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Summary

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Light entrepreneurs in Finland

A longitudinal study of careers, income and pension accrual

This study examines the development over time of light entrepreneurs' careers, income and pension accrual using Statistics Finland and Finnish Centre for Pensions register data for 2012–2022. First, we aim to identify who become light entrepreneurs and study the extent of light entrepreneurship in terms of continuity, regularity and income, and explore any changes in these in 2017–2022. Second, we study the career trajectories of light entrepreneurs in terms of transitions between different labour market states in the years prior to and after becoming a light entrepreneur using sequence analysis. Our focus is on those who started as light entrepreneurs in 2017. Lastly, we study how income and pension accrual evolve in the years prior to and after becoming a light entrepreneur. In this analysis we compare light entrepreneurs who started in 2017 with their peers within the same sociodemographic groups who were not light entrepreneurs in 2012–2022. The analyses in this study are descriptive, and the results cannot be interpreted as causal relationships between light entrepreneurship, employment, income, and pension accrual.

Light entrepreneurship: between salaried employment and self-employment?

Light entrepreneurship can be described as a form of work where the entrepreneur is a client of an invoicing service company. Invoicing service companies offer a range of services that help with the financial management of entrepreneurial activities, especially by invoicing clients on behalf of the entrepreneur. Light entrepreneurs are not required to establish a business and often receive payments

as salary or trade income (*työkorvaus* in Finnish) from the invoicing service company. Light entrepreneurship is not an official employment status in Finnish law. Light entrepreneurs are either salaried employees or self-employed and treated as such in the pension insurance system. In public debate, however, light entrepreneurship is often presented as a form of employment in-between salaried employment and (solo) self-employment. It can be used to facilitate platform or gig work, but it is not platform work in and of itself as invoicing service companies do not usually offer gigs.

Light entrepreneurs are typically young, male, and increasingly born outside Finland

Light entrepreneurs are a heterogeneous group, but they are more likely to be men and to be in their twenties and thirties. Light entrepreneurship is predominantly an urban phenomenon. In 2017 light entrepreneurs were relatively highly educated compared to the overall population, but in recent years the share of lower educated entrepreneurs has increased. The share of foreign-born among light entrepreneurs has grown considerably between 2017 and 2022, from around one in ten to around one in four. Still, most light entrepreneurs are males born in Finland.

Many enter light entrepreneurship each year, but few continue

The population of light entrepreneurs almost tripled from around 23,000 in 2017 to close to 68,000 in 2022. In each year, new entrants to light entrepreneurship made up around 40 to 50 per cent of the light entrepreneur population, indicating that light entrepreneurship often lasts for a short duration. Only 50 to 60 per cent of light entrepreneurs continue after one year. Only 22 per cent of those who started in 2017 were still active light entrepreneurs in 2022. Light entrepreneurs close to retirement age and, increasingly, immigrants were more likely to continue in light entrepreneurship. Those who were already employed as employees in the year of entry were less likely to continue.

Light entrepreneurs had rather good employment prospects as the share of those employed (as employees or self-employed) continued to grow after entry into light entrepreneurship and after quitting light entrepreneurship. Employment prospects were somewhat better for those with higher education and who were born in Finland.

Most light entrepreneurship is occasional

In 2022, the average light entrepreneur received payments in 4.2 months. 35 per cent of light entrepreneurs only received one payment from invoicing companies during the year, and 13 per cent received payments in 10 to 12 months. In general, older and foreign-born individuals received payments more often than others. There were only small gender differences among light entrepreneurs born in Finland, but among foreign-born light entrepreneurs males engaged in light entrepreneurship more frequently than females. In most sociodemographic groups, the average number of months with payments has increased since 2019, especially after 2020. The increase has been particularly strong among foreign-born males.

Income from light entrepreneurship is low for most but for many accounts for an important share of earned income

In 2022, mean annual income from light entrepreneurship was EUR 7,058. The median was EUR 1,703, indicating that the income of most light entrepreneurs was considerably below the mean. On average, income from light entrepreneurship accounted for 39 per cent of annual earned income, and 21 per cent of light entrepreneurs had no other earned income recorded in the Incomes Register. Males, foreign-born and older individuals had on average higher income from light entrepreneurship, and their income from light entrepreneurship made up a larger share of their annual earned income.

Among foreign-born light entrepreneurs, income from light entrepreneurship has increased in 2017–2022 despite a dip in 2020, especially among males. Especially after 2020, light entrepreneurship income as a proportion of total earned income has increased among foreign-born male light entrepreneurs. Among foreign-born female light entrepreneurs and among Finnish-born light entrepreneurs irrespective of gender, the share of light entrepreneurship income has decreased after 2020.

Light entrepreneurs' varying career trajectories

Using sequence analysis, we study the labour market statuses of light entrepreneurs five years before entering light entrepreneurship and five years after entry. We observe weak or weakening labour market attachment before entry into light entrepreneurship. Unemployment increased in all sociodemographic groups. Among the younger cohorts, many were in education, whereas among young immigrants many were still residing abroad a few years before becoming light entrepreneurs. In the year of entry into light entrepreneurship, around 70 per cent were employed, 13 per cent were unemployed and smaller shares were students, pensioners, or something else. Starting as a light entrepreneur often marked the person's first entry into employment (either as an employee or self-employed), and employment levels remained stable in the years following the start of light entrepreneurship, albeit at different levels in different demographic and socioeconomic groups. Transitions into self-employment were particularly common among foreign-born men, those with only primary education, and those with above median income. Light entrepreneurs' careers were relatively unstable as they made about three transitions between labour market statuses during the 11-year follow-up. Instability was highest among women born outside Finland and those with low or no earned income in 2012.

Income catches up after entry into light entrepreneurship

Growth in income from 2012 to 2021 among light entrepreneurs who started in 2017 is studied by comparing them with peers with the same sociodemographic characteristics but not light entrepreneurs in 2012–2022. Income is measured as the sum of taxable earned income and entrepreneurial income. Light entrepreneurs often had a lower income than their peers who were not light entrepreneurs in the years before entering light entrepreneurship. Light entrepreneurs also experienced slower income growth compared to their peers in these years, which could partly be explained by increasing unemployment in the same period.

In the years after entry into light entrepreneurship, light entrepreneurs experienced faster income growth than their peers, but there were differences between demographic and socioeconomic groups. Among light entrepreneurs born outside Finland, with a low level of education and whose income was missing or below the median in 2012, the gap in average income relative to the comparison population closed within four years after entering light entrepreneurship.

No increase in pension accrual parallel with income

The yearly pension accrual of light entrepreneurs decreased relative to their peers in the years leading up to entry into light entrepreneurship, which is in line with their income development. Despite the significant increases in income relative to the comparison group in the years after entry, there were no or only modest increases in yearly pension accrual of light entrepreneurs in the years after entry. Overall, our findings suggest that the income from light entrepreneurship is not fully YEL-insured, which was expected given that most income from light entrepreneurship is below the YEL insurance threshold.

A form of work that serves diverse needs but also raises pension policy concerns

Light entrepreneurship is still a relatively limited phenomenon, but it has gained significant traction in recent years. Our research shows that in many ways, it is a highly complex phenomenon. It attracts individuals from very different backgrounds, and it can be used to conduct very different types of work. While for some light entrepreneurship is an occasional way to top up their income, for others it means full-time employment. Our analyses show that light entrepreneurship is associated with positive outcomes, such as higher employment rates and income. This, however, does not translate into higher pension accrual, which may potentially weaken the social security of light entrepreneurs relative to their peers.

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