

ed



Deutsche Sozialversicherung
Europavertretung

February/March 2018

The changing world of work

Social Security 4.0



Dear Reader,

The world of work has changed in recent years. New technologies, digitalisation, globalisation and demographic change are the driving forces behind this change, each to a varying degree.

Some people see this transformation as an opportunity, for example by creating more flexible options for structuring work or improving work-life-balance. Others feel threatened by this development because they perceive it primarily as a way to transform regular stable jobs into precarious ones and as a loss of social security.

It is vital for the Social Insurance to work out how it can include people on the journey to the digitalised world of work while also guaranteeing their social protection. Adapting social security systems to this digital transformation is a topic of discussion at both national and European level. However, despite intensive debate and numerous studies, there is still a lack of agreement on the best way of doing this.

This might be partly due to the significant number of ‘new business models’. The designs of these models range from something akin to traditional employment relationships through to simply providing a ‘digital’ marketplace to engage the services of self-employed persons.

A key aspect here is the rich diversity of the social security systems within Europe, which are based on different traditions and socio-economic conditions. In a European Single Market with free movement of workers, it should therefore be possible to tackle these challenges together within the framework of the division of competences.

In this month’s issue of ed*, we want to give you an overview of the current discussions on ensuring that all workers have adequate access to social protection.

We hope you enjoy reading this issue of ed*!



Ilka Wölflé

Social security systems – an outdated model?

In search of solutions – the European level

In the European Pillar of Social Rights, the EU Commission recommends that Member States give all workers the right to adequate social protection. Workers and, under comparable conditions, self-employed persons should benefit from social protection regardless of the nature and duration of their employment relationship. Thus, Brussels has addressed concerns that were expressed by stakeholders during the consultation on the Pillar of Social Rights.

The EU Commission involved the European social partners soon after publishing the Pillar in order to ask their views on possible actions at European level. The views of the social partners on mandatory European initiatives are quite different. Whereas employers' representatives have stated that there is no need to change European laws, workers' representatives believe there is room for improvement in terms of implementing existing EU legislation.

In addition, the EU Commission has directly consulted various interest groups, in particular the statutory social security institutions, about a possible initiative at EU level. In comments submitted by the umbrella associations of Germany's social insurance system, they pointed out that the Member States must look for solutions at national level if there are gaps in social security. However, improved exchange of information and experiences could help the Member States to fulfil their responsibilities.

The Commission intends to use the results of the consultations and hearings to present a proposal for an initiative as part of their 'Social Fairness Package' in March 2018.

Digitalisation and social security
aren't mutually exclusive



Has the number of workers in non-standard employment and solo self-employment as a percentage of all workers changed?

Will the exception become the norm?

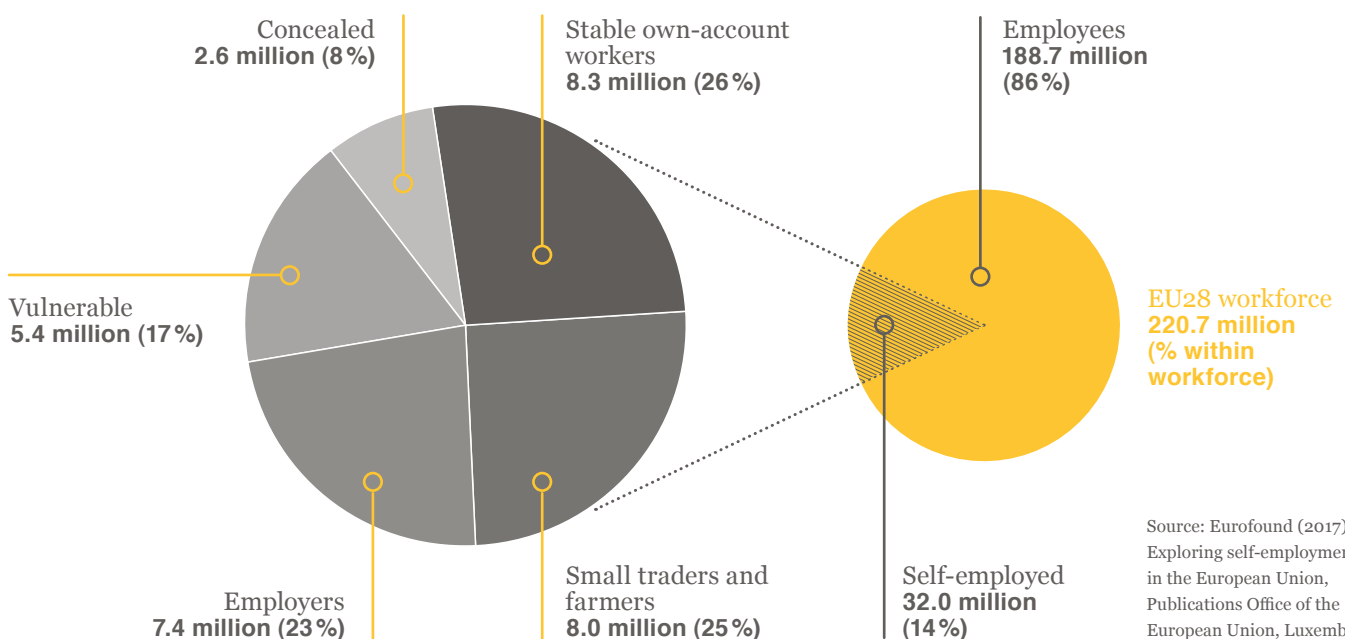
The ‘traditional employment relationship’ still seems to be standard for most people, where the worker is dependent on being employed by the employer. However, the omnipresence of business models such as Deliveroo, Uber, Airbnb and similar platforms suggest that a significant proportion of new internet-based forms of employment involve non-standard employment or solo self-employment (self-employed without employees). Do we have to get used to the fact that non-standard forms of employment are becoming the norm?

Actually, it seems that the number of workers in non-standard employment and solo self-employment as a percentage of total workers has not really changed. According to a report

from the European Foundation for the Improvement of Living and Working Conditions (Eurofound), the number of temporary contract workers as a percentage of all workers in Europe has remained relatively stable at 14.5% in 2006 and 14.2% in 2016.¹ The situation in Germany has also remained the same with about one fifth (20.7%) of workers in non-standard employment.²

According to Eurofound, the percentage of self-employed workers in Europe has remained comparatively stable since 2002.³ However, the proportion of self-employed persons without staff (known as solo self-employed or own account workers) has increased over the same period. In total, 25% of all self-employed persons (around 8 million people) are solo self-employed and in a precarious situation in the EU 28.

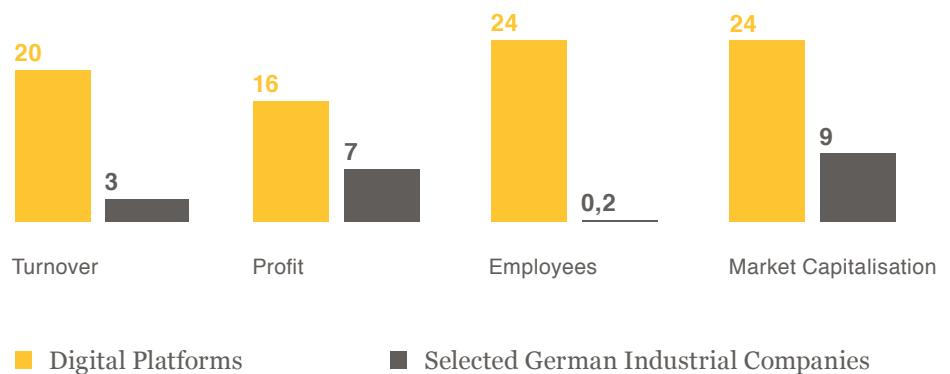
Main reasons for self-employment



Source: Eurofound (2017), Exploring self-employment in the European Union, Publications Office of the European Union, Luxembourg.

Growth in the platform economy is to be expected; how this will be reflected in the corresponding number of employees is difficult to predict accurately.

Digital platforms* and German industrial companies** in a five-year comparison (2012 – 2016 in per cent)***



*Alphabet (Google), Amazon, Apple, Facebook, Tencent **DAX-listed companies: BASF, Bayer, Daimler, Henkel, Siemens
***The average annual change in the 2012-2016 period is measured in per cent (CAGR)

Source: Roland Berger, in-house calculation based on Bloomberg, 2017

The global nature of such platforms and comparatively low costs, including staff costs, mean that these business models are quite attractive. Another reason for the economic success of platforms, and the reason for such growth in this sector, is the ability to utilise user data. This data can be used to draw conclusions on user behaviour and serve up targeted offers. A comparison between the platform economy and German industrial companies, in terms of turnover, profit, staff and market capitalisation, shows that in the five years between 2012 and 2016, digital companies grew much faster than the traditional companies.⁴

The changing world of work – workers' need for protection stays the same

Even if it is clear that the number of click workers will increase in the

future, it is currently difficult to estimate how significant this growth will be. There are already discussions regarding how to ensure new workers in this world of work have adequate social protection. A study commissioned by the EU Commission on access to social protection for people in non-standard employment and self-employment concluded that gaps exist for both groups.⁵

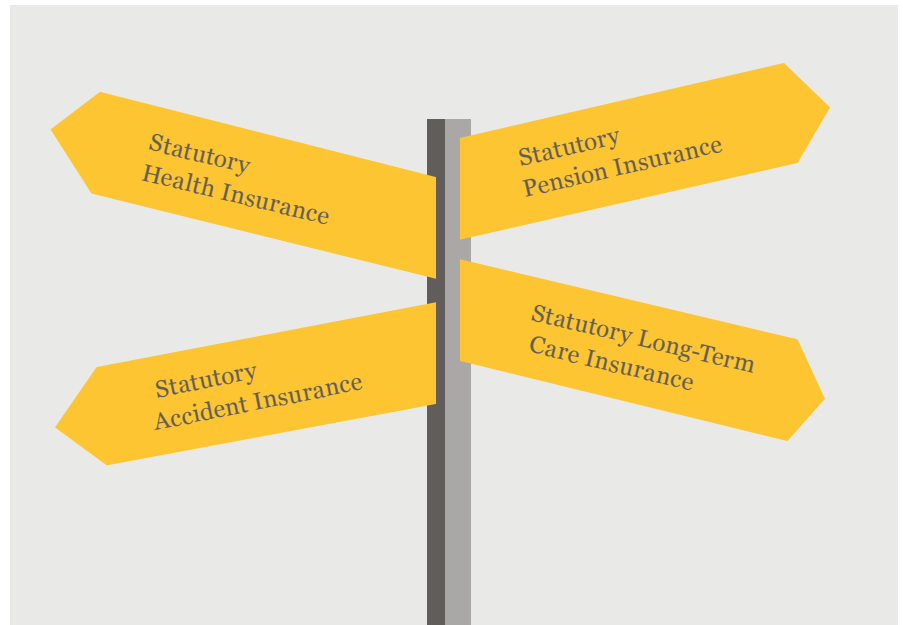
Generally speaking, people in non-standard employment have formal access to social protection in the same way as workers in standard employment. However, a major exception to this is seen in certain forms of work such as casual work, seasonal work, temp work, on-demand work and zero-hour contracts. As is also the case for self-employed persons, people in these forms of work are either com-

pletely excluded from accessing social protection or can only voluntarily enter major social insurance schemes such as health insurance, unemployment insurance and occupational/accident insurance.

The situation is different for the self-employed, for whom there are signifi-

¹ Vgl. Eurofound (2017), Aspects of non-standard employment in Europe, Eurofound, Dublin.
² Vgl. Statistisches Bundesamt, Pressemitteilung vom 16. August 2017 – 281/17. Die Aussage bezieht sich auf den Zeitraum 2014–2016.
³ Vgl. Eurofound (2017), Exploring self-employment in the European Union, Publications Office of the European Union, Luxembourg.
⁴ Federal Ministry for Economic Affairs and Energy, White Paper on Digital Platforms, Digital regulatory policy for growth, innovation, competition and participation, March 2017.
⁵ Vgl. Slavina Spasova et al. (2017), Access to social protection for people working on non-standard contracts and as self-employed in Europe, A study of national policies.

Workers in non-standard employment and self-employment often don't meet the eligibility requirements for social security benefits.



cant differences between the Member States in terms of formal protection. Typically, there is formal coverage for benefits that are funded through taxation and not insurance (e.g. family benefits) and for certain means-tested benefits (e.g. social assistance or basic old-age pension) which are provided regardless of the form of employment. However, self-employed persons may be excluded from certain contribution-funded insurance benefits and the rules regarding voluntarily taking out insurance vary from system to system.

In addition, workers in non-standard employment and self-employment often do not meet the eligibility requirements for accessing the benefits provided by social insurance systems, for example due to irregular contributions. But a person's financial situation can also be a hurdle because a low or irregular income can lead to a lack of protection against certain

social risks and be a burden on state welfare systems.

In search of solutions – the Member States

The way the participants see themselves and the specific structure of the relationships between platform operators, platform users and those who perform the activity lead to new forms of employment models. Therefore, the question arises as to whether social security systems, which are tailored to traditional employment relationships, are still suitable for these new forms or whether they have to be adapted to ensure adequate social protection. The EU Member States are taking different approaches, which reflect their individual national frameworks, to extend social protection to people in non-standard employment. Attempts are being made to fully integrate workers in non-standard employment, who have had little or no access

to social security, into the social security systems.⁶ An example of this is recalculating contribution periods for part-time employees with respect to social security benefits that are dependent on contributions. In some cases, attempts are also being made to faster convert fixed-term contracts into full-time employment. Another example is the inclusion of self-employed persons, who are financially dependent on a single client, under the labour laws applicable to traditional employment contracts, together with the relevant social security rights.

In order to ensure adequate access to social protection for the self-employed, adjustments are usually made within a system, for example, by changing the calculation base, harmonising contribution rates and changing eligibility conditions, or a more fundamental approach is taken. The latter aims to fully integrate self-employed persons into social security;

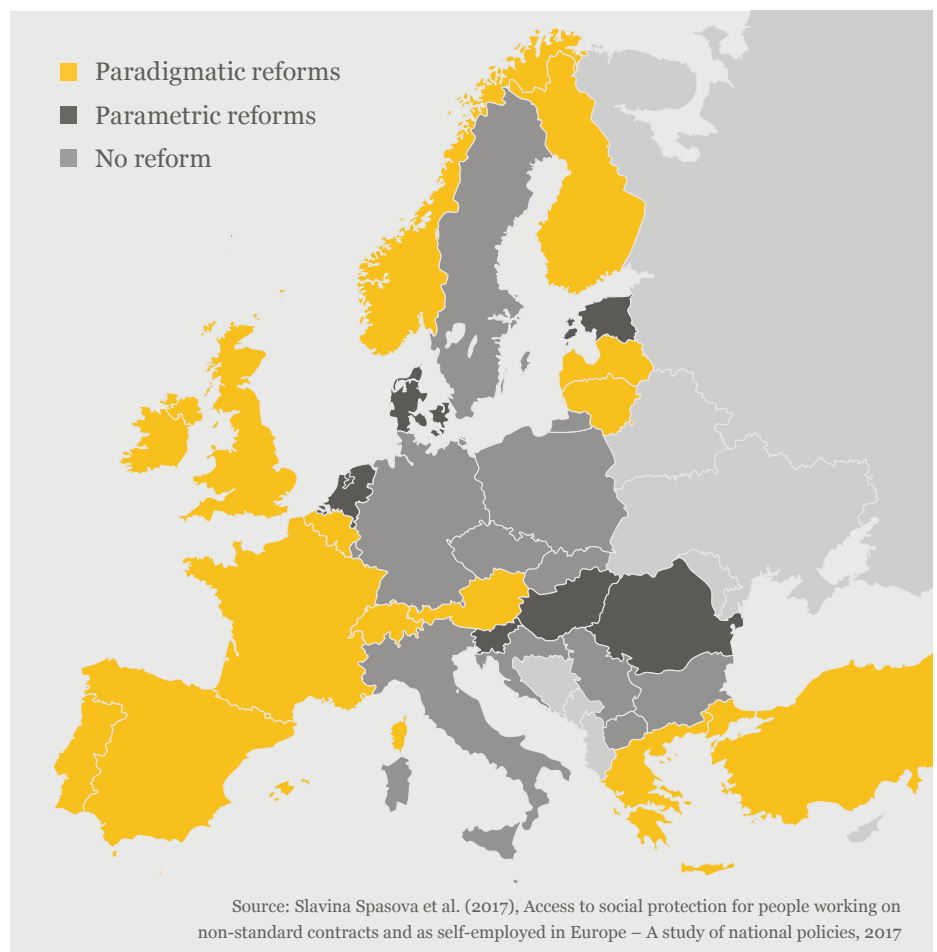
for example, by establishing a new status for the self-employed or new social benefit schemes for the self-employed. In some Member States, reforms are being done both ways.⁷

Other interesting approaches are being taken in France and Estonia. In France, the act on financing social security of 2017 gives platform operators the opportunity to submit sales figures instead of the platform worker. In turn, the platform worker can choose whether to follow the social security rules and contributions for self-employed workers or those for workers in standard employment. In the latter case, contributions are based on 40% of turnover (13% for renting out accommodation). Starting in 2018, the current stand-alone system for protecting business owners and freelancers (Régime social des indépendants) will be migrated to the general statutory social insurance system (Sécurité sociale).

Estonia has introduced a 'business income account' for the self-employed as part of an act on simplified business income taxation. A person can transfer their business income into this account and is taxed at 20%. This money is then divided between various social security contributions, including health insurance, contributions to the first and second pillars of the pension and income tax. However, this regulation is not mandatory.

In France, platform workers can request the platform to submit the necessary statements to the relevant authorities and to organise contributions.

Recent reforms on extension of statutory access for the self-employed



6 Vgl. Slavina Spasova et al. (2017), Access to social protection for people working on non-standard contracts and as self-employed in Europe, A study of national policies.

7 Vgl. Slavina Spasova et al. (2017), Access to social protection for people working on non-standard contracts and as self-employed in Europe, A study of national policies.

Outlook: Do we need a European initiative?

Implementing the European Pillar of Social Rights is a joint obligation and responsibility of the European Union and its Member States. It should be done according to the respective competences of the Union and the Member States. This should take into account the diversity of national systems, including the role of the social partners, and the different socio-economic conditions. This also applies to the recommendation of ensuring adequate social protection for all forms of employment.

The examples mentioned above show that the Member States are fully aware of their responsibility to guarantee adequate social protection for all workers and that they are trying to find solutions to the issue using their national systems. It will be interesting to see which way the EU Commission chooses. The best way forward would be to support the Member States, for example, by helping them to exchange experiences and information about finding national solutions or best practices. This would enable Member States to learn from one another and to keep up with new developments in a rapidly changing world of work so that they can ensure access to adequate social protection for all workers.

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