



► Social Protection in Action: Building Social Protection Floors for All

2022

Costa Rica: Extending mandatory contributory coverage to self-employed workers

Summary

In the 1970s, the Costa Rican Social Insurance Fund (CCSS) introduced voluntary insurance for independent workers, with limited results. In 2005, affiliation became mandatory, which together with an integrated action plan extended coverage to more than 293,000 workers or 55.8 per cent of all independent workers, one of the highest rates in Latin America and the Caribbean.

In addition to mandatory affiliation, the main measures adopted in 2005 included: (i) the guarantee of all rights and benefits enjoyed by waged workers, including health insurance and pension insurance coverage; (ii) a differentiated financing model based on solidarity, which provides state contributions in the absence of an

employer; and (iii) the introduction of voluntary coverage for independent workers whose net income falls below the minimum contribution amount, which is fixed at regular intervals by the CCSS (defined as the minimum contribution baseline).

The extension of social protection to workers in the informal economy was achieved through a combination of measures including financial incentives, penalties in case of non-payments, conditionalities for applying for a license, permit, fiscal exemptions or accessing public contracts. This experience is particularly relevant in the context of the implementation of the Global Accelerator on Jobs and Social Protection for Just Transitions.

Social Protection Floors Recommendation, 2012 (No. 202)

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons. 187 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

This note presents a successful country experience of expanding social protection.

Costa Rica's experience is aligned with the guiding principles of Recommendation No. 202. More specifically, the present brief explains how some of these principles have been applied, notably "universality of protection, based on social solidarity"; "social inclusion, including of persons in the informal economy"; and "solidarity in financing".

Main lessons learned

- In addition to a regulatory framework making contributions to the scheme compulsory, accompanying measures are required, such as incentives to sign up and penalties for non-compliance.
- Introducing lower contribution rates for self-employed workers, complemented by a state subsidy based on workers' capacity to contribute, can facilitate their social security coverage and is a first step towards their formalization.
- The development and strengthening of collective insurance agreements between the social security institution and workers' associations and organizations may contribute to increased coverage, as evidenced in Costa Rica's primary sector of the economy.
- Linking compliance with social security as a mandatory requirement for access to tenders and service contracts with the public sector, as well as to concessions, exemptions, permits and licenses, can facilitate the extension of coverage.

Context

Costa Rica has a self-employed population of more than 570,000 persons, 68 per cent of whom are estimated to contribute to social security (CCSS 2021a). Nearly half of them earn an income below the minimum wage, compared to 16.6 per cent among wage workers, and their underemployment rate is three times the rate for wage workers (INEC 2018).

Independent workers account for 25 per cent of the country's labour force and engage in a wide range of productive activities. They include business owners and individual professionals with high levels of income, as well as microentrepreneurs, farmers and informal traders with a low contributory capacity.

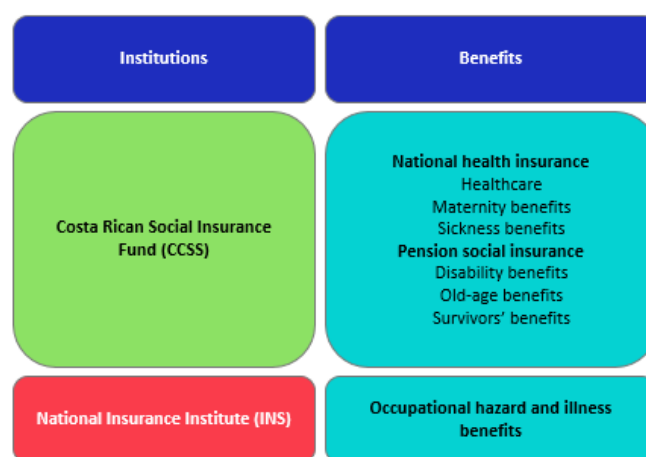
Programme description

The Costa Rican Social Insurance Fund (CCSS) progressively introduced social insurance for self-employed workers, beginning in 1975 with the first regulation on voluntary coverage, which was reformed to become mandatory in 2005.

Legal coverage. For the purposes of social security, the population of independent workers includes all persons who perform some form of income-generating manual or

intellectual work or activity on their own account (see figure 1).

Figure 1. Scope of mandatory social security coverage for independent workers in Costa Rica



► Source: Authors' elaborations.

Although affiliation is mandatory, certain exceptions are provided for, such as for workers over 50 years of age and workers whose monthly net income is lower than the amount set as the minimum contribution baseline.

Workers who hold a dual status as both employees and independent workers must pay contributions both through their wages and through the income received from their independent activities.

Financing. Self-employed workers have a different contribution model from that of waged workers. While contributions to the health insurance scheme of the CCSS are lower for self-employed workers than for wage workers, their contributions to the pension insurance scheme are equal. Self-employed workers are also exempt from paying earmarked contributions towards other social security state programmes.

In addition, the State contributes to the financing of both insurance schemes; otherwise, in the absence of an employer, the worker would have to bear the full financial cost. The State's level of contributions is proportionate to workers' incomes, with lower incomes supplemented by higher State contributions. For this purpose, contribution rates are fixed according to five income categories, which are periodically adjusted in line with changes to the minimum contribution baseline (see table).

In 2018, workers were assigned to the lowest income category (category 1) if their income was below US\$475. By way of reference, the national average income for independent workers was US\$502 in 2018.

Table. Self-employed-work contribution rates for health and pension insurances according to income level, Costa Rica, 2021

Category	Income level (US\$)		Health insurance contribution %			Pension insurance contribution %			Member total %
			Member	State	Total	Member	State	Total	
1	Up to 460		2.89	9.36	12.25	3.83	6.83	10.66	6.86
2	460	1 000	4.33	7.92	12.25	5.32	5.34	10.66	9.49
3	1 000	2 000	6.24	6.01	12.25	7.20	3.46	10.66	13.28
4	2 000	2 980	8.02	4.23	12.25	7.65	3.01	10.66	15.51
5	Over	2 980	10.69	1.56	12.25	8.09	2.57	10.66	18.62

► Source: CCSS (2021b).

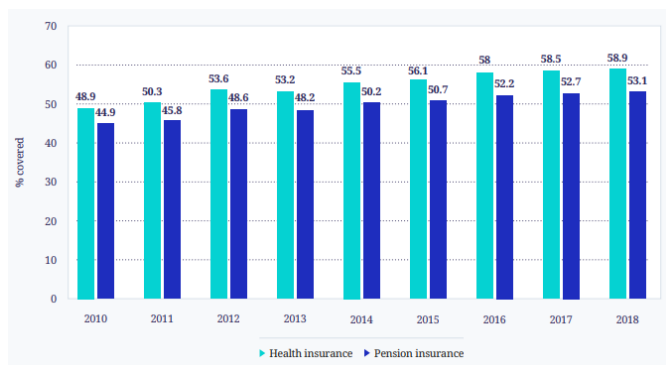
The strategy beyond financing

To promote compliance, the CCSS has spearheaded various measures to increase the level of social security affiliation and compliance with contribution payments, including by developing an extensive contribution monitoring and audit programme; applying a framework of penalties for non-compliance; strengthening collective insurance agreements (see box); expanding the pool of social security inspectors; and implementing an active communication strategy to promote membership. Moreover, any independent worker wishing to sign service contracts with the public sector or apply for a license, permit or fiscal exemptions and incentives, among other things, must be registered and up to date with social security contribution payments.

Impact

In 2005, the self-employed-work contributory coverage rate for the health insurance and pension insurance schemes (disability, old-age and death benefits) stood at 30.5 per cent and 15.9 per cent, respectively (ILO 2013) (see figure 2).

Figure 2. Contributory coverage of self-employed workers by Costa Rica's CCSS, 2010–2018



► Source: Based on CCSS and ECE actuarial statistics (INEC 2018).

In subsequent years, those indicators grew steadily to reach 58.9 per cent and 53.1 per cent, respectively, by 2018. In June

2018, the CCSS recorded about 293,000 independent workers, including 64,000 agricultural workers registered through collective insurance agreements. The average annual percentage increase in membership for the period 2010–2018 was 4 per cent. The difference between health insurance and pension insurance coverage stems from the fact that, prior to the 2005 reform, a worker could contribute solely to the health insurance, a measure that was later reversed.

► Box. Group social security membership in Costa Rica

In 1984, the CCSS implemented so-called group insurance agreements, which were designed mainly to cover independent agricultural workers but also used for other groups.

These agreements are signed by legally constituted organizations or associations that represent a group of independent workers who perform a common activity. The organization assumes responsibility for creating a list of members, collecting each worker's contributions and transferring the information and funds to the CCSS on a monthly basis. In practice, the agreements constitute a mechanism for facilitating and simplifying workers' registration and payment of social security contributions.

Agreements are subject to multiple controls, are valid for one year and can be periodically renewed. Although this membership mechanism has undergone significant changes since it was originally set up, there are currently 106 agreements in force, mainly with small and medium-scale farmers' organizations.

► Source: CCSS (2006), art. 6.

Challenges and way forward

The following measures could be undertaken to further extend coverage of self-employed workers in Costa Rica:

- Evaluate design alternatives to attract and retain high-income independent workers, such as individual professionals, whose rates of affiliation and compliance with contribution payments are low.
- Assess, jointly with the Ministry of Finance, the possibility of creating a single integrated payment mechanism for social security contribution and tax payments (following the Monotributo model in other Latin American countries). This would eliminate the current dual arrangements in place for either self-

employed or wage workers, thereby reducing administrative costs; simplifying registration and payment processes; tackling evasion and under-declaration more effectively; and unifying the classification of incomes.

- ▶ Introduce reforms to make contributions mandatory for independent workers with incomes below the minimum contribution baseline by means of a financing model with an increased State subsidy.
- ▶ Strongly promote the use of online membership mechanisms, through which workers can register and update their profiles and declare their incomes. This should be available 24 hours a day, with applications and declarations of income verified through spot checks by the Inspection Service, with severe penalties for anyone declaring wholly or partially false information.

In view of the high level of arrears among independent workers, assess the inclusion of innovative options for the invoicing and payment of contributions that can be adjusted to income fluctuations in certain activities.

- ▶ Promote the use of collective insurance agreements for workers in sectors with a high degree of informality and low contributory capacity but who have a certain level of professional organization.
- ▶ Find ways to expand the use of innovative methods in monitoring and audit mechanisms, based on information systems and big data analytics (business intelligence).
- ▶ Continue strengthening a culture of contributory social protection by means of systematic education and communication outreach.

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