

Better pensions for the European Union's self-employed

By Rebecca Christie, Monika Grzegorzcyk and Diane Mulcahy

Executive summary

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SELF-EMPLOYED WORKERS are taking on a larger role in the European economy, particularly workers who operate as independent contractors rather than as small-business owners with their own workforce. Becoming self-employed offers flexibility and entrepreneurial potential, but can limit access to state-sponsored pension schemes.

WE ASSESS THE current state of pension policy across the European Union and take a more detailed look at five countries to see how independent workers are treated compared with their traditionally employed counterparts. We consider how policymakers might adjust or even overhaul their pension offerings to improve opportunities for the self-employed, while being mindful of the broader policy context in areas like innovation and overall tax burdens.

IN ASSESSING POLICY options, it is useful to determine whether government, companies or individuals will be primarily responsible for paying for better pensions, and we structure our suggestions accordingly. Governments can make programmes more widely available, more consistent for all types of work and easier to understand and take part in. Companies can be encouraged to make pension contributions for all their workers, not just those they hire full-time. Individuals can be encouraged to set aside more for retirement with tax incentives, benefits flexibility and other policy measures.

ACCESS TO PENSIONS for low-income, more vulnerable self-employed workers should be considered separately from access for higher-paid workers. The current system does not facilitate this and indeed inhibits it in jurisdictions where a minimum income is required to join self-employment pension schemes.



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Introduction

As lifetime jobs and traditional labour protections recede, a new class of self-employed independent workers has emerged alongside the full-time workforce. Self-employed workers have reduced access to pension schemes and do not usually receive employer contributions to their pension pots. This presents a challenge to European pension systems, which are designed for traditional full-time employees and paid for in part by employers. As self-employment becomes more common, the long-term income security of self-employed workers is reduced due to lower pension incomes that introduce a higher risk of poverty. This will put the old-age security and other social protection systems of European welfare states, already stretched by aging populations, under even more pressure.

The self-employed receive lower public pensions and are less often covered by private pensions than traditional employees. Traditional employees have access to a mix of mandatory government-sponsored pensions, to which they and their employers both contribute, and voluntary private add-on plans. Höppner (2019) found that self-employment in Europe has a negative effect on total pension amounts received by individuals. Similarly, Möhring (2015) found that longer periods of self-employment over the course of a career have a negative effect on pension income.

Even when self-employed workers can access voluntary private pension plans, contribution limits vary and can be lower than for traditional employees. These differences in levels of contributions, access to and use of pension savings put self-employed workers at economic risk in retirement, and often result in their receiving lower pension income than employees. For instance, self-employed people in Germany on average in 2019 received only 51 percent of the average employee pension, according to Organisation for Economic Co-operation and Development data (OECD, 2019, Table 5.6).

A 2019 Council of the European Union Recommendation¹ highlighted the broad issue of unequal access to social protection:

“some non-standard workers and some self-employed persons have insufficient access to the branches of social protection which are more closely related to participation in the labour market. Only a few Member States have undertaken reforms to adapt social protection systems to the changing nature of work to protect affected workers and the self-employed better [but] Improvements have been uneven ...”

Reducing pension inequality by improving access to pension schemes is one of the more promising approaches for ensuring long-term income security for all workers. If long-term prospects are less endangered, companies and workers will have more freedom to choose the arrangement that works best in the present, without risking future economic security. This would improve labour market mobility, enable more optimal allocation of work and reduce inequity between segments of the labour market.

We review the pension systems in several EU countries to highlight differences in access to pension savings between traditional employees and the self-employed. We focus on Belgium, France, Germany, the Netherlands and Poland in order to cover a range of economies and pension systems (see also Annex 1). We then discuss policy options to update EU pension systems and provide equitable access to pension savings for all workers.

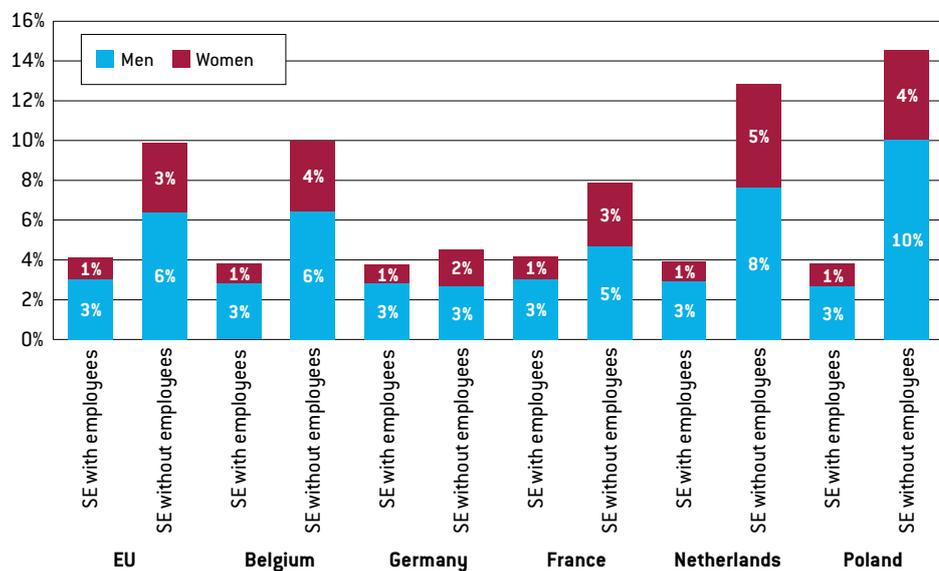
¹ Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2019.387.01.0001.01.ENG.

Who are the self-employed?

There are two broad categories of independent workers: the solo self-employed (sole traders) and the self-employed with employees (small business owners). The solo self-employed include independent contractors, consultants, freelancers and on-demand platform workers. According to Eurostat's EU average (2020), the group of solo self-employed workers is 2.5 times larger than self-employed workers who have employees. Within the solo self-employed category are employees who have side gigs in addition to their full-time jobs, so they are both employees and self-employed. Unless otherwise specified, we use the term 'self-employed' to refer to the solo self-employed.

On average, about 14 percent of EU workers are self-employed. In 2020, 27.5 million workers identified themselves as self-employed. Of the countries we looked at, Poland and the Netherlands have the greatest percentages of self-employed workers (Figure 1).

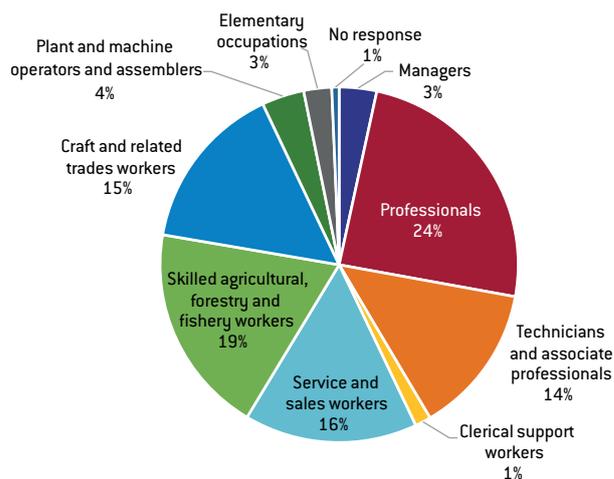
Figure 1: Self-employed workers as a percent of active working population in 2020



Source: Bruegel based on Eurostat.

Like employees, the self-employed are a diverse group in terms of education and income levels, working in a variety of sectors and industries. In a comprehensive survey of 8,000 independent workers in the United States and across the EU, the McKinsey Global Institute (2016) found that self-employed workers vary by age, sector and industry, education levels and income. In the European Union, the self-employed are primarily managers, professionals and service and sales workers (Figure 2). Other significant groups are skilled agricultural, forestry and fishery workers.

Figure 2: Self-employed workers by sector



Source: Bruegel based on Eurostat LFS database.

Self-employed workers work outside the traditional employment model both by necessity and choice. Some workers are forced by circumstances to work independently and would prefer to be full-time employees, but are in some way unable to secure a full-time job. Other self-employed workers choose explicitly to work independently to satisfy entrepreneurial ambitions or to pursue high levels of autonomy, flexibility or control over their professional lives. Other self-employed workers work independently on the side, in addition to full-time jobs, and are thus traditional employees and self-employed workers at the same time.

The McKinsey Global Institute (2016) found that by far most self-employed workers choose to work independently (70 percent), either as a primary source of income (30 percent) or on the side in addition to traditional full-time work (40 percent).

Vulnerable groups

To get a better sense of which self-employed workers are most at risk from pension disparities, we looked at ‘vulnerable’ households with less wealth and fewer financial assets. The vulnerable group we examined comprises self-employed people with a total income before tax of less than €20,034 per year, an amount equal to the median annual income for traditional employees in the EU. We found that this group has slightly higher savings from private pensions or life insurance than the group of traditional employees below this threshold, but people in this group are not eligible for state pensions derived from their wages, and therefore we recommend that this group be given particular attention by policymakers.

Table 1: Average value of voluntary pension plans and whole life insurance for the vulnerable self-employed in the EU

	Average		Average
Vulnerable employee	€7,253	Employee with income above €20,034	€16,365
Vulnerable self-employed	€10,772	Self-employed with income above €20,034	€26,729
SE/employed ratio	1.5		1.6

Source: Bruegel based on ECB’s 2017 *Household Finance Consumption Survey*. Note: data for employees does not include state pension entitlements. Generally speaking, EU workers rely on government-provided pensions and do not save much in private pension plans. These figures do not account for other kinds of savings.

The vulnerable self-employed group becomes comparatively larger for self-employed workers over 55. One factor that contributes to the low levels of income in this group seems to be that vulnerable households have lower education. About 16 percent of lower-income

workers who are standard employees have tertiary education, compared to only 2 percent of the lower-income self-employed.

As the workforce continues to transform and as independent work, self-employment and platform work become more common, it is reasonable to expect the number of self-employed workers to increase. These changes in the workforce imply that a greater number of workers will have reduced access to the most protective pension schemes. They are at risk of making lower pension contributions over their working lives and receiving inadequate pension income once they stop working.

Pensions for the self-employed

Pensions aim to generate a consistent stream of income for citizens who have aged out of the workforce, to allow them to enjoy a decent living standard and to protect them from poverty. State pensions are the primary source of income for older citizens in Europe, followed by employer pensions, then individual savings, according to the European Commission’s *Pension Adequacy Report* (European Commission, 2018).

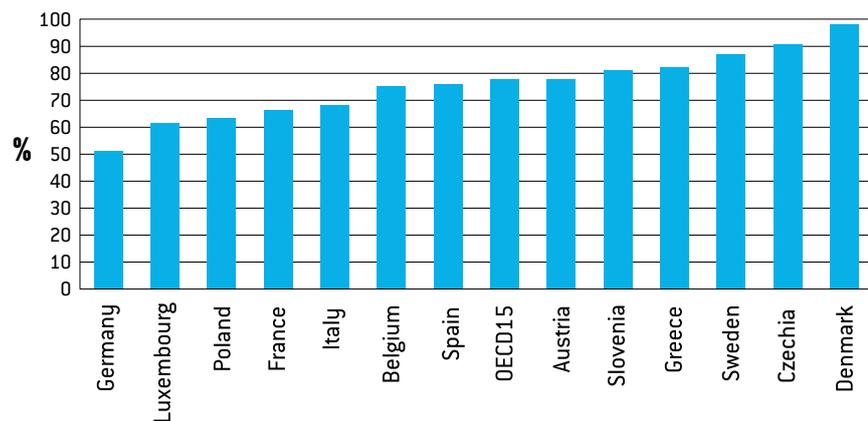
The European Pillar of Social Rights² stresses the importance of pension income in creating economic security for retired workers. In particular, the Pillar’s Principle 15 advocates for:

- The right of workers and the self-employed to a pension commensurate with contributions, ensuring an adequate income,
- The right to equal opportunities for men and women to acquire pension rights,
- The right to resources that ensure living in dignity in old age.

The EU *Pension Adequacy Report* found that retired self-employed workers on average have lower pensions, a higher risk of income poverty, and more exposure to financial hardship.

Self-employed workers across the EU have consistently lower levels of pension savings and benefits than traditional employees (Figure 3). Pension policy in the EU is decided and implemented at national level, so coverage varies significantly by country.

Figure 3: Self-employed pension coverage levels relative to employees



Source: Bruegel based on OECD. Note: OECD data does not include the Netherlands.

² See <https://ec.europa.eu/social/main.jsp?langId=en&catId=1226>.

The OECD (2019) reported that, on average across 15 European OECD countries, the retired self-employed receive, at the median, public pensions that are 22 percent lower than retired employees. Reduced access to pension schemes and lower limits on contributions mean that self-employed workers don't even have the option of saving as much for their pension as employees. Spasova *et al* (2017) found that as a result, the self-employed run a comparatively high risk of poverty in nearly all European countries. The Survey of Resolution Foundation (D'Arcy, 2015) also found that 40 percent of the self-employed say they are not confident that retirement income will provide them with their hoped-for living standard.

Lower pension coverage levels can result from reduced access to pension schemes and from lower contribution levels. Spasova *et al* (2017) differentiated between statutory and effective access. The self-employed are excluded from statutory access to pensions in some countries, and in practical terms can face difficulties accessing pension schemes because of eligibility conditions, such as uninterrupted contribution periods.

Historically and generally pre-EU, member states developed their pension systems independently, and contribution rules, limits and amounts vary by country. For example, France, the Netherlands and Belgium tie contributions to income while Belgium has a minimum base that sets a floor on how low official income can go when making these determinations. Fiscal matters remain largely national responsibilities in any case, which also affects how pensions are taxed and funded.

Self-employed workers are not subject to mandatory pension contributions, so can choose how much and whether they save. This is a risky construct from a policy perspective since individual workers who don't save, or save inadequately, ultimately rely on state pensions. Workers with lower levels of compensation, including the vulnerable group, or those with unstable sources of income, often save less.

The ECB's 2017 *Household Finance Consumption Survey* (Eurofound, 2021) analysed income levels by worker type and found that the solo self-employed earned the lowest levels of income, compared to employees and the group of self-employed with employees. This suggests they may be at risk of having inadequate retirement resources. The OECD (2019) also found that income underreporting by workers, presumably for tax avoidance purposes, can result in lower contributions to pension savings, since contribution limits are also based on income. Conversely, workers with high levels of income or significant assets may choose to self-fund their retirement income, rather than or in addition to contributing to a voluntary pension scheme other than mandatory general social security payments.

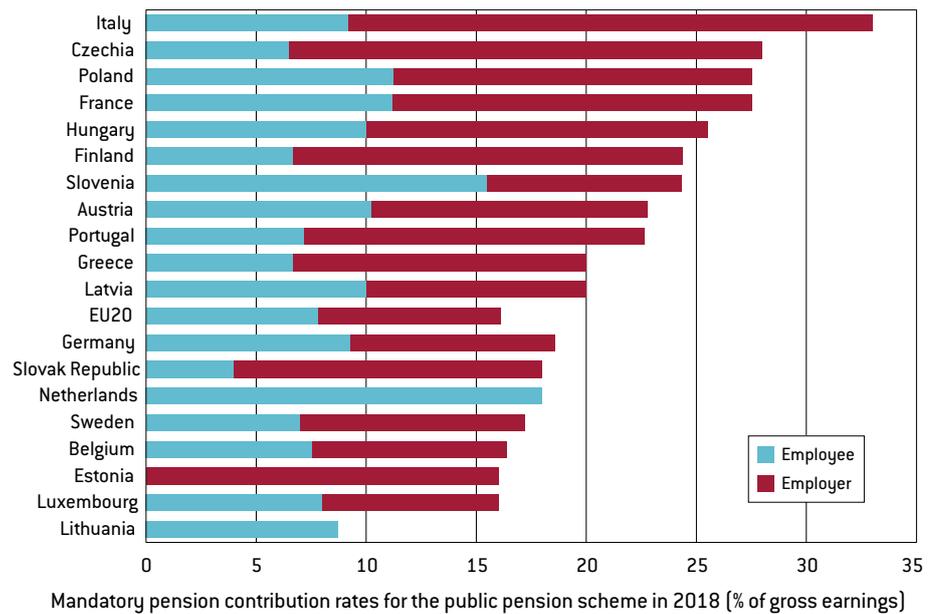
The EU's 2018 *Pension Adequacy Report* (European Commission, 2018) concluded that national pension schemes need to be modified to improve access for the self-employed. Without change, old-age incomes for workers who aren't traditional employees might not be adequate.

EU pension schemes for the self-employed

Under the current system, self-employed workers are at a disadvantage compared to employees due to their reduced access to public pensions and their lack of access to employer-backed pension savings. The self-employed have no access to employer pension contributions; limited access to public pensions; and in general, must self-fund their own retirement savings.

In contrast to the disadvantages faced by the self-employed in terms of pension rights and access, full-time employees have access to mandatory government-sponsored pensions, to which employers and employees both contribute, as well as voluntary private add-on plans. Employer contributions are a primary source of retirement savings for employees (Figure 4).

Figure 4: Employer vs employee contributions to mandatory pension schemes



Source: Bruegel based on OECD.

Variations in pension schemes across the EU

One of the challenges in evaluating pension schemes is finding how to compare specifics without being either so broad or so detailed that one loses sight of the policy under discussion. In this section we present a higher-level discussion of the various pension schemes in several European states. See Annex 1 for more detail, including contribution levels and tax treatment of some options.

Economic literature suggests that four institutional characteristics are relevant in comparing old-age security systems for the self-employed (Choi, 2009; Fachinger, 2003; Traub, 2013). The first is whether there is a universal basic pension with a flat-rate benefit. This means that all workers, regardless of employer or individual savings, are guaranteed a pension with a minimum benefit. This is only the case in Denmark, Sweden the Netherlands, and Switzerland.

Second, some countries provide an earnings-related pay-as-you-go (PAYG) public pension. A pay-as-you-go system is a pension scheme in which beneficiaries decide on the amount of contributions they wish to make, either by having the amount deducted regularly from their pay cheque or by paying in a lump sum. These plans generally do not pre-determine the amount of income that will be received in retirement. Overall, this type of system is quite common across the EU. Some countries have implemented plans that can be combined with a basic pension (Sweden and Denmark), but most have not (Germany, France, Belgium, Austria, Poland, Italy and Spain). Only the Netherlands and Switzerland do not offer a PAYG pension scheme.

Third is understanding if old-age security for the self-employed is mandatory. In Italy, Spain and Germany there is no mandatory old-age security for the self-employed. In Denmark, the self-employed can choose to be insured in an earnings-related public scheme (*ATP Livslang Pension*) if they have been at least three years in dependent employment and have paid contributions during this period (Traub, 2013). Old-age security is mandatory for all self-employed in the other countries in the OECD’s sample (OECD, 2019), although pension coverage is lower for self-employed workers even when they have mandatory coverage.

Fourth, how do public pension contributions from the self-employed differ from those of

employees? In general, the data suggests that voluntary contributions from the self-employed are limited compared to those of employees. For example, in Poland, the self-employed pay the entire contribution amount themselves, which can result in lower total savings than if they were contributing alongside a traditional employer. In Germany and the Netherlands, contribution levels to pensions are lower for the self-employed because they are not required to contribute, or only partly contribute, to earnings-related schemes.

Self-employed workers in Belgium, France and Poland are part of the state system, although they are allowed to contribute less than employees. This may be due to reduced contribution rates or a high degree of discretion in setting their income base, which often results in only minimum contributions being paid. As previously noted, underreporting of self-employment income can further limit pension contributions and have a negative impact on total savings (see Annex 2).

Based on the differences in access to and contributions to pension schemes, self-employed workers are expected to receive significantly lower income in their old age from their pensions. OECD (2019) calculated that the self-employed would theoretically receive pay-outs that are only a percentage of a traditional employee plan, as follows: the Netherlands, 40 percent; Germany, 50 percent; Poland, 60 percent; Belgium, 70 percent; and France, 80 percent.

These lower pay-outs have broader policy implications for EU member states. Lower pensions put the income security of retired self-employed workers at risk in many of the member states and can threaten the integrity of other public social protection programmes that are safety nets for the poor elderly. There can also be trade-offs between economic policies that encourage entrepreneurship and innovation. The OECD (2019) found that in some cases, lower pension savings were an unintended consequence of policies that encouraged entrepreneurship and self-employment.

Recommendations

Many potential steps, ranging from incremental to disruptive, could be taken to make access to pension plans more equitable for the self-employed. As a way to consider policy options, it is useful to determine whether government, companies or individuals will be primarily responsible for paying for better pensions, and we structure our recommendations accordingly.

Policy changes that target companies

Companies share the cost of pension savings for all their employees but currently do not contribute at all to the pensions of the self-employed workers they hire. Since firms have a general financial incentive to shift work onto those workers who can be hired at lower cost, this provides an incentive for companies to hire independent self-employed workers over employees to reduce overall labour costs. This finding was echoed in a pensions study that described the financial incentives for companies to hire independent workers instead of hiring standard workers, leading to concerns about false self-employment and social dumping (OECD, 2018).

One solution would be to require companies to make pro-rata contributions for the independent self-employed workers they hire, based on gross compensation. This would require companies to share more equitably in the pension contributions of both employees and the self-employed workers they contract with. (This requirement could be extended to require companies to make pro-rata contributions for other benefits as well, but that is beyond the scope of this Policy Contribution). It also would reduce, but not eliminate, labour cost arbitrage and could lower the opportunity cost for workers for choosing one form of work over another. Companies can leverage either their existing administrative systems or emerging technology and start-ups to automate contributions for self-employed workers.

Policy changes that target government

European governments can increase and equalise pension contribution caps so that self-employed workers have the same opportunities to set aside part of their wages as employees. The current system of depriving the self-employed of contributions by the companies that hire them, while limiting their contributions to levels that are lower than employees, puts them at a double disadvantage.

EU countries also can equalise pension benefits that traditional employees and self-employed workers receive upon retirement. Under current pension schemes, the self-employed tend to be subject to less-generous state pension benefits. Equalising mandatory contribution levels and corresponding benefits would help retired self-employed workers enjoy the same levels of income security as retired employees.

Finally, and more politically difficult, state pension systems could be restructured to promote longer working lives by increasing the statutory retirement age, lengthening working years requirements, rewarding later retirement and discouraging early exit. This would allow all workers more time to save and contribute to their pension schemes, and could reduce the number of years they will rely on pension income.

Policy changes that target individuals

To encourage increased individual pension contributions, governments could offer tax incentives to encourage the self-employed to contribute to voluntary schemes. Governments could also raise contribution limits or require minimum annual contributions based on income (OECD, 2019). They could similarly offer tax incentives that encourage the self-employed to work longer and retire later, or make it easier for older-age self-employed workers to combine pension income with income from work.

We recognise that any proposal to change contribution requirements or tax incentives for the self-employed needs to be considered in the context of how equitable and onerous those payments are, especially compared to what is required of traditional employees. It is furthermore worth considering how a pension surcharge could combine with value-added tax and other surcharges to increase the total cost of hiring a freelancer, particularly in situations in which the freelancer does not have pricing power, and thus affect freelancers' employment prospects.

Improving access through pension plan simplification is easy to recommend and hard to implement, but it is a viable option. Independent workers face barriers including confusing minimum income requirements, competing programmes with different contribution thresholds and minimum work requirements. Streamlining programmes and making them easier to join would expand the access of the self-employed to pension savings.

Shifting the burden of savings to individuals to save adequately for their retirement is risky. For those that either are not able or don't save enough to generate adequate pension income, the burden will fall on member-state safety nets to support those workers in their later years. Policy-makers should therefore take that risk into account when deciding how to proceed.

Financial literacy can help individuals make better decisions in how, when and whether to invest in pension resources on top of other savings options. The OECD and the European Commission have proposed a new framework to help workers manage their finances, understand long-term financial planning and get a sense of the risks and rewards involved in pension investing (European Commission/OECD, 2022) Individuals who have a good grasp of these concepts will be better placed to make sound decisions for their futures.

Finally, pension access for low-income, more vulnerable self-employed workers should be considered separately to that for higher-paid workers. The current system does not facilitate this and indeed inhibits it in jurisdictions where a minimum income is required to join self-employment pension schemes. Since low-income workers are less able to save enough to create income security in retirement, the burden of pension savings cannot be shifted to them. Instead, governments will need to offer adequate state income protection, or look to companies to contribute a portion of pension contributions for the lower-income self-employed workers they hire.

Closing thoughts

Perhaps the strongest argument for closing the gap of access to pensions comes from the 2019 Council Recommendation:

“In the long run, the gaps in access to social protection could put at risk the welfare and health of individuals and contribute to increasing economic uncertainty, the risk of poverty and inequalities. They could also lead to suboptimal investment in human capital, reduce trust in institutions and limit inclusive economic growth. Such gaps could also reduce the revenues of social protection if a growing number of people do not contribute to the schemes.”

It is difficult to justify current pension savings policies that limit the pension contributions, benefits and future income security of self-employed workers while giving employees maximum access to public retirement savings, employer cost-sharing and private savings plans. This lopsided approach segments the labour market, limits labour mobility and creates distortionary incentives for companies in the allocation of work across the economy. It does not serve self-employed workers well, nor does it serve the European governments that must ultimately provide a retirement social safety net. Instead, the status quo's main benefits seem to accrue to companies that are released from the responsibility for contributing to long-term income security, to the extent that they hire self-employed workers.

Independent work has the potential to offer welcome choice to individuals, who may prefer its autonomy and flexibility, and to companies, which may wish to supplement their full-time workforce with other human resources. Finding the right balance shouldn't require big trade-offs in retirement planning.

The goal of pension policy is to ensure that all workers have equitable access to pension savings schemes and long-term income security. Improving access to pension savings for self-employed workers and requiring companies to contribute to the pensions of all workers they hire are possible policy approaches to create a more equitable, sustainable and effective pension system, and to ensure a secure retirement for all.

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Annex 1: Pension systems for employees and the self-employed by country

Belgium

Traditional employees

Belgium has a three-pillar pension system: mandatory public/statutory pension system, mandatory statutory pensions, to which employees and employers contribute; a voluntary occupational pension system, created and funded by employers, to which employees contribute a very small amount, and which can be set up either by individuals, companies or sectors; and voluntary private pension plans, set up by financial institutions. Payment of a full pension generally begins at the age of 65 after the individual has worked a minimum of 40 years. In 2025 and 2030 the age will increase to 66 and then to 67 and the minimum number of years to work will be 42; other age and workforce-tenure combinations are possible.

Self-employed workers

In Belgium, self-employed and independent employees have pension plan options under all three statutory, occupational and private pillars. Any person who works is able to take part in the statutory state pension plan. For self-employed workers, the employee contribution is lower than for a regular employee and there is no employer contribution. For occupational plans, the worker joins the social insurance fund, overseen by the National Institute for the Social Insurances of Self-Employed Persons. The institute then receives payments made and distributes them accordingly. For private plans an individual can contract with a financial institution to create a savings fund and contribute to it personally. Pension payments will be based on number of years worked, type of employment, income, etc, as with traditional employees. A self-employed individual may retire at any time if they have sufficient funds in their private pension plan. They will, however, see a decrease in their statutory pension pay-out if they have not worked a minimum number of years.

France

Traditional employees

France has both a state-sponsored pension plan and private plans. However, private pension plans are relatively new and are not very popular. Additionally, private plans are typically set up as a type of life insurance that will provide for monthly payments upon retirement, rather than a savings or investment account. Both the employer and the employee pay into a state sponsored plan. In a private plan, the employer will likely set up the plan but will not contribute. An employee may draw their pension at the age of 62 if they were born after 1955. Before 1955 the age varies slightly. An employee born after 1955 may not draw a full pension however, until they reach 67 years of age.

Self-employed workers

Independent workers have been added to the French state-run pension plan in the last few years and are now eligible to take part in the general social security programmes if they register with their local health insurance fund to become a part of. There are different funds depending on the type of work a person does, with contributions from the workers. For some self-employed/independent employees, such as shopkeepers, craftsmen and those in private practice, contribution to the state system is mandatory. For most kinds of independent workers, however, it is not mandatory. Retirement age is the same for both full-time and self-employed/independent employees.

Germany

Traditional employees

Germany has a three-pillar pension system: mandatory statutory pensions, to which employees and employers contribute based on salary; voluntary company pensions, to which employees contribute from their salaries; and voluntary private pensions, set up through banks and insurance providers and also paid for by employees. Upon retirement, workers receive on average about 70 percent of their working net income. The retirement age is 65 and set to increase to 67, although people who have 35 years of contributions may retire at 63 with some reduction; after 45 years they may retire at 63 with no penalty.

Self-employed workers

There are certain pension plans available to self-employed/independent employees in Germany including the statutory pension and private pensions, including two main private plans: Riester and Rurup. The legal statutory pension is mandatory for some groups of self-employed workers, including teachers, midwives, forestry workers, craftsmen, artists, fishermen and also contractors who only work for one client. Those not in the above categories may choose to pay into the statutory pension or take part in a private plan with a bank/insurance provider.

The Riester pension is open to self-employed people who also participate in the statutory pension. Rurup allows the self-employed to set up a plan and contribute however much they want as frequently as they want. With private pensions (such as Rurup), deductions from pensions may be made as early as 60 years of age.

The Netherlands

Traditional employees

The Dutch pension system has public plans, somewhat mandatory occupational plans and voluntary private plans. The most basic plan is the public plan which is paid for by the government and provided to every person who has lived in the Netherlands, once they reach the age of retirement. Occupational plan contributions are made by employees and employers;

while there is no mandatory overall pension requirement, individual professions can choose to make participation mandatory for workers in that sector. Voluntary private plans can cover anyone, and contributions are made by the individual employee who sought to enter into the plan. Retirement age as of 2020 is 66 years. The age will change to 67 years as of 2024. An individual must have resided in the Netherlands for 50 years to receive their full pension or there will be a deduction of 2 percent per missed year.

Self-employed workers

There are not many options for self-employed/independent workers in the Netherlands. There are some voluntary private pension plans or occupational pension plans, but these are restrictive. Private pension plans allow the individual worker to contribute what they can to a pension fund for themselves. Occupational pension plans allow self-employed/independent workers to enter a sector pension fund if they work within the same sector for an extended period of time. The occupational fund also does not allow for the fluctuations that can occur in the income of self-employed workers. Payments would be made solely by the individual unless the worker is part of an occupational pension plan in a certain sector that would also make payments. Almost no pension funds are mandatory unless the sector decides otherwise. Age same as for employees.

Poland

Traditional employees

Poland has a three-pillar pension system: the first pillar is a government-funded pay-as-you-go system; the second pillar is voluntary pension funds headed by private financial institutions that invest money in the capital market; and the third pillar combines voluntary occupational pension system and private pension plans. For the first two pillars, contribution rates are split equally between employers and employees, with most of the total going into the public first pillar, and the rest credited to the private individual account scheme and paid entirely by the employee. The second pillar includes the option to opt-out entirely and directs that money to the public programme. For the third pillar, the employer pays voluntary occupational pension plans up to 7 percent of employee net earnings. Employees can make additional contributions that supplement those of the employer. The pension age is 65 years for men and 60 years for women, who can document a contributory period covered amounting to 25 and 20 years, respectively.

Self-employed workers

In Poland, self-employed and independent workers can participate to a certain extent in the pension system. They are required to participate in the first and second pillars, they must contribute from their funds, and the amount is lower than for traditional employees. For the third pillar, they may voluntarily take part in a private pension plan, but they cannot participate in the occupational pension option. The pension age is 65 years for men and 60 years for women.

Annex 2: Types of self-employed income that may not be fully declared

Under-reporting of self-employment income can limit the pension contributions a worker can make, resulting in lower total pensions savings.

Main types of undeclared work in member state	Germany	France	Belgium	Netherlands	Poland
Declared work with an undeclared element (envelope wages) and undeclared/off-the-books employment	x		x	x	x
Undeclared or 'bogus' self-employment	x	x	x		
Work undertaken by those claiming social assistance or registered unemployed	x		x		x
Underpayment/full-time jobs declared as part-time/bogus part-time work	x		x	x	x
Workers without contracts/appropriate documentation		x			x
None or under-reporting of hours worked	x	x			x
Illegal immigrants employed in legal work/working without permits	x				
Undocumented work			x		
Non-compliance with minimum standards for working conditions	x			x	
Under-declaration of posted workers		x			
Violation of posted workers act	x				
Underpaid work of migrant workers				x	

Source: Mineva and Stefanov (2018).