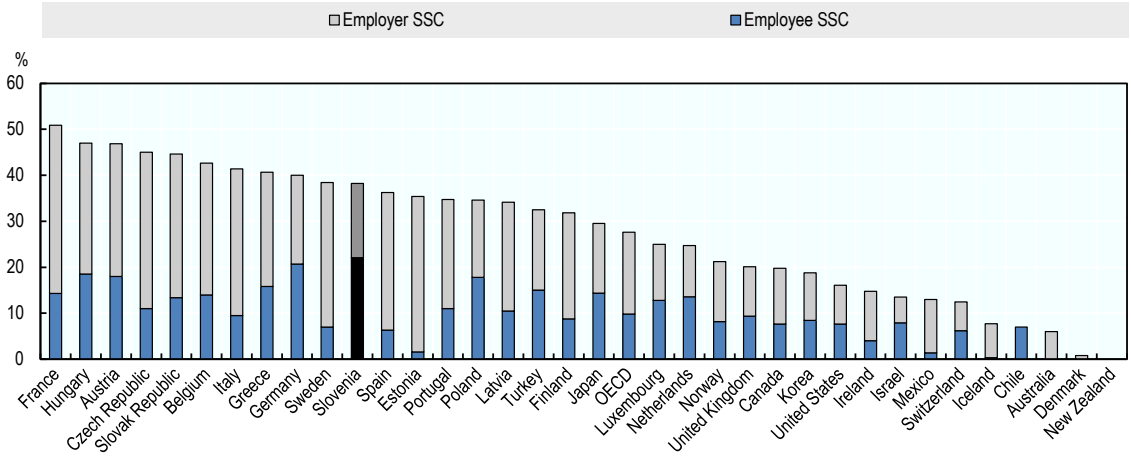
Chapter 3. Tackling the challenges to finance the social security system

Slovenia has a well-developed social welfare system which is successful in reducing inequality. However, it is financed primarily through social security contributions levied at high rates, in particular for employees. This is a challenge given the context of an ageing population. A comprehensive reform of the SSC system is needed and would entail a cut in employee SSCs across all income levels to increase labour market participation. The minimum SSC base is too high and leads to large effective statutory employer SSC rates. The SSC system for employees and self-employed could be further aligned, and the link between SSCs paid and benefits received should be strengthened. Slovenia should consider broadening the SSC base, and aligning the treatment of different types of incomes. To put the funding of the welfare system on a solid footing without reducing entitlements, it will need to partly shifted from SSCs towards general taxation.

3.1. High social security contributions distort the functioning of the labour market

The tax mix in Slovenia relies heavily on taxes on labour income and, in particular, on social security contributions (SSCs). The combined rate of employee and employer SSCs is significantly above the average combined rate in the OECD, although it remains lower than the combined rate that is levied in Austria, Italy, the Czech Republic and the Slovak Republic. Slovenia is one of the few OECD countries where the employee SSC rate (22.1%) exceeds the employer SSC rate (16.1%). While the employee SSC rate is the highest of all OECD countries, the employer SSC rate is below the average rate in the OECD (17.75%). It is also much lower than in other East European countries (the Czech Republic, the Slovak Republic, and Hungary), and Italy and Austria (Figure 3.1).

Figure 3.1. Slovenia levies high employee but relatively low employer SSCs



Note: For a single person at the average wage (AW) without child.
Source: OECD (2017[1]).

Analysis of tax return data confirm that significant revenues are raised from SSCs. Table 3.1 shows total allowances, credits, SSCs and personal income tax (PIT) as a share of gross income in 2016. For employees, employer and employee SSCs represent 15% and 20% respectively while PIT represents 12%. The vast majority of SSCs and PIT is paid by workers between 25 and 60, with the highest payments concentrated among workers aged 35 to 50 (Figure 3.2). Full employees, self-employed and pensioners refer to taxpayers who derive all of their income from salaries, self-employment and pensions respectively.

Table 3.1. Tax return data confirm high SSC revenues while the PIT base is narrowed through generous tax allowances

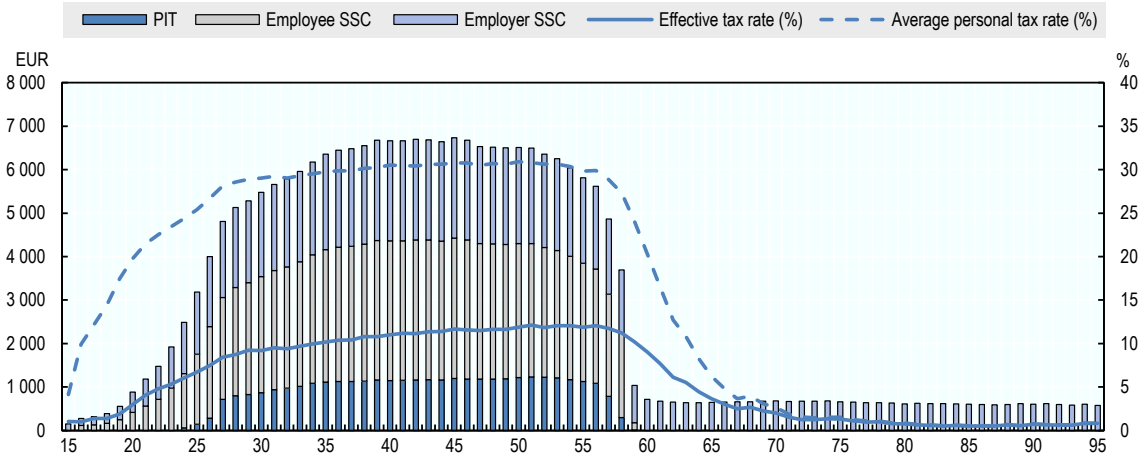
PIT and SSCs contributions by taxpayer group, 2016

	Employees	Full employees	Self-employed	Full self-employed	Pensioners	Full pensioners
			EUR millions			
Labour costs	16 767	16 260	803	501	5 919	4 981
Gross income	14 629	14 184	772	495	5 452	4 611
Allowances	4 221	4 127	429	343	3 557	3 312
Credits	0	0	0	0	235	221
Employer SSC	2 138	2 076	31	6	467*	370*
Employee SSC	2 952	2 867	41	7	135	12
PIT	1 685	1 625	69	44	134	44
			% of gross income			
Allowances	28.9%	29.1%	55.5%	69.3%	65.2%	71.8%
Credits	0.0%	0.0%	0.0%	0.0%	4.3%	4.8%
Employer SSC	14.6%	14.6%	4.1%	1.2%	8.6%*	8.0%*
Employee SSC	20.2%	20.2%	5.4%	1.4%	2.5%	0.3%
PIT	11.5%	11.5%	9.0%	8.9%	2.5%	0.9%

Note: *As pensioners do not have an employer, employer SSCs for pensioners refer to health SSCs, which are payments made for medical care and sickness leave on behalf of pensioners by the employer Pension Fund to the Health Insurance Institute of Slovenia. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

Figure 3.2. The vast majority of SSCs and PIT is paid by workers between 25 and 58

Median PIT and SSCs by age, 2016



Note: Age data truncated between 15 and 95 for reasons of sample size. The percentage effective tax rate is calculated as the total sum of the PIT divided by the sum of gross income for each age. The percentage average personal tax rate is calculated as the sum of the PIT and employee SSC divided by gross income for each age. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

Slovenia has four social security insurance schemes (Table 3.2). Slovenia levies high SSCs for pensions (including disability) and health insurance, while the contributions for

unemployment insurance and maternity leave are low. Among the selected comparison countries, only the Czech Republic and Hungary levy higher pension SSCs. Only France, the Czech Republic and the Slovak Republic levy higher health SSCs (Table 3.3).

Table 3.2. Social security contributions rates

	Employee (%)	Employer (%)
Pension and disability insurance	15.50	8.85
Health insurance	6.36	7.09
Unemployment	0.14	0.06
Maternity leave	0.10	0.10
Total	**22.10**	**16.10**

Source: Ministry of Finance (2018[2]).

Table 3.3. Slovenia levies high pension and health insurance contributions

Sum of employee and employer SSCs (%)

	Austria	Belgium	Czech republic	Finland	France	Hungary	Poland	Slovak Republic	Slovenia
Pension insurance	22.8	16.36	31.5	24.1	15.45	32	19.52	18	24.35
Health insurance	7.65	7.35	13.5	2.66	13.64[a]	7	2.45[b]	14	13.45
Unemployment insurance	3	4.03		4.01	6.4	1.5		2	0.2
Maternity leave									0.2
Disability insurance							8	6	
Sick leave insurance		1.15						2.8	
General risk	1.3			0.8	2.32			0.8	
Other employer SSCs	0.85[c]	16.37		0.07	5.32[d]	1.5[e]	3.81[f]	0.25[g]; 4.75[h]	
Other employee SSCs	yes				yes				

Note: a: illness, pregnancy, disability, death. b: maternity and sickness. c: including housing fund. d: family allowance, and other. e: training. f: accident insurance, etc. g: guaranteed fund. h: reserve fund
Source: OECD (2018[3]).

High SSCs distort the functioning of the labour market. SSCs are typically levied at flat rates on all labour earnings, in contrast to the PIT which is often levied at progressive rates and exempts a certain amount of income from tax.

- **High employer SSCs increase labour costs for the employer and therefore reduce labour demand**. High employer SSCs are particularly distortive in firms or sectors where skills and labour productivity are low. They are particularly distortive for older workers in Slovenia whose wages are increasing with age. By increasing the labour cost of employing older workers, high employer SSCs strengthen the labour market distortions that arise because of the automatic increase of wages with age irrespective of labour productivity.
- **High employee SSCs reduce labour supply and work incentives**, in particular for individuals with a weaker attachment to the labour market such as low incomes, older workers and second earners (World Bank, 2007[4]). High employee SSCs significantly lower disposable income of low-income earners, thereby reducing

their incentive to participate in the labour market (see Chapter 2). High employee SSCs will also result in lower PIT revenues as employee SSCs are deductible from the PIT base.

In order to put the funding of the social welfare system on a solid footing for the future, Slovenia needs to ensure that as many workers as possible do participate in the labour market and, hence, contribute through taxes and SSCs to the funding of the welfare system. This may require different types of reforms that aim at maintaining strong labour market participation of the prime age population and work effort for all income levels, as well as more targeted reforms that focus on particular groups, such as youth, low-skilled and older workers.

Slovenia needs to tackle at source the underlying causes of the low labour market participation of young and older worker through a comprehensive labour market reform package. Different factors may contribute to the low level of labour market participation of young and older workers. Important factors are the low levels of skills of certain groups of workers, relatively generous benefits for people out of work (in particular compared to the low income that can be earned on the labour market for those workers), generous provisions for students who are active in the labour market, a weak link between social contributions made and benefits received, and the fact that the unemployment system can be misused as a temporary means to bridge to retirement.

A cut in employee SSCs will also be a major part of such a labour market reform. However, the reduction in employee SSCs will reduce the funds received by the social funds and their funding will need to be assured through other revenue sources. In order to put the funding of the welfare system on a solid footing without reducing entitlements to social benefits, the reform will need to shift the funding of the pension and health system partly from SSCs towards general taxation. Moreover, the tax reform will need to go hand in hand with a broader set of reforms, including the reform of the pension and health care systems. The remainder of this chapter discusses a number of reform options, including a shift from employee SSCs towards general taxation or a shift from employee to employer SSCs (sections 3.2 and 3.3). Other reforms include SSC base broadening, unifying the different SSC systems (sections 3.4 and 3.5), and increased spending efficiency (section 3.6).

3.2. Stimulate labour market activity through a cut in the employee SSC rate

The reduction in employee SSCs will need to stimulate labour market participation, work efforts and incentives to work more productively at the lowest possible tax revenue cost. Different reform options exist. The reduction in employee SSCs could apply to all workers irrespective of their income level or it can be targeted at specific income levels and/or types of workers. In order to maximise the impact on labour market participation, the design of a reduction in employee SSCs will need to be tailored to the specific characteristics of the labour market in Slovenia. The choice for a reduction that applies to all incomes or is more targeted at low incomes or particular groups of workers will also have an impact on the tax revenue cost of the reform.

3.2.1. A cut in employee SSCs is the preferred option over targeted cuts

Given the narrow wage distribution in Slovenia, an employee SSC reduction targeted at low incomes would stimulate labour market participation considerably but would also negatively affect work incentives. For a tax reduction to be targeted at low incomes,

the reduction would need to be tapered out (i.e. reduced) at a specific taper rate over a well-defined income range. The taper rate then augments the marginal tax rates and wedges, which are already high in Slovenia, thereby further increasing the labour market distortions. In order to limit the tax revenue cost, the reduction would have to be tapered out at relatively low income levels. The corresponding increase in marginal tax rates would negatively affect the work incentives of a large share of the working population. Alternatively, the reduction could be reduced at a higher income level thereby lowering the tax burden for more taxpayers and, as a result, stimulate labour market participation. This would imply a larger tax revenue cost but would be less distortive as the increased marginal tax rates would affect fewer taxpayers.

A reduction in employee SSCs targeted at all income levels would not only benefit low-income workers but also middle and higher-income workers. High employee and employer SSCs do not only affect low-income workers. Also middle and higher income workers face a high tax burden on labour income, which negatively affects work efforts, incentives to strengthen skills and work more productively and incentives to continue working when approaching the retirement age.

Because of the narrow wage distribution and the high labour income tax burdens across the entire income distribution, a reduction in employee SSCs for all income levels (and all economic sectors) would be preferred over targeted cuts. In order to prevent work disincentives for a large share of the population, a targeted cut in employee SSCs would have to be tapered out at relatively high income levels. However, that would imply that extending the cut to all income levels would come at a relatively small additional tax revenue cost. While such a general reduction would increase the overall tax revenue cost, it would prevent further increases in marginal effective tax rates, which are already very high (Figure 4.8). Because employee SSCs are very high and work incentives need to be increased for all (in particular young and older) workers irrespective of their income level, there is a strong policy rationale to apply a reduction in employee SSCs to all income levels.

3.2.2. To distribute the gains of the reform more equally, a cut in employee SSCs has to be accompanied by a reform of the PIT

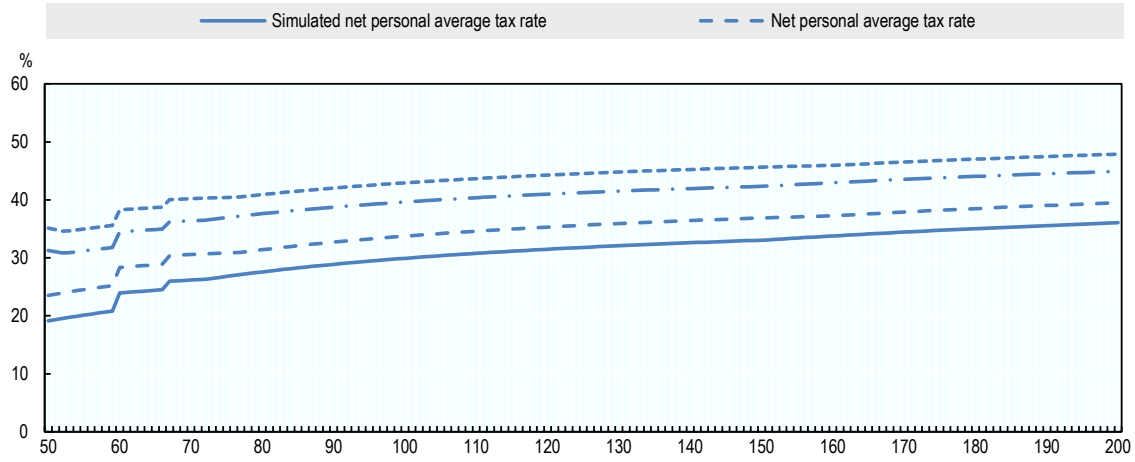
Lower employee SSCs will increase disposable income but would benefit higher incomes more. Figure 3.3 presents results for average tax burdens across the 50-200% of the AW income range for a 5.24 percentage points reduction in employee SSCs. For instance, the net personal average tax rate at the average wage drops from 22.1% to 16.9%. At the average wage, the average tax wedge decreases with 3.3 percentage points. Table 3.4 presents results for different reductions in employee SSCs. Overall a cut in employee SSCs increases disposable income. Disposable income increases more for higher incomes, although lower incomes gain more in relative terms. The PIT offsets part of the decrease in employee SSCs because of the increase in taxable income which is taxed under the PIT. Because of the progressivity of the PIT system, the PIT offsets the impact of the cut in employee SSCs relatively more for higher incomes. Nevertheless, higher incomes would still benefit more in absolute amounts from a general cut in employee SSCs. Figure 3.4 focuses on mean disposable income from employment by income decile before and after a five percentage points employee SSC cut, and shows similar results.

The analysis implies that a general cut in employee SSCs could be accompanied by PIT reform to more equally distribute the gains of the reform. Table 3.4 presents the impact on disposable income for a cut in employee SSC accompanied by a change in the

PIT rate schedule. Results show that a redesign of the PIT rate schedule which leaves the bottom rate unchanged and increases the other rates and installs a top PIT rate of 45% would share the gains in disposable income more equally compared to a baseline scenario where employee SSCs are cut but the PIT rates are kept unchanged.

Figure 3.3. A cut of 5.24 percentage points in the employee SSC significantly reduces the net personal average tax rate and the average tax wedge

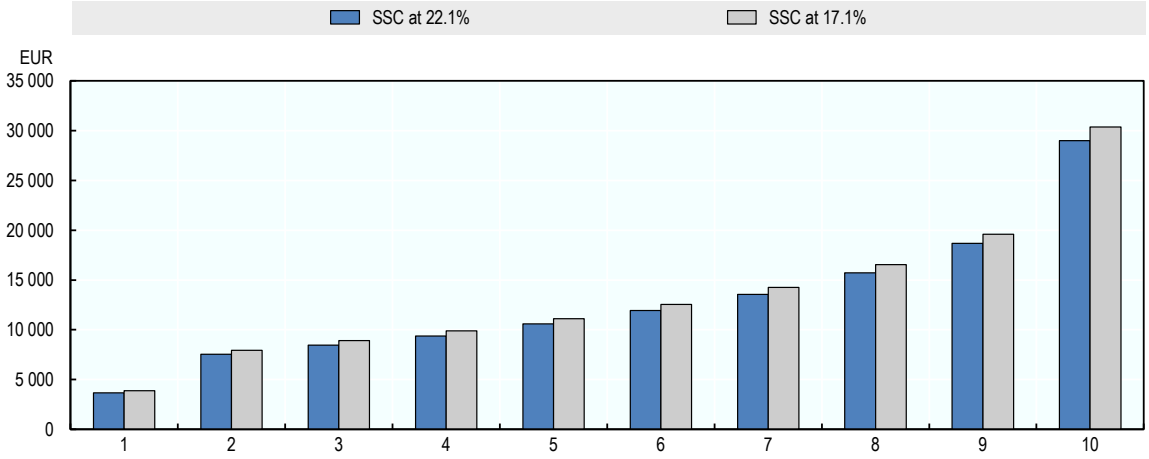
Single worker without children, as a % of the AW



Note: The simulated values represent a cut in employee SSC of 5.24 percentage points (from 22.10% to 16.86%).
Source: OECD (2018[3]).

Figure 3.4. An employee SSC rate cut would increase disposable income across all deciles with greater relative (but not absolute) increases among the lowest deciles

Mean disposable income from employment before and after a 5 percentage points SSC cut, by disposable income decile



Note: The analysis assumes no behavioural change and linearity from the employee SSC rate reductions. Total PIT and SSC in the microdata differ from figures reported by Ministry of Finance. Employment disposable income is estimated as income from employment less employee SSCs less PIT. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

Table 3.4. A reduction in the employee SSCs rate significantly increases disposable income across income levels

Single worker without children at different earning levels

	Change in employee SSC rate	Change in PIT brackets*	Average tax wedge (%)	Personal average tax rate (%)	Disposable (after-tax) income (EUR)	Additional income (EUR)	Change in disposable income (% of disposable income)
50% of the AW (EUR: 9 452)	No change: 22.1%	No change	35.1%	23.5%	7 228		
		Change	35.1%	23.5%	7 228	0	0.00%
	3 pp cut: 19.1%	No change	32.9%	21.0%	7 466	238	3.30%
		Change	32.9%	21.0%	7 466	238	3.30%
	5 pp cut: 17.1%	No change	31.4%	19.3%	7 625	397	5.49%
		Change	31.4%	19.3%	7 625	397	5.49%
67% of the AW (EUR: 12 666)	No change: 22.1%	No change	40.0%	30.4%	8 817		
		Change	40.0%	30.4%	8 817	0	0.00%
	3 pp cut: 19.1%	No change	37.9%	27.9%	9 136	319	3.62%
		Change	37.9%	27.9%	9 136	319	3.62%
	5 pp cut: 17.1%	No change	36.4%	26.2%	9 349	532	6.03%
		Change	36.4%	26.2%	9 349	532	6.03%
100% of the AW (EUR: 18 904)	No change: 22.1%	No change	42.9%	33.7%	12 524		
		Change	43.1%	33.9%	12 490	-34	-0.27%
	3 pp cut: 19.1%	No change	41.0%	31.6%	12 938	414	3.31%
		Change	41.2%	31.8%	12 899	374	2.99%
	5 pp cut: 17.1%	No change	39.8%	30.1%	13 214	690	5.51%
		Change	40.0%	30.3%	13 171	647	5.16%
167% of the AW (EUR: 31 569)	No change: 22.1%	No change	46.3%	37.7%	19 664		
		Change	46.7%	38.2%	19 523	-142	-0.72%
	3 pp cut: 19.1%	No change	44.7%	35.8%	20 269	605	3.07%
		Change	45.1%	36.2%	20 129	465	2.36%
	5 pp cut: 17.1%	No change	43.5%	34.4%	20 706	1042	5.30%
		Change	44.0%	35.0%	20 533	869	4.42%
250% of the AW (EUR: 47 259)	No change: 22.1%	No change	49.5%	41.3%	27 731		
		Change	50.2%	42.1%	27 345	-386	-1.39%
	3 pp cut: 19.1%	No change	47.8%	39.3%	28 667	936	3.37%
		Change	48.5%	40.2%	28 252	521	1.88%
	5 pp cut: 17.1%	No change	46.6%	38.0%	29 291	1560	5.62%
		Change	47.4%	38.9%	28 857	1126	4.06%

Note: *The new PIT brackets are as follows: first bracket: 16% (no change); second bracket: 28% (+1 percentage point compared to the current rate of 27%); third bracket: 36% (+2 percentage points compared to the current 34% rate); fourth bracket: 45% (+6 percentage points compared to the current 39% rate); abolishing the top bracket and its 50% rate.
Source: OECD (2018[3]).

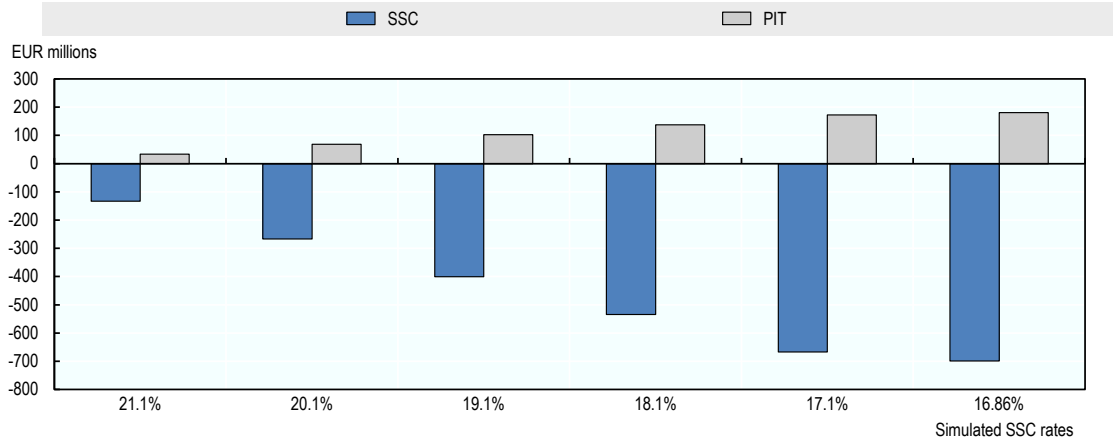
3.2.3. A cut in employee SSC leads to a significant loss in revenues the effect of which is partly offset through the broader PIT base

A one percentage point cut in employee SSC is associated with a total loss of EUR 100 million (loss of EUR 134 million in SSC and an offsetting recovery of EUR 34 million in PIT). Figure 3.5 shows the employee SSC loss and the extent recovered through PIT associated with reducing the employee SSC rate by consecutive one percentage point from 22.1% through to 16.86%. The employee SSC reduction of 5.24 percentage points (to 16.86%) is associated with a total loss of EUR 519 million.

Loosely, just over one-quarter (26%) is recovered through the PIT system. According to the analysis, the SSC and PIT revenue losses in the first bracket are EUR 20 million and EUR 293 million respectively (Figure 3.6). The majority of SSC losses are focused in the first two brackets. In the top three brackets, PIT recovery exceeds SSC losses.

Figure 3.5. The SSC loss associated with an employee SSC rate cut will be partly recovered through the PIT system

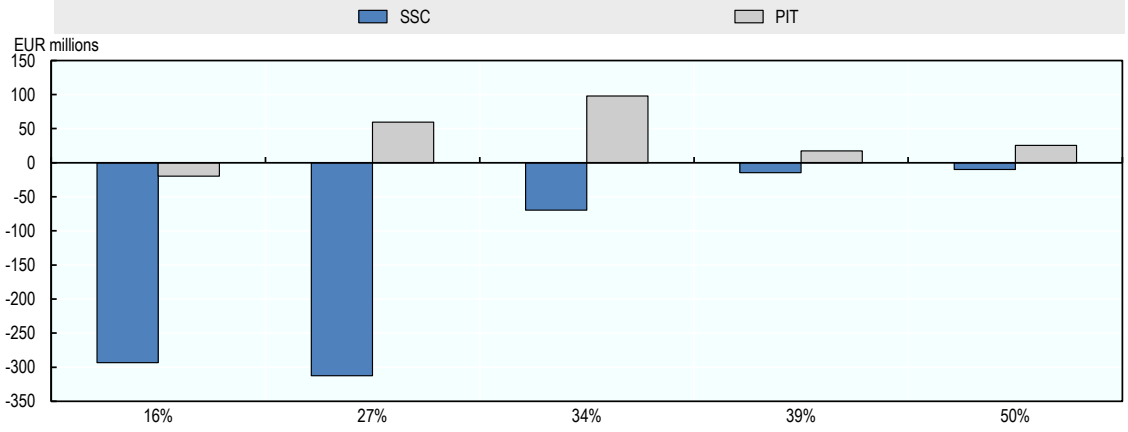
SSC loss and PIT gain from reducing the employee SSC rate from 22.1% to 16.86%



Note: The analysis assumes no behavioural change and linearity from the employee SSC rate reductions. Total PIT and SSC in the microdata differ from figures reported by Ministry of Finance. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

Figure 3.6. PIT recovery could exceed SSC losses in the top three PIT brackets

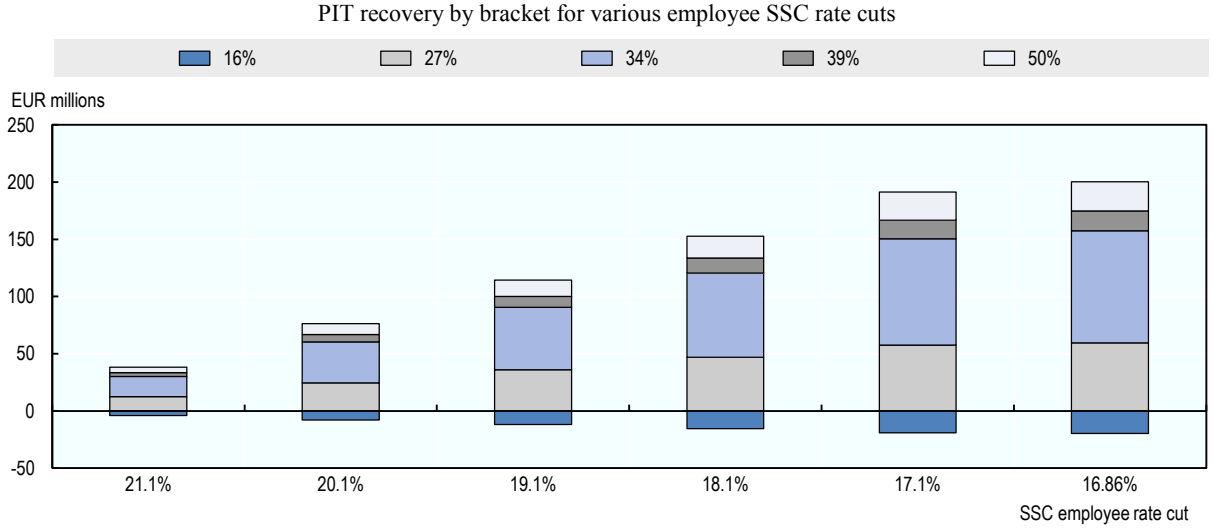
SSC loss and PIT gain by PIT bracket from reducing the employee SSC rate by 5.24 percentage points to 16.86%, in EUR million



Note: The analysis assumes no behavioural change and linearity from the employee SSC rate reductions. Total PIT and SSC in the microdata differ from figures reported by Ministry of Finance. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

For all the simulated cuts in employee SSC, the greatest amount of PIT is recovered in the third (34%) rate bracket. Figure 3.7 shows the simulated PIT revenues recovered in each PIT bracket for various reductions in the employee SSC rate (from 22.1% to 16.86%). The extent to which employees move up PIT brackets depends on both the numbers of employees in the bracket and the relative proximity of each employee's taxable income to the next rate threshold. According to an analysis of employee PIT bracket transitions resulting from a one percentage point cut in employee SSCs (to 21.1%), the first bracket would contract by 7 200 employees while the second, third, fourth and top brackets would expand by 4 300, 2 500, 190 and 120 employees respectively. In the first and largest PIT rate bracket, which comprises 50% of all employees, a one percentage point cut in the employee SSC rate would reduce PIT revenues in the bracket by EUR 4 million while increasing them in the second bracket by EUR 13 million, in the third by EUR 18 million, in the fourth by EUR 3 million, and in the fifth by EUR 5 million. By far, the greatest amount of PIT is recovered in the third (34%) rate bracket. This occurs because, given the same one percentage point SSC cut, over 2 500 employees would move up to this bracket and would now pay an average PIT of about EUR 7 000. For the top 50% rate, the same one percentage point SSC cut would add a small number of employees to the top rate bracket, resulting in approximately EUR 5 million in PIT. Similar conclusions can be drawn for the cuts in employee SSC to 20.1%, 19.1%, 18.1%, 17.1% and 16.86%.

Figure 3.7. An employee SSC rate cut is likely to result in the majority of PIT revenues being recovered in the third rate bracket



Note: The analysis assumes no behavioural change and linearity from the employee SSC rate reductions. Total PIT and SSC in the microdata differ from figures reported by Ministry of Finance. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

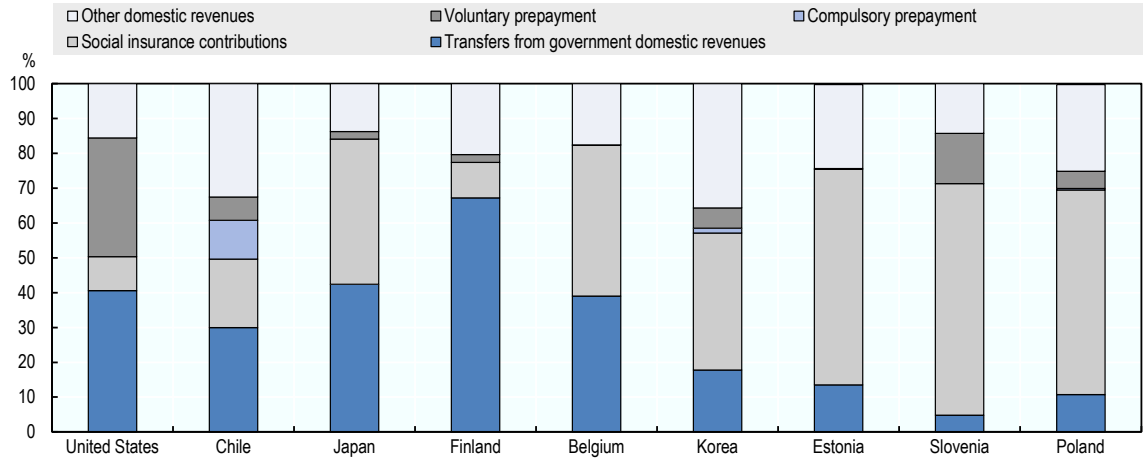
3.3. Find alternative way of financing the welfare system

Lowering the employee SSC rate will have an impact on the financing of the social security system. Slovenia's welfare system relies mainly on funding through SSCs (Figure 3.8). Despite the high SSC rates, the pension and health funds face important funding constraints which are expected to worsen given the rapidly ageing population and the increase in costs associated with pensions and long-term care. Therefore to compensate

for a cut in the employee SSC rate and to ensure sufficient funding for the social security system, different reform options could be envisaged, including financing the welfare system to a greater extent through general taxation or shifting some employee SSC towards employer SSC. These different options will be evaluated below.

Figure 3.8. Slovenia's welfare system relies mainly on funding through SSCs

Financing sources of compulsory insurance by type of revenue, selected countries, 2015 (or nearest year)



Note: "Other" includes compulsory prepayment and other domestic revenues.
Source: OECD (2017[5]).

3.3.1. Financing the welfare system partly through general taxation

Strong arguments exist to finance social benefits through general taxation (e.g. the PIT or other taxes levied on capital income, immovable property or consumption) if there is no strong link between contributions made and benefits received (Brys et al., 2016[6]). This is the case for child benefits or family related tax provisions, and might also apply to unemployment insurance, in particular if the level of unemployment benefits is not strongly linked to contributions made. If a shift towards general taxation is accompanied by a reduction in employee SSCs, it can help reducing labour costs. Levying social contributions through a progressive PIT is also a possibility, in particular if the burden can be shifted to workers and income levels with lower labour income tax elasticities. In addition the PIT can have a broader tax base as it can be levied on capital income, such as the case of France (see Chapter 6).

In a changing world of work, financing social benefits partly through general taxation would not only increase labour market participation but could ensure that welfare support remains available for a large number of people. Structural changes in the economy as a result of digitalisation, automation and other trends are resulting in an increasing number of workers which pay lower levels of SSCs (self-employed, temporary workers and workers with irregular working hours) (OECD, 2017[7]). This trend presents new challenges not only for tax administrations but also for welfare systems financed primarily by SSCs.

Across the OECD, unemployment insurance and maternity benefits are financed through general taxation although differences across countries exist. In Slovenia, the SSCs for unemployment benefits and maternity leave are paid to the general government budget (no special funds are in place) and the state budget pays for the corresponding

spending. Many countries (including Slovenia) finance unemployment insurance with SSCs, but in many cases also with general taxation (which can amount to as much as two-thirds of the program's expenditures) (Office of Research, Evaluation and Statistics, 2016[8]). Maternity benefits are often funded mainly through general taxation (European Commission, 2017[9]). In some countries, such as Poland, family benefits are paid through general taxation (World Bank, 2007[4]).

As a measure to cut employee SSCs in Slovenia, the SSCs for unemployment and maternity leave could be abolished. The corresponding benefits could be financed through general taxation, as is already the case. Such a reform would require an increase in general taxation to compensate for the cut in SSCs. However as the respective rates are low (0.14% for unemployment insurance and 0.10% for maternity leave) this would not entail a large reduction in the overall employee SSC rate (from 22.10% to 21.86%). The impact on both the net personal average wage and the average tax wedge would be minimal.

Slovenia might consider other reforms to reduce employee SSCs beyond a cut in the contributions for unemployment and maternity leave. Different options exist, as will be discussed further in this chapter, including financing the health system partly through general taxation. In addition, the pension system could increasingly be funded from general taxation, as is already partly the case.

3.3.2. Shifting employee SSCs to employer SSCs is not the way forward

While shifting SSCs partly from the employee to the employer would stimulate labour market participation, it might reduce job creation in the private sector. The current SSC mix in Slovenia relies more heavily on employee than on employer SSCs, in contrast to the SSC mix in most other OECD countries (Figure 3.1). This raises the question of whether the tax mix could be partly shifted away from employee towards increased employer SSCs. In the short run, with fixed wages, a cut in employee SSCs financed by an increase in employer SSCs would increase household disposable income and increase the total labour cost for the employers. In that sense, the shift would be similar to an increase in gross wages across all sectors and for all workers irrespective of workers' productivity.

By increasing labour costs, an increase in employer SSCs might make it too expensive for employers to hire certain types of workers particularly those workers who already face challenges in finding employment, such as low-skilled and older workers. As increased labour market participation is the most straightforward strategy for Slovenia to put the funding of its welfare system on a secure footing for the future, financing a cut in employee SSCs by higher employer SSCs might not be a first-best strategy.

Slovenia implements a minimum SSC base for workers earning less than a minimum income threshold. For gross earnings below the minimum income threshold, SSCs are calculated on the basis of the minimum SSC base and not on actual gross wage earnings. Employees are liable to pay employee SSCs on their actual gross earnings. However, the employers are liable to pay, in addition to the employer SSCs levied on workers' gross earnings, the employee and employer SSC rate on the gross wage earnings below the minimum income threshold. A minimum SSC base applies also to self-employed workers.

The minimum SSC base for regular employees is legislated to increase significantly over the following years. The minimum SSC base has been increasing from 52% of the AW to 54% of the AW in 2018. It will increase further to 56% of the AW in 2019, 58% in 2020 and 60% in 2021. Self-employed workers already face a 60% of the AW minimum

SSC base in 2018. The different bases for regular employees and self-employed workers are therefore planned to converge over time.

The minimum SSC base significantly increases the effective employer SSC rate for low-income workers. The minimum SSC base has the effect of increasing the SSC rate which employers have to pay on low incomes as follows:

*Employer SSC rate = statutory employer SSC rate + (employer SSC rate + employee SSC rate) * [Max (minimum SSC base – employee gross wage earnings, 0) / employee gross wage earnings]*

The increase in the effective employer SSC rate is decreasing in income, thereby leading to a perverse effect that the tax system makes it more expensive (in terms of SSCs that need to be paid) to hire low-income than high-income workers. Table 3.5 present results for the effective employer SSC rate for different levels of gross earnings. The results show that the effective employer SSCs rate exceeds the statutory rate of 16.1% in 2018 significantly, in particular for very low incomes. In fact, the increase in the employer SSC rate is increasing in the difference between the minimum SSC base and actual gross earnings. The lower are gross earnings, the higher is the effective employer SSC rate. No extra employer SSCs have to be paid for workers earning more than the minimum SSCs threshold.

The minimum SSC base offers another argument not to shift from employee to employer SSCs. As the minimum SSC base increases the effective employer SSC rate, a further increase in the employer SSC rate might significantly distort the labour market and in particular the employment opportunities for low-income workers. Following practices in other countries (Box 3.1), Slovenia could abolish the minimum SSC base, or, if not possible in the short run, lower it to an income level that corresponds more closely to the minimum wage.

Table 3.5. An extra employer SSC has to be paid up to an income threshold

With a minimum SSC base of 60% of the AW

Employee wage earnings (% of the AW)	40%	45%	50%	55%	60% and more
Statutory employer SSC rate (%)	16.1%	16.1%	16.1%	16.1%	16.1%
Additional employer SSC rate (%)	7.6%	5.7%	3.8%	1.9%	-
Effective employer SSC rate (%)	23.7%	21.8%	19.9%	18%	16.1%

Box 3.1. SSCs thresholds and rates: approaches followed by OECD countries

In most OECD countries, employee social security contributions are payable by all taxpayers on their first unit of earnings.

Minimum thresholds

Some countries implement minimum income thresholds below which social security contributions are not payable. This is the case with all forms of employee social security contributions in seven countries – Austria, Belgium, Iceland, Ireland, Norway, Sweden and the UK – as well as some (but not all) employee SSCs in Canada (pension and health contributions), Luxembourg (dependency insurance) and the Slovak Republic (health insurance).

While some countries exempt low incomes from SSCs, others implement minimum SSC liabilities. In the Slovak Republic, Spain and Turkey, full-time workers are deemed to earn a minimum amount of income subject to SSC. This minimum SSC tax base tends to correspond to the legal minimum wage.

Ceilings

SSC ceilings are more common than minimum income thresholds. Total employee SSCs are capped at a maximum level when an income ceiling is exceeded in 16 OECD countries – Austria, Canada, Chile, the Czech Republic, Germany, Greece, Israel, Italy, Latvia, Luxembourg, Mexico, the Netherlands, the Slovak Republic, Spain, Sweden and Turkey.

In 2017, gross earning ceilings in countries where total SSCs were capped ranged from 0.69 times the average wage in the Netherlands to 6.49 times the average wage in the Slovak Republic.

In most of the countries where total SSCs are capped, the gross earnings threshold at which the maximum SSC contribution is reached is below the threshold at which the top statutory PIT rate begins to apply, which implies that SSC rates do not increase the marginal personal tax rate (encompassing PIT and employee SSC) beyond the top statutory PIT rate for taxpayers facing this top rate. The exceptions are the Czech Republic, Italy, Latvia, the Slovak Republic and Turkey, where taxpayers continue to pay SSC after their income has exceeded the threshold at which the top PIT rate applies.

Rates

Social security contributions are usually levied at a flat rate. The flat rates result in a constant average burden of employee SSCs for most countries between 33% and 167% of average wage earnings. Some examples of a constant proportional burden for employee SSCs for over the eight model family types, are (in decreasing order of rates) Slovenia (22.1%), Hungary (18.5%), Poland (17.8%), Greece (15.8%), Turkey (15.0%), the Czech Republic and Portugal (11.0%), Latvia (10.5%), Norway (8.2%), the United States (7.7%), Chile (7.0%), Switzerland (6.2%) and Estonia (1.6%).

Source: OECD (2017[1]); Torres, Mellbye and Brys (2012[10]).

3.4. Reform the SSCs paid by self-employed

Self-employed individuals in Slovenia pay SSCs within minimum and maximum income bands. SSCs for self-employed workers, irrespective of whether they are taxed under the regular or the "flat-rate" regime, are calculated on 75% of the profit earned in the previous fiscal year. There is also a minimum SSC base, which is as of January 2018, equal to 60% of the AW. Hence, self-employed workers who earn a profit (reduced by of 25%) lower than 60% of the AW, pay SSCs on this minimum income base irrespective of their actual income. In addition, a maximum contribution base is set at 350% of the AW. About half of OECD countries apply a SSC ceiling. A few countries have no thresholds, or only apply a minimum one. Very few countries apply a lump-sum charge (Denmark, Japan, and Mexico) (see Box 3.1 and the OECD Tax database for more information).

The SSC rate for the self-employed in Slovenia is high. The SSC rate equals the sum of the employee and employer SSCs rates for regular employees. On average in the OECD, the self-employed SSC rates are usually higher than the employee SSC rates but lower than the sum of the employee and the employer SSC rates (Table 3.6). Slovenia could therefore consider lowering the SSCs paid by the self-employed similar to the recommended cut in employee SSCs for regular employees.

Table 3.6. Self-employed in Slovenia pay high SSCs

SSCs in %

	Self-employed SSC	Regular employee		
		Sum employee and employer SSC	Employee SSC	Employer SSC
Austria	26.2	36.6	15.1	21.5
Hungary	8.5-10-22	40.7	18.5	22.2
Poland	30	34.1	13.7	20.4
Slovak Republic	47.2	48.6	13.4	35.2
Slovenia	38.2	38.2	22.1	16.1

Note: Some countries have multiple SSCs schedules like Hungary.
Source: OECD (2017[1]).

Having a separate SSC regime for the self-employed might allow countries to lower the tax burden for the self-employed in order to stimulate entrepreneurship. Such an approach may stimulate job creation, in particular in countries where SSCs are high such as in Slovenia. However, such a differentiated social security system typically also results in differences in benefit entitlement, which reduces the equity of the tax and benefit system.

In dual income tax (DIT) systems which tax labour and capital income differently for tax and SSC purposes, a separate SSC regime for the self-employed could reflect that the income of the self-employed consists partly of remuneration for work and partly of a return for the capital invested. Capital income is taxed at lower rates than labour income and SSCs are levied on labour income only under a DIT system. The differential SSC regime in Slovenia for employees and self-employed and, in particular, the 25% exemption of profits for the self-employed, could then be seen as the introduction of a, albeit unsophisticated, mechanism to introduce a differential tax treatment for capital and labour income for the self-employed.

Running different SSC regimes also entails costs for tax administrations and it complicates compliance for workers, in particular for individuals who are both

regular employees and self-employed. It also makes shifts from employment into self-employment (and vice-versa) burdensome and may even involve a loss in benefit entitlement. It may also stimulate tax avoidance and evasion when employees become self-employed just for tax purposes or when they are obliged by their employer to work under a self-employed status (so called bogus self-employment).

In a changing world of work where employment is increasingly becoming flexible, in particular because of digitalisation, tax systems should not create a hurdle to work. Modern labour income tax systems should be adjusted to ensure that workers can benefit from the flexibility of the modern labour market while maintaining the fairness of the system. As a result, there seems a lot of merit of continuing to tax regular employees and the self-employed under the same SSC regime in Slovenia. Moreover, modern auditing techniques and administrative and IT tools might help to increase tax compliance among the self-employed.

The SSC regimes for the self-employed and regular employees in Slovenia are relatively similar in particular in terms of rates. The main differences between the regimes are: i) the self-employed can reduce their SSC base by 25%, which does not apply to regular employees; ii) the self-employed can benefit from a special flat-rate regime (see below); and iii) the self-employed need to pay SSCs within a minimum and maximum income bound. Differences in benefit entitlements also exist.

The SSC regime for regular employees and the self-employed in Slovenia could converge gradually over time. The two SSC regimes are already aligned in terms of rates, and are converging in terms of minimum SSCs threshold by 2021. Further aligning the two SSC regimes would mean implementing a SSC cap for regular employees at 3.5 times the average wage or abolishing the SSC ceiling for the self-employed. The latter would then require abolishing the maximum pension ceiling for the self-employed (or increasing the maximum pension) in order to maintain the link between SSC paid and benefit entitlements. Moreover, such a convergence of the two regimes would not only have implications for SSCs that are paid but also for the benefits that are received. Benefits would have to be determined following the same rules for both types of workers, which currently is not the case. Box 3.2 presents an estimate of the impact of the introduction of such a cap for employees.

The minimum SSC base for workers ensures that self-employed workers pay a minimum amount of SSCs and, hence, are entitled to a minimum amount of benefits. On average, self-employed workers earn very low income in Slovenia. Close to 70% of the self-employed pay SSCs on the minimum income base at 60% of the AW (Ministry of Finance of Slovenia).

However, a minimum SSC base which is set at a high income level may create cash flow problems and prevent workers from becoming self-employed. Slovenia has therefore installed a special regime that provides for a reduction in SSCs for the first two years after creating a new self-employed business. Nevertheless, Slovenia should consider abolishing the minimum SSC base or reducing it to an income level which corresponds more closely to the minimum wage.

Box 3.2. Estimates of a SSC cap at 3.5 times the average wage for employees

This box estimates the employee and employee SSC revenue loss associated with introducing a SSC ceiling for employees at 350% of the average wage. Using the average wage in 2016 of EUR 19 016, this gives a ceiling of EUR 66 556.

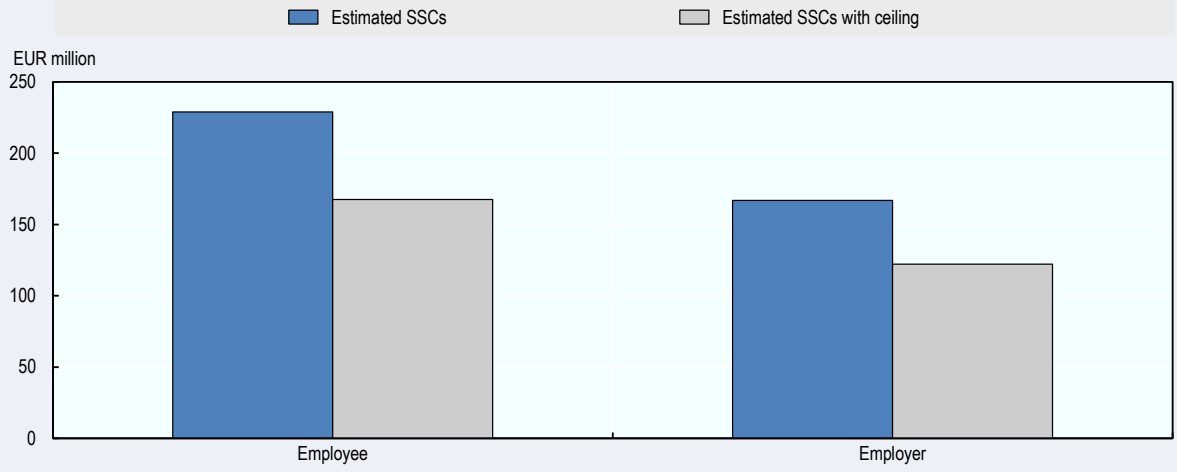
First, employer and employee SSCs are estimated as 22.1% and 16.1% of employment income for each employee in the tax record microdata.

Second, employer and employee SSCs are re-estimated but with a ceiling introduced where SSC payments are capped at 22.1% and 16.1% of EUR 66 556 for employees and employers respectively. In other words, all employees earning above this threshold pay employee SSCs of exactly EUR 14 709 and all employers pay exactly EUR 10 716.

The estimated SSC loss is given by the difference in SSC payments between the two sets of estimates. According to the analysis, the SCC loss associated with introducing a cap at 350% of the average wage for employee is EUR 61 million for employee SSC, and EUR 45 million for employer SSCs, so EUR 106 million in total (Figure 3.9).

Figure 3.9. Introducing an employee and employer SSC cap at 350% of the average wage could reduce SSCs significantly

Total employee and employer SSCs above the 350% of AW ceiling, in EUR million



Note: Only employees are included. The analysis assumes no behavioural change and linearity. Methodological information on the microdata is available in the annex.
Source: Authors' calculations based on Ministry of Finance of Slovenia tax records microdata.

3.5. Align the SSC treatment across different type of employment contracts

3.5.1. Align SSCs across different types of workers

SSCs rates vary significantly across different types of employment contracts in Slovenia. Full-time permanent employees, farmers, short-term work, students, and other types of work pay different SSCs (some examples are illustrated in Table 3.7 and Table 3.8) (European Commission, 2017[9]). While certain differences in tax treatment might be justified, there is significant scope to unify the SSCs across different types of labour contracts in Slovenia.

Different SSCs regimes reduce the tax base which in turn negatively affects the financing of the health and pension funds. While full convergence might not be desirable (e.g. for pensioners, unemployed, etc.), moving toward a unification of treatments for SSCs (both bases and rates) across different types of labour contracts should be envisaged. This would not only improve transparency and prevent tax-induced distortions across forms of work but would also strengthen the financing of the social welfare system.

Table 3.7. SSCs rates vary significantly depending on the type of employment contract

		Full-time permanent employee*	Person performing an activity as an accessory profession	Farmer***	Service contracts and other contracts of civil law**	Temporary and casual work of pensioner	Short-time work	Personal supple-mentary work
Base	Wage or wage compensation	Specific cases of insurance	Basis for inclusion in compulsory insurance		Payment			
Pension & disability	Employee	15.5		15.5				Voucher system
	Employer	8.85				8.85		
	Specific cases of insurance		33.01 EUR/month		8.85			
Health	Employee	6.36	25.78 EUR/month	6.36	6.36	6.36		
	Employer	6.56						
	Injury at work	0.53	8.59 EUR/month	0.53	0.53	EUR 4.86	EUR 4.86	
Unemployment insurance	Employee	0.14						
	Employer	0.06						
Maternity leave	Employee	0.10		0.10				
	Employer	0.10		0.10				

Note: *Are taxed at similar SSCs rates: part-time permanent employment contract, full-time permanent employee (posted worker or posted civil servant), self-employed. **The same rules apply for contracts for copyrighted work and other contracts of civil law. ***For farmers who attain the 'income census' (60% of the average monthly salary), pension and disability insurance is mandatory. They pay the employee SSC for pensions and disability (15.5%) and the employer SSC for pension and disability are paid from the state budget (8.85%). The SSC for health is paid also by the employee (rate 6.36%) and the Health Insurance Institute of Slovenia (HIIS) pays the employer SSC (6.56%). However they are not insured against unemployment. Their insurance base is similar to the base for self-employed workers. Farmers below the income census might opt for voluntary pension and disability insurance. In this case, the contribution base is 60% of the AW (54% of the AW in 2015; 56% of AW in 2016; 58% of the AW in 2017).
Source: Ministry of Finance of Slovenia.

Table 3.8. SSC bases vary for health insurance

	Contribution base	Minimum
Regular employee	Gross wage	yes
Self-employed	Profit in the last year	yes
Farmers	Profit in the last year	yes
Farmers below the income census (i.e. income of at least 60% of the AW)	60% of AW	
Farmers with no pension insurance*	Cadastral income	
Self-payers; daily workers through vouchers	Defined in absolute terms	

Note: *For farmers who are not included in the pension and disability insurance are obliged to be insured in the health insurance if the income per member of a farm household is at least 25% of the minimum wage. The contribution base is then cadastral income and the SSC rate is 18.78%.
Source: European Commission (2017[9]); Ministry of Finance of Slovenia.

3.5.2. Maintain or slightly increase the health SSC rate on pension income

In Slovenia, the pension fund pays health SSCs for pensioners at a rate of 5.96% which is slightly lower than the rate of 6.36% which employees pay. The health SSCs do not reduce the pension which the pensioner receives, so in fact it is a cost paid and borne by the pension fund. The general rationale for imposing SSCs on earned income but not on pension income is that contributions buy an entitlement to future benefits and that pensioners do not have to pay the same level of SSCs as they "saved" in part for their benefit entitlements when they were still active in the labour market (even though in practice, Slovenia operates a pay-as-you-go pension system); levying pension and disability SSCs on the actual pension which pensioners receive would imply double taxation.

The arguments against levying health SSCs on pensions are weak. In contrast to pension SSCs which entitle workers to a pension in the future, health SSCs entitle workers to health insurance in the year when the contributions are made. Pensioners could therefore be asked to contribute for their health insurance even though they are no longer working but receive a pension instead. Indeed, the policy rationale against health SSCs for pensioners indicates that health SSCs which are paid when taxpayers were active in the labour market not only paid for health insurance in that particular period but consists also of a component which builds up health insurance entitlements for when retired. Such an approach would result in very high health SSCs levied on labour income; it seems also unfair as taxpayers who live longer would benefit more. As a result, Slovenia should maintain its current regime of health SSCs levied on pensions and, in fact, could consider further strengthening it.

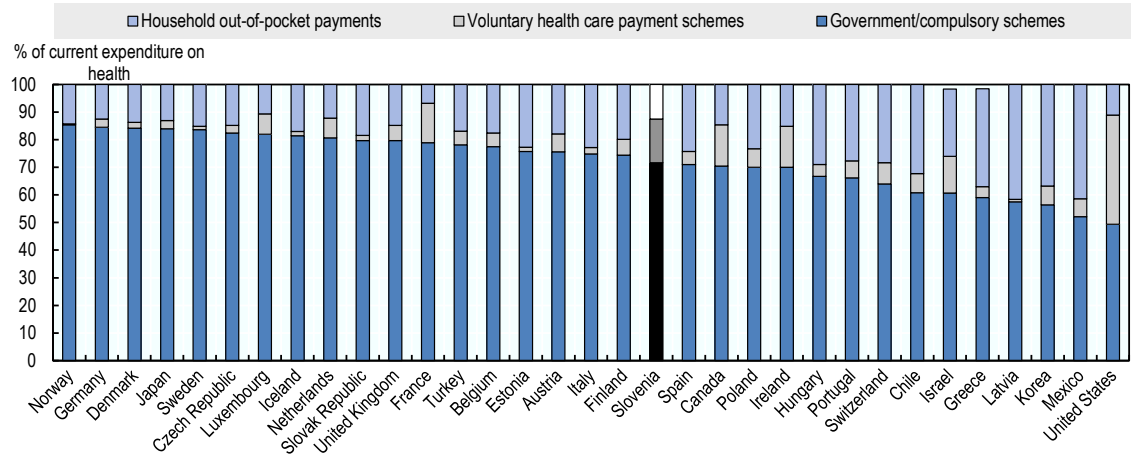
Health SSCs paid by the pension fund could be increased in order to match more closely the health care spending on pensioners. Such a measure would shift the financial burden of health care spending from the Health Insurance Institute of Slovenia (HIIS) to the pension fund and would help strengthening the financing of the health fund. Arguments exist to levy health SSCs on pensions directly; i.e. health SSCs would not only be a cost for the pension fund, as currently is the case in Slovenia, but would actually reduce the pension received. However, this would lower the pensions received, which are already low for most pensioners. The impact of health SSCs on low income pensioners might have to be compensated through, for instance, PIT relief.

3.6. Increase the financial resources for health care

3.6.1. The Health Insurance Institute of Slovenia carries out a wide range of tasks

The health system in Slovenia operates through the HIIS. It is complemented by three private insurance companies, which provide voluntary insurance to cover the co-payments. Plans exist to integrate these insurances in the HIIS. In 2015, 72% of the health financing came from public funding (Figure 3.10). This is lower than in many OECD countries and below the European Union (EU) average (79%). Complementary health insurance is rising. About 87% of the population has now a voluntary health insurance (OECD and European Commission, 2017[11]), which is among the highest in OECD countries, while out-of-pocket health expenditure by households remains relatively low.

Figure 3.10. The share of public health financing is relatively low in Slovenia



Source: OECD Health database.

The HIIS provides universal health coverage and has a wide range of tasks: health services (primary health care, dentistry, specialist out-patient services, hospital and tertiary level services, pharmaceuticals etc.); health resort treatment, rehabilitation treatment, transport by ambulance and other vehicles, medicaments, medical devices; sick pay during temporary absence from work exceeding 30 days; the reimbursement of travel expenses tied to obtaining health services.

Sick leave benefits amount to 11% of the HIIS expenditures in 2017 (European Commission, 2016[12]). Slovenia is one of the two countries (with Bulgaria) where sickness benefits can be provided for an unlimited duration. In other EU countries, the maximum legal duration of sickness benefits for work absence ranges from 22 weeks to three years.

Since 2008 the HIIS has performed activities going beyond the pure provision of health care. The HIIS was also in charge of paying for certain non-service delivery items such as health professional training and specialization, medical research, and postgraduate education. These activities have been recently transferred to the State budget.

Nevertheless, additional opportunities for the HIIS to focus on its core activities exist. For example, there is room to rationalise the hospital network to raise efficiency. Indeed, Slovenia has still many small regional hospitals, and the bed occupancy rates are below the

EU average, suggesting overcapacities. Opportunities also exist to improve the implementation of core activities, such as improving care coordination, substituting day cases for inpatient care, and reducing the reliance on (expensive) specialists (OECD and European Commission, 2017[11]). An independent health technology assessment would help a better allocation of resources and improve the recently implemented public procurement system. Other sources for improved efficiency include improving the relationships between supervisory institutions, or reinforcing clarity among their responsibilities (OECD and European Commission, 2017[11]). An in-depth analysis of these issues goes, however, beyond the scope of this report.

3.6.2. The health system in Slovenia is financed primarily through SSCs

The HIIS is largely funded through SSCs and not through general taxation. Health systems can be financed through SSCs, general taxation or a combination of both sources of financing. Different approaches bring both advantages and disadvantages; see Table 3.9 for a discussion. Nearly all other health systems in Europe raise significant funding from general taxation (World Health Organisation, 2016[13]).

Table 3.9. Different ways of financing health systems presents strengths and weaknesses

	Pros	Cons
General taxation	Pool risks for whole population Potential for administrative efficiency and cost control Redistributes between high and low risk and high- and low- income groups in the covered population	Risk of unstable funding and often underfunding due to competing public expenditure Inefficient due to lack of incentives and effective public supervision
Health SSCs	Generate stable revenues Often strong support from population Provides access to a broad package of services Involvement of social partners Redistributes between high and low risk and high- and low- income groups in the covered population	Poor are excluded unless subsidized Payroll contributions can reduce competitiveness and lead to higher unemployment Complex to manage governance and accountability can be problematic Can lead to cost escalation unless effective contracting mechanisms are in place

Source: ILO.

3.6.3. The Health Insurance Institute needs more financial resources

Despite the high health SSCs, the HIIS faces challenges to finance its tasks. The HIIS is not allowed to engage in deficit spending. Therefore it must either reduce prices, shift costs onto the complementary health insurances, or delay payments to health providers (World Health Organisation, 2016[13]). This has resulted in losses for some public hospitals. Reforms have been implemented to raise more revenues for the HIIS and reduce expenses, including higher contributions paid by the self-employed, restrictions to the entitlements to free services, increased co-insurance rates, reduced prices of drugs and health services, etc. (World Health Organisation, 2016[13]). However, the funding challenges remain and will only increase as a result of the ageing of the population.

Several options exist to provide the HIIS with more (diversified) financial resources. Those options are described below. However an overall independent assessment of the efficiency and functioning of the HIIS seems warranted and would need to be conducted prior to any reform aimed at raising more revenues. This would help identifying the HIIS funding gaps, it would increase accountability of both the government and the HIIS (evaluation of public spending, better management of public funds, etc.) and it would contribute to improved quality of the services delivered.

First, the HIIS could perform a more limited number of core tasks. Several options exist. The entitlements to sick leave benefits financed by the HIIS could be restricted over time. Instead of being on sick leave for very long periods of time, people would receive a disability benefit or a pension instead. While this will not necessarily reduce overall government expenditure, it will involve a shift in how these benefit entitlements are financed, away from the HIIS which is funded through SSCs towards general taxation. As long-term care insurance in Slovenia is covered by the HIIS, another option would be to assign all long-term care responsibilities to a newly created "long-term care" fund. This new fund could then be financed through general taxation.

Second, the employee health SSC base could be broadened by limiting the differences in contribution rates and bases and by treating different types of incomes for SSC purposes more alike. These issues have been discussed before. Such a reform would have to take the possible differences in benefit entitlements into account.

Third, the health employee SSC rate could be maintained. Given the overall cut in employee SSCs which this report calls for, this would then imply that pension employee SSCs would be cut considerably and that pensions would be financed increasingly through general taxation. The level of health contributions could be re-evaluated once the independent review of the Health fund has been undertaken.

Fourth, the health SSCs paid by pensioners could increase. This option was discussed in more detail in section 3.5.2.

Most importantly, an increase in the number of people who are at work and an increase in the effective retirement age would significantly increase the financial resources for the HIIS. Increasing labour market participation is crucial for government to finance its health care system over the decades to come.

If these measures are insufficient to finance the HIIS, government could introduce other measures. These could include partly financing the HIIS with revenues from general taxation. General taxation could possibly finance the well-defined non-core activities performed by the HIIS such as sick leave benefits. Such a shift must be limited to safeguard the country's financial stability. Moreover, a shift towards general taxation would require a strong health budgeting framework and an independent assessment of the efficiency and functioning of the HIIS. Such an assessment would include an objective analysis of the gap in revenues for the HIIS in light of its spending needs over the next decade(s).

Excise duties on alcohol and cigarettes can also contribute to the financing of the HIIS. However, strong arguments exist against the earmarking of tax revenues to finance the HIIS and this route should not be taken by Slovenia. Excise duties generally levy relatively small revenues and, when the rates are set too high, can lead to cross-border shopping. In that context, a further increase in excise duties should be introduced gradually and rates should not be set too high (see Chapter 5). Even if revenues from alcohol and tobacco taxation could contribute to the financing of the HIIS, these excise duties should continue to be paid to the general state budget and not be earmarked to finance the HIIS.

The different options for reforms can be complementary and introduced gradually. The employee SSC base broadening and the employee health SSC rate increase would be the priorities, followed by the financing of non-core activities through general taxation. In a second stage, if the recent transfer of tasks from the HIIS to the Ministries of Health and Education, combined with the compensation of the HIIS from general taxation for specific tasks, do not raise sufficient revenues, alternative source(s) of financing could be considered.

3.7. Main recommendations

Box 3.3. Recommendations to strengthen the social security system

Objective: Reduce employee SSCs

- Reduce the employee SSC rate across all income levels significantly
- Evaluate how the role of the PIT could be strengthened to ensure that the benefits of the employee SSC reduction are shared more equally and have the largest bang for the buck in terms of increased labour market participation
- Abolish the contributions for maternity leave and unemployment, and continue to finance the corresponding benefits from general tax revenue
- Reduce pension employee SSCs and, possibly, increase employee health SSCs (but such that the overall employee SSCs decrease)
- Maintain employer SSCs at their current rate

Objective: Lower the minimum SSC income base

- Lower the minimum SSC base to prevent excessively high effective employer SSCs being levied in respect of low income workers

Objective: Align the SSCs for regular employees and the self-employed

- Reduce the self-employed SSCs across all income levels (i.e. similar to the cut in employee SSCs)
- Align the employee and self-employed SSC regimes as much as possible
  - Maintain similar SSC rates (i.e. sum of employee and employer SSC rates for employees equal to self-employed SSC rates)
  - Abolish the minimum SSC base for the self-employed, or if not possible in the short run, lower it to a level that corresponds more closely to the minimum wage
  - Evaluate the SSC ceiling at 350% of the average wage. Possibly abolish it and increase the maximum pension for self-employed
- Instead of exempting 25% of the profits earned by the self-employed from tax, evaluate whether a more explicit distinction can be made between the return for labour and capital invested in the self-employed business, and tax the different earning streams separately

Objective: Broaden the SSC base

- Streamline the different SSC treatments across different types of labour contracts (in particular for health SSCs)
- Increase labour market participation of young and older workers in particular as a strategy to strengthen the financing of the welfare system
- Maintain, or slightly increase, the health insurance SSC paid by the pension fund. Possibly levy a health SSC rate paid by pensioners but offset the impact on low pensions through PIT relief

Objective: Evaluate the link between SSCs paid and benefits received

- Increase the link between SSCs paid and benefits received without imposing an excessively high tax burden on labour income

Objective: Increase and diversify the financial resources dedicated to health care

- Conduct an overall independent assessment of the efficiency and functioning of the Health Insurance Institute of Slovenia (HIIS)
- Allow the HIIS to focus on its core tasks
  - Limit the entitlement to sick leave benefits financed by the HIIS over time
  - Possibly transfer the responsibilities of long-term care to a newly created fund
- Over time, and if necessary, increase the share of general taxation in health financing, including the revenues from excise duties on alcohol and tobacco.
- Prevent earmarking of tax revenues to finance the HIIS

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