



Universität Vechta
University of Vechta



Anna Frankus, Uwe Fachinger

**Self-employed people and old age
provision – Is old age poverty coming back
to Germany?**

Discussion Paper 06/2012
Institut für Gerontologie - Ökonomie und Demographischer Wandel

IMPRESSUM

Discussion Paper
Institut für Gerontologie - Ökonomie und Demographischer Wandel
Universität Vechta
Juli 2012

Die Beiträge werden herausgegeben vom
Fachgebiet Ökonomie und Demographischer Wandel

Kontakt:
Universität Vechta
Institut für Gerontologie
Fachgebiet Ökonomie und Demographischer Wandel
Driverstr. 23
D-49377 Vechta
Tel.: +49 4441 15 620 oder -627
Fax: +49 4441 15 621
Email: gerontologie@uni-vechta.de

© bei Autorin/Autor 2012 – Alle Rechte vorbehalten.

ISSN 2193-178X

Informationen zu Autoren
Anna Frankus, Geschäftsführerin der FFC Consulting Bremen
Univ.-Prof. Dr. Uwe Fachinger, Professur im Fachgebiet „Ökonomie und Demographischer Wandel“, Institut für Gerontologie, Universität Vechta

ABSTRACT

The paper deals with questions concerning the old age security of solo-self-employed. With the increase of self-employment there seems to be a growing risk for self-employed of being old and poor as the numbers of self-employed with precarious forms of income during their working lives has increased over the last decades. In literature they are sometimes called the new poor.

In this context the aim of the paper is to analyse the ability of people or households with earnings mainly out of independent work to save money and to look at the specific kind of old age provision. The above mentioned aspects are illustrated for Germany using scientific use files of the Microcensus of the Federal Statistical Office Germany.

Overall, there is empirical evidence for an increasing problem of old age poverty. Especially solo-self-employed people are in danger because their ability to save is low and they are not mandatory insured in the statutory old age pension scheme. As the empirical analysis shows, most of the solo-self-employed possess no or inadequate old age provision. Therefore due to the labour market development it seems as if old age poverty is coming back to Germany.

KEYWORDS

Old age security, solo-self-employment, willingness to save, ability to save, poverty

Contents

1	Introduction.....	3
2	Ability and Willingness to save	6
2.1	Willingness to save	6
2.2	Ability to save.....	7
3	Empirical Part.....	8
3.1	Description of the dataset.....	8
3.2	Results	10
3.3	Old age provision.....	13
4	Conclusion.....	17
5	Literature	18

1 Introduction

In light of tertiarisation the increase of self-employment is one of the characteristics of the structural development of occupation and labour markets¹. To characterise the self-employed the typology of Scase/Goffee (1980), p. 23 f., involving four different forms for self-employment roles, is less and less suitable:

- “The self-employed, who work for themselves and formally employ no labour. However, they are often dependent upon the unpaid services of family members, particularly their wives.”
- “Small employers who work alongside their workers but, in addition, undertake the administrative and managerial tasks of running their own business.”
- “Owner-controllers who do not work alongside their employees but, instead, are solely and singularly responsible for the administration and management of their business.”
- “Owner-directors who control enterprises with developed managerial hierarchies so that administrative tasks are subdivided and delegated to executive directors and other senior personnel.”

Over the last 15 to 20 years, four problematic and interdependent trends have occurred, which have complicated the analysis of self-employment:

- 1) Number of micro-firms and solo-self-employment has increased,
- 2) Unsteadiness and mobility have raised,
- 3) Hybrid forms of employment have emerged and
- 4) Precarious forms of income and social security within self-employed people has grown.

Overall, there are no longer a small number of special forms and a general pattern of self-employment. Instead, hybrid forms combining self-employment and wage or salary dependent work can be found more and more.

This process may cause problems for social policy as in contrary to the regulations for dependent employees, a large part of self-employed people are either not included in social security systems or have only entitlements to basic tax-financed benefits aiming to avoid poverty².

The rising number of self-employed people especially is a concern for those countries where social security systems are mainly build up for dependent workers and statutory social security insurances for self-employed exists as exceptions. The increase of self-employment without sufficient insurance against the occurrence of social risks may cause problems within the social security system. If in case of illness, disability, long-term care, or longevity, no security against the income loss or the additional financial burden exists, the risk of poverty is large. This is no

¹ European Commission (2011). The term self-employment is not finally defined in the literature; see for a short description Bögenhold et al. (2001), p. 81 f., with numerous additional references, and more detailed Bögenhold/Fachinger (2012a), Bögenhold/Fachinger (2007), Bögenhold (2004), Audretsch (2007), Bjerke (2007).

² Directorate-General for Employment (2011), Organisation for Economic Co-Operation and Development OECD (2011a), Organisation for Economic Co-Operation and Development OECD (2011b).

problem as long as the firm and its profit does not (entirely) depend on the activities of the self-employed people and the self-employed get money out of the firm activities even when they are not involved personally. However, this is not the case for solo-self-employed people or micro firms. In such case, people have several options

- The self-employed may take out a policy against the loss of income due to the occurrence of a social risk, i.e. the insecurity of future income due to life's vicissitudes³ or possibilities of income loss⁴, by private insurance.
- They may voluntarily take out insurance within the social security system⁵.
- They may choose a public-private-mixture which meets the individual situation best.
- Partly or totally renunciation of those forms of risk prevention.

However, as social security systems are very complex, the problem is exemplified in more detail for old age pension systems.

The central aims of old age pension systems are the avoidance of poverty, the maintenance of living standards and quality of life in old age. In most countries, old-age security is designed as a three pillar system composed of statutory, occupational, and private pension schemes for employees⁶. In an over simplistic view, there are two constructional features:

In Beveridge schemes the tax financed statutory pension aims at avoiding poverty. Maintaining the standard of living in old age is left - sometimes voluntary - to occupational and private pensions. In so called Bismarck systems the aim of the statutory pension system is to replace occupational income to maintain the standard of living during retirement. This is financed by contributions from employers and employees out of earned income. Therefore, the relevance of occupational and private pensions is much lower.

However, in both systems, self-employed people have to rely heavily on personnel provision for old age to maintain their living standard after retirement as

- statutory pension systems only ensure a subsistence or
- they are not covered by occupational pension schemes and
- not even covered by the pension system.

Taken as a whole, self-employed people depend to a high degree on private provisions and hence are principally free to arrange their old age provision due to their individual preferences. Therefore theoretically they are able to choose an optimal form of coverage. As a result of the greater freedom of choice, the forms of risk

³ These include among others illness, invalidity, motherhood, becoming widowed, long-term care, or longevity, in concreto, age-related termination of employment.

⁴ Among others: insolvency, reduction of purchasing power, or times without orders due to economic cycles, as a pendant to unemployment.

⁵ This is not always possible as sometimes self-employed people are not allowed to obtain insurance within a social security system. In Germany for example, self-employed people are allowed to become a member of the statutory health and long-term care insurance or of the statutory pension system, but not in the statutory unemployment system.

⁶ See for example European Commission (2010), Organisation for Economic Co-Operation and Development OECD (2011a).

insurance against longevity – or old age provision – could be very different between self-employed people. One reason for the differences is the type of self-employment e.g., free-lancer, craftsmen, free profession, and the company size.

The “classic” form of provision would be income from the own firm. In case of old age provision:

- 1) The firm can be transferred to others, persists, and has to pay regularly (monthly) to the retiree. This only works as long as the firm further exists after the self-employed has retired and makes constant profit until the death of the former owner.
- 2) The firm or business property can be sold and the received capital annuitized i.e. converted into a stream of regular income payments that are guaranteed to last for lifetime.

Otherwise, self-employed people have to save money for old age as long as they are active and chose forms of insurances that guarantee income replacement to secure the living standard during retirement e.g., annuity insurance. Whether such a form of insurance will be adopted depends on the ability and the willingness to save, i.e. the possibilities, the knowledge and the will to cut back spending.

To analyse these aspects, one has to go into more detail as the individual decisions will take place against the background of existing systems and their specific regulations. Therefore we will discuss these problems regarding the situation in Germany.

In Germany securing the standard of living during retirement is the aim of the pension system since 1957. To achieve this goal, the system comprises three tiers: statutory pension insurance - with the Gesetzliche Rentenversicherung (GRV) at the core of it, covering the majority of mandatory insured people -, supplementary occupational pension and additional private pension⁷. The aim of the GRV was to replace around 70 % of the income from dependent work and together with the other schemes this should ensure a reasonable standard of living after retirement⁸.

This system was very effective and poverty in old age was marginal and almost an unknown problem for decades⁹. The so called bread winner model has been the role model and could only become such a model and exist in this way because occupational images were very stable. A person with an ideal contribution record would have spent his whole working life within the same status and that would entitle him or her to an old age pension. This pension should enable the person to maintain a decent standard of living after retirement, preferably on the same financial level as before and for the rest of life. Through regular adjustments, caused by the development of wages, this income position was stabilized¹⁰. So the level of living and the position within the income distribution could be kept up.

⁷ Ginn et al. (2009), Schmähl (2007), p. 320 pp.

⁸ Fachinger (2011).

⁹ Ginn et al. (2009).

¹⁰ For an overview see e.g., Ginn et al. (2009); for a discussion about pension adjustments see e.g. Kröger (2011) with further references.

Traditionally the entitlement to pay contributions to this system is connected with the form of employment. Self-employed always were and still are excluded¹¹. It was thought that those people receive income e.g. from their enterprises as a share of the profit. Structural changes of the labour market during the last decades have changed the picture of employment in general. Nowadays the picture of the average self-employed person does by no means resemble the picture of a successful entrepreneur¹². But still they are excluded from the state funded system.

Being excluded from this system means that people have to rely on private pension insurance. Many different products of old age provision are offered. One main problem for almost all of these products is that the contributions are not connected with the income which leads to increasing contribution rates with decreasing income. If a relatively large amount of self-employed people do not even earn incomes high enough for a living, they cannot afford to pay contributions to any form of private pension systems. However, and if they have private pension insurance, there is no guarantee even of the par value of the benefits (no "Beitragserhaltungsgarantie"). As a result the group of old people without any form of old age provision would be growing and at the end old age poverty would become a serious problem.

Most of the self-employed people are not subject to social insurance contribution. Therefore, no entitlements in the social security system can be obtained to reduce the risk of poverty in case of the occurrence of a social risk. These people depend on private provision. However, at present it is largely unknown, whether at all, to which extent and what social risks are protected financially.

In the following, a closer look is taken on the ability to save of people resp. households, with income that mainly stems from self-employment. This means that only a certain group of self-employed people is considered as self-employment is multi-faceted and includes, beside the so-called successful entrepreneurs, also people which are regular employees but part-time self-employed.

2 Ability and willingness to save

2.1 Willingness to save

Beside the individual circumstances social risk management has to bear in mind the situation of the other household members – to what extent are the other household members insured, if at all. For spouses the question is whether there are derived entitlements to benefits without contributions, like the entitlement to widow's pensions in the GRV. Those entitlements may reduce the willingness to save. That means that for the assessment of willingness to save the whole household situation regarding social risk management has to be taken into account.

Additionally, willingness to save requires an awareness of the necessity of risk protection. Hence the knowledge of the financial consequences of not being ade-

¹¹ Fachinger et al. (2004), Fachinger/Frankus (2011).

¹² Bögenhold/Fachinger (2010), Bögenhold/Fachinger (2012b).

quately insured is relevant. In principle individuals have to know the amount of money they need in case of risk occurrence for choosing an adequate insurance.

Another aspect that influences the assessment is myopia or positive time preference. Myopia leads to the underestimation of future needs especially in cases where the time span between saving and dissaving is large e.g., insurance of long-term care or old age provision.

Furthermore, the willingness to save may depend on the knowledge of how to do it. Here the so-called financial literacy in combination with the knowledge about the social security system of the specific country is relevant. As can be seen for old age pensions in Germany, over 5,600 products of government subsidized retirement accounts are on offer to choose from¹³. It is not at all easy to decide which one will fit the personal conception best. In addition self-employed people have to know whether being insured in the statutory pension scheme is mandatory or not. This may be illustrated by a recent example. For free-lance teachers membership in the GRV has always been compulsory, but this was not generally known. So many of them ignored their obligation to pay and got into arrears with their payments. During the paradigm change of the social security system in Germany the GRV became aware of this situation causing people to remargin the outstanding contributions for the last four years, which amounted to nearly one gross annual income.

A further aspect which has to be considered in relation to risk prevention in connection with willingness to save is trust. Especially with a large savings accumulation period a person has to trust the security of its financial precautions. If trust is low – as in the wake of the financial crisis – the willingness to save is also low.

2.2 Ability to save

With respect to provision against the occurrence of poverty in consequence of an incidence of social risk, the question arises, whether the ability to save is high enough

- To reach a sufficient level of financial security or to accumulate wealth, which is high enough to compensate for the loss of income during the employment phase as a result of illness, invalidity or phases with few or even without any orders
- To obtain adequate income to maintain the standard of living during retirement and not to have to depend on earned income even in later life.

First of all, the ability to save requires an appropriate income. However, in private insurance the premiums are risk-oriented and not income related. Therefore, the relative financial burden becomes all the more the lower the income is. This leads to serious distributional and socio-political problems, as these people are not able to save adequately. The poverty risk for this group is immense. To counter the effect of diminishing ability to save with regard to lower income and to handle the disproportionate burden for low income classes, special groups of self-employed

¹³ Bundeszentralamt für Steuern (2012), [http://www.bzst.de/DE/Steuern_National/Zertifizierungsstelle/zertifizierung_node.html].

were integrated into the statutory social security system¹⁴ in Germany. As the contributions and cash benefits are income-related, these systems are better suited for self-employed people with low income.

However, the ability to save depends not only on the amount of earned income but also on the specific necessities of the individual and the household. So the situation of the individual and the household concerning expenditures should be considered together to judge the ability to save accordingly. The amount of expenditures depends inter alia on the number and age of household members and the number of people with special needs. Low income will not enable people to save adequately to buy goods and services to maintain a subsistence level due to unavoidable expenditures.

Summing up, the ability and the willingness to save are relevant for an individual's social risk management. However, if the ability to save is low – especially in case of low income – even a high degree of willingness to save will not lead to enough accumulated wealth and will not prevent self-employed people from low entitlements to old age provision. Therefore analysing the income situation of the self-employed will give a first impression of the ability to adequate social risk management for old age pension.

3 Empirical Part

3.1 Description of the dataset

In the following a description of the data is given where the focus lies on information about the ability to save. The analysis is based upon German Microcensus data from the Statistical Office Germany¹⁵, where the EU Labour Force Survey is integrated. The Microcensus is a representative survey, covering 1 % of the whole population in Germany. It is a household panel with detailed information about the household composition and the employment of household members. The Microcensus offers information “[...] in a detailed subject related and regional breakdown on the population structure, the economic and social situation of the population, families, consensual unions and households, on employment, job search, education/training and continuing education/training, the housing situation and health.”¹⁶. The data is recorded with the method of Computer Aided Personal Interviewing (CAPI).

Additionally to the main set of questions, the 2009 Microcensus collected information on the structure of old age provision of the population¹⁷. The information consists of

- Pension scheme: mandatory insured (in reference week)

¹⁴ Fachinger et al. (2004), Kröger (2011), p. 383, Oelschläger (2007), Directorate-General for Employment (2011), p. 9.

¹⁵ For a more detailed description of the data see https://www.destatis.de/EN/Meta/abisz/Mikrozensus_e.html [accessed 27/05/2012, 11:35 am], Statistisches Bundesamt (2012), Körner/Puch (2011), p. 26 ff., Körner/Puch (2009).

¹⁶ Körner/Puch (2011), p. 26.

¹⁷ Statistisches Bundesamt/GESIS - Leibniz-Institut für Sozialwissenschaften (2011).

Question: „Have you been compulsory insured within the statutory old age pension system during last week?”¹⁸

- Pension scheme: not mandatory but voluntary insured (in reference week)
Question: „Have you been voluntarily insured within the statutory old age pension system during last week?”¹⁹
- Private life or pension insurance/s as old age provision: Total sum insured
Question: „Do you have a private life insurance as old age provision? In case of „yes”, please quote the insurance sum.”²⁰
- Form of the supplementary occupational pension
Question: „Do you have an occupational old age provision besides the statutory old age pension? In case of „yes”, please specify the type of provision.”²¹

For the analysis only the scientific use files²² could be used which give slightly different results to the official statistics. However, as the analysis focusses on the basic structure and not on single information, the differences between the two data sets will not seriously bias the results.

Still there are some problems concerning the collection of the data which are more serious: Most of the data is self-reported. The statistics rely on respondents for (subjective) evaluations of their own income conditions²³. This is a major problem for the information about the income. However, in literature the income information is used – with the caveat that the information is not very credible but could give some indication on the distribution²⁴. To this it should be pointed out that the self-reported classified information in the Microcensus about the income level and the distribution has considerable deviations with respect to the income distribution in other surveys²⁵. Therefore, the results of empirical analysis based on income information of the Microcensus should be interpreted with great caution²⁶.

All in all, although the Microcensus does not provide a reliable survey of the income situation of private households, while no satisfying information concerning incomes is available, at least Microcensus data offer some insight into the income situation of self-employed people. Therefore, the Microcensus is used as a more differentiated sampling of income in self-employment in the absence of more specific information in Germany.

¹⁸ Original question: „Waren Sie in der vergangenen Woche in einer gesetzlichen Rentenversicherung (BfA oder LVA, neu: Deutsche Rentenversicherung Bund oder Deutsche Rentenversicherung Knappschaft-Bahn-See) pflichtversichert?”

¹⁹ Original question: Waren Sie in der vergangenen Woche in einer gesetzlichen Rentenversicherung freiwillig versichert?”

²⁰ Original question: Haben Sie private Lebensversicherung/-en (auch private Rentenversicherung/-en) zur Altersvorsorge? Falls „Ja”, geben Sie bitte die Gesamtversicherungssumme an.“

²¹ Original question: „Haben Sie neben der gesetzlichen Altersversorgung eine zusätzliche betriebliche Altersversorgung (z.B. bAV, VBL)? Falls „Ja”, geben Sie bitte die Art der betrieblichen Altersversorgung an.“

²² Schimpl-Neimanns/Herwig (2011), Boehle/Schimpl-Neimanns (2010).

²³ Statistisches Bundesamt (2006).

²⁴ For an example for such an assessment see Leicht (2000), who assumes that „... zumindest die proportionale Verteilung der Einkommensgruppen ...“ [„... at least the proportional distribution of income groups ...; U.F.] can be estimated on the basis of the Microcensus.

²⁵ For more detail see Münnich (2000), p. 689.

²⁶ Euler (1985), S. 56.

Another problem is the unawareness of the self-employed of their specific social security insurance. As analyses have shown, some of the self-employed people do not give credible information about their old age provision²⁷. The reasons for that could be manifold: Some of the self-employed do not care about their insurance, leaving those aspects to their tax advisers; some others have misleading information. However, there are indications that most of the information appear to be trustworthy if someone is not going too deep into detail²⁸. Additionally people are obliged to participate in the survey and if they give willingly false information they render themselves liable to prosecution. As is the case regarding income, there is no other representative data base for information about the coverage of self-employed people concerning their social risk management.

Another aspect has to be mentioned. The Microcensus is a cross section survey. So the information about old age provision only reflects the situation at the point of the interview. However, it is to assume that most of the self-employed people will have previous experience as employees. This means that some of the self-employed in 2009 will have made contributions to the GRV, and have entitlements as members of occupational pension schemes²⁹.

3.2 Results

The starting point for the description of the ability to save is the income of the self-employed out of the specific occupation. Figure 1 shows the division of monthly net incomes of self-employed people having additional employees in their firms or working alone.

The data shows the considerable diversity of incomes of self-employed. The income is wide spread and covers high and extraordinarily high income as well as low and the lowermost income. For the last-mentioned, the income situation may be described in terms such as precarious and poverty-stricken. Especially solo-self-employed are worst affected since 39 % of them have a net monthly income of less than 1,100 EUR and further 31.9 % earn between 1,100 and 2,000 EUR. On the other side, nearly 24.4 % of self-employed people with employees have a monthly net income of more than 4,000 EUR and 10.1 % have more than 6,000 EUR.

Differentiating the category of solo-self-employment by gender³⁰, Figure 2 shows that the differences in income of male or female are not as significant as they were between the solo-self-employed and the self-employed with employees. However, 56 % of females have a monthly income of less than 1,100 Euros, whereas 28 % of the male household have income below 1,100 Euro.

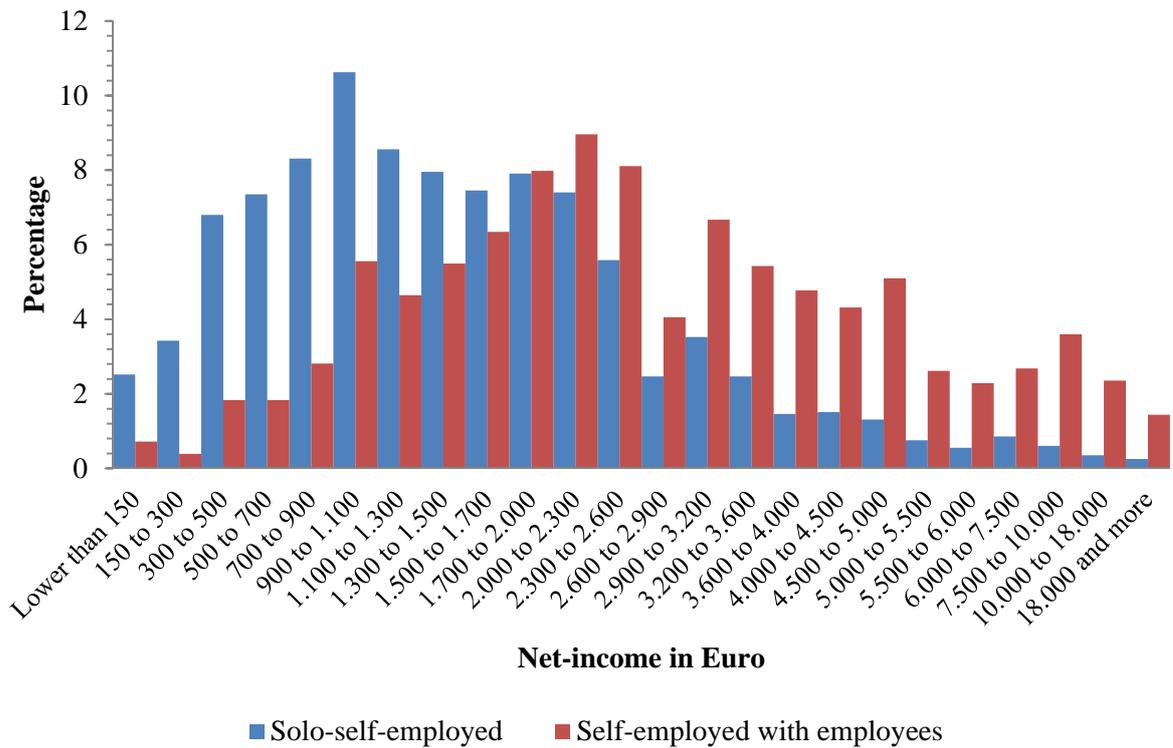
²⁷ Dräther et al. (2001), Fachinger et al. (2004).

²⁸ Dräther et al. (2001).

²⁹ For the situation in the UK see Knight/McKay (2000).

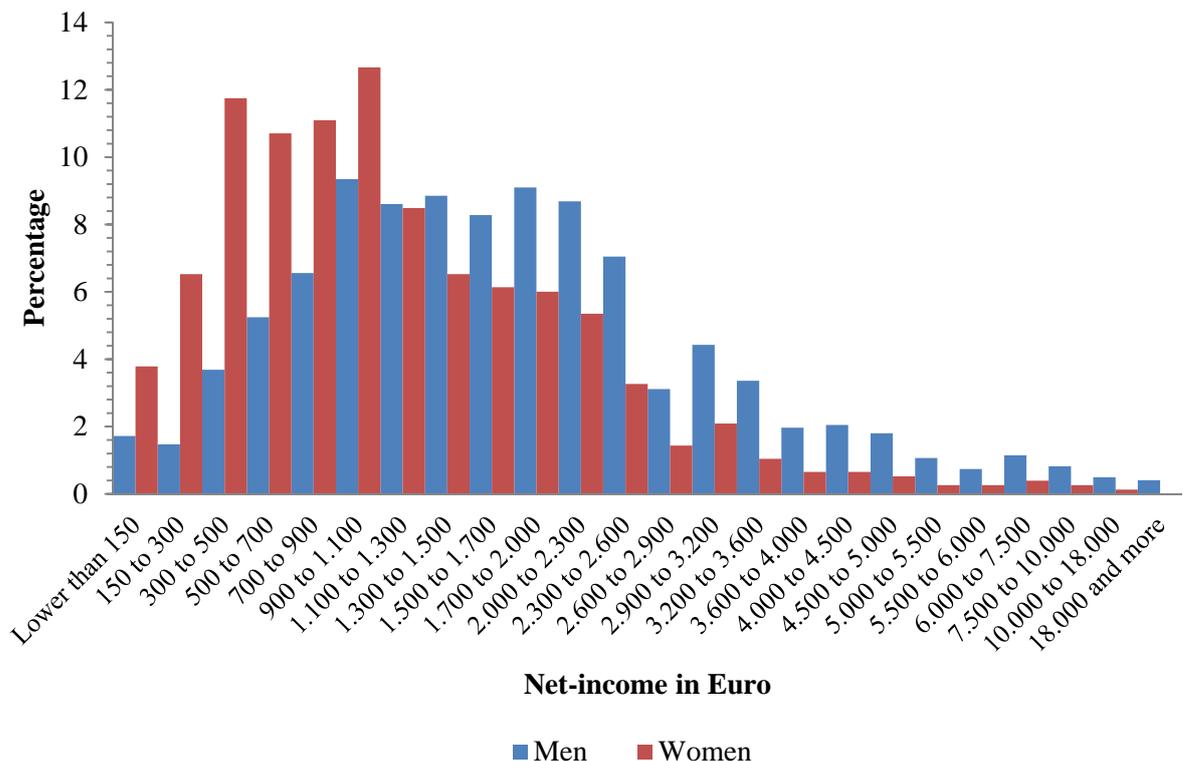
³⁰ Eilsberger/Zwick (2008) deals with incomes of self-employment and gender specification. Merz (2006) provides an analysis of income distribution over time.

Figure 1: Net-income of self-employed people, according to self-assessment, Germany 2009



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

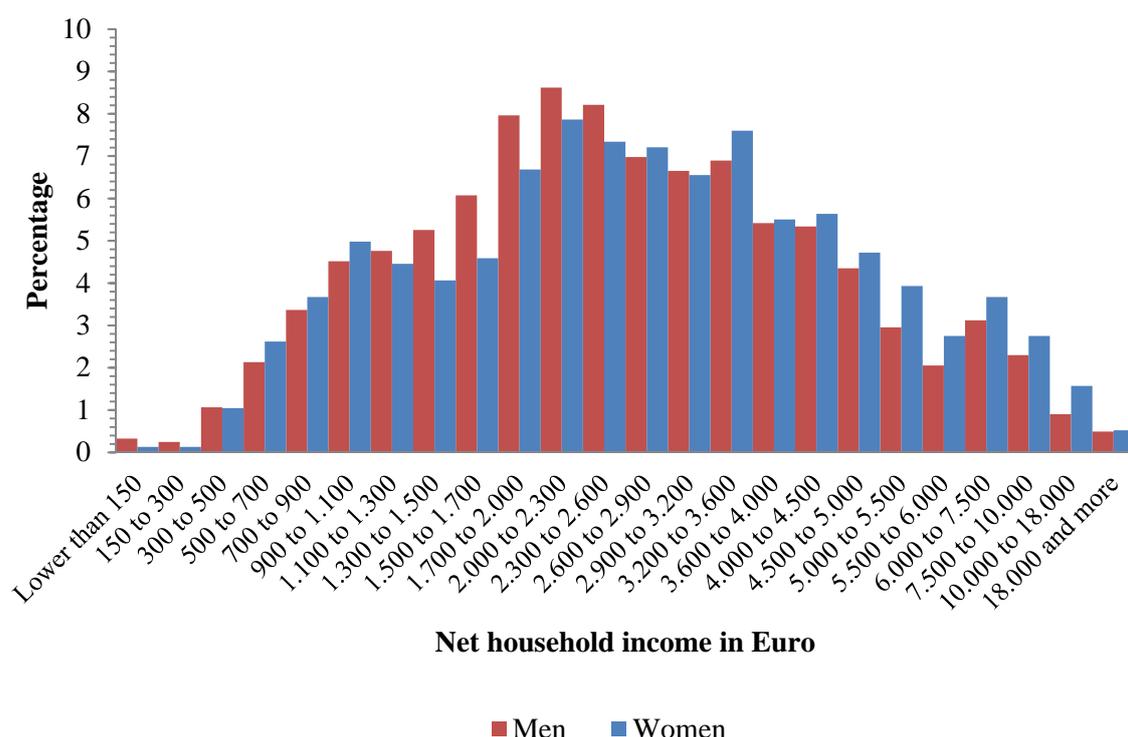
Figure 2: Gender-specific income of solo-self-employed people, according to self-assessment, Germany 2009



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

Income from self-employment is only one source of household income. To get a better understanding of the ability to save, the household income has to be considered³¹. The analysis is carried out for the solo-self-employed as this group seems to have a very low ability to save out of the earned income via self-employment. In Figure 3 the distribution is shown for female and male households. The distribution is nearly the same.

Figure 3: Gender-specific household income of solo-self-employed people, according to self-assessment, Germany 2009



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

To get a better feeling for the distribution, a comparison with average income may be useful. The average net household income for all households provides additional information: In 2009, the average income was 2,873 EUR³².

The German government report on poverty and wealth³³, defined poverty as having a household income of less than 60 % of the average household income. 60 % comes up to approximately 1,700 Euro. That interpretation consigns about 27 % of all households relying on solo self-employment to the income category poverty. Our descriptions underline positions already found in previous debates on inequal-

³¹ Principally, the size of households should be recognized when evaluating the income situation (Faik (1995), Shorrocks (2004), Ebert/Moyes (2003)). In the Microcensus, the data on income are interval scaled; therefore we do not multiply the income with equivalence numbers to get equivalence scaled income.

³² Statistisches Bundesamt (2011), p. 548, based on the survey Laufende Wirtschaftsrechnungen, which does not include self-employed people and households with more than 18,000 EUR per month.

³³ Bundesregierung (2009), p. 40-41.

ity and heterogeneity within self-employment³⁴. However, 27.8 % of male households and 25.7 % of female households have a monthly income of less than 1,700 Euros and therefore have to be classified as precarious or poor. It should be clear, that the ability to save is rather restricted for those households.

Therefore the question is, whether, how and what kind of old age provision these self-employed people deploy.

3.3 Old age provision

The Microcensus gives some general information about the old age provision of self-employed people. Table 1 lists the allocation of percentages of insurances. As can be seen, only a minority of solo-self-employed people are members of the statutory pension scheme. Furthermore, not even one third of them have a private life or pension insurance. Therefore, overall the old age provision of this group is rather low.

Table 1: Solo-self-employed – old age provision, 2009

	Men	Women	All
Pension scheme: Mandatory insured			
Yes	16.5	17.6	16.9
No	83.5	82.4	83.1
Pension scheme: Voluntary insured			
Yes	19.5	17.4	18.7
No	56.6	60.1	57.9
Private life or pension insurance/s	32.6	29.5	31.5

Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

But even for those, who are insured in the pension scheme, the risk of old age poverty exists, as the contributions and the entitlements are income related. Therefore low income means low contributions and low claims. Unfortunately it is unknown how high the entitlements are³⁵.

However, information about the total sum insured is revealed. As Figure 4 shows, the majority of the solo-self-employed people with a private insurance have an insurance of 25,000 EUR or more. Of the people with private insurance 25.4 % of men and 15.2 % of women even have a private insurance with a total sum of more than 100,000 EUR. But it is not clear, whether the private life or pension insurance contract guarantees life-long pension payments or if a lump sum is agreed. In the latter case, the insurance literally is no old age provision.

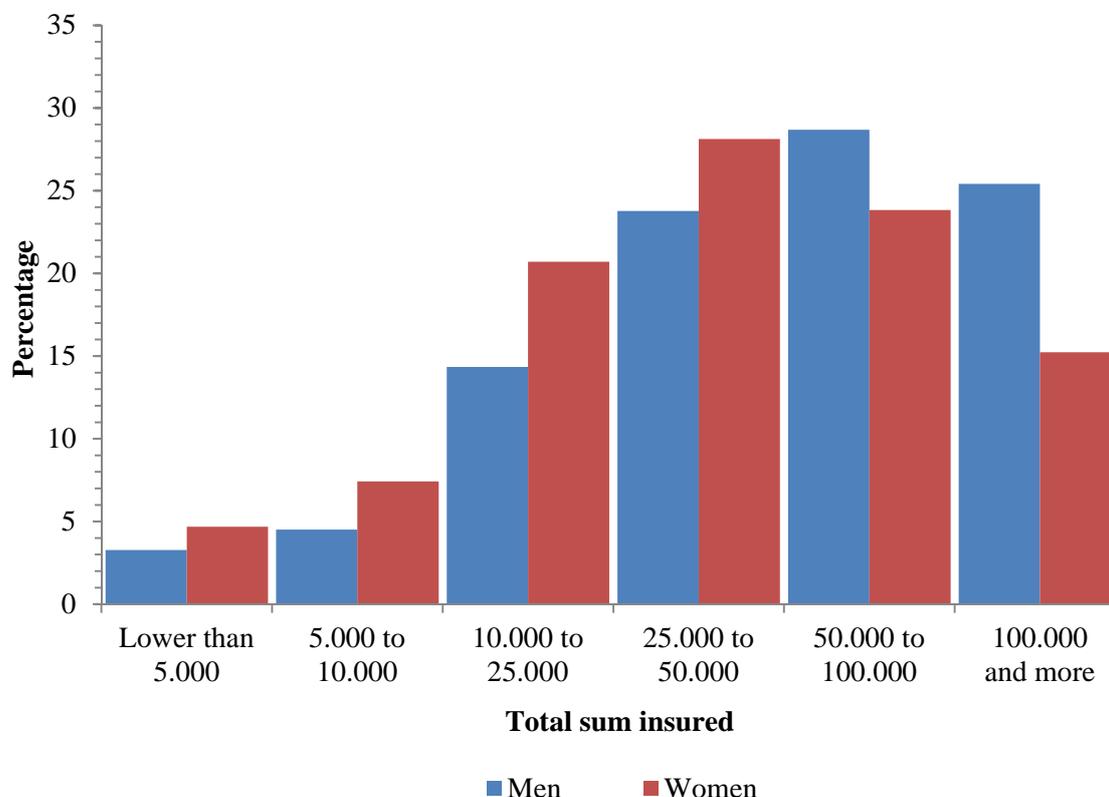
However, at least some insurance against poverty in old age exists. But it has to be mentioned, that this is only a picture of one point in time. It is unclear, whether the solo-self-employed will be able to maintain the payments for the insurance during

³⁴ Merz (2006); Merz/Zwick (2003); for the UK, see Parker (1999).

³⁵ In general, more attention should be paid on whether or not the amount of individual private pension provision is sufficient, see e.g. Stolz/Rieckhoff (2008).

their whole working life. If a social risk occurs e.g., (longer) phase of illness or a phase of declining orders, the ability to save will decrease causing people to defer the payments or even to end the contract.

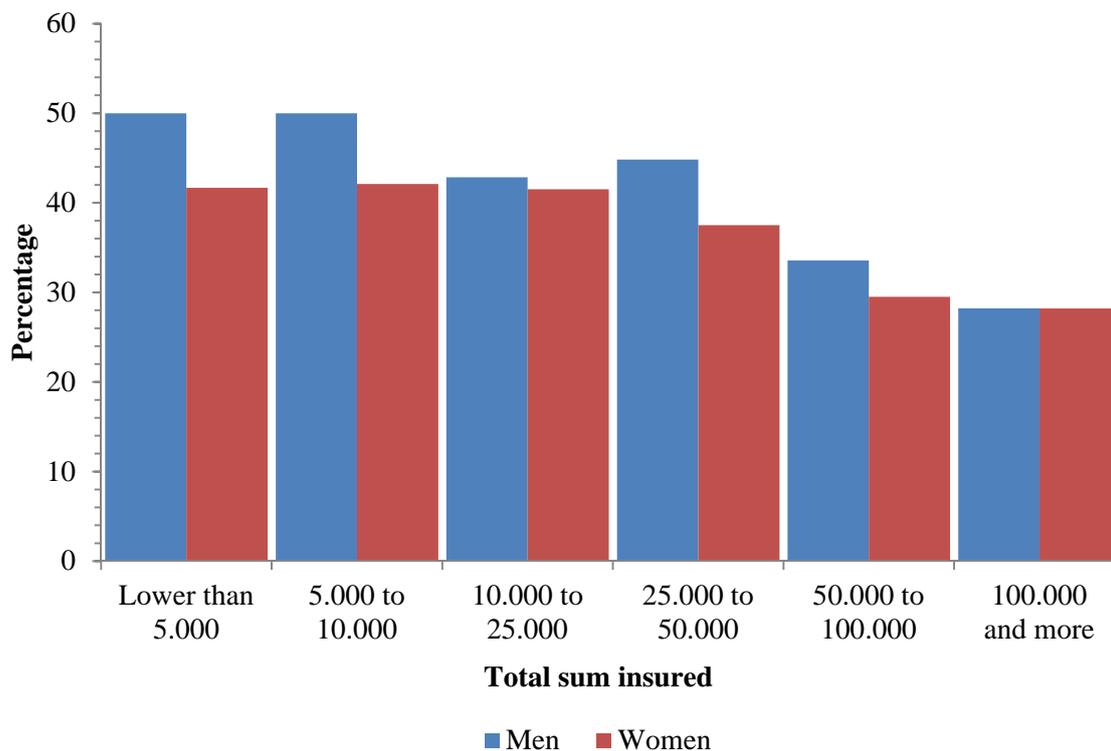
Figure 4: Private life or pension insurance/s of solo-self-employed - Total sum insured, 2009



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

Another relevant question is whether the private life or pension insurance/s of solo-self-employed are an additional measure to the mandatory or voluntary insurance in the pension scheme for avoiding poverty in old age or whether it stands alone as old age insurance. To get an impression on the situation, Figure 5 shows the percentage of those solo-self-employed with supplementary private insurance. As can be seen, nearly half of them are mandatorily or voluntarily insured within the pension scheme. For the private insured solo-self-employed people, the insurance is supplementary. This leaves an even larger part of the solo-self-employed without any old age provision. Overall, 44 % of men and 46 % of women are not insured in the pension scheme and possess no private insurance. The analysis of the Microcensus indicates that over 1 million solo-self-employed are without any old age provision.

Figure 5: Solo-self-employed with additional private insurance, which are mandatory or voluntarily insured 2009

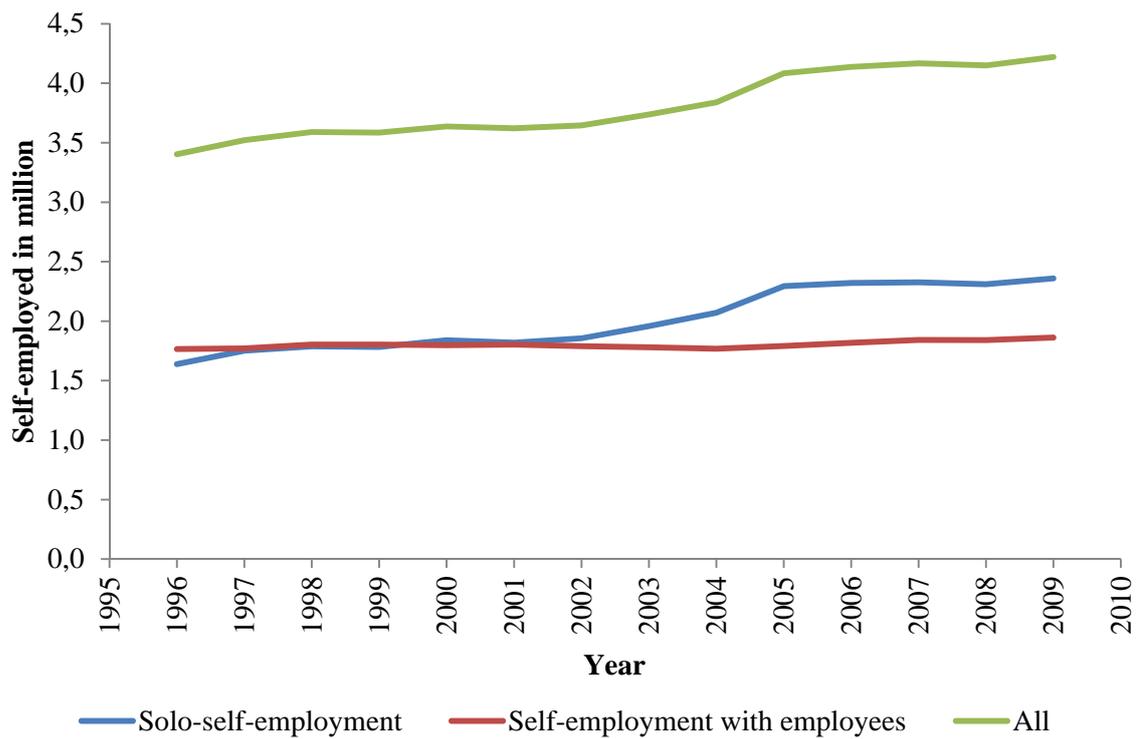


Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

A consolidated view of all these results indicates that the low ability to save manifests itself in low old age provision. Combining these findings with the changing structure of the labour market, especially the development of solo-self-employment, we come to the conclusion that the danger of self-employed people having inadequate old age provision increases.

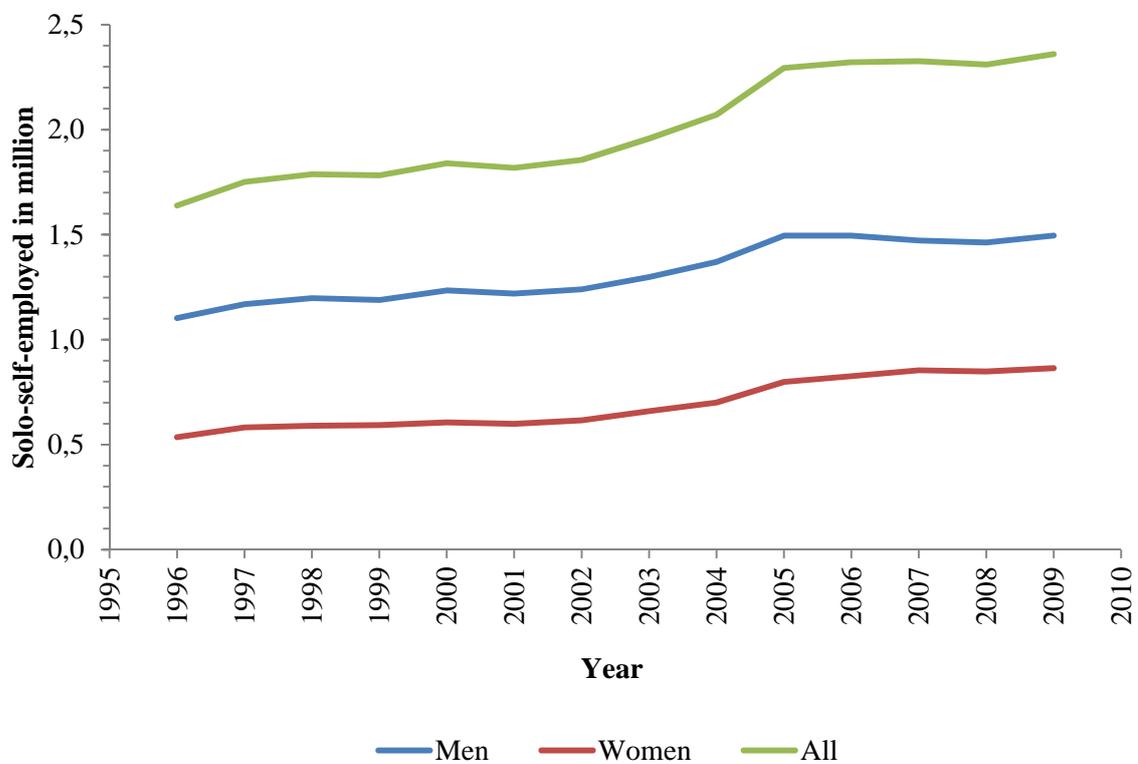
As can be seen in Figure 6 and Figure 7, the number of solo-self-employed people is increasing. Therefore it could be assumed that also the number of solo-self-employed without old age provision will increase. Hence indicating that old age poverty for those people seems to be a real possibility.

Figure 6: Development of self-employment



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

Figure 7: Development of solo-self-employment



Source: Own calculations based on the scientific use file of the Microcensus of the Federal Statistical Office Germany.

4 Conclusion

The aim of the study was to analyse the ability of people or households with income mainly out of independent work to save money and to look on the specific kind of old age provision they try to obtain. To characterise the ability to save, the income situation of households with a self-employed head was analysed. This was done on the basis of scientific use files of the Microcensus of the Federal Statistical Office Germany.

The result is *cum grano salis*, that on average the ability of households with a self-employed head to save money does not differ much from that of the households with employed heads. We gain some evidence on the heterogeneity of the group of self-employed households concerning the provisions for old age. The analysis shows how self-employed people are dealing with old age security and e. g. pay contributions to different sort of old age provision.

Overall, there is empirical evidence for an increasing problem of old age poverty. Especially the solo-self-employed people are in danger because their ability to save is low and they are not mandatory insured in the statutory old age pension scheme. As the empirical analysis shows, most of the solo-self-employed possess no or inadequate old age provision. Therefore due to the labour market development it seems as if old age poverty is coming back to Germany³⁶.

Which measures are appropriate for a change for the better regarding the social risk insurance of self-employed people and - where required - for their family members, needs an elaborated analysis and cannot be discussed further in this paper.

³⁶ However, it is not only a phenomenon which can be observed in Germany. For example Meager/Bates (2001) outline a similar problem for the UK.

5 Literature

- Audretsch, David B. (2007): *The Entrepreneurial Society*. Oxford: Oxford University Press.
- Bjerke, B. (2007): *Understanding Entrepreneurship*. Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
- Boehle, Mara / Schimpl-Neimanns, Bernhard (2010): *Mikrozensus Scientific Use File 2008: Dokumentation und Datenaufbereitung*. GESIS-Technical Reports. Mannheim: GESIS Leibniz-Institut für Sozialwissenschaften.
- Bögenhold, Dieter (2004): *Entrepreneurship: multiple meanings and consequences*, in: *International Journal Entrepreneurship and Innovation Management* 4, Heft 1, S. 3-10.
- Bögenhold, Dieter / Fachinger, Uwe (2007): *Micro-Firms and Margins of Entrepreneurship: Restructuring of the Labour Market*, in: *The International Journal of Entrepreneurship and Innovation* 8, Heft 4, S. 281-292.
- Bögenhold, Dieter / Fachinger, Uwe (2010): *Mikro-Selbständigkeit und Restrukturierung des Arbeitsmarktes - Theoretische und empirische Aspekte zur Entwicklung des Unternehmertums*, in: Bührmann, Andrea D. / Pongratz, Hans J. (Hrsg.): *Prekäres Unternehmertum. Unsicherheiten von selbstständiger Erwerbstätigkeit und Unternehmensgründung*. Wirtschaft und Gesellschaft. Wiesbaden: VS Verlag, S. 65-86.
- Bögenhold, Dieter / Fachinger, Uwe (2012a): *How Diverse is Entrepreneurship? Observations on the Social Heterogeneity of Self-employment in Germany*, in: Bonnet, Jean et al. (Hrsg.): *The Shift to the Entrepreneurial Society: A Built Economy in Education, Sustainability and Regulation*. Cheltenham: Edward Elgar, S. 227-241.
- Bögenhold, Dieter / Fachinger, Uwe (2012b): *Neue Selbständigkeit im Wandel der Erwerbstätigkeit*, in: *Sozialer Fortschritt* in press, Heft.
- Bögenhold, Dieter / Fachinger, Uwe / Leicht, René (2001): *Self-Employment and Wealth Creation. Observations on the German Case*, in: *The International Journal of Entrepreneurship and Innovation* 2, Heft 2, S. 81-91.
- Bundesregierung (2009): *Unterrichtung durch die Bundesregierung. Lebenslagen in Deutschland - Dritter Armuts- und Reichtumsbericht*. Bundestags-Drucksache 16/9915. Berlin: Deutscher Bundestag.
- Bundeszentralamt für Steuern (2012): *Liste aller erteilten Zertifikate*. Berlin: Bundeszentralamt für Steuern.
- Directorate-General for Employment, Social Affairs and Inclusion (2011): *Social protection in the Member States of the European Union, of the European Economic Area and in Switzerland. Social protection of the self-employed. Situation on 1 July 2011*. MISSOC. Mutual Information System on Social Protection. Brussels: European Commission. Directorate-General for Employment, Social Affairs and Inclusion, Unit D/3.
- Dräther, Hendrik / Fachinger, Uwe / Oelschläger, Angelika (2001): *Selbständige und ihre Altersvorsorge - Möglichkeiten der Analyse anhand der Mikrozensen und erste Ergebnisse*. ZeS-Arbeitspapier 1/01, Bremen: Zentrum für Sozialpolitik.
- Ebert, Udo / Moyes, Patrick (2003): *Equivalence Scales Reconsidered*, in: *Econometrica* 71, Heft 1, S. 319-343.

- Eilsberger, Patricia / Zwick, Markus (2008): Geschlechterspezifische Einkommensunterschiede bei Selbstständigen im Vergleich zu abhängig Beschäftigten - Ein empirischer Vergleich auf der Grundlage steuerstatistischer Mikrodaten. FDZ-Arbeitspapier 30, Wiesbaden: Statistische Ämter des Bundes und der Länder.
- European Commission (2010): MISSOC. Mutual Information System on Social Protection. Social Protection in the Member States of the European Union, the European Economic Area and Switzerland. Luxembourg: Publications Office of the European Union.
- European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Directorate A (2011): Employment and Social Developments in Europe 2011. Brussels: European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Directorate A.
- Fachinger, Uwe (2011): Lebensstandardsicherung in der bundesdeutschen Regelsicherung - Zur Frage eines angemessenen Rentenniveaus, in: Deutsche Rentenversicherung Bund (Hrsg.): Dynamisierung von Alterseinkünften im Mehr-Säulen-System. Jahrestagung 2011 des Forschungsnetzwerks Alterssicherung (FNA) am 27. und 28. Januar 2011 in Berlin. DRV-Schriften, 94. Bad Homburg: WDV, Gesellschaft für Medien und Kommunikation, S. 49-67.
- Fachinger, Uwe / Frankus, Anna (2011): Sozialpolitische Probleme der Eingliederung von Selbständigen in die gesetzliche Rentenversicherung. Expertise im Auftrag der Abteilung Wirtschafts- und Sozialpolitik der Friedrich-Ebert-Stiftung. WISO Diskurs. Expertisen und Dokumentationen zur Wirtschafts- und Sozialpolitik. Februar 2011. Bonn: Abteilung Wirtschafts- und Sozialpolitik der Friedrich-Ebert-Stiftung
- Fachinger, Uwe / Oelschläger, Angelika / Schmähl, Winfried (2004): Die Alterssicherung von Selbständigen - Bestandsaufnahme und Reformoptionen. Münster - Hamburg - London - New York: Lit-Verlag.
- Faik, Jürgen (1995): Äquivalenzskalen. Theoretische Erörterung, empirische Ermittlung und verteilungsbezogene Anwendung für die Bundesrepublik Deutschland. Berlin: Duncker & Humblot.
- Ginn, Jay / Fachinger, Uwe / Schmähl, Winfried (2009): Pension reform and the socioeconomic status of older people in Britain and Germany, in: Naeyele, Gerd / Walker, Alan (Hrsg.): Social Policy in Ageing Societies: Britain and Germany Compared. Basingstoke: Palgrave Macmillan, S. 22-45.
- Knight, Genevieve / McKay, Stephen (2000): Lifetime Experiences of Self-Employment. Research Report. Huddersfield, UK: Policy Studies Institute.
- Körner, Thomas / Puch, Katharina (2009): Der Mikrozensus im Kontext anderer Arbeitsmarktstatistiken. Ergebnisunterschiede und ihre Hintergründe, in: Wirtschaft und Statistik, Heft 6/2009, S. 528-552.
- Körner, Thomas / Puch, Katharina (2011): Coherence of German Labour Market Statistics. Wiesbaden: Federal Statistical Office of Germany.
- Kröger, Katharina (2011): Pension adjustment and its problems. A critical overview of the measures, exemplified on the basis of the German pension scheme, in: International Journal of Behavioural and Healthcare Research 2, Heft 4, S. 375-394.
- Meager, Nigel / Bates, Peter (2001): The Self-Employed and Lifetime Incomes. Some UK Evidence, in: International Journal of Sociology 31, Heft 1, S. 27-58.

- Merz, Joachim (2006): Polarisierung der Einkommen von Selbständigen? Zur Dynamik der Einkommensverteilung und der hohen Einkommen von Selbstständigen und abhängig Beschäftigten. Munich Personal RePEc Archive (MPRA) Paper. Munich.
- Merz, Joachim / Zwick, Markus (2003): Hohe Einkommen: Eine Verteilungsanalyse für Freie Berufe, Unternehmer und abhängig Beschäftigte. Munich Personal RePEc Archive (MPRA) Paper 5980. Munich.
- Münnich, Margot (2000): Einkommens- und Geldvermögensverteilung privater Haushalte in Deutschland – Teil 1. Ergebnisse der Einkommens- und Verbrauchsstichprobe 1998, in: *Wirtschaft und Statistik*, Heft 9/2000, S. 679-691.
- Oelschläger, Angelika (2007): Alterssicherung von Selbständigen: Entwicklung, Status quo und Reformoptionen Berlin: Logos.
- Organisation for Economic Co-Operation and Development OECD (2011a): Pensions at a Glance 2011. Retirement-Income Systems in OECD and G20 Countries. Pensions at a Glance. Paris: Organisation for Economic Co-Operation and Development OECD.
- Organisation for Economic Co-Operation and Development OECD (2011b): Society at a Glance 2011. OECD Social Indicators. Society at a Glance. Paris: Organisation for Economic Co-Operation and Development OECD,.
- Parker, Simon C. (1999): The Inequality of Employment and Self-Employment Incomes: A Decomposition Analysis for the U.K., in: *Review of Income and Wealth* 45, Heft 2, S. 263-274.
- Scase, Richard / Goffee, Robert (1980): *The real world of the small business owner*. London: Croom Helm.
- Schimpl-Neimanns, Bernhard / Herwig, Andreas (2011): Mikrozensus Scientific Use File 2009: Dokumentation und Datenaufbereitung. Technical Reports 2011/11. Mannheim: GESIS - Leibniz-Institut für Sozialwissenschaften.
- Schmähl, Winfried (2007): Dismantling an Earnings-Related Social Pension Scheme: Germany's New Pension Policy, in: *Journal of Social Policy* 36, Heft 2, S. 319-340.
- Shorrocks, Anthony (2004): Inequality and welfare evaluations of heterogeneous income distributions, in: *Journal of Economic Inequality* 2, Heft, S. 193-218.
- Statistisches Bundesamt (Hrsg.) (2006): Mikrozensus. Bevölkerung und Erwerbstätigkeit. Stand und Entwicklung der Erwerbstätigkeit. Band 1: Allgemeine und methodische Erläuterungen, 2005. Fachserie 1, Reihe 4.1.1, 4.1.1. Wiesbaden: Statistisches Bundesamt.
- Statistisches Bundesamt (2011): Statistisches Jahrbuch 2011. Für die Bundesrepublik Deutschland mit "Internationalen Übersichten". Wiesbaden: Statistisches Bundesamt.
- Statistisches Bundesamt (Hrsg.) (2012): Mikrozensus. Bevölkerung und Erwerbstätigkeit. Stand und Entwicklung der Erwerbstätigkeit. Deutschland, 2010. Fachserie 1, 4.1.1. Wiesbaden: Statistisches Bundesamt.
- Statistisches Bundesamt / GESIS - Leibniz-Institut für Sozialwissenschaften (2011): Datenhandbuch zum Mikrozensus. Scientific Use File 2009. Datensatzbeschreibung. November 2011. Statistisches Bundesamt.

Stolz, Ulrich / Rieckhoff, Christian (2008): Förderung der zusätzlichen Altersvorsorge für das Beitragsjahr 2005 durch die ZfA, in: RVaktuell 9/2008, Heft 9, S. 267-273.