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The Future of Social Protection: What works for non-standard workers?

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Key facts about the future of social protection in OECD countries

Non-standard work is not a marginal phenomenon: one in six workers is self-employed across the OECD on average, and a further one in eight employees is on a temporary contract. The number of online platform workers, while still small overall, is growing rapidly.

Social protection of non-standard workers is often patchy, especially for the self-employed. Policy issues include: who should be liable for their **employer contributions**? How should means-tests take account of **fluctuating earnings**? And how can **involuntary loss of work** be established if there is no employer?

Several countries have opted for **voluntary schemes** to extend social protection coverage to non-standard workers. But these schemes risk **adverse selection** of members: the workers with the highest risks have the biggest incentives to join the scheme making risk pooling difficult.

Unequal social protection can introduce bias: firms may shift work to workers who are less protected due to lower cost. **Including some employment forms in the general** social protection **system** can limit the rise of non-standard employment, as seen in Italy and Austria.

Rapid and deep technological changes driven by the digital revolution, together with globalisation and demographic changes, are creating many new job opportunities but also new challenges. In particular, these transformations are contributing to the rise in non-standard forms of employment – self-employment, temporary work, and 'independent contracting'.

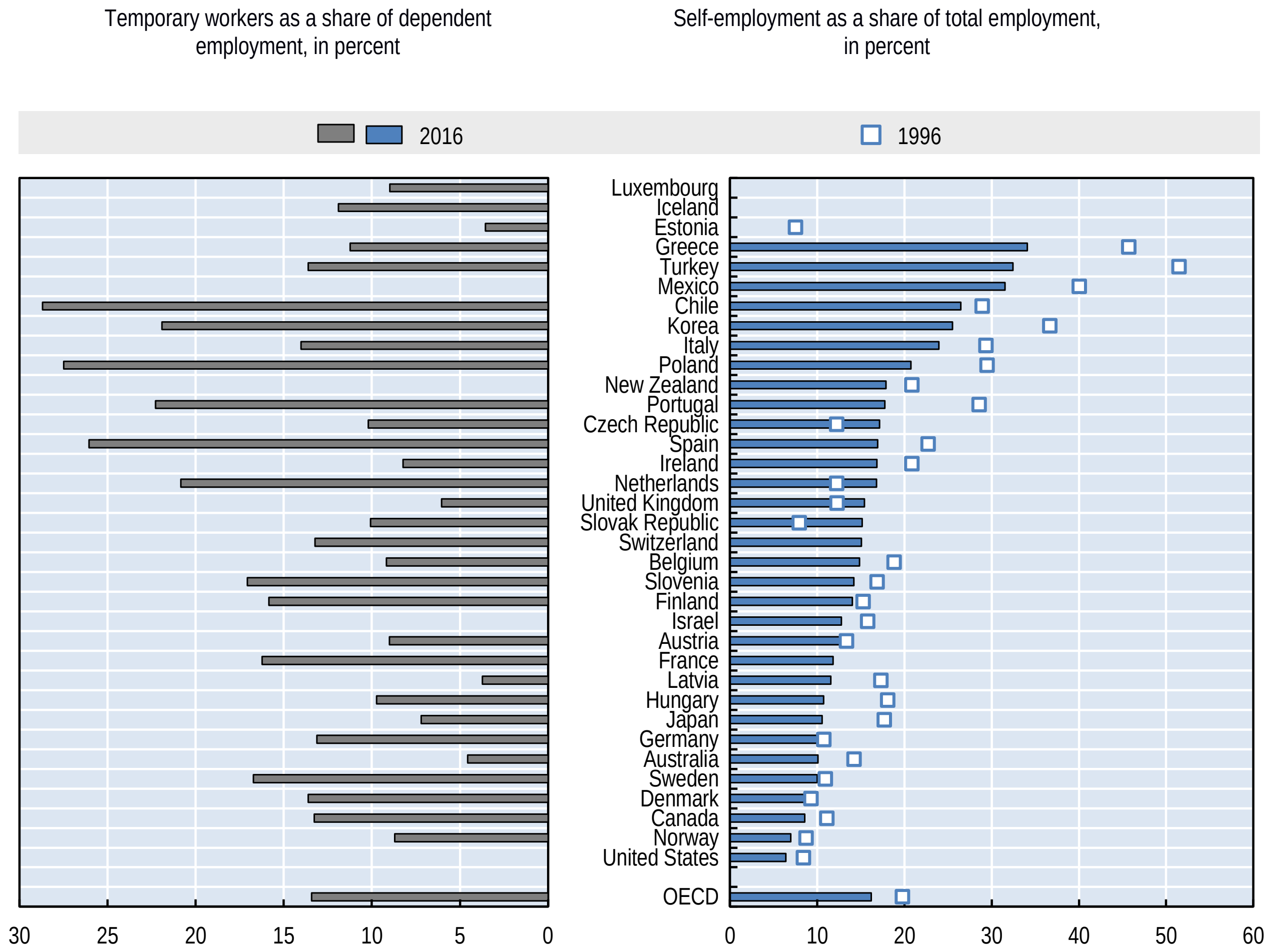
It has become easier and cheaper to offer and find work online. Digitalisation lowers transaction costs, allowing firms to outsource more activities, and blurring the boundaries of the firm. Jobs for digital platforms – gig jobs – have grown spectacularly in recent years, although they still account for a very small share of workers in OECD countries (e.g. Katz and Krueger (2016)).

Non-standard forms of employment offer valuable flexibility to some workers, and reduce barriers to employment to those excluded from the labour market. They can also facilitate the integration of services in the cash economy into the formal economy, as transactions are recorded by the platform (OECD, 2018). But workers are also exposed to new risks: for example, gig or crowd workers are given contracts for specific tasks, and thus have little if any job security. Given their formal classification as self-employed or employees but with very short-duration contracts, they also tend to have less access to social protection. For firms, in turn, there are benefits from paying lower or no social contributions, fewer employment regulations, and task-specific expenditures rather than permanent salaries.

Rising numbers of non-standard workers may also erode the effectiveness of social protection systems. If taxes and social contributions are payable only for some categories of workers, firms have an incentive to shift work to workers who are less protected and less expensive.

Non-standard work is not a new phenomenon: on average in the OECD, 16% of all workers are self-employed and a further 13% of employees are on temporary employment contracts; self-employment has actually decreased slightly over the past 20 years (although this development was uneven across countries, Figure 1). But if non-standard work increases due to globalisation and digitalisation, closing gaps in social protection will become more urgent. Today, only 6 out of 28 European Union member states insure the self-employed in the same way as standard employees (Spasova et al., 2017).

Figure 1. Non-standard work is widespread in some countries



Note: There are no data on temporary employment for Israel, Mexico, New Zealand or the United States, no data on self-employment for Iceland, Luxembourg and Estonia (after 2000); no data on France before 2003 and Switzerland before 2005. Data on self-employment for Turkey and the UK refer to 2000, for Spain to 1998, for Austria to 1999, for the Slovak Republic to 2000 and 2015, and for Latvia to 1998 and 2014. Data is ordered according to the share of self-employment in total employment in 2016 in descending order.

Source: OECD (2017), "Labour Force Statistics: Summary tables" and OECD Employment and Labour Market Statistics (database).

The forthcoming OECD publication *The Future of Social Protection: What works for non-standard workers?* looks at policy examples from seven OECD countries and draws lessons on what does and does not work. This brief highlights key insights from these case studies.

Why are non-standard workers often not covered by social protection?

Social protection systems were designed with the model of a single, stable, full-time employment relationship in mind. Part-time and temporary workers are typically insured in the same way as standard workers as long as they meet the income and minimum contribution requirements. But the self-employed, those who often switch jobs, or those combining self- and dependent employment do not easily fit into the framework of contributory social protection systems for a number of reasons.

First, it is not clear who should be liable for their **employer contributions**? Having the self-employed pay both employer and employee contributions is unrealistic for many, as self-employed earnings are typically dispersed, with a high share of low-earners – e.g. one-in-four self-employed workers in France earns less than EUR 12 000 per year (Cahuc, 2018). But subsidising their contributions may create the wrong incentives and raise issues of fairness. In addition, low-earning self-employed people may ultimately receive very low benefits, especially from earning-related schemes such as pensions. Charging their clients and customers – as done in the German artists' insurance scheme (see Box 1) – is an interesting approach to address this challenge; writers and artists are covered for health, pensions and long-term care insurance, but not for unemployment.

Box 1. Customers contribute to social protection: The German artists' insurance

The German artists' insurance is a special scheme that offers artists and writers insurance at a subsidised rate. Membership is mandatory but low-earning artists and those with high incomes or private insurance can be exempt. Qualifying writers and artists only pay employee social security contributions that make up half of the scheme's total budget; institutions that rely on the services of artists and writers (e.g. publishers, theatres, libraries or private companies), contribute proportionally to their use of artists' and writers' services, covering 30% of the overall cost. The remaining 20% is covered by a public subsidy, justified by private households' consumption of art and writing. All expenditure on artists' and writers' fees is subject to a contribution, regardless of the authors' status, to limit market distortion and avoid incentives to contract instead of hire artists and writers.

Compliance and administrative costs seem comparable to those in the general system. Companies are required by law to declare their expenditure on artistic and writing services. Since 2015, the German Pension Fund has been inspecting companies for compliance with the artists' insurance as part of every regular social security inspection. This keeps administrative costs low, and has led to a jump in contributing companies by 50 000 within two years. Fund membership has continually risen over the past twenty years, and stands at 0.5% of total employment in Germany.

While the artists' insurance scheme seems effective in securing customers' contributions, providing artists with adequate pension entitlements remains challenging. Declared earnings are very low: in 2016, on average, male artists earned just 54% and female artists just 40% of average overall gross earnings in Germany. Combined with the unstable career patterns of many artists and writers, pension entitlements from the artists' insurance alone will likely not protect against old-age poverty. Many fund members might therefore have to rely on tax-financed social assistance in retirement age.

Most self-employed artists and writers combine their artistic work with other income. A high share of enrolees report incomes just above the minimum threshold for eligibility. This probably indicates interest in gaining access to health and long-term care insurance, as even minimum contributions guarantee full coverage.

Source: Tobsch and Eichhorst (2018).

Second, the self-employed often have **fluctuating earnings** – because they are paid at irregular intervals, because of time-lags between work and payment, or because of erratic demand for their services. Even if contributions (and entitlements) are annualised, contributors might struggle to pay in bad years. The self-employed also have some control over the timing of their payments which can complicate the assessment of eligibility to means-tested benefits.

Third, unemployment insurance for the self-employed raises **moral hazard** issues: they have no employer to confirm that they have no work – it is therefore hard to assess whether they are in fact involuntarily unemployed. Job-search efforts are also harder to monitor than for standard employees. As a consequence, unemployment is the least-insured risk for non-standard workers (Avlijas, 2018). Box 2 presents various approaches countries use to get around this problem.

Box 2. How to define unemployment for the self-employed

- In Sweden, self-employed workers have to close down their business before claiming benefits. Because setting up a business has a significant administrative cost, this is an expensive check, which seems to work: over the 2004-2016 period, the average unemployment rate among insured self-employed workers was 4%, compared to 7% among dependent employees (Kolsrud, 2018).
- In Austria, self-employed workers have six months to decide whether to opt into voluntary unemployment insurance upon starting their business – this decision is binding for eight years (Fink and Nagl, 2018). This check is designed to prevent those whose business is winding down to opt in just before collecting benefits. It has the drawback, however, that it asks start-ups to commit to a long-term fixed cost just as their finances are the tightest. In 2015, only 0.3% of all eligible self-employed persons opted into this insurance.
- In Belgium, only self-employed workers whose company went bankrupt, or who had such a low income from self-employment that either their social security contributions were waived or they did not reach a minimum earnings threshold (around EUR 13 000) for two years are entitled to benefits.

Potential avenues for reform

Gaps in the social protection of non-standard workers can be closed in various ways: benefits can be untied from contributions, non-standard workers can be offered voluntary coverage, or they can be directly incorporated in the standard scheme.

Making social protection more universal

Untying social protection from the employment relationship – for example, by granting individual entitlements based on residency criteria or, for means-tested benefits, on needs rather than employment history – could prevent coverage gaps. Such benefits could be either contribution-financed, such as the Dutch basic pension scheme and the Swiss public earnings-related pension scheme, or entirely tax-financed, such as the vast majority of social assistance schemes. Some social benefits – such as health insurance and maternity or parental leave – are already universal in a number of OECD countries.

Non-standard workers may be more likely to receive means-tested benefits due to less stable careers, more part-time work, and lower median earnings. In the Netherlands, for example, the inflow rate into social assistance is nine times higher for non-standard workers than for dependent employees (de Graaf-Zijl, 2018). In Austria, on the other hand, only 0.2% of social assistance recipients are self-employed, while they make up about 12% of total employment. This is likely due to the fact that the means test generally requires business assets to be liquidated (Fink and Nagl, 2018).

Means-testing benefits can offer support to people without dependent employment contracts, but it does not remove the need to track self-employment income. On the contrary, it becomes even more necessary, as large earnings fluctuations among the self-employed change the amount of benefits that they should receive (Whiteford and Heron, 2018).

Abolishing means-testing altogether (for example, by moving towards a basic income) would simplify compliance issues and cover non-standard workers. Financing a universal basic income in a budget-neutral way would require replacing all existing working-age benefits by a flat-rate amount. Recent OECD analysis (OECD, 2017) finds that this would lead to benefit levels below the poverty line in all OECD countries; it would also imply significant losses of specific targeted benefits and raise fairness concerns, as some individuals, such as people with disabilities, have greater needs than others.

Offering voluntary protection to non-standard workers

Several countries have opted for voluntary schemes for non-standard workers: in 2009, Austria introduced a voluntary unemployment insurance option for the self-employed (Fink and Nagl, 2018); in 2014, Spain made its protección por cese de actividad de los trabajadores autónomos (unemployment benefit for the self-employed) voluntary.

Voluntary schemes, however, risk adverse selection of members: those self-employed workers with the highest risk have the biggest incentive to join the voluntary insurance scheme. If the scheme is entirely self-funded, this can lead to a vicious circle of contribution hikes and low-risk members leaving.

Sweden introduced experience rating in the unemployment insurance in 2007/08, raising average premiums by 300%. As a result, membership in the voluntary Unemployment Insurance Funds dropped by around 10 percentage points. Those generating the lowest expenses were most likely to leave the funds: workers over the age of 60 who have the lowest unemployment risk of all age-groups, and those under the age of 25 who, despite a high unemployment risk, have very low unemployment durations, low earnings and thus low entitlements (Kolsrud, 2018).

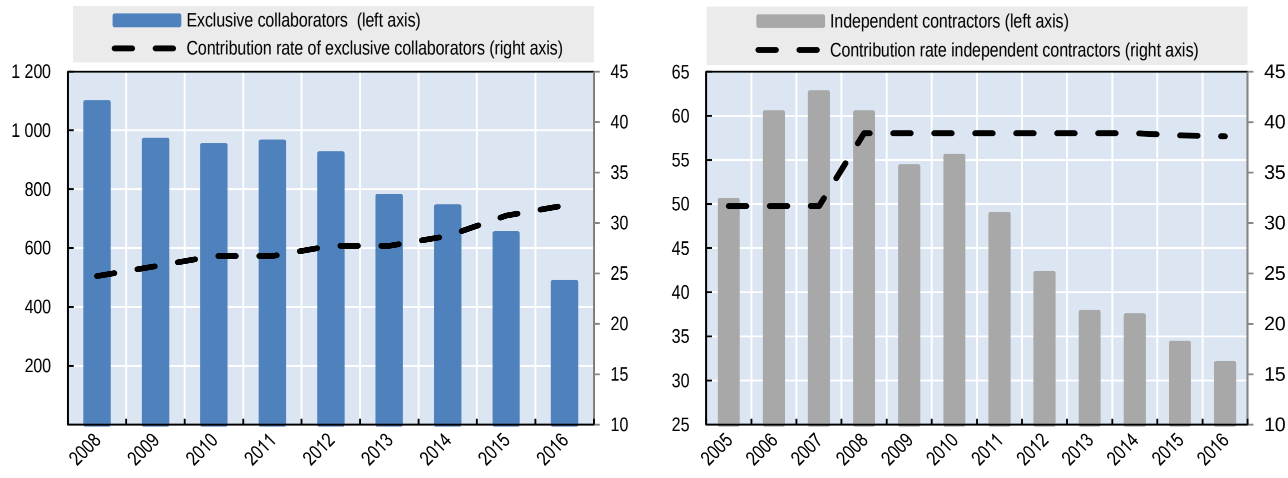
In Canada, since 2010 self-employed workers have been able to voluntarily contribute to the Special Benefits for Self-employed Workers (SBSE) scheme to gain access to maternity and parental benefits, sickness benefits and care benefits for ill family members. Benefit entitlements and contribution rates are the same as for dependent employees, and employer contributions are covered by a public subsidy. An evaluation of this programme (Employment and Social Development Canada, 2016) found strong indications of adverse selection: over three-quarters of claims were for maternity and parental benefits, and two-thirds of opt-ins were women (who represent only 43% of all self-employed workers), while two-thirds were between the ages of 25 and 44 (compared to just one-third of all self-employed). People opting in also had significantly lower incomes than other self-employed workers. In 2011, the first year benefits were paid out, premiums covered less than one-third of all payments.

In Austria, self-employed workers can opt into an income replacement programme in case of short-term illness, and about 8% of all eligible self-employed do so. In 2016, nearly half of those who were covered received a benefit, and the average benefit duration was 22 days, nearly twice the average duration of sick-leave among (compulsorily insured) dependent employees. In response to the scheme's deficits, the minimum benefit was cut significantly in 2017 (Fink and Nagl, 2018).

Figure 2. Social protection coverage influences the use of non-standard work

Panel A: Number of exclusive para-subordinate collaborators (in 1 000s, left axis) and social security contribution rates of exclusive para-subordinate collaborators (in percent, right axis), **Italy**, 2008-2016

Panel B: Number of independent contractors (in 1 000s, left axis) and social security contribution rates of independent contractors (in percent), **Austria**, 2005-2016



Note: Exclusive para-subordinate collaborators collaborate on short- or long-term projects and are neither retired nor do they have income from dependent employment. They are the biggest group of *para-subordinates*, making up roughly 60% of all *para-subordinates* in 2008 and 40% in 2016.

Source: Panel A: Adapted from Raitano (2018). Panel B: Adapted from Fink and Nagl (2018), contribution rates from *Hauptverband der Österreichischen Sozialversicherungsträger*.

Voluntary social protection schemes will only be financially viable if coverage rates are very high. But in some cases workers seem to be willing to pay more for social protection: the increase in Swedish UI fund premiums, while high in relative terms, only amounted to about 1% of median net-wages in 2008; at the same time, a tax credit was introduced that raised net earnings by about 5% for the median worker, so most workers could have paid the higher premiums and still have gotten an increase in take-home pay. Nevertheless, one-in-eight members left the Unemployment Insurance Funds (Kolsrud, 2018).

Harmonising rules for standard and non-standard work

Some countries have employment forms that sit on the border between self- and dependent employment; often, these are independent contractors who perform services for few or only one client.

In Italy, *para-subordinate* workers are self-employed, but highly dependent on one or very few clients. They used to pay lower contributions into the notional defined contribution (NDC) pension scheme, implying lower pension entitlements, and were not covered for unemployment or sickness benefits. This resulted in significantly lower non-wage labour costs, and rising numbers of para-subordinate workers. In response, Italy gradually increased their contribution rates (and thus prospective benefits). The social security contribution rate increased by 7 percentage points between 2007 and 2018, while the number of *para-subordinate* workers more than halved (Figure 2, Panel A) (Raitano, 2018).

Similarly, in Austria, independent contractors (*freie Dienstnehmer*) control their own working time and workflow, but are contracted for their time and effort. Concerns that employers might use this form of employment to evade the compulsory social protection system drove their stepwise integration: since 2008, independent contractors are liable for the same social security contributions as standard employees.[1] Their number began to fall following the reform, and was at its all-time low in 2016 (Figure 2, Panel B).

1. They have to contribute to pension, health and accident insurance since the late 1990s; in 2008 they were incorporated into the unemployment insurance system, the insolvency remuneration fund, the chamber of labour and the severance pay scheme *Abfertigung neu* (a form of portable employer-funded pension account).

Policy lessons

- ***Where possible, countries should try to harmonise social security contributions across forms of employment***

  Including workers that sit on the border between dependent and independent forms of work in social protection schemes not only help to close coverage gaps, but can be effective in ensuring that social protection systems cover those who are most at risk.

  Including some specific employment forms in the general social protection systems can limit the rise of non-standard employment, as shown by the policy reform experiences in Italy and Austria.

- ***Voluntary schemes do not seem to work well for non-standard workers***

  Any insurance depends on risk sharing across members. With a voluntary insurance scheme, those who have the highest risk have the greatest incentive to join. Unless a voluntary scheme achieves a very high coverage rate, this adverse selection either leads to a downward spiral of rising premia and falling coverage, or to additional costs in the system. High coverage rates, in turn, may require public subsidies, as the willingness to pay voluntarily for social protection appears to be low in some cases, as seen, for example, in Sweden where voluntary unemployment insurance coverage fell after a moderate rise in contribution rates in 2007/08.

- ***Social protection systems should clearly differentiate between contributory and non-contributory schemes***

  Non-contributory schemes offer basic, tax-financed social protection, whereas contributory schemes offer more lifestyle-preserving protection to those who paid into the scheme. To improve transparency and fairness, countries should clearly differentiate between the two.

  If, however, separate structures for employees and the self-employed are preserved, contributions should cover all or most of the costs to ensure equal treatment.

- ***Making entitlements portable supports mobility across jobs and forms of employment***

  Untying entitlements from specific relationships with employers, and tying them to individual contributions instead, not only makes it easier for workers to switch jobs, but it also makes it easier for them to switch between self- and dependent employment. Furthermore, it facilitates the harmonisation of entitlements across contractual arrangements. Individualised forms of social protection, however, can only offer protection if sufficient contributions are paid by or on behalf of the beneficiary.

  Austria offers an interesting policy lesson in this respect when, in 2003, its severance pay scheme was replaced by company-based pension accounts. While the old severance pay entitlements benefitted only laid-off employees, all workers now have a company-based pension account, which is portable across jobs. This measure increased job mobility for workers in distressed firms (where a plant closure or mass layoff will take place in the near future, Kettemann et al. (2016)). As the pension accounts are tied to the individual, and employers contribute a fixed rate of individual earnings, it was easy to extend the programme to independent contractors in 2008.

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