Key results

Self-employed workers with a taxable income (i.e. net of social security contributions) equal to the net average wage before tax (gross wage net of employee's contributions) can, on average in the OECD, expect to receive an old-age pension equal to 75% of the pension of the average-wage dependent worker in the private sector.

While the self-employed are required to participate in earnings-related pension schemes in most countries, they only contribute in a similar way to employees in Canada, Costa Rica, the Czech Republic, Estonia, Korea, Lithuania, Luxembourg, Portugal, Slovenia and the United States. Even in these countries, insufficient compliance with rules may undermine pension coverage.

In 19 countries, while self-employed workers are mandatorily covered by earnings-related schemes, pension coverage is limited because they are allowed to contribute less than employees, through reduced contribution rates (Austria, Belgium, Chile, France, Iceland, Israel, Italy, Latvia, Norway, Sweden and Switzerland), a flat-rate contributions (Colombia, Greece, Hungary, Poland, Spain and Turkey) or minimum income thresholds below which they are exempt from contribution obligations (Austria, Chile, Finland, Latvia, the Slovak Republic and Turkey). In Australia, Denmark, Germany, Japan, Mexico and the Netherlands, the self-employed are, in contrast to employees, not required to join earnings-related schemes. Finally, in Ireland, the self-employed participate in contribution-based basic schemes on similar terms as employees while the earnings-related schemes are voluntary for all.

In countries where the self-employed are not required to contribute to earnings-related pension schemes the relative pension level is among the lowest as the old-age pension of the self-employed is limited to first-tier benefits. In the full-career case, the relative pension of the self-employed is about half that of employees or even much lower in Mexico (32%), Japan (34%) and also Denmark, Germany, the Netherlands and the United Kingdom. Among countries with no mandatory contributions to earnings-related pensions by the self-employed, Australia stands out, as the means-tested basic pension gives the self-employed 86% of what average-wage employees get from the mandatory earnings-related scheme.

Low relative pensions for the self-employed - between 40% and 65% of employees' pensions - are also projected in Greece, Poland, Spain and Turkey where only flat-rate contributions to earnings-related schemes are mandatory for the self-employed, and in Latvia, where mandatory contributions above the minimum wage are reduced substantially. In Hungary, almost 60% of the self-employed pay taxes under the so-called KATA flat-rate regime that allows them to pay low flat-rate mandatory contributions, which leads to the lowest future relative pensions of 18%.

Lower contribution rates and a reduced contribution base result in lower pensions from mandatory earnings-related schemes for the self-employed relative to employees with the same taxable earnings in many countries. For example, in France (points scheme) and Italy, reduced contribution rates directly affect entitlements within the public system while in Norway, Sweden and Switzerland pensions are lower because the self-employed pay no or reduced contributions to mandatory funded schemes. As a result, pensions of the self-employed relative to employees reach 49% in Switzerland; around 65% in Israel and Italy; between 75% and 90% in Belgium, Chile, the Czech Republic, France, Norway, Portugal, the Slovak Republic, Slovenia and Sweden; and above 90% in Canada, Costa Rica, Estonia, Iceland, Korea and Lithuania.

Lower contributions of the self-employed do not always result in proportionally lower pensions. For example in the Czech Republic, progressive replacement rates result in the relative theoretical pensions of the self-employed reaching 85% even though the contribution base is set at only 50% of taxable income. In Belgium and Norway, the reduced contribution rates to public schemes do not reduce the benefits implicitly while in Austria and Costa Rica the reduced contributions of the self-employed are explicitly topped up with taxes.

Some countries calculate pensions of the self-employed based on gross income, i.e. income before deducting contributions. This leads to higher pensionable earnings "all else equal" in the case studied here (taxable income of the self-employed equal to the net wage before tax) when the contribution rate paid by the self-employed is higher than the employee part for dependent workers. Hence, the theoretical pension of the self-employed is slightly higher than that of employees in Austria and Luxembourg. The United States allow the self-employed to deduct half of social security contributions before calculating the contribution base. Given that employees and employers pay equal shares of contributions, this deduction equalises theoretical pensions between the self-employed and employees.

Definition and measurement

Theoretical pensions of a self-employed worker relative to an employee assumes that both have a taxable income (net income or net wage before taxes) equal to the average net wage before taxes, their career starts at age 22 in 2020, they do not face any interruptions and they retire at the normal retirement age. They contribute the amount that is (quasi) mandatory to pensions.

Table 5.5. **Contributions requirements to mandatory and quasi-mandatory pensions for the self-employed**

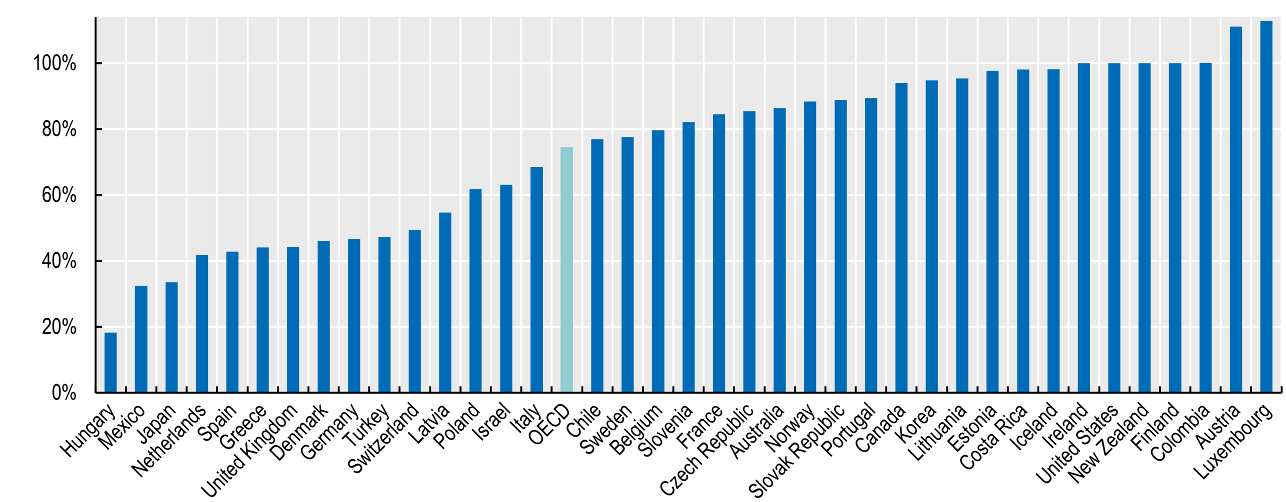
Mandatory or quasi-mandatory contributions to earnings-related schemes				Mandatory contributions to basic pensions only	No mandatory pension contributions
Employee-like	Reduced contribution rate	Only flat-rate contributions mandatory	Regular contributions mandatory only above income threshold		
Canada	Austria	Colombia	Austria	Ireland	Australia
Costa Rica	Belgium	Greece	Chile	Japan	Denmark
Czech Republic	Chile	Hungary	Finland	Netherlands	Germany
Estonia	France	Poland	Latvia	United Kingdom	Mexico
Korea	Iceland	Spain	Slovak Republic		
Lithuania	Israel	Turkey	Turkey		
Luxembourg	Italy				
Portugal	Latvia				
Slovenia	Norway				
United States	Sweden				
	Switzerland				

Note: Employee-like means that self-employed are covered by the same or equivalent schemes as employees, have the same contribution rates and thresholds, and that their contributions are income based. In Ireland neither self-employed nor dependent workers are covered by mandatory or quasi-mandatory earnings-related schemes but basic pensions are financed with contributions.
Source: Country Profiles available at *http://oe.cd/pag*.

StatLink *https://stat.link/z3f0ut*

Figure 5.5. **Theoretical relative pensions of the self-employed as % of those of employees**

Theoretical pensions of a self-employed worker relative to an employee having both a taxable income (net income or net wage before taxes) equal to the average net wage before taxes, for individuals with a full career from age 22 in 2018 and contributing only the amount that is (quasi) mandatory to pensions



Source: OECD pension models.

StatLink *https://stat.link/bnf5s1*

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