

Executive Summary

Institut für
Mittelstandsforschung

IfM
BONN

www.ifm-bonn.org

The income situation of the self-employed and their capability of retirement provision

by Peter Kranzusch, Stefan Schneck, Hans-Jürgen Wolter
With contributions by Sören Ivens und Anja Sperr

IfM-Materialien Nr. 285

The most important facts in brief

In Germany, self-employed individuals need to prepare for their post-employment phase primarily on their own responsibility. Since the type and scope of self-employment have changed in recent decades, discussion emerged to create mandatory retirement provision systems for all self-employed individuals. Considering these developments, this study systematically analyzes the income situation of the self-employed using the Taxpayer-Panel.

Six in ten self-employed with low incomes from self-employment

In 2014, around six in ten of the approximately 6.8 million self-employed individuals generated incomes from self-employment of less than €10,000. Their income, which resulted solely from their self-employed activities, was thus below the basic tax allowance. The same applies - with minor deviations - to the other years under consideration.

More than half of the self-employed have other income

Individuals with low incomes from self-employment often improve their financial situation with additional incomes, many of them additionally have jobs as paid employees. However, about a quarter of all self-employed individuals have an annual income of less than €10,000, even when considering their total income, i.e. when all other incomes are added to the incomes from self-employment.

About 60% of the self-employed are taxed together with a partner. Two thirds of the jointly taxed low-income self-employed individuals exceed the taxable subsistence level, in some cases considerably, when taking into account the partner's income.

The ability to provide for old age should be considered over time

Fluctuating incomes are typical for many self-employed individuals. Accordingly, episodes of low income in one year can be compensated by higher incomes in other years. Consequently, income below the taxable subsistence level is for many people only an episode.

Compulsory retirement provision for self-employed individuals would be problematic

The results suggest that the proportion of self-employed individuals who are fundamentally unable to make adequate provision for their retirement phase is likely

to be relatively small. This is also indicated by the comparatively high assets that self-employed individuals build up over time and which they can draw on in old age to cover their livelihood. In addition, self-employed individuals with low incomes from self-employment who are additionally employed are also subject to pension insurance. The introduction of an obligatory old-age provision therefore does not appear to be necessary.

The need to harmonize different forms of old-age provision

Note that in case of varying employment status, the coexistence of different - sometimes occupation-specific - pension models can lead to complex and unclear situations. In such cases, a better integration of the various pension insurance systems would be worth considering, also to facilitate the development and transfer of old-age provision in the case of hybrid or changing acquisition models