



# **ESPN Thematic Report on Access to social protection of people working as self-employed or on non-standard contracts**

## **Norway**

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**European Social Policy Network (ESPN)**

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## Summary

Norway is one of the countries in Europe with the lowest share of self-employed among the economically active population and with a relatively small share of the workforce affected by truly precarious non-standard work. The share of the workforce which receives its main income from self-employment is declining, but it is increasingly common for wage earners to receive supplementary incomes from self-employment.

The Norwegian social security system only to a very limited degree differentiates against the self-employed and wage earners in non-standard work. For old age benefits, invalidity benefits, health care, long term care and family benefits there basically is no issue of discrimination against the self-employed and non-standard workers in the statutory National Insurance (NI) system. The two most important branches of social security where the self-employed have weaker rights than salaried workers are unemployment benefits and sickness benefits.

Self-employment simply does not count as qualifying for unemployment insurance benefits. Norway does not have a non-contributory minimum unemployment benefit scheme either, and self-employed individuals who become unemployed are therefore forced to apply for social assistance, if they cannot find any private way to secure their subsistence.

In relation to sickness benefits, the self-employed receive benefits only from day 17 of their absence and only 65% of previous earnings are replaced – in contrast to the 100% replacement from the first day of absence offered to wage earners. Self-employed individuals can, however, buy supplementary insurance from the National Insurance (NI) but relatively few do in practice. To have full compensation from the first day of absence is extremely expensive.

The self-employed on the other hand pay less than wage earners in social security contributions. The individual social security contribution is paid at a higher rate by the self-employed but they are exempt from paying payroll taxes. Contribution rates are 7.4 percentage points lower for the self-employed than for wage earners.

The self-employed and categories of non-standard workers do have less access to tax-favoured occupational pension schemes. The favoured contributions rates are lower for the self-employed and the degree of subsidy is lower. Part-time workers and seasonal workers are arguably also disadvantaged in occupational pension systems by the exclusion of low income from the contribution/benefit formula, and vesting requirements (one year in the private sector and three years in the public sector).

The self-employed and a large share of ordinary wage earners in the private sector are furthermore excluded from the state subsidised AFP-schemes (*Avtalefestet pensjon*) that offer significant supplements to life-long pensions in the private sector and early retirement options between 62 and 67 with no actuarial penalties in the public sector.

Among the possible options for improving the social protection for the self-employed and non-standard workers, the following deserve attention: making supplementary sickness benefit insurance from day 17 obligatory for the self-employed, introducing a non-contributory minimum unemployment benefit, expanding the tax-favoured pension savings options for the self-employed, making contributions from the first Euro earned and vesting from the first day of employment obligatory, and finally sharing the subsidies built into the AFP-scheme with all wage earners and self-employed and introducing full vesting rights in the scheme.

## 1 Context: self-employment and non-standard work relationships in the national economy and labour market

Norway features a well organised and regulated labour market with strong labour unions, a highly organised employer side, collective wage bargaining, but at the same time comparatively moderate employment protection legislation.

The share of the workforce engaged in self-employment is among the lowest in Europe and it has been declining over the last decades (see Menon 2016 and Proba Research forthcoming). According to Eurostat figures, in 2014 7% of the employed in Norway had their main income from self-employment compared to an EU average of 13.5% (Menon Economics 2016:16).

According to national sources the share of the workforce with earnings from self-employment as the main source of income is even lower and it has been declining over the last decade from 6.8% in 2003 to 4.5% in 2014 (Proba Research forthcoming). According to another estimate also based on national register data, the share of the workforce with self-employment as the main source of income was 6% in 2012 compared to 7.3% in 2003 (Menon 2016: 12). This latter estimate includes the small fraction of all self-employed who have organised their business as limited responsibility companies.

Part of the decrease is due to a decline in the number of farmers and fishermen, but even if the self-employed in the primary sector are excluded, the long-term trend is in the direction of decline (Proba Research: 6). It has however become increasingly common to supplement salaried work with self-employment income. In 2014, 7.4% of those employed were wage earners with supplementary incomes from self-employment. This represents a slight increase from 7.2% in 2009 (Proba Research forthcoming: 5).

The average annual income of the self-employed in Norway is slightly higher than the average full time wage (Proba Research forthcoming: 8), but this figure hides significant differences between industries/professions. Self-employed involved in the provision of health care services or legal services have very high annual incomes, while annual incomes are very low among the self-employed in industries like cleaning and hairdressing. According to Eurostat, the at-risk-of-poverty rates among the self-employed in Norway was in 2015 slightly higher than among the general working age population (Eurostat Social Inclusion Database).

As for non-standard forms of work, part-time working has traditionally been highly prevalent in Norway – in particular among women and in the public sector. However, part-time working in Norway has for decades been characterised by a process of normalisation (Ellingsæter 1989), with high levels of union membership and inclusion of part-time workers in employment regulations, work-environment protection etc. In the last decade there has been a clear movement away from short part-time work to full-time and part-time work with more hours. According to Eurostat 23.7% of the Norwegian workforce were working in part-time jobs in 2015 – 35.9% of females and 12.8 among males (Eurostat Employment Database).

The right for private sector employers to offer temporary contracts has for many years been severely restricted and the legislation only allowed for temporary contracts when replacing employees on leave and for executing specific, temporary tasks. The level has been fairly stable over time with a tendency for gradual decline up until 2014/15 (Nergaard 2016).

From 2015 the Government has, however, opened up a more general possibility to offer temporary contracts with duration of up to one year, in an effort to achieve more flexibility and ease the entrance into the labour market of marginal groups like youth, the disabled and ethnic minorities. The reform was highly controversial and heavily criticised by trade unions. The reform has led to an immediate increase in the share of the workforce employed on temporary contracts – particularly among the young.

**Table 1. Share of the workforce employed on temporary contracts, by age group. Percent.**

	2014	2015	2016
<b>15-74</b>	7.8	7.9	8.7
<b>15-24</b>	22.8	23.7	27.6
<b>25-29</b>	13.7	13.9	15.3
<b>30-39</b>	6.6	7.1	7.6
<b>40-54</b>	3.4	3.4	3.5
<b>55-74</b>	3.1	2.6	2.6

Source: Statistics Norway, Databank.<sup>1</sup>

There has in Norway been a debate about “bogus self-employment” in particular in relation to the large influx of migrant workers from the new member countries in Eastern Europe. There have been cases reported where companies – typically in the building and construction industries - have used self-employment contracts instead of ordinary employment contracts as a way to circumvent Norwegian minimum wage legislation and minimum wages established by collective agreements (see Nergaard 2016). The scope of this phenomenon is not well documented, but it is likely to be relatively small. More important perhaps, is temporary staffing agencies that appear to be responsible for a significant share of the employment of migrant labourers. While it has been shown that working for a temporary staffing agency is in many cases a stepping stone into the ordinary labour market, it appears that it works out differently for migrant workers from Eastern Europe who easily remain in a marginal and precarious position for years while employed by temporary staffing agencies (Friberg 2016).

Norway was only very mildly hit by the financial crisis in 2009, but the Norwegian economy has suffered because of the dramatic drop in oil and gas prices from 2014 and the associated drop in investments and demand for off-shore equipment. It is too early to tell whether the drop in labour demand and increasing unemployment particularly in the Western part of the country, has led to a growth in self-employment.

The new “sharing economy” and platform companies – like Uber and Airbnb - have received considerable attention and controversy. So far Uber has been declared illegal and chauffeurs who have performed services under their platform have been taken to court for breaking legislation regulating the taxi industry. The Government in the spring of 2016 appointed a commission with representatives from the social partners and academic experts to look into the challenges of the new sharing economy and to develop proposals to adapt Norwegian policies and legislation. The commission intends to publish its report by February 2017.<sup>2</sup>

<sup>1</sup>

<https://www.ssb.no/statistikkbanken/selectvarval/Define.asp?subjectcode=&ProductId=&MainTable=MidlAnsattAar&nvl=&PLanguage=0&nyTmpVar=true&CMSSubjectArea=arbeid-og-lonn&KortNavnWeb=aku&StatVariant=&checked=true>

<sup>2</sup> <https://www.regjeringen.no/no/aktuelt/utvalg-skal-utrede-delingsokonomien/id2478123/>



## 2 Description and assessment of social protection provision for self-employed and people employed on non-standard contracts

### 2.1 Description of social protection provisions for self-employed and people employed on non-standard contracts

Different definitions of self-employment can be found in both Norwegian tax-legislation and in social security legislation. In tax-legislation, self-employment income is defined as income derived from a personally owned enterprise with full economic responsibility. A self-employed person can, correspondingly, be defined as someone who receives most of his/her earned income in the form of self-employment income. This definition seems to correspond well with the definition used in Directive 2010/41/EU on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity. In Norway it is also possible for a one-person enterprise to take the form of a limited responsibility enterprise (AS) where the person who owns the company is simultaneously working as an employee. This option is relatively rarely used, however, and presumably the reason is that it tends to be less favourable in terms of the total tax-benefit package offered.

Norwegian social security legislation operates with a similar definition of self-employment and income from self-employment as the one used in tax-legislation. In addition, social security legislation (but not tax-legislation) distinguishes freelancing as a third alternative to ordinary, salaried employment on the one hand and self-employment on the other.<sup>3</sup> Freelancers do not have an ordinary employment contract and their work is not monitored and directed by an employer. Instead they have a specific ad hoc contract to deliver a certain service to an enterprise, but contrary to the self-employed, they have not established and registered a personally owned company and the remuneration they receive is – for tax purposes - treated as a wage. Freelancing is particularly prevalent among artistic professionals like writers, photographers, graphic designers, actors, dancers, musicians etc.

With the exception of freelance workers, non-standard forms of employment are not singled out for special treatment in the social security legislation. Many social security schemes operate with minimum requirements in terms of the duration of previous employment and the level of earnings received, but they generally do not discriminate against different types of non-standard employment (temporary employment or part-time employment for instance).

As already mentioned, income from self-employment is treated differently from both capital income and ordinary salaries in the income tax system as described in the following.

Ordinary salaries and wages are first subject to a payroll tax paid by employers. The default rate applied in most of the country is 14.2 % of the total wage sum. In some peripheral parts of the country, however, the rate is reduced (in some cases to zero), and as a result the national average rate of payroll taxation was 13.04% in 2015.

In addition, wage earners and salaried workers pay 8.2 % of their gross wages in social security contributions (2015). If we add this to the payroll tax and express the total amount paid in percent of the wage sum including payroll taxes paid by the employer, the result is that employees pay a total of 18.8% of their earnings in social security contributions.<sup>4</sup> By contrast the self-employed pay no payroll tax but they pay 11.4% of

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<sup>3</sup><http://www.skatteetaten.no/no/Bedrift-og-organisasjon/Starte-bedrift/Jeg-vil-i-gang/Starte-egen-bedrift1/Arbeidstaker-eller-naringsdrivende/Arbeidstaker-ikke-ansatt-arbeidstaker-eller-naringsdrivende/>

<sup>4</sup> The payroll tax rate and the social security contribution rate cannot simply be added together since both payroll taxes and social security contributions are calculated on the basis of gross wages – that is total remuneration minus payroll taxes.

their gross self-employment income in social security contributions. The social security contribution rates facing salaried workers and the self-employed are compared in table 2.

**Table 2. Comparing payroll tax and social security contribution rates between salaried employees and self-employed. 2016**

	Salaried employees	Self-employed	Difference
<b>Pay-roll tax, average rate</b>	13.04 %	-	
<b>Individual social security contribution</b>	8.20 %	11.40 %	-3.20 %
<b>Total social security contribution rate</b>	18.79 %	11.40 %	7.39 %

Source: The Finance Ministry<sup>5</sup>. Author's own calculations.

In 2014 self-employed individuals were recorded with average gross incomes of just above NOK 500,000 (approximately EUR 56,000). If the average self-employed person were exposed to the same tax regime as wage earners, the total contributions due would increase by NOK 37,000 (approximately EUR 4,140).

On top of this comes the amount paid in ordinary income taxes by the two groups. Here wage earners are granted an income allowance that the self-employed do not receive. The maximum reduction in taxes paid due to this allowance is NOK 22,862. However, the self-employed can directly deduct all expenses in connection with their income generating activity, and it is therefore not entirely clear whether and to what extent they are disadvantaged in terms of income taxation.

The Norwegian social security system is completely integrated with the general state budget, and both the pay-roll tax and the individual social security contributions are for all practical purposes a tax. The eligibility for many social security benefits is, however, conditional on a certain minimum of previous earnings, and in most cases the benefits are linked to previous earnings-levels. Hence there is an indirect link between the payment of social security benefits and the acquisition social security rights.

Individuals with very low earnings in a particular year will be completely exempted from paying any social security contributions and income tax, but once earnings exceed a certain threshold, social security contributions are levied on all earnings – without an exempt amount. The tax system does not in any way differentiate between standard and non-standard jobs, and freelancers, who are to some extent discriminated against in the social security system, pay taxes and social security contributions just like standard workers.

When it comes to occupational pensions there are significant differences between salaried workers and the self-employed, and some categories of non-standard workers can also be disadvantaged, but this will be addressed in the subsection 2.1.3 on old age and survivors' pensions.

### 2.1.1 Healthcare and sickness: cash benefits and benefits in kind

Health care in Norway is provided by a national health service financed out of general taxation. There are therefore no differences in the access to health care services between different categories of employees and between wage earners and the self-employed.

There is, however, a fairly limited amount of supplementary employer-financed health insurance guaranteeing swift treatment by private health care providers in case of queues in the public health care system. According to a recent estimate, 450,000 employees are covered by a private health insurance financed by the employer. Occupational health insurance used to receive preferential treatment in the tax system,

<sup>5</sup> <https://www.regjeringen.no/no/tema/okonomi-og-budsjett/skatter-og-avgifter/skattesatser-fradrag-og-belopsgrenser-i-2016/id2457143/>

but since the mid-2000s employer contributions to health insurance is taxed as wages and salaries. Since the self-employed are free to buy similar insurance coverage and since the tax privileges of occupational health insurance for employees have been removed, there does not seem to be an issue of differential treatment of the self-employed in terms of health-care.

When it comes to the statutory sick-pay insurance, there are significant differences between ordinary employees on the one hand and the self-employed and freelancers on the other.

The Norwegian statutory sickness insurance scheme for wage earners is very generous. It offers 100% replacement of earnings up to a ceiling of NOK 555,000 (approximately EUR 62,100) per year from the first day of absence. Sick pay during the first 16 days of an absence spell are covered by the employer, while the National Insurance covers the expenses from day 17.<sup>6</sup> In order to qualify for sickness benefits you must have been working the 4 weeks prior to the start of the benefit period. No difference is made according to the employment contract – whether it is temporary or not – and the earnings level only needs to exceed what corresponds to an annual income of NOK 46,000 (approximately EUR 5,000). Hence, even part-time work with very few hours is covered.

The self-employed are by default only covered from day 17 of an absence and the replacement rate offered is only 65% of previous earnings up to the social security ceiling. The basis for calculating the benefit also differs, taking the average self-employment income over the previous three years as the point of departure rather than the wage-level immediately prior to the absence spell. Freelancers are also only covered from day 17, but the replacement rate is 100% like it is for ordinary employees.

Both the self-employed and freelancers are offered the opportunity to buy additional coverage from the National Insurance scheme (NI). For the self-employed three alternatives are available: to receive full compensation (instead of 65%) from day 17 of an absence spell. To be covered from the first day with 65% compensation, and finally to have the same right as wage earners to full compensation from the first day of absence spell for earnings up to the social security ceiling. For freelancers, only one voluntary alternative is relevant: full coverage from day 1. The premiums are adjusted annually to make the additional coverage self-financing.

**Table 3 Premiums for voluntary additional insurance coverage in percent of income below the social security ceiling. 2016** percent of income below the social security ceiling

	Self employed	Freelancers
<b>65% compensation from day 1</b>	2.0	-
<b>100% compensation from day 17</b>	2.6	-
<b>100% compensation from day 1</b>	9.5	1.9

Source: <https://www.nav.no/rettskildene/Vedlegg/vedlegg-4-kap.8-premiesatser-for-tillegg-til-sykepenger-for-selvstendig-n%C3%A6ringsdrivende-og-forsikring-for-tilleggssykepenger-for-frilansere>

As shown in table 3, the premium that applies to those self-employed who want full coverage from day 1, is extremely high, while it is more moderate for the two partial coverage alternatives.

<sup>6</sup>

<https://www.nav.no/no/Person/Arbeid/Sykmeldt%2C+arbeidsavklaringspenger+og+yrkesskade/Sykepenger/Sykepenger+til+selvstendig+naringsdrivende+og+frilansere>

### **2.1.2 Maternity/paternity cash benefits and benefits in kind**

The self-employed and all categories of wage-earners, including freelancers, have in principle since 2008 had full access to maternity/paternity cash benefits and to the relevant services offered in connection with childbirth. Before 2008 the maternity/paternity cash benefits were calculated in the same way as sickness benefits – i.e. the self-employed were only guaranteed 65% earnings-replacement, unless they had taken out voluntary insurance to achieve 100% replacement.

The basis for calculating benefits differs slightly from wage earners since benefits for the self-employed are as a main rule based on an average of earnings over the three previous years – rather than the agreed wage just before the benefit period begins.

In order to obtain rights to parental leave you need to be in work/self-employment for 6 out of 10 months before the expected date of birth.

The social security ceiling that applies to sickness benefits also applies to maternity/paternity benefits, and just like in the case of sickness benefits many employers, including the entire state and municipal sector, provide full wage compensation also for earnings above the social security ceiling. This particular occupational welfare privilege is not available to the self-employed or freelancers.

### **2.1.3 Old-age and survivors' pensions**

In the National Insurance (NI) old age pension system all types of earnings, including self-employment income and earnings from a freelance contract, are treated equally. In the reformed system (that applies fully to individuals born in 1963 or later) all annual earnings up to a ceiling fixed at NOK 657,000 (approximately EUR 73,500) give rise to pension rights of 18.1% that are credited to a notional account. The type of work contract, whether it is temporary or permanent, full-time or part-time does not make any difference. The guarantee benefit that provides minimum protection in old age based on residency (40 years of residence in Norway before reaching age 67 is required to receive full benefits) is available to the self-employed and wage earners alike, provided that their accumulated pension rights in the statutory earnings-related system are sufficiently low.

In addition to the National Insurance system, occupational pension schemes play a significant role in Norway.

In Norway, occupational pension schemes financed by the employer have traditionally been encouraged by the tax system. Contributions to defined benefit schemes and defined contribution schemes are subject to an 'Exempt-Exempt-Tax (EET)' tax-regime, where contributions and returns are exempt from taxation during the accrual phase while the retirement benefits are subject to income taxation in the payment phase. If an employer introduces an occupational pension scheme, it must cover all categories of employees and not be particularly favourable to employees with the highest salaries. Both in private sector companies and in the public sector, part time workers with a working time of at least 20% must be included in the scheme and newly hired employees must be included from the first day. Seasonal workers can be excluded if they work less than 20% of the year. In the private sector pension rights are vested after one year, while in the public sector vesting requires three years of working but separate periods can be combined and service both in the state and the municipal sector counts.

From 2006 it became obligatory for private sector employers to establish occupational pension schemes for their employees with associated minimum contribution requirements. Employers are allowed to exempt annual earnings below NOK 92,000 (approximately EUR 1,000) from the calculation of contributions/benefits. This is disadvantageous for part-time workers, seasonal workers and workers with low wages more generally, but it is justified with reference to the high level of minimum protection offered in the statutory NI system.

The self-employed can be said to be disadvantaged in terms of access to supplementary occupational pension schemes. Also, the self-employed are offered tax-subsidies in

relation to supplementary retirement savings, but the degree of subsidy and the limits on contributions are less favourable compared to wage earners. The obligation introduced for wage earners does not include the self-employed.

In addition to these occupational pension schemes proper, Norway features a very particular type of pension scheme based on collective wage agreement. The so-called AFP-schemes were originally early retirement schemes offering workers in the organised part of the labour market the opportunity to withdraw at age 62 and receive benefits for five years before being eligible for old age benefits from the statutory NI scheme at age 67. With the pension reform taking effect from 2011, this scheme was transformed in the private sector into a kind of occupational pension scheme offering supplementary life-long benefits on top of benefits from NI and from traditional occupational pension schemes. For those wage earners covered, this scheme is in effect very important, offering pension rights that clearly exceed in value the benefits offered by the obligatory occupational schemes. This new pension scheme however only covers about half of the private sector and pension rights are not vested at all.<sup>7</sup> Older workers who go on disability benefits, who become unemployed or switch to an employer not affiliated to the AFP-scheme before reaching 62, lose all entitlements in the scheme. This also applied to individuals who become self-employed. One third of the funding for this scheme is a direct state subsidy, while the remaining funding is provided by the affiliated employers.

The fact that participation in this scheme is restricted to workers in companies with a collective wage agreement and eligibility is further restricted to those workers who remain in employment with an affiliated company at age 62, clearly raises issues about fairness and labour market distortions. Similar issues can also be raised against the AFP-scheme in the public sector that has continued as an early retirement scheme, but with a similar lack of vesting rights.

#### **2.1.4 Unemployment benefits and social assistance benefits**

The right to unemployment benefits from NI is conditional on participation in paid employment during the calendar year preceding the unemployment spell with total earnings exceeding NOK 140,000 (approximately EUR 15,700) – alternatively total earnings over a three-year period must exceed NOK 280,000 (approximately EUR 31,400). The unemployment insurance scheme offers net replacement rates of just above 60% of the previous wage and can be obtained for a maximum of two years.

Self-employment income does not give rise to rights to unemployment benefits, and this is the part of the Norwegian social security system where the self-employed are strictly discriminated against.

In Norway no minimum scheme of unemployment benefits exists for individuals who do not fulfil the qualifying conditions of having participated in gainful employment in the calendar year prior to the unemployment spell.

The only alternative available to the self-employed who become unemployed is to apply for social assistance. The Norwegian social assistance scheme is a last resort income maintenance scheme where economic need is the sole criterion for receiving benefits.

#### **2.1.5 Long-term care benefits**

Long term care in Norway is provided as a right by the municipalities and financed out of general taxation. In addition, a benefit scheme exists for wage earners to cover the loss of earnings while caring for long term ill and disabled family members. This scheme was extended in 2015 to also cover self-employed individuals (Proba Research forthcoming:

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<sup>7</sup> The scheme, which for all practical purposes is an occupational pension scheme, clearly violates the requirements set down in the Directive on minimum requirements for enhancing worker mobility between member states by improving the acquisition and preservation of supplementary pension rights (PPD) of 30 April 2014.

18). For the self-employed, benefits are paid out after a waiting period of 10 days, since in the case of salaried employees, the first ten days are covered by employers. Like for wage earners, a basic condition for receiving benefits is that the self-employed ceases his or her activity.

### **2.1.6 Invalidity, accidents at work and occupational injuries benefits**

Disability benefits and rehabilitation benefits (*Arbeidsavklaringspenger, AAP*) are provided to all individuals with reduced work capacity due to health problems certified by a doctor. No prior contributions or labour market participation are required to be eligible for benefits. Disability benefits are calculated as 66% of previous earnings while rehabilitation benefits from the AAP-scheme are slightly lower at 60% of previous earnings. Self-employment income is treated on a par with salaries and wages. In both schemes a fairly high minimum benefit is provided to claimants with no or small earnings prior to becoming disabled.

Wage earners who become disabled as a result of a work injury receive a benefit supplement on top of the general disability benefit. The self-employed are not covered by this by default, but they can voluntarily take out an insurance to secure a similar top-up. The yearly premium for this is 0.4 percent of annual self-employment income (Proba Research forthcoming: 18).

### **2.1.7 Family benefits**

A universal child allowance exists in Norway that is meant to compensate families for the costs of raising children. It is paid out to all families (primarily the mother) regardless of the labour market status and income situation of the family.

## **2.2 Assessment of the existing social provisions and of the impact of possible extension of their coverage**

Overall social provisions in Norway are comparatively inclusive vis-à-vis the self-employed and employees in different types of non-standard work. In relation to old age benefits, invalidity benefits, health care, long term care and family benefits there basically is no issue of discrimination against the self-employed and non-standard workers in the statutory NI system.

As mentioned above, the Government in 2015 liberalised the access for employers to offer temporary employment contracts leading to an immediate increase in the share of the workforce employed on temporary contracts. However, workers on temporary contracts have the same social security rights as do workers on permanent contracts.

The main gaps in the statutory social security system are vis-à-vis the self-employed (not non-standard workers) and they concern unemployment benefits and sickness benefits only.

The self-employed are compensated for the lower protection in case of sickness and unemployment by paying social security contributions that are significantly lower compared to wage earners when pay-roll taxes are taken into account. As shown above, the total social security contribution rate paid by wage earners is 7.4 percentage points higher than the rate for the self-employed. Whether this gap in contribution rates balances the cost for the self-employed of not being fully covered in terms of sickness and unemployment benefits is debatable.

The share of the self-employed who choose to buy additional sickness benefit coverage, is rather low and it has been declining since the turn of the millennium. The absolute number of self-employed with voluntary sickness benefit coverage has dropped from 35,000 in 2000 to less than 18,000 in 2016 (farmers and fishermen excluded). The drop in the coverage rate is less dramatic since the number of self-employed has decreased quite significantly in this period to about 120,000 individuals in 2014 (see Menon 2016

and Proba Research forthcoming: 4). Most of those who buy additional insurance go for the option with full compensation from day 17.

According to official statistics, sickness absence among the self-employed was for many years up until the early 2000s somewhat higher compared to wage earners. But a significant decline among the self-employed over the last 15 years implies that sickness absence in this group is now somewhat lower compared to wage earners.

As mentioned, both the statutory sickness benefits for wages earners and the voluntary supplements offered to the self-employed and freelancers operate with a social security ceiling at a level corresponding to about 1.3 the average full-time wage, and corresponding to about 1.1 to 1.2 times the average income of the self-employed. All employees in the public sector (about 1/3 of the workforce) and many employees in the private sector are covered by occupational arrangements that ensure full wage compensation also for earnings above the social security ceiling.

This kind of additional coverage for high earnings is not available to the self-employed and to freelancers.

The premiums required by the self-employed to obtain additional sickness benefit coverage could be seen as indicative of the costs of including the self-employed fully in the statutory sickness benefit scheme for employees. The premium charged by NI for giving 100% compensation from the first day of absence to self-employed individuals is – as shown above - very high indeed: 9.5% of annual earnings. While this is supposed to reflect the true costs for those who have chosen to take out this insurance, it is likely to dramatically overestimate the average cost if this insurance was made compulsory for all self-employed individuals, and the reason is adverse selection. Adverse selection – the tendency for individuals with a high risk to take out insurance while individuals with low risks abstain - is likely to be a very important mechanism influencing the pricing of voluntary sickness insurance. If full sickness insurance on par with wage earners was made obligatory for all self-employed the problem of adverse selection would disappear and the necessary premiums would most likely be much lower than in the present voluntary scheme.

Nevertheless, the costs of providing full insurance against income loss during sickness would likely be higher for the self-employed compared to wage earners, since it is more difficult to find ways to counter problems with moral hazard. Given that employers fund sickness benefits during the first 16 days of absence for ordinary wage earners, the employers have a strong incentive to monitor and sanction employees who misuse the system by taking out short sickness absence spells. In the case of the self-employed, no similar mechanism is in place, and the costs of providing full income protection from the first day is likely to be high – even in an obligatory system. A relevant observation in this context is that the sickness absence among the self-employed is presently only marginally lower compared to Norwegian wage earners, despite the fact that most self-employed have not taken supplementary insurance and hence receive no benefits for the 16 days and are only compensated for 65% of their income loss during longer sickness spells.

The self-employed have no protection against unemployment and no special protection in case of bankruptcy. If they become unemployed after closing down the self-employment activity, they will be forced to apply for social assistance benefits that are very strictly means-tested and administered with high degrees of discretion by the municipalities. The residual nature of the Norwegian social assistance scheme makes it highly stigmatising and unattractive to most potential applicants.

It is very difficult to say what would be the costs of providing unemployment benefits to the self-employed similar to the system available to wage earners. An obligatory enrolment of all self-employed would avoid adverse selection problems, but moral hazard would be a serious concern since there is no way to check whether the loss of income is involuntary in the case of self-employed individuals.

The self-employed are arguably disadvantaged in terms of access to supplementary occupational pension schemes and in particular in relation to the so-called AFP-schemes that are heavily subsidised by the state and hence the tax-payers in general.

Traditionally, defined benefit occupational pension schemes have also contained disability coverage, providing supplementary benefits to the covered wage earners. This has become less common in recent years with the growth of defined contribution schemes. As a result of this development, the limited access to occupational pension schemes for the self-employed no longer implies being particularly disadvantaged in terms of disability insurance.

### 3 Conclusions and recommendations

Sickness benefits and unemployment benefits are two areas of social protection where the NI system clearly discriminates against the self-employed. The self-employed are on the other hand compensated for this by having to pay lower social security contributions compared to wage earners, when pay-roll taxes are taken into consideration.

The option to take out supplementary insurance in NI against income loss during sickness spells is used only by a minority of self-employed and the coverage rate has been declining. One possible reform option would be to make it compulsory for the self-employed to be covered with full earnings compensation from day 17 of an absence spell. The average costs of such and obligatory insurance is likely to be lower than the current 2.6% of earnings charged for the voluntary insurance. To enrol the self-employed in an obligatory insurance giving full income compensation from the first day of absence would seem to be inadvisable, even if the costs are likely to be significantly lower than the current rate of 9.5 %.

Concerning unemployment protection, a relevant suggestion in the Norwegian case would be to introduce some kind of minimum unemployment benefit to individuals without requiring prior contributions and participation in paid employment (as a wage earner). Schemes of this kind are found both in Sweden and Finland, while social assistance or health related benefits (AAP or disability benefits) are the only options in Norway available for individuals who do not meet the criteria for receiving unemployment insurance benefits.

Arguments can be made for making tax-favoured savings options available to the self-employed on similar terms as those existing for wage earners through occupational pension schemes. It could also be considered to extend the mandate applied to wage earners securing participation in an occupational pension scheme to also include the self-employed.

In order to improve pension accrual among low wage earners, part-time workers and other marginal categories of workers it could be considered to abolish the lower earnings threshold for calculating contributions/benefits and to make vesting from the first day obligatory. The latter recommendation would probably make it necessary to open up individual pension accounts where employees can accumulate pension rights obtained from different employers – as has been suggested by the largest private sector union (*Fellesforbundet*)<sup>8</sup>.

Arguably the most important horizontal inequity in the present Norwegian social protection system, is the incomplete coverage and arbitrary nature of the subsidised AFP scheme(s) that not only exclude the self-employed but also about half of all private sector wage earners who work for companies that are not covered by collective wage agreements.

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<sup>8</sup> <https://www.fellesforbundet.no/nyheter2/2016/en-bedre-tjenestepension/>



## Annex 1

**SUMMARY TABLE ACCESS SOCIAL PROTECTION: SELF-EMPLOYED**

	On her/his own account	With employees (self-employed employer)	Dependent on single client	Dependent on contractual relationship with client	Liberal professions (e.g. doctor, notary, lawyer)	A self-employed who has established a limited responsibility company and highered him/herself as employee
<b>Healthcare - cash benefits and benefits in kind</b>	Full	Full	Full	Full	Full	Full
<b>Sickness - cash benefits and benefits in kind</b>	Partial	Partial	Partial	Partial	Partial	Full
<b>Maternity/paternity - cash benefits and benefits in kind</b>	Full	Full	Full	Full	Full	Full
<b>Old age pensions (preretirement benefits and pensions)</b>	Full	Full	Full	Full	Full	Full
<b>Survivors pensions and death grants</b>	Full	Full	Full	Full	Full	Full
<b>Unemployment benefits</b>	None	None	None	None	None	Full
<b>Social assistance benefits</b>	Full	Full	Full	Full	Full	Full
<b>Long-term care benefits</b>	Full	Full	Full	Full	Full	Full
<b>Invalidity benefits</b>	Full	Full	Full	Full	Full	Full
<b>Accidents at work and occupational injuries benefits</b>	None**	None	None	None	None	Full
<b>Family benefits</b>	Full	Full	Full	Full	Full	Full

\*\* Self-employed are by default only covered from day 17 of the absence spell and only for 65% of previous earnings. They can take out supplementary insurance with the National Insurance administration to receive full coverage (100%) compensation from day 17 or 100% from the first day.

\*\* Self-employed can take voluntary insurance coverage offering supplementary compensation in case of work accidents

**SUMMARY TABLE ACCESS SOCIAL PROTECTION: CONTRACTUAL EMPLOYMENT**

	Full-time employee	Part-time employee	Fixed-term employee	Temporary agency worker	Casual and seasonal workers	On-call workers	Zero-hour workers	Apprentices	Paid trainees	(Other) persons in vocational/professional training	Freelancers
<b>Healthcare - cash benefits and benefits in kind</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Sickness - cash benefits and benefits in kind</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Partial*
<b>Maternity/paternity - cash benefits and benefits in kind</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Old age pensions (preretirement benefits and pensions)</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Survivors pensions and death grants</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Unemployment benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	None
<b>Social assistance benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Long-term care benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Invalidity benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
<b>Accidents at work and occupational injuries benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	None*
<b>Family benefits</b>	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full

\* Freelancers only receive sickness benefits from day 17 of an absence spell and they only receive 65% of the previous wage. They can, like the self-employed, take voluntary insurance in NI to receive full coverage from the first day of absence. They can also, like the self-employed, buy an insurance offering supplementary compensation in case of work accidents.

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