



Freelancers, Self-Employment and the Insurance against Social Risks

Uwe Fachinger

University of Vechta, Germany

Anna Frankus¹

FFC, Bremen, Germany

Abstract. In contrast to dependent employees, most self-employed people are free to choose if they wish to insure themselves against social risks such as longevity, illness, or long term care. Alongside the general protection scheme, which provides security at a minimal level, self-employed people are not or are only partially covered by statutory systems. And even in case of coverage, statutory social security provisions for self-employed persons vary greatly. Unfortunately, we know very little about the situation of self-employed people regarding the protection against social risks, as reliable data is missing. Therefore the state of knowledge is far from satisfying. However, the few available findings indicate that large groups are not covered at all. Against the background of the upsurge of these professions, this lack of coverage is indicative of an increasingly precarious position or social exclusion of those groups.

Keywords: social risks, insurance, social security, self-employment, independent professionals.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

Unlike dependent employees, a large proportion of self-employed people are not included in social security systems. Alongside the general protection scheme, which provides a minimal level of security, self-employed people are not or only partially covered by statutory systems. And even in case of coverage, the statutory social security systems for the self-employed are very heterogeneous (Directorate-General for Employment, 2014). Indeed, there is no common denominator for the theoretical construction of a social security system targeted specifically at self-employed people. In some countries a voluntary form of social insurance exists – sometimes fiscal incentives are established and/or savings are subsidised by the government through tax exemptions or reductions. Self-employment, though a cross-national phenomenon, displays country-specific

1. Corresponding Author: Anna Frankus, FFC, Bürgerwohlsweg 112, D - 28215 Bremen, Germany. Email: anna.frankus@t-online.de Ph: 0049 (0)421 376 24 35.

characteristics which become clear if the development over time, the branch distribution or the social risks are considered.

Self-employed people in all parts of the world are, at least to a certain extent, free to choose whether and the extent to which they wish to insure themselves against social risks such as longevity², illness, long term care, disability, invalidity, lack of orders³, shortfall in payment, bankruptcy, widowhood, etc.⁴

The occurrence of a social risk during working life leads to a break of employment, a loss of income and in some cases – such as illness - to additional financial burdens. To cope with such a situation, to maintain one's living standards and to avoid social exclusion, one option is to acquire ancillary insurance in addition to the general protection scheme. However, for some risks, such as bankruptcy, this is not always possible, as no insurance market exists.

As self-employed people are insufficiently insured against social risks, they are unable to compensate for financial losses thus caused. This has negative external effects and results in social exclusion. In addition, it contradicts social policy aims in Europe and counteracts the goal of the European Commission and of most member states of fostering self-employment. In order to avoid such consequences and to find measures capable of improving this situation, it is necessary to first ascertain how exactly self-employed people are currently protected against social risks.

However, each of these social risks has its own logic regarding the mechanisms of financing and the construction of benefits. To get a better understanding it is necessary to start with the analysis of each single social risk. Only then can the problems and the advantages of specific measures or regulations for self-employed people be fully observed.

Looking at the development over time, self-employment, though being a cross-national phenomenon, displays country-specific characteristics in terms of its distribution between economic sectors and the extent to which self-employed people are covered by insurance systems against social risks. In addition, for each social risk not just one insurance scheme, but a number of different schemes exist which seek to minimise the relevant risk's consequences for self-employed persons. Germany provides a good example for the heterogeneous nature of insurance against the risk of longevity. This is briefly examined below.

2. The risk of running out of money due to increasing life expectancy.

3. This is the equivalent to dependent workers becoming unemployed.

4. A basic, although not comprehensive overview is provided by: Directorate-General for Employment (2014), or Schoukens (2000) (outdated). For a short overview of the protection in Nordic countries see e.g. Ulmestig (2013), and for Eastern Europe Schoukens (2002) (outdated to some extent).

2. Case Study: Insurance Against the Social Risk of Longevity in Germany

As can be seen in the following tables, mandatory systems specifically tailored to self-employed people do exist. Table 1 gives an overview of the mandatory old-age provision for the self-employed. The specific profession is listed in the first column. The mandatory system is stated in the second column and, if there is a supplementary system in which the insurance is mandatory, this is listed in the third column. However, the heterogeneity goes even beyond old-age pension provision, and specific features exist which also have to be taken into consideration. These include:

- the social security scheme for artists and writers, which also covers the risk of health and long term care,⁵
- the *Versorgungswerke* for the free professions (which even when employed are exempt from the statutory old age pension system and are allowed to join in the special system) and
- the federal insurance body for farmers. This system is tightly connected to measures of agricultural policy.

As is apparent from the table, not all self-employed people are included in mandatory insurance schemes sponsored by the state. An especially large section of the population engaged in freelance activities is not covered.

Furthermore, the situation becomes even more complicated and heterogenic when the financing of the statutory old age provision is considered. This is shown in Table 2. The basis of assessment is listed in column 2 and exemptions in column 3. Column 4 shows the basic financing structure of each system. The table demonstrates that the basis for calculating pension entitlements and individual contributions together with the extent of state funding varies considerably, depending on the area of work in which the self-employed are engaged:

5. See for example: Künstlersozialkasse (2013).

Table 1: Types of mandatory old age provision for self-employed, as of October 2014

	Security system	
	Standard system	Supplementary system
Statutory insured a) homemaker (self-employed in cottage industry) b) teachers, pre-school teachers or educators, nursing professionals, midwives c) Self-employed with one client d) River and harbour pilots e) Coastal mariners and inshore fishermen	German statutory pension insurance scheme c) § 6 1a SGB VI offers an exemption from insurance for three years in the event of first time self-employment and, in the case of people who are 58 years or older, after any form of prior self-employment	d) Mutual compensation fund of the pilotage system
Self-employed craftsmen - craftsmen with an entry in the register of artisans (register of self-employed craftsmen)	German statutory pension insurance scheme with the possibility of an exemption after 18 years of compulsory membership	
District master chimney sweepers	German statutory pension insurance scheme	
Artists and writers	German statutory pension insurance scheme regulated in the act on social security for artists (KSVG)	
Farmers	Social insurance for agriculture, forestry and horticulture (old-age insurance for farmers)	
Subgroups of the liberal professions	Professional pension schemes of the liberal professions	

Source: Following Fachinger et al (2004, p. 5).

Table 2: Financing of the statutory old age provision within the German statutory pension insurance scheme for the group of self-employed, as of October 2014

	Contribution of the insured		Financing
	Basis of assessment	Exemptions	
Statutory insured			
a) Homeworker (self-employed in cottage industrie)	a) Earned income up to the earnings ceiling		a) Contributions: 50 % by the insured and 50 % by the client; additionally federal grant
b) Teachers, pre-school teachers or educators, nursing professionals, midwives, male midwives, self-employed with one client	b) Earned income in the amount of the reference value	b) Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month	b) and c) Contributions: 100 % by the insured; additionally federal grant
c) River and harbour pilots	c) Earned income up to the earnings ceiling		
d) Coastal mariners and inshore fishermen	d) Earned income which is subject to the contribution in the German Statutory Accident Insurance		d) Contributions: 100 % by the insured; grants of the Bundesländer, additionally federal grant
Self-employed craftsmen - craftsmen with an entry in the register of artisans (register of self-employed craftsmen)	Earned income in the amount of the reference value	Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month	Contributions: 100 % by the insured; additionally federal grant
District master chimney sweepers	Earned income in the amount of the reference value	Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month	Contributions: 100 % by the insured; additionally federal grant
Artists and writers	Prospective annual earnings	Exempt if earnings from professional (revenue minus expenses) work are below the minimum income limit for compulsory social insurance of 3,900.00 EUR p. a.	Contributions: 50 % by the insured, 30 % client, 20 % federal grant

Source: Following Fachinger et al (2004, p. 6).

Some research has been done on old-age provision for self-employed people in Germany. One milestone was the analysis of Fachinger et al. (2004) which gave the first comprehensive overview of the situation. Since then, the social security of self-employed people has received an increasing amount of attention. Some of the most relevant publications include those by: Fachinger and Frankus (2014), Frankus and Fachinger (2012), Koller et al (2012), May-Strobl et al (2011), Münstermann (2013), Niehues and Pimpertz (2012) Schulze Buschoff and Schmidt (2009), Schulze Buschoff (2007), Schulze Buschoff and Protsch (2006), Ziegelmeier (2010).

Basically, the work is for the most part theoretic-conceptual and descriptive with a particular focus on insurance for old-age. The findings provide some evidence that an increasing number of self-employed persons lack adequate insurance. However, most of the literature covers the self-employed in general, and does not allow for the heterogeneous nature of self-employed work. In this context the old-age provision of freelancers is practically uncharted territory for Germany.

Whilst we have at least some information about self-employed people's old-age provision, almost nothing is known about the approaches these people take towards insuring themselves against other social risks such as illness, long-term care, disability or bankruptcy.⁶ This is true not just for Germany, but also for most other countries (O'Connor, 2013, p. 57).

3. On the Situation of Freelancers

3.1. Some General Remarks

The brief summary of the situation in Germany regarding the insurance of the social risk of longevity exemplifies the heterogeneity of this group. However, freelancers also have to deal with other issues when trying to cope with social risks. These include health insurance together with the regulations concerning equal treatment on pregnancy and maternity for employees and self-employed people (European Parliament, 2010, European Commission, 2008, p. 46 ff.).

As regards health insurance, in most EU countries independent professionals and freelancers are covered by country-specific national health services. Nevertheless, this is mostly a basic insurance and is not customised to the needs of self-employed people. Usually, health-care costs, but not costs incurred by the

6. The probability of the occurrence of such risks is generally known, and an insurance market exists which covers some of these risks. However, this does not mean that the self-employed are actually insured, even if the insurance is in theory mandatory in social security systems. The 'de-jure' and the 'de-facto' insurance of freelancers sometimes deviate considerably from each other.

loss of income caused by illness are covered by the health care system. Considerable differences exist between European countries on this issue: whereas in some countries a monthly fixed amount is granted (e.g. Austria, Belgium, Netherlands, United Kingdom), in others a percentage of previous income (such as the person's declared income, his/her taxable income, gross earnings or revenue) is paid (Directorate-General for Employment, 2014). However, it may be possible to insure the risk of income loss via supplemental income insurance.

Freelancers face the additional risk of losing orders if they are unable to work due to disease, illness, or as a result of an accident. Furthermore, they may not be able to finish orders on time and may even have to deal with contract penalties. A temporary break can have devastating consequences for the business, and especially for that of self-employed people working alone, as the danger of losing regular customers is very high, although this danger is clearly contingent on the length of time in which the freelancer is unable to work.

3.2. Some Methodological Remarks

So as to obtain substantiated empirical information regarding the approach taken by freelancers in order to protect themselves against social risks, it is first necessary to define who exactly is meant with 'freelancers'. There exists no generally accepted definition. Even the seemingly straightforward distinction between employees and self-employed does not adequately depict the economic situation, as the boundaries between those two states of employment are blurred (Directorate-General for Internal Policies of the Union, 2013, Purcell, 2000).

The matter is complicated still further, as freelancers are a very heterogeneous group of people. For example, and as pointed out in the literature, a distinction should be made between people voluntarily and involuntarily engaged in self-employment (Kautonen et al, 2010). Freelancers can belong to both groups. This is because the decision to voluntarily become self-employed is usually the result of rational decisions taken against the background of external factors e.g. the general regulatory framework of business and the legal environment of self-employment. Self-employed physicians and lawyers provide a good example of this group of people. People engaged in these professions start planning their careers early in life, as specific educational qualifications are required for these occupations. They are thus able to make rational choices in order to insure themselves against social risks. In contrast, involuntary self-employment often arises out of necessity and/or occurs by chance. This group of self-employed people are not able to plan in advance for a career in the self-employed sector. As a result, they may fall out of the social security system and consequently lose social protection.

These factors may result in people who are involuntary self-employed finding themselves in a 'grey area' in which they are no longer covered by the statutory

social security system. They have to insure themselves against social risks via the private insurance market and are as such subject to specific market conditions, where some risks may not be insurable and risk selection takes place.

As involuntarily self-employed people are often in an economically precarious situation, they frequently have a limited ability to pay for insurance. In addition, low-earning self-employed people who choose to insure themselves against risks often face a disproportionately large financial burden when doing so, as insurance contributions do not vary according to income but are instead a fixed amount. As a result, freelancers, and especially those with low incomes, may decide not to acquire insurance against social risks as a result of financial restraints (Perry and Rosen, 2001), leading to serious problems if a social risk – such as illness, a shortage of orders etc. – occurs.

3.3. Some Remarks about Data

In addition to the aforementioned terminological difficulties, it is not easy to identify freelancers, even when the definition employed in the given data sets is used. For example, at any given point in time a person can work both as a freelancer and be employed in a firm. In addition, the length of time in which a person has been self-employed (i.e. the duration of the self-employment) cannot be determined using cross section data. It is thus not possible to ascertain whether self-employment is merely a temporary episode in the working life of an individual, or whether he/she has been engaged in self-employment for a prolonged period and is ‘trapped into’ a situation of inadequate social protection and societal vulnerability.⁷

Therefore longitudinal data is necessary. Although data of this nature is available, these data sets all lack detailed information. Process-produced longitudinal data from social insurance institutions are, for example, limited to information necessary for the administrative process. The surveys at hand (even the Socio-economic Panel for Germany, the DNB household survey (DHS) for the Netherlands, or surveys such as the SAVE study) are not sizeable enough to be able to cover the heterogeneity of the self-employed, let alone to be able to analyse the differing situations in which freelancers find themselves. Additionally, only few of these data sets aim to glean information about the degree to which self-employed people save money to insure themselves against social risks. The matter is even more complicated, as for a better understanding data about the willingness and the ability to save are necessary. Unfortunately, the information contained in the available data sets is insufficient. Therefore, little is known about the current status of the self-employed and about their willingness

7. These difficulties result in differing data sets using different criteria in an attempt to identify self-employed people (Börsch-Supan, 2009, Eurostat, 2013, Kroh, 2013, von Kalckreuth et al, 2013).

and ability to save money in order to insure themselves against social risks. However, it has become evident that a large proportion of freelancers – especially women – are in precarious financial situations and even have problems earning enough money to have a decent standard of living, let alone to save in order to protect themselves against social risks (Bögenhold and Fachinger, 2013, European Commission, 2005, Frankus and Fachinger, 2012).

4. Conclusion

Generally speaking, only limited information is available about the insurance situation of freelancers and independent professionals. In addition, reliable data on this subject is lacking (Directorate-General for Internal Policies of the Union, 2013, European Commission, 2005, Mettler and Williams, 2011, p. 28, Román et al, 2011, p. 386 ff.).

The findings highlight that the state of knowledge on the provisions which freelancers and independent professionals acquire in order to insure themselves against societal risks is far from satisfying. As we have a good understanding of the problems and advantages of specific measures or regulations concerning social security, our current knowledge on the specific situation of freelancers is insufficient. In this context, it is impossible to provide any insights into the design of social protection systems aimed at freelancers. However, the information which is available is not encouraging: given the increase in the number of freelancers working in EU countries, insufficient social protection afforded to this group will invariably lead to a rise in the number of people exposed to social risks. This will in turn result in increasing poverty and a rise in the number of people suffering from social exclusion. Alongside the difficulties posed for social policy, these factors will have negative consequences for economic policy, especially as regards the promotion of self-employment.

In order to obtain further information on the insurance situation of freelancers and independent professionals and to understand which factors contribute to this situation emerging, further research is required. Only by increasing our knowledge base will it be possible to find adequate measures for the design of social protection systems, as is called for by, amongst others, Mettler and Williams (2011) or the European Commission (2010).

References:

- Bögenhold, D. and Fachinger, U. (2013), "Rationality of Self-Employment: Do Female and Male Entrepreneurs Differ?", *Journal of Business and Finance*, 1(2): 42-62.
- Börsch-Supan, A., Coppola, M., Essig, L., Eymann, A. and Schunk, D. (2009), *The German SAVE study. Design and Results*, MEA Studies 6, München: Munich Center for the Economics of Aging.
- Directorate-General for Employment (2014), *Social protection in the Member States of the European Union, of the European Economic Area and in Switzerland. Social protection of the self-employed. Situation on 1 January 2014*, Brussels: European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Unit D/3.
- Directorate-General for Internal Policies of the Union (2013), *Social protection rights of economically dependent self-employed workers* (No. PE 507.449), Brussels: Directorate General for Internal Policies of the Union.
- European Commission (2005), *Precarious Employment in Europe: A Comparative Study of Labour Market related Risks in Flexible Economies - ESOPE. Project HPSE-CT2001-00075 Funded under the Key Action „Improving the Socio-Economic Knowledge Base“ of FP5 Directorate-General for Research* (No. ESOPE (SERD-2000-00202)), Luxembourg: Universidad Publica de Navarra, Departamento de Trabajo Social, Pamplona, Spain, Miguel Laparra Navarro.
- European Commission (2008), *Impact Assessment Report. Commission Staff Working Document accompanying the Proposal for a Directive of the European Parliament and of the Council on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity and repealing Directive 86/613/EEC {COM(2008) 636} {SEC(2008) 2592}* (No. SEC (2008) 2593), Brussels: European Commission.
- European Commission (2010), *Modernising labour law to meet the challenges of the 21st century* (No. COM (2006) 708 final), Brussels: European Commission.
- European Parliament (2010), Directive 2010/41/EU of the European Parliament and of the Council of 7 July 2010 on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity and repealing Council Directive 86/613/EEC, *Official Journal of the European Union*, L 180/1-L.
- Eurostat (2013): *EU Labour Force Survey. Explanatory Notes* (to be applied from 2014Q1 onwards), September 2013. Luxembourg: European Commission Eurostat, Directorate F: Social Statistics and Information Society, Unit F-2: Labour Market Statistics.
- Fachinger, U. and Frankus, A. (2014), "Self-employment and Pensions – Is Old Age Poverty the Inevitable Dark Side of an Entrepreneurial Society?", in Bonnet, J., Dejardin, M. and de Lema, D. G. P. (Eds). *Exploring the Entrepreneurial Society*, Cheltenham: Edward Elgar.
- Fachinger, U., Oelschläger, A. and Schmähl, W. (2004), *Die Alterssicherung von Selbständigen – Bestandsaufnahme und Reformoptionen*, Münster Hamburg London New York: Lit-Verlag.
- Frankus, A. and Fachinger, U. (2012), *Self-employed people and old age provision – Is old age poverty coming back*, Discussion Paper 06/2012, Vechta: Fachgebiet Ökonomie und Demographischer Wandel, Institut für Gerontologie.
- Kautonen, T., Down, S., Welter, F., Vainio, P., Palmroos, J., Althoff, K. and Kolb, S. (2010), "Involuntary self-employment" as a public policy issue: a cross-country European review", *International Journal of Entrepreneurial Behaviour & Research*, 16(2): 112-129.
- Koller, L., Neder, N., Rudolph, H. and Trappmann, M. (2012), *Selbstständige in der Grundsicherung. Viel Arbeit für wenig Geld*, Nürnberg: Institut für Arbeitsmarkt- und Berufsforschung.
- Kroh, M. (2013), *Documentation of sample sizes and panel attrition in the German Socio Economic Panel (SOEP) (1984 until 2012)*, Data Documentation 71, Berlin: Deutsches Institut für Wirtschaftsforschung (DIW).
- Künstlersozialkasse (2013), *Social Security Insurance for Artists and Writers*, Wilhelmshaven.
- May-Strobl, E., Pahnke, A., Schneck, S. and Wolter, H.-J. (2011), *Selbstständige in der Grundsicherung*, Working Paper 2/11, Bonn: Institut für Mittelstandsforschung Bonn.
- Mettler, A. and Williams, A. D. (2011), *The Rise of the Micro-Multinational: How Freelancers and Technology-Savvy Start-Ups Are Driving Growth, Jobs and Innovation*, Lisbon Council for

- Economic Competitiveness and Social Renewal asbl. Brief Vol. V(3), Brussels: The Lisbon Council asbl.
- Münstermann, L. (2013), *Zur Altersvorsorgepflicht für Selbstständige*, Otto-Wolff-Discussion Paper 06/2013, Köln: Institut für Wirtschaftspolitik an der Universität zu Köln.
- Niehues, J. and Pimpertz, J. (2012), "Alterssicherung der Selbstständigen in Deutschland", *IW-Trends - Vierteljahresschrift zur empirischen Wirtschaftsforschung*, 39(3): 1-18.
- O'Connor, J. S. (2013), "Non-Standard Employment and European Union Employment Regulation", in Koch, M. and Fritz, M. (Eds). *Non-Standard Employment in Europe. Paradigms, Prevalence and Policy Responses*, (pp. 46-63), Houndmills, Basingstoke: Palgrave.
- Perry, C. W. and Rosen, H. S. (2001), *The Self-Employed are Less Likely to Have Health Insurance Than Wage Earners. So What?*, NBER Working Paper Series 8316, Cambridge, MA: National Bureau of Economic Research.
- Purcell, K. (2000), "Changing Boundaries in Employment and Organizations", in Purcell, K. (Ed), *Changing Boundaries in Employment*, Bristol: Bristol Academic Press.
- Román, C., Congregado, E. and Millán, J. M. (2011), "Dependent self-employment as a way to evade employment protection legislation", *Small Business Economics*, 37(3): 363–392.
- Schoukens, P. (2000), "Comparison of the social security law for the self-employed persons in the member-states of the European Union", in Pieters, D. (Ed), *Changing work patterns and social security*, (pp. 63-98), London: Kluwer Law International.
- Schoukens, P. (2002), *Social Security Systems for Self-Employed People in the Applicant EU Countries of Central and Eastern Europe: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia*, Antwerpen: Intersentia Publishers.
- Schulze Buschoff, K. (2007), *Self-employment and social risk management: comparing Germany and the United Kingdom*, Discussion paper SP I 2007-103, Berlin: Wissenschaftszentrum Berlin für Sozialforschung (WZB), Forschungsschwerpunkt: Arbeit, Sozialstruktur und Sozialstaat, Abteilung: Arbeitsmarktpolitik und Beschäftigung.
- Schulze Buschoff, K. and Protsch, P. (2006), *Own-Account Workers in Europe: Flexible, mobile, and often inadequately insured*, Discussion paper SP I 2006-122, Berlin: Social Science Research Center Berlin, Research Area: Employment, Social Structure, and Welfare State, Research Unit: Labor Market Policy and Employment.
- Schulze Buschoff, K. and Schmidt, C. (2009), "Adapting labour law and social security to the needs of the "new self-employed" – Comparing the UK, Germany and the Netherlands", *Journal of European Social Policy*, 19(2): 147-159.
- Ulmestig, R. (2013), "Fighting Risks with Risks. Self-Employment and Social Protection in the Nordic Welfare States", in Harsløf, I. and Ulmestig, R. (Eds). *Changing Social Risks and Social Policy Responses in the Nordic Welfare States*, (pp. 140–164), Basingstoke: Palgrave Macmillan.
- von Kalckreuth, U., Eisele, M., Le Blanc, J., Schmidt, T. and Zhu, J. (2012), *The PHF: a comprehensive panel survey on household finances and wealth in Germany*, Discussion Paper Deutsche Bundesbank 13/2012, Frankfurt: Deutsche Bundesbank.
- Ziegelmeier, M. (2010), "Das Altersvorsorge-Verhalten von Selbstständigen – eine Analyse auf Basis der SAVE-Daten", *Schmollers Jahrbuch*, 130(2): 195-239.

