

EXECUTIVE SUMMARY

Social Security for Self-Employed Workers in Argentina: Policy Design, Coverage, and Funding

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Self-employment encompasses a larger proportion of the Argentine employment structure than it does in more developed countries. It accounts for a large range of employment insertions; self-employed workers include own-account workers that operate as small-scale merchants, construction workers, and street vendors, but also owners of large and small businesses. The diversity of this segment of the work force is reflected in social protection status, in income level, and in other variables. There is a close tie between informal and self-employment: a large proportion of informal workers are own-account workers.

Social security for this group of workers in Argentina consists of two contributory regimes: the *Régimen General de Autónomos* (General Regime for Self-Employed Workers) and the *Régimen Simplificado para Pequeños Contribuyentes* or *Monotributo* (Simplified Regime for Small Contributors). In addition to the benefits provided by those systems, others are provided by the *Cajas de Previsión y Seguridad Social para Profesionales* (Social Security Accounts for Professionals), which operate on the provincial level. These systems determine the coverage and contribution of self-employed workers to social security in order to protect them in the face of a range of contingencies; they differ from the ones established for employees.

The aim of this document is to provide a far-reaching socioeconomic description of self-employed workers, with a focus on their insertion in the social security system over the course of the last twenty years. It also identifies the main problems facing benefit coverage and funding under the current system in order to make some recommendations on how to bolster social security for this group of workers.

The results of this paper show that there has been no significant change in the participation of self-employed workers in the workforce in Argentina in the last decade: it constitutes approximately 25% of all labor. Its long-term evolution, however, evidences counter-cyclical behavior: it shrinks during periods of growth and grows during periods of crisis. That is in keeping with the hypothesis that self-employment is a “refuge” when the overall economic situation worsens and quality salaried work becomes less widely available. The relative stability in the proportion of self-employment despite major structural changes in the Argentine economy is striking.

This group of workers is, at present, highly diverse, though its profile is starkly different from that of salaried workers. Self-employed workers are largely men—indeed, men constitute a greater percentage of self-employed workers than of employees—except for professional own-account workers, who are mostly women. The age composition of self-employed workers also differs from that of employees: participation is skewed towards adults over the age of fifty and away from young people. The educational level of own-account workers is lower than that of salaried workers. Another difference lies in the sectors where self-employed workers, particularly own-account workers, work: they are clustered in areas like commerce and construction.

Throughout the period studied, income and poverty analysis shows large differences between self-employed workers and employees. The growth in moderate and extreme poverty among self-employed workers in the final years of the period studied is cause for concern. Furthermore, the employment transitions of self-employed workers from 2003 to 2016 indicate that those who left that occupational category moved into non-registered salaried employment. The employment options for these workers, particularly for those who fall into the non-professional own-account workers category, are reduced to precarious salaried employment and other most likely poor-quality independent jobs.

The benefit coverage of self-employed workers varies with the system in which they are registered. Workers enrolled in the *Régimen General de Autónomos* do not enjoy the family allowances or the health insurance benefits enjoyed by those enrolled in the *Monotributo* regime. Furthermore, no self-employed workers are covered by the unemployment or occupational risk insurance programs that protect employees. In addition, the *Monotributo* regime introduced in 1998 has become an effective tool to permit small self-employed taxpayers to engage in economic activities within the formal sector by making a minimal tax payment. It is important, though, to be aware of the risk of the *Monotributo* system becoming a trap that encourages taxpayers to remain in it indefinitely, enjoying its advantages by never moving into the *Régimen General de Autónomos*.

One of the problems that has led to a significant loss in effective social security coverage is the high rate of informality among self-employed workers as a whole. Moreover, it is estimated that from 2003 to 2016 the rate of informality among self-employed workers increased, which attests to the challenges still faced when it comes to increasing levels of formalization among this group of workers. Another factor that affects the coverage of self-employed workers is irregular and erratic payment of contributions, and the inability to adjust payments according to cycles of economic activity, which often leads to the interruption of benefits and the right to them.

Regarding social security payment schemes and funding, gross income scales that determine categories for the *Régimen General de Autónomos* have no mechanism for automatic adjustment, and the system has not been modified since 2006. That means that payments made by self-employed workers have experienced a significant reduction in real terms. Similarly, the reference income does not accurately represent taxpayers' real contribution capacity, as is reflected in social security payments that exceed 100% of the reference income in the lowest categories, even when the benefit amount is the minimum. In the case of *Monotributo*, there is no direct relationship between social security contribution and income scale. Furthermore, the tendency of self-employed workers to declare less than they earn has an impact on which category they are in, which tends to mean lower social security payments.

For all of these reasons, the basis for calculating payments tends not to reflect taxpayers' real contribution capacity, while self-employed workers' rate of payment for the same benefits is higher than that of their employee counterparts. Finally, the payments scheme for both regimes results in a high cost for funding benefits. For most categories, implicit subsidies are significantly higher than for employed workers.

The theoretical benefit under the *Régimen Simplificado* is less than the minimum pension. In the case of self-employed workers enrolled in the *Régimen General de Autónomos*, 93% make contributions to categories that would yield the minimum pension. The benefits of self-employed workers, then, are clustered at the minimum pension.

On the basis of this analysis, the following recommendations are geared to a comprehensive approach to the problems identified:

- Due to the gradual incorporation of new communication and information technologies in work and production processes, and to a more dynamic service sector, particularly in the fields of personal care and the “knowledge economy,” **social security for self-employed workers must be adjusted to reflect the new realities of the world of work.**
- In order to **increase equity in social security coverage and its funding**, initiatives must be developed that help broaden the scope of social security for all self-employed workers; the social security payment scheme applied to self-employed workers should gradually merge with the one applied to employees. Furthermore, the determination of social security benefit amounts must be proportional to the contributory effort made by self-employed workers over the course of their work lives.
- Es necesario **adaptar el nivel de las cotizaciones a la seguridad social de los trabajadores independientes a su capacidad contributiva**, vinculando la base de cotización de estos trabajadores con los ingresos declarados, estableciendo alícuotas de cotización según la capacidad contributiva de los aportantes y asegurando que las bases mínimas y máximas, así como los límites de ingresos brutos que definen categorías o tramos de aportes, se actualicen de acuerdo con la movilidad previsional u otro régimen adecuado de ajuste automático.
- **Self-employed workers’ social security payment level must be adapted to reflect their contributory capacity**, linking the basis for calculating these workers’ payments to their declared incomes. Payment aliquots, minimum and maximum benefit bases, as well as gross income limits to determine categories and contribution ranges, must be updated in accordance with a mobile benefit regime or another one capable of automatic adjustments.
- It is also important to **design social security contribution payment schemes according to the specific characteristics of self-employed workers’ economic activity**. To that end, the entire tax burden and how it impacts the income of self-employed workers should be taken into account in establishing social security contribution payment amounts. In addition, collection mechanisms should be established that enable contribution payments to be adjusted to economic activity cycles, including periods of low or no invoicing. Furthermore, it is important to establish mechanisms for enrollment and for social security payment that enable taxpayers to make a gradual transition between the *Monotributo* and *Autónomos* regimes. The best option would seem to be the unification of the two regimes in terms of social security obligations.
- In order to **assimilate social security for self-employed workers in a single and normative social security framework**, a special regime for self-employed workers to enroll in and contribute to social security must be established. Such a regime should be in keeping with the general legal framework while also bearing in mind the specificities of this group of workers. Regimes for employees and for self-employed workers should be the same in terms of requirements for access to benefits (minimum retirement age and years of service), as well as in terms of the determination of benefit amount.
- It is necessary as well to **perfect mechanisms to register self-employment** by, for instance, establishing reductions in contribution payments for a limited time due to economic cycles; that would encourage the taxpayer to stay in the system once the reduction period has come to an end. Self-employed workers’ payments to social security must be duly monitored and audited. Furthermore, the **fraudulent use of the figure of the self-employed worker in disguised employment relationships must be prevented and detected**. That is key to proper labor and social security

inspection. The struggle against social security evasion and fraud requires teamwork and information exchange between administrative agencies, particularly between national and provincial tax agencies.

- It is crucial to **strengthen the management capacities of social security administration agencies that address self-employed workers**. More specifically, greater coordination of the many national and provincial social security regimes and administrative agencies working with self-employed workers must be encouraged. Particularly important is the administrative coordination of the national regime and the *Cajas de Previsión* and *Seguridad Social para Profesionales*, along with the development of interoperable databases and information access. Finally, before parametric changes in social security regimes and in their design criteria, coverage, and funding are implemented, the costs that such changes would entail for social security resources must be honestly assessed. Actuary assessment and systematic monitoring of fiscal impacts are key functions of administrative agencies committed to preserving the sustainability of social security regimes.