

The Changing Nature of Work and Public Pension Coverage: Evidence from the US and Europe

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The Changing Nature of Work

- “Standard” work:
 - Occurs at a regular location (office, factory, store)
 - Provides a regular paycheck
 - Offers a reasonable expectation of continuity
- “Non-Standard” Work
 - **Alternative** work: independent contractor, on-call employee, employee of temporary help/contract firm
 - **Contingent** work: temporary contract, no formal/informal contract for ongoing work
 - **Self-employment**: worker is not employed by the government, a private company, or a non-profit organization

Pros and Cons of Non-Standard Work (for Workers)

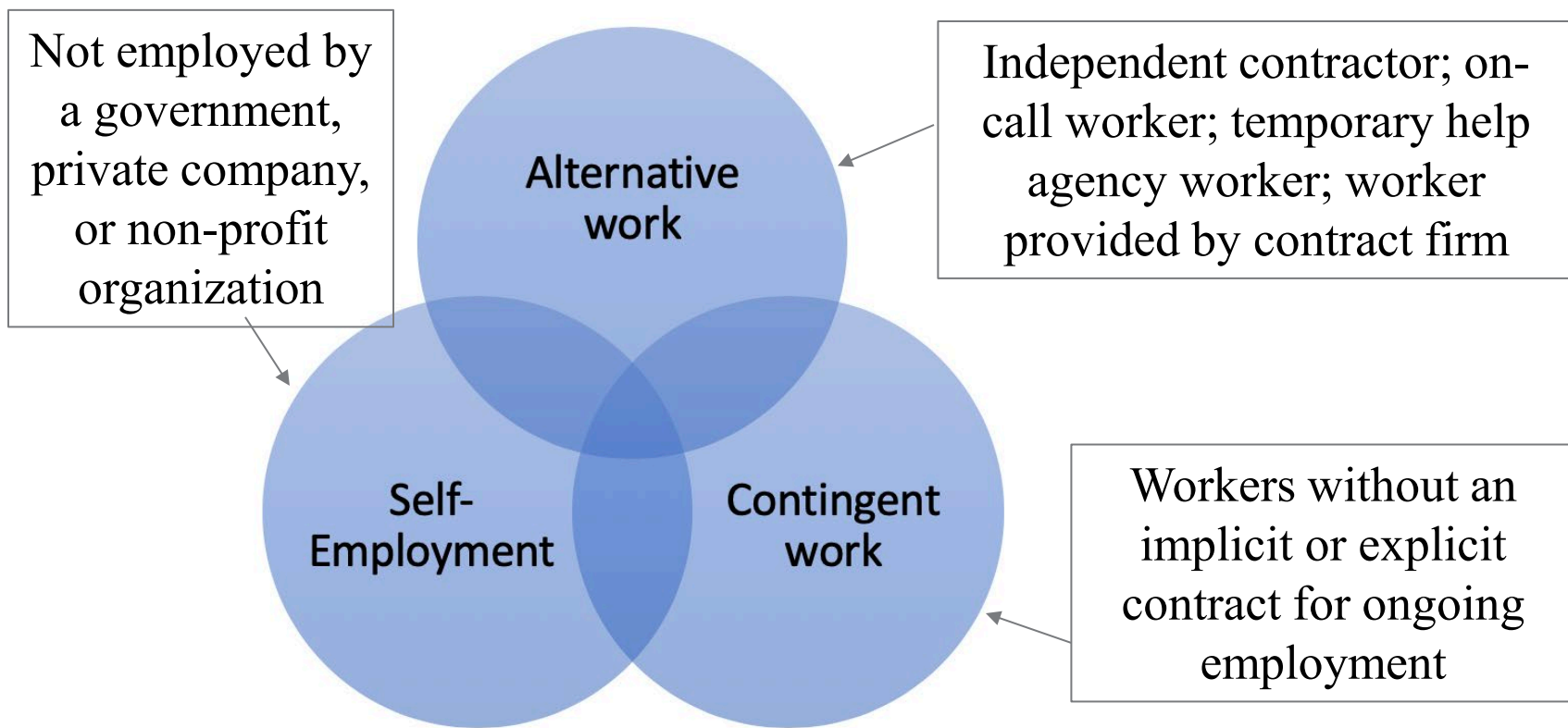
- **Non-standard (NS) work can offer advantages:**
 - Greater flexibility and control over work
 - Tax/legal advantages
- **But there may be disadvantages also:**
 - Lower and/or more volatile earnings
 - Reduced access to employer-provided benefits (health insurance, private pensions)
- **Public pension benefits may be affected if:**
 - NS work is not eligible for benefits (or rules differ)
 - NS workers are responsible for a larger share of contributions
 - NS work has lower actual or reported earnings

Our Study

- Question: How might the rise of non-standard work affect public pension coverage?
- Case study of 3 countries: US, UK, Germany
- Our analysis will:
 - Define NS work
 - Examine trends in NS work
 - Explore pension rules governing NS work
 - Draw preliminary inferences about how NS work may affect public pension coverage and retiree well-being

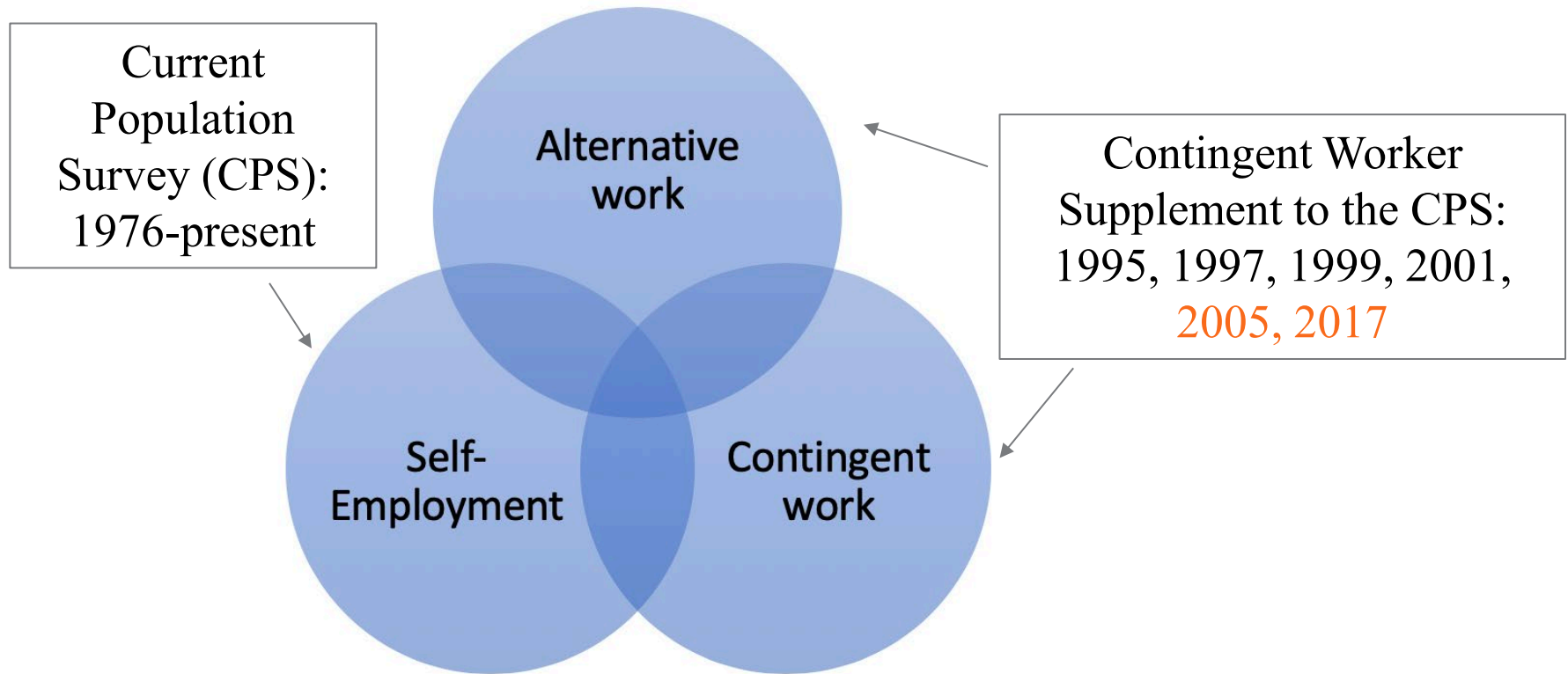
Defining NS Work (BLS Definitions)

Figure 1: Overlap in Alternative Work, Contingent Work, and Self-Employment



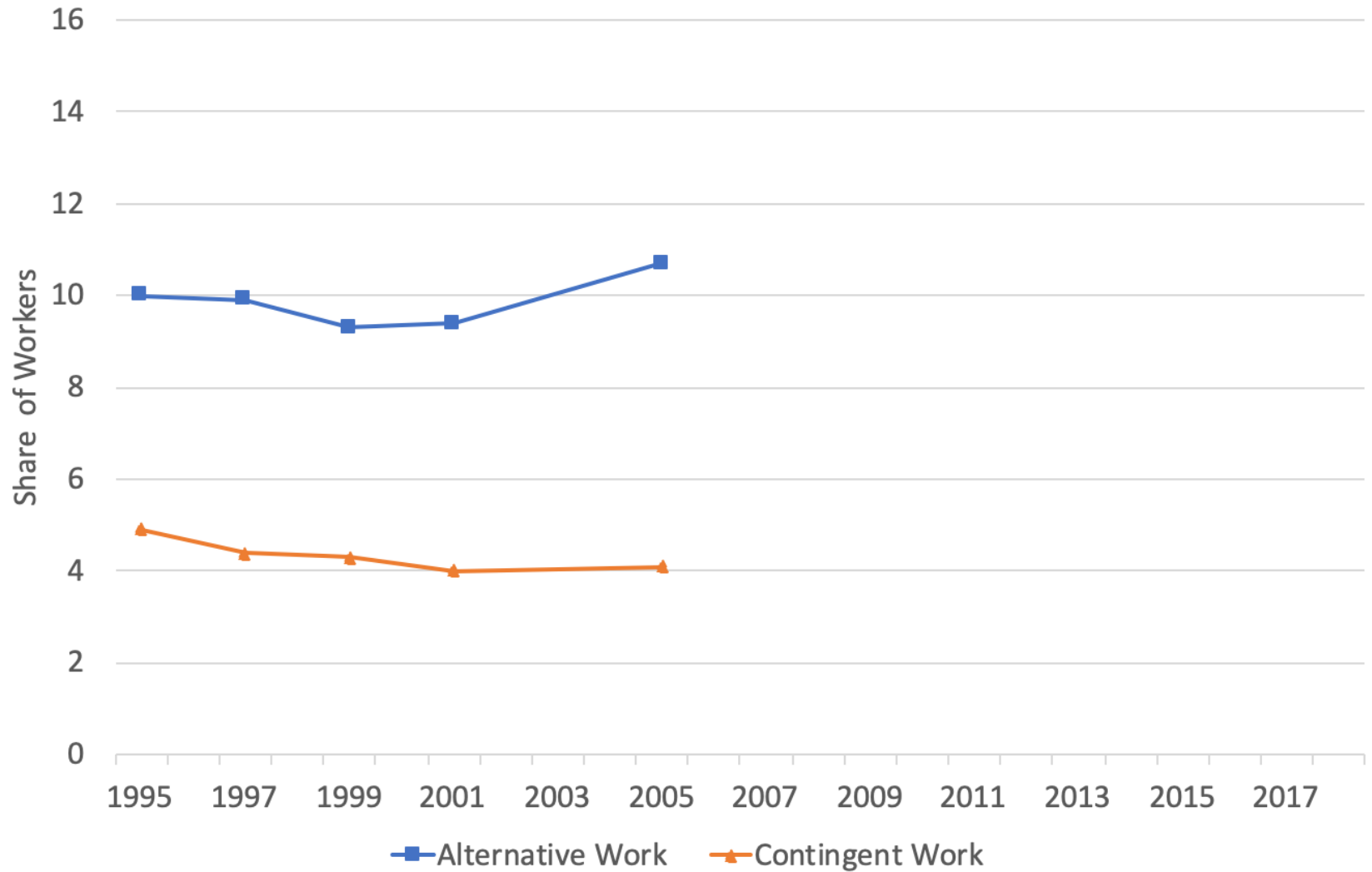
Measuring NS Work in US Survey Data

Figure 1: Overlap in Alternative Work, Contingent Work, and Self-Employment



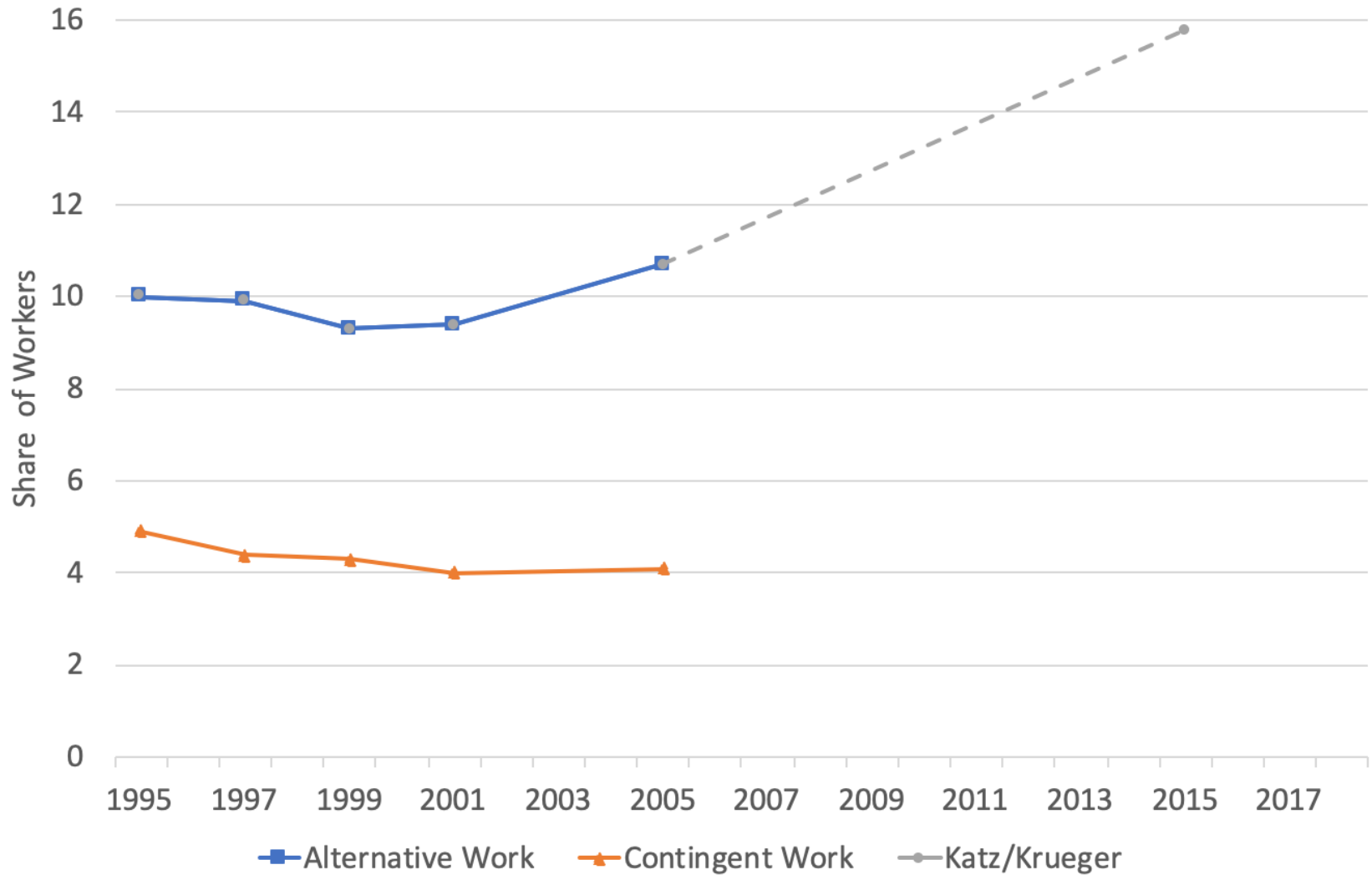
Trends in NS Work: US, 1995-2005

Share of Workforce in Alternative and Contingent Work, CPS Supplement, 1995-2005



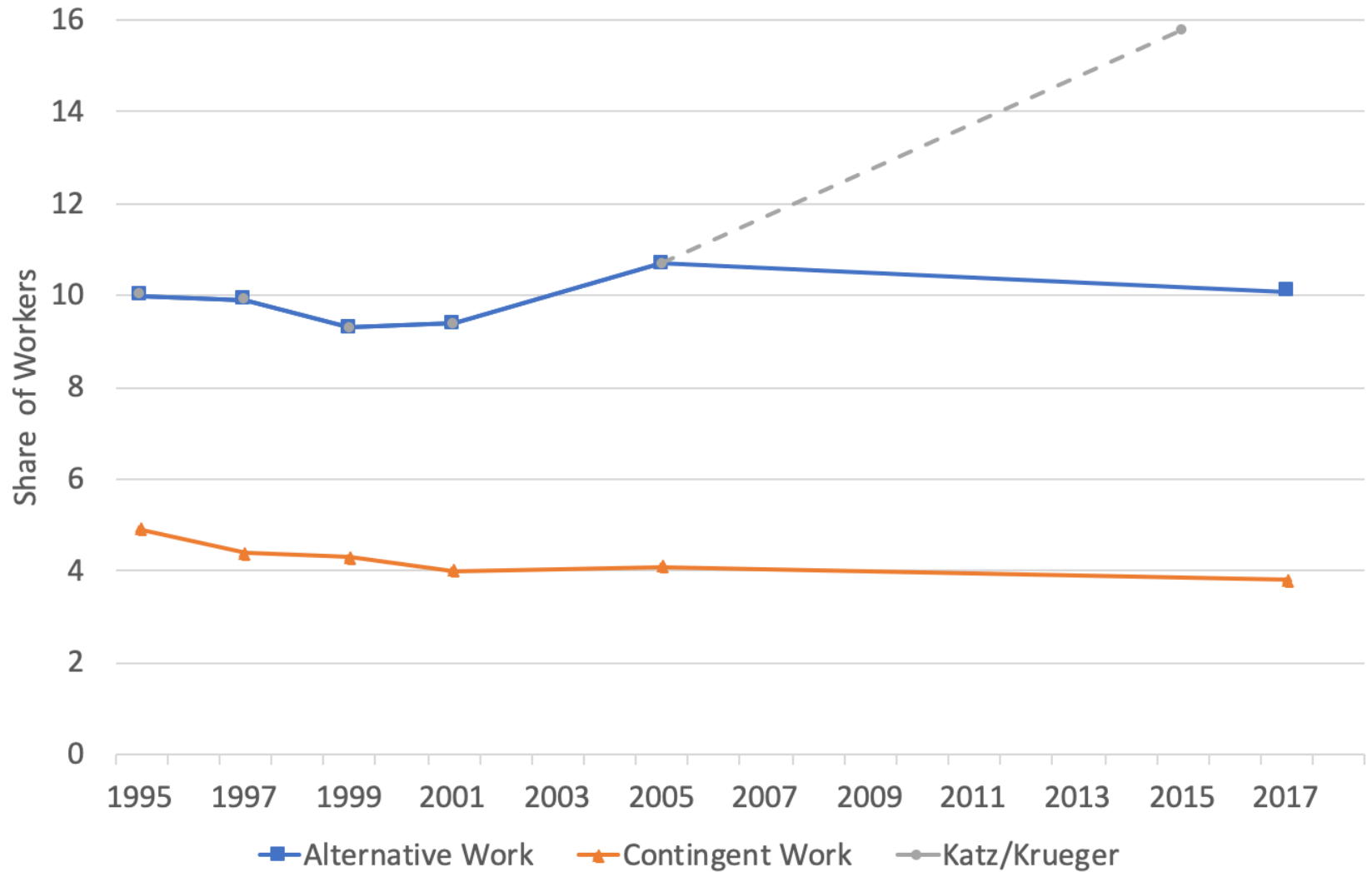
Trends in NS Work: US, 1995-2015

Share of Workforce in Alternative and Contingent Work, CPS Supplement, 1995-2005 & Katz/Krueger 2015



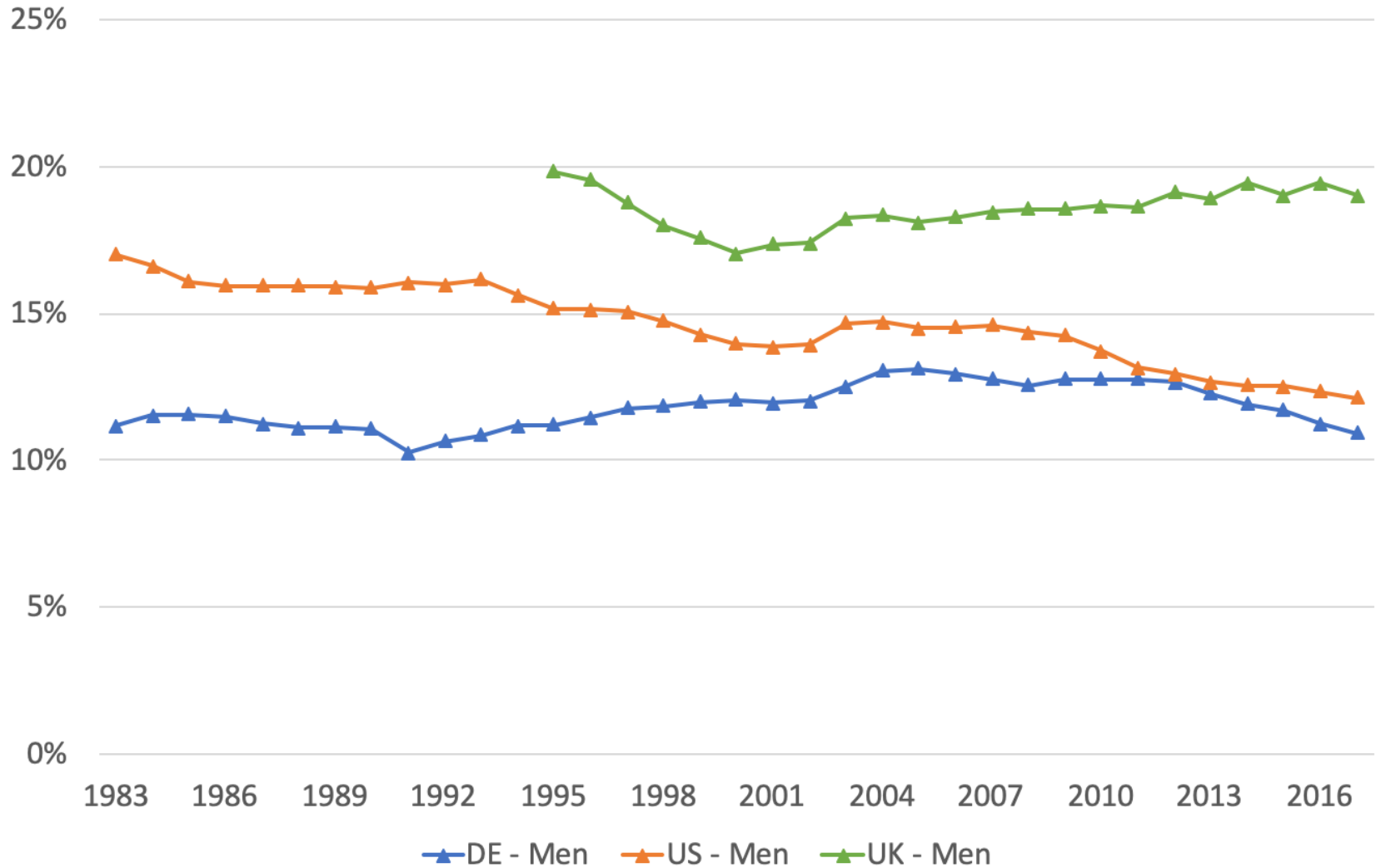
Trends in NS Work: US, 1995-2017

Share of Workforce in Alternative and Contingent Work, CPS Supplement, 1995-2017



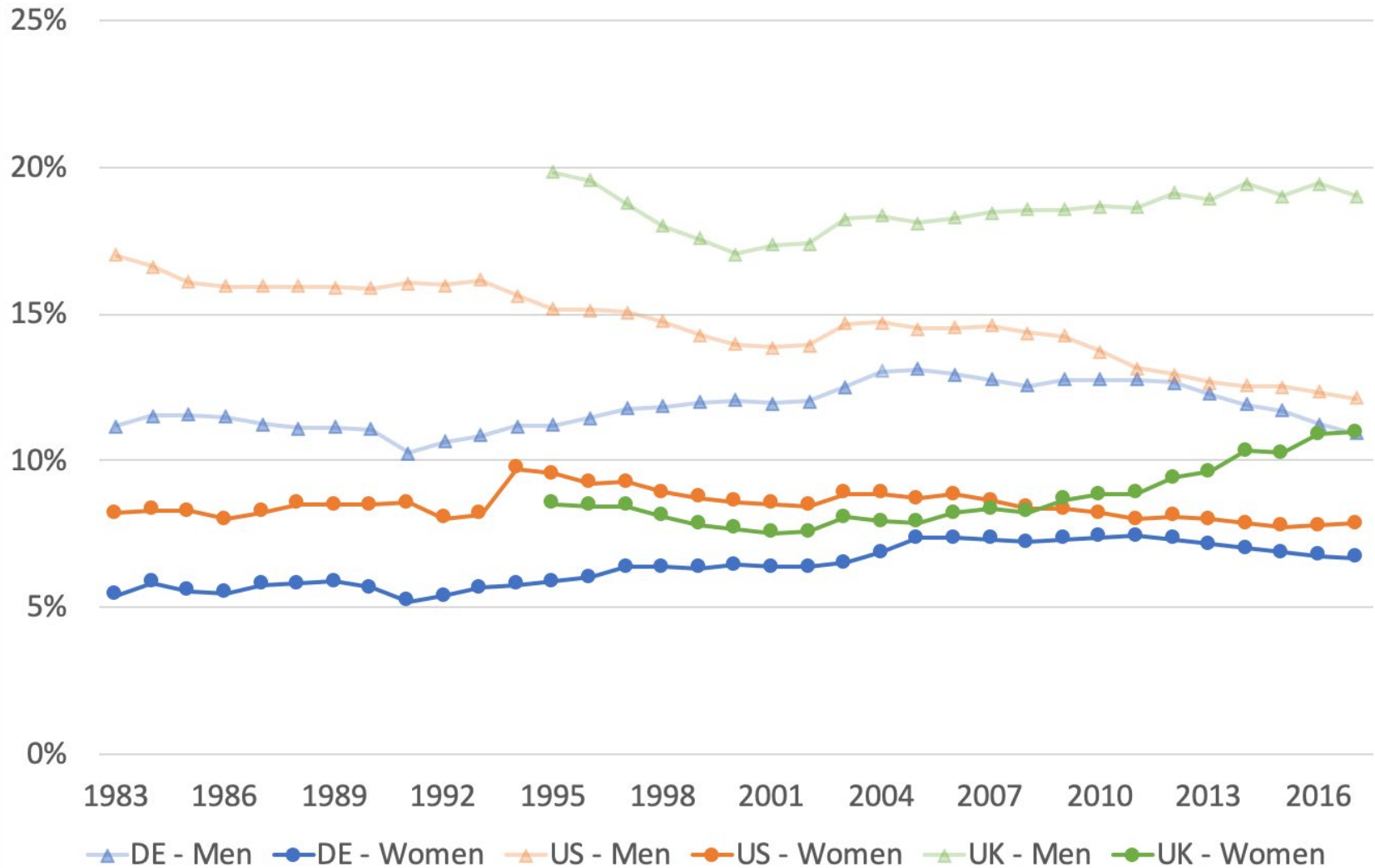
Trends in NS Work: Self-Employment

Share Self-Employed among Male Workers Age 25-64,
by Year and Country



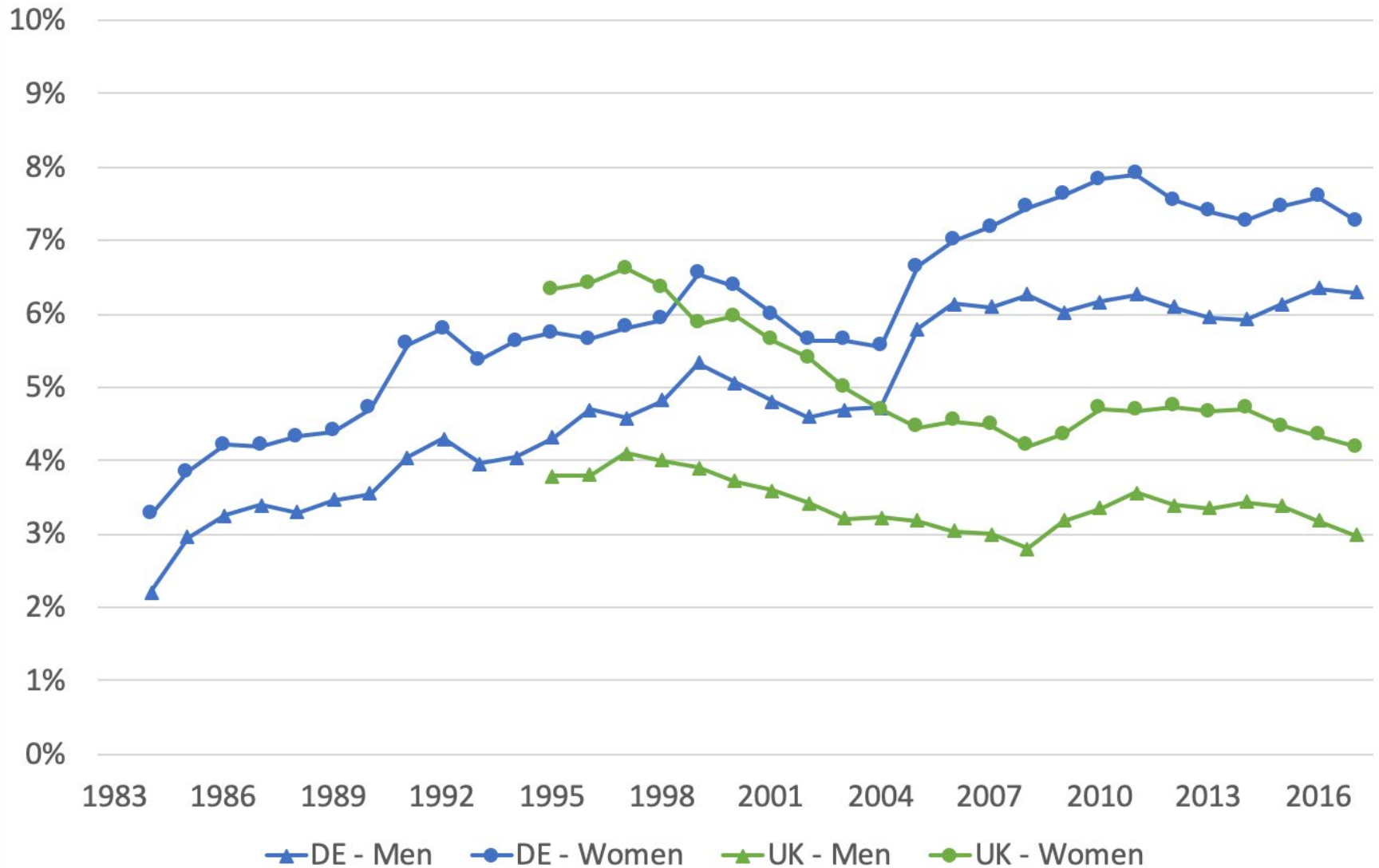
Trends in NS Work: Self-Employment

Share Self-Employed among Female Workers Age 25-64,
by Year and Country



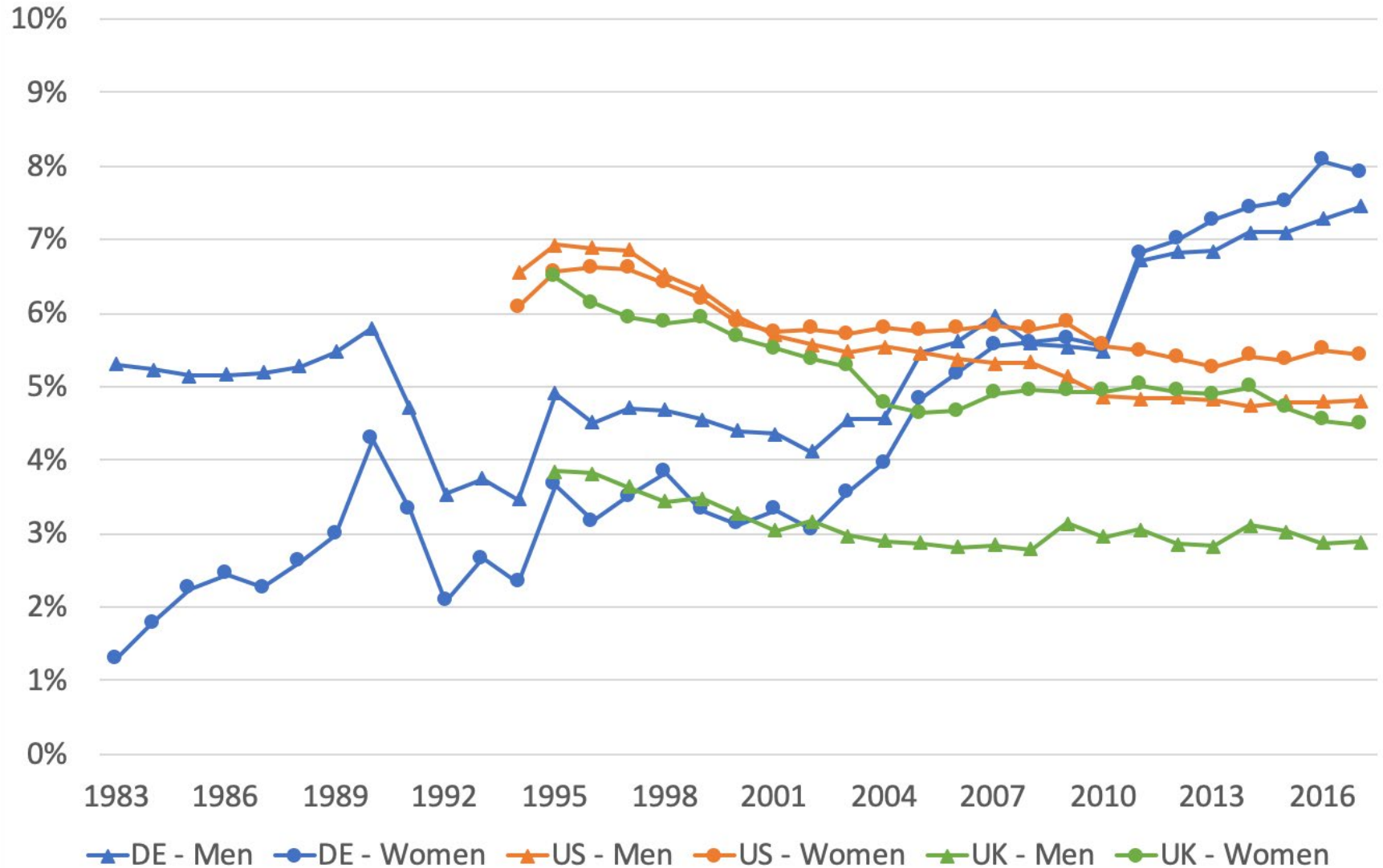
Trends in NS Work: Temporary Jobs

Share with Temporary Jobs among Workers Age 25-64,
by Year, Sex, and Country



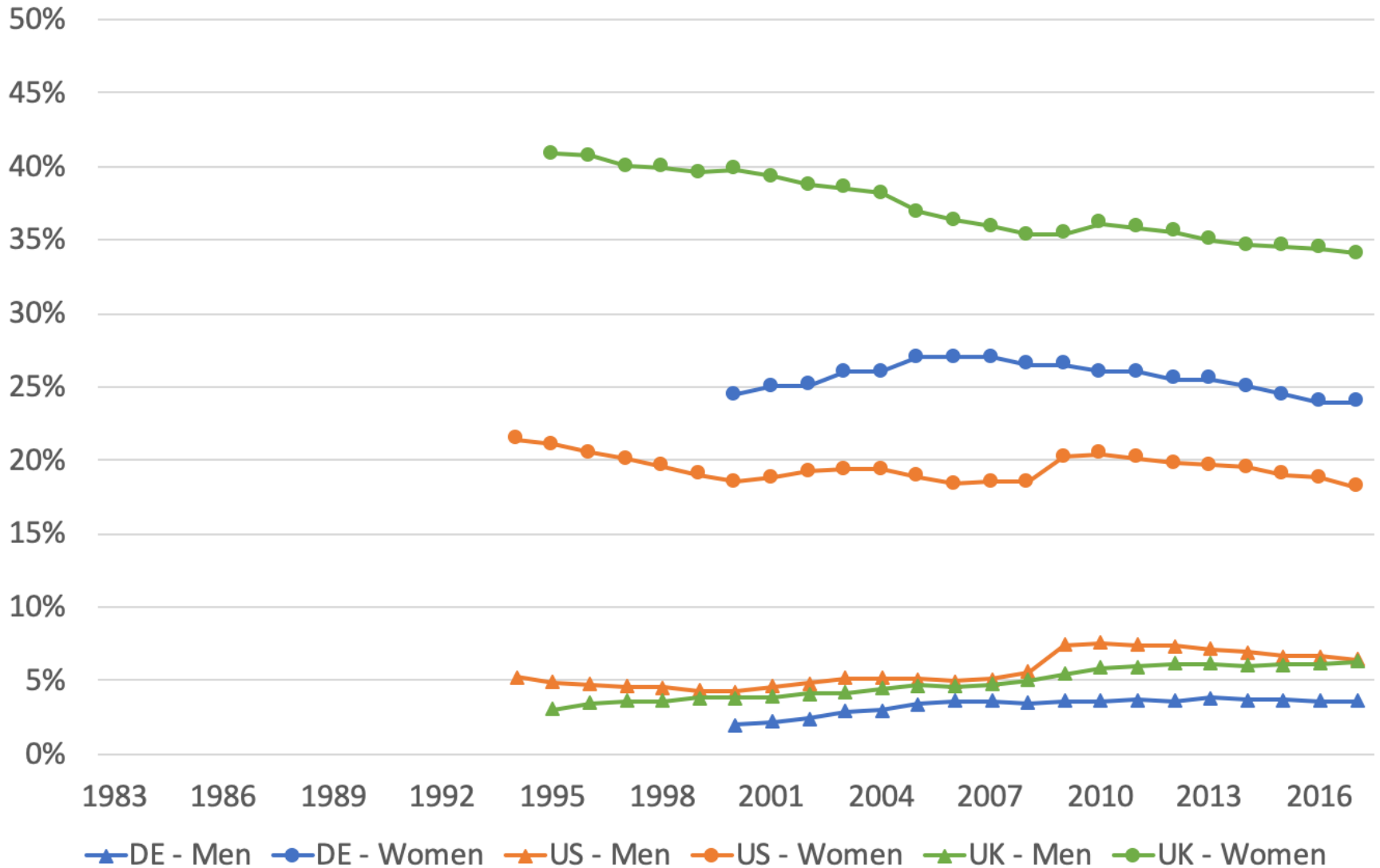
Trends in NS Work: Multiple Jobs

Share with Multiple Jobs among Workers Age 25-64,
by Year, Sex, and Country



Trends in NS Work: Part-Time Jobs

Share with Part-Time Jobs among Workers Age 25-64,
by Year, Sex, and Country



Pension Rules Governing NS Work: US

- **Social Security & SE:**
 - **Self-employment is covered** (since 1965 or earlier)
 - SE workers pay 12.4% tax on net earnings
 - Can combine periods of emp & SE to reach 40 quarters
- **SE may have lower benefits if lower actual earnings**
 - Estimating causal effect of SE on benefits is difficult
 - Descriptive evidence: 1) earnings of SE lower at median, higher at top (Hamilton, 2000); 2) earnings of unincorp. SE lower and incorp. SE higher (Levine and Rubenstein, 2017)
- **SE may have lower benefits if lower reported earnings**
 - Reported earn of SE seem low relative to consumption (Hurst et al., 2014; Pissarides and Weber, 1989)
 - Large underreporting of business income (Slemrod, 2007)

Pension Rules Governing NS Work: UK

- **Social Security & SE (current):**
 - Main pillar: flat rate pension that depends only on # of contribution years (up to 35)
 - Contribute if have earnings > \$8,000/year (or credits)
 - Like US, **essentially same rules for SE & emp, but lower real/reported earnings can matter**
- **Are SE less likely to earn credits? (our analysis)**
 - In 2016, **25% of SE did not earn enough to contribute** (19% after credits), vs. 5% of employed
 - The recent rise in SE in UK is a key contributor to a (modest) overall rise in share of workers not earning credits
- **Social Security & SE (pre-2016 rules):**
 - Two-pillar system and **SE did not contribute to earnings-related pillar**

Pension Rules Governing NS Work: Germany

- **Social Security & SE:**
 - SS main pillar: system with benefits proportional to earnings and 19% contribution rate
 - **SE are not covered** by main pillar, though may voluntarily participate (rare)
 - SE have occupation-specific pensions; benefits may be small
- **Social Security & “mini jobs”**
 - Mini jobs have earn < 450 Euros/month (7% of labor force)
 - Participating in main pillar used to be voluntary, now mandatory for employers (employee contribution still voluntary)

NS Work and Retiree Well-Being: Financial Distress

Table 1: Financial Outcomes of Self-Employed vs. Employed Retirees

	SE as % of Sample	% in Financial Distress			% At Risk of Poverty		
		Self-Emp	Emp	SE / Emp	Self-Emp	Emp	SE / Emp
DE	6%	0.26	0.15	1.73	0.37	0.16	2.31
US	10%	0.27	0.24	1.12	0.31	0.28	1.09
UK	6%	0.34	0.30	1.14	0.25	0.27	0.90

Authors' calculations from HRS, SHARE, and ELSA.

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NS Work and Retiree Well-Being: Income & Assets

Table 2: Income and Assets of SE vs. Employed Retirees

	Med. Equival. HH Income			Med. Fin. Assets / Income		
	SE	Emp	SE / Emp	SE	Emp	SE / Emp
DE	18,157	21,573	0.84	0.4	0.5	0.69
US	29,726	30,141	0.99	0.7	0.4	1.69
UK	14,625	12,025	1.22	4.4	2.2	2.00

Authors' calculations from HRS, SHARE, and ELSA.

Conclusions

- Despite popular perception that alternative work is rising rapidly, this is not evident in data (yet)
- In our review of pension policies, we find there are differences in whether SE are treated symmetrically in Germany and UK (until recently)
 - Even with symmetric treatment (as in US), lower actual or reported earnings of SE can affect benefits
- Comparison of retiree financial well-being by lifetime SE status suggests that SE may be worse off, especially where pension rules differ by SE status