How to solve the self-employed pensions crisis

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ipse
The Association of
Independent Professionals
and the Self-Employed

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EXECUTIVE SUMMARY

In the last 20 years, self-employment has led a revolution in the UK labour market. Demand from individuals for flexibility and a better work/life balance – combined with the availability of new online platforms and remote working technology – have led to an explosion in the size and importance of the self-employed sector.

Rising by 50 per cent since 2000, the total number of self-employed people in the UK now stands at 4.8 million[1] - almost as much as the entire public sector. As self-employment has boomed, however – particularly among women, the young and those approaching retirement-age – a problem has emerged: people in this rapidly growing sector are simply not saving enough for later life.

A ticking time-bomb

New research from IPSE, conducted by ComRes, shows what can only be described as a looming crisis for the self-employed. While automatic enrolment has pushed the number of employees paying into a pension up to 78 per cent[2], that figure has fallen in the burgeoning self-employed sector. Shockingly, just 31 per cent of self-employed people are currently paying into a pension[3] (see Figure 1).

“Just 31 per cent of self-employed people are paying into a pension.”

Similarly, small numbers of self-employed people are using other methods to save for later life. For example, just 33 per cent are using ISAs to save for later life, while only 2 per cent are using Lifetime ISAs (LISAs) – a savings vehicle to put money aside for a first home or retirement.

This is especially concerning because of the number of people approaching retirement age in the self-employed sector. In fact, 44 per cent of all self-employed people in the UK right now are aged between 50 and 65[4]. As a result, while the average age of an employee is currently 29, the average self-employed person is 46.

“44 per cent of all self-employed people are aged between 50 and 65.”

It is not that the self-employed do not want to save for retirement. According to IPSE’s research, 67 per cent are concerned about financially preparing themselves for later life. The fact is, the current employment-geared savings system does not give the self-employed options they need and is harming the most vulnerable:

- The self-employed are ambivalent about automatic enrolment: 36 per cent would remain enrolled vs 25 per cent who would opt out – 38 per cent don’t know
- One in five solo self-employed people are ‘insecure’ and cannot afford to set aside money without being able to draw on it[5]
- Self-employed people who are younger, have less experience of self-employment or are women are less likely to be saving for later life

“The ‘insecure’ self-employed cannot afford to set aside money without being able to draw on it.”

As the self-employed sector continues to grow, the worrying lack of saving could cause serious problems not only for the self-employed themselves, but also for the Government.

At an individual level, the crisis is likely to cause much higher levels of pensioner poverty, and with the average age of self-employed people much higher than employees, this is likely to come sooner rather than later.

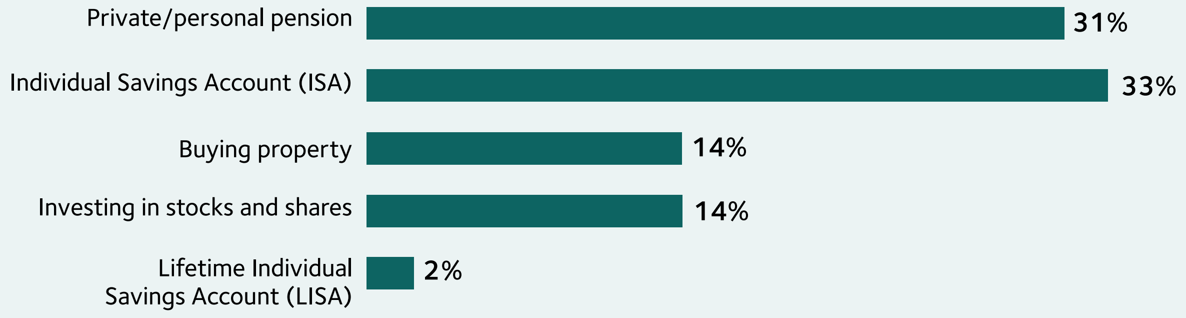
A knock-on effect of this will be more and more self-employed people relying on state pensions as their main source of retirement income. In 2017, the Office for Budget Responsibility estimated the total spent on state pensions that year was £91.6bn[6]. As that figure rises – especially with the triple lock in place – there will be a growing question mark over the financial viability of state pensions.

“Lack of saving could cause serious problems for the self-employed and for the state.”

The lack of saving for later life among the self-employed is a ticking time-bomb for the self-employed themselves and for the Government. What’s more, it is a crisis that will get significantly worse the longer it is left. The Government must act now to improve saving among the self-employed – especially the groups saving least, including: women and younger and self-employed people, the financially insecure and those with less experience in self-employment.

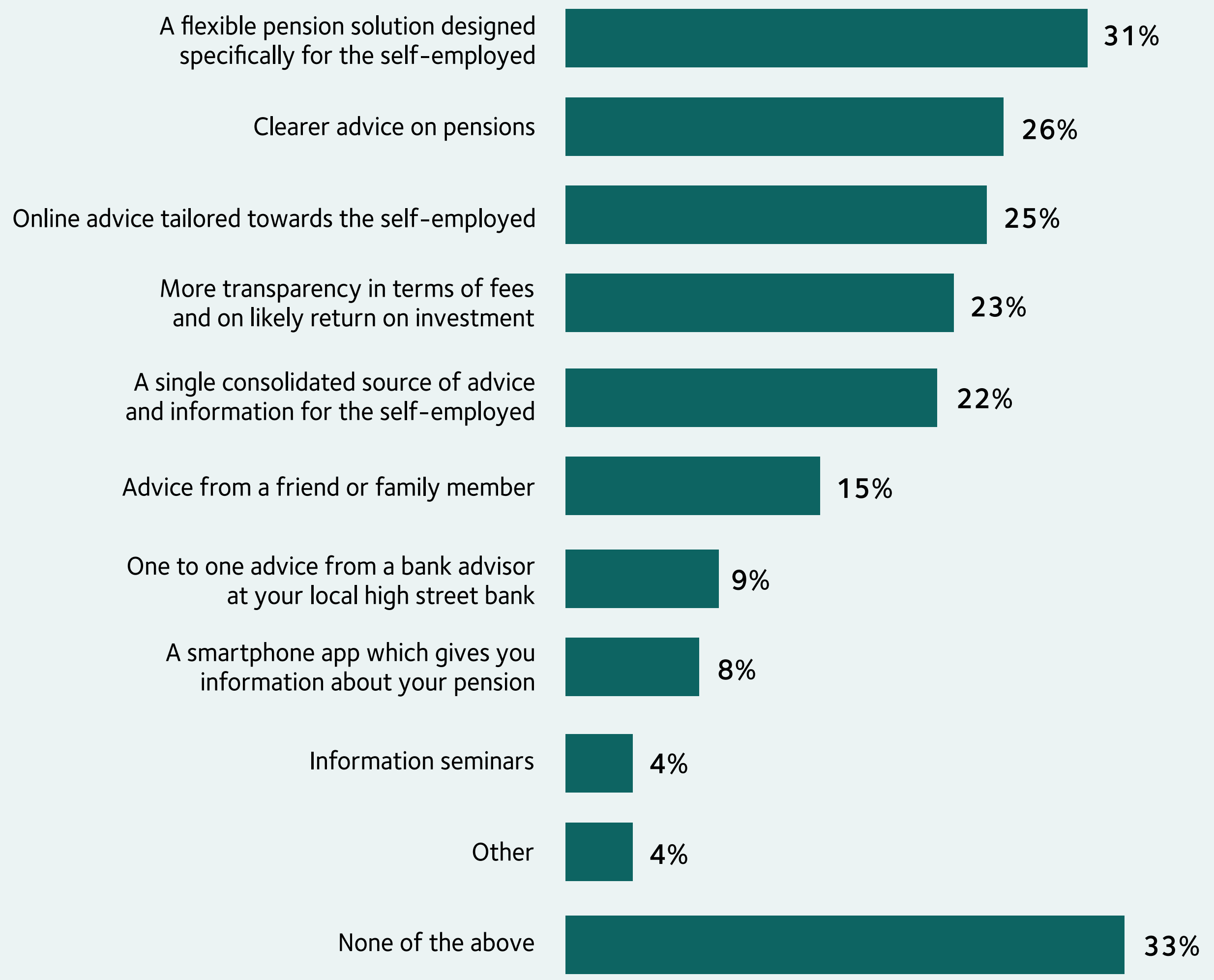
[1]ONS, 2018, Trends in self-employment in the UK, [2]DWP, 2017, Automatic enrolment review 2017: Maintaining the momentum [3]ComRes, 2017, Survey of the self-employed conducted on behalf of IPSE (Forthcoming), [4]ONS, 2018, Trends in self-employment in the UK, [5]CRSE, 2017, The True Diversity of Self-Employment

Figure 1: How the self-employed are saving for later life



Figures do not add up to 100 as respondents could select multiple responses

Figure 2: Solutions that would encourage/help the self-employed to save for later life



Figures do not add up to 100 as respondents could select multiple responses

Six solutions to the savings crisis

To combat the looming self-employed savings crisis, IPSE has developed a number of recommendations, outlined in full in the Recommendations (pages 15-21). They are based on the results of research with over 1,000 self-employed people, as well as broad consultation with Government and industry. Key recommendations are:

1. Support rolling out the sidecar pension scheme to the self-employed, allowing them to save for later life and also into a separate 'rainy day' fund for emergencies.
2. The single financial guidance body that the Government is introducing should have a greater role in providing guidance on how the self-employed can save for later life. (IPSE research found 51% of the self-employed trust Government websites for advice, making it among the most trusted sources of advice).
3. Pension products should be more user-friendly and engaging and the terms of a policy need to be clearly and accessibly set out. Language should be used that is accessible to all.
4. Provide open access to a free mid-life MOT, connecting older self-employed people with advisors to assess financial health and identify where to make interventions to improve their savings.
5. Universities, schools and pension providers should work together to provide financial education for younger people.
6. The Government should not introduce automatic enrolment for the self-employed, given both the barriers highlighted in its recent review and IPSE's research showing many self-employed would opt out of it.

We are clear there is no one-size-fits-all approach to solving the self-employed savings crisis. It is therefore essential that a range of options are opened up to improve savings in this vital and growing sector (see Figure 2).

SUMMARY OF OUR RECOMMENDATIONS

Saving for later life solutions

1. IPSE does not believe AE would be a viable savings solution for the self-employed because they do not support this measure.
2. IPSE does not support the use of Making Tax Digital as a way to automatically enroll the self-employed into a pension.
3. We support the sidecar pension scheme as a potential solution for the self-employed.
4. IPSE does not favour a rise in National Insurance Contributions to automatically-enrol the self-employed.
5. We support the mid-life MOT as a way to increase awareness of the 'health' of a person's pension and other methods of saving for later life.
6. IPSE recommends tax incentives at the lower income end are made greater.
7. IPSE encourages the use of technology as a means of increasing engagement by self-employed people on pensions, especially through web based or smartphone solutions.

Education solutions

8. IPSE recommends pension providers offer education schemes like the Barclays Life Skills Programme to bolster self-employed peoples engagement with pensions.
9. We recommend pension providers provide more advice on pensions at university career events, especially for courses that typically produce more self-employed graduates (e.g., the creative arts).
10. IPSE and other similar organisations could host informational sessions that provide essential guidance on savings options.
11. The Money Advice Service and The Pensions Advisory Service should undertake a review of their guidance on ways of saving for later life and adapt these to cater guidance to the self-employed.

Pensions have a PR problem

12. IPSE recommends collaboration between the public and private sector on selling the benefits of pensions to self-employed people.
13. Government guidance for self-employed people on its websites should conform to the Plain English Standard.
14. IPSE could work with pension providers to engage consumers. This could be through online or in-person seminars that target self-employed people.
15. Companies offering products such as long-term savings accounts and pensions should review their offerings and consider rebranding them as products specifically for the self-employed.
16. Pensions providers should make pension documents as accessible as possible and use the one-page 'pension passport' as a guiding example.
17. Pension providers and the Government need to do more to market pensions as something that is available for all professions.
18. Pension providers should market ethical investment funds to younger people as a way of targeting interest from this group.

METHODOLOGY

Our report has been informed by an extensive range of research activities to ensure a richer understanding of self-employed people's attitudes towards saving for later life, and to develop evidence-based policy solutions informed by robust qualitative and quantitative data.

We focused on answering the following research questions:

- Are self-employed people concerned about saving for later life?
- What are the barriers self-employed people face in saving for later life?
- Where and how do self-employed people currently save?
- What are self-employed people's attitudes towards current savings options?
- How do self-employed people believe current savings options could be improved?
- If a self-employed person could develop their ideal pension product, what would this look like?
- How do self-employed people view a proposed extension of automatic enrolment to the self-employed?

A broad range of research activities were undertaken to answer these overarching research questions, which included:

- Five focus groups – three composed of a diverse and representative mixture of self-employed people, and two with a targeted focus on the 'Millennial generation' aged 18-31
- An original survey of 1,003 UK self-employed workers aged eighteen and above, between 27th October and 13th November 2017, weighted to be representative of all self-employed UK adults aged 18+ by age, gender, region and Standard Occupational Classification (SOC)
- A stakeholder roundtable with attendance from senior representatives in the pensions industry, think tanks and Government

INTRODUCTION

Self-employment is undergoing a massive boom. Although a seemingly marginal player in the workforce, this diverse sector has grown significantly by 50 per cent since 2000 and now represents 15 per cent of all those working in the UK . The total number working in self-employment amounts to 4.8 million people and shows no signs of slowing down.

Growth has occurred significantly amongst previously underrepresented groups. Women account for only 32 per cent of the self-employed with the majority being men (68%) but this is changing. The rate of growth amongst self-employed women is far higher than men, and currently stands at 77 per cent between

2001 and 2016. There has also been a steep rise in the youngest groups of the self-employed. The 16 to 24-year-old category has increased from 104,000 to 181,000 between 2001 and 2016 – an increase of 74 per cent.

The economic results indicate a motivated and productive workforce. Analysis of the self-employed contribution to the UK economy amounts to a significant contribution of £271 billion – enough to fund the NHS twice over .

Despite these positives around self-employment, there is an issue that cannot be overlooked: the growing self-employed savings crisis.

The self-employed are not saving enough for later life

As self-employment has grown in popularity in recent years, it has become concerning how few people are saving for later life. Our research shows that less than a third (31%) of the self-employed are saving through a pension.

There are significant economic risks by not encouraging more self-employed people to saving for their futures. At the individual level, there is a likelihood we will see a steep rise in pensioner poverty and this may come sooner rather than later. IPSE's research found that the average age of a self-employed individual is 46, which means that the average self-employed individual is around 20 years from the state retirement age[7].

Our research highlights groups in this sector who are at particular risk of not saving at all, and these include growth groups within self-employment. Women who are the fastest growing group of the self-employed are particularly at risk of not saving for later life and not saving into a pension. Likewise, younger self-employed people – another growing group – are also at risk of not saving for later life.

Findings from the Centre for Research on Self-Employment (CRSE) shows one in five (21%) of the solo self-employed – amounting to over 825,000 people – have been classified as 'insecure' which means that they are low-middle earners and are typically looking for alternative forms of work. People in this group tend to be less qualified than their more secure counterparts and are much less likely to have the sort of financial security that would allow them to contribute to a pension. It is this group that will benefit from innovative solutions that allow them to both save for emergency situations and later life.

Increasing pressure on the state pension

There is a real risk that more and more self-employed people who are not saving will turn to the state pension as their primary means of a retirement income. This is a risky approach and could leave a new generation of self-employed people facing an insecure retirement with a large drop in their living standards.

There should also be a concern for the Government. The UK population is aging and living longer so the proportion of the population eligible for the state pension is growing, and has recently prompted a debate that puts a question mark over the sustainability of the state pension in the long-term.

According to The Office of Budget Responsibility, spending on state pensions in 2017 totalled £91.6bn, which equals 12 per cent of total public spending[9].

Since 2010, the state pension has been subject to the 'triple lock', a guarantee the state pension will increase depending on which is highest among a set of three official measures (these are inflation, 2.5% or average earnings growth). This has meant spending on the state pension has risen consistently. If too few people are saving enough for later life this may prompt a scenario where the triple lock needs to be increased. This will in turn mean future spending on pensions will be considerably higher.

As the state pension is only £164.35 per week, there could be a squeeze on consumer spending in older age groups if no private provision has been made earlier in life, and greater numbers rely on the state pension as their primary source of retirement income in later life.

There is a real risk that more and more self-employed people who are not saving will turn to the state pension as their primary means of a retirement income.

The opportunity to act is now

There is much to be done but the outlook is positive. Our research shows an overwhelming majority of the self-employed (67%) are concerned about saving for later life – so this issue is at the forefront of their thinking and it seems they would like to save more. Crucially, they need saving options that give them greater flexibility as one of the key barriers to them saving is affordability. Options that deal with the challenges they face such as fluctuating incomes will help the self-employed to do this. In addition, pensions and other savings methods need to be sold to self-employed people in a way that speaks to them and their needs. We delve more into our findings in the following pages and offer our solutions in the Recommendation section.

[7]IPSE, 2018, Exploring the rise of self-employment in the modern economy, [8]CRSE, 2017, The True Diversity of Self-Employment, [9]OBR, 2017, Welfare spending: state pension

ATTITUDES OF THE SELF-EMPLOYED ON SAVING FOR LATER LIFE

New and original research uncovering the real issues

In this section we uncover the results from our research into self-employed people and saving for later life. This survey was conducted by ComRes and offers a nationally representative snapshot of self-employed people's views on saving for later life. Our survey results capture an extensive range of findings that we have used to inform our recommendations.

A growing problem served by a lack of evidence

Despite increasing concerns developing around the growing savings crisis among the self-employed, there is relatively little evidence of the views of the self-employed themselves. As the representative body for the self-employed, IPSE knew it was important to give voice to the self-employed on this issue: to help policy makers and industry better understand what is stopping more from this sector of the workforce from saving[10].

We began by conducting a series of focus groups with a diverse and representative mixture of self-employed people, and two with a targeted focus on the 'Millennial generation' aged 18-31. We focused on answering the following research questions:

- Are self-employed people concerned about saving for later life?
- What are the barriers self-employed people face in saving for later life?
- Where and how do self-employed people currently save?
- What are self-employed people's attitudes towards current savings options?
- How do self-employed people believe current savings options could be improved?
- If a self-employed person could develop their ideal pension product, what would this look like?
- How do self-employed people view a proposed extension of automatic enrolment to the self-employed?

We interviewed people with a broad range of self-employed people working in occupations covering design, marketing, literature, health and digital specialisations, as well as IT and consultancy.

The focus groups highlighted a range of key themes that were important to self-employed people and informed the development of our broader survey.

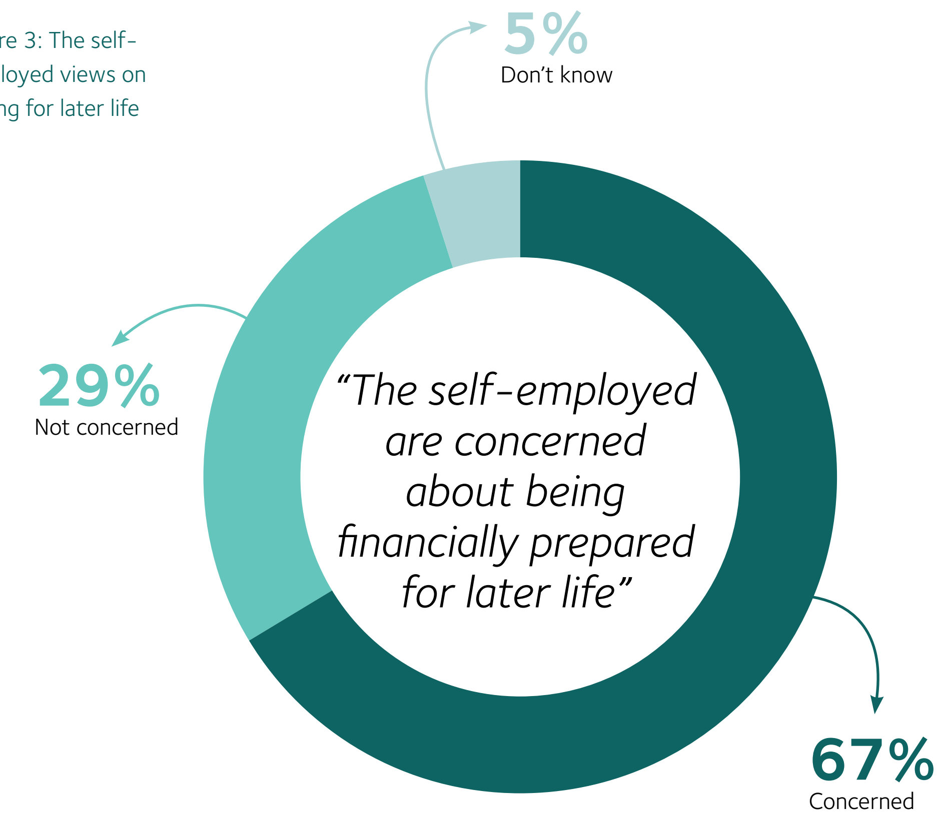
No single option was favoured as a way of saving for later life

- This led us to conclude it was important to ask and determine whether this was typical of the self-employed at large.
- The general response towards a scenario where automatic-enrolment was rolled out to the self-employed was largely negative

Many found pensions confusing

- Comments included the 'pension is ridiculously complicated,' 'it is a minefield unless you have an accountant,' 'guidance at HMRC is deliberately vague.'
- On a tailored solution for the self-employed, strong themes coming from comments included the need for flexibility, greater and more engaging guidance, more transparency over return on investment and reducing withdrawal restrictions, which is important from a group who can suffer from fluctuating incomes.

Figure 3: The self-employed views on saving for later life



[10] We also performed research in 2016, however, this focused mainly on freelancers and not the wider range of the self-employed population. Accessible at: Independent Professionals: Pensions and Retirement Savings – Attitudes, Motivations and Methods

These and other themes were useful in assisting us to identify the knowledge gaps that were important to be filled by the broader survey. In the rest of this section we address those gaps by outlining our key findings.

The self-employed are concerned about being financially prepared for later life

Less than a third of self-employed people are paying into a pension; despite this, saving for later life is still a key concern for the majority of self-employed people.

The results of our survey outline the total number saving through a pension totals just 31 per cent. Although this leaves more than two-thirds without a pension, this does not mean that pensions and saving for later life is not at the forefront of people's minds. When asked "to what extent, if at all, are you concerned about saving for later life?" a significant majority of 67 per cent told us they were concerned, and only 29 per cent (see Figure 3) said they were not. Saving is a real priority for the self-employed, but many have found barriers to this.

Self-employed people are not using traditional saving options

Our research shows the self-employed have no strongly favoured method of saving and tend towards a broad mix of options. As mentioned above, 31 per cent of the self-employed invest in a pension as a way of saving. Thirty-three per cent use an ISA as a way to save for later life, and just two per cent opt for a LISA. Other methods include buying property (14 per cent), investing in stocks and shares (14 per cent), investing in their own businesses (6 per cent), and bonds (6%). Just one per cent invest in cryptocurrencies. Thirty nine per cent said "none of the above" in relation to the options we set out suggesting well over a third may not be saving in any way at all.

Financial concerns are stopping the self-employed from saving into a pension

For most of the self-employed, this barrier to saving is a question of both feasibility and competing priorities. Thirty-seven per cent of those asked why they were not paying into a pension scheme told us it is because they could not afford to. A further 17 per cent said they have other financial priorities. And 16 per cent said they had stopped contributing to a pension when they moved into self-employment. With 39 per cent of people saying they don't use any saving products, the questions becomes how can we get self-employed people to save for later life?

A pension solution that offers flexibility would encourage the self-employed to save more

What would an ideal pension arrangement look like and encourage greater participation from the self-employed? In a word: 'flexibility'. The survey showed that a way in which to encourage the self-employed to make greater savings for later life is to design a flexible pension solution specifically for them (31%). This included elements such as the flexibility to pause, stop and restart payments without incurring penalties (54% select as one of their top three most preferred options) and the option to withdraw a percentage of their pot in advance of retirement if it could be paid back in a specified amount of time (25% select as one of their top three most preferred options).

Government hold the key for providing effective advice

There is a clear role for Government to play in providing advice or guidance on pensions. When our survey participants were asked to rate who they trust the most, 59 per cent said they trust friends and family. A total of 51 per cent said they trust Government run websites. As 26 per cent would like clearer advice or guidance on pensions there is a clear role for Government to be doing more in this area, particularly as it moves to create the Single Financial Guidance Body.

The self-employed are ambivalent over automatic enrolment as a solution

The self-employed are ambivalent on automatic enrolment. Thirty six per cent would remain enrolled if it was extended to the self-employed, whilst 25 per cent would choose to opt-out. A further 38 per cent don't know what they would do, suggesting a degree of ambivalence towards this proposed policy intervention and possibly a greater likelihood of opting out.

Groups at risk of not saving for their future

Women, less experienced, and younger self-employed people are least likely to save. However, each of the three groups exhibit higher than average levels of concern about saving for later life compared to the general self-employed population. Furthermore, all of these groups are less likely than average to save into a private/personal pension and are also less likely to use other methods of saving for later life, such as ISAs and investing in stocks and shares.

With men charging a higher day rate than women (average £219.40 in comparison to £187.40), it is unsurprising that according to our survey, men were more likely to be saving for later life. For younger self-employed people, 20 per cent of those aged 18 to 34 have not thought about saving, in comparison to 2 per cent of those aged over 55.

RECOMMENDATIONS

This section outlines our recommendations to encourage more self-employed people to save for later life based on the robust evidence we have collected from this growing section of the population. In addition, many of the recommendations have been informed by the views of representatives of leading pensions providers, think tanks and Government departments in a high-level roundtable we held in December 2017 - as well as further consultation during the course of this project.

We divide our recommendations across a set of key themes that emerged from our research. These include:

- Theme one: saving for later life policies
- Theme two: education
- Theme three: pensions have a PR problem

THEME ONE: SAVING FOR LATER LIFE POLICIES

Despite the fact that pensions are suffering from an image problem and a lack of resonance with younger age groups, as discussed in themes two and three below, they remain an important way to save for later life. They provide certain advantages such as tax relief and compound interest, as well as options to invest in a range of portfolios with a variety of risks and rewards for savers. However, less than a third choose this option to save for later life, which suggests that they feel they are not being catered for by the industry, or simply do not know what options are available. In this section we explore the feasibility of a range of solutions that are currently being debated, and also offer solutions we believe will encourage more to save.

Automatic enrolment (AE)

The success of AE amongst employees and workers has promoted a debate on whether this should be extended to self-employed people.

AE is a way of enrolling eligible employees into a company pension scheme without the employee having to take part in the process to be enrolled. Many credit its success to using the nudge technique and relying on a sense of inertia to keep employees enrolled This is reflected in the number of employees who are now enrolled: 78 per cent of employees currently remain enrolled in their pension scheme.

Following a period of review of AE, the Department for Work and Pensions (DWP) has concluded it is sceptical AE will be effective for the self-employed. In addition, our survey concluded the self-employed are ambivalent about the prospect of AE.

Our recommendation

IPSE does not believe AE would be a viable savings solution for the self-employed. There is no obvious mechanism that would automatically enrol a self-employed person into a pension scheme with inertia to keep them there, or successfully nudge them into enrolling as an active choice. There is therefore no obvious way to capitalise on the successful components of AE.

Making Tax Digital

Making Tax Digital (MTD) is part of the Government's plan to increase the accuracy of tax collection. This will replace the current yearly tax return system with quarterly reporting requirements. This system will be rolled out to any individual or business that files a tax return with HMRC.

MTD could assist by calculating the amount the individual should contribute to their pension based on the previous quarter. This calculation would have to be determined by HMRC and the DWP.

However, there has been widespread criticism of MTD. As a result of a report by the Treasury Select Committee, the rollout of MTD has been slowed down[11]. There are still questions that need answering regarding MTD, such as what software businesses will have to use to file their returns. Pension contributions are locked away for a long period of time, so self-employed people need to be confident their contributions are safe and secure.

Our recommendation

IPSE does not think that AE will work with MTD because the requirement to report quarterly will increase red tape for the self-employed.

The sidecar pension

A sidecar pension is a scheme that allows an individual to pay money into a fund that divides contributions between a pension pot and a 'rainy day fund'. Once contributions meet a certain point in the rainy day fund ('the savings cap'), all further contributions are diverted solely into the pension pot instead of both pots.

This scheme is attributed to the Behavioural Insight Unit at the Harvard Kennedy School, as well as other researchers in the US. It is due for trial by NEST's Insight Unit in April 2018, although this will only be available to employees and not the self-employed. It has also been recommended by Old Mutual Wealth and the Pensions Policy Institute in their recent report. It was received warmly at the IPSE stakeholder roundtable of Government and industry representatives in December 2017[12].

Our recommendation

IPSE supports the sidecar pension scheme as a potential solution for the self-employed who are not currently saving and/or feel they may be unable to do so because of other financial priorities.

Increasing National Insurance Contributions

Currently self-employed people pay both Class 2 and 4 National Insurance Contributions (NICs). Class 2 is a flat fee, whilst Class 4 is based on profits above £8,164. The Government was committed to abolishing Class 2 NICs and increasing Class 4. However, due to significant pressure, the increase in Class 4 NICs has been reversed and the abolition of Class 2 NICs has been delayed.

Aviva and Royal London looked at the positives and negatives of increasing NICs to encourage saving for later life[13]. The policy would work by increasing Class 4 NICs by a set percentage. Under this proposal, the increased NICs could be reclaimed if the self-employed person makes an equivalent pension contribution. This policy would offer flexibility for self-employed people wishing to make pension contributions. Contributions are based on the payable NICs, so would increase or decrease in line with profits. This means that if a self-employed person has a particularly good year, they would contribute more.

However, there may be political difficulties with this as it could be branded in the same way as the attempted increase in Class 4 NICs in 2017. Furthermore, if the default option was not to make a pension contribution, take-up rates could still be low.

Our recommendation

IPSE is concerned that this policy would act as a revenue raiser for the Government rather than solve the issue and IPSE does not support it as a viable solution for the self-employed.

Mid-life MOT

A mid-life MOT would work by connecting an advisor with a self-employed person. This would allow the advisor to offer an insight into the financial health of the self-employed individual. This could lead to the implementation of a plan that would allow the self-employed to save enough for retirement. This offering is particularly important as the average age of a self-employed person is 46[14].

Adoption is likely to be low if the cost is prohibitive. In focus groups hosted by IPSE, the cost of financial advice was often referred to as a barrier to seeking advice or guidance. Therefore there is an opportunity for The Pensions Advisory Service or the forthcoming Single Financial Guidance Body to offer this product free of charge.

Our recommendation

IPSE supports a mid-life MOT if it is provided free of charge.

Tax relief

Tax relief is available on pension contributions. This means that an individual can either put money into a pension scheme before the tax has been paid, or the individual can pay into a pot after they have paid tax. With the latter, the pension provider will claim the tax relief for the individual and add it to the value of the pension.

IPSE hosted a roundtable with pension industry experts to discuss tax relief. There, many attendees agreed there is a high level of tax relief available for people who contribute to a pension. However, the tax relief becomes greater as you earn more, which is unique to pensions. Our focus groups highlighted the issue that individuals do not understand what tax relief is available to them when they contribute to a pension.

Our recommendation

IPSE recommends tax incentives at the lower income end should be increased. Our research shows that it is typically people in this group who are saving least for later life. If tax incentives are clearly communicated they may well encourage saving.

Technology

Technology is being presented as a way of boosting engagement, in particular with younger people. The Financial Services Authority notes that employers are not able to offer much advice relating to pensions[15]. Self-employed people don't have any access at all to advice from a client. Therefore, there is a need to tailor advice and/or guidance.

Technology can be used to help individuals get financial advice or guidance in a cost-effective and engaging way. For example, where available, savers can easily use an app on their phone to identify how their finances are progressing, what they can expect from retirement and what interventions they can make to improve savings outcomes and increase contributions. Alexa and Google Home can also be used to achieve this. Finally, in the field of avatars and personalised videos, huge strides forward are being made allowing what may otherwise be dry pension statements to be brought to life.

Technology may also help to encourage individuals to save small amounts of money that they might otherwise spend on non-essential items. Apps have been produced which help individuals put a portion of their money spent on non-essential items into a saving account.

In addition to boosting engagement, technology makes the user experience much easier and less time- consuming. We know that often self-employed people do not have the time for the admin burden created by signing up to a pension and keeping it under review. Technology can ease this, for example, where there are API links to an individual's other financial service providers.

Our recommendation

IPSE supports the use of technology as a means of encouraging engagement. We would recommend pensions providers include a 'basic' view and 'advanced' view in any offering, such as through a smartphone app or web browser.

- A basic view could show essential information such as what a pension is worth and how much it has grown, as well as essential policy information.
- An advanced view could offer more in-depth analysis including where investment has gone, return on investment and other greater details of a policy.

[13]Aviva & Royal London, 2017, Solving the under-saving problem among the self-employed, [14]IPSE, 2018, Exploring the rise of self-employment in the modern economy, [15]Financial Services Authority, 2016, Promoting pensions to employees: A guide for employers

THEME TWO: EDUCATION

One of the fastest growing age groups for self-employment is the 16 to 24 year-old range. It is also this age group that is faced with more financial decisions when compared to their parents and grandparents.

As the survey showed, one of the key reasons why people aren't saving for later life is because of other saving priorities. The immediate priority that springs to mind is housing. Average house price growth has outpaced wage increases since 2011, with growth in 2016 of 7.4 per cent and growth in 2017 of 6.2 per cent[16].

As the National Bureau of Economic Research notes, only 27 per cent of young people understand basic financial concepts such as interest rate calculations[17]. In order to get more people engaged with saving for later life, financial literacy must be improved. There is a role for friends, family and schools to play in improving this.

Interventions at school level

Providing financial education at school is important because 64 per cent of children get their first bank account before they start secondary school and nearly 75 per cent of 15 year olds have a debit card[18].

Younger people can start to save from a young age, so there could be a role for schools to play in addressing the financial literacy gap. The question that then follows is how can schools help?

Introducing financial terms at a young age

The 'rule of seven' is an old marketing adage, but it could be utilised in the education system to help improve saving amongst younger people. The rule of seven suggests that it takes someone hearing a message seven times for it to mean something to them.

By introducing financial terms to children at a young age, the long-term process of developing financial knowledge can begin. At the focus groups of millennials conducted by IPSE, it was observed that a lot of students did not know what a pension was. They said this was because they had not been introduced to the term at a young age. Careers advice is offered at secondary school, yet younger people are not introduced to financial terminology. In addition, the industry must start using language that is accessible to people who are not financially literate, on which there is more below.

The importance of introducing financial terms to children is not just related to saving for later life. One of the biggest barriers to saving for later life comes from the inability to afford it, as our research shows. This inability to afford it may come from a variety of sources, but one of the key reasons is debt. Young Money have noted that 36 per cent of 14-25 year olds do not understand what APR means in relation to credit cards or loans[19].

This may lead to expensive borrowing, which could act as a barrier for saving for later life. By improving financial education, some of the barriers to saving - namely lacking the money to save - can be reduced.

Our recommendation

IPSE recommends pension providers offer education schemes like the Barclays Life Skills Programme.

Interventions at university level

More people are going to university in comparison to previous generations. According to UCAS, 559,030 people had submitted applications by the January 2018 deadline[20]. University is often the first time that students are required to deal with their own finances, including taking out loans. It therefore seems sensible to provide university students with financial education.

There are courses which lead to a high number of freelance professionals. These courses range from graphic design to computer science. They have the potential to incorporate financial management into modules that address professional skills.

University courses that produce high numbers of self-employed people should include modules on financial management. These modules should cover topics such as accounting, taxation and saving.

Our recommendation

IPSE and pension providers could provide guidance at careers events so that students have access to advice from a variety of external sources, and these could be focused on courses that produce a high number of self-employed people (e.g., creative arts).

The role of trade associations and representative bodies

Trade associations that represent small businesses and the self-employed have a role to play in educating and encouraging more in this sector to save for later life. Individuals choose to become members and view them as a trustworthy voice, which came through strongly in all the focus groups IPSE held.

Our recommendation

IPSE and other similar organisations could host informational sessions that provide essential guidance on savings options, as well as basic financial education on concepts such as pensions, ISAs, the benefits of compound interest and the risks of inaction.

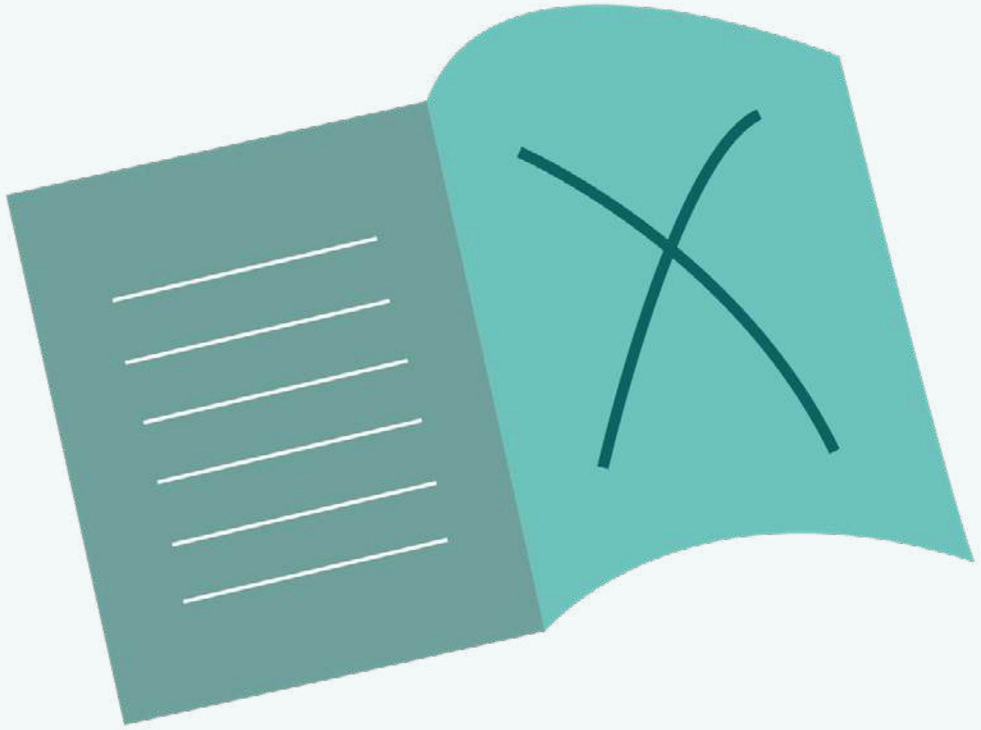
The role of Government

The Government is seen by self-employed people as a reliable and trustworthy source of guidance on saving for later life. Its various websites such as The Pensions Advisory Service and Money Advice Service have a role to play in encouraging more in this group to save. However, feedback in focus groups often levelled the criticism that these websites generally focus advice towards employees and workers and not the self-employed. This leaves many having to make their own interpretations on how this guidance could apply to them, or undertake further research despite the need to use these websites as a means of support. The intention is there but the Government could be doing more in this area.

Our recommendation

The Money Advice Service and The Pensions Advisory Service should undertake a review of their guidance on ways of saving for later life and adapt these to tailor guidance to the self-employed.

[16]ONS, 2017, House Price Index, [17]National Bureau of Economic Research, 2009, Financial Literacy among the Young: Evidence and Implications for Consumer Policy, [18]Personal Finance Education Group, 2014, Why primary schools should be teaching money matters, [19]Young Money, 2013, Young people entering adult life with 'dangerous gaps' in financial knowledge, [20]UCAS, 2018, UK university applications down 1 per cent at January deadline



THEME THREE: PENSIONS HAVE A PR PROBLEM

How pensions are sold

The way in which pensions are sold is very different to what it was historically. In the past, pensions would be sold as part of an entire 'financial package', and an advisor would receive a commission for recommending the product. As a result of changes in the regulation of the financial sector this commission model became out of date.

Because of this, pension products are not marketed as much as they once were and self-employed people in particular are not sure where to go to save. This was a commonly held opinion in our focus groups, and the cost of advice was often described as a barrier to saving. This suggests that pensions need to be sold in a better, more transparent and accessible way that is compliant with regulations. Self-employed people also need to be offered further information that will enable them to engage with the marketing.

Pension provider engagement

The pension industry is very competitive in the UK, but there is a feeling that customers are not actually valued by the provider, according to comments in our focus groups. Our survey revealed that only a third of people trust their pension providers, which illustrates the scale of the problem.

Unlike with mortgages where a customer may have a dedicated mortgage advisor, this service is not available for pensions. Options are limited to broader advice from an Independent Financial Adviser. This means that self-employed people are often left without dedicated advice.

A participant outlined her experience as a self-employed person with her pension provider. What made her choose the provider she decided to invest with was the fact that they hosted informational seminars, some online and some in person. The PPI (Pensions Policy Institute) recognises that pension providers engaging with their customers is one of the best ways to get people to save[21]. This allows the customer to feel confident in asking for clarity about financial issues which may contribute to them saving more in the future.

Adverts

Both the Government and pension providers have a role in selling the idea of saving for later life to people, but the focus groups were in agreement that the current adverts do not work.

The World Economic Forum identified a £25 trillion savings gap and used this as a backdrop for adverts relating to a pensions time bomb[22]. Whilst it is undoubtedly true that people do need to save more for later life if they are to live comfortably, the current use of negative campaigning has not worked. At the focus group targeted at millennials, a number of participants said that adverts should focus more on what you can do in retirement with good pension provision, rather than what you won't have.

The self-employed already accept a lot of business risk when they enter into this way of working. Adverts should be used to point out opportunities rather than risks. Adverts could make the case for how responsible saving now will lead to a much better retirement, as well as easing the burden on other family members.

From IPSE's research, it was clear that self-employed people trust advice and guidance from the Government[23]. Government-sponsored adverts should take a positive approach, advertising how they can help, rather than continuing their current messages. The Government should advertise the services they can provide for people, so that self-employed people know exactly where to go for advice.

Our recommendation

- IPSE recommends collaboration between the public and private sector on selling the benefits of pensions.
- Government guidance for self-employed people on its websites should conform to the Plain English Standard.
- IPSE could work with pension providers to engage consumers. This could be online or in-person seminars that target self-employed people.

Branding

The way in which savings products are branded is important for attracting self-employed people, but unfortunately there is a general feeling that there are not enough pension schemes or savings products tailored towards them. There are some, but the companies offering them need to re-brand their products so they can be immediately identified by self-employed people.

Our recommendation

Companies offering products such as long-term savings accounts and pensions should review their offerings and consider rebranding them as products specifically for the self-employed.

Simplification

The Department for Work and Pensions Select Committee has identified an issue with the 'wake-up packs' that pension providers have to offer[24]. Pension providers have to supply these packs four to six months before the individual's retirement date. The purpose of these is to inform the individual of the value of their pension and to prompt them to come up with a plan to withdraw the money.

These packs can contain 40 or more pages, which show the paperwork involved with pensions. When Liverpool Victoria reduced their pack to one page, there was a 10 per cent increase in the number of people visiting the Pension Wise website for advice or guidance[25].

Our recommendation

Pensions providers should make pension documents as accessible as possible and use the one-page 'pension passport' as a good example of this.

Engagement with younger people

The earlier a person starts to save for a pension, the better the returns will be through compound interest[26].

Financial Priorities

One of the biggest barriers for younger people is their financial priorities. Whether it is saving for their first house, or travelling, saving for later life through a pension does not come close to the top of their priorities. To a large extent this is because retirement is something that feels very distant to many millennials.

In both the focus groups that IPSE hosted targeting millennials, participants often had something else in mind to spend their money on. Travel and experiences was a common priority for younger people. One participant explained that because there is downward pressure on their earnings due to age, they had to use their money to build their business and attend professional events.

From the ComRes survey, 17 per cent noted that they have other financial priorities and that is why they are not saving for later life. A lot of the younger people in the focus groups said home ownership was their first priority. With house prices continuing to grow, this may go some way to explaining why younger people aren't saving for later life. Whether because of housing or not associating with retirement, younger people were not placing later life as a priority.

Type of career

Another factor that was commonly quoted as a reason why millennials didn't save was because of the type of self-employment they were pursuing as a career. One participant said she thought of pensions as something for those working in manual jobs. This means that pension providers and the Government need to do more to market pensions as something that is available for all professions.

Another reason why more needs to be done to engage with younger people is that due to career options, a lot don't see themselves as retiring fully. According to the pensions provider Aegon, only 30 per cent of young people expect to retire by 65[27]. Some of the focus group participants explained that as they worked in digital marketing or social media, they saw no reason why they would ever wind down. This attitude may lead to younger people not making provisions for retirement.

Ethical investment opportunities

Younger people are becoming increasingly aware of environmental, social and governance issues and are moving towards more sustainable projects. The World Economic Forum identified those aged between 18 and 35 as the age group most concerned with climate change, inequality, poverty, food and water security[28].

Offering ESG funds gives people the opportunity to get a return on their investment now – for example, investing in a certain way can lead to pressure to reduce climate change. In other words this goes some way to address the fact that people expect immediate gratification

Pension providers should use this information to market ethical investment funds to younger people. The Schroders Global Investor study revealed that 54 per cent of UK investors had increased their allocation to sustainable investment funds compared to five years ago, and the same study revealed that 18 to 35 year olds cited sustainability as their most important factor when deciding what to invest in[29].

Our recommendation

Pension providers and the Government need to do more to market pensions as something that is available for all professions

Our recommendation

Pension providers should use this information to market ethical investment funds to younger people as a way of targeting interest from this group.

[21]PPI, 2017, Consumer engagement: the role of policy through the lifecourse, [22]World Economic Forum, 2017, UK faces a pensions time-bomb, [23]IPSE, Comres Survey, [24]Department for Work and Pensions, 2018, Pension Freedoms, [25]Department for Work and Pensions, 2018, Pension Freedoms, [26]Richard Evans, 2014, When saving for 10 years pays more than saving for 40, [27]Aegon, 2013, One in seven say thy will never retire, [28]World Economic Forum, 2017, Shapers Survey, [29]Schroders, 2017, Global Investor Survey 2017

CONCLUSION

The time to act is now

As our research shows, there must be action to encourage the almost five million self-employed to save for later life – sooner rather than later. In recent years, there has been an enormous rise in the number of self-employed people in the UK, and this shows no signs of abating. In fact, the self-employed workforce has grown by no less than 50 per cent since 2000. And considering the full diversity of the self-employed sector, as our research has done, the groups saving least for later life also seem to be those growing most quickly: women and 16-34-year-olds.

We have an opportunity to act now. If we miss it, more problems will emerge. Looking ahead, it is possible a growing number of formerly self-employed retirees, who have not saved sufficiently during their working lives, will come to rely on the state pension as their main source of income. This could reduce living standards and put more strain on a public purse already struggling to keep up with state pension demand – exacerbated by the triple lock. If we do not tackle the problem now, the UK could find itself with a generation of financially vulnerable retirees.

A picture emerges from our survey of a group whose saving needs are not being catered for either by Government or by providers. And as a group, they take this issue seriously. Thirty-seven per cent cannot currently afford to save for later life, but an overwhelming majority of these (67%) told us they were concerned about saving for the future. They are engaged on this issue and it matters to them.

One of the biggest problems seems to be the types of saving options currently on offer to self-employed people. A common criticism was that these options just do not give the self-employed the flexibility they need. And the low uptake of pensions, ISAs and LISAs sends a strong message to providers about this.

On the more positive side, there have been signs of the Government and industry acknowledging these issues.

The Government's automatic enrolment (AE) review in 2017, for example, identified some useful interventions such as 'hackathons' to develop technology-based solutions. It also said it was sceptical about whether AE would work for the self-employed. Within the pensions industry, a growing number of providers such as Zurich Insurance and Old Mutual Wealth (in partnership with the Pensions Policy Institute) are also authoring thought leadership reports on self-employed saving for later life. These have not only made significant contributions to the debate, but also proposed many helpful solutions.

In industry and in Government, the wheels are starting to turn. But it is clear from our research that much more must be done – and soon. With the self-employed sector continuing to grow, but fewer people in it actively saving for later life, it is clear a crisis is looming. And with 44 per cent of self-employed people aged 50-65, that crisis is not far off. The pensions industry and Government must work hard now to ensure the self-employed have the range of flexible savings options they need. They must act now to defuse this ticking time bomb.

Key recommendations

Sidecar	Improved and tailored guidance on Government websites	No automatic enrolment for the self-employed	Greater engagement with younger people	Pensions policy documents that are accessible and written in plain English / jargon free	Mid-life MOT

IPSE, the Association of Independent Professionals and the Self Employed, is the representative body for the UK's self-employed community, including freelancers, contractors, consultants and independent professionals.

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