvia

Lithuania

Poland

Romania

Slovak Republic

Slovenia

Comparative analysis

Comparative analysis of the social protection of the self-employed in the applicant Central and Eastern European countries

Introduction

In the previous tables a short description of the social security systems that are in place for the self-employed people in the applicant countries of Central- and Eastern Europe, has been provided. This MISSCEE description combined with answers given to a questionnaire which has been developed by the EISS in order to ask for additional information on social security for self-employed people, will be used now as a basis to develop a comparative analysis. With this text we aim at outlining the main comparative issues that came to the fore in the study of the distinct social security systems for self-employed people in the applicant countries of Central- and Eastern Europe. More precisely it will cover the following countries; Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. In order to come up with a structural comparative analysis of the given systems, the following issues will be commented upon consecutively: the concept of self-employment, the different kinds of social security systems that are in force, the personal scope of application, the problem of delimitation between wage earners and self-employed people, the administrative and financial structures and, at last, the ways in which the different social risks for the self-employed people are being covered. For each topic a legal comparison of the studied schemes will be developed. Further on, the discerned tendencies will be put against the conclusions that came to the fore in a study¹ in which the social protection systems for the self-employed people in the European Union have been compared. By doing so, the social security landscape

for self-employed people in Central- and Eastern Europe will be put in a wider European perspective. As we are in the process of integrating the studied countries in the European Union, we considered it to be useful to look whether the EU-countries and applicant CEECs are acting in a fundamental similar or rather different way when shaping social protection for their self-employed entrepreneurs. In a final chapter some tentative conclusion will be developed of the main tendencies that came to the fore in both comparisons (on the one hand amongst the applicant CEECs and on the other hand between the member states of the European Union and the applicant CEECs).

1. The concept of 'self-employment'

For most countries, trying to formulate a general definition of the concept of 'self-employment' in social security terms turns out to be a difficult task. In the social security legislation itself, a definition of this concept is mostly lacking. The determination of the exact content is left to case law and doctrine, which turn for this task mainly to the legal domains related to social security: labour law and tax law.

In our previously undertaken research on the social security systems for self-employed people in the European Union² we came to the conclusion that, to the extent that a proper social security definition for the self-employed exists, the following constitutive elements are to be found. Firstly, there has to be a link with labour (positive description). A self-employed person is a person who is professionally active. Mostly, the practising of a profession should include a profit motive (without it really being checked that there is any real profit gained). In addition, this (economic) professional activity must not fit in with a labour agreement or a civil servant's statute (negative

description). Hence, a self-employed person is a person practising a professional activity for the purpose of gain without being a worker or a civil servant. The essence of the definition lies mostly in the second part: the fact of not being a worker (nor a civil servant). Hence, the group of self-employed people is a leftover category that is delimited against the concept of worker. The professionally active persons that are not workers are, for purposes of social security, usually considered as self-employed people.

The way in which the self-employed people are being defined for social security purposes in the applicant Central- and Eastern European countries follows a rather similar approach. Either a definition of the self-employed concept was given in the social security legislation itself (as such e.g. in Latvia, Slovenia and Romania) or the social security legislation was referring for this purpose to other legal domains (e.g. Estonia referring to the concept used by trade law; the Slovak Republic partially referring to the labour law definition).

Usually the definitions restrict themselves to a simple listing up of professional activities that could be considered as activities performed by self-employed people. Self-employed people are in such a setting the persons holding a trade licence, the registered members of a liberal profession (practising lawyers, doctors, engineers, etc), farmers and small land users, company directors and active company shareholders. Seldom one can find rather generally stipulated descriptions of the self-employed group. Countries following the latter approach are e.g. Slovenia, Estonia and Hungary. In accordance with the Estonian legislation, "the self-employed person is a natural person who offers goods and services for payment in his or her own name where the sale of goods and services is his or her permanent activity". Slovenia is defining the self-employed person as "a person, who engages in independent gainful activity, as being defined by law, as his or her

1. P. SCHOUKENS, *De sociale zekerheid van de zelfstandige en het Europese Gemeenschapsrecht: de impact van het vrije verkeer van zelfstandigen* (Social security of self-employed people and the EC-law: the impact of the free movement for self-employed people), Leuven, Acco, 2000, 37-297 and -, "Comparison of the social security law for self-employed persons in the member states of the European Union, in D. PIETERS (ed.), *Changing work patterns and social security*, The Hague-London-Boston, Kluwer Law International, 2000, 63-98.

2. See the publications to which reference was made in the introduction.

sole or principle occupation and thereby generates income equal at least to the statutory defined minimum salary". In a rather general way, Hungary considers all kinds of economic activities that are being performed independently, even when they are not subject to the Act on "Establishment of Individuals as Self-Employed Persons", as self-employed activities. However, in Slovenia and Hungary these generally stipulated definitions are made more concrete by formulating in addition a list of several professional groups who can be considered to be self-employed.

However, not too much weight should be given to the general way in which the countries describe their group of self-employed entrepreneurs. More of importance is how the systems delineate this group in a practical way. As with the EU countries, we notice here as well that whatever kind of definition is being used, the Central- and Eastern countries emphasise mainly the negative description element, i.e. the fact that the self-employed person is not a wage earner or civil servant. Countries applying a definition that adds up the several self-employed groups will usually incorporate in the list as well one or more categories that are of a residual nature (e.g. Bulgaria, Latvia, Lithuania, Poland, Romania, Czech Republic and Slovak Republic). Although the definition is enumerative and refers to the traditional categories of self-employed people (free professionals, registered craftsmen, registered tradesmen, farmers), it is still open ended as it includes as well all professionally active persons who work in an independent way. The latter group is usually referring to all individuals who perform work on their own account and are not in a subordinated relationship with their commissioner. In a similar way, the countries using a general definition of self-employment (e.g. Slovenia, Hungary and Estonia) will normally develop the concept in a negative way in their application rules. Here as well, the self-employed group is to be understood as a residual category referring to all professionally active persons who are not wage earners.

Besides the self-employed concept, some countries have to define some subcategories of self-employed people as well (e.g. farmers, trade licence holders, lawyers, etc). Defining subcategories of self-employed people is neces-

sary mainly for two reasons: either separate social security systems are in place for these professional groups (e.g. the farmers' system in Poland and the lawyers' system in Romania) or these group receive a specific treatment in the general social security systems (e.g. the farmers in the general Slovenian and Lithuanian systems). More about the set-up of the systems and the consequences this may have for the social protection of the self-employed people will be developed in the following chapter.

2. The structure of the social protection systems for the self-employed

2.1. Typology of the different systems in force

From previously undertaken comparative research³ having the social protection of the self-employed people in the EU countries as subject, we should distinguish between the incorporation of self-employed people in general or universal systems, general systems for all self-employed people and categorical systems for defined self-employed groups. Some explication is necessary.

1. In a universal or general social security system, a basic social protection is organised in the same system for all working groups of the population or even for the whole population. Examples are Denmark, Finland, Sweden, Great Britain, Ireland, the Netherlands, Luxembourg and Portugal. The general system does not distinguish structurally or in terms of organisation between the different professional groups or groups of the population. The system provides, regardless of the group that is insured, an equal (basic) cover, the same administrative structure and a uniform financial scheme.

2. In a general system for the self-employed, all professional categories of self-employed people are compiled into one social security system. The system has an own administrative structure with a governing board composed of representatives of the associations of the self-employed and of the government. The governing bodies collect and manage themselves the financial means. As far as the

social security cover and the financing is concerned, the system does not distinguish between the professional groups of self-employed people. Such a system can be found in Belgium.

3. Categorical systems for the self-employed are specific systems for different professional categories of self-employed persons. These systems can be found in Germany (farmers, liberal professions, artists and writers), France (craftsmen, trade and industry, lawyers and other liberal professions, farmers), Italy (traders, craftsmen, farmers and free professionals), Austria (traders, free professionals, notaries, farmers, remaining self-employed), Spain (self-employed, seamen, farmers) and Greece (most important ones: tradesmen, craftsmen, lawyers, engineers, farmers,...). The systems are thus structured around the professional groups.

2.2. The system typology applied upon the Central- and Eastern European countries

With regard to the applicant Central- and Eastern European countries, the large majority opted for an incorporation of their self-employed entrepreneurs in the existing social security schemes that are in place for the employees and/or the whole population. Generally speaking a general system of social insurances for income replacement benefits is being applied both on employees and self-employed people. With regard to the cost compensation benefits (child care and health care) universal systems are often in place that cover the whole population in the same way. All countries, except Poland and Romania, belong thus to the category of the incorporated general/universal systems. Poland designed a separate categorical system for the (self-employed) farmers that is structurally separated from the general system in place for the (other) professionally active persons (employees and self-employed persons engaged in non-agricultural business activities). From its side, Romania accepted that the professional group of lawyers run their own social security system, separately from the general social insurance system. Both countries, Poland and Romania, are for that reason being classified under the countries that have a categorical set-up of their social security. However, it should be clear that the differ-

3. See the publications to which reference was made in the introduction.

entiation of categorical systems is far less present in the CEECs compared to the EU countries. Not only did the big majority of the Central- and Eastern European countries opt for an inclusion of the self-employed in the social protection schemes in place, the categorisation that took place in some countries is of a rather limited nature. Normally it is being restricted to one group of self-employed persons that runs its own system (farmers in Poland and lawyers in Romania). Moreover, it became clear as well that the categorical systems are being designed in a rather similar way as the general systems when it comes to the guaranteed benefits. The sometimes shattered social security landscape for self-employed that we come across in some EU countries (e.g. Italy, France, Germany,...) is certainly not to be found in the CEECs. Here uniformity in social protection for the diverse professional groups is generally strived at.

However, incorporating self-employed people into the general/universal system does not mean that similar rules are being applied for both wage earners and self-employed people. Nor does it mean that the categorical system have the most adapted social security schemes for the self-employed people in place. As it became clear as well in this overview, categorical system tend sometimes to be influenced by the schemes of the general social security system. However, as became clear in the comparative research that was undertaken for the EU countries, whatever kind of system is in place, self-employed people do always have to be taken care of in a specific way. This is true as well for the general social security systems; specific rules have to be foreseen for self-employed people as they work in a specific way compared with their wage-earning counterparts. The self-employed person is in principle not working in a subordinate relationship like the one that is in place between the employer and the wage earner. Moreover, self-employed people are not receiving fixed wages nor do they earn their income on a regular basis. All the schemes in social security schemes that are based upon these typical wage earners' elements start to cause problems when they are being applied on self-employed people. Therefore, there are sufficient factors to differentiate the eventual social protection for the self-employed from the one that is in place for the wage earn-

ers. They are mainly found in the financing of the system, the assessment of (temporary) unemployment, the temporary work incapacity, the partial work incapacity and the partial retirement.

On the basis of the description, we can conclude that the applicant Central- and Eastern European countries do take into account the specificity of the self-employed entrepreneurs when shaping social security. However, the emphasis is mainly put on the design of special financing rules for the self-employed categories. Generally speaking less attention goes (for the moment) to the development of adapted rules with regard to the benefits. With regard to the benefits, the policy seems to be one of applying the schemes that are in place for the wage earners upon the self-employed people without too many adaptations. What is in place for the employees should also function for the self-employed people, seems to be the line of thought. Only in the fields of unemployment, labour accidents and professional diseases, major differences in protection are to be discerned.

Without going too much into detail here, it can already be mentioned that the specific financing rules are mainly to be found in the assessment of the income basis upon which contributions are to be paid, the practical organisation of the contribution payment, the way in which minimum and maximum ceilings are being applied and the consequences for the access to the benefits when contributions are not paid within the due time limits.

As to the benefits side a rather 'liberal' approach is being followed. Not seldom self-employed enjoy (income replacement) benefits in case of partial invalidity, sickness and unemployment in the applicant Central- and Eastern European countries. As will be explained later on in more detail when we will deal with the social risks extensively, these are now the situations for which many of the EU member states do not have a protection in place for their self-employed population; or, in case access has been provided to such schemes for the self-employed people, an adapted protection has been developed to handle their specific independent position. The latter approach is now somewhat lacking in the CEECs. Basically it has been opted for to provide a similar protection to all kinds of

working population, whether they are professionally active in a subordinated relationship or not. Apparently the major application problems still have to occur before the decision makers will feel the need to fine tune somewhat more the existing system in line with the specific characteristics of the diverse professional groups.

In the benefits side some countries already started to differentiate between wage earners and self-employed as it comes to accessibility. Latvia, Hungary and Bulgaria excluded e.g. the self-employed population from the unemployment scheme. No voluntary access has been provided either. The unemployment scheme can be accessed on a voluntary basis for self-employed in countries as Slovenia and (recently) Romania (whereas earlier on this insurance was compulsory for all working populations). In Estonia self-employed are only covered in the basic universal unemployment scheme; they do not have access to the income related unemployment insurance.

In countries as Latvia, Lithuania, Estonia, Slovak Republic, Czech Republic and Bulgaria self-employed people are being excluded from the employment injuries and occupation diseases scheme or at least from the preferential rules that are in place in the general work incapacity scheme in case no separate scheme is in place for such contingencies. To the (general) sickness scheme, self-employed persons only have access on a voluntary basis in Bulgaria and Lithuania.

For the remaining, self-employed people, enjoy rather similar benefits as the wage earners; occasionally the access to the benefits has been adapted in case of self-employed people. Moreover, it should be noted that rather seldom self-employed (groups) are being excluded from the social security schemes in place. Unlike some EU countries the tendency in the applicant Central- and Eastern European countries is to include as much as possible all self-employed categories in the various social security schemes. Self-employed people who do not have access at all to social security are mainly to be found in the low earning categories (e.g. small land users or self-employed persons earning in average an income that is falling below the minimum income or the minimum subsistence level).

3. Remarks concerning the personal scope of application and related problems of delimitation

3.1. The need for differentiation

Although the large majority of the applicant Central- and Eastern European countries include their self-employed people into general/universal systems, there is still a need to differentiate this group from other professionally active persons. As explained earlier on, the specific situation of the self-employed persons requires adapted regulations for both the financing and the benefit provisions. As with the general/universal systems that are in place in the EU member states, the Central- and Eastern European countries devote quite some importance to the correct description of the self-employed group. Or to put it differently, even when the system is applicable in general to the whole (professionally active) population, there is still a need to apply a separate description for the self-employed category as the latter is in need of a proper social protection.

In practical terms the description of the self-employed people is often built around a listing of professional categories. If one belongs to the listed category one can be considered to be self-employed (as long as one is not working in a subordinated relationship with his or her commissioner). The listing is then normally set up along the following general categories:

- tradesmen (holders of trade licence, owners and tenants of personal enterprise, individual entrepreneurs ...)
- craftsmen
- members of (limited) partnerships (being professionally active in the partnership or earning at least a defined amount of income from the partnership)
- free professionals (doctors, notaries, lawyers, auditors, enforcement officers, pharmacists, veterinarians, ...)
- farmers (including family members of the farmer who are professionally active on the farm, sometimes as well small land users,...)
- artists and/or sportsmen (not working in labour relationship)
- all other persons earning income on the basis of an independent working relationship (free lancers,...)

The last category is defined in a residual way to absorb those professionally active persons who are neither working in a labour relationship nor being registered in one of the ‘genuine’ self-employed categories. In case such a residual category is not present very often one of the listed categories is described in such a flexible and general way that it relates to all kinds of work that is being performed in an independent way (i.e. not being performed under a labour contract). The latter is e.g. the case in Latvia where the listing includes (amongst others) the rather generally stipulated categories of persons performing an individual work and persons who are registered as profit tax payer on economic activities. In practical terms these categories aim at all individuals who perform work in their own account and thus are not in a subordinated relationship vis-à-vis their commissioner. Rather seldom countries apply a restrictive description of the self-employed group (e.g. Poland and Lithuania where an open ended category is not present nor being inserted into one of the listed groups).

Instead of listing the several categories, Estonia applies a general description of the self-employed group. In accordance with the Estonian legislation, “the self-employed person is a natural person who offers good and services for payment in his or her own name where the sale of goods and services is his or her permanent activity”. Self-employed people are persons working on an independent basis and consequently are being listed in the Commercial register. The latter only takes place when the taxable turnover exceeds a defined amount in a calendar year.

3.2. The bond of subordination

Whatever the set up of the personal scope, by listing self-employed categories or by describing the self-employed group, all countries have to differentiate between wage earners and self-employed. Not only is this differentiation important to know what kind of rules should be applied, it is in most of the cases also a decisive element in the delineation of the respective groups. Practically in all cases self-employed people are persons who are not professionally active as wage earner (or are not being assimilated with wage earners). The key element that indicates wage-

earner ship is the presence of a subordinated relationship between the worker and his/her commissioner (employer). If that element is lacking, one has to deal with a self-employed person. The subordinate relationship is mainly built around the elements indicating legal relationship between worker and employer (as e.g. authority and instructions) and as such does not include many elements of economic dependency (being economic dependent upon the commissioner). The latter kind of elements are increasingly to be found in the member states of the European Union, especially in those countries confronted with a growing number of so-called “phantom” self-employed persons (wage earners who organise themselves as self-employed persons in order to avoid strict social regulations). On the question whether they suffer (legal) difficulties with delineating wage earners from self-employed persons, most of the applicant Central- and Eastern European countries mentioned that no such problems occur. Exceptionally problems of “phantom” self-employment were mentioned (e.g. in Lithuania). The traditional distinction between those who work in a (legal) subordinated relationship and those who do not is apparently still functioning rather well. Moreover, it should be noted as well that not all EU member states face either extensive problems with differentiating wage earners from self-employed people. Especially the countries that follow a policy, like the one in place in most of the CEECs, to provide an equivocal social protection to all professionally active persons, whatever the status, had less problems with delineating wage earners from the self-employed categories.

3.3. The requirement of minimum earnings

Practically all examined countries required from the self-employed people that they earn a defined minimum income in order to become part of the social security system (e.g. the minimum salary in Bulgaria, Estonia and Slovenia, the minimum contribution basis in Latvia, 30% of the minimum wage in Hungary, three gross average monthly salaries in a year in the case of Romania, defined amounts in the Czech Republic and the Slovak Republic). In most of the EU countries a minimum ceiling is traditionally not being applied as a condition for accessing the

social protection system, as the self-employed person has a irregular income structure. Years with a break-even or even a loss are part of the self-employed economic cycle. Years with low or no income will in most of the EU countries not lead to an exclusion from the system; it can be decisive however for granting preferential rules with regard to the financing of the system (e.g. postponement of contribution payment, waiving the contribution payment, applying a reduced contribution, etc.). The policy followed in most of the Central- and Eastern European countries seems to be of a different kind: in case the income falls below a defined level, the self-employed person drops out from the system. However, this rule should be put in its right perspective. It should be said that the ceilings applied (minimum salary, % of the minimum wage, etc.) are of a (extreme) low level. Nowadays, minimum subsistence levels or minimum salaries in the CEECs are very often theoretical amounts not reflecting daily reality; as they are often used as calculation units in the social security systems they are traditionally set at a very low level. Hence, low earning self-employed people still have access to social security as the minimum thresholds are set at a rather marginal level. In other words the outcome is not always so divergent between the EU states and the CEECs as the different approach towards using a minimum income ceiling as qualification condition for the social security system at first glance might suggest.

3.4. Practising several professional activities

In general states can react differently to the situation when a person practises several professional activities simultaneously. Much depends on what kind of system is in place (inclusion into a general/universal system, general system for all self-employed persons, categorical systems). Moreover, one should distinguish here between the conditions to join a system and the duty to contribute. In general, one has to take social insurance for all activities concerned, regardless whether a general system applies, a general system for the self-employed or several categorical systems for different groups of self-employed people. That does not necessarily imply that one is obliged to pay contributions for all these activities nor that one will receive (supplementary) social security rights on the basis of addi-

tional activities. In most of the examined applicant Central- and Eastern European countries the policy followed was to take both activities into consideration for social insurance purposes. Very often the income of the concerning activities is being added to define the eventual contributions to be paid. As such this practice is not so surprising as most of the countries include the self-employed into the general/universal systems. This kind of system set up indeed allows without too many difficulties to take all exercised activities into consideration for insurance and financing purposes. EU states having a similar set up (insertion into general/universal systems) operate very often along the same lines.

3.5. Co-operating spouses and dependent family members

Finally it should be noted that spouses co-operating in the self-employed business of their husband/wife normally do not enjoy a specific social security status as some EU countries do (e.g. Belgium, France, Germany). A co-operating spouse is either working as wage earner or as a self-employed partner in the business of his/her spouse. The person will be insured along the lines of the respective insurance (as wage earner or as self-employed person). No specific treatment of the co-operating spouse, which unfortunately very often leads to a total lack of own entitlements in social insurance and a dependency upon the spouse for social benefits, has been discerned in the examined CEECs.

Family members who are dependent upon the self-employed person will most of the time enjoy derived rights in the schemes of health care and family benefits. However, this situation does take place to a lesser extent than for instance in the EU member states as most of the health care and family benefits scheme are of a universal type and grant in a direct way benefits to the covered person whatever the family and/or professional status. Even in professional schemes extended to non-professionally active persons, the family relationship does not always play a crucial role for granting benefits. Some states “pay” contributions (very often by means of subsidies to the concerned schemes) for non-active persons in order to include them into the health care and family benefits

schemes. As a consequence a relationship with a professionally active person is not always required to become entitled to health care and/or family benefits.

4. Remarks concerning the administrative organisation and the financing of the social security systems for the self-employed people

4.1. The administration

Countries with a general/universal social security system in force, principally work with a uniform administration, without distinction between workers, self-employed people and other possible professional or demographic groups. In the categorical systems and in the general scheme for the self-employed, the administration is mostly decentralised in a functional way. This can be explained largely by the professional character of the insurance systems in question. Bodies pertaining to (semi-)public law or even institutions pertaining to private law, are created to deal with a particular aspect of the social security administration. Those institutions are usually managed by the professional (self-employed) group in question. Some kind of government control is however always present, by means of government representatives sitting in the administrative bodies of the institution or by means of imposing certain legal conditions to the institutions. The level of autonomy of the functionally decentralised bodies can differ considerably. In general systems, a specific representation of the self-employed is seldom found. Here, the interests of the self-employed are often defended by the employers’ representatives.

These general tendencies, which were discerned from the comparative research of the social security systems for self-employed people in the EU states, are largely to be found back in the applicant Central- and Eastern European countries. The administration of the social security schemes for self-employed people is being incorporated in the existing structures of the general/universal system. In principle no specific representation for the self-employed people is being foreseen in the administrative structures; the employers’ organisations are considered to be the representatives of the self-employed population. The categor-

ical systems that are in place in Poland and Romania (respectively the farmer's system and the lawyer's system) have a proper administrative structure that includes representatives of the concerned groups.

4.2. Financing

All examined countries have a financing system that is mainly being based upon contribution payment. As a general rule self-employed people pay similar contributions as the ones that are being applied upon the wage earners (and which are being shared between wage earner and employer). Financing through general means can also be found in the universal schemes for health care and family burden. From the outset it should be made clear that comparing the financing and the level of the contributions is of little use. This was also one of the conclusions that came to the foreground in the comparison of the social protection systems for self-employed people in the EU member states. Here as well we can see from the different reports on the national countries, that the social security systems never completely cover the same areas. In one system, certain social security benefits simply do not exist, or the self-employed are ranged under a general system (e.g. health care). How can in the latter case the financial share of the self-employed be determined, when the revenues come from general means? All this becomes even more complex as a consequence of the manner in which the states determine the income basis on which the contributions and taxes are raised. The determination of that basis may indeed differ strongly.

One of the major problems in the financing of social protection for self-employed people is to indicate what should be considered to be the professional income. In case of the wage earners we consider as (professional) income the wage, which is being paid on a regular basis (weekly, every fortnight, monthly, etc). The wage is in other words the basis upon which the contributions are being calculated. Income for self-employed people is much more open for fluctuations. It is very often gained on an irregular basis. Sometimes the self-employed person can make use of the business infrastructure for personal purposes; this kind of payment is not always easy to

incorporate in the income basis. Furthermore, there is less possibility of control. The self-employed person, in contrast to the worker, declares himself his income, which can lead to the tendency to undervalue this income.

For the determination of the basis for contribution, there are two tendencies to be discerned in the countries of the European Union. Either one co-operates with the tax services for this purpose or the social security institutions determine the basis for contribution themselves. The latter strategy is used sometimes when the tax collection does not function well or because the co-operation with the tax services is considered too complicated. The financing techniques in the applicant Central- and Eastern European countries do follow the same lines. A vast majority works with information from the tax services to control and/or adjust the declared income. As will be developed later we will see that the Central- and Eastern European countries, contrary to many systems in the EU, seldom make use of a fixed income basis.

4.2.1. *Determination of the income basis in co-operation with the tax services*

The co-operation with the tax services can function, generally speaking, in two ways. Countries can leave the collection of social security means to the tax administration. This is not only so when the social security is financed from general means, but it can also happen by letting the tax services collect the contributions. This technique is in the EU applied by e.g. the Scandinavian countries, the Netherlands, United Kingdom and Ireland. In the CEECs Estonia can be ranged under this financing technique. Contributions (so-called social tax) are being collected by the Tax Board. Self-employed people are required to pay advance payments once a quarter (by the 15th day of the third month of each quarter). By 31 March of the calendar year following the taxation period, the self-employed have to present a tax declaration to the Tax Board, indicating all their income from the entrepreneurship and provide documentary evidence of business expenditures. Thereafter the Tax Board calculates the additional amount of social tax to be paid and issues a tax notice concerning the amount of social tax due.

Other countries consider the collection by the tax services too extreme and use only the information about the incomes sent by the tax services, as a basis for calculating or controlling the contributions. This way of working may turn out to be complicated. Using determined tax information may cause a time gap. This is especially true when the social security authorities use the income information that comes from the tax administration for collecting the contributions; as a consequence the basis for the social security contribution does not reflect any more the last known income of the self-employed person. The contributions are being levied upon income, which the self-employed person earned some years before. Social security authorities could also work the other way round and use in a first round the income declared by the self-employed person himself/herself; afterwards, once the income is known for tax purposes, the declared income (by the self-employed person) will be adapted on the basis of the taxable income. Eventually, the self-employed person may have to pay supplementary contributions when the tax declaration turns out to be higher than the declared income. Practically all examined Central- and Eastern European countries apply the last technique: the self-employed person declares on a regular basis (monthly, every three months, by choosing an income basis, etc) himself/herself the income which, once the fiscal income is known and is being transmitted to the social security authorities, will be verified and eventually adapted on the basis of the tax declaration.

4.2.2. *The fictitious basis for contribution*

In exceptional cases a fictitious basis for calculating the contributions is being used. In Hungary e.g. some self-employed persons enjoy the specific treatment of "lump sum" taxpayer. For social security this kind of self-employed person will pay a minimum contribution that is being calculated upon the basis of the minimum wage. The same applies for farmers who entered on a voluntary basis the social insurance schemes. In Lithuania some categories of self-employed people (farmers and license holders) pay a fixed contribution for the pension scheme, which is being calculated on the basis of the basic pension amount. In the health insurance the minimum wage is

being used as (fixed) income basis for the farmers whereas the other self-employed person pay on the basis of the average wage in the country. In Slovenia the self-employed person could freely choose till 1999 the income basis upon which contributions were to be paid. To that purpose seven categories of minimum insurance rating basis are defined. The lower base is the minimum salary and the highest is the maximum pension base that is being used for the calculation of the pension for employed persons. From 1999 onwards however this method of payment has been adapted. The chosen income is now being verified on the basis of the income that has been declared for tax purposes. Self-employed people can still choose the income level for the advance payment; however once the taxable income is known, the self-employed person might have to pay additional contributions in case his chosen income level turned out to be too low.

4.2.3. *Minimum and maximum ceilings*

Practically all examined Central- and Eastern European countries apply both minimum and maximum ceilings on the income declarations for the purpose of the contribution calculation. In some cases the minimum threshold coincides with the minimum income the self-employed person has to earn in order to be part of the social security system (see under personal scope). Other countries apply a minimum threshold for financing purposes which is deviant from the one used for assessing the accessibility to the system. In order to join e.g. the Bulgarian social security system, the self-employed person should earn an income, which amounts in average to at least one minimum wage. The minimum income on which contributions are being calculated however amounts to the double of this amount (two minimum wages). In other words self-employed persons earning in average more than the minimum wage but less than two minimum wages will always pay contributions on the basis of the latter amount.

Striking is the use by almost all Central- and Eastern European countries of a maximum ceiling upon the income of the self-employed for the contribution calculation. This deviates from the financing rules that are in place for the wage earners. For them a minimum threshold

might be applicable but maximum ceilings are seldom applied upon their wages. The tendency seems to be different for the self-employed. Here the line of reasoning is that, in case a maximum ceiling is being applied for the benefit calculation, this should be used as well for topping up of the income for financing purposes. Apparently one assumes that self-employed persons will never be interested to declare more income when this does not lead to additional benefits. A rather strict link is made between the income used for financing and the income that forms the basis for the benefit calculation.

4.2.4. *Special rules for certain categories of self-employed people*

For some economically weak self-employed groups specific financing rules are in place. Very often farmers (and/or small land users) enjoy reductions for their contributions. Either the income basis is being fixed (at a rather low level: see above under fixed income basis) or lower contributions are being levied upon this group. Artists as well can have such preferential treatment. In some cases the state pays part of the contributions (as the employer would do for his or her wage earners).

As such specific financing rules for self-employed people who suffer (temporary) financial problems are not often applied in the applicant Central- and Eastern European countries. In the Czech Republic e.g. these persons can pay temporarily minimum contributions (calculated on the minimum assessment basis). Slovenia also introduced alleviations for self-employed persons facing problems with paying the normal contributions. Lithuania grants low earning self-employed people the possibility to pay lower contributions (as income basis 50% of the basic pension amount is used instead of the full pension amount).

Rather seldom specific rules are applied for persons starting up self-employed activities. As such this should not surprise us too much looking at the technique that is being used for the contribution calculation (advance payment on the basis of the self-declared income and correction of the

contributions on the basis of the income declared for tax purposes).

5. *The social security benefits*

5.1. *The old-age and survival pensions*

With regard to old age and survival pensions, there are not so many particularities for the self-employed people. Largely, the pension schemes for self-employed people are based upon rather similar principles as the ones that are in force for the wage earners. More than it is the case for the pension schemes in the EU countries, the CEECs opt to link the pension benefits directly or indirectly to the previously earned income, based in some cases on the whole professional career, in other cases, on a part (e.g. last professional years before the pension entitlement) of the career. Lithuania e.g. opened up recently its second pillar earnings related pension scheme to most of its self-employed people. Previously they only had access to the basic pension, which consists of a flat rate amount. In general flat rate pension benefits, which some EU countries use in the social security systems of the self-employed people, are not popular in the applicant Central- and Eastern European countries. On the other hand the CEECs are introducing in increasing way capitalised pension schemes; very often these schemes are complementing the existing (redistributive) pension schemes. Not all of them are mandatory, but if being introduced they are made open to self-employed people in the same way as to other professionally active persons.

In the EU countries we can notice that the pension schemes for the self-employed are less diversified in design. For example, the part time pension schemes will rarely apply to the self-employed. This is caused by the difficulties of control. For wage earners, a part time pension is usually calculated by means of the number of hours during which the worker is not professionally active any more. The remaining hours give rights to a pension. How much time self-employed people spend for their professional activities, is not always so easy to detect. Most countries therefore refrain from giving partial pensions to the self-employed. Countries that introduced a part time

pension scheme for the self-employed (e.g. Denmark and Finland), make it less flexible than the similar scheme for workers. Self-employed people in such a case can only receive a half time pension. The yardstick is the loss of professional income: the remaining income should be less than half of the professional income of the former full time self-employed profession. It is evident that such a scheme can only function properly if the tax services can determine the income of the self-employed person with sufficient certainty.

The pension schemes in the applicant Central- and Eastern European countries have a more liberal approach towards the acceptance of self-employed people in partial pension schemes. In case a partial pension is in place for the wage earner, very often the self-employed person will have access as well to this kind of pension. However, no specific rules are elaborated to measure the loss of income or to monitor the eventual reduction of the partial pension in case the income does not decrease in line with the activity seizure. The fact that no additional rules are being developed for self-employed persons taking up a partial pension is mainly to be explained by the rather general approach towards the possibility to combine pension benefits with earnings out of professional income. Very often no specific rules are in place to monitor the situation in which the pensioner combines his or her benefit with (earnings out of) professional activities. This holds true both in case of a partial pension and in the situation of a full pension. Seldom the CEECs apply restrictions on persons, whatever the professional status, combining professional earnings with a (partial) pension. Moreover, some countries enacted specific rules for pensioners who perform self-employed activities. Such persons do enjoy in countries as Latvia and Hungary a restrictive social insurance (and pay as a consequence lower contributions than their fellow self-employed who are not yet on pension. In Lithuania, where restrictive rules are in place for pensioners who continue to work, the discussion is still going on how these rules should receive a translated application for the self-employed people; the latter category only recently joined the earnings related pension scheme. Especially the control of the income decrease in case the self-employed person takes up a partial pension seems to be rather problematic to monitor. Other countries where restrictions are

put on the combination of income combination are e.g. Slovenia and the Czech Republic.

5.2. The other benefits for loss of income

5.2.1. Benefits for incapacity for work

In all countries that were examined, a distinction is made according to the length or the expected length of the period of the work incapacity. We follow this distinction by examining firstly the short-term benefits for incapacity, also called sickness benefit (including maternity benefits), and then by looking into the long-term incapacity benefits, which are also called invalidity benefits. Finally some remarks will be made with regard to the specific scheme of work incapacity that is related to employment injuries and occupational diseases.

5.2.1.1. Short term incapacity for work (sickness)

Traditionally states have quite some problems with organising a proper sickness protection for self-employed people. The limitations on the sickness protection for the self-employed people are being defended with a number of arguments: the absence of fixed paid wages, the impossibility to estimate correctly the loss of income, or still, the impossibility to control the temporary incapacity of the self-employed person. Moreover, it is being pointed out that the situations can differ strongly between the professional groups. For example, the self-employed manager of a small firm who employs a number of workers, will not necessarily lose income when being absent from work due to sickness. A self-employed person who works on his own account however, has in a similar situation the risk to lose a number of contracts. However, it is not certain at all whether his final trading results will be influenced negatively.

Summarised the most important bottlenecks that states are struggling with when organising sickness benefits for the self-employed are:

- the difficulty to estimate the real loss of income in case of a temporary work stoppage. It is often impossible to

retrace exactly how much income the self-employed person will lose;

- the difficulty to ascribe the loss of income to the social risk in question. In case of a temporary work incapacity it is, for example, difficult to verify to which extent the loss of income should be ascribed to the work incapacity and not to other external factors (the economic cycle); and
- the difficulty to determine to which extent an intention is the origin of the social risk. With self-employed people, it is not always easy to check whether or not they have organised their illness or unemployment themselves.

Hence we notice that EU states refrain from providing income replacement benefits for self-employed who are victim of short term work incapacity or that they apply rather long waiting periods before any benefit is being paid. Others simply pay out low flat rate benefits that have no relation at all with the previously earned income; as the eventual loss of income is difficult to measure some states choose rather to provide the sick self-employed with replacement workforce. In this case it is not so much the loss of income that is being compensated but the loss of manpower.

Contrary to the EU states the applicant Central- and Eastern European countries provide in most of the cases a full fledged income replacement if the self-employed person is incapable to work due to illness. As with the wage earners it is being strived at to link the benefit with the previously earned income. As fixed wages are being absent, specific rules are being designed to assess the self-employed person's income; this is especially true in case the self-employed person started up recently his or her professional activities. In essence the logics that are behind the sickness benefit schemes of the employees have without too many adaptations been taken over for the self-employed persons: in case of sickness, an income replacement is being granted.

However, restrictions in granting sickness benefits are to be found as well in the CEECs. Bulgaria and Lithuania e.g. opted to provide the sickness insurance to self-employed persons only on a voluntary basis. Some coun-

tries (e.g. Romania) apply longer qualifying periods before any entitlement to sickness benefits can be opened. This is being justified by the fact that, compared to the wage earners, it takes a longer period to know the average income of the self-employed person. Other countries (e.g. Latvia) are more strict with regard to the contribution payment; contrary to the wage earners, self-employed people who do not pay the contributions regularly lose any entitlement to sickness benefits. This approach is being justified by the fact that self-employed are themselves responsible for the payment of contributions. Due to the subordinate relationship, a wage earner on the other hand cannot be blamed for the situation where the employer omits to pay in the due contributions. Sanction is only to be taken against the latter person. The wage earner on the other hand shouldn't be touched in his (potential) entitlement to a social security benefit. Finally the sickness coverage is less diversified for the self-employed persons in most of the examined CEECs. For instance self-employed persons cannot always enjoy the income replacement benefit granted to the parent who takes care of his or her sick child (Czech Republic).

Similar to the approach in the sickness benefits, the self-employed women are granted maternity benefits in the same way as female employees. Not only is the income replacement rate similar to the one applied for wage earners, the period during which the benefits are being paid is most of the time identical as in the employees' scheme. The latter is certainly in sharp contrast with the situation that is in place in many a EU country. Here shorter maternity periods are being granted to self-employed women; it is being assumed that most self-employed women continue to work during the maternity period.

Finally it should be noted that the parental benefits, which some Central- and Eastern European countries incorporated in the sickness and maternity scheme, are less diversified for the self-employed persons. In Latvia e.g. the discussion is still going on how to apply the paternity benefits to the self-employed persons. In the legislation it is foreseen to introduce gradually a benefit amounting to 80% of gross average insurance earnings and paid for a period of up to 10 days to fathers taking a duty leave

related to the birth of a child. As the conditions to take up paternity benefits are mainly shaped around the employee-employer relationship it is legally far from clear whether this provision might be applied in the future to self-employed persons as well.

5.2.1.2. Long term incapacity for work (invalidity)

Granting invalidity benefits to self-employed persons is less of a problem than organising a sickness benefit scheme. This is mainly to be explained by the fact that the invalidity risk is much easier to verify than sickness. When self-employed persons are for reasons of illness of accident not able to work for a long period, it is almost certain that a loss of income will take place. The latter situation will be for sure when the self-employed person has to stop activity due to his or her invalidity. Whereas the EU countries in some cases link invalidity with the sickness scheme, and in other cases integrate the long-term work incapacity into the pension scheme, all examined applicant Central- and Eastern European countries opted for the second approach (integration into pension). In other words, in case the self-employed person is victim of long-term work incapacity a (invalidity) pension is being granted. In practically all cases the pensions are related to the previously earned income; hardly no schemes are to be found where flat rate invalidity pensions are being paid out (this is e.g. the case for some farmers' schemes).

More of interest is that the CEECs have not much problems with granting a partial invalidity pension to self-employed persons. Most EU states refrain from doing so as it is difficult to determine to which extent the decrease in earning capacity and the related loss of income are caused by the work incapacity or by other, viz. economic, factors. As already mentioned under the sector dealing with pensions most of the CEECs do not have major problems with the situation in which pensioners combine their benefits with income out of professional activities. This now holds true as well for the invalidity pensions, regardless whether they are being paid to full or partial invalid persons. As a consequence not many anti-cumulative rules are to be found monitoring the combination of invalidity pensions with income out professional activities.

5.2.1.3. Employment injuries and occupational diseases

Mostly, the social security systems do not grant special benefits to the self-employed who are victim of a work accident or an occupational disease. The employment injury and occupational disease schemes find mainly their origin and justification in the work relationship between employer and wage earner. For that reason they are seldom extended to the self-employed population. In systems that do grant such benefits to self-employed, one can notice that the scheme for accidents at work and professional diseases has often been structured around the professional groups, regardless of the qualification as self-employed person or as a worker in terms of social security. Thus, it is less important whether one is worker or self-employed, but more whether one belongs to the professional category in question. The system is also frequently opened up for the self-employed that mainly do manual labour and do not enjoy sufficient cover in the general system for work incapacity (e.g. Poland for the latter situation).

5.2.2. Unemployment benefits

Many states are reluctant to the idea of organising an unemployment scheme for self-employed persons. Being self-employed implies accepting a risk. If the economic cycle turns out badly for the self-employed person, then he has estimated that risk wrongly and then he should cope with the consequences himself. Furthermore, it would be impossible in practice to organise such an unemployment scheme for the self-employed, because it would be impossible to determine whether or not the self-employed person has organised the unemployment him or herself. Estimating the loss of income is less problematic; if the self-employed persons stop all professional activities definitively, then the loss that is suffered can be calculated on the basis of the previously earned income.

That it would be practically impossible to organise an unemployment scheme for the self-employed people, can however easily be contradicted by referring to a number of schemes that are in place. Already in the EU countries we can find many examples of unemployment insurances

for self-employed persons. When looking at the examined applicant Central- and Eastern European countries the majority of them have extended the unemployment scheme to the self-employed persons. Only countries as Latvia, Hungary and Bulgaria excluded the self-employed from the scope of the unemployment insurances that are in place for the working population. In Hungary however, self-employed people who have to stop all business activities can still address the unemployment assistance services. Slovenia and Romania give the opportunity to their self-employed people to enter on a voluntary basis the unemployment scheme. The remaining countries made the affiliation to the unemployment scheme mandatory for the self-employed (Estonia only with regard to the basic unemployment allowance; the income related unemployment insurance is not applicable upon the self-employed).

Surprisingly the CEECs did not adapt to a large extent the unemployment schemes to the specific situation of the self-employed people. There are hardly any specific rules to be found in the unemployment scheme that monitor or assess the seizure of self-employed activities. Contrary to this, EU states that organise unemployment schemes for self-employed pay a lot of attention to this specific situation. One of the key problems is indeed the difficulty to determine to which extent an intentional behaviour is at the origin of the social risks. With self-employed people it is not always easy to check whether or not they have stopped their business activities on a voluntary basis. However organising an unemployment scheme for the self-employed turns out to be not impossible. States start to check for self-employed persons in an adapted way the voluntary character of the unemployment situation (e.g. is a fraudulent bankruptcy at the origin of the seizure of activities? Or to what extent is the stopping of activities caused by a third party or by financial and economic difficulties?). Another option is to move away from the condition that the self-employed should not be held responsible for his or her unemployment. More essential conditions become the complete stopping of the business activities and the willingness to be available for the job market. At first sight, this seems a major difference with the unemployment schemes for wage earners. Still, the requirement of the involuntary unemployment should be put here into

perspective as well. For example, the voluntary of 'blameable' dismissal often results in an allowance as well, be it the benefits are suspended for a certain period of time.

These kinds of adaptations are most of the times not to be found in the schemes of the applicant Central- and Eastern European countries providing unemployment benefits to the self-employed people. The rules that have been developed for wage earners are simply taken over for the self-employed persons. Some countries mentioned that the social security systems start to struggle with applying unemployment schemes to self-employed people without major adaptations; Lithuania e.g. is even thinking to abolish at all the unemployment insurance for self-employed people. The effort to adapt the scheme to the needs of the self-employed population is considered to be too enormous.

5.3. Health care and family benefits

As a rule self-employed people enjoy in the examined Central- and Eastern European countries the same cover as workers in terms of health care and family benefits. This can largely be explained by the fact that both social security schemes are not related to labour. Also the EU countries are moving into a direction of not discriminating persons anymore on the basis of professional status for cost compensation benefits that find their origin in health distress or family responsibilities. It is being increasingly strived at to guarantee the access to health cover to all residents, whatever their professional status. Professional origins shouldn't play a role either when it comes to shaping a social family policy. It can be noticed that the CEECs, even more than the EU countries, insert themselves into this line of thought with regard to the self-employed persons. The group of self-employed has basically the same entitlements in the health care and family benefit schemes as other (professional) groups of persons. Minor differences can still arise. For instance the scheme for employment injuries and occupational diseases provides in some occasions better health coverage than the general health care system. Self-employed people however do rarely fall under this scheme; as a consequence they are not entitled to this more advantageous health pro-

tection. In the framework of the family benefits, it can be noticed that some CEECs organised the parental leave scheme. As mentioned already earlier the latter scheme is often designed in a less diversified way for self-employed people as for other categories of workers.

Final Remarks

More than it is the case in the EU, the applicant Central- and Eastern European countries have a policy of full integration of their self-employed people into the existing (general or universal) social security schemes. Even when self-employed groups are being organised in separate categorical systems, the tendency is still to provide the self-employed with a full social coverage. Social security risks, such as e.g. unemployment, short term work incapacity, maternity, (partial) invalidity from which EU countries very often refrain to organise some social protection for the self-employed, seem to be less of a problem for the CEECs: the policy objective is to apply the existing schemes that handle these risks as much as possible to the self-employed persons. The latter approach is also the biggest weakness of this policy. On some occasions the application of the social security schemes is done without taking too much into account the specific characteristics of the self-employed group. Especially in the field of unemployment the first application problems start to show up. The main challenge for the applicant Central- and Eastern European countries will lay in fine-tuning the existing social security in order to come across as much as possible the own working environment of the self-employed entrepreneur.