Editorial – Pensions for non-standard workers

The world of work is changing. Mega trends, such as digitalisation, globalisation, and demographic and climate change are transforming our economies and societies. Many new opportunities for growth and development are emerging, but also some clear challenges with increasing numbers of people with unstable working conditions, often in temporary or part-time jobs, and with low and intermittent earnings. New technologies make it easier and cheaper to offer and find work on-line, and platforms have seen an exponential growth in recent years, even if they still account for a small share of employment across the OECD. Overall, non-standard employment, including self-employment, accounts for more than one in three jobs in OECD countries. Non-standard workers are a very diverse group, but on average, they earn less on an hourly and especially yearly basis. For example, a median full-time self-employed person earns 16% less than a full-time employee, on average across the OECD.

What does this mean for workers' social protection? Most social protection systems were built on the premise of stable, linear careers, often with only one employer, and thus are ill equipped to provide adequate income security for non-standard workers. Many of them, be it in self-employment, short-term, gig, platform or click work, risk falling through the cracks.

These developments challenge all branches of social protection, but one stands out in particular due to its long-term impact: the provision of old-age security. For pensions, the future of work is now. Many countries have tightened the links between contributions and pension benefits and thus, to reach an adequate pension, contributions have to start early and continue for the whole career. Countries have long recognised this; they have therefore made membership in pension systems mandatory for most workers and are encouraging participation in voluntary occupational and personal pension plans.

But as always, the devil is in the detail. Workers on fixed-term contracts should in theory be covered, as most countries align rules with those for standard workers. The problem is largely about the level of expected benefits given their patchier and generally lower contributions. However, in some countries, for some specific groups, reduced or no pension contributions are required for self-employed workers, temporary agency workers, young workers, seasonal workers, apprentices and/or trainees.

Ensuring pension coverage for the self-employed is much more difficult. Without a formalised employment relationship, it is not clear on what basis pension contributions should be levied. For employees, contributions are often based on the gross wage, but this does not correspond to any category of a self-employed worker's earnings. Also, it is very difficult, if not impossible, to distinguish between labour and capital income. Still, most OECD countries require the self-employed to contribute to their mandatory pension systems. Why then is pension coverage still a challenge?

Even if as affiliates of a pension system, the self-employed often pay lower contribution rates than employees with similar earnings. The self-employed also have more control over determining the contribution base, which often results in lower amounts going to pensions. Combined with lower earnings and the closer links between contributions and benefits, this

means that many self-employed workers can expect significantly lower pensions than standard employees.

In some cases, lowering the contribution burden for the self-employed is intentional and pursued to reach other policy objectives, such as promoting entrepreneurship or raising take-home income of groups such as farmers or artists. Simulations in this edition of *Pensions at a Glance* compare the rules for self-employed workers with those for dependent workers, both earning the average wage. Even assuming contributions during a full career the self-employed end up with 79% of the pension benefit dependent employees would receive from mandatory schemes, on average across the OECD.

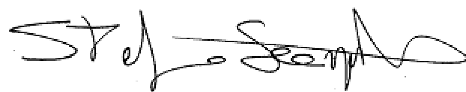
In occupational pensions, too, non-standard workers are at a disadvantage: they are often excluded from company schemes, vesting periods penalise workers who switch jobs frequently and pension rights acquired in one employment relationship are often not fully portable when a worker moves to another job. The self-employed obviously do not have access to employer schemes and can only rely on old-age safety nets and their own retirement savings.

To solve the pension dilemma for non-standard workers a comprehensive approach is needed. Taking a life course perspective is key: it starts by improving earnings prospects, career stability and advancement, which in turn enables people to build pension entitlements. Both mandatory and voluntary pension schemes should aim to treat the self-employed in similar ways as dependent employees and align the rules of participation. If policy seeks to provide more favourable contribution conditions to certain groups of workers, this should not come at the expense of lower entitlements; instead, pension contributions could be subsidised from other sources, at least for low earners.

Earlier this year, in its 2019 edition of the *Employment Outlook* fully devoted to the Future of Work, the OECD called for a *Transition Agenda for a Future that Works for All* – a whole-of-government approach that targets interventions on those who need it most. Such an agenda adopts a life course approach, covering education and skills, public employment services, social protection and family policies, but also labour market regulation, taxation and even housing, transport, competition law and industrial policy.

All of these measures will help workers earn not only better incomes but also higher pension entitlements. In the OECD's 2018 survey *Risks that Matter* we asked people in 21 countries about their biggest concerns for the future. On average, roughly 82% of respondents aged 55 to 70 list finances in old age among their top-three long-term concerns. But many younger people also picked this as a top concern.

Governments should heed this call and act now to improve pension prospects for all workers as part of the *Transition Agenda*. Policies to build inclusive and well-coordinated systems of contributory and non-contributory, public, occupational and personal private pensions will help ensure well-being for all in old age. Some creativity and new solutions will be required to address the specific situation of non-standard workers. This edition of *Pensions at a Glance* contributes to the debate by setting out a series of measures that can serve to meet this objective.



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