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Action and Research Centre

Venturing to Retire

Boosting the long-term savings and retirement security of the self-employed

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RSA

FUTURE WORK CENTRE

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About the RSA

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About the RSA Future Work Centre

This report is produced by researchers in the RSA's Future Work Centre – a programme that aims to bring about a better world of work through a combination of rigorous research and practical experiments. Alongside trends in automation, we are exploring the rise in self-employment, the nature and characteristics of gig work, and the hidden activities of the informal economy. In each case, our work seeks to lead the debate by digging behind the headlines, unpicking the nuance of debates and canvassing views from across the political spectrum. We believe that good work for all is an achievable goal – one that can only be realised through radical but pragmatic interventions. Over the coming 18 months, the RSA will publish further content with ideas on how to boost economic security, meaning and dignity in every workplace.

About the research partners

BritainThinks is an international insight and strategy consultancy. They put the people that matter most at the heart of organisations' thinking, by providing them with the information they need to make better decisions.

NEST Insight is a collaborative research unit set up by NEST Corporation to help understand and address the challenges facing NEST members and other defined contribution savers.

The ideas and analysis presented in this paper were informed by a series of discussions with NEST Insight, and by a round-table discussion event that they hosted, as well as by research commissioned by NEST Insight and delivered by BritainThinks. The specific recommendations in the report are those of the RSA and do not necessarily reflect positions held by NEST or BritainThinks organisations.

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Research partners

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Summary

The missing millions

A little under four years ago, the RSA published its first major study on self-employment. *Salvation in a Start-Up,* as the report was called, highlighted that record numbers of people were turning their hand to running a business, and that this was, broadly speaking, a positive trend driven by opportunity rather than necessity.[1] Half a decade later and our position remains the same. While some people are undoubtedly pushed into self-employment against their knowledge or better judgement, study after study has shown the vast majority choose it to gain more freedom, to work around their needs and the needs of loved ones, and to make their mark on the world. Only a fraction live up to the stereotype of the oppressed precariat.

But taking a positive view of self-employment does not mean overlooking its shortcomings. From the absence of sick pay to the dearth of training, and from the raw deal of universal credit to the lack of parental leave and pay, the life of a self-employed worker is replete with perils and pitfalls. No challenge is more acute than their lack of preparation for retirement. The self-employed are excluded from auto-enrolment and they have no employer to top up their pension contributions. While the proportion of employees making payments into a personal pension leapt from 51 percent in 2010-11 to 62 percent in 2015-16 (largely owing to auto-enrolment), participation among the self-employed fell from 23 percent to just 17 percent.

Even when the self-employed do save for the long-term, they tend to save too little. Whereas 52 percent of employees have in excess of £100,000 in pension wealth by the time they approach the state retirement age (between 55-64 years old), the same is true of just 33 percent of those who work for themselves. As many as a quarter (26 percent) of the self-employed in this age group have nothing stowed away in a pension, versus 16 percent of employees. In addition, the self-employed appear to begin saving at a late age, thereby missing out on the benefits of compound interest (what Einstein fondly called the 'eighth wonder of the world'). More than 80 percent of self-employed people aged 25-34 hold nothing in pension wealth.

Why pensions matter

At this point, it is common to hear the refrain that not everyone needs a pension. The self-employed may have alternative long-term saving strategies, not least investing in **property**. Indeed, the self-employed seem to have a special affinity for bricks and mortar, with nearly half (46 percent)

1. Dellot, B. (2014) *Salvation in a Start-Up*. London: RSA.

saying this is the safest way of saving for retirement, versus a quarter of employees. Yet property is not as failsafe as many would believe. The market may falter in the near future, making it difficult if not impossible to sell up. Equity release can be used to access funds without moving home, but is often eye-wateringly expensive. Property is also less tax efficient than pensions, given the imposition of Stamp Duty.

Another reason the self-employed may avoid pensions is because they consider **business assets** to be their nest egg. In practice, this could be mean giving up equity in one's company or more simply selling on machines, tools and vehicles. It is not difficult to imagine a taxi driver putting their cab up for sale or a self-employed builder ringing up income from various work tools. However, the sums in consideration are often very modest. While 40 percent of the self-employed hold some business assets, fewer than 20 percent hold upwards of £10,000 and less than 10 percent hold more than £100,000. Altogether, just 7 percent of the self-employed say the sale of their business will form the bulk of their retirement income.

A third alternative savings strategy is to rely on a **partner's pension** income. Of the self-employed who hold little to nothing in their own pension, one in five live in a household with over £100,000 in pension wealth, with most of these holding upwards of £200,000. Overall, around 10 percent of the self-employed could be seen as intending to fall back on the pension income of their other half. While this is not an insignificant number, partners are clearly unable to offer much of a savings cushion for most people. Even when couples do agree to split a generous pension pot, sadly there is no guarantee of this commitment lasting the course. A 2013 ONS study estimated 42 percent of marriages end in divorce, with more than half of these winding up in the first 10 years.

What's stopping them?

Pensions are not a panacea. But as far as long term saving vehicles go, they are the best and safest option available. Why, then, is the take-up rate so low among the self-employed and falling further still? One answer is a matter of simple arithmetic. The full-time self-employed take home a third less in pay than their counterparts in salaried employment, making it difficult to find spare income to put into reserve. The self-employed are also known to have volatile incomes, meaning they are wary of locking away money in a pension which they could need at any moment, for example should they fall sick or have a dry spell in the business. Late payments compound this problem.

A second set of barriers relate to knowledge. Unlike employees, the self-employed have no HR department to remind them about pensions or to offer advice and guidance about how much to save and with whom. Polling by Citizens Advice found that a quarter (27 percent) of the self-employed have never received information or advice about pensions from anyone. Yet it is not just a lack of information that is a hindrance, but misinformation too. Qualitative research has revealed troublesome myths harboured by many of the self-employed, such as that pensions always need to be paid at a flat-rate (they do not), and that ISAs are more tax efficient than pensions (they are not). Partly to blame for this confusion are the frequent changes made to pensions' policy, from the new pension freedoms to auto-enrolment to the introduction of the Lifetime ISA.

Even when the self-employed earn enough and know enough, saving behaviour can be undermined by a third barrier: cognitive biases. Myopia, for example, means people overweight the present relative to the future, while availability bias captures the human tendency to remember salient information that is often negative. A single story about a pension fund crash is more likely to be recalled than multiple positive reports about healthy pension returns. Of course, biases are not unique to the self-employed, but their effects may be amplified in the context of running a business. With so much time spent creating a product or service, winning over new customers and managing accounts, rarely do the self-employed have spare cognitive bandwidth to think about their future selves.

Four pillars, 12 fixes

So what is the solution? No shortage of ink has been spilled on the subject of boosting pension coverage for the self-employed. However, past analysis has suffered from several flaws. One of these is the tendency to search for a singular answer when a multi-pronged approach is needed, given the heterogeneity of the self-employed workforce. Another is that self-employment and employment have often been treated as two separate enclaves when in reality people move freely between them during their careers. Most of all, there has been an overzealous fixation on the question of how to get the self-employed saving, with far less attention paid to whether they are saving *enough* or can *access* those savings before and after retirement. This report broadens the debate to cover **four pillars of retirement security**, and lays out several interventions underneath each:

- **Saving something** – The self-employed must be encouraged and enabled to enlist onto a suitable long-term savings product. But which one? By ostensibly competing with pensions, the launch of the Lifetime ISA (LISA) may have added another layer of complexity to an already confusing landscape of financial products. As a first step, the government must clarify the purpose of the LISA and explain the gap it is intended to fill. In partnership with the pensions industry, the government should also redouble its efforts to find a model of auto or assisted enrolment for the self-employed, potentially by placing a new duty on accountancy software providers to enlist their clients onto a pension. Furthermore, we recommend introducing a 'Pensions Passport', which would allow employees moving into self-employment to continue contributing to a pension with their existing provider.
- **Saving enough** – The self-employed must be supported to raise their contributions to a sufficient level. This could mean implementing an auto-escalation system, whereby the self-employed commit to gradually increasing the percentage of revenue or profits diverted into a pension. Another idea is to present the self-employed with more timely information on the state of their finances, thereby allowing them to make better judgements on what they can afford to save. Over time, the new Pensions Dashboard should be transformed into a more comprehensive Money Dashboard. This would contain information on every aspect of a saver's finances – from pensions to ISAs to current

accounts and even debt obligations. The government should also expand the remit of the new single financial guidance body to offer not only guidance but impartial *advice*.

- **Accessing savings before retirement** – The self-employed need greater access to their savings to see them through bouts of illness and periods of feast and famine. But taken too far, liquidity could lead to excessive pension drawdowns. The pensions industry should consider introducing a 'sidecar' pension product that would wrap together two accounts in one: an accessible rainy day fund and a standard pension. Money flowing into this product would be automatically split between the two pots, until a threshold has been reached on the rainy day fund. We also recommend the government take measures to address the lack of sick pay among the self-employed, which indirectly hinders a long-term savings culture. This could mean presenting an income protection (IP) insurance policy to the self-employed as they complete their tax self-assessment.
- **Accessing savings after retirement** – Finally, the self-employed must be supported to make careful use of their savings after they retire. With the advent of new pension freedoms – namely the removal of a compulsory annuity – individuals risk spending too much of their money too quickly, leaving insufficient funds to pay for potential care needs in later years. While this risk afflicts both the self-employed and employees, the former are likely to have smaller pension pots and must therefore manage them more cautiously. As recommended by the Centre for Policy Studies, and recently endorsed by the Work and Pensions Committee, the government should introduce a system of 'auto protection', which defaults savers onto a drawdown scheme at the age of 65, withdrawing 5 percent from their funds every year. In addition, the government should throw its weight behind Collective Defined Contribution (CDC) schemes, which would provide a guaranteed income in retirement.

To bring coherence to these efforts, we recommend the government establish a new Office for Financial Security among the Self-employed. This would be tasked with undertaking periodic reviews into the financial health of the self-employed, commissioning evaluations (eg of NEST's sidecar pension trial), funding practical experiments (eg of auto-escalation), and making independent recommendations. The Office would be given greater legitimacy were it to be partially steered by a citizens' panel. This would be made up of both self-employed and employee workers and tasked with shedding light on the trade-offs of different proposals.

Tax relief for the many

Each of these recommendations aims to make it easier for the self-employed to prepare for retirement. Yet this group of workers will continue to face penury in old age unless we grapple with a more fundamental question: where will the money to save come from? Recall that many of the self-employed subsist on low incomes (even if a minority are asset-rich), with half earning below the National Living Wage.

For this reason we finish our report by calling for an ambitious reform of the tax relief system, which would significantly boost government support for low and middle-income savers. As it stands, tax relief is provided at a person's marginal income tax rate, meaning a basic rate tax payer gains 20 percent tax relief while a higher rate tax payer enjoys 40 percent tax relief. This system is regressive. If we accept that income tax is progressive, then relief at marginal tax rates must be the opposite. According to new RSA modelling, only 30 percent of government spending on tax relief goes to basic rate tax payers, despite them making half of all pension contributions. We estimate that 40 percent of total tax relief expenditure flows to the top 10 percent of earners.[2]

We propose replacing the existing multi-tiered tax relief system with a single flat-rate of tax relief – or a 'tax bonus' – worth 30 percent. This means anyone wishing to save £100 in a pension would only need to contribute £70. Our modelling suggests that a single tax bonus set at this rate would leave approximately 75 percent of existing pension savers better off, while up to 25 percent would lose out. Basic rate taxpayers who currently take home 30 percent of all tax relief would accrue 50 percent under a single flat rate, while higher rate taxpayers who for now capture 50 percent of all tax relief would benefit from 40 percent in future (see Table 1).[3] A self-employed worker on an income of £15,600 who contributes 5 percent of their salary to a pension would see their tax relief jump from £195 a year to £335. A tax bonus of this kind would not only boost pension pots but incentivise higher saving rates.

Table 1: Distributional impacts of tax relief reform

	Share of taxpayers claiming tax relief	Share of net pension contributions (current)	Share of pension tax relief (current)	Share of reformed tax relief (30% flat-rate, fixed net contributions
Basic	75%	51%	32%	51%
Higher	23%	41%	53%	41%
Additional	2%	8%	15%	8%

The journey towards a flat rate tax relief would not be simple. Defined Benefit (DB) pensions in particular could jar with such a model, in part because they operate on 'net pay' arrangements where offering tax relief at anything other than the marginal tax rate is difficult. Yet hurdles such as these are not insurmountable. As for the financial implications, we estimate a 30 percent tax bonus would cost the Treasury broadly the same as the current system. Were it to require extra funding (eg if it led to considerably higher pension contributions), savings could made by making modest changes elsewhere, such as by reducing the annual allowance threshold. The government should commission an independent

2. These are taxpayers earning more than £70,000. Their net contributions to pension schemes account for 24 percent of total contributions.

3. Figures are rounded to the nearest 5 percent.

review into tax relief, which would lay out possible options for reform and begin raising public awareness of their consequences. Legitimacy matters more than expediency, and the government must form a mandate prior to making any changes.

To recap, while our findings show that many of the self-employed are heading for hardship in old age, this outcome is far from inevitable. The self-employed are not destined to be destitute. The problem is that our tax, welfare and regulatory systems have failed to keep pace with new ways of working. However, if through concerted effort and political courage, the measures recommended in this report are fully adopted, then self-employment would become less a lifestyle to fear and more a vocation to savour. The future could be one where thousands more people strike out in business to fulfil their passions, solve problems, build life-changing products, and find dignity through independent work. That is surely the makings of a richer society, and a vision we can all get behind.

Recommendations

Recommendation #1

The government should clear up the confusion surrounding the Lifetime ISA by restating its purpose and value. The government should:
(i) clarify its long-term strategy for the Lifetime ISA
(ii) be clear on what it offers that existing pensions do not; and
(iii) ask the new single financial guidance body to help savers understand whether it is the right product for them.

Recommendation #2

The government should reconsider its opposition to auto-enrolment for the self-employed, and follow through with a proposal to view accountancy software providers as the 'employer'. The government should continue to review the options for auto-enrolling the self-employed onto a pension, potentially through a 'forced choice' question. It should also proceed with an investigation to treat accountancy software providers as the de facto 'employer', with a duty to enlist their self-employed clients onto a pension scheme.

Recommendation #3

The government should explore options for a Pensions Passport system that would enable the self-employed to carry over a pension from previous employment. The government should work with pension providers and industry bodies to scope out options for creating a Pensions Passport scheme that would allow the newly self-employed to carry forward a pension with a previous employer, potentially facilitated by a reminder when they register as a sole trader with HMRC or as a company with Companies House.

Recommendation #4

The government should pilot an auto- escalation scheme to boost saving rates among the self-employed. Inspired by the promising results of the Save More Tomorrow scheme in the US, the government should work with pension providers and accountancy software providers to pilot a form of auto-escalation. This would allow savers to commit to gradually increasing the percentage of their earnings that go into a pension over time.

Recommendation #5

The government should create a roadmap for turning the Pensions Dashboard into a comprehensive Money Dashboard. The government should encourage the financial industry to raise its ambitions for the Pensions Dashboard and in time transform it into a wider Money Dashboard, giving savers a rich account of their financial wellbeing and helping them make better saving decisions.

Recommendation #6

The new single financial guidance body should be tasked with offering both guidance and advice on pensions. In the absence of impartial long-term savings support for all workers, particularly the self-employed, the government should expand the remit of the SFGB to offer advice on pensions, so that clients have an active steer on how to save.

Recommendation #7

Pension providers should consider launching sidecar products that combine a short-term savings account with a long-term pensions account. Pension providers should explore the possibility of creating a special product that combines a rainy day fund and a pension account under one umbrella, thereby giving the self-employed the liquidity they desire without undermining a long-term savings culture.

Recommendation #8

The government should extend eligibility of the Lifetime ISA to older savers, beginning by moving the age threshold from 40 to 50. As well as clarifying the purpose of the LISA, the government should raise the age threshold under which an account can be opened from 40 to 50, offering a compelling long-term savings option for the many self-employed workers on low and volatile incomes.

Recommendation #9

The government should present the self-employed with an IP insurance policy option when they complete their self-assessment tax return. The government should work with the insurance industry to nudge the self-employed to take out income protection insurance, potentially at the same time they are asked to join a pension scheme. This would generate the economies of scale needed to bring down the cost of unaffordable premiums.

Recommendation #10

The government should introduce auto protection rules that default savers onto a drawdown scheme during retirement. To help people spend their savings carefully in retirement, the government should default people onto an automatic drawdown scheme at the age of 65, which withdraws 5 percent from their pension pot on an annual basis.

Recommendation #11

The government should draft the regulation required for Collective Defined Contribution schemes to take off, and factor the self-employed within these plans. The government, informed by the findings of the Work and Pensions Committee inquiry, should finish the regulatory framework for CDCs, and in doing so consider what safeguards need to be in place for the self-employed to create their own CDC models.

Recommendation #12

The government should establish an Office for Financial Security among the Self-Employed. The government should create a new independent body to bring coherence to the wide array of research and practice aimed at boosting the financial security of the self-employed. This would be tasked with undertaking periodic reviews, commissioning evaluations, funding experiments and making independent recommendations.

Recommendation #13

The government should commission an independent review of tax relief in the UK, with a brief to explore if and how a flat rate 'tax bonus' could be established. The government should appoint an independent expert in pensions and taxation to conduct a review into the future of tax relief. This would examine the extent to which a flat rate system would boost the retirement security of workers – including the self-employed – and consider how such a system could be realised in practice, while retaining broad public support.

The missing millions

The new normal

The rise in self-employment is one of the most striking trends in recent labour market history. Since the turn of the century, the number of people who work for themselves has grown by 40 percent, whereas the number of employees has risen a mere 15 percent.[4] While employee numbers have edged up more rapidly in recent years, self-employment still accounts for almost a third of the jobs created since the economic crash in 2008. The result is that 4.8 million people – or one in seven of the workforce – now answer to themselves. From IT consultants to graphic designers and from hairdressers to taxi drivers, self-employment has moved centre-stage in our economy.

Not everyone has welcomed this upsurge in self-starters. The newly self-employed have been depicted by some as unemployed by another name – just one more legion in a growing army of precariat workers.[5] "Being self-employed means freedom: freedom to be abused and underpaid", reads one headline.[6] Yet the evidence shows such claims are overstated. According to a survey undertaken in 2016 by the Department for Business, Energy and Industrial Strategy, 84 percent of the self-employed say they are happier working for themselves.[7] Less than a fifth say they want to leave self-employment, and for half of these the reason is to retire. Repeated surveys show only a fraction of the self-employed move into business to escape unemployment.[8]

However, while not all of the self-employed are precariats – in the sense of being forced to work for themselves – most do operate *precariously*. People who go it alone forgo several important protections that employees take for granted. They have no recourse to Statutory Sick Pay (SSP) should they fall ill, nor are they entitled to Statutory Maternity Pay or any form of Paternity Pay should they have children. The introduction of the National Living Wage has passed them by, while those on low incomes will soon face more stringent rules as they seek to claim means-tested benefits under universal credit (UC).[9] They have no entitlement to holiday pay, and many have scant access to opportunities for training and upskilling.

4. Dellot, B. and Wallace-Stephens, F. (2017) The Entrepreneurial Audit. London: RSA.
5. See for example Fleming, P. (2016) Self-employment used to be the dream. Now it's a nightmare [article]. The Guardian, 19 October 2016.
6. Chakrabortty, A. (2016) *Being self-employed means freedom. Freedom to be abused and underpaid* [article]. *The Guardian*, 5 April 2016.
7. BEIS (2016) *Understanding Self-employment*.
8. See for example Dellot, B. (2014) Op cit. and Kirby, D. (2017) *Standing alone?* London: Bright Blue.
9. For more information about how the self-employed will be treated under universal credit, see Dellot, B. and Wallace-Stephens, F. (2017) *The Entrepreneurial Audit*. London: RSA.

The missing millions

One challenge stands out as particularly concerning: their lack of preparation for retirement. The Family Resources Survey shows that only 17 percent of the self-employed are currently contributing to a personal pension, down from 23 percent in the last five years.[10] In contrast, the proportion of employees signed up to a personal pension jumped from 51 percent in 2010-11 to 62 percent in 2015-16, owing largely to the introduction of auto-enrolment. Moreover, of the self-employed who do save, there is a tendency to put away too little and at too late an age. All in all, 40 percent of the self-employed say they are not confident their retirement income will provide the living standard they hope for (an issue we explore further in the next chapter).[11]

Left unchecked, this level of under saving – which appears to be steadily worsening – could expose thousands to hardship in retirement. Indeed, the pensions' shortfall among the self-employed is a neat example of modern day economic insecurity, which the RSA defines as "the degree of confidence that a person has in maintaining a decent quality of life, now and in the future, given their economic circumstances".[12] Viewed in this way, economic insecurity manifests itself in both objective and subjective ways. Many of the self-employed will *feel* the stress of impending hardship long before the actual financial blows fall in retirement. A broader conception of insecurity also reveals how middle income families may experience the struggle of pension under-saving as much as low income families.

The decision in 2014 to create a single tier state pension will help to soften the impact of inadequate personal provision, particularly for low earners. The additional entitlement is estimated to be worth an average £35,000 per person over a lifetime.[13] Still, this will not be enough to sustain the standard of living that most of the self-employed will have become accustomed to during their years at work. Nor, as we argue in this report, can the self-employed safely rely on a spouse's income, the sale of their business assets, or their ability to work indefinitely during old age. Only so much can be left to chance.

It is no exaggeration to say, as the media often does, that the dearth of retirement savings among the self-employed is akin to a 'pensions' time bomb'. What is less well acknowledged is that this is a burden we must all shoulder. If the self-employed do not save enough for their retirement, they will turn to the state and government services to lift them out of poverty. Many already rely on Pension Credit – which tops up the income of the poorest pensioners – as well as Council Tax Reduction and Housing Benefit. Moreover, most people will experience at least one brush with self-employment during their careers, meaning that the problem extends well beyond the 4.8 million people who are self-employed at any one time.

10. RSA analysis of Family Resources Survey (2010/11-2015/16).
11. D'Arcy, C. (2015) *The self-employed and pensions*. Resolution Foundation.
12. See Shafique, A. (2018) *Addressing Economic Insecurity*. London: RSA and Nottingham Civic Exchange.
13. Written evidence from Stuart Adam (SGE0075) to the Work and Pensions Select Committee's Inquiry into Self-employment and the Gig Economy.

Ideas aplenty

The government, pension industry and business groups are in agreement that this problem requires urgent attention. In 2016, the government launched the Automatic enrolment review, one aim of which was to generate ideas to foster a long-term savings culture among the self-employed.[14] The Work and Pensions Committee likewise treated retirement security as a priority issue in its 2017 inquiry into self-employment and the gig economy.[15] Outside of government, thinktanks, pension companies and business groups have all published reports spelling out potential interventions. At least seven UK studies were published in the last two years exploring the topic of pensions for the self-employed.[16]

Despite the flurry of commentary, however, the savings shortfall is no closer to being resolved than it was a decade ago. The range of ideas still in circulation shows little consensus has been reached on the best way forward. While some see the extension of automatic enrolment as the answer, others believe the self-employed will only begin to ratchet up savings if they receive matched contributions.[17] Yet another group want to increase National Insurance contributions for the self-employed, and divert the extra amount raised into a pension pot of their choice.[18] A more radical contingent believe pensions are fundamentally ill-suited to the lifestyle of freelancers and sole traders, and should be replaced with products offering greater liquidity such as an expanded version of the Lifetime ISA.[19]

The good news is that a combination of forces are converging to make once implausible ideas more feasible – if not today than in the near future. Advances in technology mean it has never been easier or cheaper to organise people's finances, including via AI-powered fintech applications. Digit, for example, is a new platform that moves people's money from checking to saving accounts automatically by 'learning' how much they can afford to save. The government's Making Tax Digital programme, meanwhile, will make it easier for the self-employed to stay on top of their tax obligations, which in turn could encourage more saving. Looking further ahead, the shift to a cashless society may open up pathways for more radical policies such as obligatory pension contributions.

Alongside new technologies, there are political forces pushing the government into action. At nearly five million strong, the self-employed are an electorate to be reckoned with. They are also underpinned by an increasingly vocal network of advocacy groups, from longstanding institutions (such as the Federation of Small Businesses) to upstart networks (among them Enterprise Nation). More broadly, there is growing acknowledgement that our social contract – forged for an era of mass employment and steady jobs – is buckling under the weight of a fractured workforce and needs significant reform. The government's

14. Department for Work and Pensions (2017) *Maintaining the Momentum*.
15. Work and Pensions Committee (2017) *Self-employment and the gig economy*.
16. Reports were published by Old Mutual Wealth and PPI (2017); Royal London (2017); The RSA (2017); IPSE (2016); Aegon (2016); Citizens Advice (2016); and FSB (2016).
17. Citizens Advice recommends the government match the pension contributions of the self-employed up to one percent of gross income. Citizens Advice (2016) *Shy of Retiring*.
18. Royal London (2016) *Britain's "Forgotten Army"*.
19. Johnson, M. (2017) *Reinforcing Automatic Enrolment*. Centre for Policy Studies.

recent response to The Taylor Review of Modern Working Practices indicates a greater willingness to intervene and set problems right in the labour market.[20]

Less heat, more light

Against this backdrop, the RSA, supported by our partners at Etsy, launched an investigation into how long-term savings and retirement security for the self-employed might be improved. In doing so we followed five principles that were designed to sharpen our analysis and steer us towards viable recommendations:

1. **Demographics matter** – The self-employed of today are a different breed to that of 20 or even 10 years ago. Once a relatively affluent and highly skilled group, it is now home to many low income workers struggling to make ends meet. Previous RSA research identified six 'tribes' of the self-employed, ranging from the relatively affluent 'Visionaries' through to the lower paid and often retired 'Dabblers'.[21] While some stay in self-employment for the course of their working life, others drift in and out or start up in business at a much later age. Each of these groups would benefit from a different type of intervention.
2. **Silver bullets are imaginary** – There are no easy answers or catch-all solutions to the savings shortfall. Auto-enrolment, which is often held aloft as the silver bullet to drive pension uptake, would with its current earnings threshold only enrol a modest percentage of the self-employed. Moreover, every intervention comes with trade-offs and must be considered in the context of winners and losers. For example, increasing Class 4 NICs and channelling the extra funds to a pension scheme would be unfair to employees whose full NICs payment does not support a personal pension.
3. **Saving is for the lifecourse** – The title of this report deliberately uses the term 'long-term savings' to reflect the importance of having access to funds *during* one's working life, not just at the point of retirement. The self-employed crave liquidity because they do not have access to Statutory Sick Pay to cover them during times of illness, and also because they suffer from fluctuations in income caused by seasonable business and late payments. Regardless of their job status, nearly every worker will need to dip into savings during their working life, for example to fund retraining or pay a deposit on a house.
4. **Getting people started is only half the battle** – Were the proportion of self-employed contributing to a pension to reach a par with employees, it would be considered an outstanding achievement. But it would not be enough. What matters is whether the self-employed are saving *sufficiently*, as well as whether they can *draw upon* their savings responsibly both before and after

20. BEIS (2018) *Good Work: A government response to the Taylor Review of Modern Working Practices*. London: BEIS.
21. Dellot, B. (2014) Op cit.

retirement. The self-employed face more difficulties than employees in reaching adequate saving rates because they have no employer to top up their contributions and must also deal with cash flow disruption.

5. **Political palatability counts** – Solutions to the savings shortfall are commonly judged on the basis of their technical feasibility. Is it viable to auto-enrol the self-employed onto a personal pension? And would boosting tax relief simply open up the system to abuse? But as well as interrogating whether interventions are practical, they must also be judged on whether they are behaviourally effective, financially affordable, and – crucially – politically palatable. Reforms that take more than they give, or appear unjustified and disproportionate, are unlikely to win a public mandate and will remain untouched by policymakers.

With these principles in mind, the rest of this report lays out the findings from our investigation and presents a roadmap for reform. The second chapter examines the state of long-term saving among the self-employed and makes the case for the importance of pensions. The third chapter delves deeper into the barriers that prevent people from saving and from saving sufficiently. The fourth chapter then outlines several modest recommendations, among them to pilot a sidecar pension model, expand the remit of the new single financial guidance body, and create a Pension Passport to assist people transitioning from employment. The report closes by calling for a more radical proposal to replace our unjust tax relief system with a flat-rate tax bonus, which would benefit millions of low and middle-income savers.

Far from wanting to 'save' people from self-employment, our recommendations are designed to help more people to take part in *meaningful* self-employment, which at its best can offer economic security married with a deep sense of purpose. If long-term saving rates remain in the doldrums, the self-employed risk being consigned to a retirement of poverty and penury. But if the government and financial industry choose concerted action over inertia, the rewards could be equally profound: millions able to live out their later years with security, dignity and happiness, and thousands more willing to take the leap into entrepreneurship. This is a prize well worth pursuing.

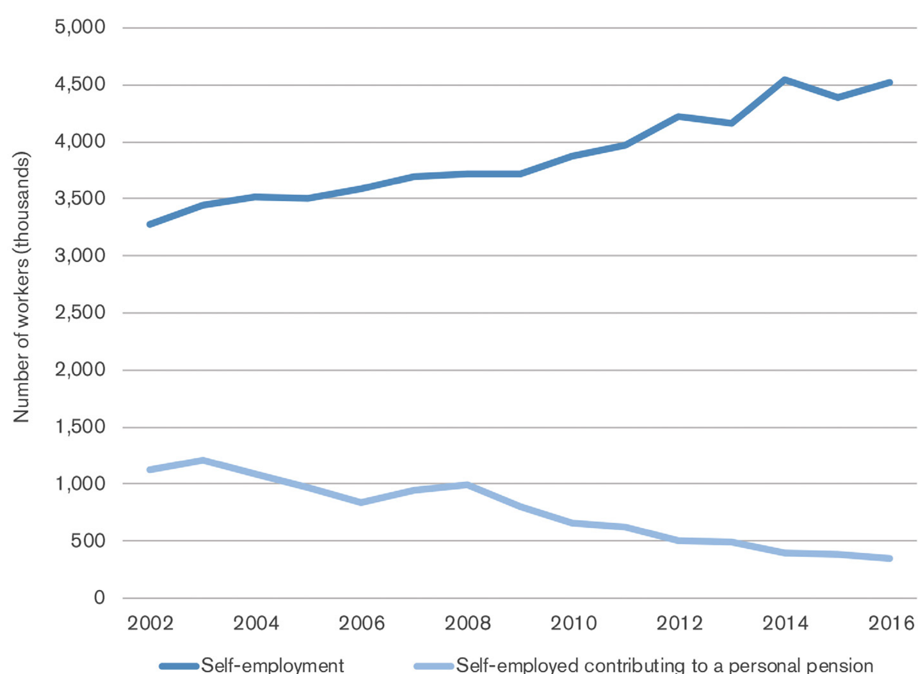
Why the pension gap matters

Getting granular

Drawing on data from the Wealth and Assets Survey and other sources, this chapter explores in detail how much the self-employed are saving into pensions, as well as other assets such as property and ISAs, which could form part of their retirement income.

The overall picture is one of long-term decline in pension participation among the self-employed. Many are not saving, or if they are, tend to save too little and too late compared with employees. While some hold large amounts of wealth in other assets such as property, or presuppose they can rely on their partner for income, we argue that alternative retirement strategies such as these have limitations. In short, the pension gap matters. We also stress that the self-employed are a diverse group and that this needs to be taken into account when designing interventions.

Figure 1: Changes in self-employment and self-employed workers contributing to a pension (Source: RSA analysis of Labour Force Survey and HMRC PEN 3)



The yawning pension gap

Despite more people moving into self-employment, the number contributing to a personal pension has more than halved since 2002, falling from over one million to just 350,000 today (see Figure 1). Nearly half (45 percent) of the self-employed have no wealth in pensions whatsoever,[22] and they are four times less likely to be contributing to a pension than employees. Just 17 percent of the working age self-employed contributed to a personal pension in 2015-16, compared to 62 percent of employees – the vast majority of which are enrolled in their workplace scheme.[23]

Moreover, of the self-employed who do save for retirement, many are not putting away enough to meet their anticipated needs. A closer look at the wealth these workers hold shows that employees have accumulated considerably more in pension wealth by the time they approach the state retirement age (55-64 years old) (see Table 2). Whereas over half (52 percent) of employees have in excess of £100,000 in pension wealth, the same is true of just 33 percent of those who work for themselves. As many as a quarter (26 percent) of the self-employed in this age group have nothing stowed away in a pension, versus 16 percent of employees.

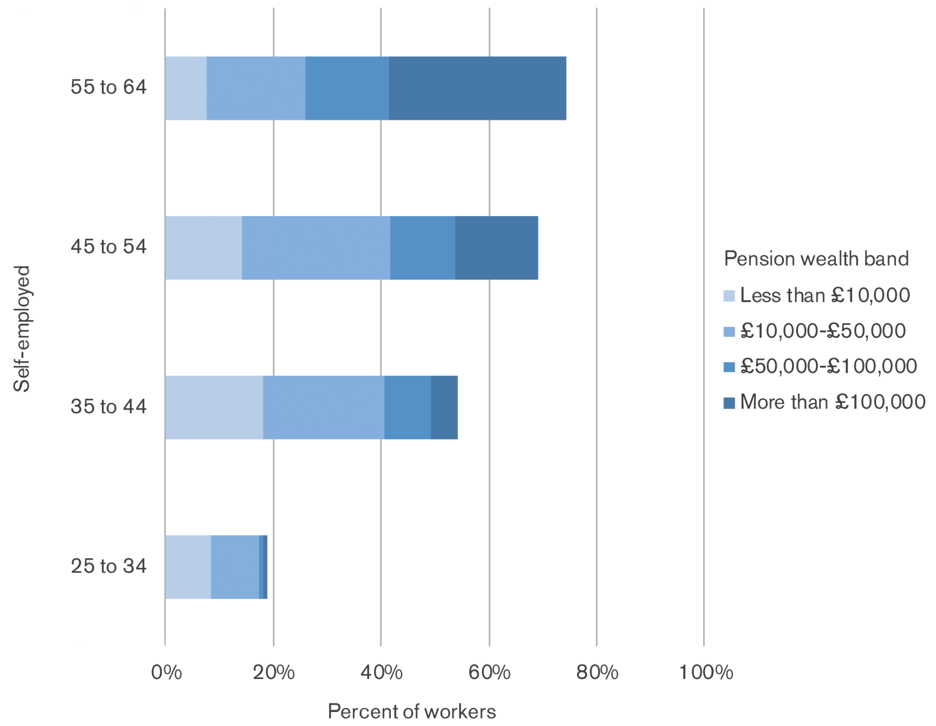
Table 2: How pension wealth compares between employees and the self-employed (within the 55-64 year old age bracket)
Source: Wealth and Assets Survey [Wave 4]

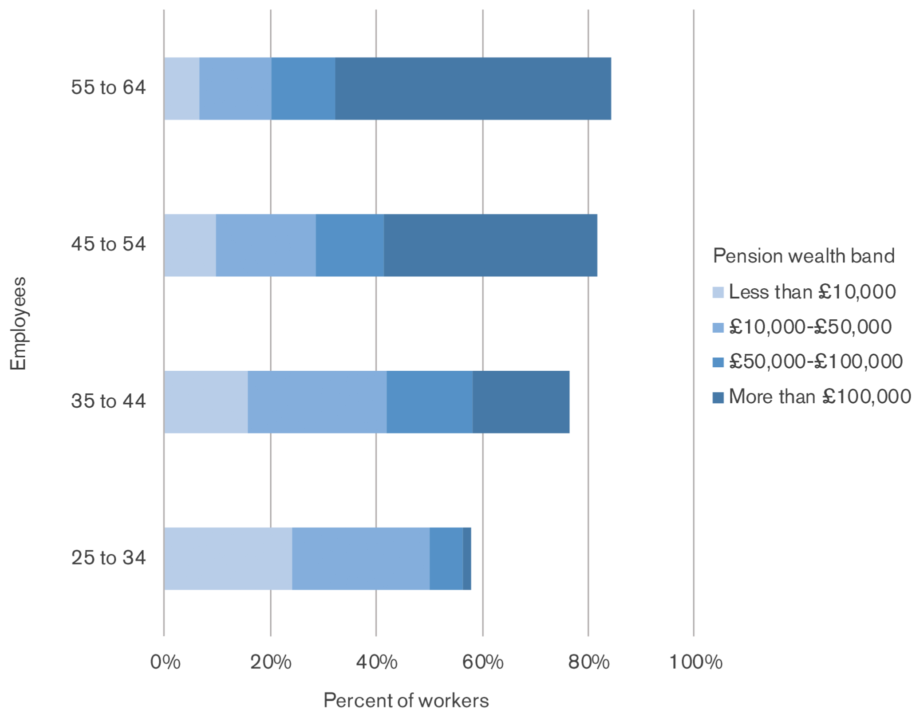
Pension wealth	**Percent of self-employed holding this wealth**	**Percent of employees holding this wealth**	**How this translates into retirement income**[1]
£100,001+	33%	52%	£150,000 equates to a tax-free lump sum of £37,000, plus £6,100 a year annuity payment
£100,000-£50,001	15%	12%	£75,000 equates to a tax-free lump sum of £19,000, plus £3,000 a year annuity payment
£50,000-£10,001	18%	14%	£30,000 equates to only a yearly annuity payment of £1,200
£10,000-£1	8%	7%	Pots worth less than £10,000 are often taken as a lump sum cash transfer
Zero wealth	26%	16%	Nothing, except for a state pension entitlement of £8,300 a year

1. Figures based on Pension wise annuity calculator. Available at: www.pensionwise.gov.uk/en/guaranteed-income

22. RSA analysis of Wealth and Assets Survey (Wave 4).
23. RSA analysis of Family Resources Survey (2015/16).

Figure 2: Pension wealth by age and employment status (Source: RSA analysis of Wealth and Assets Survey Wave 4)





Does everyone need a large pension pot? Replacement rates, defined as an individual's annual retirement income divided by their pre-retirement earnings, are a metric designed to measure the effectiveness of pensions to sustain the lifestyle savers are used to. Target replacement rates typically

range between 60-80 percent of earnings, with the assumption being that consumption decreases upon retirement (eg with less investment in education or spending on mortgage repayments). Yet even when this formula is taken into account, it is clear many of the self-employed are still ill prepared for later life. A full time self-employed worker earning just above the median wage of £20,000 a year should aim for an annual retirement income of c£14,000 a year, which would require a pension pot worth upwards of £100,000 – a nest egg that few enjoy.

Under saving is by no means unique to the self-employed. While they are more likely to have nothing, and less likely to have a lot, a similar share of employees close to retirement age have small to medium-sized pension pots. But the underlying causes are different. Critically, the self-employed miss out on employer contributions, which are often very generous. In 2016, the average employer contribution on Defined Benefit schemes was 17 percent of an employee's salary.[24] For defined contribution schemes it was 3 percent. The self-employed also appear to start saving relatively late in life, denying them the benefits of compound interest. Assuming a 5 percent return, saving £100 a month for 40 years would result in a pension pot worth £80,000, whereas saving £200 over 20 years would culminate in just £57,000 – despite no difference in the total amount saved.[25]

Indeed, the gap in pension coverage between employees and the self-employed is particularly stark among younger workers (see Figure 2). More than 80 percent of self-employed people aged 25-34 hold nothing in pension wealth, while nearly 60 percent of employees at this age have already started saving (many of whom have already accumulated a pot worth more than £10,000).[26] These inequalities persist across all age brackets. Remarkably, the distribution of pension wealth for any self-employed age group is similar, if not worse, than the preceding age group for employees. In other words, employees are 10 years ahead in terms of how much pension wealth they have accumulated. By the time employees are 45 to 54, they are not only three times more likely to hold over £100,000 in pensions than self-employed people their own age, but also slightly more likely than 55-64 year olds in self-employment.

Does everyone need a pension?

As the RSA has argued elsewhere, people's degree of economic security is determined by multiple factors, and looking at one indicator alone – in this case, pension wealth – could be misleading.[27] Several commentators point out that the self-employed may be pension poor but asset rich in other ways.[28] Looking at the distribution of total household wealth for all workers, 37 percent of the self-employed are in the top quartile holding

24. Office for National Statistics (2017) *Occupational Pension Schemes Survey: UK, 2016*.
25. RSA calculations based on FCA intermediate rates of return for pension projections. Figures are adjusted for inflation.
26. It is possible that this is a recent phenomenon, as auto-enrolment had its biggest impact amongst younger employees, increasing participation from 42 to 59 percent of this age group.
27. Shafique, A. (2018) Op cit.
28. The RSA has made this argument several times previously, including within our latest report, *The Entrepreneurial Audit*.

more than £650,000 in assets, compared to 24 percent of employees. More than one in four have wealth above the median (£300,000), while holding little to no wealth in pensions (less than £10,000). The self-employed are far more likely than employees to be in these asset-rich, pension-poor circumstances.[29]

Some might argue this mitigates the severity of the pension gap. Why does someone need a pension when they have property? And why should they put money away when their partner can cover their costs in retirement? While there is an element of truth to these beliefs, other assets which the self-employed have to hand are not always suitable vehicles for long-term saving. Here we look at the risks of relying on three alternative strategies.

Alternative saving strategy #1: "I don't need to save into a pension because I can rely on property"

One in four of the self-employed hold over £100,000 in net household property wealth, despite holding less than £10,000 in pensions (see Figure 3). And many (14 percent) hold upwards of £200,000. These workers may therefore have to depend almost entirely on property to replace their pension income in old age. Many will have made this decision consciously. When asked what they perceive to be the safest way to save for retirement, the self-employed prefer investing in bricks and mortar, while employees prefer workplace pension schemes (see Figure 4). Curiously, neither personal pensions, ISAs, nor other financial products are widely perceived as safe or efficient ways to save for retirement, with less than 15 percent of people in either employment status selecting these options. This undermines the widespread belief that the self-employed have a strong preference for saving into ISAs.

But how true is the old adage that property is 'as safe as houses'? While bricks and mortar have an undeniable psychological pull, the viability of this approach will largely depend on the size of people's real estate portfolio. Most people have property wealth tied up in a single main residence, with only 22 percent of the self-employed having a stake in other properties such as 'buy-to-let', which might offer rental income in retirement[30]. For the majority who only own their own home, there are few options for raising cash once they reach old age. One route would be to sell or rent their property on the market and downsize. Another would be to use an equity release scheme such as a lifetime mortgage, whereby people borrow money against the value of their home but don't make any repayments until they die or sell the house.

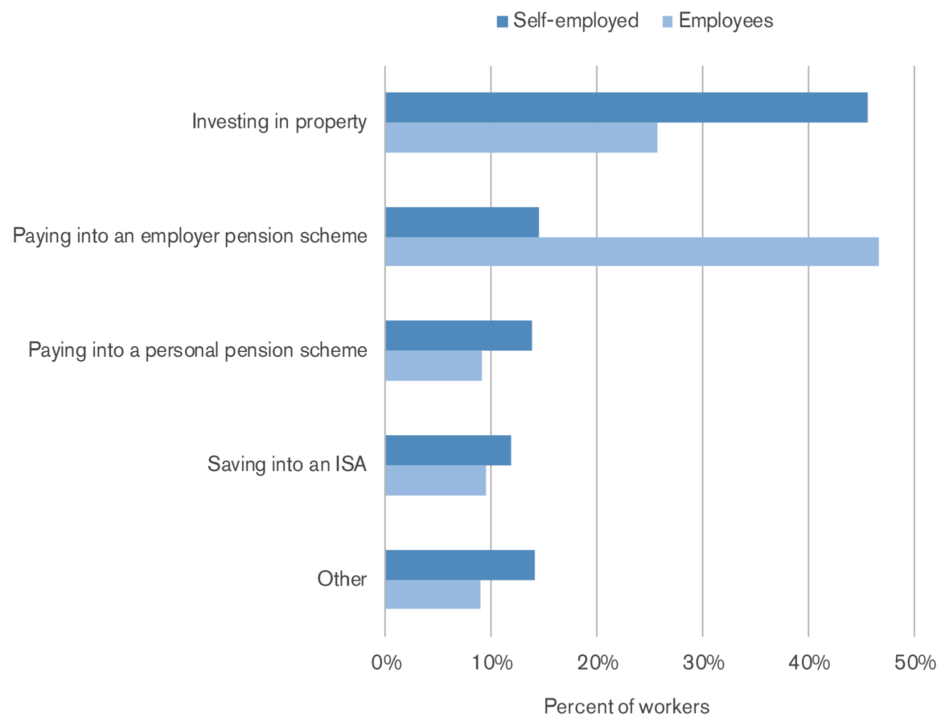
Yet these options are not without risk. Property prices have boomed since the 1990s but the market could still falter. House prices are currently in a slump, with some blaming Brexit for slow growth. And while pension funds are not immune to the same economic downturns, they are by their nature diversified, and invested in multiple assets across multiple countries and sectors. Property, on the other hand, is a single physical asset that comes with additional upkeep and maintenance costs. Property also has fewer tax advantages than pensions (unless people save for a house

29. Data table included in appendix.
30. RSA analysis of Wealth and Assets Survey (Wave 4).

through a LISA or Help to Buy ISA). People selling a property other than their main home usually need to pay Capital Gains Tax, while those hoping to downsize and buy a smaller property may be liable for Stamp Duty.

Figure 3: Distribution of workers by pension and household property wealth (Source: RSA analysis of Wealth and Assets Survey Wave 4)

Figure 4: Attitudes towards retirement saving by employment status (the perceived safest way to save for retirement) (Source: RSA analysis of Wealth and Assets Survey Wave 4)



The sentimental value that people attach to their homes could also be a hindrance to downsizing. Equity release can free up cash while allowing people to reside in the same property, but this is often very expensive. Unlike conventional mortgages, where interest is charged on an amount that decreases with time, equity release usually involves taking out a 'lifetime mortgage' that it not paid off until a person dies or moves into long-term care. Interest therefore compounds on an increasing sum.[31] Equity release also usually requires a minimum property value of at least £70,000, which prices this option out for many people living in smaller properties, or in less desirable parts of the UK. In 2017, the median price paid for a terraced house in Stoke-on-Trent was £74,000, while the average price paid for a flat in Sunderland was £62,000.[32]

Looking forward, alternative saving strategies that rely on property are also becoming less accessible to younger generations. The number of first time property buyers is much lower than it was 20 years ago, in part because the bar for entry is now so high. Today, the average deposit required is upwards of 20 percent of the value of a home, twice what was required in 1995.[33] Some commentators have suggested that generation rent could be in this position when they reach the age of retirement.[34]

31. *Which?* (2018) Is equity release right for you?
32. ONS HPSSA Dataset 9. Median price paid for administrative geographies (2017).
33. ONS (2016) UK Perspectives 2016: Housing and home ownership in the UK. Available at: www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/ukperspectives2016housingandhomeownershipintheuk/2016-05-25.
34. Wilcox, S. et al. (2015) *UK Housing Review*. Centre for Housing Policy.

Box 1: Other financial wealth[1]

Many of the self-employed have money in savings accounts, ISAs and current accounts, but these more liquid products are not widely being used as alternatives to pensions.

- Current account coverage is almost universal and the typical balance of these accounts is £500.
- Fifty-three percent have saving accounts but balances are often low. The median savings rate is £2,000 for self-employed people, compared to £1,400 for employees.
- Thirty-six percent have ISAs, which are mostly cash (30 percent) as opposed to investment ISAs (9 percent). Investment ISAs are typically larger, with a median value of £16,000, compared to £5,000 for cash ISAs.

People typically hold much more in a pension than in all their other financial assets. The median gross financial wealth for a self-employed worker is £2,500, which is slightly higher than that for employees (£2,000). The upper quartile of self-employed savers hold £18,500, meaning even at the higher end these accounts are likely being used to supplement rather than substitute for a pension pot. Some of the money in these accounts could be earmarked for a tax return. For example, a self-employed worker making £350 per week (£18,200 per year) in profit can expect to pay £2,400 a year in tax and national insurance[2].

1. RSA analysis of Wealth and Assets Survey (Wave 4).
2. Figures based on HMRC Self-employed ready reckoner. Available at: www.hmrc.gov.uk/tools/sa-ready-reckoner/calculator.htm.

Alternative saving strategy #2: "I don't need to save into a pension because I can rely on my partner's wealth"

A second strategy is for the self-employed to rely on a partner's nest egg during retirement. It may be the case that their spouse is entitled to one of Britain's most lucrative occupational pension schemes and that there is an agreement this will provide for both when they stop working. Of the self-employed who hold little to nothing in their own pension, one in five live in a household with over £100,000 in pension wealth, with most holding upwards of £200,000. Overall, around 10 percent of the self-employed could be seen as having the option of relying on their partner's pension. This figure would increase if we included those whose partners have smaller pots (£10,000-£50,000; £50,000-£100,000), but which could prove more difficult to split between two people[35].

Clearly the option of relying on a partner is out of reach for many of the self-employed. Citizen Advice's analysis of the Family Resource Survey found that, while the share of self-employed people not actively contributing to a pension scheme drops by 20 percentage points when a partner is taken into account, there still remains 63 percent who live in a household where neither they nor their partner are paying into a pension.[36] Even were a spouse able and willing to share a sum of money,

35. RSA analysis of Wealth and Assets Survey (Wave 4).
36. Citizens Advice (2016) *Shy of Retiring*. Data is drawn from the 2013/14 Family Resources Survey.

there is no guarantee this commitment will last the course. A 2013 study by the ONS estimated that 42 percent of marriages end in divorce, with more than half of these ending in the first ten years. And while the total number of divorces in the UK is in decline, this is largely because people are also much less likely to get married than 40 years ago.[37.]

There is little security in having your retirement income dependent on the whim of another person. If a couple are co-habiting, there is no promise of a penny. If they are married, the situation is better but the partner would likely only be entitled to a share based on the years in which they were married, rather than a share of the total pot. Divorce settlements can also be complicated, drawn-out and emotionally draining affairs. A common outcome is 'offsetting', whereby the pension holder takes the whole pot and gives their partner other assets of equivalent value like property, which for the reasons stated above could be a problematic vehicle for long-term savings.

Alternative saving strategy #3: "I don't need to save into a pension because I can sell my business"

A third strategy is for the self-employed to treat their business as their pension. For some, this could amount to giving up equity in a dragons' den-style deal upon retirement. For others, where the business is just a collection of physical assets, such as a van, tools, or camera equipment, it could be as simple as selling these onto the next generation of tradespeople. There are approximately 180,000 self-employed taxi drivers who might feasibly sell on their vehicle, just as there are over one million tradesmen and women in occupations like carpentry, tiling and plumbing who may have machinery to sell.[38.] According to a survey by Aegon, 630,000 self-employed people view their business assets as a financial lifeline.[39.]

Yet, just as selling property relies on having a healthy housing market, selling business assets depends on an active investment community – neither of which can be taken for granted. Moreover, the value of businesses rises and falls in line with market shifts and technological change. Today's star performer could be tomorrow's sinking ship, and much depends on the timing of the sale. There is greater predictability about the resale of physical business assets, such as machinery or equipment. But these depreciate in value over time, and tend to be worth modest amounts in comparison with business equity. Data on the distribution of business assets among the self-employed shows that while 40 percent hold some assets, fewer than 20 percent hold upwards of £10,000 and less than 10 percent hold upwards of £100,000[40.].

All in all, just 7 percent of the self-employed report that the sale of their business will form the bulk of their retirement income. This should come as no surprise given the diversity of the population, which is home to as many gardeners and window cleaners as it is carpenters and plumbers. The notion that business assets can be a substitute for pensions is rooted in an antiquated portrayal of the self-employed – one that singles

37. Office for National Statistics (2017) *Divorces in England and Wales: 2016*.
38. ONS. EMP04: Employment by Occupation (2017).
39. *Actuarial Post* (2016) 630,000 self-employed relying on business to fund retirement.
40. RSA analysis of Wealth and Assets Survey (Wave 4).

out shop keepers, factory owners and others with tangible inventories. The Labour Force Survey reveals a different picture. Just 7 percent are the sole director of a limited company, and only 14 percent are running a business or professional practice, either by themselves or in partnership. Others prefer to describe themselves as freelancers (11 percent). But the vast majority simply state they are working for themselves (57 percent).[41.]

Box 2: Are we entering the age of no retirement?

A less considered retirement strategy is merely to delay it indefinitely. Over one million people aged 65 and over are still in work today, around 40 percent of whom are self-employed[4]. While most of those who work into retirement will continue in the same profession, the rise of gig economy platforms like Upwork and Task Rabbit could open up fresh avenues of freelance work or odd jobs. This assumes, however, that people remain fit and healthy well into their 60s and 70s. The disability-free life expectancy in England in 2009-11 (the last available period for data) was 63.9 years for men and 64.4 years for women – far below general life expectancy levels.[1.]

1. Office for National Statistics (2014) *Disability-free life expectancy by Upper Tier Local Authority*. .

Segmenting self-employed savers

The evidence reviewed so far indicates that the self-employed are ill prepared for retirement, with many putting their faith in alternative assets like property that risk not bearing fruit. But this workforce of 4.8 million is not a homogenous group. When designing and targeting interventions, there are several ways of segmenting them. Here we consider how the self-employed vary by income, earning patterns and length of tenure, alongside the type of job they do.

Tenure: Occasional and lifetime self-employed

A common misperception is that employees and the self-employed are two permanently separate groups. In reality, the border that divides them is fluid and porous, with many people moving from one state to the other as they shift careers, taking on new family responsibilities and adapting their life goals. Thousands of the self-employed will have experienced a bout of employment during their lifetime, possibly accumulating workplace pension wealth along the way. Over 20 percent of the self-employed have retained rights in occupational pension schemes – nearly just as many as the 28 percent who have personal pensions built up of their own accord.[42.]

Unsurprisingly, people with prior employment history (the 'occasional self-employed') are better prepared for retirement than those who have only worked for themselves (the 'lifetime self-employed'). The self-employed who have previously been signed up to an occupational pension are more than twice as likely to hold over £100,000 in pension wealth,

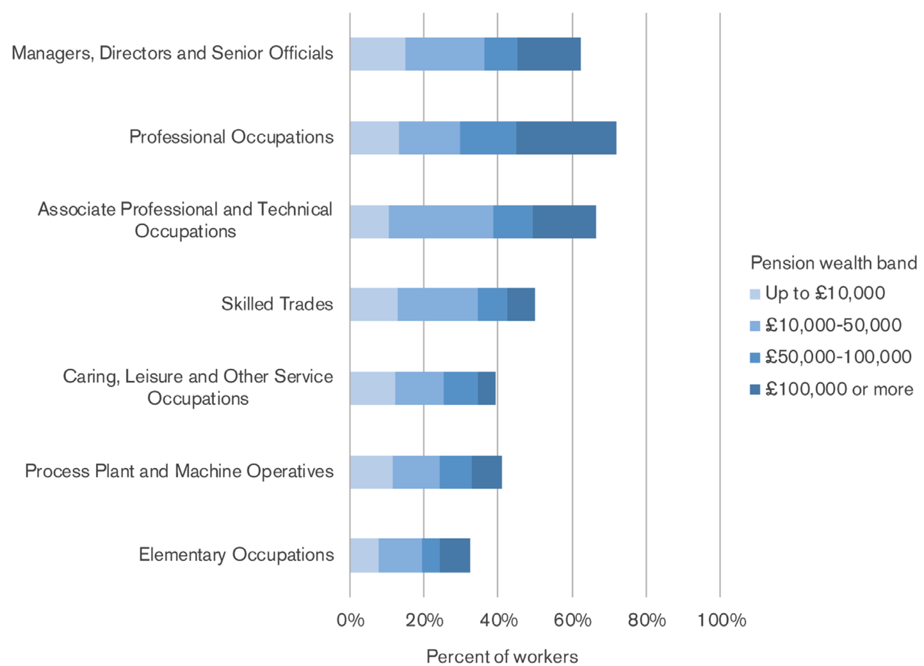
41. RSA analysis of Labour Force Survey (4 quarter averages, Sep 2016-Jun 2017).

42. RSA analysis of Wealth and Assets Survey (Wave 4) Employees are most likely to hold their pension wealth in defined benefit (36 percent) or defined contribution. schemes (20 percent).

and most have at least £50,000.[43] Given that people tend to move into self-employment *after* a period of employment, rather than before, there is a good chance the occasional self-employed will have begun saving at a young age, thereby enjoying the returns of compound interest. Looking to the future, this group may also end up completing another stint as an employee, gaining access again to an occupational scheme and all the benefits associated with this – not least the employer contribution.

Occupation type has a significant bearing on whether people are in the occasional or lifetime grouping. Professionals such as management consultants, architects and medical practitioners – who are better placed to jump between job types – are more likely to hold any wealth in pensions (70 percent) but also to have more tucked away than other groups. At least one third hold over £50,000 and a similar figure have retained rights in their occupational schemes. In contrast, less than half of all skilled tradespeople have any pension wealth, and the majority that do have less than £50,000 saved. Typical jobs for self-employed people in this occupational grouping are plumbers, painters and decorators, carpenters and tradespeople working in construction. A similar pattern exists among personal service workers – typically hairdressers, beauticians or child minders – as well as taxi and van drivers (grouped under process plant and machine operatives).[44]

Figure 5: Self-employed pension wealth by occupational group (Source: RSA analysis of Wealth and Assets Survey Wave 4)

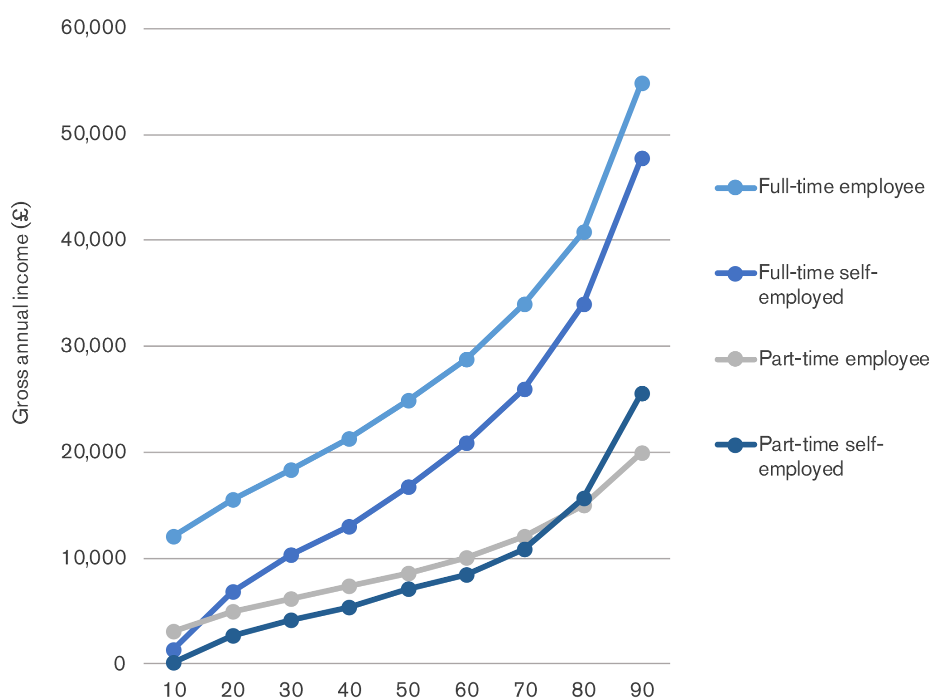


43. Ibid.
44. RSA analysis of Wealth and Assets Survey (Wave 4) Elementary occupations, for example building labourers and cleaners, also have some of the lowest levels of pension wealth.

Income: Low to high, and stable to volatile earners

Pension experts often make the argument that low income groups are less in need of saving assistance because they have access to the state pension (worth £8,300 a year), which should offer them a sufficient replacement income in retirement. The same logic lies behind the government's decision to keep the auto-enrolment threshold at £10,000 for employees. As many as 37 percent of all self-employed workers fall below this threshold, including 30 percent of the full-time self-employed[45]. With this in mind, it may be sensible to focus our attention on middle and higher earners. Indeed, while higher earners in self-employment have more stowed away in pensions than lower earners, they are still worse off than their employee counterparts.[46] The middle ranking self-employed are hardly better off than those at the bottom of the earnings distribution (see Figure 6).

Figure 6: Earning deciles by employment status and working pattern (Source: RSA analysis of Family Resources Survey 2015/16)



But should the low earning self-employed be overlooked so lightly? Many could be going through a patch of low earnings at the present moment, yet have aspirations to boost their pay packets over time. Take for example people at the early stages of a new venture, who may have had to take a pay cut from a previous job but who hope to pull their

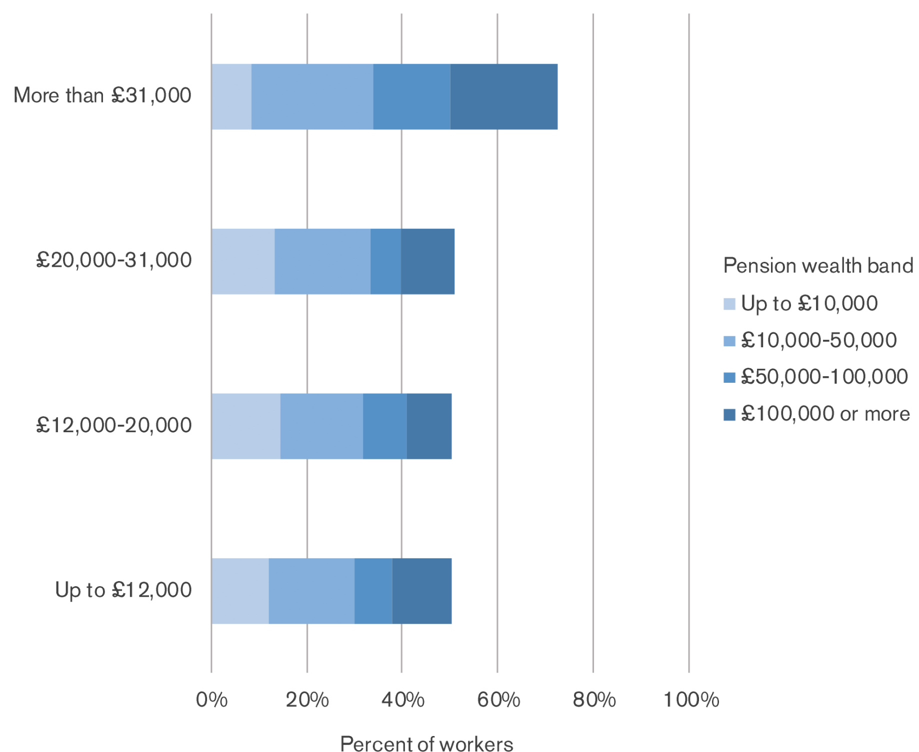
45. RSA analysis of Family Resources Survey (2015/16).

46. RSA analysis of Wealth and Assets Survey (Wave 4). Only 22 percent of self-employed workers in the upper income quartile with gross earnings above £31,000 hold more than £100,000 in their pensions, compared to 46 percent of employees in this position.

earnings back up in the long run. Previous RSA research found that earnings from self-employment can increase significantly over time, with average earnings doubling for those who make it past their third year in business.[47] A large proportion of today's low earning self-employed may therefore have higher expectations for retirement than first appears. And if they are unable to save anything during these patches of relatively low earnings, they risk saving too little overall.

That many of the self-employed are income poor but asset rich further complicates matters. The RSA's *Seven portraits of modern work* segmentation identified that the self-employed fall into three broad categories of worker.[48] Thirty-eight percent are 'High-Flyers' – typically successful business owners who are both asset and income rich – while 25 percent are 'Flexi-Workers' – people who are income poor but have savings or people in their household that can support them. A third group are the 'Acutely Precarious', who make up 22 percent of this workforce. People in this bracket are both income and asset poor, and are also battling income volatility. Their gig working patterns are unpredictable and in some cases they may be in bogus self-employment arrangements. Counterintuitively, there may be a strong case for supporting Flexi-Workers because they have higher expectations for future living standards.

Figure 7: Self-employed pension wealth by income quartile (Source: RSA analysis of Wealth and Assets Survey Wave 4)



47. RSA analysis of Understanding Society Survey, cited in Dellot, B. and Wallace-Stephens, F. (2017) Op cit.

48. Balaram, B. and Wallace-Stephens, F. (2018) *Thriving, striving or just about surviving? Seven portraits of economic security and modern work in the UK*. London: RSA.

This chapter has unearthed new challenges and exposed old myths. We have shown that not only are few of the self-employed saving into a pension, but that when they do are often contributing too little and at too late an age. We also emphasise that alternative saving strategies – including property, partners and business assets – can be risky or simply inadequate in monetary value terms. In short, pensions remain the best long-term savings vehicle available to most of the self-employed. The next chapter turns to the question of why, in that case, pension take-up rates are so low among the self-employed and falling further still.

Box 3: The gender divide

While men and women are equally likely to have wealth in pensions, men are typically much better prepared for retirement. The median pension wealth for a self-employed man is £43,000, compared to £29,000 for a self-employed women. But self-employed men also typically hold more in their pension pots than female employees (£39,000). Male employees are best prepared (£61,000).[6] One driver here is the gender pay gap, present for both employees and the self-employed. Lower average earnings mean women will typically accumulate less pension wealth. But women are also more likely to work part-time or take career breaks in order to look after children and elderly relatives, giving them less opportunities to make contributions to their pensions. This gives us another reason not to neglect the low earning self-employed, many of whom are women working part-time in search of more flexible working patterns.[1.]

1. Office for National Statistics (2016) *Trends in self-employment in the UK: 2001-2015*..

What’s stopping them?

Barriers to saving

That the self-employed are under saving for retirement is rarely contested. But the evidence documented in the last chapter revealed the extent of the challenge, as well as the acute danger facing certain groups like the lifetime self-employed. In this chapter, we turn away from the question of *whether* the self-employed are under saving to look at *why* this is the case. Many of the barriers will be familiar, such as low incomes and the absence of an employer to nudge, cajole and manage the administration of pension enrolment. But others hurdles are less obvious, for example the widespread myths about the rules surrounding pensions, and the underlying confusion caused by frequent policy changes. Here we explore these issues under three banners:

- Do the self-employed **earn enough** to save?
- Do the self-employed **know enough** to save?
- Are the self-employed **hardwired** to save?

Do the self-employed earn enough to save?

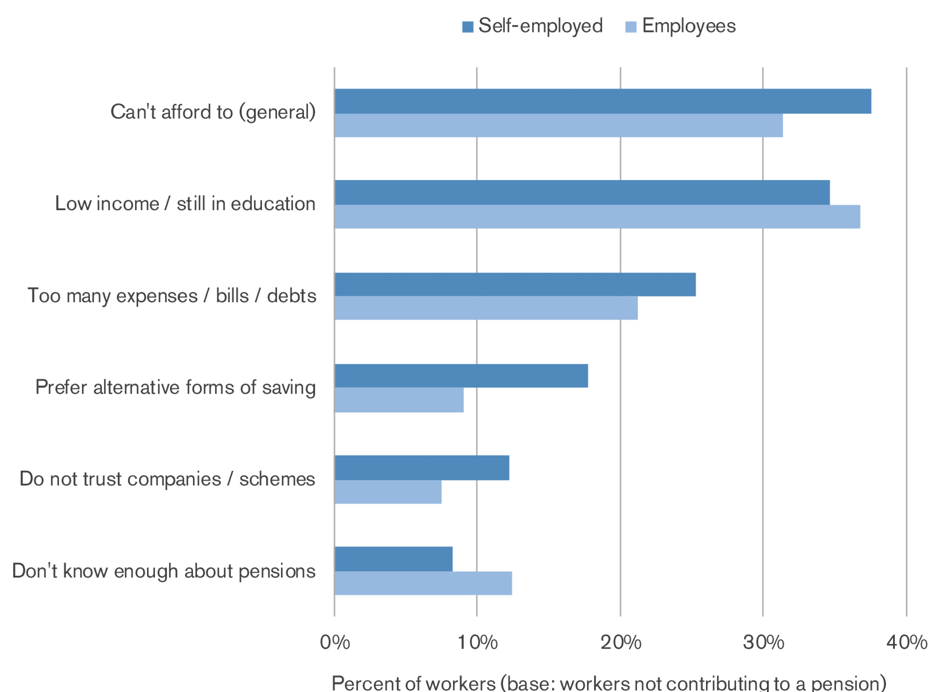
It is well known that the self-employed earn considerably less than employees. But the scale of the gap is worth repeating. According to the Family Resources Survey, the median wage for full-timers who work for themselves is close to a third less than their counterparts in salaried employment – a gap of £157 a week, or £8,164 a year.[49] Moreover, the earnings gap between employees and the self-employed has widened over the last decade. Analysis by the Social Market Foundation shows half of the self-employed earn below the equivalent of the National Living Wage.[50] Low wages in turn make it difficult if not impossible to save for the long-term. Thirty-eight percent of the self-employed with no employees say a main reason they choose not to contribute to a pension is because they cannot afford to (see Figure 8).

Top line figures can be misleading. The self-employed enjoy a lower rate of National Insurance contributions than employees, are able to claim back the cost of various expenses via tax relief, and in a minority of cases may under report their income to HMRC in order to lower their tax liabilities. Indeed, government surveys show that the self-employed are only marginally less likely to be satisfied with their income than employees.[51] However, averages can hide a multitude of circumstances,

49. RSA analysis of the Family Resources Survey (2015/16).
50. Broughton, N. and Richards, B. (2016) *Tough Gig*. Social Market Foundation.
51. Dellot, B. and Reed, H. (2015) *Boosting the Living Standards of the Self-employed*. London: RSA.

and as we have already seen there are a large contingent of the self-employed who are poor on multiple dimensions – individual, household, income and wealth.

Figure 8: Most commonly cited reasons workers give for not contributing to a pension (Source: RSA analysis of Wealth and Assets Survey Wave 4)



In addition to having low incomes, the self-employed are discouraged from saving due to fluctuations in earnings. The nature of having multiple clients and customers rather than a single employer means the self-employed are exposed to greater volatility. A taxi driver may have 100 fares one week and 50 the next, just as a farmer may have a bad harvest following a bountiful one. An RSA / Populus survey found that more than one in three (36 percent) of self-employed workers experience detrimental income volatility, which makes it difficult for them to make ends meet.[52] Late payments make matters worse. According to FSB, 30 percent of its members' bills are paid late, and nearly nine in 10 of these payments are delayed by a month or more.[53] Under these circumstances it is difficult for the self-employed to know how much they can reasonably afford to save for the future.

Even where the self-employed do earn a reasonable sum and this is received in a predictable pattern, they may have other priorities for allocating that money. As with employees, many would prefer to use it to pay for a house deposit, or a family expense such as a wedding.

52. Populus interviewed a nationally representative sample of 2,083 British adults online, of which 1,150 were in work. The survey took place in May 2017.

53. Federation of Small Businesses (2016) *Time to Act: The economic impact of poor payment practice*. London: FSB.

Others have it in mind to pay off debts incurred during the launch of their business. These objectives are not necessarily incompatible with saving for the long-term, however popular products like pensions and the Lifetime ISA do not allow for early access of funds to cover such expenses (an issue we explore in the next chapter).

The UK's obscure tax system further complicates matters. Since the self-employed pay their tax bills in arrears, many are left in doubt as to how much they owe the government and how much, therefore, they can afford to save. For example, tax liabilities accrued during the financial year April 2016 – March 2017 would have been paid by most of the self-employed at the end of January 2018, nearly 10 months after their money had been earned. What is more, recent research by Citizens Advice shows that many of the self-employed do not separate out household and business spending, with all money flowing into personal accounts.[54] This in turn makes it difficult for people to understand the state of their finances and whether money can be diverted towards personal saving goals.

Case study: Sally, 59 - black cab driver in London[1]

Sally is 59 years old and has been a black cab driver in London for almost 20 years. She lives at home with her mum and youngest son. She has seven grandchildren and is always busy supporting her family when not working. Sally gets a buzz from visiting new places in London, and initially chose her job for the flexibility it afforded her when taking care of her then young children. She gets frustrated when business is slow and she ends up hanging around on taxi ranks, and has also noticed things becoming tougher for cab drivers with the rise of Uber.

Money has been a real worry for a couple of years, but she is generally able to make ends meet. Caring for her elderly mother and the rest of the family, she finds it difficult to be organised with her finances. Card payments in cabs make it harder to juggle things as there is a delay before money gets to her account. However, taxi apps have been helping her get more jobs and she feels they are 'the way to go'. Her partner has a regular pay check and pays her a certain amount regularly for bills, but she is the one who manages the finances. She has been focused on paying off a £6,000 bill on a credit card for the past few years, and also has an overdraft.

Sally wants to work for as long as possible: "I wouldn't want to end up totally on my own and not working, it terrifies me." She knows she can't drive a taxi forever, and hopes to get an 'easier' job such as working in Marks and Spencer's. She has not been able to put any savings aside, as any extra income goes on supporting her children and grandchildren. She has never looked into pension options and knows little about how they differ from normal savings. She would like to start saving soon, but does not see how she could do this apart from by earning more money.

1. Case study formed by BritainThinks.

Do the self-employed know enough to save?

Just as financial circumstances present a barrier to long-term saving, so too does a lack of knowledge. Polling undertaken by the Association of

54. Citizens Advice (2016) Op cit.

British Insurers found that 50 percent of pension savers (enrolled through automatic enrolment) find pensions confusing, 22 percent are unaware of their contribution level, and only one in four recognise the benefits of tax relief.[55] Other research by Prudential shows that more than two out of three people over the age of 55 are still confused about the new rules on pension freedoms, which for example mean they no longer have to purchase an annuity.[56] The knowledge barrier is arguably greater for the self-employed who lack the guidance of a trusted HR department. Citizens Advice polling found that a quarter (27 percent) have never received information or advice about pensions from anyone.[57]

A related problem is the perpetuation of myths and misperceptions. The same Citizens Advice research – this time based on qualitative interviews undertaken with the self-employed – identified several points of confusion about pensions in particular. Among widely held beliefs are that pensions need to be paid at a flat rate with no flexibility, that the state pension would be reduced if people had a personal pension, and that people would not be able to pass on their pension savings as an inheritance to loved ones.[58] A further quarter (26 percent) wrongly believe that regularly paying money into an ISA will offer them better tax breaks than paying the same amount into a pension.

What accounts for this confusion? One factor is frequent changes made to government policy. In the last five years alone, a raft of measures have been announced including the introduction of auto-enrolment (the terms of which will soon be revised), the creation of new pension freedoms (including the termination of a compulsory annuity purchase), the formation of the new single tier state pension (which directly affects the self-employed), and the launch of the Lifetime ISA, seen by some as a potential replacement for pensions. Even before these changes, the landscape of long-term savings products was difficult to navigate. Consider the tax treatment of pensions, where there are several bands of tax relief, a yearly tax allowance, an annual tax allowance, and a 25 percent tax free lump sum accessible at age 55.

The dense language used by the financial services industry adds another layer of confusion. Terms like annuity, SIPP, defined benefit, defined contribution, accumulation, decumulation and master trust are bewildering to many savers – not least the time-poor self-employed. While pension providers have tried to use simpler language, statements and other communication to savers remain complicated and verbose.[59] A qualitative study by the Citizens Advice found the statements of their participants ranged from a concise two pages to a longwinded 46.[60] One saver they spoke to in his early 50s thought he would not be able to access his private pension until he was 70 because he misunderstood his statement. Poor communication is a barrier both to building savings and to accessing them.

55. The Association of British Insurers (2017) *Reframing Pension Savings*.
56. Imeson, S. (2017) Gauke calls for government and industry collaboration [article] *Pensions Expert*, 5 July 2017.
57. Citizens Advice (2016) Op cit.
58. Ibid.
59. Department for Work and Pensions (2017) Op cit.
60. Citizens Advice (2015) *Approaching Retirement*.

A lack of clarity on how pensions work may be reinforcing the view of the financial services industry as distant and untrustworthy. Research undertaken by NEST in 2014 indicated that consumers associated the industry with corruption and incompetence.[61] Last year, a survey by *Which?* found that less than a quarter of consumers – 23 percent – said they trusted long-term financial products, including pensions.[62] This is considerably lower than the 40 percent who said they trusted day-to-day banking services. While the pensions, banking and insurance industry is more honourable than some media headlines would have us believe, people's unease is understandable. Many are old enough to remember pension fiascos such as Robert Maxwell's plundering of the Mirror Group pension scheme and the near collapse of Equitable Life in 2000.

Case study: Rebecca, 25 - beauty therapist in Manchester[1]

Rebecca is 25 and lives at home in Manchester with her mum. She has owned her beauty salon for three years, where she offers hair, nails, massages, tanning and other treatments. Prior to this she worked as a beautician at other salons and spa hotels. She likes the convenience and flexibility of having her own business, however sometimes finds it to be stressful and expensive. She hopes to be doing beauty work for as long as possible, however the industry is very competitive and so she has to make sure to keep up with training herself in the latest beauty techniques.

Rebecca prides herself on being very organised and knows exactly when and how much regular outgoings leave her business account. Her income, by contrast, is irregular and varied, although December is typically her busiest time and January the quietest. She has a partner but they live separately and so do not pool their resources. She makes ends meet each month but there isn't much left over. She would like to save money but says it's too difficult at the moment. Her biggest financial concern at present is the cost of her business rent.

Rebecca thinks about the future a lot and mainly hopes to be able to move out of her mum's house and buy a place with her partner. She would love to retire when she is about 50, but doesn't feel she has done anything to prepare for retirement yet. Her mum doesn't have a pension either - she thinks that perhaps if her mum had, she would have done this too. She is worried that at 25 she might be too old to start a pension and also that "…what if I died when I'm 50? Would I not get it? Would my next of kin not get it?" She feels she does not know enough about pensions at present, particularly for self-employed people, and would not want to pick the wrong one. Trust in the pension provider is very important to Rebecca; she approves of HMRC and so likes the idea of raising the National Insurance rate. By contrast, she thinks there's a good chance of not living until aged 60, so would be wary of a Lifetime ISA.

1. Case study formed by BritainThinks.

Are the self-employed hard-wired to save?

A final set of barriers relate to behavioural heuristics and biases. The self-employed are hardwired in just the same way as employees, of course. But what is different is how human biases interact with environmental

61. NEST (2014) *Improving consumer confidence in saving for retirement*. London: NEST
62. Cumbo, J. (2017) Consumers trust banks more than pension products [article] *Financial Times*, 25 August 2017.

decision-making contexts, which are different for the self-employed. One such bias is myopia, or the propensity to discount the future more heavily than the present. People are more likely to choose to be given £100 today than wait for £105 tomorrow, but would probably be happy to wait the extra day if the gift was offered in a year's time. The psychologist Dan Gilbert believes this is because we view the near future through a concrete lens but the distant future through an abstract one.[63] This can dampen long term saving, with earners (including the self-employed) more inclined to spend for today than save for tomorrow.

An understanding of bias can also shed light on why messages and adverts that extol the virtues of saving often fail to land. Availability bias, for example, captures the human inclination to remember information that is more salient, and therefore more alarming in nature. A single headline of a pension fund crashing or story of a couple losing their savings due to reckless actions in the banking industry are more likely to be recalled than a mountain of leaflets and emails that contain information about how most pension funds offer good returns. As the psychologist Paul Slovic puts it, humans have an innate tendency to focus on the 'numerator' rather than the 'denominator' when judging risks.[64] The fear of an event often has little correlation with the probability of it happening.[65]

Another hindrance to saving is confirmation bias, which refers to our tendency to ignore information that runs counter to pre-existing beliefs. In short, people can be locked into a state of mind, even when the available evidence indicates their viewpoint to be wrong. Cognitive bias also influences how people *search* for information, such that they use particular terms and questions to arrive at answers that confirm their opinions. Again, this may have a bearing on people's financial behaviours. Once lodged in people's minds, for example, the belief that property is as safe as houses or that pensions are highly risky is not easy to budge. One study suggests many business owners are susceptible to 'post-decisional reinforcing', whereby they exaggerate the attractiveness of a decision once it has been made.[66]

The effects of these biases may be harder felt among the self-employed due to cognitive overload. A study by McKinsey found the average person is confronted with more than 100,000 words in daily communication.[67] But the drains on attention are likely to be greater for the self-employed, who are often fighting multiple fires across their business and jumping from one job to the next. With so much time spent on creating a product or service, winning over new customers and managing accounts, the self-employed have little spare cognitive bandwidth to think about their future selves. More to the point, the self-employed often have less time on

63. Wilson, T. and Gilbert, D. T. (2003) "Affective Forecasting" in Advances in experimental social psychology 35 in Dellot B. (2015) *Everyday Employers*. London: RSA.
64. Kahneman, D. (2011) Thinking, fast and slow. Allen Lane. Cited in Dellot B. (2015) *Everyday Employers*. London: RSA.
65. Rottenstreich, Y. and Hsee, CK. (2001) Money, kisses and electric shocks: on the affective psychology of risk in *Psychological Science* 12 (3).
66. Cooper, A. C., Woo, C. Y. and Dunkelberg, W. C. (1988) "Entrepreneurs' perceived chances for success in *Journal of Business Venturing* 3 (1).
67. See The Economist (2012) *Wordy Goods* [article] 22 August 2012 cited in Pink, D. (2013) *To Sell is Human*. Canongate Books.

their hands. Many work excessive hours, with 27 percent clocking over 45 hours per week, compared to 18 percent of employees.[68.]

All of these biases should be seen in the context of a self-employed workforce that operates in isolation. Unlike employees, the self-employed do not have an employer who can mitigate these behavioural frailties. The power of inertia is often cited as one of the main reasons why auto-enrolment has been so successful. People exhibit a status quo bias, meaning they often prefer to do nothing if they can stick with a decision that has already been made. Changing the default option therefore has significant effects on people's behaviour. And in this context employees must now make an active choice to opt-out, which has made the option of continuing to make pension contributions more attractive. Self-employed people, on the other hand, must make an active decision to start saving for retirement - a decision made more difficult by loss aversion.[69.] Unlike employees, whose contributions are deducted from their payslip before it reaches their bank account, self-employed people do not have an employer with oversight of their finances. It is possible that they frame the diversion of *their* profits into a financial vehicle that offers no liquidity as a short-term loss, which creates an additional cognitive barrier.

Case study: Johnny, 30 - personal trainer in Manchester[1.]

Johnny is 30 and lives in Manchester. He spends 20 hours a week as a personal trainer, doing a mix of work for the local gym and with his own clients. He has recently started working as a fitness instructor at a local school and also does food delivery for Uber and Deliveroo for around 5 hours per week. He loves the variety of his work, the sense of "creativity and flow" and has also got to know the streets of Manchester extremely well through his delivery work. He hopes to build his personal training business, and eventually he would like to open his own specialist martial arts gym.

There is some regularity to Johnny's financial month, especially with outgoings. These are relatively few as he lives with his friend and his friend's dad, and pays them £35 rent a week, which he sees as a "very sweet deal". He is careful with his money and keeps track of what he has. He won't buy things without checking he has enough money for them. Overall, he doesn't feel he is short of money but thinks it's good to be frugal: "It's good to keep a bit of an impoverished mindset." His biggest financial concern is that he feels he may have all his "eggs in one basket", in that all his work relies on him being physically fit. If he injured himself he is not sure what he would do.

Johnny knows that he won't be able to rely on his physical fitness to make a living into his 50s, 60s and 70s. He is, however, keen to keep working for himself and also wants to invest his savings in something that will grow over time - he thinks that property and index funds are two good bets. He likes the idea of "accumulating wealth, having a set-up or a business that can be managed less and less by me over time." Pensions do not appeal to him, primarily because he wants control of his own money and values "liberty".

1. Case study formed by BritainThinks.

68. ONS, HOUR02: Usual weekly hours of work (all in employment): People by usual weekly hours (seasonally adjusted) (2018).

69. Loss aversion is the human tendency to prefer avoiding losses to acquiring equivalent gains. Losses loom approximately two to three times larger than gains.

Having looked at the various barriers to pension saving, the next chapter spells out twelve interventions that could begin to overcome them – from new products like the sidecar pension model to the use of nudge techniques like auto-escalation.

Twelve fixes

Four pillars, twelve fixes

Whether it is a result of cognitive biases, volatile earnings or a bewildering menu of financial products, many of the self-employed are not saving sufficiently for the future. But what would it take to turn things around?

With a new report on pensions emerging every few months and multiple events dedicated to analysing the pension landscape, there are no shortage of ideas in circulation. However, the debate tends to be both shallow and narrow. Shallow in the sense that little consideration is given to whether a policy or practice proposal is affordable, fair vis-à-vis employees, or politically tolerable. And narrow in the sense that the overriding focus of thought leaders is on how to boost pension take-up among the self-employed, with less attention paid to encouraging them to save enough or make use of those savings appropriately in retirement. Moreover, rarely do reforms attempt to address the underlying causes of under saving, such as volatile incomes made worse by late payments.

In this chapter we take a step back and consider the full spectrum of potential interventions open to the government and financial industry. Twelve ideas are outlined in total, divided between four sequential steps of the saving journey: (i) saving something; (ii) saving enough; (iii) accessing savings before retirement; and (iv) accessing savings during retirement. These are summarised in Table 3 below.

1. Saving something

Pitting pensions against the Lifetime ISA

When the government introduced the Lifetime ISA in 2017, the intention was to offer an additional financial product that would encourage people to save for the future. But it may have made an already puzzling financial landscape even more difficult to navigate. Indeed, it appears that pensions and the LISA have been pitted against one another as competitive products, leaving prospective savers confused and liable to make poor judgements. Consumer platforms including *Which?*, *Money Saving Expert* and *Unbiased* have all rushed to offer guidance on whether savers should steer towards a LISA or a pension. So how do they compare?

Table 3: The four pillars of retirement security		
#1 Saving something	How can the self-employed be encouraged to save at all?	▪ Clarify the purpose and value of the LISA in relation to pensions ▪ Redouble efforts to find a workable auto-enrolment model for the self-employed ▪ Create a Pensions Passport to help people carry over pensions from employment ▪ Raise Class 4 NICs to combat bogus self-employment
#2 Saving sufficiently	How can the self-employed save enough to live comfortably in retirement?	▪ Pilot an auto-escalation scheme to boost saving rates through inertia ▪ Turn the new Pensions Dashboard into a broader Money Dashboard ▪ Task the single financial guidance body with offering pension advice
#3 Accessing savings pre-retirement	How can the self-employed access their savings at times of need whilst still working?	▪ Launch sidecar pension models that combine short-term saving accounts with a long-term pension ▪ Extend eligibility of the LISA to older savers by raising the age threshold ▪ Present an IP insurance option as part of a new auto-enrolment package
#4 Accessing savings pre-retirement	How can the self-employed make use of their savings responsibly during retirement?	▪ Introduce auto protection rules that default retirees onto a drawdown scheme ▪ Draft the regulation required for CDC schemes, and factor in the self-employed

The LISA is open to all savers under the age of 40, and offers a bonus of £1,000 for every £4,000 deposited, up to a total value of £32,000. The savings can be accessed by account holders when they purchase a first home or at the point they reach their sixtieth birthday. The bonus is withdrawn if account holders want to access the LISA for any other purpose. The LISA is seen by some as well suited to the self-employed because all the savings are theoretically available should there be an emergency. Previous research by NEST has also shown that many people prefer ISAs over pensions because they are simpler to understand and involve fewer intermediaries.[70.] A 25 percent 'bonus' with tax paid on withdrawals is easier to make sense of than the complex tax rules underpinning pensions.

Yet pensions have a number of advantages for the self-employed. Contributions made into a pension receive tax relief set at the marginal income tax rate of the saver – either the basic rate of 20 percent for those earning up to £45,000, the higher rate of 40 percent for those earning above this amount up to £150,000, and the additional rate of 45 percent for anyone with a higher income than this. For the majority of people on the basic rate, this means they only need to contribute £80 to save £100 in a pension, with tax relief making up the difference. Basic rate taxpayers therefore accrue the same core tax advantage whether they save through a pension or a LISA. However, pension savers benefit from several additional perks, among them:

70. NEST (2014) Op Cit.

- A tax-free lump sum worth 25 percent of their pension pot.
- Access to their full pension pot at the age of 55 rather than 60 as is the case with the LISA.
- No inheritance tax on their pension pot should they die before the age of 75.

Beyond the matter of differing tax treatments, pensions have the added advantage of enjoying higher returns. Because the money is locked away for a lengthy period – often over several decades – pension fund managers are able to invest in more volatile assets, the value of which can rapidly rise and fall in the short term but grow significantly over time. In contrast, the Lifetime ISA is used both as a short and long-term savings vehicle, meaning providers are likely to take more cautious investment strategies and that final pot sizes will be smaller. Skipton, the only building society that offers a cash LISA, offers interest rates at a relatively meagre 0.75 percent per annum. Contrast this with the 10 percent return averaged by pension funds in 2017.[71.]

Overall the LISA comes across as an overstretched and confused financial product – a jack of all trades that attempts to do too much. Investing in a LISA does make sense for some groups of savers, particularly low earners (who stand to gain less from the various tax reliefs of a pension) and the self-employed with highly volatile earnings (for whom liquidity is essential). Yet it seems unwise, as some have advocated, to champion the Lifetime ISA as a potential replacement to a pension for the self-employed. As the ex-Pensions Minister Steve Webb argued in an interview with us, it would be better to improve upon the vast pensions infrastructure already in place than to start a new savings system from scratch. This could be achieved by introducing a degree of liquidity to pension products – an idea we explore later in the chapter.

In the meantime, the government should, as a matter of urgency, clarify its strategy for the Lifetime ISA, explain what value it is meant to add to existing pension provision, and ensure the new single financial guidance body supports savers to make an appropriate choice based on their personal circumstances.

Recommendation #1

The government should clear up the confusion surrounding the Lifetime ISA by restating its purpose and value. The government should:
(i) clarify its long-term strategy for the Lifetime ISA
(ii) be clear on what it offers that existing pensions do not; and
(iii) ask the new single financial guidance body to help savers understand whether it is the right product for them.

To auto-enrol or not to auto-enrol?

Assuming pensions are the right product for most of the self-employed, what is the best way of encouraging them to sign up? One solution is less

71. Kubiak, P. (2018) The average pension fund returned 10 percent in 2017 [article] *YourMoney.com*, 10 January 2018.

to compel and more to 'nudge'. Stalwarts of behavioural science have advocated extending auto-enrolment to the self-employed, pointing to how it has radically improved pension coverage among employees. In the four years following its introduction, the proportion of employees signed up to a personal pension jumped from 49 percent in 2011-12 to 62 percent in 2015-16 – a figure that will grow further as smaller companies become subject to the regulation. It is too early to judge the full impact of auto-enrolment, since the minimum contribution rates for employees are due to rise further, possibly leading to greater attrition. Yet it is impossible to deny the transformative effects of this policy.

Despite this, the government continues to give a lukewarm reception to the idea of bringing the self-employed under the purview of auto-enrolment. The Auto-Enrolment Review, published in December 2017, concluded that 'there is no employer to automatically enrol the individual into saving and so we have considered and rejected the idea'.[72] Rather confusingly, the Review then goes on to list several promises that could amount to a form of auto-enrolment, or what some might describe as 'assisted enrolment'. This includes the commitment to test whether banks could act as touchpoints that encourage the self-employed to save, and to explore whether organisations that use self-employed contractors (for example IT contractors or construction workers) can play a role in enlisting them onto a pension.

The government is right to be cautious in the short term, but it must be ambitious in its direction of travel. We urge the government to reconsider its stance on auto-enrolment for the self-employed and take a lateral view on how this might be realised. Several variants of the employee model have already been aired. One of these is to nudge the self-employed with a 'forced choice' question, compelling them to decide – yes or no – whether they would like to sign up to a personal pension. The question could be presented to the self-employed at the point they complete their self-assessment tax return, with the information passed on to pension providers who could follow up separately. A Harvard University study into the use of a forced choice question at a US company found that pension enrolment rates grew from 9 percent to 34 percent in the first four months of job tenure.[73]

However, this approach arguably leaves too many gaps through which prospective savers might fall. Crucially, it depends on pension providers taking the action to follow up with the self-employed and agree a payment schedule. A different approach is to place responsibility for enrolment with accountancy software providers, such as Sage, Crunch and QuickBooks. In practice they could present the forced choice question to their self-employed users, who could agree to automatically deposit a given proportion of their profits every month to one of several pension plans offered to them. Unlike banks, who have an incomplete picture of savers' finances, accountancy software providers understand both their revenue and expenses, and can increasingly estimate their tax liabilities too.

The government should follow through with the Review's proposal to work with accountancy providers on these terms, and – depending on the outcomes of a pilot – consider creating a new duty for them to enrol

72. Department for Work and Pensions (2017) Op cit.
73. Carroll, G. (2005) *Optimal defaults and active decisions* [NBER Working Paper].

self-employed clients onto a pension. The age and earnings thresholds at which this duty takes effect should mirror those for employees. The Auto-Enrolment Review recommended that the criteria for enrolment be expanded to include 18-21 year olds, and suggested that pension contributions for participants be based on all their earnings rather than those above £5,876.[74] But the deadline for implementing these extensions – by the mid-2020s – is achingly slow. Moreover, the Review could have gone further by removing or reducing the £10,000 earnings trigger at which workers are signed up to a pension. We hope the government is open to reviewing the timeline and scope of its reforms.

Recommendation #2

The government should reconsider its opposition to auto-enrolment for the self-employed, and follow through with a proposal to view accountancy software providers as the 'employer'. The government should continue to review the options for auto-enrolling the self-employed onto a pension, potentially through a 'forced choice' question. It should also proceed with an investigation to treat accountancy software providers as the de facto 'employer', with a duty to enlist their self-employed clients onto a pension scheme.

It is worth noting that gig workers who are classed as 'workers' in terms of their employment status may be entitled to auto-enrolment, depending on their age and income.[75] However, some people in this position may be unaware of this right, while the government may not have the resources to enforce the law.

A new pension passport

One idea routinely raised is to create a specific and bespoke pension product for the self-employed. The business group IPSE, for example, recently called upon NEST to create a 'flexible pension solution for the self-employed, allowing them to withdraw the last two years of contributions without penalty'. We will return to the issue of liquidity later in the chapter, but the core idea of a product aimed squarely at the self-employed is problematic. First, there is a danger of giving the self-employed special treatment, which undermines fairness in the labour market and risks creating incentives for bogus self-employment. But more fundamentally, the idea fails to recognise the fluid boundary between the self-employed and employees, with many workers experiencing periods of both job types during their lifetime.[76]

Helpfully, more data is emerging to give us a clearer idea of when people move into self-employment and how long they stay there. Analysis from the Department for Work and Pensions suggests the mean age at which people enter self-employment is 32.[77] This suggests many have had previous experience working for an employer, and indeed other data bears this out. Looking at people with at least 10 years of tax records, the

74. Department for Work and Pensions (2017) Op cit.
75. Balaram, B. et al. (2017) *Good Gigs*. London: RSA.
76. IPSE (2016) *Independent Professionals: Pensions and Retirement Savings*.
77. Department for Work and Pensions (2017) Op cit.

Pensions Policy Institute and Old Mutual Wealth find that the vast majority (75 percent) who had at least one year in self-employment had spent less than half their working age working for themselves.[78] Just a fraction (4 percent) had remained in self-employment across all the 10 years analysed. What is more, for 90 percent of those who had experience of both types of work, employment occurred before the first spell of self-employment.

Recommendation #3

The government should explore options for a Pensions Passport system that would enable the self-employed to carry over a pension from previous employment. The government should work with pension providers and industry bodies to scope out options for creating a Pensions Passport scheme that would allow the newly self-employed to carry forward a pension with a previous employer, potentially facilitated by a reminder when they register as a sole trader with HMRC or as a company with Companies House.

The implication is that a large number of people in self-employment today are likely to have workplace pensions built up during a previous period working for someone else. The Pensions Policy Institute say this could be true for as many as 500,000 of the self-employed.[79] A potentially transformative intervention therefore could be a Pensions Passport system, which would enable the newly self-employed to carry over a pension from a job they have recently left. The establishment of the new Pensions Dashboard will make it easier to track one's pensions in a single place (more on this below). However, a Pensions Passport scheme could involve active nudging, for example by presenting people with a reminder to contact their workplace pension provider at the point they register as a sole trader with HMRC or as a company with Companies House. The government could also allow pension providers to automatically follow up with savers who have recently left a workplace pension and offer a continuation of their scheme.

Box 4: Calling time on bogus self-employment

Citizens Advice estimate that one in 10 of the self-employed clients who walk through their doors are in the wrong employment status.[10] Were they to be correctly classified as a 'worker' or 'employee', they would be entitled to auto-enrolment and possibly benefit from employer pension contributions. The government recently launched a new consultation on employment status that should result in clearer markers of job types, thereby reducing the scope for misclassification. However, bogus self-employment will remain widespread unless the government engages in meaningful tax reform. This means levelling National Insurance contribution (NICs) rates between employees and the self-employed and – in time – finding a self-employed equivalent to Employer NICs.

78. Pensions Policy Institute and Old Mutual Wealth (2017) *Policies for increasing long-term saving of the self-employed.*

79. Ibid.

2. Saving enough (and efficiently)

Onwards and upwards

It is not enough to encourage the self-employed to begin saving. They must also be supported to *raise* their contributions to a sufficient level. What that level should be is contested, and will be different for every individual based on their personal circumstances. The concept of 'target replacement rates' – explained in the second chapter – reveals that lower earners should stow away a higher proportion of their income to sustain the living standards they are accustomed to. The Resolution Foundation estimates the self-employed have a median earnings replacement rate of just 53 percent, revealing an alarming degree of under saving.[80] But even were the self-employed to be auto-enrolled and contribute the planned minimum of 8 percent of their earnings to a pension, many would still fall short of their target rate. The Pensions and Lifetime Savings Association argues that minimum auto-enrolment rates need to rise to at least 12 percent, while others like the Pension Institute say 15 percent.

So how can the self-employed be supported to reach these ambitious targets? The pensions company Royal London had previously suggested using the apparatus of the tax system, raising the rate of Class 4 NICs for the self-employed from nine percent to 12 percent, plus another 5 percent to meet the 8 percent minimum for auto-enrolment.[81] The extra amount would then be deposited in a pension of their choice. The attraction of this solution is that it offers 'something for something', in that the uplift in taxation is ultimately all for the benefit of the saver. But the proposal is also patently unfair. Why, employees would ask, should a portion of the taxes paid by the self-employed go into a personal pension when theirs do not?

This is not to say the tax system cannot be used to spur saving. Indeed, the next chapter presents a plan to reform the tax relief system in this vein. However, more immediate solutions should focus on people's own capacity for saving. One idea is 'auto-escalation', which could run in tandem with an extension of auto-enrolment to the self-employed. Auto-escalation enables savers to allocate a percentage of future salary increases to their pension, so that for example a 50 percent commitment on a 5 percent wage rise would result in a 2.5 percent rise in pension contributions. The scheme, known as Save More Tomorrow in the US, circumvents the loss aversion bias described in the last chapter.[82] Among workers who took part in the first trial, average saving rates rose from 3.5 percent to 13.6 percent after the fourth pay rise.[83]

Of course, the self-employed do not experience a 'salary increase' like employees do. We have already seen how their income is characterised by volatility, so a spike in earnings could well be short lived. This means a direct replication of Save More Tomorrow would not work for the self-employed. However, a variant of this model could be for them to

80. Finch, D. and Gardiner, L. (2017) *As Good as it Gets?* Resolution Foundation.
81. Royal London (2016) Op cit.
82. Thaler, R. and Benartzi, S. (2004) Save More Tomorrow: Using behavioural economics to increase employee saving in *Journal of Political Economy* Vol. 112, No. S1.
83. Stapleton, J. (2017) How 'Save More Tomorrow' programmes work [article] *Professional Pensions*, 10 October 2017.

designate a percentage of their revenue (or profit) to a personal pension and commit to increasing this figure incrementally over time. This could again be facilitated by accountancy software providers.

Recommendation #4

The government should pilot an auto- escalation scheme to boost saving rates among the self-employed. Inspired by the promising results of the Save More Tomorrow scheme in the US, the government should work with pension providers and accountancy software providers to pilot a form of auto-escalation. This would allow savers to commit to gradually increasing the percentage of their earnings that go into a pension over time.

Scaling up the new Pensions Dashboard

The beauty of auto-escalation is that it makes use of inertia. However, there is only so much that nudging can achieve. At some point the self-employed will need to actively engage with their finances. Fortunately, a new data platform in the form of a Pensions Dashboard is due to be launched later in 2018. Once fully established, it will bring together in a single place all of a saver's pension accounts, allowing them to keep track of their retirement savings and understand how close they are to realising their goals. With millions of pounds worth of pension funds going unclaimed every year, this information portal is sorely needed. However, the government must keep a close eye on its development, which is being driven by the financial industry, and be willing to step in if progress proves sluggish. The Work and Pensions Committee recently called for the government to mandate that all pension providers release their data for the dashboard.[84]

It is already possible to see where improvements could be made. As it stands, the Dashboard plans to provide information on the size of people's pension pots. But could it not also predict what these savings will generate in terms of retirement income? Users should also be able to experiment with different scenarios to understand how alternative saving strategies could change their final pension pot. In the longer term, the government should push for the Pensions Dashboard to become a more comprehensive Money Dashboard – one containing information on every aspect of a saver's financial wellbeing. This includes data on cash accounts, saving accounts, ISAs, shares and stocks, state pension entitlement and possibly even debt obligations. CPS research fellow Michael Johnson envisages a situation where Dashboard users can 'drag and drop' money seamlessly from one account to another, for example offsetting high cost consumer loans against positive cash balances.[85]

A Money Dashboard of this kind would be a sizeable fintech project, making use of the latest developments in UX and the new 'open banking' APIs, which facilitate the sharing of financial information. But modest applications of fintech also exist that can help people better understand their financial position. Smart Pension, a workplace pension platform open to the self-employed, recently launched an app and an Alexa skills,

84. Work and Pensions Committee (2018) *Pension Freedoms*.
85. Johnson, M. (2016) *The Pensions Dashboard*. Centre for Policy Studies.

allowing account holders to instantly find out how much they've saved so far. Coconut, meanwhile, is a new current account designed specifically for the self-employed, which helpfully estimates tax liabilities and automatically categorises transactions to flag potential expenses. The challenge these apps face is getting people to use them, particularly the less tech savvy. The EY FinTech adoption index highlights that younger, higher income consumers in developed urban areas are the biggest users of these applications.[86.]

Recommendation #5

The government should create a roadmap for turning the Pensions Dashboard into a comprehensive Money Dashboard. The government should encourage the financial industry to raise its ambitions for the Pensions Dashboard and in time transform it into a wider Money Dashboard, giving savers a rich account of their financial wellbeing and helping them make better saving decisions.

You say guidance, I say advice

So far, we have discussed how to present the self-employed with accurate and timely information to boost saving rates. But how are they to make sense of this knowledge? For the millions who are unfamiliar with the relative advantages of different saving products and how much money they should put away, advice and guidance can be invaluable. It is concerning, then, that a 2015 YouGov and Citizens Advice poll found a quarter (27 percent) of the self-employed said they had never received information about pensions from anyone, with a further 5 percent saying they do not recall.[87.] The absence of a HR department that can steer them in the right direction is partly to blame. Among employees, 46 percent said they had received pension information from their employer. The problem is starkest for the lifetime self-employed who have zero contact with HR systems.

The good news is that the government has pledged to launch a new single financial guidance body, which should be up and running after autumn 2018. Its purpose is to provide 'debt advice, money guidance and pension information and guidance', and in doing so will merge the work of the Money Advice Service, Pension Wise and The Pensions Advisory Service under a single banner. But while this consolidation is sensible, it remains to be seen whether the new body will have the wherewithal or mandate to offer meaningful support on pension decisions. Critics say it should commit to offering not just *guidance* on pensions but *advice*, meaning in practice that clients receive an active steer based on their personal circumstances. The financial journalist and broadcaster Paul Lewis goes as far as to say that "the plan is part of giving the financial services industry a monopoly over the word 'advice'."[88.]

The government should heed these warnings and commit the single financial guidance body to offer clear cut *advice* on pensions. It should

86. Wallace-Stephens, F. (2016) *Is fintech just for the rich?* [Blog] The RSA.
87. Citizens Advice (2016) Op cit.
88. Lewis, P. (2017) The end of advice as we know it [article] *Money Marketing*, 18 September 2017.

also embrace the recommendation from John Cridland's review of the State Pension age to fund a programme of 'mid-life MOTs', the financial aspects of which could be run by the SFGB.[89] In doing so, the government and the SFGB should draw upon the ever-growing corpus of research on behavioural insights to understand how best to convey their advice. This could mean organising pension appointments by default for the most vulnerable groups (as recently suggested by the Work and Pensions Committee), crafting bespoke messages for savers based on their beliefs and preferences, and – if possible – finding ways of reaching out to people at key 'life moments' when they are more receptive, such as when they enter a new job or get married.[90]

Recommendation #6

The new single financial guidance body should be tasked with offering both guidance and advice on pensions. In the absence of impartial long-term savings support for all workers, particularly the self-employed, the government should expand the remit of the SFGB to offer advice on pensions, so that clients have an active steer on how to save.

Box 5: Managing late payments

The self-employed could feel more comfortable putting money into reserve if they had smoother income patterns, and in particular fewer late payments. In a report published in 2017, the RSA called for a new 'right to a written contract' that would mandate the use of a contract above a given invoice size.[11] The purpose would be to clear up any confusion over payment terms by clearly stating how much and when clients would be expected to pay, and for what services. New York City recently established such a rule, while Labour MP Catherine McKinnell hopes to draft similar legislation for the UK

3. Accessing savings before retirement

Liquid assets for a liquid labour market

Our third set of recommendations relate to the accessibility of savings. Of all the attributes that define self-employment, none stand out more than its inherent insecurity. Taxi drivers can never be sure how many fares they will have from one day to the next, just as plumbers and electricians are blind to how many call outs they will receive in a week. Income is thus characterised by feast and famine. To make matters worse, the self-employed have no access to Statutory Sick Pay should they fall ill on the job, meaning any time spent in recovery is a period of zero earnings. For

89. Cridland, J. (2017) Smoothing the transition. *Independent Review of the State Pension Age*.
90. Eberhardt, W. (2017) *The retirement belief model* [blog] NEST, 7 April 2017.

these reasons, the self-employed are naturally reluctant to lock away their savings in an impenetrable pension, which is only accessible at the age of 55.

Well aware of this problem, several business groups have called for greater liquidity so that the self-employed can dip into funds as they need to, and therefore feel more comfortable saving for the long-term. Some say the UK pension system should copy elements of the 401(k) model in the US, which permits savers to take out loans against their pension plans subject to certain 'triggers' being met, such as a major medical expense.[91] While this idea has merit, the push for flexible saving products could easily backfire. Proponents of the US 401(k) system overlook the significant leakage that has occurred from pensions funds. Between 2004 and 2010, for every dollar contributed to retirement accounts among individuals under age 55, between 29 and 40 cents were withdrawn as taxable distributions.[92]

The question is whether a method exists to give the self-employed greater access to their savings without allowing excessive drawdowns. According to the Aspen Institute in the US, the answer is to create a sidecar pension model. This would involve wrapping two savings products within one: a short-term rainy day account and a standard pension account. Money going into the scheme would be automatically split between the two accounts, until a threshold has been reached on the rainy day fund (say, £1,000). At this point all the money would be channelled into the pension. A similar scheme called Accessible Pension Savings (APS) has been suggested by the UK debt charity StepChange.[93] This would appear to operate in the same way, except that StepChange recommend their rainy day fund only be accessible under strict criteria, such as emergency home repairs.

The attractiveness of both these proposals is that they offer a degree of upfront liquidity, while using the power of inertia to boost long-term savings which are rightly frozen. Helpfully, the Pensions Policy Institute (PPI) recently analysed the financial implications for different types of savers, looking in particular at what might happen were people to access a rainy day fund multiple times.[94] Assuming this fund's threshold is set at £1,000, the PPI calculates that a woman earning at the 10th percentile (ie a very low earner) would be affected as follows:

- If she **never** uses the rainy day fund, her final pension pot would be 2 percent smaller.
- If she uses the rainy day fund **once in its entirety**, her final pension pot would be 7 percent smaller.
- If she uses and replaces the rainy day fund **four times**, her final pension pot would be 20 percent smaller.

91. Evans, R. (2014) What British investors could learn from America [article] *Daily Telegraph*, 24 March 2014.
92. Bipartisan Policy Center (2016) *Report of the commission on retirement security and personal savings*.
93. Pensions Policy Institute and StepChange (2017) *Using accessible pension savings to provide a financial safety net*.
94. Ibid.

In short, the more the rainy day fund is used, the more depleted a person's final pension pot will be. Yet were the rainy day fund not in place, the chances are that a large number of savers faced with an emergency would cease making pension contributions altogether – an altogether worse outcome. While people's intention may be to take a short-term hiatus, many would forget to renew their pension or knowingly shun this savings route for fear of facing a repeat emergency. A rainy day fund could also help people avoid using unscrupulous lenders who charge exorbitant interest rates. The PPI estimates that £1,000 worth of accessible cash savings could reduce the likelihood of someone falling into problem debt by 44 percent.

The sidecar and API designs are not perfect. For example, it remains to be seen how tax relief on contributions would be managed. Should relief be applied to the money that flows into the rainy day fund as well as the main pension fund? If so, would drawdowns from the rainy day fund then be subject to the same tax treatment as a pension (ie tax paid at the marginal income tax rate on withdrawals)? For the StepChange scheme, there is also the question of how to determine when people meet the access criteria. Nevertheless, the idea of wrapping together a short term savings account with a pension product shows significant promise, hence why NEST has committed to a trial of the sidecar scheme this year. Other pension providers should pay close attention and decide whether they can follow suit.

Recommendation #7

Pension providers should consider launching sidecar products that combine a short-term savings account with a long-term pensions account. Pension providers should explore the possibility of creating a special product that combines a rainy day fund and a pension account under one umbrella, thereby giving the self-employed the liquidity they desire without undermining a long-term savings culture.

Making the most of the LISA

At the outset of this chapter we called on the government to clarify its strategy for the Lifetime ISA. Without understanding the logic behind it, prospective savers will continue to be confused by two financial products that ostensibly share the same aim. In the meantime, we can form our own opinion as to who the LISA could best serve, assuming its structure remains broadly intact. Chief among these are low earners with volatile incomes, for whom the LISA would provide a degree of liquidity while meeting their modest target replacement rates. Were someone to save £1,000 a year in a LISA account from the age of 18 to 50, they would receive £8,000 in bonuses from the government, on top of a personal contribution of £32,000. Taking into account the benefits of compound interest, this sum combined with the state pension could offer a modest retirement income.

A problem, however, is that the LISA is closed off to a large number of people owing to age restrictions. An account can only be opened by those under the age of 40, and will only pay bonuses up to the age of 50,

although people can continue paying into their pots until they reach the age of 60. It is unclear why these age barriers remain in place, other than to keep a lid on the overall cost to the Exchequer. But because take-up of the LISA has been lower than expected, the Office for Budget Responsibility believes the scheme is running under budget. We recommend the government consider raising the age threshold at which people can open a LISA from 40 to 50, and possibly increase this further subject to affordability. Such a move would be particularly beneficial to the self-employed, who are typically older than their counterparts in employment.

Recommendation #8

The government should extend eligibility of the Lifetime ISA to older savers, beginning by moving the age threshold from 40 to 50. As well as clarifying the purpose of the LISA, the government should raise the age threshold under which an account can be opened from 40 to 50, offering a compelling long-term savings option for the many self-employed workers on low and volatile incomes.

Coping with ill health

The last two recommendations are aimed at giving the self-employed easier access to their savings, such that they feel able to put money away without fear of being left stranded during an emergency. But what if we could also limit the chance of those emergencies occurring in the first place?

High up on the priority list should be finding a replacement for Statutory Sick Pay. SSP entitles employees to £89.35 a week for up to 28 weeks, however employers usually pay more than the minimum required. In contrast, the self-employed who fall ill have to rely on the Employment and Support Allowance (ESA), worth £73.10 a week for the over 25s. This is not an insignificant sum, however the problem arises after 13 weeks when payments can become conditional on the receiver applying for work and attending regular interviews, depending on how they fare on the Work Capability Assessment. The Association of British Insurers estimate 80,000 self-employed workers move onto ESA every year.[95]

Fortunately, there is a market-led alternative in the form of income protection insurance, which pays out a percentage of claimants' wages should they become ill or injured. There is often a modest waiting period before payments can begin, yet cover can in theory last until people retire or become fit and ready to work. Given how much the self-employed have to lose from ill health, it is surprising how few take out income protection insurance. Polling by the FSB found that just 9 percent of their members had taken out a policy.[96] One reason is due to the cost and how this varies by occupation. Another is myths about the difficulty of making a claim. ABI research in 2012 found that consumers estimate somewhere between

95. Association of British Insurers (2014) *Welfare reform for the 21st century*. ABI.
96. Federation of Small Businesses (2016) *Going it Alone, Moving on Up: Supporting self-employment in the UK*.

38 and 50 percent of IP claims are paid. But the reality (based on 2013 data) is 91 percent.[97]

There is only so much the insurance industry and the government can do to clear up falsehoods. Yet measures can be taken to limit the cost of premiums and make IP insurance more affordable. The challenge is to drum up enough commitment so as to generate economies of scale, which in turn makes administrative costs more manageable. A straightforward solution would be to present an insurance policy option to the self-employed at the same time they complete their self-assessment tax return. The self-employed who sign up could either be directed to one of a number of pre-approved private insurance providers, or enrolled onto a government-backed insurance scheme in the same mould as NEST. Inspiration can be taken from Australia's Group Salary Continuance (GSC) system, which offers IP insurance as a non-compulsory option attached to pensions.[98]

Recommendation #9

The government should present the self-employed with an IP insurance policy option when they complete their self-assessment tax return. The government should work with the insurance industry to nudge the self-employed to take out income protection insurance, potentially at the same time they are asked to join a pension scheme. This would generate the economies of scale needed to bring down the cost of unaffordable premiums.

4. Accessing savings after retirement

Shifting from accumulation to decumulation

There is little point in people building savings over their careers if that money is hastily spent in retirement. As one expert we interviewed told us, "Until people can be assured of having an income from the time they retire until the time they die, then we don't have a solution." Decumulation – as the drawing down of long-term savings is known – has taken on greater significance since the last government introduced pension freedoms in 2015. These meant savers no longer had to take out an annuity but could instead access all their money in one go. Fears this would lead many to irresponsibly splurge their cash on Lamborghinis and other luxury goods appear overstated.[99] But the broader concern that retirees will have difficulty making their money last until they die are justified, particularly when unexpected care costs are taken into account. A new and concerning trend is for people to divest a large sum from their pension and deposit it in low interest current accounts.[100]

97. ABI (2014) Op cit.
98. Ibid.
99. Citizens Advice (2016) *Life after pension choices*.
100. Jefferies, T. (2017) The downside of pension freedom: over-55s moving retirement funds to current accounts, where value is likely to dwindle [article] *Thisismoney.co.uk*, 21 April 2017.

How might decumulation be improved? The new single financial guidance body will be tasked with offering impartial information on drawdown strategies, as PensionWise does today. But given the amount of money at stake and the severe consequences of financial mismanagement, the government should intervene more decisively. A sensible idea tabled by Michael Johnson of the CPS is 'auto protection'.[101.] Building on the same behavioural principles behind auto-enrolment, this would default every new retiree onto a scheme that draws down 5 percent of their pension pot on an annual basis. An alternative would be to default savers onto an annuity, however this has the disadvantage of being impossible to escape at a later date, comes with added regulatory costs, and broadly seems out of tune with people's desire to hold onto their cash. To streamline auto protection, the government could allow NEST to engage in decumulation schemes, which it is currently barred from.

Recommendation #10

The government should introduce auto protection rules that default savers onto a drawdown scheme during retirement. To help people spend their savings carefully in retirement, the government should default people onto an automatic drawdown scheme at the age of 65, which withdraws 5 percent from their pension pot on an annual basis.

Going the distance with CDCs

While auto protection would prevent people from mismanaging their funds, it does not help retirees manage the risk of running out of money in the long-term. Many people will live for 10 years after retirement and have more than enough in their pension to tide them over. But a significant minority will live well into their 90s and have sizeable care costs to shoulder – bills which may not have been expected nor planned for earlier in life. Annuities once dealt with this problem by allowing people approaching retirement to exchange a chunk of their pension pot in return for a guaranteed income until their death. However, the current annuities market is challenging, with wide variations in costs. A 2015 *Which?* survey identified more than £10,000 in fee differences between products at the 10-year mark.[102.] In addition, solvency requirements oblige annuity insurers to invest in safe but low yielding investments, meaning less long-term bang for people's short-term buck.[103.]

It may be that the annuity market corrects itself over time. But with pension freedoms eroding the economies of scale that providers once enjoyed (ie through compulsory annuitisation), this seems unlikely. Fortunately, there are other risk management solutions available, chief among them Collective Defined Contribution CDC schemes.[104.]

101. Johnson, M. (2017) *Auto-protection*. Centre for Policy Studies.

102. Peters, A. (2017) DWP blocks Nest drawdown in favour of industry innovation [article] *Pensions Expert*, 3 March 2017.

103. Nolan. H. (2014) The problems with annuities [article] JLT, 21 July 2014.

104. See Manthorpe, R. (2010) *Tomorrow's Investor Report*. RSA; Pitt-Watson, D. (2013) *Collective Pensions in the UK II*. RSA; and Pitt-Watson, D. (2014) *Collective Pension Plans*. RSA.

Commonplace in Holland and Canada, CDCs operate by allowing a large collective of people to save together and pool money into a joint fund which they all draw upon during retirement. Unlike Defined Contribution plans, savers don't receive an individual pension pot at retirement but rather a regular income drawn from the pot, which is set as an 'ambition' but may change owing to economic circumstances. By pooling risk in this way, all participants are protected regardless of whether they live to 65 or 100. CDCs are typically targeted at employees, but could may well work for the self-employed.

This pension innovation is not without its critics. Some say it is just as rigid as annuities, paying out the same amount to pensioners every year regardless of whether they need less or more (care costs are likely to get higher as people age). Others argue there is no meaningful desire for CDCs in the UK, and what demand there is has been artificially inflated by its proponents.[105] These concerns should be heeded, but they are not enough to dismiss the CDC outright. Only recently, Royal Mail proposed replacing its Defined Benefit scheme with a CDC, while the Work and Pensions Committee has launched an inquiry to consider its potential.[106] The government must take such interest seriously and begin drafting the regulatory architecture that CDCs need to get up and running. In doing so, it should pay particular attention to the scope for the self-employed to pool their savings and their risks during retirement.

Recommendation #11

The government should draft the regulation required for Collective Defined Contribution schemes to take off, and factor the self-employed within these plans. The government, informed by the findings of the Work and Pensions Committee inquiry, should finish the regulatory framework for CDCs, and in doing so consider what safeguards need to be in place for the self-employed to create their own CDC models.

An Office for Financial Security among the Self-employed

The breadth of recommendations detailed in this chapter shows just how much scope there still is to improve the economic fortunes of the self-employed. Equally, we have shown a number of popular proposals to be unjust or unworkable upon closer inspection. This tells us that the debate on how to bolster the retirement security of the self-employed remains nebulous. Various gaps exist in our knowledge base, including our understanding of which subgroups deserve the greatest attention (the lifetime or occasional self-employed?), which interventions have a place in our toolkit of measures (should the LISA continue to exist?), the strength of evidence behind interventions (how will we know if the sidecar model is successful?), and the extent to which interventions meet the criteria of being technically, financially and politically feasible.

105. Blackman, D. (2014) Collective pension schemes: dead on arrival [article] *Engaged Investor*, 7 November 2014.

106. For more information, see www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2017/defined-contribution-pension-schemes-17-19/

We therefore recommend the government establishes a new independent Office for Financial Security among the Self-employed. This would be tasked with:

- Periodically reviewing the financial security of the self-employed and sounding early warnings of impending challenges (eg using open banking and HMRC data).
- Identifying and evaluating innovations in financial products, advice and guidance mechanisms, as well as techniques derived from behavioural science (eg an evaluation of NEST's pilot of a sidecar pension model).
- Funding and overseeing experimental interventions that could increase the financial security of the self-employed (eg funding a prototype of auto-escalation).
- Recommending reforms to tax, welfare and regulation based on the outcomes of these activities.

Such a body could be established in the mould of the Office for Budget Responsibility, and have an obligation to report to both Parliament and the government. While some may question whether the self-employed need their own dedicated investigatory office, without a public body to provide strategic oversight it is likely that research and practice in this space will continue to be piecemeal and fragmented, with little cumulative learning. To give the Office more legitimacy, we recommend it be underpinned by a citizens' panel that would debate the merits of different proposals. [107] This panel would include both the different types of self-employed worker highlighted in this report as well as employees. The latter group will ensure that any measures to assist the self-employed are fair in relation to the protections and assistance employees receive. Expert stakeholders including unions, pension companies and accountancy trade bodies should also be invited to participate.

Recommendation #12

The government should establish an Office for Financial Security among the Self-Employed. The government should create a new independent body to bring coherence to the wide array of research and practice aimed at boosting the financial security of the self-employed. This would be tasked with undertaking periodic reviews, commissioning evaluations, funding experiments and making independent recommendations.

107. The RSA is developing a growing body of work on the potential of citizens' panels, notably in the Citizens' Economic Council. See notably Patel, R., Gibbon, K. and Greenham, T. (2018) *Building a Public Culture of Economics: Final Report of the RSA Citizens' Economic Council*. London: RSA. Available at: www.thersa.org/discover/publications-and-articles/reports/a-public-culture-of-economics.

Tax relief for the many

Strapped for cash

This report began by sounding an alarm about the perilous state of long-term finances among the self-employed. Just 17 percent of people who work for themselves contribute to a personal pension, and as many as a quarter (26 percent) of those closest to retirement have nothing stowed away in a pension. At any one point, the average employee is around 10 years ahead in terms of how much pension wealth they have accumulated. This study has also exposed several myths, including that the self-employed are saving instead into ISAs (they aren't), can rely on their partners' pensions (they can't), and have found a better savings vehicle in the form of property (they haven't). A large scale survey undertaken by BEIS found that 21 percent of the self-employed have made no plans for retirement beyond relying solely on the state pension.[108.]

The question is what to do about it. The last chapter took a tour through 12 possible interventions that were framed around four key pillars: saving something, saving enough, accessing savings during work, and accessing savings during retirement. Among our recommendations are to clarify the confusion surrounding the Lifetime ISA, redouble efforts to find a form of auto-enrolment for the self-employed, turn the Pensions Dashboard into a full Money Dashboard, and default savers onto a drawdown scheme as they approach retirement. If readers feel underwhelmed by the scale and scope of these proposals, they shouldn't be. We have purposefully avoided 'common sense' ideas that make for good headlines but abysmal policies. This includes giving the self-employed greater access to their pension pots mid-career, which has a radical edge and alluring simplicity to it, but in practice would lead to a haemorrhaging of funds.

Yet common sense is useful in at least one respect. It draws our attention to the elephant in the room which has yet to be fully addressed: where the money will come from to save for retirement. The second chapter on barriers to saving revealed the self-employed take home on average a third less than their counterparts in salaried work, while half earn less than the National Living Wage. These figures should be interpreted with caution given the different ambitions and make-up of the self-employed. However, the point stands that many are too focused on making ends meet in the here and now to be thinking about saving for a time many decades away. The same BEIS survey showed that a quarter (26 percent) of the self-employed have a 'big problem' with not being able to save enough for the future.[109.]

108. BEIS (2016) Op cit.
109. Ibid.

Nor is this just a problem for the self-employed. The Pensions Policy Institute calculates that an employee on the median income who is auto-enrolled for their working life would still only manage to reach a 45 percent income replacement rate when they retire, assuming they hit the minimum combined pension contribution rate of 8 percent with help from their employer.[110.] Underlying people's inability to save for the future is a broader problem of low and stagnating wages, and all around economic insecurity.[111.] Recent RSA polling found a third (31 percent) of all UK workers have less than £500 in savings, while a third (30 percent) are concerned about debt.[112.] What makes today's insecurity particularly troublesome is that it stretches across the labour market and seeps through multiple income groups. Of those who report to be 'just about managing', 31 percent live in households with gross incomes above £34,000.[113.]

Why tax relief is regressive

Money cannot be conjured out of thin air. Yet one source of funds is often overlooked: the tax relief system. Tax relief is an incentive designed to encourage people to save more into a pension. However, it operates differently for workers depending on their marginal rate of income tax. Anyone who earns below the Personal Allowance or 20 percent income tax bracket (ie below £45,000) can claim 20 percent tax relief, while anyone earning within the 40 percent tax bracket can claim 40 percent. A small contingent earning over £150,000 a year can claim tax relief at 45 percent. For the majority who are basic rate taxpayers or below, this means they only need to contribute £80 to add £100 to a pension, with tax relief making up the difference. The annual allowance means tax relief can only be claimed on contributions up to £40,000 a year.

This multi-tiered tax relief system is neither socially just nor effective in spurring overall saving rates. According to our estimate, the top 10 percent of earners take home 40 percent of all tax relief, despite making only 24 percent of net pension contributions. Their share of tax relief is more than double that of half the working population.[114.] While it is true these unequal figures merely reflect the large amount of tax paid by a fraction of society, if we consider income tax to be progressive – meaning that higher earners shoulder more of the burden – then tax *relief* on these payments is regressive. One riposte to this argument is that high earners will eventually pay the 40 percent tax rate as they take out their pension in old age. But the reality is that most will fall into the 20 percent tax band by this point. Only one in seven people who receive the higher rate of tax relief during their working life ever go on to pay the higher rate of tax in retirement.[115.]

The case for reforming the tax relief system is overwhelming, and indeed

110. Pensions Policy Institute (2017) *Who pays the piper? An international comparison of employer and employee contributions to DC pensions*.

111. See Shafique, A. (2018) Op cit.; and Balaram, B. and Wallace-Stephens, F. (2018) Op cit.

112. Balaram, B. and Wallace-Stephens, F. (2018) Op cit.

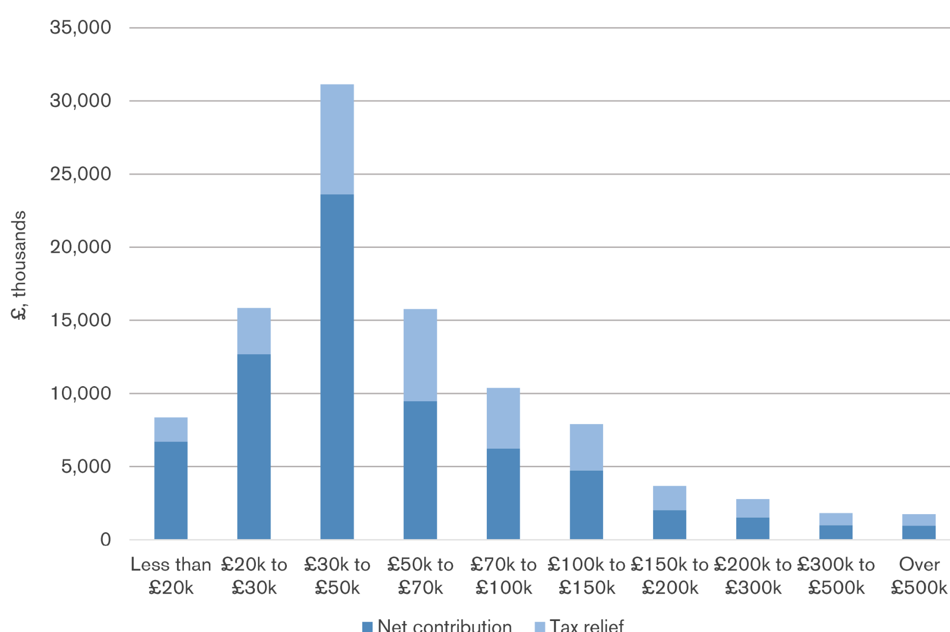
113. Ibid.

114. The bottom 52 percent of taxpayers (with an income less than £30,000) received just 16 percent of pension tax relief in 2015-16, compared to the top 9 percent (with an income of more than £70,000) who received 39 percent of pension tax relief.

115. Johnson, M. (2015) Pensions and ISAs should merge [article] *Retirement Planner*, 8 April 2015.

would free up billions of pounds to bolster the savings of those at the sharper end of the labour market. In 2016-17 the government spent £31bn on upfront Income Tax relief for registered pension schemes, and £16bn on top of this for NICs relief to employers who contribute to the pensions of their workforce.[116] At £47bn combined, this tax relief amounts to more than what the state spends on transport (£29.6bn), public order (£30.1bn), and even defence (£37bn).[117] This figure excludes the billions spent on the 25 percent tax-free lump sum that pension holders are entitled to. With such a large amount being spent to top up pensions in the UK, it is incumbent on policymakers to reconsider how it is allocated.

Figure 9: The distribution of tax relief under the existing system (Source: RSA pension tax relief modelling)



The case for a new tax bonus

The RSA is not the first to express concern about our tax relief system. In 2016, the pension provider Hargreaves Lansdown recommended that tax relief be abolished and replaced with a system of age-based top-ups.[118] Under this new regime, the government would give savers – including the self-employed – a bonus of '100 minus age', meaning that a 30 year old would receive £7 for every £10 invested, whilst a 50 year old would receive £5. The rationale here is to correct intergenerational imbalances and encourage people to save earlier in life. However, while this proposal has an attractive simplicity about it, the risk is that it simply inflates the pension pots of wealthy millennials, while ignoring the challenges facing low income adults.

116. See: www.gov.uk/government/uploads/system/uploads/attachment_data/file/675345/Dec_17_Main_Reliefs_Final.pdf

117. See: www.theguardian.com/uk-news/ng-interactive/2017/nov/22/where-does-the-uk-government-get-its-money-and-what-does-it-spend-it-all-on

118. McPhail, T. (2016) *Hargreaves Lansdown proposes pension and ISA simplification ahead of Autumn statement* [press release] Hargreaves Lansdown, 12 October 2016.

A better proposal would be to establish a single rate of tax relief, but at a notch higher than the current basic rate. We recommend the government aim for 30 percent in the first instance. This means anyone wishing to save £100 in a pension would only need to contribute £70. Every person would be entitled to the same rate, regardless of their employment status, age or income. This would boost the pension pots of low to middle earners, while simultaneously acting as an incentive to save more than previously. To cement the offer in the minds of prospective savers, we also recommend swapping the opaque phrase 'tax relief' with 'tax bonus' – which is unambiguously positive. While qualitative research from the ABI suggests the word 'bonus' is contentious, owing to the fact the money is merely a rebate of tax already paid, its connotations with *gaining* something could have a strong effect on saving incentives.

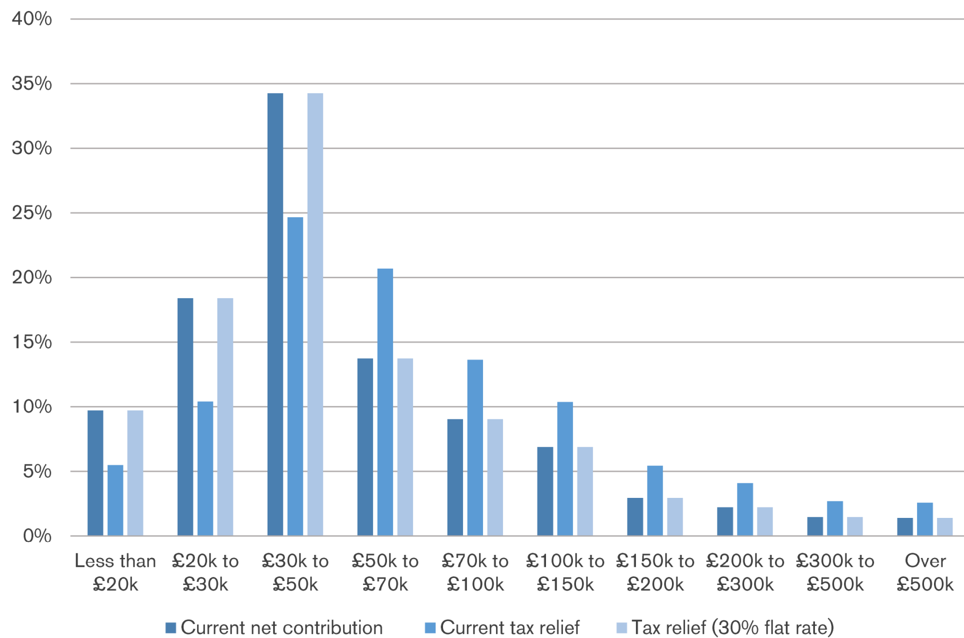
Table 4: Distributional impacts of tax relief reform

	Share of taxpayers claiming tax relief	Share of net pension contributions (current)	Share of pension tax relief (current)	Share of reformed tax relief (30% flat-rate, fixed net contributions)
Basic	75%	51%	32%	51%
Higher	23%	41%	53%	41%
Additional	2%	8%	15%	8%

Who would benefit from such a scheme and to what extent? Our modelling suggests a new single tax bonus of 30 percent would leave approximately 75 percent of existing pension savers better off, while 25 percent would lose out. Basic rate taxpayers who currently take home 30 percent of all tax relief would accrue 50 percent under a single flat rate, while higher rate taxpayers who for now capture 50 percent of all tax relief would benefit from 40 percent in future Additional rate taxpayers would go from taking home as much as 15 percent of all tax relief to just 8 percent (see Table 4 and Figure 10). At an individual level, the financial consequences are significant:

- A self-employed worker on an income of £15,600 who contributes 5 percent of their salary to a personal pension would see their tax relief climb from £195 a year to £335.
- A self-employed worker on an income of £30,000 who contributes 5 percent of their salary to a personal pension would see their tax relief climb from £375 a year to £645.
- A self-employed worker on an income of £60,000 who contributes 5 percent of their salary to a personal pension would see their tax relief fall from £2,010 to £1,290.

Figure 10: The distribution of tax relief under a flat rate of 30 percent (Source: RSA pension tax relief modelling)



A fiscally neutral intervention

With a few high earners losing out and a large number of low and middle income savers gaining, is a single tax bonus of 30 percent tolerable to the Exchequer? The answer is yes. According to our calculations, these changes would have been revenue neutral in 2015-16 (the last year for which HMRC data is readily available). In this year nearly £31bn was spent on pension tax relief. A 30 percent flat rate could have resulted in marginal savings (less than £1bn). While we would expect the pension contributions of lower and middle earners to increase as a result of the reform, any extra costs incurred in future could be cancelled out by making changes elsewhere in the tax system. Three options in particular stand out:

- **Reducing the Annual Allowance down from £40,000** – Savers are currently able to claim tax relief on yearly pension contributions up to a value of £40,000. This is a high figure given many people struggle to save £40,000 over their lifetime. The Treasury could reduce the annual allowance and reap savings in the process, without notably deteriorating the living standards of high earners.
- **Removing the NICs rebate on pension contributions for employers** – Employers are able to claim relief on their NICs bill for the contributions they make to their employees' pensions. It is unclear why this rebate exists other than to lessen the burden faced by organisations that take on staff. But this burden could be better addressed through direct measures such a general reduction in Employers NICs.

- **Ending the NICs exemption for older workers** – Workers over the state pension age do not pay NICs. This concession is often justified on the grounds that NICs pay for the state pension and therefore it would be unfair to continue paying after retirement. But in practice the link is not so clear cut. Paying NICs for 30 years gains someone entitlement, but they continue contributing after this point even if they are not retired. As Jolyon Maugham asks, "If logic does not dictate that you stop once you've qualified, why should it dictate that you stop once you hit state pension age?"[119.]

Answering the critics

A 30 percent tax bonus on pension contributions cannot be dismissed on grounds of affordability. But for some, the cost of a flat rate system was only ever a secondary concern to that of technical feasibility. One critic described the proposal as an 'arbitrary subsidy for pension saving'.[120.] But this is what pension tax relief is designed to do, so it matters not whether people receive tax relief at a higher rate than the tax they paid ie 30 percent vs 20 percent. Another complaint is that higher rate tax payers would be 'fined' for making pension contributions, in that they would gain 30 percent tax relief on contributions but could end up paying 40 percent tax on pension withdrawals during retirement. This is incorrect. The PPI and Resolution Foundation show there is still a tax advantage for these savers because of the 25 percent tax free lump sum and the fact that income tax is not all paid at the higher marginal rate.[121.]

Legitimate concerns do exist, however, and must be addressed. One of these is the scope for abuse in the system. Under a flat-rate tax bonus, it would be possible for a basic rate tax payer close to the age of 55 to make a pension contribution, benefit from a tax bonus of 30 percent, and then withdraw the money shortly afterwards while paying tax at just 20 percent. Containing abuse of this nature would require careful terms of access to be drawn up. Another challenge comes when tax relief is awarded through a Net pay arrangement (ie when pension contributions are made *before* income tax). This means that contributions are not subject to tax and therefore savers immediately benefit from tax relief at their highest marginal rate. Net Pay arrangements would not be able to factor in a single flat rate of 30 percent, and therefore most savers would need to shift onto another arrangement – Relief at Source – whereby tax relief is claimed by pension providers *after* income tax is paid (this will already apply to most of the self-employed).

Then there is the concern that a flat rate tax relief would not sync well with Defined Benefit pension schemes. Unlike Defined Contribution programmes where savers have individual pensions, DB plans ask employees and employers to pool their contributions into a common fund, which pension payments are withdrawn from during retirement.

119. Maugham, J. (2015) Age related biases in the tax system [article] *Waiting for Godot*, 15 June 2015.
120. Booth, P. (2016) A flat rate of pension tax relief will be 'economically incoherent' [article] *The Daily Telegraph*, 3 February 2016.
121. Pensions Policy Institute and the Resolution Foundation (2016) Op cit. See page 15.

The first obstacle is that most DB schemes operate on Net Pay arrangements. The second is that a boost in contributions, aided by the flat rate, would see many individuals surpass their annual allowance. For DB pension holders, the annual allowance sets a limit on how much the real value of their pension entitlement can increase in a year (for DC holders, it sets a more direct limit on their actual contributions). While the formula for working out this 'real value' growth is complex – known as the Deferred Contribution – the fear is that the flat rate would take many people beyond their annual allowance, thus landing them an income tax bill. This in turn could serve to confuse people with DB plans and lead to mistrust in pensions as a savings vehicle.[122.]

Recommendation #13

The government should commission an independent review of tax relief in the UK, with a brief to explore if and how a flat rate 'tax bonus' could be established. The government should appoint an independent expert in pensions and taxation to conduct a review into the future of tax relief. This would examine the extent to which a flat rate system would boost the retirement security of workers – including the self-employed – and consider how such a system could be realised in practice, while retaining broad public support.

Any attempt to establish a 30 percent tax bonus will need to consider these obstacles carefully, and resolve them in a manner that does not add excessive complexity to an already bewildering pension system. But they are not insurmountable. The prize of a fairer pension system that radically improves the economic security of millions in old age is too valuable to ignore. Still, given the seismic shift that a reform of tax relief would create, it is critical not to rush into making changes. Policymakers need to spend time exploring all possible manifestations of a tax bonus, and gradually inform the general public of the logic behind such a move. This means committing to stick with a given level of tax bonus (30 percent in our model) and not be tempted to change this to suit political ends. The final recommendation of this report is therefore to commission an independent review on the modernisation of tax relief in the UK.

122. For more information on the challenges of implementing a flat rate of tax relief, see p12 of Pensions Policy Institute (2013) *Tax relief for pension saving in the UK*.

Box 6: Time for TEE?

A tax bonus could be easier to establish were the UK to change its underlying pension regime. Rather than tax people as they draw upon their pension in retirement (a system known as 'EET'), savers could pay tax upfront on pension contributions (the 'TEE' model). The Lifetime ISA is an example of a savings product that operates on a TEE basis, with money taxed on the way in but with both interest and drawdowns exempt from tax.

As with the LISA, a TEE pension system would offer a 'matching payment' on contributions – say 25 percent – but avoid the complications associated with a flat rate of tax relief in the EET system. Both basic rate and higher rate tax payers would contribute to a TEE pension with post-tax income, and then both would benefit from the same rate of matching payment. In this way, the progressive effects of Income Tax are maintained. The system also has fewer loopholes than the EET model. For example, there is no opportunity to benefit from moving into a lower tax band between work and retirement.

However, the TEE system also has a number of drawbacks. For the individual, it contains no deterrent against withdrawing all their pension pot at once in retirement, since they would face no tax implications. For the government, the TEE model could make it more difficult to manage public expenditure and cope with the demands of an ageing population. The state would have more cash today, but tax would arguably be better collected at the time when it is required to finance public services for that demographic group. What's more, transitioning from an EET to a TEE regime could take around 80 years to fully complete.

Conclusion

From carpenters to lawyers, and from beauty therapists to IT consultants, there are now close to five million people in the UK who count themselves as self-employed. The evidence is overwhelmingly clear that most choose this path to have a better life – to pursue a passion, to break free from bureaucracy, and to have more flexibility to look after loved ones, young and old. The picture that is often portrayed of a downbeat army of workers forced into self-employment under duress is a far cry from the reality. For every person who wants to escape the world of business, there are multiple others who are enthusiastic about their career and the opportunity to make a mark on the world.

But a positive framing of self-employment does not mean overlooking its shortcomings. While the vast majority are happy in their jobs, most operate precariously. Nowhere is this felt more keenly than in their lack of preparation for retirement. Barely one in five of the self-employed are currently contributing to a personal pension, and most of these tend to put away too little and at too late an age. The reasons for this savings shortfall are myriad: people who work for themselves earn less, have no employer to auto-enrol them or top up their pension, and unsurprisingly are reluctant to lock away cash they may need in the event of a business emergency or bout of ill health.

In this report, we sought to look afresh at how this problem might be tackled. Our starting point was to acknowledge that there are no silver bullets or catch-all solutions, not least because the self-employed are a heterogeneous workforce. We also broadened the question from being one of how to encourage the self-employed to begin saving, to look also at how the self-employed could be enabled to save *enough*, as well as how they could access those savings responsibly during both their working lives and at the point of their retirement. Using this wider lens, more interventions than usual have come into view. Among our recommendations are to clarify the stance of the LISA, pursue auto-enrolment via accountancy software providers, and establish a Pensions Passport so people can carry over pensions from employment.

Each of these measures could boost the long-term savings and retirement security of the self-employed, and at a pace and expense that is realistic. Yet it is impossible to ignore the basic fact that the self-employed need money to save to begin with. For this reason, we finish the report with a more ambitious proposal to replace our multi-tiered tax relief system with a flat rate tax bonus. Set at 30 percent, this would meaningfully bolster the financial circumstances of millions of low to middle earners – self-employed and employees alike – without seriously denting the incentives to save for high earners. Such a reform would be both financially affordable and technically feasible. Moreover, with 75 percent of savers set to benefit, the political mandate to instigate this change should not be hard won.

The RSA will continue to explore ideas such as these within our new Future Work Centre, which aims to champion a better world of work through rigorous research and – via our 29,000-strong Fellowship – practical experiments. To find out more about this report or the RSA Future Work Centre, please contact benedict.dellot@rsa.org.uk or fabian.wallace-stephens@rsa.org.uk.

Appendix - additional data tables

Table 5: Distribution of self-employed workers by pension and household wealth					
Self-employed (% of total)		**Household wealth quartile (£, thousands)**			
		0-90	90-300	300-650	>650
Pension wealth (£, thousands)	0	15%	11%	8%	11%
	0-10	3%	3%	4%	3%
	10-50	2%	4%	5%	8%
	50-100	1%	1%	3%	5%
	100-200	1%	0%	1%	4%
	>200	0%	0%	1%	5%

Table 6: Distribution of employees by pension and household wealth					
Employees (% of total)		**Household wealth quartile (£, thousands)**			
		0-90	90-300	300-650	>650
Pension wealth (£, thousands)	0	13%	8%	6%	5%
	0-10	5%	5%	3%	2%
	10-50	4%	7%	5%	4%
	50-100	2%	3%	3%	3%
	100-200	1%	2%	4%	3%
	>200	1%	2%	4%	6%

Table 7: Distribution of employee pension wealth by income quartile
(see Figure 7 in main report for self-employed figures)

	No pension wealth	**Up to £10,000**	**£10,000-50,000**	**£50,000-100,000**	**£100,000 or more**	**Total**
Up to £12,000	56%	16%	15%	5%	8%	100%
£12,000-20,000	41%	20%	18%	9%	12%	100%
£20,000-31,000	23%	17%	25%	13%	23%	100%
More than £31,000	10%	8%	21%	15%	46%	100%

Table 8: Main reasons for not contributing to a pension (full response breakdown, respondents can give multiple answers to this question)			
(Base workers not contributing to a pension)	**Self-employed**	**Employees**	**Difference**
Can't afford to (general)	38%	31%	6%
Low income	35%	37%	-2%
Too many expenses / bills / debts	25%	21%	4%
Prefer alternative forms of saving	18%	9%	9%
Don't know enough about pensions	8%	12%	-4%
Not interested / not thought	5%	9%	-4%
Not eligible	4%	14%	-10%
Too late to start a pension	4%	4%	0%
Past arrangements are adequate	3%	2%	1%
Too early to start a pension	3%	6%	-4%
Not staying with employer	2%	5%	-3%
Don't think I will live that long	2%	2%	-1%
Employer's scheme not attractive	1%	2%	-1%

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