

Entrepreneurship in Focus

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The planned mandatory old-age provision system for new self-employed – how many will it affect?

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Summary

The German government plans to introduce a mandatory old-age provision scheme for newly self-employed, who are not yet subject to a compulsory old-age provision scheme. Our analysis suggests that many newly self-employed would not be subject to mandatory pension provisions because of their low income. Moreover, many self-employed would pay comparatively low contributions to the pension insurance and acquire correspondingly low pension entitlements.

The German government plans to introduce a mandatory old-age provision scheme for newly self-employed, who are not yet subject to mandatory old-age provision systems, which exist for specific professions (cf. SPD/Grüne/FDP 2021). We therefore ask how many founders would be affected by the planned compulsory old-age provision. Moreover, we examine the level of coverage self-employed could expect.

Who will be subject to the mandatory old-age provision scheme?

The planned obligation to provide for old age will apply to business founders who achieve incomes from self-employment above the marginal income threshold after a waiting period of two years. Founders who are already subject to compulsory old-age provision (e.g. liberal professions such as lawyers or physicians, insured persons of the artists' social welfare fund, farmers and foresters, and craftsmen in a trade subject to compulsory registration) will not be affected by the plans. As of the end of 2019, 28.9 % of the self-employed were compulsorily insured (see Bonin et al. 2022, p. 56).

Data and methods

For our calculations, we use the Taxpayer Panel (TPP), a secondary income tax statistic that includes tax-relevant information from more than 62.5 million records of tax filings from 2001 to 2018. Included are taxpayers who filed at least two tax declarations between 2001 and 2018. Self-employed individuals are almost entirely included in the TPP (see Kranzusch et al. 2020). A newly self-employed is defined as someone who has achieved income from self-employment in one year but not in the two preceding years. We exclude self-employed farmers and self-employed who will likely insure themselves in the artists' social welfare fund or professional pension

funds. Individuals with minor income from energy supply (profit income from small photovoltaic systems) are also excluded. Other compulsorily insured new self-employed cannot be identified in the TPP and thus cannot be excluded. Finally, only persons aged 15 to 65 are considered.

Only a minority of the new self-employed fulfilled the conditions for the planned mandatory old-age provision

Since the TPP currently extends to 2018 and a two-year waiting period must be taken into account, we consider the year 2016, the year in which around 632,000 people became self-employed, according to our calculations. Of these, about 57,000 would not have been affected by the planned law because of occupational pension schemes or the operation of a small photovoltaic system (see Kranzusch et al. 2023). About 328,000 of these founders are still economically active two years after founding.

Around 130,000 individuals of the 2016 cohort of founders generated profit income (from business or as a freelancer) above the marginal income threshold in 2018 (€ 5,400). This implies that not even half of the still active founders in 2016 would have had to make provisions (see table on page 2). If the waiting period were extended, the share of still active founders would be reduced due to business discontinuations. However, with each additional year of the waiting period, the share of those with profit income above the marginal income threshold increased slightly.

Almost three in four of the founders of cohort 2016, who might be potentially subject to pension contributions, generated income from self-employment of less than €36,300 in the year 2018 (Schneck/Kranzusch 2023). This value corresponds roughly to the so-called reference level ("Bezugsgröße") for pensioners in Western Germany. Assuming that the contribution rate for the self-employed is the same as for employees, the

self-employed would have paid less into the pension scheme than the so-called benchmark pensioner and would have acquired correspondingly lower pension entitlements.

Income from self-employment in the year 2018 by the cohort of newly self-employed individuals

Income from self-employment in year 2018	Share of still active self-employed by cohort in %			
	2013	2014	2015	2016
<0 €	17.0	17.9	18.8	19.8
1-5,400 €	36.9	37.5	38.6	40.6
>5,400 €	46.1	44.6	42.6	39.6
Number of Individuals	233,200	256,346	286,770	327,676

Source: Research Data Centre of the Federal Statistical Office and of the Statistical Offices of the Federal States, Taxpayer-Panel 2013-2018, own calculations.

The low income among the self-employed indicates a high share of part-time self-employed and side-jobs in self-employment: only a few newly self-employed manage to increase their incomes above € 5,400 over time (Schneck/Kranzusch 2023). Therefore, few self-employed would become liable for old-age pensions in the long run.

The planned rules of the pension obligation can be criticised

According to our calculations, only about one in five newly self-employed individuals of cohort 2016 would be subject to the planned old-age provision obligation. Of these, almost three-quarters would have earned income from self-employment below the reference level and, therefore, can expect relatively low additional retirement income. Even though we have examined income in specific years and not over the entire working life of individuals, there are considerable doubts as to how the vast majority of the (new) self-employed are supposed to achieve a level of old-age provision above the basic income level. It remains unresolved, however, whether and to what extent the self-employed considered here are already subject to the compulsory old-age provision system because they are also in paid employment.

From an administrative point of view, introducing a minimum income limit is understandable. Still, it will also have the undesirable effect that some of the new self-employed will be careful to stay below this minimum income threshold not to be subject to compulsory pension insurance. This regulation will

further strengthen the trend toward part-time self-employment with marginal income. It is questionable how individuals with side jobs in self-employment and serial entrepreneurs should be treated. Should all income from self-employment and dependent employment be considered when calculating pension contributions, even if the income from self-employment is below the marginal income threshold? In this case, the administrative burden will likely increase considerably due to the spread of hybrid self-employment (see Butkowski et al. 2022).

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