COMPARED REGULATIONS SERIES

Membership of Self-Employed Workers in Individually Funded Programs

March 2010

Executive Summary

This paper describes the main rules and regulations governing membership of self employed workers in the individually funded pension programs in the Dutch Antilles, Bolivia, Bulgaria, Chile, Colombia, Costa Rica, El Salvador, Mexico, Peru and Uruguay. In particular, it describes the rules and regulations governing mandatory membership, the taxable base salary, contribution payment and collection, contribution rates and the benefits self employed workers can access.

Among the countries analyzed, only Bulgaria, Chile (partially as of 2012) and Uruguay make it mandatory for self-employed workers to contribute to their respective individually funded programs. The rest of the countries allow these workers to join voluntarily. However, few of them have taken up this option and as a result the coverage of self-employed workers in the mandatory pension fund programs is low.

None of the countries, with the exception of Uruguay, have special pension programs for self-employed workers. In the latter case, there is a system for professional self-employed workers with university degrees.

In all the countries, self-employed workers pay the same contribution rate as dependent workers. When contributions are voluntary, the workers themselves determine the taxable income base on which the respective contributions will be calculated. The exceptions are Bulgaria and Chile where the taxable income base depends on the income subject to income tax. Moreover, in Mexico self-employed workers contribute the amounts they deem convenient. All the countries offer the same benefits to dependent and self-employed workers, which usually include old age, disability and survival pensions. The exception is Mexico where self-employed workers do not have disability and survival pension coverage.

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I. Introduction

The purpose of this study is to describe the conditions for self-employed workers to access the individually funded pension programs in place in FIAP member countries, particularly analyzing the cases of the Dutch Antilles, Bolivia, Bulgaria, Chile, Colombia, Costa Rica, El Salvador, Mexico, Peru and Uruguay.

This information should be useful for countries to analyze the strengths and weaknesses of their respective systems in this regard and assess possible improvements or regulatory changes that would enable increasing the coverage of self-employed workers in the funded programs.

In most FIAP member countries, self-employed workers represent a significant percentage of the labor force. These workers are usually not covered by the contributory pension programs (that are financed with social security contributions), hence their financial protection in old age or in case of disability (and that of their families in case of death) depends on their access to social pension programs (non-contributory), voluntary pension plans or family arrangements. This situation is a challenge for regulators and an opportunity for making the benefits of the funded programs extensive to this segment of workers.

The study is organized as follows: the following chapter describes the concept of the "self-employed" worker as applied to the labor market. Chapter III provides information on the participation of self-employed workers in the labor force and the funded programs in the countries studied. Chapter IV describes the characteristics of membership conditions for self-employed workers in the individually funded programs of the different countries analyzed, focusing on the following aspects: a) membership rules for self-employed workers; b) contribution rates; c) taxable base income and the contribution collection/payment mechanisms, and d) the benefits offered by each program.

Most of the information used in the study was directly submitted to FIAP by its members. We also recurred to previous studies on the subject (See References at the end of the study). We are grateful to the FIAP member countries for their collaboration in drawing up this report, as well as to PrimAmerica Consultores for its support.

II. Definition of the self-employed worker

For the purposes of this study, the "self-employed" (or autonomous) worker is defined as an individual who works without a dependence relationship to a third party and without an employment contract. "Individual entrepreneurs" can also be included in this category.

Self-employed workers are rewarded for their work with "fees," "payments" or "income" but not with "wages" or "salaries."

It is important to make a distinction between "self-employed workers" and "informal workers." The latter category includes self-employed workers and workers who have a dependency relationship with an employer, but who evade compliance with their tax and social security obligations.

As we shall see, non-participation of self-employed workers in an individually funded program can be explained by both the absence of a mandate to contribute and the evasion of any mandate that may exist. In the case of self-employed workers, controlling evasion is generally complex and difficult because if there is no labor dependency relationship there is also no withholding agent for the corresponding payment. Hence, in some circumstances, the instrument for collecting the social security contributions of this group of workers could be the taxation system (income tax; permits; municipal licenses, etc.)

Even though the combination of personal savings accounts, individual property rights on the funds accumulated in such accounts, benefits associated to the accumulated savings amount and efficient management generate incentives for all workers, dependent and self-employed, to participate in the individually funded programs, the impossibility of accessing such savings until retirement and in some cases, the difficulties faced by workers (with uncertain and fluctuating incomes) for accessing loans in the financial system give rise to incentives for evading any mandatory contributions and preferring more liquid savings mechanisms – even in the case of those who wish to perform pension saving.

Consequently, the mere imposition of a mandate for self-employed workers to contribute to a pension program does not suffice for ensuring their participation. Effective mechanisms for collecting the respective contributions, and possibly additional incentives for pension saving, are also required.

III. Participation of self-employed workers in the funded programs

The information available on self-employed members and contributors in the funded programs is limited and in some cases, inexact. Public statistics generally do not distinguish between self-employed and employed workers. Furthermore, in cases in which this information is available, individual records usually describe a worker according to the type of employment he had at the time he joined the system for the first time. Therefore, a worker's switch from the sphere of self-employment to employment and vice-versa is not always reflected in the respective statistics.

Taking the above into account, it can be concluded that whatever the type of membership of self-employed workers, their coverage is low compared to both their participation in the work force or employment and the coverage of dependent workers (see Chart No. 1).

Chart No. 1
Participation of self-employed workers in the funded programs

País	*Self-employed members (1)*	*Self-employed Contributors (2)*	*Total No. of Contributors (3)*	*Self-employed / Total Contributors (4) = (2) / (3)*	*Active Self-employed (5)*	*Self-employed Contributors (6) = (2) / (5)*	*Labor Force (7)*	*Total No. of Active workers (8)*	*Total No. of Active Self-employed (9) = (5) / (8)*	*Self-employed / Labor Force (10) = (5) / (7)*
Dutch Antilles	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	83.600 (5)	69.388 (5)	n.a.	n.a.
Bolivia	50.666	13.610	624.681 (4)	2,2%	1.560.000	0,87%	4.672.361	4.298.572 (5)	36,3%	33,4%
Bulgaria (1)	232.626	157.096	n.a.	n.a.	1.800.100	8,73%	3.440.000 (5)	3.164.800 (5)	56,9%	52,3%
Chile (2)	296.070	65.398	4.572.327	1,4%	1.586.330	4,12%	7.266.600	6.686.260	23,7%	21,8%
Colombia	n.a.	n.a.	4.560.000	n.a.	n.a.	n.a.	20.650.000 (5)	18.461.100 (5)	n.a.	n.a.
Costa Rica	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.946.000 (5)	1.838.970 (5)	n.a.	n.a.
El Salvador	n.a.	n.a.	566.189	n.a.	n.a.	n.a.	2.870.000 (5)	2.680.580 (5)	n.a.	n.a.
Mexico	45.624	n.a.	14.503.855 (4)	n.a.	9.114.111	n.a.	43.256.341	41.655.856 (5)	21,9%	21,1%
Peru	n.a.	n.a.	1.651.191 (4)	n.a.	n.a.	n.a.	9.419.000 (5)	8.721.994 (5)	n.a.	n.a.
Uruguay (3)	n.a.	191.511	452.601 (4)	n.a.	n.a.	n.a.	1.500.000 (5)	1.362.000 (5)	n.a.	n.a.

Sources:
(1) : National Social Security Institute (NSSI) and National Statistics Institute of Bulgaria – Monthly averages for 2008.
(2) : Superintendency of Pensions – As of December de 2008.
(3) : Social Security Bank (B.P.S.) – as of December 2008. The figure corresponds to self-employed contributors in the private system.
(4): Contributors as of 12.31.2007
(5): Source: CIA World Factbook

IV. Rules and regulations for membership of self-employed workers in the selected countries

IV.1 Compared rules and regulations

It is mandatory for self-employed workers to join the individually funded systems in Bulgaria and Uruguay (in the latter country the obligation to join the individually funded program is conditional to the workers age, which must have been 40 on 01/04/1996). In Chile, it will be mandatory for some groups of self-employed workers (who pay income tax) to join after 2014.

On the other hand, in all cases where membership is not mandatory, self-employed workers can join the individually funded systems voluntarily (see Chart No. 2).

Chart No. 2
Obligation of Self-employed Workers to Join the Individually Funded Program

Country	*Mandatoriness of the Individually Funded program*	*Possibility of Voluntary Membership*	*Membership of Alternative Pension Programs*	*Observations*
Dutch Antilles	NO	YES	NO	*There is no mandatory funded program. Any worker can join an individual insurance at his own free will.*
Bolivia	NO	YES	NO	
Bulgaria	YES	NO	NO	
Chile	YES	YES	NO	*Mandatoriness for workers receiving wages or fees comes into force as of January 1, 2012. These workers can opt for not contributing until 2014. As of 2015 it is absolutely mandatory.*
Colombia	NO	YES	NO	*In Colombia there is no special pension scheme for self-employed workers. There is only a Solidarity Pension Fund*
Costa Rica	NO	YES	NO	
El Salvador	NO	YES	NO	
Mexico	NO	SI	NO	*Article 74 of the Retirement Savings System law sets out the possibility of self-employed workers having an individual account in any fund manager. There is no contribution rate; self-employed workers can contribute the amounts they want as often as they see fit.*
Peru	NO	SI	NO	
Uruguay	YES	YES	YES	

Source: Drawn up on the basis of information provided by the local Associations in FIAP countries and the standing rules and regulations in each one of them.

In almost all the countries analyzed, there is no special program for self-employed workers. The exception is Uruguay, where it is mandatory for professionals with university degrees to contribute to the University Professionals Retirement and Pensions Fund or the Notarial Fund if they exercise their profession independently.

In all cases, self-employed workers are subject to the same contribution rate as dependent workers. The rate net of commissions is 5% in Bulgaria; 10% in Bolivia, Chile and Peru; 11.5% in Colombia; 10.3% in El Salvador and 12.2% in Uruguay (see Chart No. 3).

Chart No. 3
Commissions and contributions in the funded systems
(June 2008)

Country	Total Contribution	Total Commission	Disability and death insurance	Net Commission	Capitalizable net contribution
	% of salary				
	a	b	c	d = b-c	a-d
Bolivia (1)	12.21	2.21	1.71	0.50	10.00
Bulgaria		not available			5.00
Chile (2)	12.57	2.57	0.89	1.68	10.00
Colombia (3)	14.50	3.00	1.42	1.58	11.50
Costa Rica (4)		not available		0.27	3.98
El Salvador	13.00	2.70	1.50	1.20	10.30
Mexico (5)					
Peru (6)	12.69	2.69	0.88	1.81	10.00
Uruguay (6)	15.00	2.75	1.01	1.74	1225

Source: Bulletin No. 19 AIOS – June 2008.

(1) An additional commission is charged for managing the investment portfolio. Its upper margin is 0.02285% pursuant to the limits set out in the Pensions law.

(2) The provisional and not the effective rate is published for Chile. As of June, 2008, the effective rate of the insurance was 1.11% of income, due to which the AFP's commission is 1.46% of income and the commission on net contribution is 10.4%.

(3) A commission is also charged for transfers, unemployment and voluntary contribution.

(4) Commission proportional to flow. The public system is responsible for disability and death coverage but its cost is not discounted from the old age pension contribution.

(5) There is no contribution rate. Directly channeled to the IMSS and its management is independent of the pension system.

(6) In Peru there is no tax deduction of pension contributions.

(7) An additional commission is charged for custody. The average in December 2007 was 0.002% of the balance of the individual accounts. These percentages are calculated on the AFAP contribution incomes, since pursuant to the mixed system in Uruguay, only part of the total contribution income is destined to the Individual Savings System.

Since their contributions are voluntary, self-employed workers set the taxable base income on which the respective contributions will be calculated. In Bulgaria the monthly base income for self-employed workers is determined from the information provided in the annual income tax declaration. In Chile the taxable base income will be 80% of the income subject to income tax for self-employed workers who will be subject to mandatory contributions (see Chart No. 4).

In Mexico it is not mandatory for self-employed workers to set a taxable base income or a contribution rate. These members contribute the amounts they deem convenient for their retirement and they are not based on any salary or contribution rate. Their contributions can also vary from one month to another.

The contributions of self-employed workers are collected directly by the fund managers (or else the collection agencies with which they have agreements). In Uruguay, the Social Security Bank collects all the pension contributions, including the contributions paid in by self-employed workers (see Chart No. 3).

Chart No. 4
Taxable Base Income and Payment/Collection of Contributions

Country	*Net income on which the contribution of self employed workers is calculated*	*Minimum income level on which contributions must be paid*	*Mechanism for paying/collecting self-employed workers' contributions*	*Observations*
Dutch Antilles	Not Available	Not Available	Not Available	There is no mandatory funded program
Bolivia	YES	YES	Direct payment in the fund manager or agencies with agreements	Taxable base income: on the basis of the monthly taxable income that the self-employed worker declares to the fund manager he/she is a member of.
Bulgaria	YES	YES	Contributions are collected by the National Revenue Agency	The self-employed worker's monthly base income is calculated on the information contained in the annual income tax declaration.
Chile	YES	YES	Direct payment in the fund manager or agencies with agreements	During 2012-2013-2014 self-employed workers must pay contributions unless they decide not to do so. The base income will be 40, 70 and 100% of the taxable income. During 2012 and 2013 they will be able to make voluntary contributions on an amount between 40% and 70% of the taxable income, without surpassing the maximum limit. As of 2015 they will be obligated to pay contributions on the full amount of their taxable income.
Colombia	YES	YES	Direct payment in the fund manager or agencies with agreements	Self-employed workers contribute on the income they declare to the agency they are members of.
Costa Rica	Not Available	Not Available	Not Available	
El Salvador	YES	YES	Direct payment in the fund manager or agencies with agreements	Self-employed workers contribute on the income they declare to the agency they are members of.
Mexico	NO	NO	Direct payment in the fund manager or agencies with agreements	Self-employed workers who are members of any fund manager do not have a contribution base income since contributions are voluntary.
Peru	YES	NO	Direct payment in agencies with agreements	Self-employed workers contribute on the income they declare to the agency they are members of.
Uruguay	YES	YES	Payment in Social Security bank (B.P.S)	The base income depends on whether the self-employed worker is a member of the Mixed System or the former pension system.

Source: In house, on the basis of the information submitted by the local associations in FIAP member countries and the standing rules and regulations in each country.

All the countries offer the same benefits to dependent and self-employed workers. In general, they include old age, disability and survival pensions. The exception is Mexico, where self-employed workers do not have disability and survival pension coverage. In the case of Bulgaria and Costa Rica, the disability and survival pensions are granted by a program other than the individually funded program.

IV.2 The Dutch Antilles

There is no mandatory funded program (state social security is the only mandatory program). Nonetheless, any individual who works can take out a type of individual insurance of his own free will. As of 2005 – the last official figure – 41% of workers had taken out this type of complementary pension.

It is not mandatory for self-employed workers to belong to join the state social security system, although they can join it voluntarily.

Benefits

In the public program, the old age pension conditions are the same for dependent and self-employed workers. If an individual contributes between the ages of 15 and 60, on retirement at 60 he will receive a monthly pension from the Social Security Bank of ANG 726, equivalent to US$ 399 (exchange rate as of April, 2009), even though he has not paid the corresponding premium.

In Social Security, the requirements for disability and survival pensions are the same for dependent and self-employed workers.

IV.3 Bolivia

In Bolivia self-employed workers can join the Mandatory Social Security (SSO) and register with an AFP of their own free will by paying the first contribution.

It is not mandatory for them to join any other pension program nor is there any special pension program for them.

Benefits

Self-employed workers access the benefits of the pension system under the same conditions as dependent workers.

The retirement pension depends on the amount in the member's individual account. The retirement benefit is paid, regardless of age, when the member has accumulated an amount in his individual account that will enable financing a pension equal to or greater than seventy percent (70%) of his base salary and the benefit for his beneficiaries in case of death.

After the age of sixty five (65), members have the right to voluntary request the pension benefit for themselves and their beneficiaries, regardless of the amount accumulated in their individual account.

The common risk disability benefit is a pension paid to the member in case he suffers full and definitive disability for performing a reasonably paid job for any reason not associated to professional or occupational risk.

The professional risk benefit is paid when the member is unable to continue working as a result of a work accident or an occupational disease causing death or definitive disability. Disability can be total (if more than 60% of the ability to work is lost) or partial (if more than 10% of the ability to work in his job is lost).

Taxable base income and payment/collection of contributions

The income on which contributions are paid is determined on the basis of the monthly taxable base income that the self-employed worker declares to the fund manager he is a member of.

The monthly income declared by self-employed workers cannot be less than the national minimum wage or higher than sixty times the national minimum wage in force[1].

Contributions are paid by the self-employed worker in the offices of the Pension Fund Manager he is a member of or agencies that have agreements with it.

Contribution Rate

Self-employed workers can contribute an amount equivalent to ten percent (10%) of their taxable base income.

All members are free to increase their contribution amounts by making additional contributions.

IV.4 Bulgaria

It is mandatory for all individuals born after December 31, 1959, (including self-employed workers), to participate in a universal complementary pension fund (2nd

[1] The national minimum wage is Bs 647, equivalent to US$ 92 (exchange rate as of April, 2009).

pillar) if they are subject to Chapter 1 of the Social Security Code, in other words, if they participate in the Public Social Security System (1st pillar).

There is no special pension system for self-employed workers.

Benefits

The conditions for accessing old age pensions are the same for dependent and self-employed workers.

The conditions for accessing disability and survival pensions under the Public Social Security System (1st pillar) are the same for dependent and self-employed workers. The 2nd pillar universal pension funds do not provide disability and survival pensions.

Taxable base income and payment/collection of contributions

The monthly base income for self-employed workers is calculated on the basis of the annual income tax declaration of the previous year and cannot be less than the monthly minimum wage of 260 Levas (US$ 176). The maximum monthly base income is 2,000 Levas, equivalent to US$ 1,357 (exchange rate as of April, 2009).

The mandatory contributions to the complementary pension fund are paid together with the Public Social Security contribution and are collected by the National Internal Revenue Service.

Contribution rate

The contribution rate is 5% for dependent and self-employed workers. In the case of dependent workers, their employers are responsible for 50% of the contribution.

IV.5 Chile

The Law[2] makes a distinction between self-employed workers for whom contribution is mandatory[3] and those for whom contribution is not mandatory[4].

[2] Law 20.255 2008 of 17/03/2008.

[3] All individuals who individually exercise an activity whereby they obtain an income, such as lawyers, journalists, hairdressers, individuals who engage in lucrative activities such as tour guides, artists, plumbers, electricians, advertising executives, justice administration auxiliaries (notaries public, receivers) and brokers who do not use capital.

[4] Self-employed workers such as micro businessmen, merchants, freight forwarding agents- exploitation of motorized vehicles for overland transportation – Miners – including small artisanal miners, and farmers – individuals dedicated to exploiting agricultural and non agricultural real estate - traders at fairs, fishermen etc. and all individuals not engaged in paid activities (examples: housewives, students).

The first group includes self-employed workers who receive "fees" (in other words, income derived from the rendering of professional or technical services). Mandatoriness was imposed in the pension reform approved in 2008 and will be gradually implemented as of 2012. As of that date, all such self-employed workers, except those who expressly decide not to or who are older than 55/50 (men/women) must contribute. After 2015 mandatoriness will be enforced without exceptions.

The 2008 pension reform also granted these workers the right to a family allowance, to join a "Caja de Compensacion," (Equalization Fund), to access the benefits set out in the Work Accidents and Occupational Diseases Law and the benefits of the Welfare Pillar of the pension system.

Self-employed workers who are not obligated to join an individually funded program can do so voluntarily (this option has been open since the beginning of the system in 1981).

Furthermore, as of October 2008, "Voluntary Member" status was included in the pension system for the purpose of providing coverage to individuals who perform unpaid work (e.g. housewives and students). The voluntary contribution can be paid by the voluntary member or by a third party on his/her behalf. A worker who contributes on behalf of another one can ask his employer to discount the contribution (without tax benefits). There is no obligation to contribute monthly.

Benefits

Self-employed workers access the benefits of the pension system under the same conditions as dependent workers.

Male members who have turned sixty five and female members who have turned sixty have the right to an old age pension[5].

Self employed workers (non-retired members of the individually funded system[6]), have the right to the following disability pensions as long as they do not meet the age requirements for obtaining an old age pension and are permanently unable to work due to illness or physical or mental disability:

a) A full disability pension for members who have lost at least two thirds of their ability to work, and

b) A partial disability pension for members who have lost fifty percent or more and less than seventy five percent of their ability to work.

[5] Members can retire before the stipulated ages, as long as they meet some conditions set out by Law.
[6] Decree Law No. 3.500 of 1980.

Taxable base income and payment/collection of contributions

The taxable base income of self-employed workers will be 80% of their declared income for tax purposes, calculated annually. There is however a transition system whereby the taxable base will be gradually adjusted until it reaches this level. Thus, in 2012 self employed workers must contribute on 40% of their taxable base income, on 70% in 2013 and on 100% of the taxable base income as of 2014.

In any event, the taxable base income cannot be less than one minimum wage[7], or higher than 720 Unidades de Fomento (US$ 2,142 at the exchange rate in April, 2009).

Contributions must be declared and paid in by the self-employed worker in the offices of the fund manager he is a member of. Monthly contributions can be paid in towards the corresponding yearly amount.

Contribution rate

The contribution rate is the same as for dependent workers: 10% of their taxable wages and salaries, plus a percentage destined to paying the premium that covers workers for the risks of disability or death (1.88%), plus the commission charged by the respective fund manager.

Voluntary contributions can also be paid in, for pension purposes or otherwise.

IV.6 Colombia

It is not mandatory for self-employed workers to join an individually funded program. Nonetheless, any self-employed worker, and in general all individuals resident in the country and Colombians domiciled abroad who do not have mandatory member status and who are expressly excluded pursuant to the provisions of Law 100[8] of 1993, can voluntarily join the General Pensions System.

In Colombia there is no special pension system for self-employed workers. There is only a Solidarity Pension Fund[9] which provides subsidies to the population groups (among them some self-employed workers) which, due to their socioeconomic characteristics and conditions, do not have access to the social security systems.

[7] Minimum monthly wage as of July 1, 2008 - $159.000 (US$265) for all workers between 18 and 65; $118.690 (US$198) for workers over 65 and under 18 (exchange rate as of April 2009).
[8] The General Pensions System consists of two parallel welfare systems: Mid-Premium Solidarity System with Defined Benefit and Individual Savings Solidarity System.
[9] The purpose of the Pension Solidarity Fund is to subsidize the contributions to the General Pensions System of salaried or self-employed workers of rural and urban sectors who lack sufficient resources for making all their contributions.

Benefits

Self-employed workers access the benefits of the pension system under the same conditions as dependent workers.

Specifically, members of the Solidarity Individual Savings System have the right to an early old age pension as long as the capital accumulated in their individual savings funds enables them to obtain a monthly pension higher than 110% of the legal monthly minimum wage, and a normal old age pension when the worker turns sixty (60) (for women) and sixty two (62) (for men).
For disability pension purposes, an individual is considered disabled if he has lost 50% of his ability to work due to any non-occupational event, not intentionally caused. The disability pension cannot be more than 75% of the taxable net income[10]. The disability pension cannot be less than the legal monthly minimum wage under any circumstances.

Furthermore, the monthly survival pension paid out to survivors is 100% of the pension the individual received.

The total monthly amount of the survival pension paid out due to the death of a member id 45% of the net taxable income plus 2% of such income for every fifty weeks of contributions over and above the first 500 weeks of contributions, without exceeding 75% of the net taxable income.

The disability pension cannot be less than the legal monthly minimum wage under any circumstances.

Taxable base income and payment/collection of contributions

Self-employed workers who are members of the system contribute on the income they declare to the agency they are members of and they are responsible for the total contribution amount.

The disability pension cannot be less than the legal monthly minimum wage under any circumstances[11]. Contributions are paid in directly in the offices of the Fund Managers (or else in the banks with which they have agreements).

[10] The average of the salaries on which the member has contributed in the ten years prior to the granting of the pension, or in the entire contribution period, if such is less than ten years, in the case of disability and survival pensions.
[11] Minimum wage 2009 - $497.000 (US$215). (Exchange rate as of April, 2009).

Contribution rate

The old age pension contribution rate is 11.5%, calculated on the net taxable income.

There is an additional 3% commission for covering the system's administration expenses, including the reinsurance premium for the guarantee fund.

In the Individual Savings System, members are free to make voluntary contributions which they can withdraw from their individual accounts.

IV.7 Costa Rica

It is not mandatory for self-employed workers to join the individually funded program. Nonetheless, any self-employed worker can join voluntary pension plans of his own free will, where he will have the same rights, obligations and requirements as dependent workers.

Benefits

Self-employed workers can voluntarily take out a disability, old age and death insurance. The benefits are paid out by the Costa Rican Social Security Fund (CCSS). The aim of this insurance is to cover the following types of individuals:

- *Voluntary Insuree*: An individual who does not generate income through personal work, but voluntarily wishes to take out and contribute to disability, old age and death insurance.
- *Facultative Insuree*: A worker who has ceased to be a mandatory insuree for whatever reason, but voluntarily decides to continue his social security membership.
- *Wage earner*: An individual who is not an active worker, but has personal income and decides to pay for the health, old age and death insurance at his own expense.
- *Student*: An individual who is solely dedicated to studying and pays the insurance premium with the help of his parents or some other source of income.

These insurees have the same rights, obligations and requirements in the Disability, Old age and Death System as salaried insurees.

Contribution rate

The total contribution rate includes:

1. The member's contribution pursuant to the contribution percentages set out by the Board of Directors of the CCSS. This percentage grows in proportion to the respective member's income (ranging from 4.75% to 7.25%).

2. The State's complementary contribution of 0.25%.

The voluntary insuree's contribution is calculated on the basis of the reference income determined by the specific study performed in each case, applying the contribution percentage set out by the Board of Directors of the CCSS.

The contribution for wage earning insurees is based on the amount of the respective income.

The contribution for facultative insurees is based on the average of the salaries received in the last quarter of contributions to the mandatory system.

Students contribute the minimum contribution amount in force.

IV.8 El Salvador

All self-employed workers can voluntarily join the Pension Savings System (this category also includes small and micro company businessmen)[12].

Benefits

There is no special pension system for self-employed workers. Hence, self-employed workers have the same rights as workers who contribute mandatorily, namely:

a) An early old age pension when the balance in the individual account suffices for financing a pension equal to or higher than sixty percent of the Regulatory Basic Salary[13] and is at the same time equal to or higher than sixty percent of the minimum pension[14]. These pensions are not entitled to the state minimum pension guarantee.

b) An old age pension after 30 years of continuous or intermittent contributions, regardless of age.

c) An old age pension after turning 60 for men, or 55 for women, as long as they have contributed continuously or intermittently for at least twenty five years.

d) A disability pension in the case of non-retired members who, even though they do not meet the age requirements for accessing an old age pension, have suffered a deterioration in their ability to do any work due to illness, common accidents or the

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[12] Agricultural and domestic workers join according to their work conditions and characteristics (Special Regulations).
[13] The regulatory basic salary is the monthly average of the base income on which contributions were paid in the last one hundred and twenty months prior to the month in which the death occurs, disability is declared or the requirements for accessing an old age pension are met.
[14] The minimum old age and full disability pension is US$143.64 and US$100.55 for partial disability.

impairment of their physical or mental abilities, excluding disability due to occupational risks. These pensions can be full or partial:

d.1) Full disability pension for members who lose at least two thirds of their ability to work; and

d.2) Partial disability pension for members who lose fifty percent or more, and less than two thirds, of their ability to work.

e) A survival pension received by the originator's beneficiaries when the member worker has died and the conditions stipulated by law are met.

Taxable base income and payment/collection of contributions

The base income for calculating the contributions of self-employed workers is the monthly income they declare to the fund managing agency.

In all cases, this income cannot be less than the legal monthly minimum wage in force[15], and contributions must be paid directly in the offices of the fund managers or else the banks with which they have agreements.

Contribution rate

The contribution rate is ten percent (10%) of the net taxable income and is destined to the member's individual pension savings account. An additional 2.7% of the net taxable income must be paid to cover the cost of the disability and survival insurance premium and the fund manager's commission.

Self-employed workers are responsible for the full payment of their contributions.

IV.9 Mexico

It is not mandatory for self-employed workers to join an individually funded program, but they can do so voluntarily.

There is no special pension system for self-employed workers.

Benefits

Self-employed workers have the right to the same types of old-age pensions (life annuities and programmed retirement) as workers who pay mandatory contributions.

[15] The monthly minimum wage for commercial activities is US$207.68; US$173.78 in the textiles sector and US$97.20 in agriculture.

The main differences compared to the mandatory system are:

a) Self-employed workers can withdraw all the resources at once.
b) The do not have access to a guaranteed minimum pension.
c) They do not have access to any other benefits (medical services etc.)

Self-employed workers are not covered by the disability and survival pension insurance, since these benefits are granted in the mandatory system by the Mexican Social Security Institute – IMSS (for private sector workers) and by the State Workers' Insurance and Social Services Institute – ISSSTE (for public sector workers).

If a self-employed worker wishes to take out disability insurance, he can do so by voluntarily joining the IMSS and paying the respective contributions. As regards survival insurance, this risk is covered when purchasing a life annuity from an insurance company, so that if a self-employed worker wishes to cover this risk at the time he retires he can do so by purchasing such insurance, either charging it to the amount accumulated in his individual account or paying for it with other resources.

Taxable base income and payment/collection of contributions

The base income for calculating the contributions of self-employed workers is the monthly income they declare to the fund managing agency.

Self-employed workers are not obligated to set a taxable base income or a contribution rate. There is no minimum contribution or minimum income level on which contributions are paid. These members contribute the amounts they deem convenient for their retirement and they are not based on any salary or contribution rate. Furthermore, the amount and frequency of the contributions can vary

Contributions are paid in directly in the collection agencies.

Contribution rate

Self-employed workers can contribute the amounts they wish to contribute whenever they want to.

IV.10 Peru

It is not mandatory for self-employed workers[16] to contribute to the Private Pensions System, but they can join it voluntarily.

Benefits

The conditions for accessing an old age pension are the same for dependent and self-employed workers, and they can do so on turning 65. They also have the right to an early old age pension as long as they can finance a benefit equal to or greater than 50% of the average of their received and declared income in the last 120 months.

Self-employed workers can also access disability and survival pensions under the same conditions as dependent workers:

a) Partial disability: physical or mental disability of a prolonged nature, causing 50% or more impairment in the ability to work, as long as it is less than two thirds (2/3).

b) Full disability: physical or mental disability of a permanent nature.

c) Survival: a pension received by the beneficiaries on the death of the originator member worker and if the conditions stipulated by law are met.

Taxable base income and payment/collection of contributions

The income on which contributions are paid is calculated on the basis of the monthly taxable income that the self-employed worker declares monthly to the Fund Manager he is a member of.

There is no minimum income level on which contributions must be paid. Nonetheless, the Superintendency of Banks and Insurance can set the maximum insurable income[17] for the purpose of applying the mandatory contribution.

Self-employed workers must pay the contributions themselves. The payment mode and frequency must be agreed to mutually between the Fund Manager and the member. Contributions are paid in the financial institutions that have collection agreements with the Fund Managers.

Contribution rate

[16] Self-employed workers working within the country, whatever the nature of their work, and Peruvians who work abroad permanently or temporarily.
[17] Maximum insurable income: 7.334 new soles, equivalent to US$ 2.445 (exchange rate as of April, 2009).

Self-employed workers who opt for joining the Private Pension Fund Management System are solely responsible for their contributions. Contributions can be for pension purposes or otherwise.

Contributions for pension purposes consist of:

a) 10% of the taxable income;
b) A percentage of the income which is destined to financing the disability and survival pensions and an amount for financing funeral expenses;
c) The amounts and/or percentages charged by the AFP for administration.

IV.11 Uruguay

The Uruguayan pension system is mandatory for all dependent and self-employed workers[18].

In order for it to be mandatory to join the Individually Funded System, the worker must receive a monthly income above a certain level[19]. If his income is not above this level, the worker is not obligated to contribute to the system (although in this case workers can join the system voluntarily) [20].

There are no special pension programs for self-employed workers, except for those who have university professional status. While exercising their profession, these workers are obligated to pay pension contributions to the University Professionals Pension and Retirement Fund (an agency of a semi-government nature) or the Notarial Fund.

Benefits

Self-employed and dependent workers are subject to the same age and years of service requirements for accessing old age pensions. A very important difference is that self-employed workers must evidence the total amount of contributions effectively paid in during the years registered in the Work Registry, since they are solely responsible for paying their contributions. For dependent workers, on the other hand, only the registry in the Work Register for the recognized years of service is required, since the employer is responsible for paying the contributions (therefore the only requirement is that the Work Register records the contributions that were discounted from their monthly income).

[18] Law 16.713 of 03/09/1995 which created a "mixed system" financed with contributions by workers and employers. This system offers combined benefits. It has an intergenerational solidarity component managed by the Social Security Bank (BPS) and an individual savings component managed by the Pension Savings Fund Managers (AFAP).
[19] Between U$19.805 (Ur$824) and U$59.414 (Ur$2.472). Exchange rate as of April, 2009.
[20] ART. 8 Law 16.713 (Right to choose and special situations).

The conditions for disability and survival pensions are the same for dependent and self-employed workers.

Taxable base income and payment/collection of contributions

The taxable base income for paying contributions depends on whether the self-employed worker is a member of the Mixed System or not. The main difference is that the self-employed workers included in the Mixed System can contribute freely as they see fit. Nonetheless, the taxable base income can under no circumstances be less than $4,251 (equivalent to US$ 177 – exchange rate as of April, 2009).

The contribution payment mechanism is the same as for dependent workers. In particular, the obligations accrued in any month must be contributed in the following month pursuant to the payment calendar set out by the Social Security bank (B.P.S.) which is the agency entrusted with collection.

Contribution rate

The contribution rate is the same for dependent and self-employed workers: 15% of monthly income.

Members of the Mixed System are not obligated to pay pension contributions if their income is below $59.414 (US$ 2.472 – exchange rate as of April, 2009). This ceiling is adjusted when government employees receive salary increases.

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