Public Social Security for Independent Professionals and the Self-Employed

- EFIP Common Position Paper –

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General Considerations

The Europe 2020 Strategy\(^1\) recognises self-employment as key for achieving smart, sustainable and inclusive growth. However, in several EU countries self-employed workers have different and sometimes less favourable conditions in terms of accessing public social security. Sustainability is of paramount importance to self-employed workers. As confirmed in a recent report\(^2\), periods without income or very little income have major and disproportionate impact and do sometimes act as a deterrent to people moving into self-employment.

The development of independent working itself raises a certain number of difficulties in regard to welfare protection for self-employed workers, above all those working at cross-border level in the EU internal market, where the issue of “country of residence” or “centre of interest of activities”\(^3\) (for defining the applicable national legislation) is blurred. First and foremost, traditional social security systems in Europe were designed to address wage earners. Access to social security systems is usually based on rights or credits earned through participation in a traditional employment contract between an employer and employee. When financial contributions are required, they are usually drawn through payroll payments or income taxation. As a result, several adjustments are needed to suit social security to self-employed workers.

Policy makers who want to encourage solo-entrepreneurship must also match the advantages of offering increased social security to the self-employed with the benefits of special fiscal incentives or reduced administrative burdens. On the one hand, better social protection could encourage more people to accept the risks of self-employment and start their own businesses. On the other hand, the self-employed may not welcome protection from all social risks. Higher taxes or contributions due to extended social security, as well as increased administrative burdens, could reduce the returns and the motivation of those opportunity-driven professionals who contribute most to economic growth and those organisations willing to contract them. Results from a 2012 Eurobarometer survey\(^4\) tend to support this view. Almost one in ten (9%) of those who said they would prefer to work as an employee mentioned social welfare or insurance coverage as a reason not to consider self-employment. This was the fourth

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4 Flash Eurobarometer 354 – Entrepreneurship in the EU and Beyond (2013).
most important reason given (after job security, regular income and fixed working hours, but at the same level as fear of administrative difficulties).

If independent professionals and the self-employed are included in public social security systems, a series of recurring policy problems can be observed. These are: minimum payments; assumed income; upfront payments; and inequitable costs.

1. Minimum Payments

Minimum payments are social security contributions that the self-employed must pay regardless of their income. A base entry price is placed on access to social security, and contributions may continue to rise above this according to the individual's income. Minimum payments are problematic because they create a barrier for low-income earners who cannot afford the minimum price, and penalise those who earn nothing during dry spells. Such policies create an incentive to undeclared work and to operate in the informal economy.

An example is Spain's obligatory social security contributions, which require the self-employed to make monthly payments regardless of their income. Payments start at €53 a month, and increase over time to €275 a month. Those who earn nothing must still make their monthly payment.

2. Assumed Income

Social security contributions for the self-employed may be set based on assumptions about income levels. The self-employed may be required to estimate their income in advance to determine future social security contributions. Or, such estimates may be generated automatically, based on previous earnings. This is advantageous for system operators seeking predictable revenue, but does not consider the reality of fluctuating income experienced by most self-employed. It creates a similar problem to minimum payments for the individual when their income drops below the estimates.

Assumed incomes may also be factored into broader systemic price settings. System operators may assume the average income of all self-employed workers and standardise prices accordingly. This penalises those earning less than the perceived average. It also negatively affects high-income earners, who must make inconvenient extra payments to cover the difference between their estimated and real income.

As an example, the self-employed in France must pay social contributions based on their earnings from the previous two years. Current payments never relate to current income, and individuals must often make compensatory payments which creates cashflow problems.

3. Upfront Payments

The self-employed are often required to pay their social security contributions in advance of any earnings. This creates a burden on an individual's cashflow, and may force them to forgo investing in their business or sacrifice from their general living budget. Upfront payments are even more pernicious due to the high rate of late payments and creditor defaults suffered by the self-employed. Despite being paid late or not at all, the self-employed may be required to transfer upfront social security and tax contributions, sometimes under threat of criminal prosecution.
An example is Greece's obligatory social security contribution for the self-employed, which ranges from €240 to over €500 a month, and that must be paid in advance regardless of actual income.

4. Inequitable Costs

Inequitable costs are differentiated charges for access to the same services. A self-employed worker earning the same pre-tax income as a traditional worker may be charged higher social security contributions, with no difference in the services delivered.

It is important to clarify that this issue does not relate to differentiated rates of payment based on differentiated income levels. Rather, the problem emerges when separate contribution rates are created for the self-employed based purely on their status. Neither does it relate to input differences that result from employers' contributions to employees' social security. Rather, the problem is visible when the base rate required of the self-employed is higher than the base rate for employees.

An example is Germany's obligatory health insurance system. The self-employed are charged higher rates than employees who earn the same level of income, making health insurance comparatively more expensive for the self-employed.

Policy Recommendations

The changing nature of employment relationships driven by the raise of independent working requires a complete overhaul of welfare and social security systems. Rights will need to be portable, with pensions, sick pay, holiday pay entitlements etc attached to individuals and decoupled from employer's organisations. The European Union needs to device a social security system that suits the flexible working patterns of the self-employed, rather than the status quo or extending the same social security protection of employees to the self-employed.

Each Member State is responsible for its own social security policy, in accordance with the principle of subsidiarity. Social security may include public health insurance, old age pension, disability support, unemployment support, parental support and other forms of cash payments and service provision. Social security systems differ widely between Member States in form, function, accessibility and cost. Nevertheless, at EU level an open method of coordination has been established, which involves a voluntary process of political cooperation based on the acceptance of common objectives and indicators. Further to that, various EU initiatives have touched on aspects of social security and the self-employed. The directive on equal treatment between men and women engaged in an activity in a self-employed capacity extended maternity benefits to self-employed women and assisting spouses. The regulation on the coordination of social security systems affirmed the right of self-employed frontier workers to unemployment benefits when the Member States in which they used to work had such benefits.

Against this backdrop, EFIP is keen to put forward the following policy recommendations to Member States in drawing up and implementing national strategies on public social security for independent professionals and the self-employed:

- Recognise that self-employment is a form of work which helps to create jobs and reduce unemployment, and that its expansion should go hand-in-hand with appropriate social security

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equivalent to the standard which applies to employed workers as defined in the Member States' national legislation and as advocated by the European Economic and Social Committee⁸ and by the European Commission⁹.

- Tackle all obstacles that prevent the self-employed and their spouses or partners recognised under national law from benefiting from the social security to which they are entitled under that law, according to the directive on equal treatment between men and women engaged in an activity in a self-employed capacity.

- Facilitate the possibility for all workers, including self-employed and any spouses who participate in their activities, to combine work and care responsibilities, including by speeding up the application of Articles 7 and 8 of directive on equal treatment between men and women engaged in an activity in a self-employed capacity, and by providing them with flexibility regarding working hours, teleworking and part-time work for the purpose of caring for dependants, and to achieve this without any loss in their social security.

- Make information available to all those wishing to become self-employed on the changes to their social security and the labour law applicable to them arising from such a change in status, as well as changes in other rights and obligations linked to their economic activity, above all in connection to the self-employed working at cross-border level in the EU.

- Social security systems should not impose minimum payments on the self-employed. Rather, contributions should be progressive, starting at zero and increasing with income to a capped maximum.

- Social security contributions should not be based on any assumptions of a self-employed person's income, whether forward estimates, retrospective income analysis, or general averages. Rather, contributions should be based on an individual's real and current income.

- Social security systems should not force the self-employed to pay contributions in advance of earning real income. Rather, the self-employed must be allowed to make their payments after their income has been received.

- Social security systems should not be allowed to charge different contribution rates for access to the same services, based on an individual’s employment status. Rather, the same rates should be charged for all customers based on their gross income.

- In the case that any Member State does impose obligatory social security contributions in the area of pensions, contribution rates should be limited to the amount necessary to provide a basic standard of living for recipients. Above that, the self-employed should be able to choose to make voluntary additional payments, or use their income to invest in their business or any other investment class.

- Where both public and private social security service providers are available, the self-employed should be allowed to freely and easily switch between the two. Private providers should be obliged to provide the same base level of services

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--- CASE STUDY ---

I feel that independent social workers like me who earn unpredictable revenues from multiple sources are by various degrees penalized by the welfare state as both contributors and recipients.

The social security system in Belgium that includes eligibility for pension, sickness and unemployment was designed to accommodate the realities of the past. These were based under the assumption that social security serves a population dominated by workers who receive a salary from a single employer over a long period of time. No consideration is made for individuals like me who are self-employed and need to pay full contributions, rather than being split between employee and employer.

The tax authorities require me to make upfront social security payments before being paid myself by my clients, which requires me to fund my contributions in advance of any money earned. In addition, the tax authorities require me to predict income to decide my forthcoming payments. This system is divorced from the reality of revenue fluctuations experienced by most freelancers and has negative effects when I earn less than the average, so that I’d need to pay disproportionately.

I believe the future of work will include a portfolio of income streams that give independent professionals like me more choice in how we earn what we need, so we can build our work around our life, not our life around our work. But for this to happen European social security systems need to adapt to new labour realities.

Sophia (43), Independent Social Worker, Belgium

About the European Forum of Independent Professionals (EFIP)

EFIP is furthering a commitment to build a better economy — one that puts people at the centre of it, empowering anyone to work for themselves and succeed on their own terms. We are a European not-for-profit collaboration of national associations which represents over 11 million of independent professionals at EU level through targeted research, advocacy and campaigning.

Independent professionals (often referred to as freelancers or contractors) are highly-skilled self-employed workers without employers nor employees. They offer specialised services of a knowledge-based nature and work on a flexible basis in a range of creative, managerial, scientific and technical occupations, primarily in B2B. They are the smallest of small businesses and, with a 45% increase since 2004, they are the fastest growing segment of the EU labour market.

EFIP mission is to strive for European policy, business and social environment to become more conducive to the independent and self-employed way of working, in both the private and public sectors.

More information about EFIP is available on our Website, our Manifesto and our Campaign.
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