



# The path to prosperity

What financial wellbeing looks  
like for the self-employed

## About IPSE

IPSE is the largest association of independent professionals in the EU, representing over 74,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members.

We believe that flexibility in the labour market is crucial to Britain's economic success. That's why we are dedicated to improving the business and political landscape for freelance working – through our active voice in both Government and industry.

IPSE aims to be the principal and definitive source of knowledge about freelancing and self-employment in the UK. We work with leading academic institutions and research agencies to deliver relevant, detailed empirical evidence about evolving market trends. This research supports our work with Government and industry, as well as providing key market intelligence to help our members with business planning.

This report was produced in partnership with Sherpa and written by Kayte Jenkins, Deputy Head of Research at IPSE.

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## About Sherpa

Sherpa prides itself on effortless, flexible and cheaper cover, allowing those with dreams of becoming their own boss more time to focus on building the business. Sherpa aims to remove the threat and worry of risk, that so many fear when going freelance or becoming self-employed.

Sherpa is revolutionising the world of Insurance. It has built a proprietary platform which can assess your risk and build a dynamic personalised risk profile. Members will be provided simple, easy-to-understand advice, and products provided to cover those risks that are flexible and, with no commissions built in, are highly competitive.

### **Sherpa**

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Money makes the world go round, as the saying goes. It is an indispensable commodity that most of us spend our whole lives working for, and it is also one of the most important determinants of a person's quality of life.

For the self-employed, financial wellbeing can be a particularly fraught issue. People who work for themselves on a project-by-project basis often have fluctuating incomes, which can make it difficult to access financial services and government benefits – let alone plan for the future.<sup>1</sup> Clearly, even though it is well-established that being your own boss can be extremely rewarding,<sup>2</sup> it is not without its challenges.

Beyond just giving you a little extra dough to enjoy life, financial circumstances can have a significant impact on your wellbeing and mental health. Research has shown that concerns about personal finances can have harmful effects on employees, including losing sleep because of worrying about money, finding it hard to concentrate and make decisions at work, spending time during the working day dealing with money issues, and even having health problems.<sup>3</sup>

Financial circumstances are likely to have a more significant impact on the wellbeing of self-employed people. Working for yourself exposes you to conditions known to generate higher levels of stress, not least because carrying the weight of your business succeeding or failing can be a solitary endeavour.

There is a lot to think about when you are self-employed. In fact, there are hundreds of extra decisions you have to make every day. So the last thing you need on top of all of that is worries about financial wellbeing. Really, self-employed people need a greater sense of financial wellbeing to lighten their mental load – so they can enjoy the freedom that should come with working for yourself.<sup>4</sup>

As self-employment in the UK continues to rise, there is growing concern that financial policies and services are out of touch with the realities of the modern labour market and potentially harming the financial wellbeing of the self-employed. To shed light on the situation, IPSE conducted a study exploring the financial wellbeing of the self-employed and what can be done to make this way of working sustainable, fulfilling and financially rewarding for them.



“For the self-employed overall, ‘financial wellbeing’ means being in a state of financial security that gives them choice in their career and the freedom to enjoy life – as well as the ability to provide for family and loved ones and feel secure in their financial future.”

## What does financial wellbeing look like for the self-employed?

The economic health of the self-employed is divided, with just over half (52%) indicating that they are satisfied with their financial wellbeing. But what does financial wellbeing mean to the self-employed? Being able to support your family? Growing your business? Having a steady income?

Whether it's considering their present situation or the future, there are clearly two major factors that affect the financial wellbeing of the self-employed: security and choice. Almost half (46%) of respondents said that having the financial freedom to make choices and enjoy life is the single most decisive factor in their financial wellbeing. Two in five (40%) said earning enough to provide for family and loved ones was another key factor, while 37 per cent said being able to put money away for retirement.

Millennials are more likely to focus on the near future: most indicated that saving for a financial goal or putting money into their savings account on a regular basis suggested good financial health for them. Perhaps unsurprisingly, generation X and baby boomers are more likely to prioritise putting money away for retirement.

For the self-employed overall, 'financial wellbeing' means being in a state of financial security that gives them choice in their career and the freedom to enjoy life – as well as the ability to provide for family and loved ones and feel secure in their financial future.

## The state of play among the self-employed

The self-employed are living in the present, but not prepared for the future. At the moment, the majority of the self-employed are enjoying life because of how they are managing their money (72%). However, more than three quarters (77%) are concerned that the money they have – or are going to save – won't last.

There's also further evidence that the self-employed see an uncertain future ahead of them: 36 per cent said they do not feel secure in their financial future.

Millennials are particularly exposed to financial uncertainty in the future. Their financial priorities are more likely to be tightly focused on the present and they feel less secure than average in their futures – with four in five (80%) saying that they are concerned the money they have or are going to save won't last. Consequently, they are also less satisfied with their financial wellbeing and see a lack of financial advice tailored to the self-employed and knowledge on how to manage their finances as some of the main barriers to prosperity.

The survey found further evidence of the importance of money management and savings. Respondents who said they are more satisfied with their financial wellbeing – and are enjoying life because of the way they are handling their money – also said that they feel in a position where they could handle a major unexpected expense and still feel secure in their financial future.

This suggests that the way the self-employed manage their money has a great deal of bearing on overall satisfaction – and might hold the key to reviving confidence in their financial future. It also seems clear, however, that if more is not done to help self-employed people improve their financial wellbeing, it could compromise their personal welfare, as well as their business performance.

## Poor financial wellbeing affects performance

The survey showed that nine in ten self-employed people worry – at least occasionally – about their financial situation. What's more, half (51%) of those surveyed said they felt anxious or stressed as a result. A third of respondents also said that worrying about their financial situation had caused them to lose sleep (34%) and experience a lack of confidence (33%).

As well as shorter-term psychological and physical effects, financial worries may also make many people question the long-term sustainability of self-employment. Of those who had worried about their financial situation, almost half considered giving up self-employment (45%) or accepted work they wouldn't typically take just to make ends meet (44%).

# How to improve financial wellbeing

Being self-employed means being the master of your own destiny – and taking on all the financial challenges that it may entail. These everyday challenges are also exacerbated by irregular income patterns and earning potential – as well as limited access to financial support from both government and the financial services industry.

These factors can cause significant concerns for the self-employed, but there are a number of things they can do to take control of their financial wellbeing.

## 1. Put protections in place

The survey showed that irregularity of income and earnings is the main barrier holding self-employed people back from taking control of their financial situation (as cited by 51%). One way to combat this is by preparing in advance for earnings irregularity and unexpected business disruptions.

People who have avoided significant financial concerns have done so by protecting themselves effectively, following a monthly budget and putting insurances in place for periods when they don't have work.

Two in five (39%) suggest that expanding their client base could help improve their financial wellbeing. Building a stronger business network can help to generate referrals and a more regular stream of clients, allowing self-employed people to overcome the concerns caused by irregular earning patterns.

## 2. Build up confidence to improve earning potential

The research found that the gap between those who are satisfied and those who are dissatisfied with their financial health varies significantly depending on people's income

levels. Unsurprisingly perhaps, lower-paid self-employed people are significantly more likely to be unhappy with their overall financial wellbeing. Almost half (47%) of respondents therefore said that earning a higher day rate would improve their financial wellbeing, while 32 per cent said earning a steady income would have the same effect.

Self-employed people who said they had not experienced any financial worries indicated they safeguarded themselves by putting aside savings for an emergency, maintaining enough clients to avoid periods without work, as well as having a financial plan or following a budget. However, changing your circumstances so you have more savings or clients may not be that simple for everyone. It is therefore important to consider ways to help the self-employed improve their personal situation – both by building up their confidence in their value proposition and by better equipping them to deal with stress about their financial circumstances.

Close to one in five (17%) of those surveyed felt that developing their skill set would help improve their financial wellbeing. Upskilling and training can be beneficial for anyone, but particularly for people who earn a lower income. This is because it allows them to expand their skill set and confidence giving them a pathway to develop their careers and earning potential.



Training providers could also help self-employed people cope with stressful situations and financial worries by offering them advice on how to deal with irregular work patterns and align their skills with the demands of running a business.<sup>5</sup> Millennials would benefit greatly from this as they express the highest levels of concern about their money management knowledge and the shortage of self-employed-oriented financial advice available.

### **3. Increasing understanding and flexibility**

Close to one third (31%) of the self-employed said they have trouble with financial planning because of the volatility

of government taxation and regulation policies. This is exacerbated by the fact that they also feel there is a lack of self-employed-specific advice – and that the financial products available to them do not offer enough flexibility. Almost half said this was a barrier to effectively managing their financial situation.

While there are certainly strategies the self-employed can deploy themselves, financial policies and services also urgently need to change. They must adapt to the realities of the modern labour market and cater to the UK's growing self-employed population.

For policymakers, this means understanding the distinctive nature and challenges of self-employment – and especially getting to grips with poor payment culture. Research by the IPA showed that 63 per cent of the self-employed have suffered from late payment, while 43 per cent have, in some instances, not been paid for their work at all.<sup>6</sup> It is a deeply rooted problem that causes considerable financial hardship and cash flow issues for the self-employed, and it must be addressed.

One in ten people surveyed suggested that products, advice and education tailored to the self-employed would help improve their financial wellbeing. The financial services industry should consider designing more products specifically for the self-employed – products that offer flexibility and account for irregular income patterns. They should also provide targeted, trustworthy and easy-to-access advice.



## Defining factors of financial wellbeing for the self-employed

Freedom



47%

say financial freedom to make choices and enjoy life

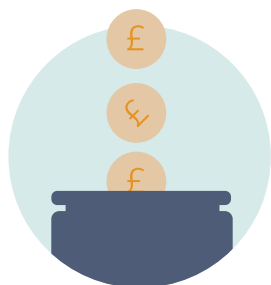
Family



40%

say earning enough to provide for family and loved ones

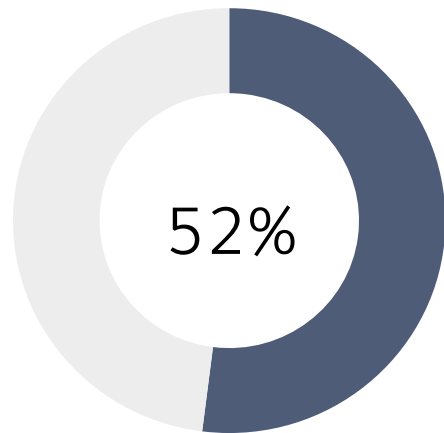
Future



37%

say being able to put money away for retirement

## Financial health of the self-employed



are satisfied with their financial wellbeing

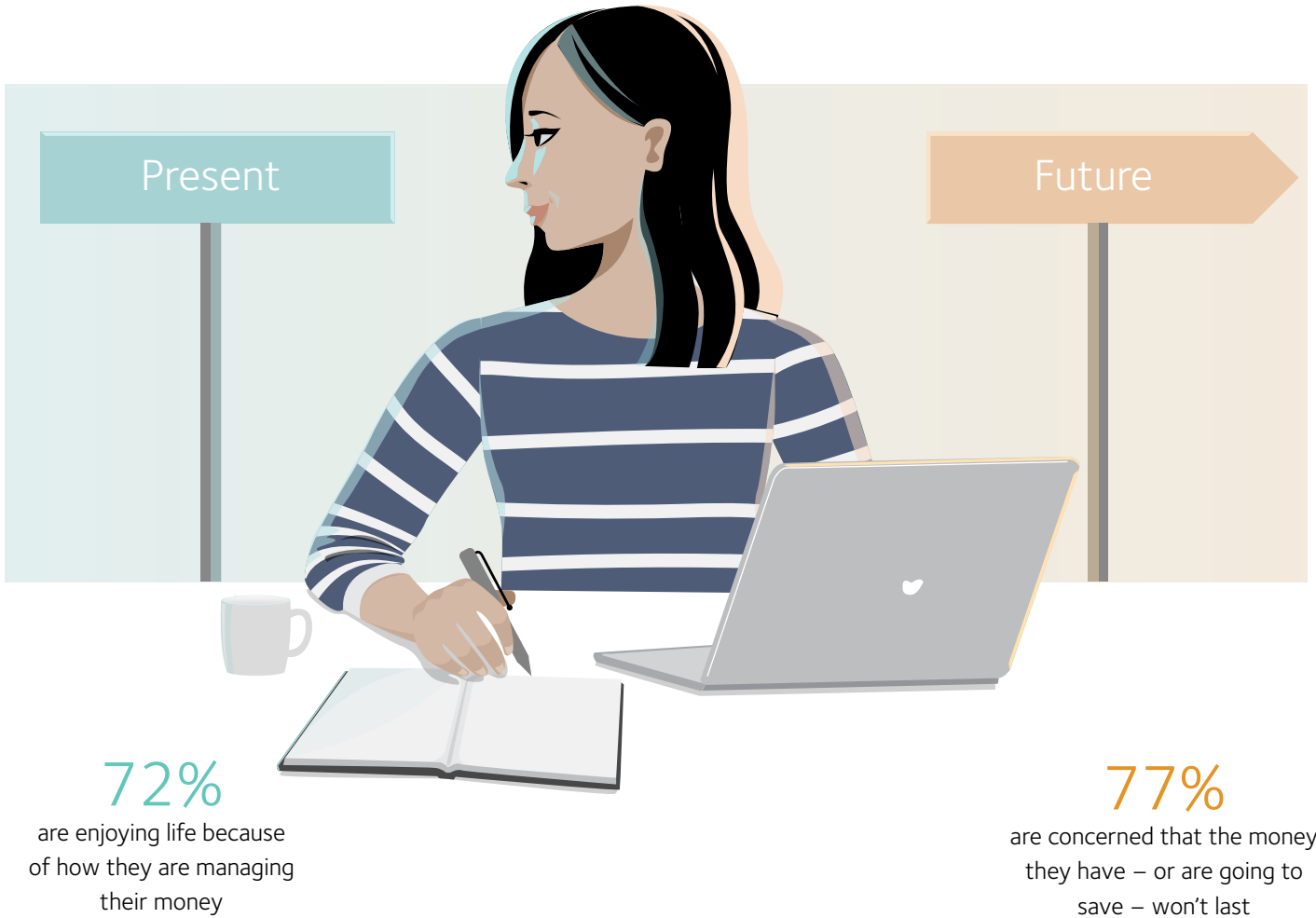
## Nine in ten have experienced worries over their financial situation



Percentages do not sum to 100% as respondents could choose multiple options

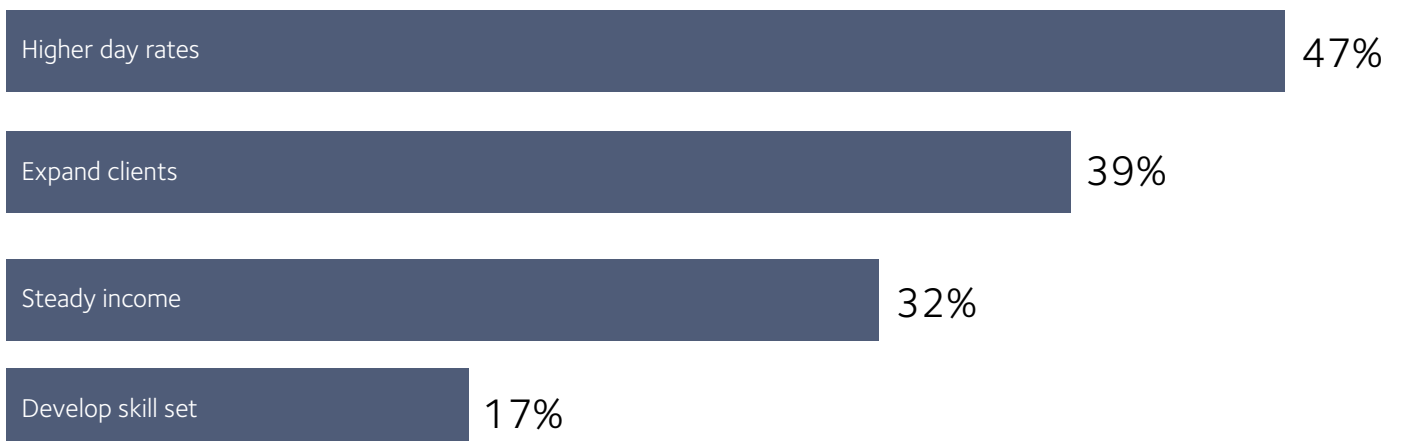


## Living in the present, but not prepared for the future



## How to improve financial wellbeing

What the self-employed say could help:



Percentages do not sum to 100% as respondents could choose multiple options



## Iona Bain Freelancer writer and founder of The Young Money Blog

“As someone who is both self-employed and discusses people’s finances for a living, I know that self-employed people are well aware that financial wellbeing is paramount. But often, we are operating in a knowledge and support vacuum. My self-employed security has been hard-won: I have struggled over the years to negotiate appropriate pay and improve my cash-flow so that I can make freelancing sustainable. When you’re on your own, just trying to get the basics right, it’s all-too-easy to neglect your long-term finances.

The self-employed financial picture is hugely varied. For example, I earn twice as much as I did a couple of years ago when I was an employee, and work less. Many other self-employed people are reporting even more spectacular gains in money, time and fulfilment after quitting the 9-to-5, making it entirely possible for us to shore up our prosperity.

However, self-employed millennials are particularly vulnerable, thanks to a combination of lower earnings (both in absolute and relative terms, compared to the older generation) and housing pressures. Retirement is a long way off for millennials, and we are being asked to contribute much more to receive much less than our parents. This is an unfair and impractical demand, especially since definitions of ‘retirement’ are changing all the time.

We must give millennials more empowering choice about how they manage their long-term finances, rather than keep them tethered to old-fashioned products and attitudes.

Self-employed people often have different financial goals and strategies to employees – all of which are misunderstood by policymakers. This research shows just how much we value our freedom, and why measures to ensure that freedom is protected are vital.

For me, one of the key draws of freelancing is the ability to build up my ‘freedom’ fund as I see fit. I may want to build surplus funds to tide me over if I have a child in the future. I may want to invest some of that money back into upskilling. And I sleep better at night knowing I have made some provision for unexpected emergencies and my later life.

But as this research rightly identifies, there is a dearth of affordable financial advice available for the self-employed. If the government and financial services industry really want to help the self-employed population, they could and should do more to bolster the legal rights of unpaid suppliers, adapt financial products for the self-employed (i.e. allowing flexible payments to account for irregular income), and keep self-employed taxes steady.”

## The path to financial prosperity

The self-employed are a growing and valuable sector of the UK workforce: in fact, their labour contributes no less than £271bn to the economy.<sup>7</sup> For the individual, being your own boss is a meaningful and rewarding way of working. This satisfaction can, however, be offset by financial concerns – particularly about saving for the future. These concerns can then have a detrimental effect on the personal welfare and performance of self-employed people.

There are several lessons to be taken from this research, which could help the self-employed take control of their financial wellbeing and enjoy a genuinely rewarding freelance career – with the financial security and freedom they need and deserve.

- 1 **Be prepared** for periods without work by having insurances and a savings plan in place.
- 2 **Expand your skill set** to help increase earning potential and provide an income that allows for saving.
- 3 **Strengthen your business networks** to help with the flow of clients and referrals to your business.
- 4 **Put together a financial plan** to improve confidence in managing your business and satisfaction with your financial wellbeing.

# Methodology

This report is based on the responses of 1,066 self-employed people to an online survey conducted between 14 June and 28 June 2018. The composition of the survey's respondents was: 41 per cent female and 56 per cent male, with an average age of 43. They have been freelancing for an average of nine years and working across a range of occupations.

# References

1. IPA, *Working Well for Yourself*, July 2018
2. IPSE, *The risks and rewards of independence*, May 2018
3. CIPD, *Financial wellbeing: the employee view - Survey report*, January 2017
4. IPSE, *The risks and rewards of independence*, May 2018
5. CRSE, *The Way to Wellbeing*, June 2018
6. See reference 1
7. IPSE, *Exploring the rise of self-employment in the modern economy*, January 2018



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