

Executive Summary

Persistence of self-employed receiving means-tested benefits

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This study is to evaluate the situation of self-employed receiving basic income support or means-tested benefits in Germany. Particular emphasis is on paths into and out of dependence on transfer payments and the duration of such situations. The empirical analyses are based on the Panel Study Labor Market and Social Security (PASS), which allows for the analysis of the dynamics of basic income support and the social situation of households receiving basic income support.

Income losses are the main reason for basic income support

An insufficient business income is the main reason why the self-employed become entitled for means-tested benefits in Germany. On average, self-employed individuals lose about 60 per cent of their income in comparison to the year before becoming entitled to basic income support. More than a quarter of all self-employed entering basic income support were asked to eat up savings in advance. Changes in the size or structure of households, which may also be a reason for means-tested benefits, are not very relevant. Living jointly with partners in the household and higher educational levels tend to reduce the risk of receiving basic income support. By contrast, individuals with health issues and single parents are at greater risk. Paid employees with a migrant background are more likely to receive means-tested benefits when compared to their non-migrant counterparts. For the self-employed, this effect is not statistically significant.

The business income of self-employed receiving benefits is very low

The average monthly net business income of the self-employed receiving basic income support is only 390 € and thereby considerably smaller than the average net income of paid employees receiving means-tested benefits (746 €). This is noteworthy because the self-employed tend to have high educational levels. Short working hours of the self-employed also fail to explain this income gap. Actually, many of those concerned are working extremely long hours. Hence, the average income per hour of many self-employed in basic income support is accordingly low. They receive only 3.50 € per hour.

Mostly quick exits from basic income support

Most self-employed exit basic income support within the first two years. The main reason is an increase of their business incomes which nearly triple on

average. This result indicates that self-employed in basic income support have a critical look at their economic situation and possibly adjust their business models.

In addition, there is also a group of self-employed who remain in basic income support for a long time. This persistence cannot be explained by individual characteristics of the self-employed. It is probably determined by business-related factors which are not included in the available data.

Basic income support for self-employed is basically a good idea

Based on our findings on the rather short persistence of self-employed with basic support, we conclude that basic income support allows many self-employed to react to a company crisis and to adjust their business model. Since they would not have been able to maintain their businesses otherwise, basic income support for self-employed is generally a reasonable measure. However, the specific design seems to be better suited for (former) paid employees rather than self-employed. For example, there are some inconsistencies with regard to pension schemes of self-employed and means-tested benefits.

High stock figures conceal high turnover rates

For years, the total number of employed persons receiving additional means-tested benefits stayed at a relatively high level, which only started to slightly decrease in recent years because of the overall good economic development in Germany. However, the relatively high stock of self-employed in basic income support conceals considerable turnover at the individual level. In fact, there is only a small group of self-employed who has difficulties ending their neediness. Therefore, it is important that relevant authorities provide support which enables self-employed to end their basic income support quickly.