Coverage of the Self-Employed Under Old-Age and Survivors Insurance: Foreign Experience

by WILBUR J. COHEN *

Few foreign social insurance plans protected any self-employed persons at the time the Social Security Act was being drafted, and the information available in the United States on possible methods of covering the self-employed under the Federal old-age insurance plan was therefore limited. Since then, however, many countries have extended the protection of old-age and survivors insurance to the self-employed. Their programs are briefly summarized here. A future article will outline proposals for extending coverage to the self-employed under this country's old-age and survivors insurance program.

SELF-employed individuals are covered under the provisions of compulsory social insurance in some 20 nations throughout the world. The extent of coverage and the mechanics of the individual plans vary with the economic conditions of these nations and with the historical development and character of their social security programs. In none of them have the administrative problems of such coverage been found to be a real barrier to successful operation.

Sweden

The Swedish system of compulsory old-age and invalidity insurance was enacted in 1913.[1] The oldest of the universal coverage plans, it includes the self-employed on the same basis as wage and salary workers. Every citizen between the ages of 18 and 66 must contribute 1 percent of his net income to the National Pension Fund; the minimum contribution is 6 kroner a year, and the maximum is 100 kroner.[2]

Contributions are paid annually in conjunction with income taxes on the basis of the individual's declaration of income received and property owned during the preceding year. A local board of assessors reviews this declaration and determines the net income of the individual, who is then billed for social security contributions and income tax. The benefits are paid as a matter of right; they may be supplemented, however, by a noncontributory pension or bonus based on a means test.

Finland

The Finnish system of compulsory old-age and disability insurance, which is closely modeled after the Swedish plan, was enacted in 1937.[3] Every resident over age 18 and under age 65 who is able to work is covered except persons who were over age 55 before coming under the law. The total contribution rate is 2 percent of each person's annual income as computed for local income-tax purposes, with a minimum contribution of 300 and a maximum of 3,000 marks a year.[4] Employers and employees each pay half the total contribution; self-employed individuals pay the full 2 percent. Persons on relief pay no contribution. For employed couples with income below a certain amount the rate for either husband or wife is reduced to 60 percent of the minimum premium.

The self-employed person in Finland pays the total contribution yearly in conjunction with his communal taxes. The wage worker also makes a contribution statement at the time he pays his taxes, though at least part of his contribution has already been paid. The employer deducts the employee's share of the contribution from his wages quarterly (up to one-half the maximum amount) and transmits the employer and employee payment to the Government. The employer's receipts for these payments are attached to the worker's annual contribution statement.

Old-age pensions will be paid to all persons in Finland after they reach age 65, if they have paid contributions for 10 years. Thus, pensions will be paid to wives whether or not they have been gainfully employed and to persons who continue to work. The size of the pension payments depends on the insured person's age and the amount that has been paid in contributions.

Germany

The prewar German old-age, invalidity, and survivors insurance law restricted coverage of the self-employed to independent craftsmen, teachers, tutors, musicians, artists, midwives, and nurses.[5] Craftsmen, for example, were assigned to one of the 10 wage classes under the salaried employees' system on the basis of their income-tax return for the preceding year. One-twelfth of the

*Technical Adviser to the Commissioner for Social Security.

[1] See Konrad Persson, "Social Welfare in Sweden," *Social Security Bulletin,* April 1949.

[2] The present exchange value of the krona is about 28 cents in U. S. currency.

[3] Ministry for Social Affairs, *Social Legislation and Work in Finland,* Helsinki, Finland, 1946.

[4] The present exchange value of the mark is about six-tenths of a cent.

[5] *Industrial and Labour Information,* Feb. 6, 1939, pp. 163–165.

craftsman's gross income was considered his monthly income, and he paid both the employer and the employee contribution appropriate to his wage class. As under the general salaried employees' system before the war, contributions were payable on a monthly basis and by means of stamps.

If the craftsman did not have to file an income-tax return for the preceding year, the amount which he drew out of the business for himself and his family was considered his annual income for insurance purposes. If the amount of such withdrawals could not be determined on an annual basis, an estimate of the annual amount was made on the basis of withdrawals during particular months. For a craftsman who opened his business in the current year, the amount withdrawn for personal use during the month immediately preceding the month for which the contribution was due determined his income class. The craftsman was liable for contributions even if his business expenditures exceeded his receipts.

The Social Insurance Institute of Berlin has since 1945 included certain self-employed persons under compulsory old-age, survivors, and disability insurance.[6] Tradesmen and other self-employed persons are covered provided that their activities in self-employment are their main occupation and that they do not employ more than five persons who are compulsorily insured.

A special contribution system is necessary for the self-employed, however—except for persons engaged in home industry, subcontractors, and artists, who are treated like employed persons—since they receive no wages or salaries. As a matter of principle, self-employed persons and tradesmen have to pay a contribution amounting to 10 percent of their net income.

For administrative reasons the contribution is computed on the basis of the preceding quarter's income, according to the tabulation that follows.

[6] Insurance Institute of Berlin, *Versicherungsanstalt Berlin, 1945–1947; **Report on** Operations*, 1948 (?), **pp. 27 and 31.**

Quarterly income (deutsche marks[1]*) up to and including—*	*Monthly contribution (deutsche marks)*
360	12
480	15
600	18
780	24
960	30
1,140	36
1,320	42
1,500	48
1,680	54
1,681 and over	60

[1] The present exchange value of the deutsche mark is about 30 cents in U. S. currency.

A tradesman must pay at least a contribution corresponding to that paid by workers in the class of his highest-paid employee.

Great Britain

Recent changes in the British social security system that became effective on July 5, 1948, extend compulsory sickness, retirement, and survivors insurance to the self-employed; previously there had been provision for voluntary coverage of the self-employed for certain types of benefits. Generally, contributions are paid by stamps on a single insurance card, and the detailed administrative arrangements are similar to those that had existed for employees since the system went into effect in 1912. Self-employed persons pay, in effect, the combined employer-employee contribution for retirement and survivor benefits.

Differences in the types and costs of benefits payable to the self-employed (they are not eligible for unemployment insurance benefits) affect the total cost of all benefits, so that the self-employed pay about 75 percent of the combined contribution payable by an employer and an employee but 35 percent more than the employee contribution alone.[7] Contribution rates are not related to earnings but rather are flat amounts varying with the individual's age, sex, and employment status. The Government contributes to the insurance system out of funds from general revenues.

Under the British system the self-employed person, for the purpose of national insurance, is a person "who is ordinarily gainfully occupied but who engages in his occupation under conditions which do not make him an employee." The self-employed group includes members of Parliament, judges, lawyers, accountants, architects, authors, artists, doctors, ministers, farmers, storekeepers, and heads of businesses.[8] Full-time officers of local government and other public units are classed as employees even though they may not be employed under a contract of service.

When a self-employed person ordinarily earns less than 20s. a week from his work in self-employment he is treated as a nonemployed person. However, as long as he ordinarily earns 20s. or more a week, he continues to contribute as a self-employed person, even if in a particular week he earns less than 20s. or nothing at all.

A person who is self-employed but whose annual income from all sources does not exceed £104 may be exempted from liability for contributions. In calculating income, account must be taken not only of cash income but of income in kind. An exempt individual must have contributions paid on his behalf in the regular amount, however, for any week in which he works as an employee.

If a self-employed person works during a week as an employee, the normal contributions as an employee will be payable, and no self-employed contribution is due.

A contribution is payable not later than the last day of the week for which it is due. Stamps, which can be obtained at any post office, are affixed to the insurance card in the appropriate weekly space and canceled by writing the date across them in ink.

[7] These computations are based on the total contributions payable for men between the ages of 18 and 65. For employees, the rate is that for persons earning remuneration at a weekly rate exceeding 30s. For such persons the contributions to the general scheme (excluding industrial injuries insurance) are 8s. 5d. weekly, of which 3s. 10d. is payable by the employer and 4s. 7d. by the employee. For self-employed men over age 18 the weekly contribution rate is 6s. 2d; the Government contributes 1s. 1d. a week. (The present exchange value of the English pound is about $4.03.) Source: National Insurance Act, 1946 (9 and 10 Geo. 6, c. 67), 1st schedule.

[8] "National Insurance for the Self-Employed," *National Insurance Gazette*, **July 1, 1948.**

Within 6 days after the end of the period for which the card is current, it must be returned to the local National Insurance Office, where a new card is issued in exchange. The old card is signed by the insured person, and, before it is surrendered, his latest address is entered in the space provided.

A self-employed person who was already past retirement age at the time the new system went into effect and who was not then insured under the previous insurance plan does not pay contributions and will not become insured for benefits. For retirement benefits a minimum period of 10 years' insurance is required. The self-employed person who comes under the insurance program so late that he cannot qualify for an insurance benefit on reaching retirement age is not required to pay self-employed contributions after that date, but he may pay contributions as a nonemployed person until he does qualify. Alternatively, he may waive his claim to benefit and receive a refund of the portion of his contributions allocated to retirement insurance.

New Zealand

The social security system of New Zealand provides comprehensive benefits, including superannuation benefits at age 65, to every permanent resident in the country. The system is financed by a tax of 7½ percent on individual gross income as well as by a tax on the net incomes of industries. These taxes are supplemented by a Government subsidy which amounts to about one-third of the cost.

The tax on wage earners is collected by employers, who withhold the proper amount from each worker's pay. A social security stamp is placed on the employer's wage records to correspond to the deduction and is canceled by the employee's signature. An alternative procedure is provided when the amount of the tax exceeds £5;[9] the employer then remits the full amount of the tax directly to the Commissioner of the Land and Income Tax Department. Taxes on income other than wages are computed annually but are paid quarterly. No individual wage records are maintained under the New Zealand system; benefits are flat amounts not related to previous earnings.

Czechoslovakia

Under the National Insurance Act, published on April 15, 1948, all self-employed persons are to be covered under old-age, survivors, and disability insurance. For a self-employed person who is not a farmer, the basic income for contribution purposes must be at least 125 percent of the earnings of the highest-paid employee in the same occupation. For farmers the basic income is determined by the Minister of Social Welfare in agreement with the Minister of Agriculture, after consultation with the interested groups. The determination is based on various factors, such as the area of the land, quality of the soil, manner of cultivation, and type of product. For old-age, survivors, and disability insurance the contribution rate is 10 percent. The self-employed person pays the entire contribution; for an employee, the employer is required to pay the entire contribution.[10]

Brazil

In Brazil some 130,000 taxi drivers, chauffeurs, and other persons who drive motor vehicles for hire are considered as self-employed and are covered under the Institute of Retirement and Survivors Pensions of Persons Employed in Transport and Loading (IAPETC). Contributions for self-employed individuals are paid on a monthly basis by means of stamps, although contributions for employees are paid in cash.[11]

Chile

The Chilean Workers' Insurance Fund, which provides invalidity, sickness, old-age, and survivors benefits, maternity benefits to insured women and the wives of insured men, and medical care to insured persons' children under 2 years of age, includes all self-employed manual workers. Before 1944, only those with an annual income of less than 12,000[11a] pesos were covered. While the legal provisions of the act apply to all workers, the different groups, because of their conditions of work, are subject to special administrative regulations. Thus, the independent worker, instead of being registered by an employer, must himself register with the Workers' Insurance Fund at the local office nearest his home, where he receives a stamp book. His contribution amounts to 4½ percent of his annual income, and the State contributes an equal amount. At least once a month he must purchase and affix his own stamps in his book, and each year he must return the book to the Fund, which posts the value of the stamps to his account and gives him a new book showing the total value of his contributions to date.[12]

Panama

Panama's social insurance law provides for compulsory coverage of independent workers whose annual net income, according to their most recent income-tax declaration, is less than 1,200 balboas.[13] Insurance is voluntary for workers with income in excess of this sum. Compulsorily insured independent workers can include their families by means of voluntary insurance. The law provides old-age, invalidity, and certain medical benefits. Employees contribute 4 percent of their wages, and employers match this amount; the State also adds a subsidy. Self-employed persons pay 5 percent of their earnings, while the State makes up the balance.[14]

Switzerland

The Swiss people in a referendum held July 6, 1947, approved by a majority of 4 to 1 the establishment of a Nation-wide compulsory system of old-age and survivors insurance, which was inaugurated January 1,

---

[9] The present exchange value of the pound is about $4.00.

[10] "Social Security in Czechoslovakia," *International Labour Review*, August 1948, and *Czechoslovak National Insurance: A Contribution to the Pattern of Social Security*, Prague, 1948.

[11] Information obtained by author during visit in 1947.

[11a] The present exchange value of the peso is about 2 cents.

[12] See Wilbur J. Cohen, "Social Security in Chile," *Social Security Bulletin*, May 1947.

[13] The present exchange value of the balboa is about $1.00.

[14] Conversation with Director of the Panama Social Security Agency, 1947.

1948. For some years, however, three Swiss cantons have had universal old-age insurance systems.

The new law covers compulsorily all persons residing in Switzerland except aliens having diplomatic immunity and persons covered by foreign old-age and survivors insurance systems; it also covers compulsorily Swiss citizens working abroad for wages paid by a Swiss employer. It provides supplemental benefits for wives and benefits for survivors of deceased insured individuals. The law is administered through occupational compensation funds organized by employers and self-employed persons, cantonal compensation funds, and Confederation compensation funds. There is also provision for limited cooperative participation of private insurance institutions.

Contributions are paid by all persons between the ages of 20 and 65 except wives who are not gainfully occupied or who work without pay in their husbands' business and widows who are not gainfully active. There also are special contribution provisions for children under the age of 15 who are working. Contributions equal 4 percent of income from employment. Employers and employees each pay 2 percent. Self-employed persons with income of more than 3,600 francs [15] a year pay 4 percent, while the self-employed with incomes of less than that amount have their contribution rates reduced, according to a sliding scale, to as low as 2 percent. Reduction in the contribution rates does not lower benefits, since the contribution will be credited to the individual insurance account at the full 4-percent rate. Unemployed persons pay a nominal minimum contribution of 1 franc a month. Persons living exclusively on capital income, support from relatives, and the like, pay on a graded scale of from 1 to 50 francs monthly.[16]

[15] The present exchange value of the franc is about 23 cents.

[16] See Max Bloch, "The New Swiss Program of Old-Age and Survivors Insurance," *Social Security Bulletin*, November 1947, and Arnold Saxer, "The Swiss Old-Age and Survivors Insurance Scheme," *International Labour Review*, November–December 1947.

Other Countries

A number of other countries cover self-employed persons, but specific details are not available. Norway and Iceland appear to have systems similar to those in Sweden and Finland; the benefit in Norway is subject to a reduction for outside income.

Bulgaria, under a law of December 28, 1948, covers the self-employed workers, including artisans, farm owners, members of the liberal professions, and businessmen. The old-age, invalidity, and survivors benefits are financed by monthly contributions by the insured that vary in accordance with a table of wage classes given in the law. The contribution rate is approximately 9 percent of income. For scientific workers, writers, actors, and artists the contribution is reduced by 20 percent, and the difference is met by the Government.

Self-employed persons will receive subsistence pensions in France under a law passed in January 1948 as a temporary measure pending establishment of a permanent system for such workers. Coverage is to be achieved by occupational groups, in the following categories—artisans, industrial and commercial workers, members of the liberal professions, and self-employed workers in agriculture.

In Uruguay, most self-employed persons are covered compulsorily for old-age and survivors insurance, but different classes are covered under different funds. Most of the self-employed, except those in agriculture, have been included under the fund for industry, commerce, public services, and related occupations. Contributions are collected by a stamp system, and stamps are sold to employers through post offices. Stamps representing the amount of the employer and employee taxes are placed in the insured person's stamp book each pay period. Self-employed persons maintain their own stamp books. In Cuba, lawyers are covered under social insurance.[17]

In Greece, various groups of self-employed persons are covered for social insurance under separate funds. Among those covered are shopkeepers, artisans, taxicab drivers, clergymen, and stockbrokers. Contributions are collected by means of a stamp-book system.

[17] *Bulletin of the International Social Security Association*, June 1948.

Some self-employed persons are covered under the old-age insurance system in Portugal and pay the combined employer-employee contribution.[18]

Summary

The foreign programs demonstrate that progress has been made in recent years in extending coverage to the self-employed. There is no doubt that administrative difficulties do exist, but they have been successfully handled in several countries.[19] In some countries, coverage of the urban self-employed has preceded coverage of farmers. In most countries, coverage of the self-employed was inaugurated after experience was gained in administering the insurance program for employees. Different methods of collecting contributions have been tried. In some countries the contribution for the self-employed is the same as for employees; in others it is different.

Numerous factors play an important part in making for the successful administration of coverage of the self-employed. No single factor seems to be controlling. The cooperation of the self-employed is essential. They must understand the value of social insurance and be willing to contribute. They must be willing and able to make out some kind of contribution report. This procedure presupposes at least some simple kind of record to be kept by the self-employed and at least a minimum degree of literacy to comply with certain requirements as to computation of income, the amount of the contribution, or other similar items.

It appears that progress has been made in recent years in the United States in all these factors and that there is a sound basis for believing

[18] *International Labour Review*, December 1948.

[19] *Collection of Social Insurance Contributions* (Report III), International Social Security Association, IX General Meeting, Rome, 1949.

that the administration of coverage for the self-employed could be successful here. The Advisory Council on Social Security, the National Planning Association, and several organizations representing self-employed persons such as dentists, musicians, and farmers have recommended that coverage be extended to the self-employed. With the cooperation of the self-employed, there are reasonable grounds for believing that extension of coverage to the self-employed is practicable and not too far from successful realization.

Reconversion Unemployment Benefits for Seamen

by Olga S. Halsey*

Seamen who had been employed during and immediately after the war on American merchant vessels under Federal control were technically employees of the United States. As Federal employees, they would not have been eligible for unemployment benefits except for the temporary program of reconversion unemployment benefits for seamen, reported below.

THE personnel of the American merchant marine increased more than threefold during the war years to meet the extraordinary wartime shipping needs. For 2 years—July 1943 to July 1945—the War Shipping Administration controlled virtually all shipping in American vessels. The officers and members of the crews of these vessels were technically employees of the United States. As Federal employees, they were not covered by State unemployment insurance laws at a time when they were confronted by inevitable demobilization at the close of the war.

To meet this situation, Congress in July 1946 added title XIII to the Social Security Act. The provisions of the new title became effective, for practical purposes, in July 1947, when Congress first appropriated funds for the payment of benefits. The program was originally due to expire on June 30, 1949, but early in July 1949 Congress extended it for another year.

Title XIII authorized the payment of unemployment benefits from Federal funds to persons who had been employed in Federal maritime service. This was defined as service on or in connection with an American vessel by "an officer or member of the crew as an employee of the United States employed through the War Shipping Administration," when the employment was under a contract entered into in the United States. The new title also authorized the Administrator of the Federal Security Agency to make agreements with State employment security agencies under which the States, as agents of the Federal Government, would pay unemployment benefits to these Federal workers under the provisions of the applicable State law.

Under this program the period of employment and the wages earned in Federal maritime service during the base period of each State are treated as if they had been covered by the law of the State in which the seaman first filed a claim for benefits. State employment security agencies, however, had no record of this Federal employment. Accordingly, since the services were covered under old-age and survivors insurance, arrangements were made with the Bureau of Old-Age and Survivors Insurance to furnish State agencies, on request, with a transcript for each claimant of the wages he earned in Federal maritime service. Through June 1949 the Bureau had handled nearly 100,000 requests for transcripts.

Background

The Federal Government meets the entire cost of the benefits paid those seamen whose wage credits were earned wholly in Federal employment and were sufficient to make them eligible under the State law. For claimants who had both Federal wage credits and also wage credits earned in State-covered employment, the combined wage credits are pooled to determine eligibility for benefit, weekly benefit amount, and duration. For claimants for whom the Federal wage credits, in addition to the credits in State-insured employment, result in an increase in the weekly benefit amount and/or potential duration, the Federal Government meets the cost of the additional amount paid the claimant on the basis of his Federal employment.

Before the accomplishments of the program are outlined, a sketch of the background against which it has operated is necessary to explain why it is properly called one of "reconversion unemployment benefits for seamen."

Before the war, in 1941, the personnel actually employed on privately operated American merchant vessels totaled 50,000. By July 1943 the personnel in the American merchant marine had increased to 89,000, but virtually all this employment was on vessels controlled by the War Shipping Administration. Two years later, employment under the control of this agency reached a peak of 168,000—more than three times the prewar number on privately operated American vessels. At that point the War Shipping Administration—and later, its successor, the Maritime Commission—began to return vessels to private control. A year later, the number of employees on vessels controlled by the War Shipping Administration had declined by more than

* Division of Program Standards, Unemployment Insurance Service, Bureau of Employment Security.