01/2020
FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

Satu Nivalainen and Sanna Tenhunen

How do the self-employed insure themselves?

Subjective views of the self-employed and the ratio between confirmed and actual income from self-employment

The self-employed often pay low pension insurance contributions, which also affects their social benefits and future pension. In this study we review the level of pension insurance among the self-employed from two different viewpoints. On the one hand, we look at the self-employed persons' subjective perceptions of paying adequate pension contributions and, on the other hand, at under- and overinsurance among the self-employed. To do so we use the ratio of the confirmed income of the self-employed under the Self-employed Persons' Pensions Act (YEL income) and their actual income from self-employment.

In this study, we focus on full-time, active self-employed persons. The data is based on the ad hoc module of self-employment compiled in connection with Statistics Finland's 2017 Labour Force Survey (LFS). We have combined this data with income data from Statistics Finland and pension accrual data from the registers of the Finnish Centre for Pensions. The dataset includes 1,348 self-employed persons whose annual YEL income was at least 7,600 euros and whose income from self-employment was at least 3,000 euros.

The income from self-employment included both the wage income paid by the self-employed to themselves and their taxable earnings from self-employment. To even out annual fluctuation, we used the average income over a period of three years. We examined the level of pension insurance more versatilely than before based on underlying perspectives relating to the self-employed person, their business, work motivation, economic situation, pension insurance and residential region.

For half of the self-employed the YEL income is less than 80% of the actual income

The average YEL income that determines the pension level of the self-employed was 25,600 euros in 2017. However, the YEL income is low for many. For every fourth self-employed person, it was less than 12,600 euros and for half, no more than 20,600 euros. For some, the YEL income was higher. For the highest quarter, it was at least 32,800 euros, and for every tenth self-employed person, more than 49,700 euros.

On average, the annual income from self-employment was around 33,000 euros. The median income was 28,500 euros. However, for every tenth self-employed person, the annual income from self-employment was around 11,000 euros at the most. In the highest end of the distribution, every tenth self-employed person reached an average annual income of slightly less than 59,000 euros.

Under- and overinsurance among the self-employed can be examined using the ratio of YEL income to actual income. For half of the insured, the YEL income was below 80 per cent of the actual income, and for one quarter, it was only slightly less than 50 per cent. The ratios for some of the self-employed are very high, indicating overinsurance. For one third of the self-employed, the YEL income was higher than their actual income from self-employment. When measured in average terms, the YEL income of the self-employed corresponded to their actual income. A few very high ratios are included in the figures. They raise the average value.

The ratios between the YEL income and the actual income of the self-employed were higher than average among the following groups of self-employed persons: women, the over-50-year-olds, low-income self-employed persons and those with a long career in self-employment. The ratios were higher than average also among the self-employed who worked in trade and transportation and those who also had a career as wage earners. Underlying the high ratios for women and low-income self-employed persons was a low actual income from self-employment. For the other groups, a higher YEL income was the cause of the high ratio.

The low ratios, indicating underinsurance, were most common for the under-50-year-old self-employed persons, those working for more than 50 hours a week, those with a high income, those who estimated their workload to be too high, and for self-employed persons who did not have a career as wage earners. Underlying the low ratios of under-40-year-old self-employed persons and self-employed persons who did not have a career as wage earners was a low YEL income. In other groups of self-employed persons, the low ratio was affected by the fact that, although their YEL income was high, their actual income was clearly higher.

More than half of the self-employed feel that they have insured themselves adequately, but three out of five underinsure themselves based on their income

Our study shows that some of the self-employed underinsure themselves. Although more than half (57%) felt that they have insured themselves adequately, an ample 40 per cent felt that they do not contribute to their pension enough. From the point of view of the indicator that is based on actual income, the YEL income was lower even more often. In this study, a self-employed person was considered underinsured if their YEL income was at least 10 per cent (or €2,400) below their actual income. Based on this indicator, more than three out of five (58%) underinsured themselves. The opposite, in which the YEL income exceeded the actual income by at least 10 per cent (or 2,400 euros), was the case for every fourth self-employed person in 2017.

Our study also looked at the reasons for underinsurance stated by the self-employed themselves. The most common reason for taking out insufficient pension insurance is that the self-employed cannot afford to pay higher insurance contributions. Two out of three self-employed were of this opinion. The following most common causes were lack of trust in the pension system and work intentions. About half of the self-employed felt that they underinsured themselves because they suspect that they will not get an adequate pension regardless. Equally many stated that they will work alongside drawing a pension.

Self-employed without employees and self-employed persons without copartners both feel that they pay too little in pension contributions and actually underinsure themselves

In this study we used modelling to examine separately the characteristics of the self-employed who felt that they have not paid high enough pension contributions and those who, based on their income, underinsure themselves. In the modelling, certain characteristics stood out in both cases.

The views of paying insufficient pension contributions and underinsuring based on income were most common among the self-employed without employees and among the self-employed without copartners. This situation was more common also among those self-employed who had too much work in the last year and who had experienced problems in their businesses, and the largest problem was a tight livelihood. Self-employed persons who felt they paid for an adequate pension and who, according to the income indicator, were not underinsured were typically self-employed people who worked for less than 50 hours a week, who did not have too much work in the last year, who had accrued pension from a career as wage earners or who had copartners. They were also more often self-employed with employees.

Underinsurance more common among young, poorly educated and high-income self-employed persons and overinsurance among older, highly-educated and low-income self-employed persons

The review also revealed factors affecting only one of the two indicators that measure the level of pension insurance. More often than others, the self-employed who lived in western or northern Finland, had a more-than-20-year-long career in self-employment and were in an unstable economic situation felt that they paid inadequate pension contributions. Based on the income indicator, on the other hand, underinsurance was more common among the young and those with a basic education. Overinsurance was more common among the over-30-year-olds and the highly educated. The income of the self-employed was reflected in under- and overinsurance as follows: underinsurance was more common the higher the income, while overinsurance was more common among low-income self-employed persons.

Subjective views and the income-based situation do not always go hand-in-hand

The subjective view of paying adequate pension contributions and the notion of underinsurance based on actual income correspond for only slightly more than half of the self-employed. For the rest, the subjective view deviated from the actual situation. One factor that might underly the difference could relate to the interpretation of the question of paying adequate pension contributions. The question can be thought to relate to whether the pension provision is on an adequate level in relation to one's income. On the other hand, the question may be interpreted to refer to whether the level of the currently paid pension contribution will provide an adequate income in retirement.

Slightly less than one third of the self-employed both felt that they underinsured themselves and actually did so. Most often they were self-employed without employees, they did not have copartners and had a higher income. They were often under 50 years-of-age, had been working as self-employed persons for more than 20 years and were concerned about their economic situation. They also often felt that their workload in the past year was too high and that their business was troubled by a weak livelihood.

Approximately 30 per cent felt they had insured themselves adequately and they were, in fact, not underinsured. Typically, they were above 50 years old, self-employed with employees, had a high educational level and copartners. The self-employed in this group often had a low income but their economic situation as self-employed was stable and secure. They had often also accrued wage-earner's pension and they felt that they had not had too much work.

The subjective view of the pension adequacy for more than 40 per cent of the self-employed and the actual state of underinsurance provided by data on their income did not match. Slightly less than one third of the self-employed belonged to the group who subjectively felt they were paying for an adequate pension but who, based on the income indicator, seemed to be underinsured. Typically these self-employed persons had a lower educational level, had a career in self-employment that spanned less than 30 years and had become self-employed out of their own will. As a rule, they had a high income, and their economic situation as self-employed was stable and secure. The favourable economic situation may partly explain why these self-employed persons felt their accrued pension to be adequate although the underlying YEL income was smaller than their actual income.

Every seventh self-employed person felt that they were paying for an inadequate pension although, in reality, they had not underinsured themselves. Often, these self-employed persons were women, they were self-employed without employees, had a lower income and were living in the north of Finland. Also in this group, the economic situation can explain the contradiction between the indicators. Because of their low income, these self-employed persons may have felt that their pension accrual was inadequate although their YEL income corresponded to their income from self-employment.

Conclusions

Using income from self-employment as an indicator of under- or overinsurance is not unproblematic, but it is one way to look at the pension contribution level of the self-employed. Based on the results, more information on YEL insurance is needed, in particular among the young self-employed and those with a low education. Information should also be targeted at self-employed without employees and self-employed persons who do not have copartners. Their YEL income is often below their actual income from self-employment. On the other hand, those who belong to these groups (apart from those with a low education) are very well aware of their situation since, in their subjective view, they do not pay high enough pension contributions. In other words, underinsurance among these groups is not necessarily due to lack of information. Those with a low educational level, on the other hand, felt that they pay enough in pension contributions although, based on their actual income, they underinsured themselves. In other words, they have an incorrect perception of their pension insurance level.

The Publication is available only in Finnish:
Kuinka yrittäjät eläkevakuuttavat? Yrittäjien omat näkemykset ja YEL-työtulon ja yrittäjän tulojen suhde
Eläketurvakeskuksen tutkimuksia 01/2020

www.julkari.fi › Eläketurvakeskus › Julkaisut › [Search by Finnish name of publication]

ISBN 978-951-691-304-2 (PDF)
ISSN 1798-7482 (online)

Subscribe to our Newsletter in English

Finnish Centre for Pensions
ELÄKETURVAKESKUS

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus
Finland
Phone +358 29 41120
Fax +358 9 148 1172

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin 029 41120
Faksi 09 148 1172

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Telefon 029 41120
Fax 09 148 1172

www.etk.fi/en
› Publications