



3rd Mutual Learning Workshop on Access to Social Protection for non-standard workers and self-employed: Adequate coverage

Outcome Report

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E-mail: EMPL-C2-UNIT@ec.europa.eu

Web site: <http://ec.europa.eu/social/mlp>

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**3rd Mutual Learning
Workshop on Access to Social
Protection for non-standard
workers and self-employed:
Adequate coverage**

25 - 26 June 2020

Directorate-General for Employment, Social Affairs and Inclusion
3rd Mutual Learning Workshop on Access to Social Protection for non-standard
workers and self-employed: Adequate coverage – Outcome Report

Virtual, 25 – 26 June 2020

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1 Introduction

The purpose of this third of a series of four mutual learning events was to discuss adequate social protection of self-employed and non-standard workers. The Council Recommendation on access to social protection for workers and self-employed¹ (hereafter the Recommendation) call on Member States to put in place 'schemes [that] provide an adequate level of protection to their members in timely manner and in line with national circumstances, maintaining a decent standard of living and providing appropriate income replacement, while always preventing those members from falling into poverty.' (Article 11). The contributions to social protection should be proportionate to the contributory capacity of workers and the self-employed (article 12). Exemptions (for low income groups for instance) should be neutral (article 13). The calculation of the social protection contributions and entitlements of the self-employed should be based on an objective and transparent assessment of their income base, taking their income fluctuations into account, and reflecting their actual earnings (article 14).

Against this background, Day One of this workshop reviewed the following questions:

- How to assess income of the self-employed and take into account fluctuations in their earnings?
- How to ensure that contributions to social protection are proportionate to the contributory capacity of non-standard workers and self-employed?
- How to establish a level-playing field between different labour market statuses and avoiding loopholes?

Day Two then discussed:

- How to find a balance between adequacy, equivalency (contributing/receiving) and redistribution of income?
- How to ensure that social protection schemes provide a timely and adequate level of protection to non-standard workers and self-employed, including for groups with low income/contributory capacity?

Paul Schoukens, Prof. of Social Security Law at KU Leuven University, who provides academic expertise throughout the series of four workshops, gave an overall introduction to the topic and participants from Austria, Estonia, Finland, Poland, Portugal and Slovakia as well as the stakeholders from the European Anti-Poverty Network (EAPN) and the European Trade Union Confederation (ETUC) presented approaches and positions concerning adequate coverage. In addition, representatives from Belgium, Croatia, Denmark, France, Germany, Greece, Hungary, Ireland, Latvia and Lithuania as well as from the European Association of Paritarian Institutions (AEIP), the International Social Security Association (ISSA) and Union des entreprises de proximité (U2P), a French social partner representing small enterprises and self-employed, participated in the event.

This was the third of a series of workshops to inform Member States' plans and contribute to the implementation of the principles laid out in the Council Recommendation on access to social protection for workers and self-employed and in the European Pillar of Social Rights (EPSR), which states in Principle 12: '*Regardless of the type and duration of their employment relationship, workers, and, under*

¹ European Union, 2019. Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed. Accessed at: [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019H1115\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019H1115(01)&from=EN) (30.01.2020)

*comparable conditions, the self-employed, have the right to adequate social protection*².

The third workshop focussed on the interrelation between the adequacy of benefits for non-standard workers and the self-employed and the financing of social protection based on the underlying principles of redistribution, equivalence, proportionality and sustainability, which are also reflected in the Council Recommendation.

2 Adequate Coverage

When assessing adequacy, the *'Member State's social protection system needs to be taken into account as a whole'*, as outlined in the Recommendation (Article 11). In this context, adequacy guarantees a decent standard of living – through reasonable income replacement after income loss – also with the aim to prevent people from falling into poverty.

As Prof. Schoukens elaborated in his thematic presentation, social protection can be divided into two main types or models: social protection of the *Bismarck* type is based upon previous earned income, while the *Beveridge* model considers a basic or decent level of protection. The aim is here to provide a decent standard of living in times of income loss that aligns with their prior standard of living to a certain extent. Social assistance, however, prevents people from falling into poverty when they have no or insufficient protection, and rather guarantees a minimum subsistence. It is widely accepted, that 60% of the national median equivalised disposable income after social transfers can be considered as the poverty threshold against which adequacy can be assessed.. Nevertheless, it may be useful to monitor adequacy using complementary indicators and a more integrated approach to evaluate the implementation of the Recommendation, including indicators on accrual rates for pensions based on insurance records and net replacement rates of unemployment benefits as well as some of the indicators in the EU Social Scoreboard related to social protection and poverty levels.

There is a delicate interrelation between benefit levels – therefore minimum social protection, including minimum pensions, accrued through work with an insurance record - and minimum subsistence. Here challenges concerning the adequacy of social protection remain, particular for people with an irregular or incomplete insurance record, as often the case for non-standard workers and the self-employed. In addition, to determine the adequacy of social protection, other benefits and services within the general system should also be taken into account, such universal health care or social housing. During the workshop, ETUC for instance, acknowledged the complexity of assessing adequacy, but also called for the fight against social dumping along with the need of decent remuneration and better working conditions for non-standard workers and the self-employed allowing them to accrue effective and adequate social protection entitlements.

Nevertheless and on the backdrop of providing a life in dignity, the adequacy of social protection should not deter people from seeking an income (through work) and does not preclude obligations imposed upon beneficiaries, such as the participation in activation measures, (re)training or the readiness to take up work.

Many non-standard workers make up low-income groups, and self-employed may also fall into temporary financial problems. As EAPN pointed out, it is therefore important that the level of contributions and entitlements, as well as excessive bureaucracy, do not hinder the improvement of coverage and an adequate general safety net for the

² Europe Commission, 2020. *The European Pillar of Social Rights in 20 principles*. Accessed at: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en (11.07.2020)

self-employed and non-standard workers. Prof. Schoukens explained that the tendency to entirely exempt non-standard workers and self-employed with a structural low income (below the minimum wage) undermines drivers for redistribution as well as a level playing field, leads to false competition and curbs solidarity between working groups. It is also necessary to ensure that more affluent people contribute to social protection.

There is an intrinsic acceptance that low-paid tasks, particularly in social and health care, are done by women and better paid jobs are occupied by men. As a result, the lack of adequate benefit is mostly a women's issue. Not only is it necessary to ensure better pay for female-dominated sectors and occupations, but also to create incentives which will lead to a redistribution of tasks between men and women.

In this vein, in some countries, non-standard workers and self-employed may be partially or fully exempted from contributions under certain circumstances while safeguarding their right to social protection, for instance through the possibility of retroactively paying for lost periods, or – as has been put in place in some countries in Latin America – the frontloading or continuation of contributions by the State over a certain amount of time. This is preferred over potentially more costly social assistance at a later stage.

3 Income assessment of self-employed

According to article 14 of the Recommendation, Member States should *'ensure that the calculation of the social protection contribution and entitlements of the self-employed are based on an objective and transparent assessment of their income base, taking into account their income fluctuations, and reflect their actual earning'*.

However, assessing the income of self-employed can be challenging and less straightforward compared to assessing the income of workers. The main issues identified for the assessment of income of self-employed are the uncertainties about how to define income, its fluctuations, as well as self-declaration, which may lead to structural underreporting.

3.1 Defining the income of self-employed

As self-employed can earn their income partly as a direct return from their work and partly as a return from their (invested) capital, defining what needs to be considered as income for social security purposes, can be difficult. In order to provide a clarification, a harmonised fiscal and social definition of income, as well as an enhanced coordination between tax and social security authorities, can be helpful. In general, definitions and rules should be as simple and easy to navigate as possible, so that self-employed are aware of their rights and obligations. The definition of income in the legislation can help reduce uncertainties and (potentially arbitrary) assessments.

Agreeing on a definition of income may be even more difficult in countries where self-employed are allowed to organise their activities in the form of legal entities, which they (co-)own themselves and from which they receive a fixed income unrelated to turnover or profit made by the legal entity. The work income of the self-employed working in these legal entities may be kept fictitiously low, often because of para-fiscal considerations.

As regards (remunerated) non-standard workers, the main challenge is to keep track of the diverse origins from which contributions are to be levied when several kinds of work are being performed for various employers.

During the workshop, participants agreed that the definition of income should be broad and should include different sources of income, such as capital income, expenses, inputs and the dividends taken from the business by the owner (in the case

of a legal entity), as happens in Denmark, where non-standard workers and the self-employed have been integrated into the general unemployment insurance scheme and all work-related income (earned within the past three years) rather than hours worked are used to assess unemployment entitlements³.

3.2 Tackling underreporting

The self-declaration of the income of self-employed and the lower level of control applied, can lead to an undervaluation of the earned income of the self-employed, and thus to the payment of contributions at a minimum level (even where the actual contributory capacity might be higher). Moreover, activities performed by self-employed might also include informal activities that are not taken into account in the declaration of the income basis for the definition of the level of contribution.

Possible solutions to tackle underreporting include the use of fiscal data through a collaboration between tax authorities and social contributory authorities. For instance in Portugal, self-employed declare their income on a rolling basis every three months to the social security. Once per year a comparison is made by submitting the income report to the fiscal authorities.

Some countries assess the income by going directly to the source of the money flow. An example of this practice is the simplified business account in Estonia, where tax is automatically withheld and transferred by banks (see the box below).

Example: The business account in Estonia

In 2019, Estonia introduced the possibility for a natural person to open a business account in a bank, enabling informal workers, freelancers, etc. to easily declare and track their income. The objective of this practice is to simplify the tax liability for the payments received from the provision of services or for the sale of goods. Accounting and tax reports are not required because the tax liability is calculated based on the payment to the account. The bank directly informs the Estonian tax and custom board and provides the details of the natural person.

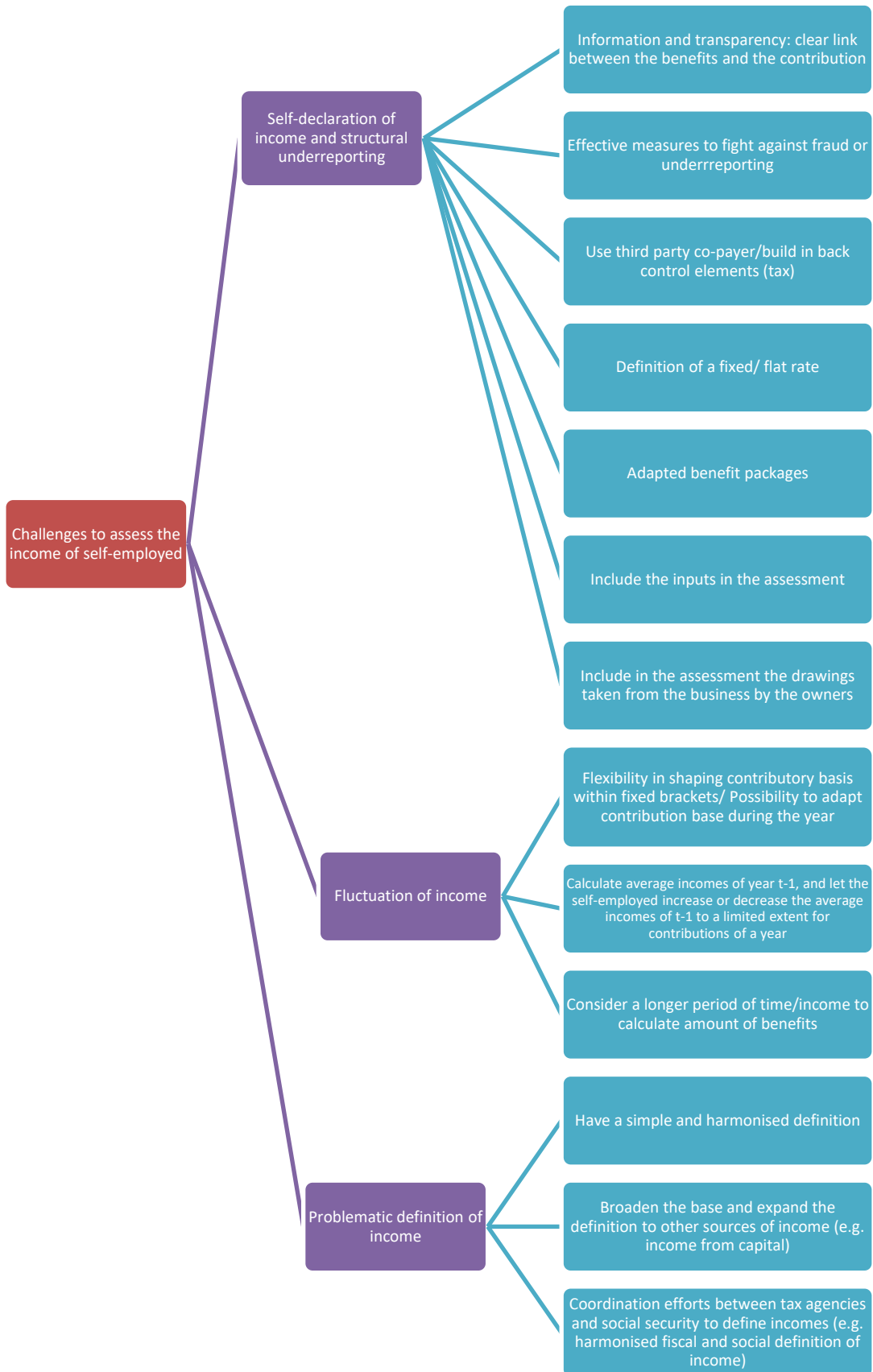
The account is an interesting example of the interplay between a private institution (bank) and the state; income taxes and social contributions are namely collected at source. This leads to more transparency on both sides, as well as a simplification for the entrepreneurs themselves.

Another way the Member States tackle underreporting is to organise a simply designed contribution levy. For instance, the real-time income registers in Finland (see box below) aims to reduce bureaucracy and provide a clear overview of income.

Example: Real-time incomes register in Finland

Finland is setting up a national system of income registers aiming at, among other things, simplifying application and decision-making processes of the social insurance system by making it possible to check all data of the users through the system. As of 2019, employers are obliged to provide monthly information on the earning of persons through an online form. As of 2021, the benefit payers will start entering information in the system as well.

³ European Commission, 2018. *Access to social protection for workers and the self-employed: best practice examples from EU Member States*. Accessed at: <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8157&furtherPubs=yes> (10.07.2020)



Source: Mind map created by participants of the virtual workshop on the challenges related to the definition of income of self-employed.

3.3 A more transparent approach

At the workshops, participants discussed ways to tackle structural underreporting. Adopting a transparent approach and undertaking awareness-raising activities on the impact of contributions on future pensions could encourage self-employed to declare the right amount of income. The social security system should provide more information about the rights that workers are accruing while paying their contribution. In general, participants pointed out that self-employed would probably be more likely to pay a higher amount of contributions if they had a clear overview of the purpose of the payment and the level of benefits they will be entitled to through their contributions. Adapting the benefit packages in order to make them more appealing for self-employed was also identified as a possible way forward.

As the boundaries between being an employee or a self-employed are often not well defined, participants agreed that also enhancing labour inspections can be useful to determine whether self-employed are misrepresenting their situation and to provide an indication on the income to be assessed.

3.4 Using a reference income for the collection of contributions

At the workshop, participants discussed that given the difficulties related to the assessment of income for self-employed, a possible solution can be to move away from the assessment of the exact amount of income and introduce a flat-rate or fictitious basis for the collection of contributions, based on specific criteria, such as a reference minimum income, the average income of the workers in a sector or another parameter to estimate the income. The main limitation of this approach is that there is no link between the actual income and the basis for the calculation of the contribution. This can create cash flow problems for the self-employed with temporarily low income, or, on the opposite side, this can lead to levy low contributions from those who have a higher contributory capacity.

An example of this approach is the 'confirmed income from self-employment', which is an estimation of the income of self-employed, based on the income of employees working in the same sector (see box below).

Example: The confirmed income from self-employment in Finland

In Finland, pension insurance is obligatory for self-employed with an annual income equal to or higher than EUR 7 799,37 (but for agricultural self-employed EUR 3 980).

The contribution for the self-employed pension scheme and basis for the pension is not assessed based on the earnings as verified in taxation, but based on earnings that correspond to the work effort of the self-employed. According to the law, earnings correspond to a wage that would be paid if the work of the self-employed was carried out by another, equally competent person in place of the self-employed, or otherwise corresponds to such compensation that, on average, equals the work insured under the pension insurance scheme. Pension providers confirm the earnings generally by application of the self-employed. This amount is called 'confirmed income from self-employment' and determines also the level of daily allowances linked to sickness insurance (sickness, parental leave), compensations from accidents at work and occupational diseases insurance. Every year, the Finnish Centre for Pensions, *ETK*, publishes earning instructions and provides minimum recommendations for earnings, depending on the profession.

3.5 Coping with fluctuating income

The income of the self-employed becomes known only after the consolidation of the fiscal year. During the year, their income is fluctuating, and the income earned at the start of the year might be very different (higher or lower) than that earned towards

the end of the year. For this reason, a system that can be used is the distinction between a provisional and a final basis (after the consolidation of the income). The ability to change the contributory basis during the year according to the forecasted income, as well as granting higher flexibility in shaping contributory basis within fixed brackets and the possibility to adapt the contribution base during the year can be considered as ways to tackle this issue. This would allow self-employed to shape their own contributory basis: they can for instance foresee higher contribution when the income is expected to be higher and lower contribution when the income is expected to be lower (e.g. self-employed working in the tourism sector during the low season).

Example: Self-employed social security scheme in Portugal

In Portugal, similarly to workers, all self-employed can be included in the social security scheme. On a voluntary basis, the inclusion is possible from day 1 of the activity. This leaves room for the self-employed to start paying the contributions when they consider themselves (economically) ready for it. The exemption can last up to 12 months.

Very low income is not taken into consideration: if for a whole year the relevant income declared is lower than EUR 1122 or EUR 953 respectively, depending on whether or not the self-employed is an entrepreneur, as that will define which contributory tax is applicable.

Another way to deal with assessing a fluctuating income can be the calculation of an average income based on the previous year, and to allow the self-employed to increase or decrease the average income to a limited extent for the contributions.

Example: Programme Small ZUS+ in Poland

In Poland, the Programme Small ZUS+, introduced in February 2020 for self-employed with an annual income below PLN 120 000 (ca. EUR 28 000), calculates the minimum contributions based on real income rather than on the declared amount.

Within this programme, the assessment basis must fit between 30% and 60% of the predicted average salary. The assessment basis is calculated through an algorithm that: establishes the real average monthly income in the past year (real annual income divided by the number of days in which business activity has been run and multiplied by 30), and then multiplies this real average income by 0.5.

The aim of the programme is to incentivise entrepreneurship by ensuring that their contributions reflect actual earnings and do not create cash flow problems.

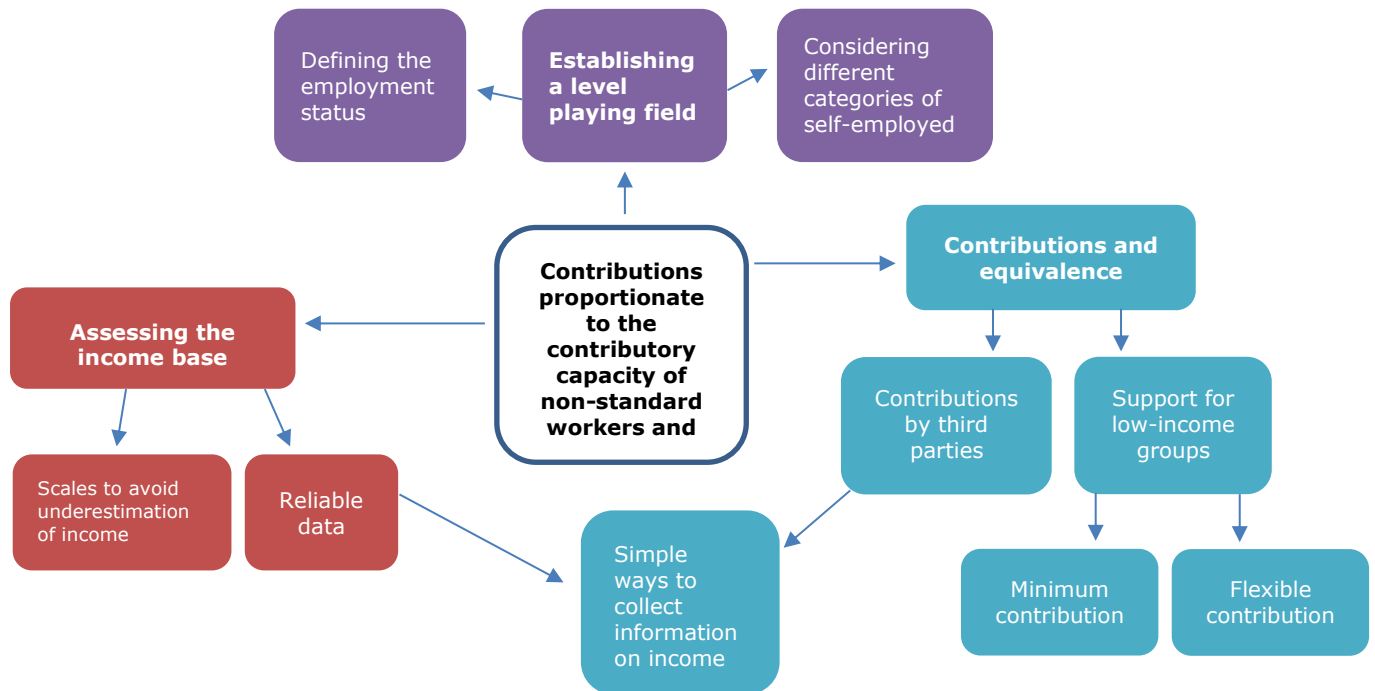
4 Contributory capacity of the self-employed and of non-standard workers

Article 12 of the Recommendation outlines that Member States should ensure that '*contributions to social protection are proportionate to the contributory capacity of workers and the self-employed.*'

Contributions to social protection are normally earmarked taxes that are paid from an income towards a specific social protection branch. In order to calculate contributions and the benefits, the determination of the income base is key. In standard working relations, contributions to social protection are normally shared between employers and employees. For self-employed, employer contributions do not exist. As pointed out in the Thematic Discussion Paper, people in traditional employment relations generate income differently than self-employed, so their position is not easily comparable. As outlined above, the calculation of their income basis for contributions needs to

consider fluctuating and varied income sources, such as returns from capital investment. Non-standard workers often have the same contribution rates as standard workers, but their capacity to contribute can be restricted by certain eligibility criteria⁴, or they pay lower contributions or are completely exempt from payment. Moreover, non-standard work can also include non-remunerated activities, such as internships or apprenticeships, which also challenge the determination of an income base for contributions.

At the workshop, participants discussed ways to determine contributions that are proportionate to the contributory capacity of workers and the self-employed. Possible approaches are outlined in the Mind map below and further explained in this section.



Source: Mind map created by participants of the virtual workshop on the contributory capacity for self-employed and non-standard workers.

4.1 Establishing a level-playing field

Next to growing self-employment and non-standard forms of work, an increased use of flexible work such as temporary agency work or posting arrangements challenge the financing of adequate social protection. If common minimum standards are not applied or monitored in all work relations, a rise in marginal work positions can create social dumping, i.e. employers preferring to hire a cheaper workforce on lower salaries with less or reduced social protection contributions. This also ultimately undermines adequate and sustainable social protection. This issue was raised recently in the Dutch Borstlap⁵ Commission report warning that the high number of flexible work contracts

⁴ See also *Mutual Learning Workshop on Access to Social Protection: 'Effective coverage – Income and time thresholds' – Outcome report*. Accessible at: <https://ec.europa.eu/social/main.jsp?langId=en&catId=1047&eventsId=1571&furtherEvents=yes&preview=cHJldkVtcGxQb3J0YWwhMjAxMjAyMTVwcmV2aWV3> (10.07.2020)

⁵ BORSTLAP-COMMISSIE REGULERING VAN WERK, 2020. *In wat voor land willen wij werken? Naar een nieuw ontwerp voor de regulering van werk* (BORSTLAP-Commission on work regulation, 2020. *In what kind of country do we want to work? Towards new arrangements for the regulation of work*. Translation by the authors). Accessible at:

in the Dutch labour market creates insecurity. In Belgium, in April 2020, the Constitutional Court annulled the law that exempts platform workers from social contributions and taxes. Here, social partners referred to the Recommendation and other international instruments in court.

As discussed in previous workshops, the extension of social protection to self-employed and non-standard workers creates a level playing field, as it makes those types of employment less precarious and allows people to switch between forms of employment. Here, national attempts have been made to define the employment relationship for non-standard workers by extending access to social protection.

Example: Slovakian contracts 'on agreement' and the Slovenian 'every job counts' approach

Slovakian labour law regulates three types of specific contracts outside of traditional employment relationships:

- Work Performance Agreement (max. 350 hours per year with a maximum duration of 12 months)
- Agreement on Work Activity (up to 10 hours per week)
- Agreement on Temporary Students Jobs (age limit of student up to 26 years; 20 hours per week on average)

Until 2012, people performing those types of work were not obliged to pay social security contributions (except for accident insurance as well as guarantee insurance for a benefit in case of bankruptcy). This was changed in 2013 and people working in those arrangements are obliged to contribute to pension, sickness and unemployment insurance. The measure contributed to a level playing field between different types of working arrangements. Following the reform, the number of individuals in atypical contracts 'on agreement' fell dramatically, from around 642 295 in 2012 to 411 028 in 2019.

The Slovenian 'every job counts' approach for student work, civil work, contracts and supplementary work such as cleaning or babysitting is similar. People in these arrangements have, since legislative changes from 2013-2014, access to pension and disability insurance and employer healthcare insurance. They can change jobs and labour market status whilst keeping their entitlements.

Another way to protect minimum standards and to balance the sustainability of the social protection system with adequate protection, is to look at specific risks in social protection branches. For instance, in Poland, the level of contributions for accident insurance varies for individual contribution payers: it is determined by the level of occupational hazards and the effects of these threats.

4.2 Contributions and equivalence

Another important consideration for the assessment of the contributory capacity of self-employed and non-standard workers is equivalence, so the relation between the contributions paid in and the benefits received. Some countries offer the flexibility of contributions and link this with the level of benefits. However, in this case, self-employed tend to choose the low level of contributions, which ultimately endanger the adequacy of the benefits they will receive.

As pointed out in the Thematic Discussion Paper, without a referenced minimum financing level it is difficult to sustain a minimum on the benefit side. The exclusion of non-standard workers or self-employed who earn below a certain level and its wider

<https://www.rijksoverheid.nl/documenten/rapporten/2020/01/23/rapport-in-wat-voor-land-willen-wij-werken> (10.07.2020)

impact on labour markets needs to be carefully reviewed. If their income assessment basis fluctuates or ceases, flexibility and/or upfront financial assistance could be provided. This can be done by offering different flexible contribution levels; as already mentioned above, for instance in Portugal, deductions applicable to the self-employed are based on the average income of the previous trimester (rather than the preceding year) and the relevant income bases can be changed quarterly, by a 25% increase or decrease. Moreover, specific activities can be taken into account, for example, payment deadlines for self-employed or non-standard workers in seasonal activities could be made flexible.

When it comes to non-standard workers and self-employed who earn an income below the minimum level over a longer period of time, further aspects in terms of financing adequate social protection need to be considered. As pointed out in the impact assessment accompanying the Recommendation, as well as the Thematic Discussion Paper, people with marginal income are often exempted from social protection contributions (with often voluntary opting-in options, leading to low participation rates), or their contributions rates are reduced. However, the Recommendation calls for ensuring formal, effective and adequate protection, ensuring also an equal level-playing field between different categories of workers on a labour market, as outlined above.

A way to address low-income groups is to support them to remain in the social protection system. For example, in Portugal, under new social security regulations for the self-employed, low-income earners are included via a minimum monthly contribution of EUR 20. This guarantees stability and continuity over the course of one's contributory career. In Latvia, there is also a mandatory minimum base, but those who earn below this are still covered in the pension insurance.

Another way to address structural low and/or fluctuating income are contributions paid by third parties, such as via the customers in the German writers' and artists' insurance scheme (see box below).

Example: Customers contribute to social protection in the German Artists' Social Security Fund

In the German *Künstlersozialkasse*, the Artists' Social Security Fund which covers artists and writers and other practicing an artistic profession commercially, contributions are levied upon customers of artistic services. Artists in the scheme pay around 50% of their overall contributions – as would regular employees –, and the rest is paid by a public subsidy and organisations working with writers and artists (theatres, newspapers, etc).

The scheme is mandatory for artists fulfilling certain conditions, such as earning at least EUR 3900 from their artistic activity per annum, but low- and high-income earners can respectively opt in or out. However, despite the successful levying of contributions from third parties, adequate social protection for pensions remains challenging because of limited and/or fluctuating contributions. Many self-employed artists and writers declare income around the minimum threshold which guarantees access to pension, health and long-term care insurance, but may however challenge the general fiscal sustainability of the fund.⁶

In addition, state subsidies can aim to prevent poverty of low-income earners at pension age. To foster sustainability of the system, contributors to a pension scheme can be incentivised to stay in the system over longer time periods.

⁶ OECD, 2018. *The Future of Social Protection. What Works for Non-standard Workers?*
Accessible at: <https://www.oecd.org/els/the-future-of-social-protection-9789264306943-en.htm>
(10.07.2020)

Example: The equalisation supplement and pension bonus in Austria

In Austria, self-employed are generally covered by the health and pension insurance and can voluntarily join the unemployment schemes and receive (short-term) cash benefits in case of illness.

In the pension scheme, self-employed pay a lower contribution rate than regular employees and freelance contractors. However, pension benefits for self-employed are calculated according to the same formula as for other groups and are co-financed by the state budget. This might create incentives for self-employed to opt into the pension scheme.

Income from self-employment is however often relatively low in Austria, compared with standard employees.

In order to improve adequacy in pensions for self-employed and for workers, a means-tested pension top-up (equalisation-supplement) was introduced. In 2020, people on a low pension receive a top-up of their pension to reach EUR 966.65 monthly (14 payments per year) for singles and EUR 1 524.99 (14 payments per year) per couple. For example, if a single pensioner receives EUR 700 then the top up will be EUR 266.65. This amount is funded from general tax.

Pension bonus

In addition, there is also a 'top-up' for people who have been long-term contributors, albeit with low pension entitlements. If a person paid contributions for 30 years, a single pensioner receives a minimum monthly pension of EUR 1 048.57 (in 2019, with 14 payments per year); in effect, this results in an increase of disposable income for these pensioners. Since 2020, this converted to a 'pension bonus' that complies with EUR 1 080 for a single pensioner having 30 contribution years or EUR 1 315(single)/EUR 1 782 (couple) for 40 contribution years.

5 Balancing redistribution, equivalence, proportionality and sustainability

Article 11 of the Council Recommendation states that: *'Where a risk insured by social protection schemes for workers and for the self-employed occurs, Member States are recommended to ensure that schemes provide an adequate level of protection to their members in timely manner and in line with national circumstances, maintaining a decent standard of living and providing appropriate income replacement, while always preventing those members from falling into poverty. When assessing adequacy, the Member State's social protection system needs to be taken into account as a whole.'* Thus one of the main challenges for designing adequate benefits is to find the right balance between the main underlying principles of social protection: redistribution, equivalence, proportionality, and sustainability.

The universal insurance-like character of social security is one of the ways to ensure equivalency. Everybody, both workers and self-employed, should contribute according to their means and be included in the system. This helps avoiding discrimination, and negative effects due to people opting in or out. Moreover, participants agreed that participation in the social security system should be rewarded, not only looking at the income/contribution level but also at the years of contribution.

In general social protection schemes tend to apply a principle of proportionality, meaning that any benefit will be calculated based on income and/or insurance record periods. In some countries, such as Poland, the self-employed enjoy the freedom to choose their level of contributions within the brackets established by the government. A higher contribution usually corresponds to higher social security benefits (i.e. sickness

benefits, pensions, disability pensions, etc.). However approaches where self-employed choose their own level of contribution can have drawbacks and often lead to under-insurance and limited protection.

Direct proportionality between the payment of contribution and the benefit received tend to become flatter as the contribution level increases. In some cases, as limited benefits correspond to low contributions, removing or reshaping low caps for benefits was identified as a way to keep the social protection system attractive also for higher income earners.

Conversely, when dealing with non-standard situations of work and self-employment, insurance records may become irregular, earnings may often be limited and fall below minimum wage levels. Considering the proportionality principle, this would lead to lower benefit amounts. However, social protection schemes tend to follow a principle of redistribution, through a progressive system where higher income should be kept in the system and low-income earners are supported to pay their contributions. However, if under a certain income threshold people are not requested to participate, this may have implications for labour market participation. This needs to be carefully considered in the design of social security policy in order to avoid disincentives to participation in the labour market and other distortions, which may impact on the willingness of higher income earners to contribute to the system.

The redistribution principle is also reflected in schemes where a contribution is paid by the entire population, independently from the employment status and where individuals with an income that is lower than a certain threshold can obtain a 'correction' through tax reductions. This is the case of the healthcare system in the Netherlands, which makes no discretion and thus also provides good basic healthcare to non-standard workers and self-employed.

The above aspects need to be balanced with the need for sufficient financial resources to ensure sustainability. In general, this is enhanced through an extension of the contributory basis, for example:

- By adopting a broader definition of income for financing social protection, including all types of bonuses and benefits (e.g. company cars), in the calculation;
- Through the extension of working life (e.g. in Luxembourg and in the Netherlands pensionable age has been extended and, in Spain, there are plans to incentivise a longer working life and to take measures to dissuade from early retirement);
- By giving the possibility to pay contributions later in life, for instance after the retirement age (e.g. Luxembourg).
- A minimum financing threshold for the self-employed. If they do not reach it, they are nevertheless invited to contribute.
- Tackling cases of fraudulent underreporting of income and activities in the informal economy;
- Through legal migration flows, as more active people in the labour market will translate in more people paying contributions.
- Broadening the sources of financing

In order to ensure sustainability, alternative sources of financing – apart from labour income - should be taken into consideration to contribute to the social security system. Some countries, such as Belgium, are considering the introduction of an ecological tax, for commercial activities harmful to the environment, or a digitalisation tax, in sectors prone to be affected by robotization and automation.

Participants agreed that different logics have to be combined in the system. For instance, in some countries, the first pillar of pensions is based on residence and reflects the redistribution principle. It is a flat-rate pension. However, pension benefits also have a proportional aspect that is represented by the second pillar, where the level of contribution and benefits will depend on the level of income. Finland follows such approach (see box).

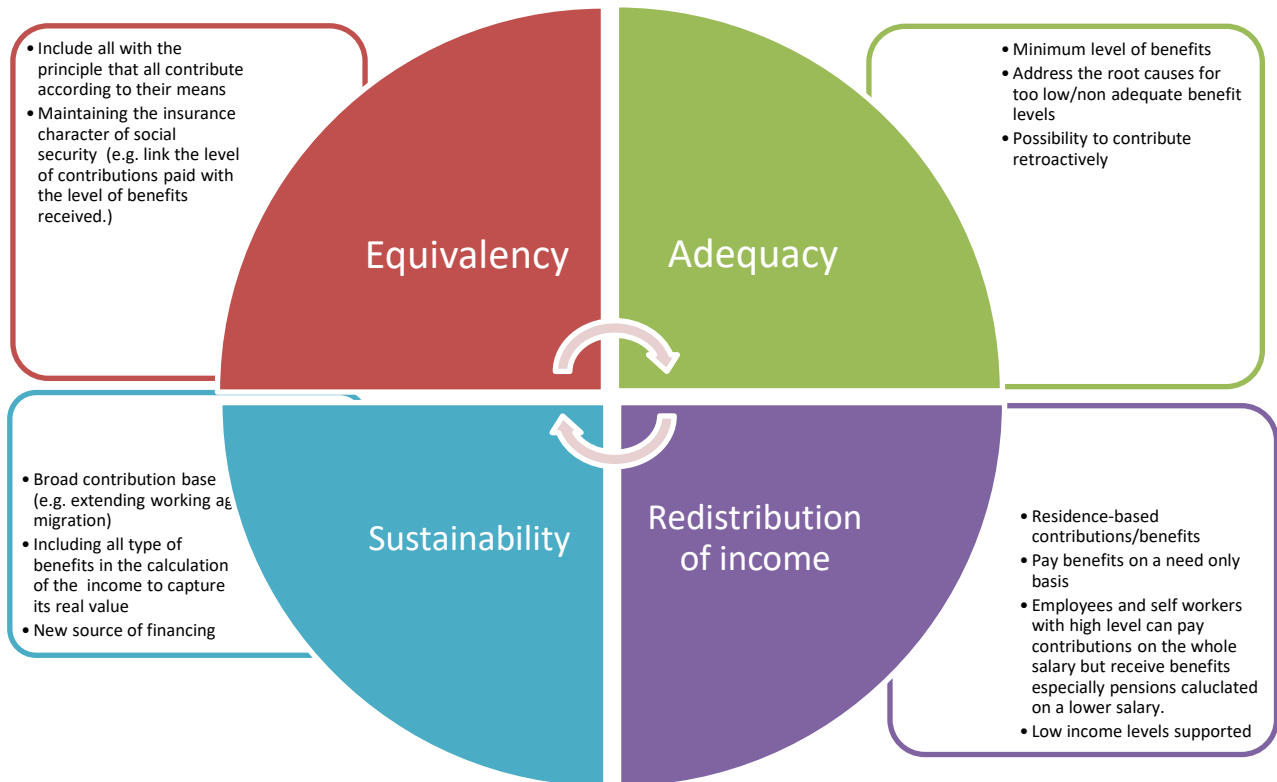
Example: The twofold structure of Finnish Social Security

The Finnish Social Security follows a multi-pillar approach and is composed by:

- A residence-based social security that covers the whole population. Social security rights are not dependent on employment or paying contributions. Most of the social security rights are individual (i.e. sickness insurance, national pension, etc.);
- Benefits that are linked to wages (i.e. employment pension, workers' compensation insurance);
- Many of the benefit schemes have two components and, in their calculation, have both basic-level components and components based on employment-related earnings (i.e. sickness benefits, unemployment benefits);
- For earnings-related unemployment insurance, self-employed must join an unemployment fund. However, without membership in a fund, they still are eligible for basic level unemployment allowance (same as employees), based on residence.

When adopting a multi-pillar structure, it is important to ensure that the different pillars are coherently built together, even if they follow different logics.

In general, when assessing adequacy, it is important to look also at the broader picture and at other schemes that are out of the scope of social insurance, such as social assistance, welfare or services. Adequate, quality and accessible services, such as a good universal healthcare, are valuable and should be taken into consideration.



Source: Mind map created by participants of the virtual workshop on the balance between equivalency, adequacy, sustainability, redistribution of income.

6 Relevance of social protection in light of the current crisis

COVID-19 triggered an unprecedented health, social and economic crisis which led to quick adaptations of social protection systems, often increasing coverage and improving adequacy. Eurostat estimates published on 3 June 2020, estimated an unemployment rate of 6.6 % for April with an increasing trend (9% in 2020 compared to 6.7% in 2019)⁷. The disruption in the labour market are not fully mapped yet, but it can be assumed that higher levels of underemployment and inactivity due to extensive use of short-term work also play a major role, and that the European Union will live through the deepest recession since World War II.

The COVID-19 related crisis led to ad hoc measures to cushion workers, particularly in economic sectors that were more severely hit by the crisis such as tourism and HORECA. They included temporary unemployment benefits to guarantee job security, more supple parental leaves, the possibility to work from home, the exemption or postponement of certain financial duties (e.g. mortgage), the suspension of waiting

⁷ Eurostat, 2020. Newsrelease Euroindicators. Accessible at: <https://ec.europa.eu/eurostat/documents/2995521/10294960/3-03062020-AP-EN.pdf/b823ec2b-91af-9b2a-a61c-0d19e30138ef> (13.07.2020)

periods and the use of sickness-related benefits for preventive measures (i.e. quarantine).

The crisis revealed the importance of social protection to flatten the pandemic curve and to cushion economic and social effects, but also surfaced short-coming in the coverage for non-standard workers and the self-employed. Temporary unemployment or furlough mainly supported workers in standard employment. Other workers on defined time contracts, for instance, as well as the self-employed risked falling through the meshes of these ad hoc safety nets. In response, many Member States extended and scaled up their social protection schemes to cover vulnerable groups and loosened eligibility conditions. Concerning the self-employed, the COVID-19 related crisis can be seen as a catalyst to accept social protection and to provide income guarantee. Income loss was assumed if a business had to close or could not serve clients temporarily. Benefits were often provided as lump sums or based on declarations of honour by the beneficiaries, which will certainly lead to a posteriori controls to uncover fraudulent activities. However, the crisis also revealed that the self-employed may also need other forms of support, such as child care, to pursue their professional activities at home.

Examples of measures taken in response to the COVID-19 related crisis

- In **Ireland**, the personal rate of Illness Benefit was increased from EUR 203 per week to EUR 350 per week for a person who is medically-required to self-isolate. This is paid for a maximum of 2 weeks where a person is self-isolating due to being a probable source of infection, and for a maximum of 10 weeks if a person has been diagnosed with COVID-19. To be eligible for this payment a person must be confined to their home or a medical facility.
- In **France**, eligibility to short-time work schemes has been massively extended, now including domestic workers, childcare assistants and sales representatives. Employees receive a compensation fee equivalent to the – at least - minimum wage, or to 84% of their net salary. The minimum wage guarantee is extended to part-time workers, in addition to fulltime workers. Apprentices will receive 100% of their normal pay (a fixed percentage of the SMIC according to their apprentice contract).
- Some Member States can rely on existing schemes that provide a subsidy to the self-employed in case of temporary suspension of activities due to causes of force majeure (e.g. 'Droit passerelle' in Belgium, 'Bbz' in the Netherlands, 'prestacion por cese de actividad' in Spain). Other Member States, which could not rely on such schemes, announced the set-up of emergency funds or measures to support the self-employed. For instance, in the three countries with the highest share of self-employment, the allowance is a flat-rate: EUR 800 in **Greece**, EUR 600 in **Italy**, or **Poland** that introduced a so-called downtime allowance for all workers (specifically civil-law contractors). This is a fixed amount of 2080 PLN (80% minimal salary in Poland) and is exempted from income tax and social security contributions.
- In 2018, only a third of short-term unemployed were covered by unemployment benefits. In this context, some countries decided to lift some eligibility conditions for unemployment benefits, extend the duration of unemployment benefits and / or granting access to non-standard workers. In **Croatia**, the scheme for 'permanent seasonal workers' was modified, to better support employers and permanent seasonal workers within the tourism sector. Employers receive pension insurance contributions compensation, while workers receive financial aid during that period in order not to completely lose their income. Originally, this was only possible for a period of up to six months, but has now been extended indefinitely.

While the Member States took measures to counteract the effects of the crisis, the European Commission has also put in place various instruments, such as the Coronavirus Response Investment Initiatives (CRII, CRII+)⁸, which includes flexibility for Cohesion Policy Funds and measures to support the health sector. A new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)⁹ has been adopted, whereby up to EUR 100 billion in the form of loans to the Member States can be mobilised to protect employees and self-employed against the risk of unemployment and loss of income. In addition, a Temporary Framework for State Aid Measures was adopted in March and recently extended and the General escape clause of the Stability and Growth Pact was used to give Member States more financial leeway.

Following outbreak, the European Semester Spring package was reoriented to adequately address the shift in socio-economic priorities¹⁰. The recommendations focus on immediate fiscal, economic, employment and social response to the crisis, and on medium-term reform and investment priorities. In this package, access to social protection features prominently with more countries receiving a country-specific recommendation on the topic.

In addition, on 27 May, the Commission proposed a Recovery plan¹¹. The objective is to harness the full potential of the EU budget to mobilise investment and frontload financial support in the crucial first years of recovery, including in the area of social inclusion.

While all these measures will mitigate the COVID-19 related economic and social challenges, the crisis has also brought up questions concerning financing and redistribution, as it is unclear what the impact of extending benefits and the postponing or exempting from payments will have on state budgets. In addition, some sectors may have actually increased their revenue and income during the crisis, and should thus be incited to contribute to social protection. Only time will tell, however it seems crucial to assess COVID-19 related measures. Since they were set up very quickly, some measures might have been poorly designed and without enough safeguards to avoid hidden subsidies to companies that benefitted from financial support and the possibility to send their staff into temporary employment.

7 Conclusions

The Recommendation calls for a decent benefit level; nevertheless, non-standard workers and the self-employed should contribute sufficiently to the system. The main challenge here is to keep track of their income often coming from varied sources, also because the definition of income may not be clear, self-declaration has its caveats in view of underreporting and fluctuation of income may be frequent. A correct assessment of income by going to the source of the money flow is a relatively new approach that some Member States are now pursuing. Finding a sound balance between redistribution, sustainability, proportionality and equivalence remains a

⁸ European Commission, 2020. *Cohesion policy action against coronavirus*. Accessed at: https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/ (13. 07. 2020)

⁹ European Commission, 2020. *SURE - A European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)*. Accessed at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en (13. 07. 2020)

¹⁰ European Commission, 2020. *European Semester Spring Package: Recommendations for a coordinated response to the coronavirus pandemic*. Accessed at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_901 (13.07.2020)

¹¹ European Commission, 2020. *Recovery Plan for Europe*. Accessed at: https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en (13.07.2020)

challenge, however, and particular higher income earners should be invited to remain in social protection system to foster solidarity and to ensure sustainability.

The COVID-19 related crisis has brought this to the fore even clearer and has been a powerful reminder how important universal access to social protection actually is. Many low-income earners found themselves without adequate social protection. Even before the crisis, some Member States have started to move away from exempting low-income earners from social protection systems, for instance by considering also short-term contracts to reach thresholds, by including platform workers in social protection coverage or by rewarding contributors who have paid into the system for long periods.

Guaranteeing a decent social protection is crucial for social cohesion and the prevention of poverty, however other welfare systems, such as universal healthcare, should be included in the general picture as they contribute to the overall adequacy of social protection. Some innovative ad-hoc measures, put in place during the crisis, may prove to contribute to ensuring adequate social protection in the longer term although they may need to be fine-tuned and improved. The crisis may have acted as a catalyst to accepting the idea that unemployment benefits, parental leave or sickness coverage are also vital for non-standard workers and the self-employed in order to protect them from repercussions of economic shocks.

