

# Evaluation of the COVID-19 loss of earnings compensation for the self-employed

## Federal Social Insurance Office

### Key facts

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In order to cushion the economic consequences of the the COVID-19 pandemic, the Federal Council and Parliament made extensive financial aid packages available, including the COVID-19 loss of earnings compensation (CLEC). Between March 2020 and October 2021, the Confederation paid out CLEC benefits totalling CHF 3.5 billion, of which CHF 2.6 billion went to self-employed individuals. This was the first time ever that the Confederation provided financial support to self-employed individuals in an economic emergency.

The Swiss Federal Audit Office (SFAO) began evaluating the concept and impact of CLEC during its implementation, with the aim of recommending adjustments in the event of future economic crises. The evaluation was limited to CLEC benefits of around CHF 3 billion that were paid out to business managers due to operational constraints. In order to obtain a clear picture of the effects, the analyses focused on six selected sectors that were severely affected.

The evaluation paints a generally positive picture of CLEC in terms of its design and favourable impact on the self-employed and employees in employer-like positions affected by the COVID-19 measures. However, provisional guidelines for entitlement and assessment, the differing impact on the individuals affected and poor coordination with other types of financial assistance led to unequal treatment.

#### **Appropriate choice of the loss of earnings compensation mechanism**

CLEC provided rapid financial assistance for self-employed individuals who, through no fault of their own, had to cease or reduce their gainful employment. The use of the existing loss of earnings compensation instrument proved appropriate because the target group was already registered in the old-age and survivors' insurance system and it was possible to make use of an efficient payment mechanism.

It can be said that CLEC was well targeted, both during the emergency law phase that was in place between March and September 2020 and later under the COVID-19 Act. The analyses showed that CLEC was mainly granted to people who were severely affected by the COVID-19 measures in sectors that were under a lot of strain. CLEC was judged to be helpful by a large majority of recipients, and for many it even secured their existence.

An important element in the implementation were the ongoing adjustments to the compensation, especially in two phases. Under the Federal Council's emergency law, access to CLEC was generous for most, especially after the lockdown in summer 2020, when CLEC continued to be paid in full despite a temporary normalisation of business activities in many areas. Under the COVID-19 Act, eligibility was restricted; applicants had to show a specified loss of revenue.

### **In retrospect, preferential treatment of businesses that were forced to close compared to those that were indirectly affected was not appropriate**

Under the emergency law, some self-employed individuals whose businesses were forced to close were given preferential treatment compared to those whose businesses could remain open but still suffered large or total losses in turnover due to a lack of customers. The latter, so-called hardship cases, were only entitled to CLEC if their annual income subject to AHV contributions in 2019 was between CHF 10,000 and CHF 90,000. In retrospect, this unequal treatment does not seem appropriate because businesses that were forced to close were not necessarily more severely affected by the COVID-19 measures than hardship cases.

The SFAO was not able to quantify the amount of hardship cases that were strongly affected economically but excluded from CLEC. Under the COVID-19 Act, this unequal treatment was partially eliminated by lifting the entitlement threshold of CHF 90,000. The SFAO recommends that in future, wherever possible, entitlement should be assessed according to the effective economic impairment to the business activity and not according to whether or not a business is compulsorily closed due to an official order.

### **Provisional assessment basis for CLEC represents a conceptual weakness**

CLEC was determined on the basis of 2019 provisional annual income subject to AHV contributions. The SFAO considered this basis to be the main weakness of CLEC, both as a criterion for entitlement and for assessing the amount of CLEC in general. This is because it is an individually estimated reference. The SFAO found that the 2019 annual taxable income as calculated by the tax authorities was a better basis for assessment. Surveys by the Federal Statistical Office for 2018 suggest that in up to a third of cases, the provisionally declared AHV annual income could be too high compared to the later definitive assessment. In the case of under-declared AHV income, CLEC recipients were occasionally able to request a correction after the definitive assessment; conversely, however, no claims for repayment were made.

The SFAO recommended that the Federal Social Insurance Office (FSIO) provide for future extraordinary financial assistance to self-employed individuals in such a way that they meet both the requirement for rapid financial assistance in emergency situations and for a uniformly defined assessment basis, for example by means of advance payments with subsequent offsetting against the definitively assessed AHV annual income.

### **CLEC as a support mechanism for workers in an employer-like position needs reviewing**

When the COVID-19 Act came into force in mid-September 2020, all employees in employer-like positions affected by the COVID-19 measures were also entitled to CLEC. Since then, the substantial payments made to these employees have exceeded those made to self-employed individuals. The SFAO questions whether CLEC was the best choice for this group of recipients. Support would also have been conceivable using the unemployment insurance (ALV) system, because these individuals also pay ALV contributions.

The SFAO recommends that the FSIO, based on the experience gained, review the design of CLEC within the next two years in order to consolidate support measures for self-employed individuals for comparable crisis situations in the future.

**Original text in German**