



English summary
of Fafo-rapport 2022:12

**Welfare schemes for
self-employed workers**
Challenges and adaptations

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The welfare schemes for self-employed workers and freelancers differ in some respects from those of employees. This means that in particular self-employed workers on low incomes are less secure than employees in periods with no income, be it due to illness, unemployment or retirement. In this report we examine the challenges that this group faces with regard to current welfare schemes and discuss possible measures to improve their situation. We also investigate the trend in the number of self-employed in various industries and their characteristics, including their income and the stability of their status as self-employed. The report draws on registry-based statistics, a desk study and interviews with self-employed workers, freelancers and advisors.

Chapter 3 shows that the self-employed share many characteristics with employees within their industry, but tend to be older on average. This indicates that those establishing themselves as self-employed tend to do so after working for some time in the occupation/industry. There are clear variations in income levels between different groups of self-employed workers. Those in the private service industry and personal services (cleaning, hairdressing, beauty care) or in the art, culture and creative sector earn on average fairly little, in the sense that they earn less from their business activities than other self-employed persons. This applies also when we look at occupational income as a whole and at gross income. It is therefore reasonable to assume that in these industries we might find a large group of people who will have difficulty in setting aside funds for a buffer, alternatively for additional social insurance or in a pension savings account. In the transport industry, with the exception of taxi services and road haulage, the picture is more varied. This group as a whole, which also includes courier services, does not significantly differ from the average for all self-employed. However, this is a complex group, in which many combine self-employment and regular employment, and a fairly high proportion transitions to regular paid employment. It is not unusual for self-employed workers to combine business and wage incomes. However, only a relatively small proportion maintain significant wage incomes over time. The proportion is highest in the art and culture industry, but even here, those who earn combination incomes of any significance are in a minority. Those who stay in the industry over time are less likely to combine business and wage incomes.

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Velferdsordninger for selvstendig næringsdrivende
Kristin Alsos, Kristine Nergaard and Sondre Thorbjørnsen

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Adaptation of welfare schemes to individual groups needs to relate to the welfare system in which they will be included. In Chapter 4, we discuss the existing schemes for pensions, unemployment benefit and sickness benefit for self-employed workers, and we have also examined the structure of these schemes in the other Nordic countries. In general, we can distinguish between mandatory and voluntary schemes, where Finland and to some extent also Iceland have chosen mandatory solutions, while Norway, Sweden and Denmark have voluntary schemes. The nuances in the voluntary schemes consist in their structure and the choices offered. A challenge associated with voluntary options is that from the perspective of the self-employed person, making use of them is not necessarily a real choice. With a low income, the proportion that can be set aside for making 'sensible choices' will be lower, and the real freedom of choice is reduced.

In Chapter 5 we identify the greatest challenges that self-employed workers and freelancers face when it comes to income security. Low income is a fundamental problem and explains why so few in this group save for a retirement plan or buy insurance that can cover loss of income in periods of illness or unemployment. The taxation system also plays a role. In particular, the different way in which the tax allowance is calculated for self-employed and employed workers is pointed out as a problem. While employees are granted a standard allowance, the self-employed deduct their expenses from their business incomes. This deduction can be smaller than the standard allowance, and it also lowers the pensionable income. Our informants were also concerned with the choice of single proprietorship versus limited company as the form of business organisation, and some argued that the difference between the organisational forms was excessive for those whose incomes vary greatly from one year to the next. The question is whether solutions can be identified to even out the tax implications of fluctuating incomes.

In this chapter we also examine challenges associated with various welfare benefits. In general, self-employed workers have poorer coverage under the national insurance system when it comes to sickness benefit, but they can buy insurance that guarantees payments equal to those for employees. Self-employed workers with low incomes may have problems in prioritising such insurance premiums. Advisors and self-employed workers also note that units in the Norwegian Labour and Welfare Agency (NAV) may have little knowledge about self-employed workers or people with combination incomes, meaning that responses from the units may vary. Moreover, those who have worked for many different clients may have difficulty in obtaining all the necessary documentation.

Unemployment benefit is granted only to employees and freelancers, and not to self-employed workers. Their ability to cope with brief periods with no income may vary, but most of the self-employed workers whom we have interviewed report to be able to make ends meet. The lockdown caused by the COVID-

19 pandemic in March 2020 was particularly problematic. The compensation scheme helped some more than others, and normally no such scheme is available. However, some informants clearly state that the ability to secure enough assignments to earn a sufficient income is a precondition for being self-employed.

Our informants highlight pensions as their greatest problem. Few of the self-employed and freelancers in the lowest income brackets have established a pension plan, and they often have little knowledge about what pension payments they can expect from the national insurance system. A further problem for self-employed workers is that saving for a retirement pension will reduce the pensionable earnings in the national insurance system as well as the life-long pension for those with the lowest incomes. For these workers the alternative is to buy individual pension insurance, but this scheme allows only a maximum contribution of NOK 15 000 (approx. 1 500 euro) per year.

The informants have differing opinions as to whether the welfare schemes for self-employed workers and freelancers should be mandatory or voluntary, and whether they should be universal or targeted. Mandatory schemes can be funded by a tax imposed on the self-employed or by a client tax imposed on clients. Some are concerned that increased taxes will drive down their fees, while others believe that this can gradually be worked out. Voluntary schemes can be designed in a variety of ways, but it is hard to know how strong the incentives need to be in order to increase their uptake among self-employed workers from the current level. Other types of schemes might also improve the situation for the self-employed, and the need for measures to improve knowledge about the various schemes and regulations both in NAV and among the self-employed themselves is pointed out.

In Chapter 6 we discuss how the schemes designed to ensure pensions and incomes in non-working periods can be improved for self-employed workers and freelancers, and we point out that there is no single solution to resolve the challenges that this group faces. Finally, we outline some possible roads ahead.

- We consider that two areas in particular stand out as problematic: income security during long-term illness and retirement pensions. Further work should therefore include these two as a minimum.
- The schemes for employees are funded by the employer and employee jointly. Improving the schemes for self-employed workers will also require the self-employed to take responsibility for funding, thus to ensure a balance between the funding arrangements for different groups.
- Mandatory rather than voluntary schemes appear to be best suited for solving the problem of income security for self-employed workers and freelancers. There is little reason to believe that the majority in this group will join voluntary schemes, unless their income level changes drastically from the current

level. A mandatory scheme will mean that a certain proportion of the incomes from self-employment or freelance work will have to be set aside to pay for the scheme. This will reduce the freedom of the self-employed to invest this income in their business, and may also reduce the income needed for subsistence. If such a scheme is universally applied, one possible consequence will be a general increase in remuneration levels, so that the income from self-employment in practice will not decline. In this context, it will be interesting to examine the mandatory scheme in Finland to identify its impact on the self-employed. Alternatively, a mandatory employer's contribution could represent a solution that ensures funding of the schemes, while also making the reason for the price markup visible to clients.

- If mandatory schemes are to be introduced, it should also be considered whether they should be applied universally or restricted to specific groups. A challenge associated with restricting them is that they might lead to adaptation or circumvention to enter or leave the scheme. A possible distinction can be drawn between self-employed workers who deliver goods and those who deliver services. Those who deliver goods will be better able to maintain their income in periods without work, while this will be harder for those who deliver services.
- Pensions for self-employed workers with incomes below 7.1 times the basic amount in the national insurance scheme (approx. NOK 755 000 in 2021) presents a special problem, due to the connection between the pension system and the taxation system. To solve this problem, a more detailed study will be required. As of today, neither saving in an income-based pension scheme, nor an individual pension savings plan represents a good alternative for low-income self-employed workers. This problem is in many ways linked to the pension reform, which gave employers a wider responsibility for pension schemes for private-sector employees. This is a conundrum that needs to be solved to prevent self-employed workers in this group from ending up with a minimum pension. Changes to both the taxation and benefits systems could be considered, ranging from the introduction of a standard tax allowance for self-employed workers or establishment of a separate pension scheme for this group. As shown by this report, there is little information available on the scope of pension savings among the self-employed, and this ought to be identified.
- Having an individual pension savings account means that pension contributions from multiple employers can be kept in a single account, but this seems less feasible for those who earn combination incomes and have no permanent employment. The possibility of combining payments from different pension

schemes, including the individual pension savings scheme, should also be further explored.

- The competence of NAV when it comes to calculating sickness benefit for workers with combination incomes has been a source of frustration among the informants in this project. We cannot say whether this is a significant problem or not, but a possible remedy could be to establish a separate contact centre/information hub for workers who are self-employed, freelancers or earn combination incomes.