

# **“Reforming” non-standard contracts in Slovakia**

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Conference on Dual labour market, minimum wage and inequalities

# Non-standard contracts

- As opposed to standard employment contract:
  1. Agreement to work (40% of all agreements)
    - Up to 10 hours per week, maximum 1 year
  2. Agreement to perform specific work (34%)
    - Up to 350 hours in one year, maximum 1 year
  3. Agreement to work for students (26%)
    - Up to 20 hours per week, up to 26 years of age, maximum 1 year
- More than 3/4 earn less than 150 euro monthly (minimum wage is 352 euro in 2014)

# Key features before 2013

## High popularity

- Flexibility
  - Easy hiring and firing, limited regulations
- Low tax burden
  - 19% personal income tax rate from income above 304 euro monthly (317 euro in 2014)
  - 1.05% social contribution rate (as opposed to 48.6% for employment contracts)

## Problems

- Limited protection (including social benefits)
- Tax evasion

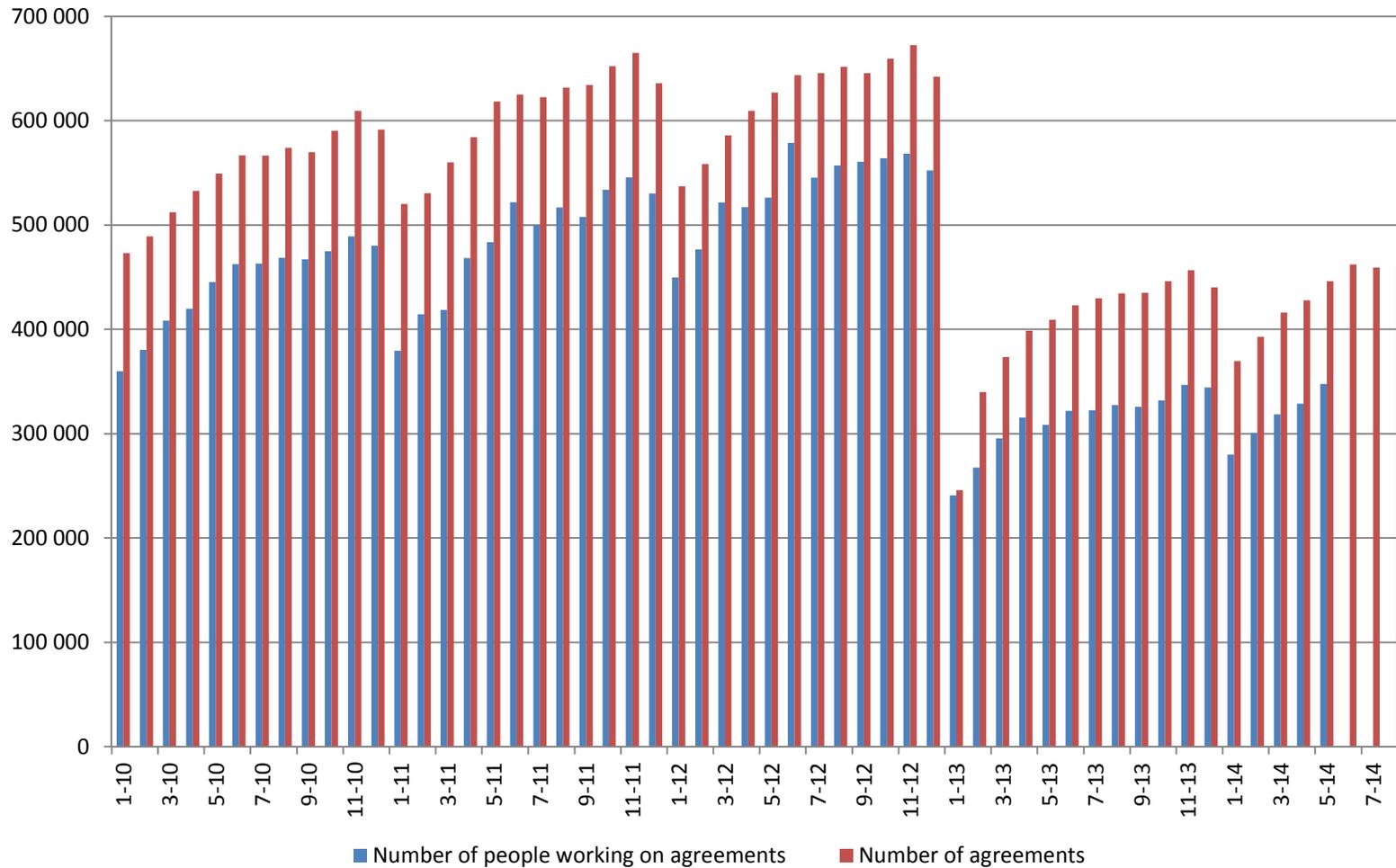
# “Reform” in 2013

- Increasing social and health contributions to the same level as for employment contracts (from 1.05% to 48.6%)
  - Exceptions:
    - Service and old-age pensioners pay 23.8%
    - Disability pensioners and students pay 29.8%
    - Students up to 18 years of age pay 1.05% from income up to 66 euro monthly
    - Students up to 26 years of age pay 1.05% from income up to 155 euro monthly
- Adopting minimum wage rule to all agreements

# Impacts

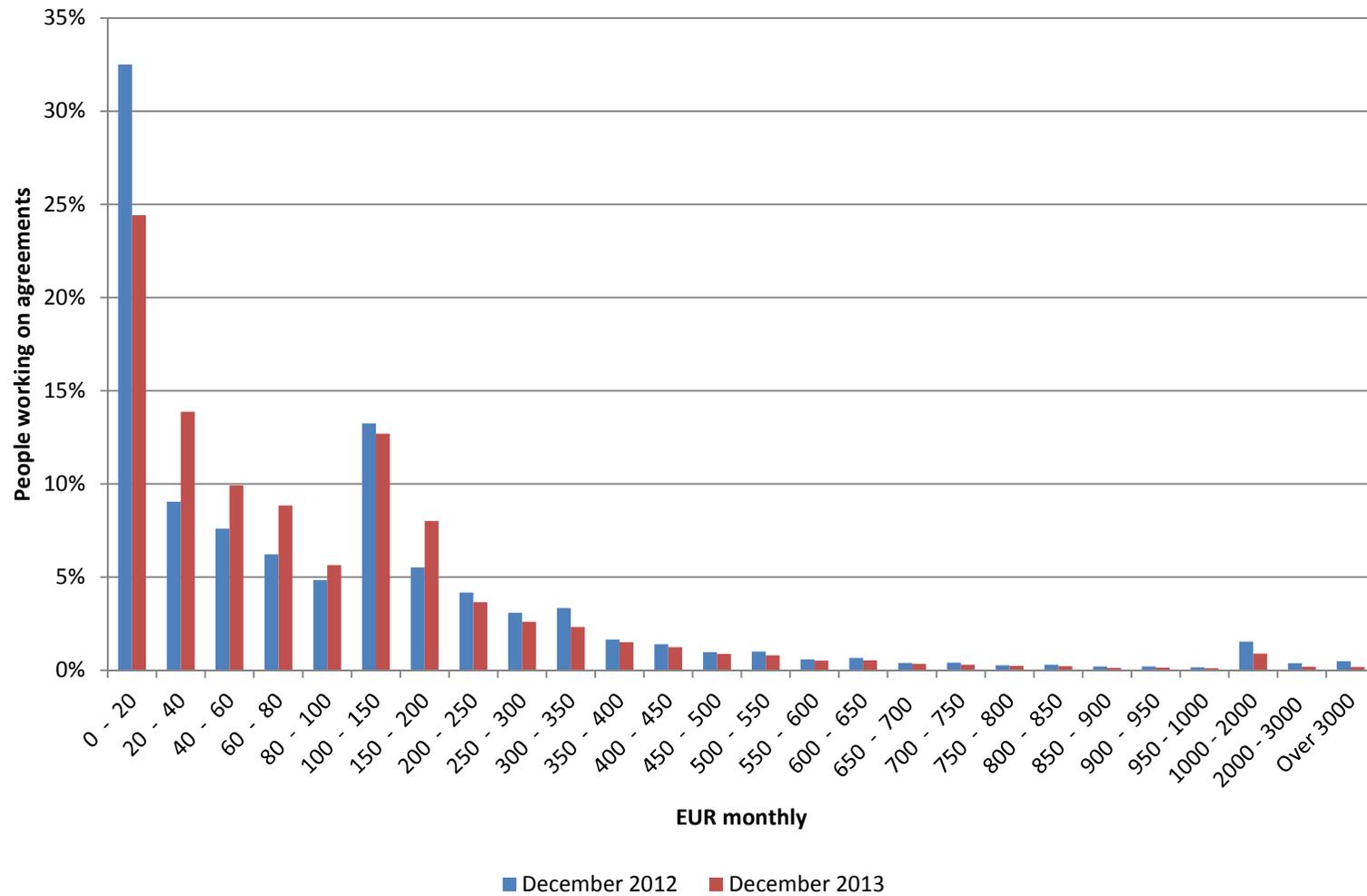
- Decrease in number of people working on agreements by almost 40%
  - From 552 thousand in December 2012 to 344 thousand in December 2013
- Where are they?
  - No significant change in number of employees: 1.96 million both in 4Q 2012 and 1Q 2013
  - Minor increase in number of registered unemployed: 390 thousand in 4Q2012; 396 thousand in 1Q 2013
  - Minor decrease in number of self-employed: 360 thousand in 2012; 353 thousand in 2013

# Number of agreements



Source: INEKO based on data from the Social Insurance Agency

# Income distribution



Source: INEKO based on data from the Social Insurance Agency

# Further impacts

- There were 111 thousand people who ceased their agreements and continued to work on employment contract or as self-employed in December 2012/13
  - Their net income decreased on average by more than 60 euro monthly. Source: [INESS, 2013](#)
- What happened to remaining 97 thousand?
  - Some of them are pensioners
  - Some people/money moved to shadow economy

# Reaction of employers

- 1/3 of firms did not encounter any impact
- 2/3 felt the impact and reacted:
  - 75% restricted agreement contracts
  - 25% changed agreements for personal leasing
  - 22% changed the organization of work
  - 22% reacted by firing people
  - 16% reported decreased profits
  - 16% increased prices of their products
  - 4% changed agreements for employment contracts

Source: [Adecco survey](#) among 25 firms employing 15-thousand people, July 2013

# What was the mistake?

- Transferring full payroll-tax burden also on people with low income
  - Rapid decrease in net income forces them to unemployment, shadow economy or other types of non-standard contracts
- What about people whose value added (labour productivity) is below minimum wage?
- Possible solutions (INEKO proposal, 2013):
  - Inspiration from German mini and midijobs
  - For example: All people working on agreements and/or employment contracts should be freed from paying social and health contributions from their total income up to a certain threshold (e.g. 2/3 of minimum wage) and pay gradually higher contributions from higher income
  - The state should pay for the missing contributions

# Current proposal

- Health insurance allowance:
  - The employment contracts (i.e. not agreements) with income equal to a new minimum wage of 380 euro monthly would be freed from paying health insurance contributions
  - The effective rate would increase linearly with higher income and the full 14% rate would be paid from a certain threshold (e.g. minimum wage multiplied by 1.5)
- Problems:
  - Rapid increase in minimum wage
  - The “agreements” are left behind
  - The social contribution rate of 34.6% remains

# Other types of contracts

- Self employed
  - 366 thousand in July 2014
  - Down from 394 thousand in July 2012
- Authors
  - Active versus passive (from license) earnings
- Personal leasing
  - Thousand of agencies
  - More than 30-thousand employees
- Contracts based on the Civil Code

**Thank you for your attention!**

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