

Department for Work and Pensions

Research Report No 395

Self-employment and retirement

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A report of research carried out by Social Policy Research Unit, The University of York on behalf of the Department for Work and Pensions

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Summary

Key findings

- The experience of self-employment is extremely varied. Among this qualitative study of 40 self-employed people, some were faring well in successful businesses while others were struggling to make a living. Some had been self-employed for most or all of their working lives, but most had come to self-employment after being a paid employee.
- Experiences of self-employment were reflected in people's pension provision. Some had previously been in occupational pension schemes that would form the basis of their income in retirement. Others were mainly reliant on personal pension coverage, some of which was expected to provide only a relatively low income. Some people expected the State Pension to be their main source of income.
- Knowledge of pensions was very patchy. A few people had a good knowledge, but the general picture was of low levels of knowledge of state pensions, private pensions and other financial products. There was very little understanding of the tax relief available on pension contributions.
- Apart from some people approaching or beyond State Pension age, many viewed personal pensions negatively. In the study group some expressed strong disillusionment in personal pensions, either through losing trust in pension products or through negative media coverage of pensions.
- Views about occupational pensions were largely positive. People particularly liked the automatic deduction of contributions that had been their experience with such schemes.
- There was a widespread faith in 'bricks and mortar' as a safe way of investing money.
- Financial products such as Individual Savings Accounts (ISAs), building society accounts and stocks and shares were not seen as major sources of income after retirement.

- Sources of information and advice on pensions and financial products generally varied, but impartiality and trust were key issues for the people in the study. Government was sometimes seen as a reliable source of **information** but not for **advice**. Experiences of using independent financial advisers were very mixed. Accountants were more often seen as trusted sources of financial advice by self-employed people, although they were not seen as a source of advice on savings and pensions.
- Although people thought they would like more information about pensions, few were able to suggest specific examples of information they would like. Some things people suggested, such as pension forecasts and tracing old pensions, are already available.
- There is clearly scope for increasing self-employed people's knowledge about pensions and savings. No single information strategy is likely to be appropriate for this group. However, any strategies to promote pensions savings messages need to take account of the perspective of self-employed people.
- Decisions relating to working beyond State Pension age were connected to people's financial position, and the satisfaction they derived from work. For some the notion of a 'retirement age' was not salient.

Chapter 1: Introduction

This research study was undertaken against the background of growing policy interest in pension provision over a number of years, the appointment of the Pensions Commission in 2002, and the subsequent publication of a government White Paper on pensions in 2006¹. One of the main conclusions of the Commission was that there are large numbers of people in the United Kingdom (UK) who are heading towards inadequate incomes in retirement and that these are concentrated among certain groups, including the self-employed of whom there are approximately three million in the UK (two-thirds of whom are over 40 years old).

Although there is some evidence about financial planning for retirement and working beyond State Pension age for self-employed people, we do not have a clear understanding of how they make decisions about retirement nor about how self-employment can play a part in extending people's working lives.

The aims of the study were, therefore:

- to explore how self-employed people plan financially for retirement, and what influences their decisions; and
- to gain information about ways in which self-employment may offer flexibility to extend working lives.

¹ 'Security in retirement: towards a new pensions system', Department for Work and Pensions, May 2006.

The study also aimed to shed light on how self-employment differs from employment in the barriers and incentives the self-employed face in saving for retirement.

A qualitative approach was adopted and semi-structured interviews were conducted at the end of 2005/beginning of 2006 with 40 people over 40 years old whose earnings came from self-employment. The study group included 19 men and 21 women, with annual earnings up to £30,000. Participants lived in two locations, and some had already reached State Pension age. A range of occupations was represented, and different forms of organisation of work. Research interviews were tape recorded, and the data transcribed and analysed thematically.

Chapter 2: Working as self-employed

There was considerable heterogeneity within the study group, in terms of the kinds of work undertaken, forms of business organisation and hours worked.

Paths to self-employment among both men and women (Section 2.1) were:

- choosing work traditionally done on a self-employed basis, for example farming;
- a voluntary move from the same or related work as an employee;
- an involuntary move from the same or related work as an employee;
- seeking a complete life change;
- moving towards retirement.

Additionally, among women the paths to self-employment included:

- developing a leisure interest or voluntary activity;
- seeking ways of working to fit around family needs.

Lifetime self-employment was unusual; the pattern was more usually one of moving between working as an employee and self-employment.

Employment patterns among couples (Section 2.2) showed that decisions about moving into or working as self-employed were often joint decisions between domestic partners. Both partners among people who lived in couples were generally doing some paid work. Self-employed men identified themselves as the main or joint family earner. Some self-employed women, with husbands in lower-paid work or who were retired, also said they were the main family earner, but women generally said they were the secondary earner, had a joint and equal share in business partnerships, or contributed similar levels of earnings as husbands in different jobs.

The scale of work (Section 2.3) varied. People working shorter hours were either fitting work around family life, or had additional sources of income, such as pensions. There was widespread experience of fluctuations in income, reflecting seasonal patterns in occupational activities and customer demand, as well as patterns of activity at a wider industrial level, for example in letting contracts.

A few people had saleable business assets, such as shops, but there were often no saleable assets attached to the self-employed work.

Financial advice for self-employment (Section 2.4) came mainly from accountants who helped with tax and Value Added Tax, but generally did not give other kinds of financial advice. It was unusual for people to say they had been in touch with a business start-up organisation.

Advantages of self-employment (Section 2.5) for some people, both men and women, were in being independent and in control, and being able to fit work around family lives. On the other hand, there were perceived constraints (Section 2.5) for some, including financial insecurity, isolation, demands on relationships, and loss of earnings during time off. Where there was some scope for flexibility, this was valued. The price of working flexibly was reduced current or future earnings, a constraint for people who had no other main source of income but not for those who could rely on partners' earnings or sources of unearned income.

Chapter 3: Financial products and information

People had invested in a range of financial products, and gave their views about these different ways of providing income for retirement (Section 3.1).

Most people said that their ability to save generally tended to increase over time (Section 3.2). People had made a range of investments, including personal pensions, occupational pensions, and savings products. Most had little in the way of saleable business assets, but some had second homes or rental properties, and people in the older age groups (over 55) had inherited or invested in bonds, stocks or shares. A few people expected lump sums from insurance policies or endowment policies, and some expected to inherit money which would provide income after State Pension age.

People's perceptions about savings and pensions products (Section 3.3) showed uncertainties and gaps in understanding. The salience of State Pension was often not high, and there was some doubt about entitlement, and money value.

People currently entitled to receive State Pension had generally decided against deferment. Most people were contributing to one or more personal pension schemes, or already drawing an income. The prevailing view of personal pensions among those still contributing was largely negative. People talked about the inherent risk and lack of certainty, poor performance and low value. The way in which personal pensions attracted tax relief was not widely understood.

Among those who had experience of occupational pensions, some viewed what they considered to be 'compulsion'² within those schemes as a positive element, ensuring that regular contributions were made.

² See Section 3.3.4 for further discussion on 'compulsion'.

In general, a great deal of confidence was expressed in 'bricks and mortar' as a safe way of investing money.

Although some expected the sale of their small business to form the basis of their income in retirement, for people with children who were also involved in their business (including as workers or co-owners) the idea of selling a business to raise retirement income was a difficult issue.

In terms of information and advice received (Section 3.4) on saving for retirement and financial issues generally, what mattered was impartiality and trust. Opinions varied sharply as to whether independent financial advisers could provide this. There were generally positive views of services provided by accountants, but few expected to receive advice about savings and pensions from this source. Family members, friends and business colleagues were mentioned as trusted sources of advice. Among people who said they definitely tried to keep up to date themselves, frequently mentioned sources of information were the financial pages of the national and local press. People generally found it hard to identify areas of information or advice they might need in the future.

Chapter 4: Thinking about and moving from self-employment to retirement

Decisions about whether to work beyond State Pension age are likely to be influenced by various factors. An important financial consideration may be the perceived adequacy of anticipated income.

Confidence in the adequacy of income after State Pension age (Section 4.1) varied, and we identified four groups of people:

People **confident** that income would be adequate to meet need (Section 4.2.1) tended to be 'savers' as opposed to 'spenders' and in a later stage of life, with higher earnings, paid-up mortgages, and no debt. They included husband and wife business partnerships, and were among the most financially aware.

People **generally confident**, but with some concerns that their income would mean a drop in living standards (Section 4.2.2) tended to be less successful savers, and often at a life stage in which they had a mortgage, dependent children, lower earnings and some debt. Many in this group had previously worked as employees but expected to receive only small occupational pensions at some point. They tended not to have comparable levels of savings of the 'confident' group, either because their small incomes or patterns of spending restricted their opportunities to save.

People **worried** that their income would be inadequate (Section 4.2.3) reported being unable to save due to declining businesses (currently or in the past), irregular earnings, and indebtedness. Some had cashed personal pensions to pay off debt. They expected to rely on the state pension for income after State Pension age. Some appeared to have no contacts with potential networks of help or advice.

Finally, some people were **unaware** whether their level of income would be adequate (Section 4.2.4). Some younger people in the study (in their 40s) did not think much about saving for retirement or were unable to predict what their savings would be. Some were uninformed about, or not interested in, the current value of their state or personal pension, or thought it impossible to predict their future value. Others had lost faith in the stock market and pension providers, and mistrusted their pension forecasts.

Views varied as to how long after State Pension age people would continue working (Section 4.3). Those who expected to stop work before or around State Pension age (Section 4.3.1) were sometimes influenced by ill-health. For those who had less flexibility over their working patterns, self-employment had become 'a bind', and they were looking forward to being able to do other things. Whether this would be financially viable was of key importance.

Winding down after State Pension age (Section 4.3.2) was the preferred option for some. Some were extending work due to job satisfaction; others were continuing unexpectedly due to work commitments. Continuing work was often financially motivated, either for extra 'pocket money' or until other financial plans came to fruition.

People with no plans to stop paid work in the foreseeable future (Section 4.3.3) expected to continue working; for some this meant until health or old age forced them to stop. Some expected to extend their working life through financial necessity; others were primarily motivated by job satisfaction. Being able to work flexibly was often important in deciding to extend working life.

Those who were not thinking this far ahead (Section 4.3.4) included some of the youngest people in the study. They found it difficult to predict when they might stop work. This would depend on their circumstances around State Pension age, including health and income.

Chapter 5: Summary of findings and policy implications

Self-employed people identified in the study as either **confident** or **generally confident** about their expected retirement income are arguably not of immediate policy concern. Some people expected to make changes to their standards of living on retirement but it did not seem likely that they were at risk of pensioner poverty. The group of more concern was the **worried** group (and to a lesser extent, the **unaware** group) who were potentially at risk of having inadequate retirement incomes but who also seemed generally less likely to use sources of information and advice.

The research suggested that there is scope for increasing people's knowledge about existing options for providing for a pension and the balance between working longer and saving for retirement. The following ways of doing this were discussed with participants:

- Providing information about pension and savings products.
- Promoting use of sources of information and advice.
- Addressing negative views of some pension products.

Perhaps the key challenge is to find ways of bringing self-employed people who would benefit from information and advice into contact with the wide range of services provided from both the public and private sectors, such as information/advice services, banks and building societies. This might require **proactive** action in order to overcome the reluctance of some self-employed people to make contact themselves (for reasons of time, apprehension or distrust).

Improving people's pension coverage might also be addressed by:

- increasing incentives to save;
- making additional pension saving compulsory.

It was difficult to identify policy measures that might facilitate working beyond State Pension age for self-employed people (or whether any were needed), or measures that might make self-employment a more flexible way of working.

Proposed mechanisms for increasing pension saving suggested by the Pensions Commission would only be voluntary for self-employed people (Section 5.4). The evidence from this research would seem to suggest the need for an information strategy targeted specifically at self-employed people. The findings suggest that self-employed people could benefit from gaining access to financial help and advice sources that are seen as competent and trustworthy.

1 Introduction

This report presents findings from a qualitative research study commissioned by the Department for Work and Pensions (DWP) to explore how self-employed people aged 40 and over make financial plans for retirement and whether self-employment can play a role in extending people's working lives. Findings are based on interviews with 40 people in two areas of England in late 2005 and early 2006. The work contributes to the development of policies on saving for retirement, the promotion of flexible retirement and extending working life.

This introductory chapter first sets out the aims and objectives of the study (Section 1.1). The following section (Section 1.2) presents a brief review of existing knowledge about self-employed people and retirement. Section 1.3 explains the pensions 'environment' that forms the background to the study. The research design and methods that were used are described in Section 1.4. The structure of the rest of the report is set out in Section 1.5.

1.1 Aims and objectives of the project

The aims of the project were:

- to explore how self-employed people plan financially for retirement, and what influences their decisions;
- to gain information about ways in which self-employment may offer flexibility to extend working lives.

The study also aimed to shed light on how self-employment differs from employment in the barriers and incentives the self-employed face in saving for retirement.

To meet these aims, a number of more specific research questions were defined as follows:

- what are self-employed people's expectations about financial security at the end of their working life, and what influences these?
- what are their perceived roles of pensions, savings and earned income at the end of their working life?

- what influences self-employed people's decisions and behaviour in relation to financial planning, saving towards retirement and/or extending working life?
- what is the relationship between people's feelings, perceptions and behaviour and individual experiences of work, life cycle stages and personal circumstances, opportunities and constraints?

Findings are intended to inform policy thinking about extending self-employed people's working lives and planning for retirement.

1.2 Existing knowledge about self-employment and retirement

The government White Paper on pensions (DWP, 2006) puts the number of self-employed people in the United Kingdom (UK) at approximately three million, two-thirds of whom are over 40 years old and just under three-quarters of whom are men, with a very wide range of earnings levels. Self-employment is highly heterogeneous, ranging from traditional small business owners with a handful of employees at one end to sub-contractors or homeworkers operating largely as outworkers for their original employers at the other. In between are professional self-employed people such as craft workers, franchises and co-operatives, and childminders (Hakim, 1988; Boden *et al.*, 1997).

Self-employed men commonly work in construction and banking, finance and insurance but also in distribution, hotels and restaurants. Those over State Pension age are overrepresented in agriculture and fishing, banking, finance and insurance, and public administration, education and health. Self-employed women commonly work in distribution, hotels and restaurants, public education, administration and health, banking, finance and insurance, and other services, with those over pension age being over-represented in distribution, hotels and restaurants but underrepresented in banking, finance and insurance.

According to data from the Family Resources Survey for 2004/05, the mean gross income from full-time self-employment earnings was £503 per week (or £26,164 per year) compared with an average of £482 (or £25,083) for full-time employees.³

³ It should be noted that it is difficult to obtain reliable data on self-employed earnings (Knight and McKay, 2000). The figures quoted here are from the Family Resources Survey, 2004/05, and are therefore subject to sampling errors, together with potential bias because not everyone approached agreed to take part (the overall response rate was 62 per cent) and because some information may be incorrectly reported. Evidence suggests that some items of income may be under-reported in the survey, particularly self-employment and investment income, and estimates of average income are vulnerable to variations in the number of very high income households responding in each region. These figures should, therefore, be treated with caution.

But median earnings are lower for full-time self-employed earners (£310 per week) than full-time paid employees (£387 per week). This is a result of skewed distribution. Whilst the wealthiest 15 per cent of self-employed people earn very high earnings (more than £698 per week gross), the 15 per cent with the lowest earnings earn less than £108 per week gross (and ten per cent of the self-employed reported nil or negative earnings). In comparison, for employees, the highest earning 15 per cent report earnings of more than £663 per week gross with the lowest earning 15 per cent earning less than £158 per week gross. Self-employed people, therefore, have a greater proportion of both high earners and low earners than employees. The image of an affluent entrepreneur appears only to be the case for a small proportion of all self-employed people (Weir, 2003).

In Britain in 2004/05, 60 per cent of self-employed men and 70 per cent of self-employed women were not contributing to any pension scheme. This is compared with 41 per cent of male and 45 per cent of female employees (Chung *et al.*, 2006). Self-employed people are less likely to be saving for retirement than employees, and are less likely to be making regular savings (excluding paying into a pension) than employees (McKay and Kempson, 2003). The evidence suggests that planning for retirement is influenced by earnings and by financial understanding and sophistication (Hedges, 1998). There is also evidence that self-employed people are less likely to have confidence in pensions as the most secure means of saving for retirement (Mayhew, 2003). If payments towards pensions are made, they are generally small, and pensions are an area of expenditure which families are likely to cut out if circumstances become difficult (Eardley and Corden, 1996).

Self-employed people are much more likely to be in work after State Pension age than employees: seven per cent of people who are self-employed are over State Pension age⁴ compared with three per cent of people who are paid employees (Labour Force Survey, December 2004-February 2005). This appears to reflect later retirement among the already self-employed rather than large-scale transitions into self-employment in later life. Evidence has shown that the clear majority of those working after State Pension age, especially those who were self-employed, remained in the same type of job as before (Smeaton and McKay, 2003). Indeed, analysis of the British Household Panel Survey shows that among men aged 50-59 and self-employed in 1991, 40 per cent were working ten years later compared with 17 per cent among employees (Smeaton and McKay, 2003).

Self-employed workers have a variety of reasons for continuing work. In particular, they put a high value in sociability, and long-standing supportive collegial relationship and the opportunity to meet and mix with a range of people as reasons for remaining in work. Generally, it appears that people who are continuously self-employed represent a particularly satisfied group who identify strongly with their work and who want to continue in it for as long as possible (Barnes *et al.*, 2004).

⁴ Age 65 for men and age 60 for women.

To summarise, social research previously undertaken provides us with an overall picture of the characteristics of self-employed people, their savings activities, their propensity to retire later and their level of knowledge about differing savings mechanisms. We also have some, but limited, understanding about financial planning for retirement and working beyond pension age for self-employed people. However, we do not have a clear understanding of the decision-making processes which self-employed people undertake when planning for retirement, or the factors that influence their decisions. Nor do we have sufficient understanding of how self-employment can play a part in extending people's working lives.

1.3 The pensions environment

The environment of pensions is highly complex and experiencing a period of great change. In this section we describe first the types of pension and savings products available to self-employed people and secondly take a brief look at recent and proposed policy changes.

1.3.1 Pensions and savings products

The range of personal pensions available through the commercial market and occupational pension schemes are collectively known as **private pensions** to distinguish them from state pensions. The pensions and savings products available to self-employed people are many and various. As context for the findings presented later in the report, we set out below some of the basic features of these products. We also describe how occupational pensions operate as many self-employed people who have been employees at some point in their working lives will be eligible to receive payments from one.

To provide 'retirement income'⁵, individuals usually have to accumulate financial capital (held as cash or other forms) throughout their working lives to use against their eventual retirement. For self-employed people, the capital sum needed to generate an income for retirement must come mainly from their own resources. They do not have an employer who will make contributions on their behalf, and, while they are entitled to the basic state pension and other state benefits such as the Pension Credit, the State Second Pension is available only to employees who pay a higher rate National Insurance contribution and not to self-employed people.⁶ This means that the costs, risks and rewards fall entirely to them, although there are tax schemes to help with the burden. There are a variety of ways that self-employed people can save for retirement. These will be outlined in this section. On 6 April 2006

⁵ We use the term 'retirement' here to mean the commencement of drawing some form of pension on ceasing or reducing work.

⁶ Also, employees who are members of **occupational schemes** and certain **approved stakeholder** schemes can 'contract out' of the State Second Pension, and thereby pay National Insurance contributions at a reduced rate.

(known as 'A Day') pension regulations were simplified in an attempt to encourage savings for retirement. A Day has brought with it changes to some of these ways of saving. However, the interviews for this study took place before A Day and therefore the savings products described below do not take into account these changes. The changes brought about by A Day are discussed below.

Personal pensions

Personal pensions are provided by private companies such as insurance firms and banks. Personal pensions are divided between **stakeholder** and **non-stakeholder**.

Stakeholder pensions, introduced in 2001, are designed specifically for low- and middle-income people, whether employees, self-employed or those not in paid work. The chief characteristic is the greater government regulation of providers – especially around fees (a maximum annual charge cap of 1.5 per cent for the first ten years, after which charges must drop to no more than one per cent) and flexibility of payments in (providers are obliged to accept payments as small as £20, there are no charges or penalties for pensions holidays, lump sum payments or an exit to another scheme). They therefore allow flexible saving, and are a low cost and low risk pension.

Non-stakeholder pensions are varied in form and include vehicles such as Self-Invested Personal Pension Schemes. **Non-stakeholder** schemes are often less flexible and have more tie-ins (such as exit penalties) than **stakeholder schemes**, but may bring more investor control and higher returns at higher risk.

Payments into all personal pension plans attract tax relief at the marginal rate, subject to certain upper limits. If an individual paying basic rate tax puts in 78 pence, the government adds a further 22 pence direct to the scheme. Higher rate tax payers can claim a further 18 pence back through their tax return, meaning that every £1 in their schemes has in fact cost them 60 pence. Upper limits are currently age-related and income-related. Once invested, money remains locked inside schemes (although it is possible to switch between schemes) until it can be accessed as a pension. At the time of the interviews, the age at which a personal pension could be claimed legally was 50, but this will rise to 55 in 2010. However, personal pensions can still be held and/or be left to accrue after State Pension age.

Individual Savings Accounts

Individual Savings Accounts (ISAs) are tax efficient savings vehicles. They replaced, from 1 April 1999, Tax-Exempt Special Savings Accounts (TESSAs), and Personal Equity Plans (PEPs), which were similar. TESSAs were time-limited (five years) and there was a maximum level of investment (£9,000). For PEPs, there was a limit on how much could be invested in each tax year, but they were not time-limited so that many people still hold PEPs set up before April 1999, although they cannot add money to them. The five-year limit means that there were no TESSAs set up after April 2004. Individuals can currently put up to £7,000 a year into an ISA

(£3,000 maximum held as cash, the rest must be held as other assets such as equities or insurance) and the income generated is tax free. An ISA can comprise an investment in cash, or longer-term investments such as stocks and shares, or insurance.

Endowment schemes (sometimes linked to mortgages)

These are life insurance policies that pay out after a fixed term if the policy holder has not died in the interim (in which case there is often a life insurance type payment on death). The amount to be paid is a guaranteed sum plus annual bonuses and a terminal bonus that are linked to the performance of the invested premium payments.

Annuities

Annuities are insurance policies whereby, in return for a capital sum, the individual receives a regular income for a defined period. There are many types of annuity. **Compulsory purchase annuities** are only for people in pension schemes. **Purchased life annuities** can be bought by anybody with lump sums to invest. Annuity terms (length, pension for spouse, health) vary considerably, and are calculated actuarially. Therefore women (who live longer than men) often have smaller annuities paid over a longer period of time. Some self-employed people will be able to raise the capital needed to purchase an annuity by selling business assets or property.

Occupational schemes

These are provided by employers, and may be available to self-employed people who have been an employee previous to their self-employment. There are two main types of private occupational scheme for employees. The most common are **defined benefit** or **final salary** schemes where the employer and/or employee pay a fixed contribution to receive a pension defined by final salary levels. Risks and benefits are therefore collectively pooled, with employers bearing the greater degree of risk. However, there has been a shift in recent years towards **defined contribution** or **money purchase** schemes whereby individuals effectively have a personal savings account, the proceeds of which are used to purchase an annuity and a tax-free lump sum at or around retirement.

1.3.2 Recent developments in pensions policy

In this section we outline the background to recent developments in pension policy that have taken place, and discuss the contribution of the Pensions Commission to current ideas about pension reform for the future in relation to self-employed people.

Recent changes

Following the pensions scandals of the 1990s⁷, the sale of pensions and other such investments is now closely regulated by the Financial Services Authority (FSA). There are a variety of sources of advice about saving for retirement. Many small accountants will also be certified to give personal financial advice and may offer this service to self-employed clients. Most people who do get advice go to financial intermediaries, such as independent financial advisers, advisers employed by banks, building societies and insurance companies. Financial intermediaries giving advice on investments, including pensions, must be authorised by the FSA and must have an 'appropriate' qualification. Nearly all personal pensions are brought as a result of advice, usually through an independent financial adviser, and a minority are bought through tied or multi-tied advisers (Kempson and Collard, 2005).

Since 6 April 2006 (A Day) all personal and occupational schemes are now subject to the same tax regime, and there is much greater flexibility on limits on payments, around annuities, in assets held by funds, and options for drawing a pension. A-Day both extended and simplified the upper limits for tax relief – for example, everyone will be able to get tax relief on pensions contributions up to their annual taxable income, subject to an overall current limit (£215,000 for the 2006/07 tax year) and there will also be a new lifetime allowance on the level of pension savings that can benefit from tax relief (£1.5million for the 2006/07 tax year).

The Pensions Commission and the 2006 Pensions White Paper

This research study has been undertaken against the background of growing policy interest in pension provision over a number of years that resulted in the appointment of the Pensions Commission following the publication of the Pensions Green Paper in 2002. The Commission's work culminated in their second report towards the end of 2005⁸ and a final report in 2006⁹ which formed the basis of the government's proposals set out in a White Paper *Security in retirement: towards a new pension system* in May 2006. (It should be noted that the fieldwork for this research project was carried out before publication of the White Paper.)

One of the main findings of the Pensions Commission's analysis is that there are large numbers of people in the UK who are heading towards inadequate incomes in retirement. Their estimate is between 9.6 and 12 million people who are concentrated among certain groups, including the self-employed (Pensions Commission, 2004, p 165). The Pensions White Paper, using data from the English Longitudinal Study of

⁷ Including, for example, the mis-selling of personal pensions and the high profile collapse of the pensions company, Equitable Life.

⁸ *A new pension settlement for the twenty-first century*, the second report of the Pensions Commission, November 2005.

⁹ *Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission*, April 2006.

Ageing, estimates that around seven million people are undersaving according to the Pensions Commission's benchmarks.

Its conclusion in relation to self-employed people is encapsulated in this extract:

The expansion of self-employment during the 1990s has not...been accompanied by the emergence of a new category of retirement provision for other than a small minority.

(Pensions Commission, 2004, p 204)

Against a picture of slowly increasing investment in personal pensions in the general population, the Commission reported that between 1996/97 and 2002/03 the percentage of self-employed people with private pension provision fell to below 50 per cent for men and to around a third for women (Pensions Commission 2004, Chapter 3), a situation the Commission described as 'concerning'.

The Commission does not offer policy responses specific to self-employed people in its second report in 2005. It had already noted in its first report that one possible way of financing retirement income, i.e. the sale of business assets, was only feasible for a 'very small minority' of self-employed people (2004, p 204). Its principal proposal therefore was to invite self-employed people to participate in the projected National Pensions Savings Scheme (NPSS)¹⁰ on a voluntary basis (Pensions Commission, 2005). The Commission also suggested further research into the possibility of allowing self-employed people to join the State Second Pension scheme (explained in the following section). In its final report, the Commission concludes that its reforms '*should make it more likely that the self-employed can gain adequate state pensions and access to low cost savings*' (2006, p 41).

The White Paper, *Security in retirement: towards a new pension system* develops the idea of the NPSS into what is called 'a new system of personal accounts' to which paid employees and their employers would contribute. Reflecting the Pensions Commission's proposals, self-employed people will also be given the opportunity to have access to membership of personal accounts. The option of extending coverage of the State Second Pension scheme to self-employed people was rejected.

1.4 Research design and methods

The information required to address the research questions was personal and experiential, for which a qualitative approach was appropriate. The research design was therefore straightforward. Within the time and budget constraints of the study, the aim was to achieve 40 interviews with self-employed people over 40 years old,

¹⁰ The NPSS would be a new form of pension saving (featuring automatic enrolment with the option to opt-out, for those not adequately covered by other arrangements such as occupational pension schemes) in addition to the basic state pension and the State Second Pension (Pensions Commission, 2005).

including some already over the State Pension age of 60 for women and 65 for men. The lower age limit of 40 was chosen on the basis of evidence that the proportion of people taking steps to save for retirement increases significantly after 40.¹¹ There would be little value in exploring the topics in this research among people who had given little or no thought to their finances in retirement.

The full details of the sampling, selection and recruitment procedures, and of the characteristics of the achieved sample are set out in Appendix A (and the supporting Appendices B-D). The aim of the purposive sampling was to select people according to four principal criteria:

- Gender.
- Age.
- Self-employed occupation.
- Income level.

To ensure a wide range of occupations within the full sample, two locations were chosen for fieldwork (Outer London and North Yorkshire) and separate sub-samples were generated for each by the DWP and Her Majesty's Revenue and Customs.

Interviews (with one exception) were tape recorded and transcribed for analysis (the process of analysis is further described in Appendix A).

1.5 Structure of the report

Chapters 2-4 draw on analysis of the empirical data from the 40 qualitative interviews with self-employed people. Chapter 2 explores the routes by which people come to self-employment, and the factors that influenced decisions to work as self-employed. The heterogeneity of types of self-employment found among the study group is set out, including occupation, scale of business, hours of work, incomes, and ownership of business premises and assets. The chapter goes on to look at the kinds of financial information and advice which people had used as self-employed workers. Finally, data are presented on people's views about the advantages and constraints of being self-employed, at different life stages and whether self-employment gave them flexibility in working in later years.

Chapter 3 examines people's knowledge of financial products that might contribute to income after retirement. For context, the chapter begins by setting out the range of savings vehicles and other sources of finance that people in the study group described. Views on these ways of providing an income in retirement are then presented, including views about the state pension, business assets and property as

¹¹ McKay, S. and Kempson, E. (2003) *Savings and Life Events*, DWP Research Report No 194.

sources of income. Finally, we look at where people get information and advice about saving for retirement, and examine views and perceptions about how government does and could support self-employed people in retirement.

The focus of Chapter 4 is on thoughts and views about the process of moving from self-employment to retirement. For some people in the study group this meant discussing possibilities some way in the future. For others it was imminent. The chapter explores expectations and influences surrounding income available after State Pension age and identifies four different categories within the study group: those 'confident' about their post-retirement income, those 'generally confident' but expecting to make adjustments to spending patterns, those 'worried' about the future and finally those 'unaware' of what they might have as income when they retired. The second part of the chapter explores expectations of working beyond State Pension age. First, it outlines different expectations about when people intend to retire. It then explores who falls within each group and why they have these expectations, in particular how expectations of working beyond State Pension age related to expectations of income after State Pension age.

Chapter 5 summarises the findings and presents the policy implications of the study.

2 Working as self-employed

Among people moving towards retirement, previous and current experience of work and levels of earnings are likely to influence expectations about future working and sources of income. The views and experiences of domestic partners in relation to employment will also be influential, and both partners will be thinking about issues such as health, work satisfaction, expectations of living standards, opportunities for future earnings, and pensions and savings. This chapter begins our exploration of these issues by looking at self-employed work currently undertaken by the research participants, and the labour market activity of domestic partners. First, we trace routes to self-employment, and factors influencing decisions to work as self-employed (Section 2.1). We summarise employment patterns among couples (Section 2.2), and what people told us about the various contributions to family income. (An overall picture of the kinds of self-employed work being undertaken among the participants at the time of the research interviews, and the different forms of business organisation, are presented in Appendix A.) Section 2.3 gives some indication of the scale of the self-employed work and business enterprises, for example hours of work, and ownership of business premises and assets. Such contextual information is important in understanding material in the following chapters about different opportunities for continuing to work, and the variety of income sources which participants took into account. Section 2.4 summarises the kinds of financial information and advice which participants had used as self-employed workers. In the final section (Section 2.5) we present participants' views on the advantages and constraints of being self-employed, at different life stages. Here we see participants' views on whether self-employment gave them flexibility in working in later years.

2.1 Routes to current self-employment

The general picture of self-employment in the United Kingdom is one of great heterogeneity. Participants in this study had come to self-employment along different pathways and at different stages in terms of age, career and family development. There were, however, a number of patterns discernible. We look first at the men in the study, all of whom identified themselves as the main or joint earner in the family. Their paths to self-employment were:

- choosing work traditionally done on a self-employed basis;
- after an involuntary move from the same or related work as an employee;
- after voluntarily moving from the same or related work as an employee;
- seeking a complete life change;
- moving towards retirement.

We go on to discuss such routes.

In the first group, people who had chosen work traditionally done on a self-employed basis, were men who had been in the same area of work for all or most of their working lives. In the construction industry, much work is generally made available to trained and qualified tradespeople on a self-employed basis, and one man had been working like this all his adult life. Men in lifetime farming, or who went into fishing as the main work available in coastal locations, had been self-employed for up to 40 years, in tenant farming and share fishing. When farms were family businesses, other family members including adult children joined as partners, but some men's wives had quite separate jobs.

Taking another route to self-employment were men who had moved from previous work as an employee into self-employment in the same or a related area of activity. They took skills, qualifications and expertise from their work as an employee into working on their own account. Such moves from previous jobs had been forced for some men, while others had resigned voluntarily in order to pursue their plans. Among those who had to leave paid jobs with employers were men made redundant in their 30s and 40s, and an older man who had to negotiate a redundancy/early retirement package from public service employment in his early 50s. With families to support, men who found it hard to get another job thought of setting up on their own, joining colleagues in similar situations and setting up partnerships, or taking on a franchise, which could seem less risky. Wives who did not have their own jobs at the time sometimes joined as a business partner if there was appropriate work for them to do. The older man found himself approached immediately for consultancy work when he left his job and, with the security of his occupational pension, he decided to try working in this way.

There were mixed fortunes for enterprises set up after involuntarily leaving paid work. When work came in, for example, from previous customers who still wanted the service, self-employment proved viable. One man had gone on to buy a business in the same area of work, and another had gone on to look for new niches in an expanding and changing market and built up a successful small business with employees. However, profits quickly declined in the franchise and, at the time of the research interview, this couple had decided to seek work as employees again. Partnerships between colleagues, set up in response to redundancy, were not always enduring, and there were examples of men who had then gone back to working as an employee for some years, before trying self-employment again, alone.

Moves from jobs as employees to take skills and experiences into self-employment in the same general area of work were not always forced, however. The idea of working for themselves began to seem attractive to men in their 30s who were working very hard but losing some job satisfaction. Some had already had various promotions but were frustrated by perceived inefficiencies at work while others described poor working conditions such as night shifts which affected their health. There had been concerns at the time as to whether self-employment would be viable, and an expectation that early years would be hard, but the men hoped their expertise and knowledge gave them a good chance of success. In one family, this was the trigger for the wife to take a part-time job in order to have a second, regular income for the family while her husband got established. Also, among those men who moved into self-employment without changing their occupation, were people working in professions where a traditional career path is to start as a trainee, gain a few years experience as a junior employee, but then look to join a partnership or start working from home on their own account.

People who decided to move into new areas of work as self-employed people said they had been positively seeking a life change at that stage. Some young men had become bored with the professional careers they had started, while men in their 30s described having done many years hard work in factories or in low-paid work for big companies and being fed up with this and wanting more control and a better quality of life. Long-term inclinations for running a small shop, or trying work being done by self-employed family members, influenced men in making a big life change. There was a similar pattern here of wives' participation in the new ventures, sometimes giving substantial help with paperwork or dealing with customers, without formal employment status. Again, there were mixed fortunes for such ventures. One was seven years old and one had thrived for 17 years, but at the time of interview one business was on the market and the man concerned was expecting to seek work as an employee again, while he still had dependent children.

Finally, a small number of men of particular interest in this study linked their entry to self-employment with their move towards retirement. They were over State Pension age when interviewed but had taken retirement from well-paid public service jobs in their late 50s and early 60s. They had wanted further stimulation and activity, or sought to boost income. Offering consultancy work in their own field was one opportunity, while another man had been attracted by an advertisement offering work which seemed to match his skills mix.

The above account of routes to self-employment relates to the pathways to the first experiences of self-employment. Some of the men described several transitions during their working lives, for example training as an employee, moving into working as self-employed in the same occupation, and then wanting a change and trying a different self-employed occupation. Factors such as their own or their partner's health, the economic success of self-employed enterprises, or the fortunes of non-family business partners, had been influential.

We turn now to the self-employed women who took part in the research. We see among the self-employed women, people who identified themselves as the only earner, the main earner, the secondary earner, an equal business partner with their husband, or an equal earner with a husband who had separate work. The picture of current contributions to earned income in the household was thus more variable among the women than among the men, all of whom said they were the main or joint earner in the family. There was also a different picture of the routes to self-employment among the women, their pathways being:

- choosing work made available on a self-employed basis;
- after an involuntary move from the same or related work as an employee;
- after voluntarily moving from the same or related work as an employee;
- seeking a complete life change;
- seeking ways of working to fit around family needs;
- developing a leisure interest or voluntary activity;
- loyalty to a previous employer and a field of work.

We go on to discuss these paths to self-employment.

We explained above that farming is traditionally a self-employed way of life, and participants included women who were in partnership with their husbands in second and third generation family farms. Other women said that they were business people and had just always worked as self-employed, one of whom had always been in partnership with a husband through a number of different small business activities, of varying success, but all reported positively as interesting.

There was also a group of women who described similar circumstances as some of the men, losing jobs through being made redundant or when companies collapsed, or when companies restructured away from an employed workforce towards short-term contracts and fees for a self-employed workforce. Some looked unsuccessfully for similar work as an employee, but all moved eventually into working on a freelance basis, in the same kind of work, sometimes for the same employing organisation again.

Again, in the same way as the men, some women described moving voluntarily from jobs to self-employment within the same or a related occupation. Dissatisfaction with quality of services delivered by employers, and deciding to go ahead with a husband to fulfil a long-held dream led some to leave jobs and buy or set up small businesses. Some women were invited to do some freelance work while working as an employee or looking for new opportunities, and moved gradually towards building this up into self-employment. One applied for a new job as an employee and was told about franchise opportunities available through the company. Making a move from formal employee status to self-employment within the same occupation had been problematic for one woman. During a period of restructuring within the

communications industry, Inland Revenue rules for deciding formal employment status led to delay in establishing her formal status as self-employed, leading to an interrupted National Insurance contributions record, with subsequent implications for entitlement to pensions and benefits.

There was one example among the women of coming to self-employment through wanting a complete life change, a pathway already described among the men. After long careers in public service occupations, a couple felt stressed and disillusioned by new working practices, and sought a new lifestyle and change of location. They considered a number of options before buying a small business.

Among women who came to self-employment through seeking ways of working to fit family needs, some said they had tried part-time jobs when their children were small, but these did not work out well. Some wanted small amounts of work which they could do to fit around husband's working patterns and child care, to bring in some additional money and maintain skills and contacts, while others were looking to the long term and a need for a good income, for example to educate children privately. Those who did not continue in their previous occupation embarked on retraining for a new career at this stage, and went on to gain professional qualifications leading to successful self-employed careers.

Developing a leisure interest or voluntary activity into self-employed work is recognised as a way in which women often come into self-employment (Eardley and Corden, 1996) and there were examples of such pathways in this study. Women who found particular satisfaction or skills in work they did on a voluntary basis and for which there was market demand went on to develop this into a new career as their children grew up and they had more time. For one woman this meant giving up a good job and undertaking professional training. Both women had husbands in full-time paid jobs, for some security of family income during the developmental stages of their work. Both were close to State Pension age when interviewed, but spoke very positively about their work. One had already started a second and unrelated self-employed business by developing an additional skill, and was looking to set up also a new business partnership, in response to perceived new advisory needs in the community.

One exceptional reason for becoming self-employed for one woman who had initially planned early retirement without doing further paid work was to ease the transition for her employer and other staff, when it became clear that her post would be empty for a while. Feelings of loyalty led to making arrangements to continue part-time consultancy work, phasing out her contribution more gradually than initially planned.

Looking generally across routes to self-employment among participants in this study, we see that lifetime self-employment was unusual. It was common for people to have made transitions between working as an employee, and working as self-employed, and some people had made a number of such moves, with some future moves back to employed work expected also. Women in particular sometimes came

to self-employment to fit family needs, or by developing a personal interest, and started on a relatively small scale. Such transitions in employment status and trajectories have important implications for the kinds of pensions investments which people made, as we see in the following chapter.

2.2 Employment patterns among couples

In the previous section we saw that decisions about moving into or working as self-employed were often joint decisions between domestic partners. There were several examples of men who left jobs as employees and moved into business partnership with their wife. There were also both men and women who said that moving into or building up self-employment had depended initially on having the security of a second earner in a different job. Some couples had always worked together; while others had always had separate work. The pattern of employment and contribution to earnings within the household determine income flows and levels, and can be a strong influence on decisions about working and saving, as we see in the following chapter. At this stage, it is useful to present an overview of employment patterns among the couples, at the time of the research interviews.

When interviewed, both partners among people who lived in couples were generally doing some paid work. Among the women who lived with partners, those who thought they were currently the main earner described husbands working as employees in lower-paid work or now retired from previous work and engaged on small business activities. Women who identified their husbands as definitely the main earner in the family included younger women caring for school-age children and one woman past State Pension age whose partner was also self-employed. Women in business partnerships with their husbands formally had equal shares in business profits and one of these women said her husband had additional earnings from another business. Women who said that they were probably equal earners generally had husbands in separate self-employed work. At any particular time the different partners' contributions to household income varied, according to contracts and fees and income flows from self-employment, but averaged over recent years they were probably both contributing similar amounts.

Turning to the men in the study group, none felt that their wives were the main family earner. In the formal business partnerships with wives, some shared tasks with their wife while some described different kinds of responsibilities. Men who identified themselves as the main family earner described a range of employment circumstances among their wives. Some women had full-time work as employees but part-time jobs were more common. Wives who helped within the business were not always formally employed. There were also men in the older age groups whose wives had done paid work in the past but were now retired or had serious health problems.

2.3 The scale of self-employed work

One of the criteria for selection of this group of self-employed people was that they were currently in low or middle income groups (Appendix A). It was possible that, for some people, current low earnings was related to being in the early stages of development of self-employment or working shorter hours, especially among people who also had family responsibilities. For some of the older people, however, low earnings might be linked to reducing work as they approached or passed State Pension age. The former group might have expectations of higher earnings later in life, with opportunity to increase the value of businesses or increase savings. The latter group, on the other hand, might have enjoyed high self-employed earnings from earlier stages in their work and been able to build up businesses into valuable assets which might be a source of retirement income.

The study was not designed to provide a full analysis of the level of earnings during working life. There is useful data, however, on current working hours. We can also generally report on whether people expected earnings from their self-employment to grow or decrease in the future, and whether they had business property or assets.

2.3.1 Self-employed women

Among the women, there was no clear pattern of relationship between hours of work and either family responsibilities or chronological age. While some women whose husband was the main earner chose to work part-time to fit around children, other women with children worked more than 30 hours weekly. Similarly, there were some examples of women over State Pension age who currently did only a few hours work, or had long periods without any work between contracts; other women over 60 years old were currently working more than 35 hours weekly. There was a strong pattern, among the self-employed women, of seasonal surges in hours of work, for example when work coming in depended on weather, holiday periods and trends in retail buying or other industrial patterns. There was also a strong pattern among the people who worked as freelance, of periods of intense work interspersed with no work at all, while waiting for contracts. Thus for many women, income flows were sporadic and variable. Only one older woman said she had enjoyed much higher self-employed earnings in the past, when at the peak of her career (although, as we see in the following chapter, some women had been higher earners in previous jobs as employees). In general, the picture was one of gradually building up earnings from self-employment to the current level. While some were hopeful of maintaining this level for the near future, sometimes in very insecure working environments, some women were expecting to leave their work soon. In the younger age groups, one woman had plans to move abroad, and one was planning with her husband to sell their small business which was hard work and did not enable sufficient time off. Among those over 60 years, two women were now working very low hours as they moved into retirement.

Women who had saleable business assets included people who owned shops and retail outlets, more traditional 'businesses' with premises and employees or saleable franchises. Some business premises involved extensions to family homes.

2.3.2 Self-employed men

Among the men below State Pension age, the pattern was either regular full-time working, or seasonal fluctuations in working hours, with periods of intense work and quieter months, for example when winter weather affected the construction industry. Some men had opportunities for increasing earnings, but this would mean taking on employees or working away from home and was not what they wanted to do. Declining profitability in one retail food business was thought to be related to changes in eating patterns among the general public. One person who had previously had high earnings in the same kind of occupation had experienced financial problems, and had scaled work down again.

Among the men over State Pension age there was considerable variation in the amounts of work being undertaken. In a similar way as some of the older women, working three or four days a week was one way of continuing to work after pension age. Some were spending less time than this, and described two or three days work per month, or arrangements to provide a small number of training sessions per year. On the other hand, as among the older women, there were men in their late 60s putting in full-time office hours and, in one case, over 50 hours weekly running a small business. Men working as hard as this had both been used to higher earnings in the past; one said that it was financially necessary.

As already explained for the women, there were often no saleable business assets attached to the men's work. The share fisherman was not the boat owner, and there were no realisable assets for the tenant farmer, who would also have to pay for a home when he retired. A younger man currently looking to sell his business had a business loan to pay off and another man who had already sold his business due to ill-health had to put money back into business loans and extra mortgages taken out to keep the business afloat. The man looking to end his franchise thought it would have low saleable value, and it was more sensible just to let the franchise expire. Another man said that he would have to work up his business over a number of years and in a different way for it to have saleable value. Some men had vehicles and tools but these would depreciate in value and outdate, should they look to sell them in the future. Craftsmen said they would be reluctant, anyway, to get rid of basic tools that they would go on using after retirement from paid work. As was explained by some of the self-employed women, if men hoped to pass on businesses to children, they would not want to take out assets.

2.4 Financial advice for self-employment

It is known that some accountants who advise self-employed people, and some personnel giving business start up advice, draw their clients' attention to the need to think about pension provision and savings. The researchers were thus interested in how far participants in this study had used these channels of advice during their self-employment. Use of independent financial advisers, who advise on personal investments, and pensions and savings products, is described in Chapter 3. In this section it is important to remember that retrospective information does not give a full picture of all the business advice received by participants over the years. Memories fade, or are overlain by different experiences. The picture presented is what people remembered about advice from accountants and similar professionals.

People who were themselves professionally trained in accounting or audit, or whose domestic partners were accountants or tax advisers, dealt with their accounts and tax returns themselves. A few people with banking experience, or qualifications or experience in marketing or management also did not use accountants. Otherwise, it was common to use the services of an accountant, particularly for drawing up tax returns or advice on VAT. People usually spoke positively about their accountants, and some reported using the same person or the same firm for many years. Few accountants were reported to give advice other than auditing and help with tax, however. Only two men remembered their accountant suggesting, at least 20 years ago, that they should take out a personal pension. They had acted on this advice, believing it would be appropriate.

It was unusual for people to say they had been in touch with an organisation specifically offering advice and support with business start up. Only one person remembered going to a '*government small business advisory service*' when moving from a well paid job to try self-employment. She remembered helpful advice about marketing and doing accounts, but did not mention any advice about pensions investment. Two other people knew of the existence of Business Link, but had not specifically used the advice offered, preferring to talk to personal friends with accounting experience or to use information from their professional association.

Bank managers were reported to have been helpful sometimes, in arranging financial support through business or development loans. People living in rural areas often spoke positively about their bank manager's understanding of local business conditions, or the need to replace machinery. Some people said they steered clear of any business advice offered by banks, however, believing that banks were only interested in making money themselves.

Apart from these professionals, the other main sources for business advice were domestic partners and personal friends who had legal, marketing or business experience. One woman who worked freelance used information from the local Chamber of Commerce and the Institute of Directors.

The general picture was thus of accountants being widely used, and generally trusted and found helpful in the services offered, but these usually not extending to advice about taking out pensions.

2.5 Advantages and constraints of being self-employed

A key question in this study was whether self-employment offered advantages in moving towards retirement and, in particular, whether self-employed people perceived some flexibility in self-employment that would enable them to work in ways that suited them in later years. We saw in Section 2.1 that there were some different routes to self-employment, and different expectations among the group of women, in comparison with the men. We, therefore, look first at women's experience of advantages and disadvantages of self-employment, and their views on the flexibility of working in this way, and then turn to men's experiences. Throughout this part of the analysis, we looked for differences in perceptions and experiences that might be related to different life stages, different personal circumstances or different stages of development of work.

2.5.1 Women's perceptions

It was not always easy for people to separate experiences of working as self-employed from experiences of the kind of work they were doing. Some had also not had experience of working for an employer for many years, and found it hard to make any comparisons with being an employee.

In general, however, women weighed up advantages and disadvantages, and talked about current views and whether these had changed. Only one woman saw no advantages in being self-employed. Made redundant during a period of restructuring within her industry, she could only go on working by taking short term contracts and freelance work, but after nearly ten years would still prefer to be an employee.

Otherwise, two main advantages of being self-employed were perceived: the independence and choice in being '*your own boss*'; and the way self-employment fitted around family life. Those women who stressed their liking of having control of their work and being independent included some of those who had voluntarily left jobs as employees, in search of just that kind of independence they had found. Not having to relocate on promotion seemed a big advantage to a couple who were now living near family. Also included among the women who valued their independence were those who had built up particular interests or voluntary activities into self-employed work. They spoke very positively about their enjoyment of work. Some women also thought that self-employment suited their nature better than working as an employee, acknowledging that they became easily frustrated by the perceived inefficiencies of others when they worked alongside people rather than in a managerial role. New ventures, the stimulation of managing their own workforce, working alongside domestic partners, or achieving a life change had been exciting and fun, some said.

The other main advantage was being able to fit work around family life. Those women who had specifically chosen self-employment to fit family responsibilities had found their expectations fulfilled. Being able to work part time; to work from home; to have control over the time of day at which work was done; or to take contracts which fitted a husband's availability or school holidays had all been helpful to women who had chosen self-employment with this in mind. Some said they thought these opportunities were easier to take because they had been second earners when their children were young, and the family was not depending completely on their income stream, but women who had spent periods as lone parents also said it had been easier to combine work and family life because they were in control of their work schedules.

Aspects of self-employment which were perceived as advantages by some women were, however, disadvantages and constraints for others. Working independently meant, for some, having continuously to seek new contracts and compete for work. Having overall control of a business meant, for some, considerable responsibilities for staff and customers, and this could be stressful and personally demanding. Working from home could be lonely, and it could be hard to stop, if there were always pressing tasks. Clients sometimes expected to be able to telephone or even call in late in the evening or at weekends. When both partners worked from home there were demands on space and facilities. While being able to work shorter hours, or having space between contracts, had been an advantage for some second earners and women with children, when these conditions were imposed and unpredictable they were hard to manage, and led to unpredictability of income and potential financial risk. Loneliness and isolation were disadvantages not only to people who worked at home. Several women who worked freelance or as consultants said they missed the support and resources available to employees. People in relatively unusual occupations said it was hard to find other people in similar work, for support and sharing ideas. One attempt to set up meetings for people doing similar work had foundered because potential members lived far apart.

Financial insecurity was seen as a big disadvantage by some women, especially those who were the main earner or in business partnership with their husband. Raising finance in order to buy small businesses, for example by taking out loans or mortgages, or selling previous homes, left financial anxieties that lasted several years into self-employment. Irregular income flows required careful management and a disciplined approach to meeting tax demands, and all but the most experienced managers of irregular income said there was always an underlying concern about being able to pay business and personal bills. Irregular incomes meant it was hard to set up systematic savings arrangements, and some women saw lack of access to an occupational pension a disadvantage. Taking holidays or being away from work sick meant loss of earnings. This was often not only because no work was being done during the holiday but also because potential customers could not get in touch, and clients or contracts for future work were lost. Some women had found the process of claiming benefits for periods of sickness or maternity leave complex, and had given up.

Taking a long-term view of their financial situation, women who felt they had achieved higher earnings than if they had been working for previous employers were women who had built up or bought small businesses, sometimes in partnerships with husbands, and worked intensively in the early years. By contrast, the manager of one of the largest businesses, with over 20 full-time employees and public sector contracts, would have been earning a higher salary had she stayed in her previous employment.

2.5.2 Women's views on flexibility in working

The researchers asked women specifically if self-employment gave them flexibility in their lives. We have already seen how some women said being self-employed definitely meant they could fit work around their children and families. This was sometimes only possible, however, because of the nature of the work and the way in which it was made available. There was some opportunity for many of the women to take a day off, or choose working hours within their day. Some could decide when to take a holiday, or how long to be away, and rearrange their appointments and work flow accordingly. Such flexibility was valued – older people described making time to be with grandchildren or friends, without being missed at work. For everybody who took time off in this way, however, there was an impact. If work could not be rearranged to another time, there was some loss of earnings or business. Flexibility came at a price.

In sharp distinction, women who had to keep shops open all day; staff hotels in busy holiday seasons; maintain animals and crops on farms; or maintain seven-day services for clients said it was hard to take any time away from work, apart from shopping. Some had not had a holiday away for several years. This had been a major factor in the decisions taken by women in their early 50s to sell their business or find different ways of working. What had started as being exciting and fun was now too much of '*a bind*' and '*too tying*'. Some women who described experiences such as these said there was no flexibility at all in what they did.

Looking specifically at the women who were working beyond State Pension age, those who were doing consultancy work or offering professional services from home said that they were now free to choose how much work to do, and were fitting their work to suit their circumstances. For those who enjoyed working, this still meant full-time work, but others were reducing their hours as they got older. The one woman over 60 years old who did not have such flexibility was in a family partnership in a business which required seven-day attention. There was little scope for winding down until she and her husband decided on formal retirement.

2.5.3 Men's perceptions

The one man who could think of no advantages in being self-employed was working in the construction industry. With no paid holidays and an irregular work flow, his work was insecure and he had problems getting a mortgage. In his trade, work as an employee was rarely available, however.

Otherwise, the advantages perceived among the men were much the same as those described by the women. Men who felt in control of their work liked '*being your own boss*', and some said this suited them better as they got older and more self-confident. Some liked not having to take into account the frustrations and inadequacies of other people's work that had been associated with working as an employee. Being self-employed made some men feel accountable for their standards of work, and more focused on what they were doing. A man who had seen many previous colleagues made redundant by employers at short notice said it was a relief to know that this would not happen to him. Some of those men who had moved into self-employment seeking a life change to improve their quality of life said that their hopes had been fulfilled. Men working over State Pension age who had previously had senior positions as employees said it was good to be free of the burden of bureaucracy they had carried, and the irritations of departmental politics in a large organisation.

In the same way as among the women, some men also described self-employment as fitting their family circumstances. For some men, working from home meant being able to take part in their children's lives as they wanted, for example arranging appointments and work flow to fit around school holidays. Men without children also valued being able to fit their work around domestic circumstances, some talking about sharing cooking and housework with a working partner, or arranging time off together. One of the older men was able to spend time caring for his sick wife.

The downsides to self-employment were the same as described by some of the women. There were long working hours for some men, to keep businesses running or maintain earnings. Fluctuations in income were common, as many occupations were affected by seasonal demands. Men with long experience of this got used to the kind of financial management required, but others found irregular earnings harder to manage, especially meeting tax demands at the end of financial years. Men who continuously had to seek new customers or contracts said this could be stressful, and led to feelings of insecurity. The behaviour of customers, including illegal practices and financial dishonesty, had caused problems contributing to decisions to leave businesses and move back to working as an employee. Changes in consumer choice, and development in new markets and products had sometimes been opportunities for finding new niches, but had also led to a decline in current business, for one man leading to a bankruptcy. There was danger in some self-employed occupations, such as fishing.

As some women had described, working on your own could be lonely and isolated, and some men missed the support and facilities of employing organisations. Working alongside wives who were business partners, or working at home, made particular demands on relationships and could lead to strains. Financially, some men who had moved into self-employment in mid-life felt they were earning around the same as they would be had they stayed as employees, but some reported lower earnings than expected. Working so hard for so little financial return was a factor influencing some men to leave their businesses. Having no holiday pay was

regretted by some, and it was hard to be ill when self-employed, with loss of earnings, contracts and customers, and problems getting benefits. A particular disadvantage perceived by one man was that his wife, who had joined as a business partner for the viability of the enterprise, was now being held back in her own potential career development. She had skills and qualifications which equipped her to do more interesting and stimulating work, but replacing her contribution by employing staff would compromise financial viability.

2.5.4 Men's views on flexibility in working

The previous section described how some men valued being able to arrange working hours to fit around families. Deciding to take time away from work was possible for some of the men, for example those who wanted to book holidays in advance or needed time off during family illness or bereavement. This always meant loss of earnings however, and could also mean loss of trade and future opportunities. For men whose earnings made a major contribution to family income, this aspect of flexibility came at a high price. Men who depended on taking sub-contracted work and feared periods of unemployment felt they had little flexibility in this respect, as did men running businesses with regular and long opening hours for customers.

When the men's earnings were supplemented by other, independent sources of income, there was much more flexibility in deciding how much work to take or how to arrange working hours. This was often the case among the men working beyond State Pension age. People with occupational pensions, wives with earned income, or those in the process of passing over businesses to younger family members, were working shorter hours that suited them as they got older. Some of the professional people were now able to choose to take only work that really interested them, and were taking longer holidays. Men who were still working very long hours, beyond State Pension age, were either choosing to work intensively on interesting work or, in one case, depending on earnings to 'boost' Pension Credit and maintain living standards.

2.6 Discussion and conclusion

This chapter has presented a general picture of self-employed work among the people who took part in the study. Descriptions of different routes into self-employment, the pattern of work within households, perceived advantages and constraints of working as self-employed provides the general contextual background essential to understanding the analysis in further chapters. Whether self-employment gave people flexibility in their lives was one of the key issues of policy interest.

The chapter has shown that there was considerable heterogeneity within the study group, in terms of the kinds of work undertaken, forms of business organisation and hours worked. There was also wide variation in routes to self-employment, and the stage of life at which people began to work as self-employed, many people having experience of previous periods of work as employees. People frequently experienced

wide fluctuations in income, reflecting seasonal patterns in occupational activities and customer demand, as well as patterns of activity at a wider industrial level, for example in letting contracts.

There were perceived advantages of self-employment for some people, both men and women, in being independent and in control, and being able to fit work around family lives. Perceived constraints, for some, included financial insecurity, isolation, demands on personal relationships, and loss of earnings during time off. Where there was some scope for flexibility, this was valued. The price of working flexibly was reduced current or future earnings, a constraint for people who had no other main source of income, but not for those who could rely on partners' earnings or sources of unearned income.

3 Financial products and information

3.1 Introduction

This chapter addresses a number of issues about people's knowledge of financial products that might contribute to income after retirement. For context, the first part of the chapter sets out the range of savings vehicles and other sources of finance that people in the study group talked about as contributing to income after retirement. This includes personal pensions, other savings products such as Individual Savings Accounts (ISAs) and building society accounts, bonds, stocks and shares, insurance policies, endowment policies, and inheritances.

Data are then presented on people's views about these ways of providing for an income in retirement. This section also includes a discussion of views about the State Pension, business assets and property as sources of income. Finally, we look at where people get information and advice about saving for retirement, and identify potential gaps. We include an analysis of people's views and perceptions about how government does and could support self-employed people in retirement.

3.2 Patterns of saving within the study group

Savings behaviour changed throughout the life course. Ability to save generally tended to increase over time as income increased and spending declined. Saving increased as earnings improved, mortgages were paid off, and children grew up, moved out of the family home and became financially independent. However, there were some examples of people for whom the ability to save had declined over time as a result of increased debt or declining profits. Indeed, a decline in the ability to save had sometimes coincided with the move into self-employment and the irregular income associated with this.

3.2.1 Personal pensions

Some people had invested in personal pensions, and some in more than one scheme. Investors in private pensions included those with dependent children living in the household, and people in the highest earnings group. Some people had partners who had invested in one or more personal pension, and were including this as part of the income they were expecting after State Pension age. There were others who had frozen their contributions or said that they had 'cashed them in' and moved them into other savings schemes, either because of the perceived low return for their money or as a result of being unable to afford contributions.

Some people did not have a personal pension. A few people had previously invested in a personal pension scheme, sometimes for all their working life, but had lost them as a result of debt or filing for bankruptcy,¹² and had not subsequently taken out another scheme. But some of those who had never contributed to a personal pension scheme had instead invested in an occupational pension scheme.

3.2.2 Occupational pensions

Some self-employed people had occupational pensions accrued during employment prior to becoming self-employed. Some of these pensions were perceived to be negligible and were not expected to provide any tangible income after State Pension age, and others were not considered large enough to rely on as a main income. Some people, however, reported that their occupational pension had paid out, or promised to pay out, a very generous pension. These people were mainly working on a freelance basis offering professional and, sometimes highly specialist services, often in occupations in which they had previously worked during their time as an employee. Indeed, some had moved into self-employment later in life after a lengthy period as an employee, with the move into self-employment sometimes coinciding with being able to draw on their occupational pension, whether over State Pension age or not.

3.2.3 Savings products

Some people had savings in ISAs, Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSA)-only accounts that were specifically to provide an income after State Pension age. Others had savings in building society accounts or savings accounts that they had earmarked for incomes after State Pension age. While cash savings could be substantial, they were not usually expected to be a main source of income but were there rather to supplement other sources of income.

¹² Until 29 May 2000, personal pensions (unless they had contracted out of State Earnings-related Pension Scheme (SERPS)), were not protected when filing against bankruptcy – although occupational pensions were protected (The Insolvency Service, 2006a). Pensions can no longer be claimed as an asset as a result of an application for bankruptcy, as long as the pension scheme has been approved by the Inland Revenue (The Insolvency Service, 2006b).

Those with cash savings were generally in the bottom two income brackets and were heavily represented in the mainly professional group working on their own account or on a freelance basis. Although other people did have savings of one form or another, they had not anticipated that these would provide an income after State Pension age. Indeed, rather than drawing on it, some above State Pension age were adding to their capital.

3.2.4 Business assets

As explained in Chapter 2, for most of the self-employed people in our study, there were no saleable business assets. Others had the potential of a business asset but had plans to pass the business to a son or daughter, or recognised that any saleable assets (such as vehicles or tools) would not generate a very large amount. However, some people with small businesses or franchises did have plans to sell their business to provide an income after State Pension age. Most were towards the younger end of the age spectrum (under 55), and were not clear about their plans for selling the business; it was something for the future that would need further thought and, for some, advice. Those who were clear about what they would receive from the business were already in the process of selling.

3.2.5 Property

Some people considered that property would provide an income in retirement. For some, this was in the form of downsizing their current home and living on, or investing in, the equity. Others over the State Pension age were supplementing their pension income by renting out a room in their home for some of the year. However, there were a number of people who had one or more rental properties that they either planned to sell or to continue renting to provide an income after State Pension age, and some anticipated that this would be their main income source. These were generally females, mainly in the highest earnings group, who considered themselves to be the main or equal earner in the household. Some owned the property jointly with their partner, and others had partners owning additional second homes. Sometimes rent from second homes were earmarked for particular types of income, such as to provide funds for a care home if needed in the future.

3.2.6 Bonds, stocks and shares

People who had invested or inherited bonds, stocks or shares were generally over State Pension age, and expected them to provide an income when they stopped working. While some thought this would be their main source of income, generally the income from these was not expected to be very substantial. Other participants had bonds, stocks and shares but did not expect them to provide an income after State Pension age.

3.2.7 Insurance policies

People who mentioned insurance that would pay or had paid out a lump sum were generally over or approaching State Pension age. They had received, or were

anticipating receiving, lump sums of about £20,000 or less and were not generally using these as income but for leisure, home improvements or putting into stocks and shares or bonds. It is possible that younger participants had similar policies but were unaware of them.

3.2.8 Endowment policies

Some people in the study had endowment policies which would only cover the mortgage or were not giving as good a return as expected. Other endowment policies were expected to leave a shortfall on mortgage costs rather than providing an additional lump sum when the policy matured. A few people, however, had at least one endowment policy that they thought would contribute towards their income after State Pension age, with some expecting it to pay out a fairly substantial sum.

3.2.9 Inheritance

Inheritance was occasionally mentioned as a source of income, with some people expecting themselves or their partners to receive an inheritance. One woman was relying on this as her main source of income in addition to the state pension.

3.3 Views and perceptions about savings and pensions products

In the interviews people were asked about how and where they made any savings and whether or not these were intended as contributing to an income in retirement. For some people it was not easy to engage in thinking in this way. Their decisions about which financial products to buy were made some time ago and they expressed a great deal of uncertainty about what they might expect from them in the future. Views about whether different methods of saving were **good** ways of preparing for retirement tended to be linked to people's individual experiences of the performance of their financial products.

3.3.1 State Pension

Every person in the study group discussed the state pension as a source of income after retirement, though for some its salience did not appear high since they talked about it only when prompted rather than spontaneously. All the women over 60 and men over 65 were either already receiving the state pension or had deferred receipt.

Among the younger people interviewed (up to mid 50s) there was very little knowledge about the value of the state pension. Estimates ranged between about £50 a week for a single person to £160 a week for a couple. A common expectation however was that by the time they retired the pension would be worth 'very little' or 'not much'. Some people were unsure whether they would have any entitlement at all.

Among those close to State Pension age some had received pension forecasts from the Pensions Service and had valued these. Some people mentioned SERPS¹³ as part of government pension provision (although SERPS was replaced by the State Second Pension in 2002) because they had previously paid appropriate National Insurance contributions in the past. One woman regretted that she could not pay into this as a self-employed person because she trusted government pension schemes.

When asked about their knowledge of the differences between self-employed and employed people in relation to the state pension, most people were not aware that there were any. Several people said they were aware that they were treated differently from employees but did not know how. Others said they paid different contributions though there was some perception that this was linked to lower pension payments.

There was widespread knowledge of the opportunity for deferring receipt of state pension though few people in the study sample knew any details, including what extra amount they might be available to receive by deferring. No-one appeared to know about the possibility of drawing a lump sum instead of an enhanced pension although some people mentioned that such a possibility **should** be available to them (i.e. without knowing that it already was).

People in the younger age groups (up to mid 50s) were more likely not to express a view or to have an open mind about deferment. Some said they would not make any decisions until nearer their date of retirement when they were better able to assess likely income from other sources. One woman thought that deferment was a good idea and a possible incentive for her in later life to continue working beyond pension age. However, there were also some who had already decided against deferment for one of a range of reasons, including not trusting the government, not perceiving any advantages of doing so, or because it was thought more financially worthwhile to take the state pension and invest it elsewhere.

Where more definite views were expressed about deferment this was mainly among the older people (over 55), particularly those already over State Pension age. People in the older age groups appeared to have thought about or found out more about the implications of deferment (sometimes from financial advisers) before coming to a decision. Most had decided not to defer. Two reasons emerged as the most common. First, some people expressed a preference for taking the state pension as soon as it was available principally because it made more sense to receive payments and use the money now because it was never possible to be certain about one's own life expectancy. One expressed this view as 'a bird in the hand etc ...'. A second group of people had made some form of financial assessment or comparison between taking the pension at 60 or 65 and deferring. Some had concluded that the later, enhanced amount would not be 'worth it'. Only one person quantified this view in the research interviews by saying that she wouldn't defer 'for an extra £500'

¹³ The SERPS, now the State Second Pension, is described in Chapter 1.

although it was not clear where she had derived this figure from. Like some people in the younger age groups, some of the older people in the study group also suggested that it would make more financial sense to draw the state pension and invest it.

No one interviewed linked deferring the state pension with decisions about retirement. Only two people (women in the 55-59 and 60+ age groups) had planned to defer or were already deferring receipt of the state pension. They both explained their decisions as a desire to avoid paying tax while they were still working (which for one would have been at the highest rate of 40 per cent). One had acted on the advice of an accountant.

3.3.2 Personal pensions

People in the sample were asked about their view of personal pensions as ways of saving for retirement. Most people in the sample were contributing to one or more personal pension schemes or, among those in the oldest age groups (over 60 for women and over 65 for men), were already drawing an income derived from a personal pension scheme. Those without a personal pension included self-employed people with other forms of pension provision or people who said they could not afford to make personal pension payments.

From the discussions about personal pensions there were widely varying degrees of interest and knowledge displayed among the study group. At one extreme a few people, who tended to be in occupations associated with financial and other business services, showed a detailed knowledge of different aspects of personal pension schemes, including tax relief, opportunities for making payments in different ways, and some of the more recent changes such as Self Invested Personal Pension Schemes (SIPPs)¹⁴ and imminent changes from 'A Day' in April 2006.

In contrast, most of the study group showed very little detailed knowledge of personal pension schemes generally or ones they were in. People referred to their pension schemes generally as 'private' or 'personal' rather than more specific references to stakeholder or non-stakeholder schemes.

Awareness of the tax relief available on personal pension payments was not wide among the study group. Of those who said they did know they received tax relief, very few knew any details of the mechanism or the rate of relief given. Some said that while they knew they received tax relief, this knowledge had not influenced their decision to pay into a personal pension scheme. Two said tax relief was 'attractive' or an 'incentive' but their comments were qualified. One said that, given the opportunity again, he would not join a personal pension scheme and the other voiced doubt about whether a personal pension was good way of saving for retirement.

¹⁴ SIPPs are described in Chapter 1.

The prevailing view of personal pensions among those in the study group still working and paying into schemes was largely negative. In some cases views were expressed with a degree of emotion or anger. Positive views were mainly from older people (over 55) who were already drawing an income from completed schemes. Several themes recurred among the negative views.

Several people talked about the **risk** inherent in personal pension schemes and the lack of certainty about what sort of income they might eventually expect from their contributions. One person likened their payments as 'a gamble' on the stock market; another commented that personal pensions were 'dangerous'. There was also a widespread perception that personal pension funds had performed, and were still performing, badly. The description of personal pensions as 'poor value' was common. More emotive responses from some people included comments about 'losing faith' or having 'absolutely no trust' in personal pensions.

These views derived from one or more sources, including personal experience of investing in schemes which had performed badly at some point in the past, from the experiences of family members and friends, and from the publicity surrounding high profile collapses such as Equitable Life in the 1990s. There were several references to 'losing money' or funds being worth less than the amounts paid in. It appeared that once confidence had been lost in the personal pension market it was lost long term. Some people said that they had ceased making payments into schemes that they perceived as performing poorly (as long ago as eight or so years for some). Some others said that they would not consider paying into a personal pension fund in the future.

In contrast some people thought personal pensions were a good way of saving, offering flexible ways of making payments that, in one case, actually made saving through a personal pension scheme possible for the first time. There were still concerns among this group however, to the extent that personal pensions were seen as sensible only as part of a wider 'spread' of ways of saving.

3.3.3 Business assets

As explained in Chapter 2 (Sections 2.3.1 and 2.3.2), most people in the study sample had few or no assets that they could realise at the end of working life. For only a few people their business was the source of a potentially large capital sum. Some had always intended that any sum realised would form the basis of their retirement income and planned to invest it in some way (such as buying an annuity). In contrast, some others intended to use capital to buy property or as money that would supplement already adequate pension income.

However, when business premises involved extensions to family homes, people were unsure how they might want to realise such assets as they moved towards retirement. When people owned valuable business properties but were in business partnership with children, or hoped that children might take over from them, the idea of selling their business to raise income was a tricky issue. In such circumstances some did not expect to sell, and others were uncertain how they would tackle this.

3.3.4 Occupational pensions

Around half the people in the study group did not have direct experience of contributing to an occupational pension scheme. However, among those who did express a view about occupational pensions, there was a strong positive view of them. Some people were already receiving payments that they were very content with. Apart from the amounts received or expected, those who had been members of occupational pension schemes from many years ago liked them because of what they considered to be their 'compulsory' nature¹⁵. People talked about having no choice when taking up a new job (including the private and public sector) about whether or not to join an occupational pension scheme; they were simply enrolled automatically. In general, people who had been in compulsory occupational schemes did not see this negatively; they liked having contributions taken from their salaries on a regular basis that removed the possibility (or the temptation) of using the money for other purposes, particularly spending. Compulsion was viewed in this way as a positive aspect of occupational pension schemes.

One person commented that occupational schemes remove any control from individuals over where their contributions were invested but this was seen as something that was acceptable given their other advantages.

3.3.5 Other forms of (non-pension) retirement income

Property

People mentioned property in a number of ways. Many people had not consciously considered their house as a source of income in retirement but were aware that if necessary they could buy a smaller property and release some equity. This gave them some reassurance should their income from other sources not be enough to live on. Some others had second properties that already generated rental incomes which were seen as continuing sources of income after retirement. Some people saw buying property in the future (for example, using lump sums generated by personal or occupational pensions or from endowment or insurance policies) as a way of providing income in later life.

In general, there was a deal of confidence expressed in 'bricks and mortar' as a safe way of investing money.

¹⁵ Prior to 1988 employers could make membership of their pension scheme compulsory. Following the Social Security Act 1986, membership could no longer be compulsory. Since then, employees may have been automatically enrolled into a scheme but with the option to opt-out. Some participants may have viewed even these latter schemes as being 'compulsory'.

Other financial products

Many of the people in the study were actively saving or had savings in a range of interest-bearing savings vehicles such as ISAs, PEPs, building society accounts, and endowment policies. A small number in the study group had government bonds or held portfolios of stocks and shares. Premium Bonds were also popular.

There were varying views about how 'safe' or 'risky' these financial products were, but they were generally not talked about in terms of providing income in retirement. In contrast, some people referred to the low rates of interest on building society accounts and the small amount of money that could be invested in ISAs, as reasons why they were not suitable ways of saving for retirement. The risky nature of investing in some ISAs and, more so, in bonds or shares was widely understood but many people were not concerned about their level of risk, particularly when viewed as long-term investments.

3.4 Financial information and advice

In the research interviews people were asked about the types of financial information and advice they used to help them make decisions about saving for retirement. The aim was to generate data that could inform policy about how best to get information and advice to self-employed people.

For some people in the study group this proved a difficult topic to talk about in isolation from saving more generally, particularly when decisions about pension and saving products had sometimes been taken many years previously. Some people also widened their discussion to include advice on other financial matters such as tax, insurance, loans and business planning more widely.

The interviews covered not only what sources of advice had been used in the past but also people's views about these as potential sources of advice in future. In this section, data are presented first on people's experiences and views of sources of personal advice (i.e. about their individual circumstances and needs). This is followed by people's views on 'government' as a source of information and advice, and finally by data of whether and how people kept up to date with developments in pensions and savings.

3.4.1 Experiences and views of different sources of information and advice

The sources of personal advice most mentioned in the interviews included (independent) financial advisers,¹⁶ and friends, family members and colleagues.

¹⁶ It was not always clear what sort of financial adviser had been consulted by the people in the study group. Some mentioned specifically an adviser attached to a bank, building society or insurance company, while others talked about individual advisers of firms offering independent advice. However, it is not clear which advisers were formally authorised by the Financial Services Authority.

There were also a few people who had used financial bodies such as banks and insurance companies, accountants, Department for Work and Pensions (DWP) websites and telephone helplines for information.

What emerged from the interviews was the importance to people in the study group of impartiality/independence and trust.

Financial advisers attracted a deal of comment from people who had used them (or were still using them) and also from those who had not had any contact. A few people had valued advice given in the past and had positive views about using them in the future. In contrast, others were far more negative in their assessments. Many people in the study group considered that they had received poor advice in the past from financial advisers about paying money into endowment schemes, PEPs, ISAs and, particularly, personal pension schemes. Such judgments, unsurprisingly, were linked to bad experiences of under-performing schemes or worse of schemes that had collapsed. These experiences, many of which happened in the 1990s, had left people with negative assessments of financial advisers that were generally very long-lasting. It seemed that a bad experience was sufficient to lead people to reject the possibility of using a financial adviser in the future.

There was a perception among some that financial advisers were not impartial or independent and were interested only in selling them particular financial products. They could not be trusted to have their individual interests at heart. Others were less sceptical or had had satisfactory advice in the past and expressed a readiness to use financial advisers in the future should the need arise.

There appeared to be no connection between people's views about financial advisers and either age or feelings about their own prospective retirement income. Views were based principally on personal experience or on perceptions about how financial advisers operate.

Most people in the study used the services of accountants and spoke positively about their relationship with them. There was a high degree of trust in accountants that derived partly from the view that they were acting in their personal interests and in the interests of their business. Some, though not many, had received financial advice from their accountant, including advice on savings and pensions. Others said that it had not occurred to them to ask their accountant for advice as, in their view, this was not their role. Some people explained that their accountant did not provide advice.

Few people in the study sample mentioned financial institutions such as banks and insurance companies as sources of advice for savings and pensions. Some people did not consider them impartial enough for such advice even when they valued their role as secure and reliable organisations. Family members, friends and other close colleagues were mentioned as trusted sources of advice, particularly those employed in some financial or business capacity.

3.4.2 Views about government as a source of information or advice

Very few in the study sample had sought out advice on pensions from government sources, although some others recalled receiving information in the form of leaflets or letters or remembered items on television (including on news or magazine programmes and in advertisements). It was not possible therefore to generate data on people's actual experiences of having some form of direct interaction with government sources. Nevertheless, it was possible to ask about people's views on government as sources of information on savings and pensions. Responses fell into two main types. One set of respondents regarded government sources (which included contact with DWP, The Pensions Service and other information contained in leaflets or websites) as trusted and reliable for impartial information (though there were some criticisms that official language was difficult to understand). There was less endorsement of government as sources of **advice**, however. There were also some interesting suggestions that government should be more active and innovative in educating younger people in schools and higher education about pensions via, for example television and the internet.

A contrasting response was distrust of government in general and DWP specifically. Sometimes this was expressed as an unspecified and general distrust of government and politicians that was also extended to pensions. In contrast, others perceived that government was not impartial but was pursuing an agenda to reduce the cost of pensions by shifting the burden of paying for pensions onto individuals. Distrust of government did not appear to be associated with any particular characteristic of the study group (such as age or occupation). Most of the people who expressed some form of distrust of government sources nevertheless had received information and advice from other sources.

3.4.3 Keeping up with financial information

People in the study group were asked whether and how they kept up to date with information and developments about pensions and other financial products. The aim here was to identify the ways in which people sought out or took notice of financial information in the media or elsewhere.

Most people mentioned one or more sources of information but there was considerable variation in the amount of interest taken. It was possible to identify three broad groupings among the study group:

- Those who expressed no interest in keeping themselves informed.
- Those who seemed to take some, though minimal or superficial, interest.
- Those with a definite and more wide-ranging interest.

Those that took no interest in financial products formed the smallest grouping and included people in all three of the income bands used in the sampling process. Some people, offering some explanation for their lack interest, said such information was not relevant to their circumstances. For example, some had secure incomes in

retirement, while others had no money to channel into savings or pensions. Some people in relationships (all women) in our sample said their spouses or other family members took an interest but not them personally.

People who took only a small interest typically said they might look occasionally at something in the newspapers if it caught their attention but not regularly or in any depth. Interestingly this grouping seemed to be dominated by people who did not feel secure about their pension income.¹⁷ Furthermore, most of these had not used other forms of more personal face-to-face sources of advice. It appears therefore that there might be a group of self-employed people who are not entirely comfortable or confident about their pension provision but are nevertheless somewhat disconnected from networks of help or advice.

In contrast, the people in the study group who took a greater interest in financial products and developments were confident about their pension income. Among these were some people who had acted on their knowledge to make changes to their savings portfolios and others who appeared to derive some confidence from the perception that their earlier savings decisions were satisfactory.

The most frequently mentioned source of information was the national and local press. Some people mentioned specific publications or referred more generally to the 'money pages'. Other sources mentioned, though only by very small numbers of people each, included television, radio, the internet, leaflets received through the post, a professional journal, and meetings of the local Chamber of Commerce.

Most people only mentioned one source of information (usually the press) but some of the people who took a comparatively keen interest accessed information from two or more sources. Interest among the people in the study group who had passed the State Pension age mainly focused on monitoring movements in financial markets, such as share prices or interest rates.

There appeared to be no discernible relation between the types of advice used or rejected. For example, people with accountants (whether or not they had received pensions advice from them) were equally likely to have used the services of a financial adviser as those with no accountant.

3.4.4 Information needs

People were asked in the interviews about their information needs for the future. It was striking that this question did not generate a great deal of response. Over half of the study group either did not engage with the question or could not think of any information or advice they needed, and a small number of people were clear that they did not need or want any information or advice. Some people chose to respond by reflecting on what would have been helpful in the past, such as help and advice

¹⁷ Chapter 4 further develops the idea of the study sample being divided into groupings based on their confidence in a secure income in retirement.

about savings when they were much younger or when they were starting out in self-employment, or information about the risks associated with particular pension schemes.

Some people had no specific information needs themselves but thought that other people might, particularly in understanding the complexities of financial products. Others were prompted by the question to reflect, though in general rather than specific terms, that more information would be useful and there was a role for government in providing it. There were suggestions that face-to-face contact (including domiciliary visits) might be the best way to increase knowledge and understanding.

Only a few people mentioned specific information requirements. These included pension forecasts for the state and occupational pensions, information about 'A Day', how to access dormant occupational pensions from previous employment, moving abroad and inheritance tax. Interestingly, there were few expressions of interest in having advice about which particular savings or pensions products they should be investing in. One woman who had sought just such advice from a personal pension provider was actually disappointed to be told that while the adviser could offer information about the company's products, he could not provide advice about other savings vehicles.

Notwithstanding the lack of many specific information requirements, the study group were asked who they might approach for advice in the future. In response, about a quarter of the study group could not offer any suggestions or reiterated that they had no need for advice. Among the rest of the sample, three sources of advice were mentioned most frequently: accountants, family and friends, and financial advisers (sometimes but not always referred to as 'independent financial advisers'). Responses here often referred to trust, particularly in relation to accountants and family and friends rather than financial advisers. It is not possible to generalise from a purposive qualitative sample but there is the suggestion in the data that women (particularly in the 40-49 and 50-54 age groups) were more prepared to think about using a financial adviser than men, while men were more likely to approach their accountant.

Other sources of help mentioned by one or two respondents included professional business contacts, DWP, Citizens Advice Bureaux, internet and pension firms.

3.5 Discussion and conclusion

There are some people who clearly take little, and sometimes no, interest in matters related to pension provision. This is not necessarily a policy concern. For those people who receive a comfortable income from self-employment and who are confident that they have adequate pension coverage, it might be expected that interest would be low. For others, however, who might appear somewhat more vulnerable to inadequate pension coverage, some form of assessment or advice might be beneficial.

The extent of wariness or distrust among the study group for personal pension schemes is interesting. Although there seemed to be a high level of mistrust or lack of confidence in personal pension schemes among many of the people interviewed, most were still in or had been in such a scheme. Lack of trust also seemed to be very entrenched, and based on experiences or media coverage stretching back to the mid 1990s. Where there was more trust in personal pensions, however, this tended to be among older self-employed people. There was very little evidence of knowledge of government action that has improved the safeguards for people in personal pension schemes (referred to in Chapter 1) or plans to make them more financially attractive through tax changes. Tax relief does not appear to have been effective among this group as an incentive to join a personal pension scheme.

The popularity of what is viewed as the 'compulsory'¹⁸ nature of occupational pensions is interesting. It raises the possibility that compulsory saving for people in self-employed occupations might be a policy option that could find support among some of the self-employed population.

In looking at how information might best be targeted at self-employed people, it is interesting to note that very few people in the study group were actively engaged in making decisions about pension provision. Most were already making some form of saving for retirement or felt they were sufficiently covered not to need to make further pension provision. It was noticeable that some of the information needs mentioned by some of the study group are already available (such as information on 'A Day', forecasts of State Pensions, and tracing old pensions) through government channels. That some people did not know of these opportunities suggests that information is either not reaching them or not registering with them.

The issue of trust was clearly very important to many in the study sample. It is possible to identify two aspects of trust that can inform thinking about policy. The first aspect concerns trust in people or organisations offering advice on pensions and savings. Trust was associated for some with the absence of any financial interest for the person or organisation offering advice. This helps explain why accountants and family and friends were generally trusted by people in the study group. There was a common perception that accountants gained no financial advantage in recommending any particular type of savings vehicle. The perception that financial advisers, including those described as **independent** in the interviews, recommended only those products for which they received a commission was sufficient to discourage some people from thinking about using their services. The second aspect of trust appeared to be concerned with the quality of advice received. Where people had been recommended products that had performed poorly or lost money, trust was lost in whoever advised or supplied the product.

¹⁸ As explained in Section 3.3.4, membership of a pension scheme could only be made part of an employment contract prior to 1988. Since then it has been possible to be automatically enrolled into a scheme with the option to opt-out, which participants may have viewed as 'compulsion'.

4 Thinking about and moving from self-employment to retirement

4.1 Introduction

Decisions on whether to work beyond State Pension age are likely to be influenced by experience surrounding working as self-employed, and the extent that this has been a positive one. They will also be affected by other factors such as health, and family. Financially, decisions are likely to be influenced by whether income available after State Pension age will adequately meet needs without earnings from paid work. The level of income after State Pension age may be influenced by a variety of factors including lifetime savings patterns, and working as self-employed.

This chapter explores expectations and influences surrounding income available after State Pension age and working beyond State Pension age. First it identifies how self-employed people felt about their expected level of income after State Pension age, and outlines four groups with different levels of confidence in its adequacy. It then explores why they have the expected level of confidence – including savings behaviour (participants in the study were asked whether they were ‘savers’ or ‘spenders’), debt, work history, partner’s work history, financial awareness, and sources of income after State Pension age. The reason for exploring this is to understand how levels of confidence in income after State Pension age influence the decision to work beyond State Pension age.

The second part of the chapter explores expectations of working beyond State Pension age. First, it outlines four groups with different expectations about when they intend to retire. It then explores who falls within each group and why they have these expectations, in particular how expectations of working beyond State Pension age related to expectations of income after State Pension age.

4.2 Expected level of income after State Pension age

The extent that participants in our study consider their income after State Pension age to be adequate may impact upon their decision to undertake paid work, including self-employment, after State Pension age, and the reasons behind this decision. There were different levels of confidence about the adequacy of income after State Pension age, identified by four groups:

Table 4.1 summarises the different levels of confidence in income after State Pension age and the nature of people’s concerns.

Table 4.1 Confidence level in income after State Pension age

Level of confidence	Nature of concern about income after State Pension age
Confident	No concerns: level of income adequate to meet their needs
Generally confident	Some concerns: level of income may mean a drop in the standard of living that they had been accustomed to
Worried	Very concerned: level of income would not adequately meet their needs
Unaware	Unknown: Unaware whether level of income would adequately meet their needs

The next section explores these groups, in particular the reasons for their level of confidence about their expected income after State Pension age.

4.2.1 Confident that their income would be enough to meet their needs

The first group were confident that the income they expected after State Pension age was enough to meet their needs, and that it would not mean a drop in living standards. Importantly, this meant that they could enjoy the same standard of living to which they were accustomed, including enjoying certain items and activities, such as going on holiday abroad. Some had such confidence in their income after State Pension age that the state pension did not factor in their thinking. Some regarded the income they would get from this source as minimal, and expected to be self sufficient without it. For some, it would go towards paying for leisure activities, such as holidays and cars. ‘Confident’ people were, or were expecting to be, well provided for by other means.

People in the study group over State Pension age were most likely to be ‘confident,’ as were women. But there were also some younger people in their 40s and early 50s. All levels of earnings were represented. Despite being some of the older people in the study, none of the ‘confident’ people were suffering from ill health, but some were affected by the health of a partner or family member, which had an impact upon either their partner’s or their own working patterns.

People were confident that their expected income would meet their needs for a variety of reasons. These included being:

- 'savers' as opposed to 'spenders';
- in a later stage of life;
- debt-free;
- divorcees and lone parents;
- business partners;
- financially aware;
- previous employees;
- landlords and homeowners.

We shall deal with these in turn.

Saving behaviour

Those who were 'confident' generally considered themselves to be savers, or to be prudent with money, and had made savings over their life. Some had not saved for anything in particular, and just preferred the security of having a safety net or building up a nest egg. Others recognised the importance of saving for retirement, and some did not see any other reason to save. Some considered their savings behaviour to be the result of an ingrained attitude towards money, influenced by their parents or as a result of childhood experiences of living in poverty. Circumstances had also been an important influence, and are discussed below.

Some in this group considered themselves not to be very successful savers. They had, however, generated some savings, often irregular and with short-term interests such as holidays in mind. Sometimes one-off events, such as flooding, meant losing any savings that they had built up to pay for any damage. Generally, however, this group had instead invested in property or their business, seeing these as more sound investments for retirement (see below).

Debt

Being free from debt was also an important influence on saving, and for feeling 'confident' about income after State Pension age. Other than mortgages, this group generally had not had any additional debt, either currently or in the past, with some saying that they disliked getting into debt. People were not asked directly about loans and credits cards, but some in this group voluntarily reported that they did not have loans or credit cards, with others managing to pay the balance in full at the end of each month. Unsecured debt did not generally impede saving for this group.

Life stage

This group were generally at a later life stage; they were either approaching or had reached State Pension age. This was important for feeling confident about their income after State Pension age: earnings had peaked, mortgages had been paid off, and children had left home, freeing up cash for saving. For some, lower earnings when they were young had constrained saving, and when earnings had improved with age or as a result of better paid jobs, they were able to begin saving. Also, the expense of children, especially young children, within the household – and particularly if they had been privately educated – had, for some, been a constraint on their ability to save, and children growing up and leaving home had freed-up cash for savings. Paying off the mortgage was also an important event which had triggered saving, freeing a large sum of money that would have otherwise gone towards paying the mortgage.

Work history

Other studies have shown the importance of work history in generating confidence about income after State Pension age, especially working as an employee for many years in jobs offering occupational schemes before becoming self-employed (Sykes and Morris, 2005). Our study also showed that work history was particularly important for explaining 'confidence' in income after State Pension age. Those 'confident' about their income after State Pension age included a variety of occupations, but particularly those in professional, and sometimes highly specialised work. They had generally entered into self-employment after a lengthy period of employment, remaining in the same occupation, and had also generally made the move voluntarily. Those who had experienced an involuntary move into self-employment had done so as a result of redundancy, and were given a generous early retirement/redundancy package. Also, their expertise within the field meant they were approached for work on a consultancy basis. There were also some 'confident' people who had undertaken self-employment all their working life in an occupation that was traditionally undertaken on a self-employed basis. But, again, their work was highly specialised, requiring particular expertise. Some had partners who had previously been employed, again in professional, specialised occupations, sometimes making the move into self-employment as a joint decision.

Importantly, some people and their partners had accrued occupational pensions during their period as employees. Indeed, some were receiving (or anticipating), a generous occupational pension. Some also had partners with a good occupational pension, and a widow in this group had received half of her partner's on his death. For some, usually those employed for most of their lives in well-paid jobs, this meant not having to plan, or even take an interest in, saving for retirement; the decision to save was perceived as being taken out of their hands, with regular, automatic contributions paid directly from their salary, into occupational pension schemes. Also, the lengthy period as an employee meant that during this time earnings had been regular, making it easier to save. Their income after State Pension age had thus been accrued before entering into self-employment.

Household employment

Partners' employment patterns impacted upon decisions surrounding saving. For women in particular, feeling 'confident' about income after State Pension age was related to household employment patterns. 'Confident' women were generally the main or equal earners within the household.

Divorce was a particularly important trigger for saving; most of the women in our study living independently of a partner, including a lone parent, were 'confident' about their income after State Pension age. Another was living with a partner (employed full time) but had previously been divorced and had lived independently in the past. Divorce may lead to reduced household earnings, making it more difficult to save. Some divorced women in the study had experienced a difficult, but temporary, financial period immediately after the break up. However, for most of the women in our study living independently, being on their own had resulted in greater determination to undertake paid work and increase earnings. This sometimes resulted in feeling in more control of their finances. These women attributed living independent of a partner's income, and their desire to maintain that form of living, as a significant incentive to save. The result was that they managed to build up a substantial pension or investment for their retirement.

All women in the study who were formal business partners with their husbands were 'confident' about their income after State Pension age, as was another who had moved into self-employment at the same time as their partner, with generally equal earnings. It appears that these people made decisions about saving for retirement jointly with their partners, often taking out joint investments. They therefore had the back up of both their own and their partner's contributions and investments.

Financial awareness

Compared with the other people in our study, those 'confident' about their income after State Pension age were relatively clear about the sources and level of income they would be receiving after State Pension age. This is likely to be because they had generally reached, or were approaching, State Pension age, or were younger but expecting to start drawing on a personal or occupational pension. But also, 'confident' people in the study took a greater interest in financial products and developments, with some enjoying this, and even viewing it as 'a game'. Among these were some people who had acted on their knowledge to build up a large portfolio of stock and shares, and make changes to their savings portfolios, and others who appeared to derive some confidence from the perception that their earlier savings decisions were satisfactory.

Property

For the younger people in this group (up to mid-50s), their investment in rental properties explained their 'confidence' about their income after State Pension age. Indeed, all those in the study anticipating income from one or more rental properties were 'confident' about their income after State Pension age, reflecting people's

faith in bricks and mortar as a savings vehicle. They either planned to sell or to continue renting to provide an income after State Pension age, and some expected that this would be their main source of income. Some owned the property jointly with their partner, but others had partners owning additional second homes separately. Some in this group were considering downsizing their current home and living on or investing in the equity and one put his confidence in his income after State Pension age down to his valuable home. Indeed, faith in property as an investment also reflected lack of faith in other savings vehicles, particularly personal pensions, which were seen as risky investments that would not necessarily perform as expected (see Chapter 3).

Summary

Self-employed people who were confident about their income after State Pension age generally had lengthy work histories as employees, moving into self employment relatively late in life. This meant that they had had a regular income and therefore been able to make regular savings over their life course. Moreover, it also meant that they had contributed to an occupational pension. Those without an occupational pension had invested in property, and were expecting to receive an income from this after State Pension age. Importantly, this group were debt free with no financially dependent children.

4.2.2 Generally confident, but with some concerns that their income would mean a drop in living standard

This group were generally confident that their income after State Pension age would be enough to live on but were concerned that it may mean a drop in the standard of living that they had been accustomed to, including threatening holidays, travel plans, hobbies or the quality of food they were used to. Some thought that they may have to make compromises, for example by downsizing hobbies or stopping saving. Others thought certain plans needed to be put in place, such as paying off debt, before they would be entirely confident. Women who were 'generally confident' were usually approaching State Pension age, although some were in their 40s. 'Generally confident' men included people across the age span, including some over State Pension age. This group were generally in the middle and lowest earning bracket within our study, although there were some in the highest earning bracket. Some in this group suffered from health conditions that affected their everyday lives, and some had partners with serious illness, and one had a wife with major responsibility for the care of frail, elderly parents, and received Carer's Allowance. These sometimes affected their partner's ability to work, and thus may have affected the household's likely income after State Pension age.

The reasons why people felt 'generally confident' but with some concerns that their income after State Pension age would mean a drop in living standard included:

- considering themselves to be unsuccessful savers;
- being at a different life stage than those who were 'confident';

- being in debt;
- working as self-employed for much of their working life;
- relying upon partners.

These will be discussed in turn.

Savings behaviour

This group generally did not consider themselves as savers, although some had small savings put aside for a rainy day; some had made short-term savings for holidays or home improvements, and others had made irregular, small savings. The cost of dependent children, low or irregular earnings, everyday bills, putting money into the business or house, and failing businesses were all given as reasons for not being able to save. Some in this group said that lifestyle choices had impacted upon savings behaviour, including extravagant holidays, love of quality and organic food, and generally wishing to live comfortably.

Life stage

Some people in this group were at the younger end of the age spectrum (below their mid 50s), some with dependent children living in the household, and thus still had further provisions to make before they could be confident about their income after State Pension age. Others were in a late stage of life, approaching or having reached State Pension age. Despite this they were not always enjoying higher earnings, with one woman's partner's business not doing well. They also had not necessarily paid off their mortgage and thus had not freed this money for savings towards retirement, as those 'confident' about their income had by this age. Also, grown up children had not always left home or were still a financial burden in other ways. Thus this group, while a similar age to those who were 'confident', had not yet reached the same level of financial security.

Debt

Debt had more of an impact on savings behaviour for this group than for the 'confident' group. Some had built up unsecured debt, which had impacted upon their ability to save, with one man viewing it as illogical to save on the one hand and be in debt on the other, and some considering it a balancing act between saving for retirement and not falling into debt. One man's aim was to have paid off all his debts by the time he retired, rather than to have built up a pension (although he was doing this). Others had had to use savings to settle debts, including drawing on personal pensions early, and using lump sums from insurance policies that had matured in order to pay off credit card debts that had mounted up over the years. As with the first group, mortgages were also reported as a constraint to saving, and with one woman this was a result of an endowment mortgage not going according to plan.

Work history

People who were 'generally confident' had moved into self-employment after a period of employment. The move was usually voluntary, with some women having developed a leisure or voluntary activity. Those who had moved into self-employment involuntarily had done so as a result of redundancy, although one was able to obtain work from previous customers who still wanted the service, which made his business viable.

Due to their work histories, 'generally confident' people on the most part often had a small occupational pension from previous employment, but had to rely on another source for their main income after State Pension age. There were some exceptions. Women who were main earners had moved into self-employment relatively late in life after working as an employee, and therefore had a relatively generous occupational pension. Also, one man had an occupational pension from working as an employee for nearly all his working life, but had concerns about his wife's provision (see below).

Generally, both women and men in this group had mainly invested in a personal pension for their income after State Pension age, although some had other forms of saving such as building society accounts. The expected value of their personal pensions was generally fairly low. As reported above, one man had had to cash in his pension early to settle debt, and was therefore expected to receive a much lower than anticipated pension after State Pension age. Some had used the flexibility within personal pension schemes **not** to pay regular contributions as a reason to make *no* contributions, which had affected the value of their pension.

Loss of confidence and the perceived risk associated with personal pensions (see Chapter 3) appears to be associated with having some concerns about income after State Pension age. Indeed, some had regrets about not pursuing other avenues, especially property, to provide an income after State Pension age. While the reason for not pursuing other avenues of income was not always conveyed, it was generally a result of not being able to afford to invest at the time or wanting the additional income to enjoy life with. For some, however, it was due to lack of information or knowledge, for example, not realising they were able to borrow to achieve a deposit for a house.

What separated this group from the confident group is that they had not acted upon these regrets and invested in property. Nor did they have direct access to an occupational pension. As a result, partners' work history was important for explaining why some people had some concerns about their income after State Pension age.

Partner's work history

For some, having some concerns about their income after State Pension age was, especially for women, linked to their partner's employment history and the impact that this had upon provision for retirement.

Some 'generally confident' women considered their partner to be the main earner in the household, and these were largely relying upon their partners for income after State Pension age, especially if their partner was (or had been) an employee and accrued an occupational pension. This was particularly the case for women who had become self-employed via pursuing a hobby or voluntary activity, whose 'job' was not considered to be a money-making venture. For these, the success of their partner's pension had impacted upon whether they had made any provisions of their own, and in turn their confidence in their income after State Pension age.

Some presumed that their partner's pension would be generous, and had not made any provision of their own. Others expected their partner to receive a modest or lower than anticipated pension, and had, therefore, made alternative provision for themselves via personal pensions or had plans to downsize. But either way, inadequate provision for themselves, especially if their partner's pension had not performed, had generated some concerns about their income after State Pension age.

Some men were also influenced by their partner's work history. One man was concerned about the absence of an occupational scheme for his wife, and, therefore, had had to make high contributions towards a personal pension for her. Another man was concerned about leaving his younger wife, who had never worked, without an income when he died.

Financial awareness

Like those confident about their income after State Pension age, those who were 'generally confident' took an interest in financial products and developments. However, 'generally confident' women whose partner was the main earner within the household relied on their partners to keep an interest in finance and their financial products.

Summary

Some self-employed people were generally confident but with some concerns about their income. They generally thought that their income after State Pension age would be adequate enough to live on but they had concerns that it would not enable them to enjoy the life style they would choose to have. While people in this group usually had some work history as an employee, this was generally for a relatively short period for time compared to the 'confident' group. This meant that typically they had experienced irregular earnings for the majority of their working lives as a result of self employment, hindering their ability to save. It also meant that any occupational pension as a result of employment was small. Importantly, unsecured debt or mortgage payments had, and were still, hindering saving ability, and any children were still financially dependent. Their expected main source of income after State Pension age was a personal pension, which was often the source of their concern about the inadequacy of their income after State Pension age. Others relied on the pension incomes of their partners and, therefore, had no direct income of their own.

4.2.3 Worried that their income would be inadequate

The third group expressed great concern that their income after State Pension age would be insufficient to live on, and some were worried that they would struggle as a result. They were generally at the younger end of the age spectrum (below their mid-50s) and in a variety of occupations. All were in the lowest earnings group, and some had health conditions that affected their daily lives. Some had wives with serious illness and one had major responsibility for the care of frail, elderly parents, and received Carer's Allowance, and were unable to earn an adequate income.

The reason why some people were worried that their income would be inadequate included:

- lack of ability to save;
- debt;
- unsuccessful work history;
- irregular working patterns;
- relying on the state pension for income after State Pension age;
- little interest in financial issues.

Savings behaviour

Some in this group described themselves as 'spenders' rather than 'savers', and others attached more importance to saving, but this group were unified in that they felt they could not afford to save. Some had been able to save in the past, until a significant event resulted in a reduction in income. For some, the 80s slump was the significant turning point in savings behaviour, resulting in lower demand for labour, declining business and, for one, bankruptcy. Moving from employment to self-employment, and the resultant low, uncertain or erratic earnings, was also cited as impacting on the ability to save. For some in this group, their partner's low income impacted upon their ability to save, for example, as a result of having to care for a frail elderly parent.

Debt

Debt had placed a significant constraint on this group's ability to save, including credit card debt, tax arrears, business loans and debt accrued from the mis-selling of an endowment mortgage. Some had lost savings, including a personal pension, as a result of debt (see below).

Work history

Self-employment for this group had generally not been a choice. Some were in occupations which were only made available on a self-employed basis, and had been in that area all their working lives; others had been made redundant from work as an employee and others were seeking a complete life change, having done many

years work in factories. Self-employment had not always been a success, with one currently selling the business, and another with declining profits. Thus the ability to save for retirement had been difficult.

Irregular working patterns

For most of the women and some of the men in our study, income flows were sporadic and variable due to the nature of self-employed work; seasonal working; variable hours and contract work. For some, this made regular savings impossible. While this was an issue for some people in the 'generally confident' group, it was a particular problem for those who were 'worried' about their income after State Pension age. For some, income was not reliable, with long periods without any income at all. Others worked such irregular hours that it was impossible to know levels of earnings from one month and even one year to the next. This impeded this group's ability to make regular savings, especially to personal pensions.

Relying on the state pension

People who were 'worried' were expecting to rely solely or mainly on the state pension for income after State Pension age, with one over State Pension age already receiving Pension Credit. Although some had previously invested in a personal pension scheme, sometimes for all their working life, they had lost them as a result of debt or filing for bankruptcy,¹⁹ and had not subsequently taken out another scheme. Others had invested in personal pensions (or had made investments in, for example stocks and shares), but the expected fund was low, as a result of schemes being under-funded; having begun making contributions relatively late in their working lives; or having stopped making contributions. One participant and his wife were not expecting to rely on the state pension, having an occupational pension from previous employment, building society savings for retirement, and the potential to downsize and release equity for income. They had, however, experienced under-funding in a second occupational pension and were worried because they were currently suffering a period of hardship and were having to dip into other retirement funds as a result of declining profits and were, at the time of the research interview, seeking work as employees. For some, negative experiences of pension products had led to mistrust and loss of faith in pensions, and, therefore, this had led to some in this group saying that they would not choose to invest in them even if they could afford to.

¹⁹ Until 29 May 2000, personal pensions (unless they had contracted out of State Earnings Related Pension Scheme), were not protected when filing against bankruptcy – although occupational pensions were protected (The Insolvency Service, 2006a). Pensions can no longer be claimed as an asset as a result of an application for bankruptcy, as long as the pension scheme has been approved by the Inland Revenue (The Insolvency Service, 2006b).

Financial awareness

Those worried about their income after State Pension age took only a small interest in financial issues. This may have meant occasionally looking at something in the media, with no information given face to face. Thus, it appears that those 'worried' about their income after State Pension age were somewhat disconnected from networks of help or advice.

Summary

This group were worried that their income after State Pension age was insufficient to live on. Some had worked in self employment all their working lives while others had made an involuntary move into self employment, often unsuccessfully and usually into irregular work. Debt was a big problem for this group, hindering saving or creating the need to cash-in savings to repay debts, resulting in low expected personal pension income with no occupational pension to fall back onto. This group therefore had to rely on the state pension for income after State Pension age. As a group, they were generally disinterested in and not connected with sources that may offer pension information and advice.

4.2.4 Unaware of whether their level of income was adequate

The fourth group were unaware of whether their level of income was adequate to meet their needs. As a group, they were generally at the younger end of the age spectrum – being in their 40s or early 50s. None were in the lower earnings group. The men in this group all had health conditions, one of which had a major impact on his day-to-day activities.

There was heterogeneity among this group in terms of their savings patterns and behaviour. Some described themselves as 'spenders' not 'savers', and had therefore not put any money aside. Some had saved small, irregular amounts. Others described themselves as being savers, only spending within their means, and making savings of one kind or another throughout their lives. Some thought that their savings behaviour had changed according to life stage, with the presence of dependent children identified as both a constraint and an incentive to save. Moving from being an employee to self-employment was reported as negatively affecting the ability to save. Reasons for not saving included any spare money being put into the business or a property; irregular earnings, and the financial difficulties of running a self-employed business.

Debt had been a constraint for some people in this group, having to take out loans for the business and with one man falling into grave financial trouble in the past, which has had a long-term bearing on his finances and the ability to save.

Unlike the other groups, work history did not appear to be a reason why this group were unaware about their level of income. This group had generally moved from employment to self-employment at some point during their lives. For some, the move was voluntary, but men reported this decision as being a result of negative

experiences as employees, such as being underpaid, working too hard and losing job satisfaction. For others the move was involuntary as a result of redundancy or restructuring within the industry. One participant, however, had always worked as a self-employed business person.

Among the women, their positions in terms of contributions towards earnings within the household varied; some identified themselves as the main earner (one living alone), some their partner, and others thought they were about equal earners. The men were either in formal business partnerships with their wives or had wives who worked as an employee within the business, either formally or not.

Reasons for being unaware about their level of income included:

- life stage;
- financial unawareness;
- mistrust in pensions and pension providers.

Life stage

For some, unawareness reflected their life stage. This group included some of the youngest people in the study, some of whom were not thinking ahead to retirement, because it was too far away or were more interested in concentrating on current concerns such as the business, and family life. Thus either saving for retirement had not been a factor in their thinking or they were unable to predict what their savings would be on retirement.

Financial unawareness

Some were unaware about the adequacy of their income after State Pension age because they were uninformed about, or uninterested in, the current value of their state or personal pension. Knowledge surrounding entitlement to state pension was vague, with some having no idea of its value. There was also some confusion over contributions paid and entitlement, with lack of clarity over whether, as a self-employed person, they had any entitlement to the state pension. Some had personal pension schemes, some of which had been frozen, as a result of moving employment or the inability to afford contributions. While some knew the current value, they thought it impossible to predict the future value of their state or personal pension, and the future cost of living.

Lack of knowledge surrounding personal pensions had, for some, resulted in very little provision being made for their income after State Pension age, or having some vague plans. Some had hopes of selling their business in the future, but were not clear about their plans for selling, and one, as yet, had no tangible business assets to sell; it was something for the future that would need further thought and, for some, advice. One person was clear about what they would receive from the business, but they were the oldest within this group, and in the process of selling.

Mistrust in pensions and pension providers

Some of those who were unaware about their income were fairly well informed about financial products generally, but had lost faith in the stock market and pension providers. This had led to mistrust in the promised value of their pension and in information from pension providers, for example thinking forecasts of the expected fund were overly optimistic. One woman, due to her lack of faith in occupational pension schemes, was not factoring her occupational pension into her income after State Pension age in case it collapsed.

A lack of faith in pension products for some of this group had driven them to invest in other saving vehicles in which they had more trust, or spreading the risk among a variety of savings vehicles. For some, this was property, with hopes of downsizing and using the equity for income. Others had more faith in, and had invested in, savings products such as Individual Savings Accounts, which they considered to be a more transparent way of saving, in so far that they could see how much they had saved.

Mistrust and loss of faith in the performance of pension products and their providers was an issue for many in our study (see Chapter 3), not just those in this group. However, for them, mistrust had not led to complete loss of confidence in their ability to predict income after State Pension age.

Summary

This group were unaware of whether their level of income was adequate to meet their needs. They were the most heterogeneous group but were linked by age, with all being under 55. Savings behaviour, work history and debt did not influence their confidence level as they did for the other groups. Rather, life stage meant that thinking about retirement was not salient, and lack of knowledge about the state pension and personal pensions had led to few plans being made. For others, unawareness was not the issue but mistrust in pension provision had led to complete loss of confidence in their ability to predict income after State Pension age.

4.3 Expectations of extending working life

Expectations about extending working life are influenced by various factors, including expectations of income after State Pension age, job satisfaction, health, and family circumstances. This section explores how these influenced people’s expectations about working beyond State Pension age. In our study, there were differing expectations of extending working life, identified by four groups:

Table 4.2 summarises expectations of extending working life, and how each group expected to stop work.

Table 4.2 Expectations of extending working life

Stopping work	Nature of expectations
By State Pension age	Expected to have stopped work by State Pension age, either by winding down gradually or stopping suddenly.
Beyond State Pension age	Plans to stop work at some point by winding down gradually after State Pension age.
No plans to stop	No plans to stop work in the foreseeable future, expecting to continue working for many years to come.
Unknown	Retirement was not part of their thinking and they did not know when they would stop working.

Next we explore the reasons for these varying expectations for stopping work.

4.3.1 Stopping before or around State Pension age

This group had expectations to stop working before or around State Pension age, although only one had definite plans to stop before. Some expected to stop work suddenly, while others expected to wind down gradually, but all expected to have stopped self-employed work by State Pension age. This group were generally either 'confident' or 'generally confident' that their income after State Pension age would meet their needs. One woman, however, was 'unaware' whether her level of income was adequate. One person who was in the top income bracket was the only person in our study with definite expectations about stopping paid work before State Pension age. Nevertheless, her reasons for stopping work early were similar to those stopping around State Pension age. These included:

- ill-health;
- negative experiences of self-employment;
- financial viability.

Health

As previous research has indicated, poor health and disability are common factors 'pushing' people out of the labour market (Phillipson and Smith, 2005). For some in this group, either their own, their partner's, or a family member's health was a factor in their expectation to stop work at or before State Pension age. This included back problems, making their work difficult and tiring to do, a partner's stroke which had persuaded them to sell the business, and a parent's potential care requirement, which could impact upon the decision when to stop work. However, health was not generally the overriding influence in the decision to stop work. More important were negative experiences of self-employment and financial viability.

Experiences of self-employment

Being fed up with the job and spending time with family, particularly for women, has been identified as a reason for early retirement (Phillipson and Smith, 2005). Self-employment had not been a positive experience for many in this group. This group included women who had to keep shops open all day; run hotels in busy holiday seasons; maintain animals and crops on farms; or maintain seven-day services for clients. These had been in self-employment for much of their working life and, while their experiences had initially been positive, over time self-employment had become 'a bind', and consequently they had become generally 'fed up' with their work. They had worked hard during their self-employment and were looking forward to being able to do other things while still 'fit and young', such as enjoying family, friends, hobbies or going travelling.

Financial viability

Research has identified financial security, including the feeling of being able to afford to retire and having access to an occupational pension, as being an important 'pull' factor for early retirement (Phillipson and Smith, 2005). In this study it was also apparent that financial viability was crucial in the decision not to extend paid work beyond pension age. The majority of this group were either 'confident' or 'generally confident' that their income after State Pension age would meet their needs, and they considered the decision not to extend paid work beyond State Pension age to be financially viable. Generally, this group had the ability to draw on an occupational or personal pension at, or before, State Pension age. For some, a partner's financial plans were important in the decision. This included the decision that their partner continued paid work after their own retirement; or that they retired and drew on their occupational pension. For one woman, her partner's retirement timing was the crux in enabling her to stop working, since she personally had no provision other than the state pension. One woman, however, was so dissatisfied with her job that she had plans to stop at State Pension age despite being 'unaware' whether her income would be adequate to meet their needs.

Summary

This group had expectations to stop working before or around State Pension age. The majority of this group were either 'confident' or 'generally confident' that their income after State Pension age would meet their needs. While health played a part, and job dissatisfaction was an important motivator to wanting to stop work, importantly, they also considered the decision not to extend paid work beyond State Pension age to be financially viable. One woman, however, who was 'unaware' whether her income would be adequate, was stopping work due to job dissatisfaction and for health reasons.

4.3.2 Expectations of winding down after State Pension age

In the study by Phillipson and Smith (2005), nearly a third of people in work said that they planned to retire gradually, with older self-employed people more likely to have the opportunities to do so than employees. In this study, there was a group of people who expected to work or were already working after State Pension age, but had plans to wind down gradually and stop at some point. This group were either 'confident' or 'generally confident with some concerns' about their income after State Pension age. Among these were people in the younger age groups in the study (up to mid-50s). Some, both over State Pension age and below, had initially expected to stop working at State Pension age but had subsequently changed plans. Generally this group talked about continuing working for up to around five further years after State Pension age; until 65 for women and 70 for men. Those who had not initially planned to work beyond pension age hoped to stop earlier however.

Winding down

Some, both over State Pension age and below, were already working, or about to work, reduced hours as part of a process of winding down. Those in the highest earnings bracket had not yet begun winding down their workload, but had plans to do so. People in the lower two earnings brackets had already reduced their workload which explains their lower earnings. For some, being able to wind down, rather than stopping suddenly, contributed to their decision to work beyond State Pension age; they could reduce their workload slowly, picking and choosing what work they took on. For others, however, winding down was not a choice but a result of the nature of their work and their commitments, meaning they were unable to suddenly stop working at State Pension age. One woman reduced her workload as a result of an operation, with the intention of gradually stopping.

Financial viability

While much of this group were 'confident', and some 'generally confident' with some concerns about their income after State Pension age, continuing work for many of them was financially motivated. Generally, however, working after State Pension age was not a financial necessity, but a way to gain additional 'pocket money', and the reduction in income when paid work ceased would not be missed. Others, however, planned to continue working until financial plans came to fruition, such as paying off the mortgage, selling the business or having enough funds in their personal pension. Other research has also found that for some people extending working life was important for improving quality of life and the 'affording of extras' (Phillipson and Smith, 2005). For some, bad experiences with endowment mortgages or personal pensions had meant having to work longer than desired.

Job satisfaction

In addition to financial reasons, some in this group were continuing, or wanted to continue, after State Pension age due to job satisfaction or loyalty to the job. This included their work being enjoyable; enabling them to keep fit and healthy (mentally

and physically)); enabling them to avoid boredom that they were concerned retirement might bring; or providing them with status within society, lack of which they equated with retirement. For some, this was related to working generally rather than to self-employment or paid work, and these planned, or had started, voluntary or paid work related to a hobby to enable them to gain status or prevent boredom. Others felt a certain loyalty to the job, having to finish-off work already begun, and thus had continued working after State Pension age without expecting to.

Summary

This group expected to work or were already working after State Pension age, but had plans to wind down gradually and stop at some point. This group were either 'confident' or 'generally confident with some concerns' about their income after State Pension age. Winding down was a choice for some but a forced decision for others. For all, however, continuing work after State Pension age was due to a combination of financial motivations and job satisfaction/loyalty to the job. Undertaking paid work, however, was not a financial necessity but a way to gain additional income.

4.3.3 No plans to stop paid work in the foreseeable future

Some people had no plans to stop work in the foreseeable future, and some had work lined up for many years to come. Many expected to continue working until health and old age forced them to stop, while others thought they would be able to continue working in a way which would not be affected adversely by health. For some, this was expected to be in a much reduced capacity. This group was marked by its heterogeneity, including people from all earnings brackets and from all age groups. The group also included people with different levels of confidence in their income after State Pension age; some were 'confident'; some were 'generally confident but with some concerns' but others were 'worried' about their income after State Pension age or 'unaware' of whether their level of income was adequate. But it is important to recognise that people in this group had different reasons for not stopping working. On the one hand were those who enjoyed their work to such an extent that they could not imagine stopping, while on the other were those who did not necessarily enjoy their work but could not see themselves stopping due to financial necessity. We shall explore these below.

Primarily motivated by financial reasons

Research has suggested that some people have little choice but to continue working as a result of concerns about their financial circumstances (Phillipson and Smith, 2005). Indeed, some people in our study expected to work beyond pension age not out of choice, but for financial necessity. This group was not linked by age, earnings, occupation, and household employment, but consisted of those who were either 'worried' or 'unaware' about their income after State Pension age. For some, work would continue even though they had health conditions that affected their daily lives. Others were fed up with their job. Not all thought that work would be on a self-

employment basis or in the same occupation as they were currently working, a reflection that money was the primary motivator for working rather than the job *per se*. Others were hoping to find work in addition to their current self-employment in order to boost income further. This group largely relied or expected to be reliant on the state pension for income after State Pension age, and therefore earnings from paid work were, or were expected to be, an important additional source of income. Thus, they could not afford not to work.

Some of those expecting to work out of financial necessity were also extending working over the State Pension age for other reasons. Some enjoyed their work, finding it stimulating and interesting. Some had a strong 'work ethic' and expected to contribute as long as they were fit and healthy. Others thought that work would keep them mentally and physically active. So, while they expected to have to work beyond State Pension age for financial necessity, they did not necessarily view this as a negative.

Primarily motivated by job satisfaction

Positive feelings about work have been found to play a significant role in encouraging people to extend employment beyond State Pension age (Phillipson and Smith, 2005). This is also borne out in our research, with some people expecting not to stop work primarily as a result of job satisfaction. This group consisted mainly of those already over State Pension age and all were either 'confident' or 'generally confident' that their income after State Pension age would be adequate. These people had enough confidence in their income after State Pension age that they did not need to earn money but rather wanted to carry on because their work stimulated them. As other studies (Sykes and Morris, 2005) have shown, some people did not make clear distinctions between working and non-working lives and felt they would like to carry on as they were into older age. Indeed, some viewed working as their hobby, with some having entered self-employment by developing a leisure or voluntarily activity. They were usually in an occupation with a high level of expertise, and undertaking work on a consultancy basis. To some, working was also socially stimulating, having made friends via the business. Others offering professional services considered that the quality of their work intellectually was improving with age, and considered retiring at State Pension age as being 'cut off in their prime'.

Importantly, working after State Pension age for these people was flexible, and some would not consider carrying on if they were not able to pick and choose the work they took on, the hours that suited them, and to be able to fit work in with going on holiday when they wanted or socialising with family and friends.

While this was not the primary motivation, some in this group were also working for financial reasons, although not necessarily for their own personal gain. Those who were 'confident' about their own income after State Pension age and who were working partly for financial motivations were generally doing so for others, feeling under some obligation to keep the business financially viable, either because family members were expecting to takeover the business; because a family member's job

relied on the business keeping afloat; in order to have money to help family members; or in order to leave an inheritance. However, those who were 'generally confident' with some concerns about their income after State Pension age, and who worked partly for financial motivations were generally doing so for their own gain, with one planning two new businesses to enable him to earn money while accommodating his health condition.

Summary

This group had no plans to stop paid work in the foreseeable future, and was marked by its heterogeneity; the group included people with all levels of confidence in their income after State Pension age. However, the reasons for not planning to stop paid work varied. Those not planning to stop work who were either 'confident' or 'generally confident' that their income after State Pension age would be adequate were expecting not to stop work primarily as a result of job satisfaction. They did not need to work after State Pension age for financial reasons but they wanted to because their work was interesting, stimulating and flexible. Some were, however, also working beyond State Pension age for financial reasons, for either themselves or for others. Those not planning to stop work who were either 'worried' or 'unaware' about their income after State Pension age were expecting to continue work for financial necessity, despite some having health problems and others being dissatisfied with their job. But for some, working after State Pension age was not necessarily seen as negative since other factors also influenced the decision to extend working life.

4.3.4 Not part of their thinking about the future

The final group did not know when they would stop working. This group included those who were either 'unaware' of whether their income after State Pension age would be adequate and those who were 'worried' about their income after State Pension age. This group were among some of the younger people in the study, all were below age 55 and some were in their 40s. Retirement for this group was simply not thought about because, for them, it was so far in the future, and thus they found it difficult to predict when they may stop work, and whether this would be after State Pension age. Indeed, stopping work was not even on the horizon for one man who was in the process of selling the business due to ill health.

Some in this group found it difficult to predict their circumstances, such as their health, around State Pension age, which they also thought would be important in making a decision about whether to work or not. Indeed, for some, their lack of knowledge about their income after State Pension age was a factor in not knowing whether they would work beyond State Pension age; without this knowledge, they were unable to base a decision of whether to work on whether they needed to or not. For those who were 'worried' about State Pension age, retirement was something that did not bear thinking about, given the lack of financial security they would have.

Summary

This group did not know when they would stop working and included both those who were 'unaware' of whether their income after State Pension age would be adequate and those who were 'worried' about their income after State Pension age. This group were all under 55 and did not think about retirement. On the one hand, they considered themselves too young to think about retirement, and found it difficult to predict their circumstances and income around State Pension age. On the other hand, they knew that retirement would be a financial struggle. Retirement as a concept was too 'frightening' and too far away.

4.4 Discussion and conclusion

Income after State Pension age and extending working life were two of the key issues of policy interest. This chapter explored confidence in expected income after State Pension age and expectations of extending working life. It also explored the influences on these expectations, including how expectation of income influenced expectations of extending working life.

This chapter has shown that there are different levels of confidence in income after State Pension age. From a policy perspective, it is useful to understand why some people had 'confidence' that expected income after State Pension age would meet their needs adequately. This was partly influenced by attitudes towards saving, but ultimately it was the ability to save that mattered. The ability to save was itself influenced by a variety of factors, including:

- being 'savers' as opposed to 'spenders';
- being debt-free;
- being at a later stage in life, with higher earnings and no financially dependent children;
- accruing occupational pensions as a result of successful work histories; with a long period as an employee;
- being in professional, specialist occupations;
- having regular earnings;
- being financially aware and connected with networks of help and advice;
- investing in property, especially for younger people;
- not having to rely on personal pensions with the associated risks involved;
- for women, being the main earner or sole earner in the household;
- having a partner with investments.

Turning our attention to extending working life, there were different expectations of whether to extend working life. From a policy perspective, it is useful to understand why some people were expecting to extend working life. This was influenced by:

- financial necessity as a result of lack of confidence in income expected after State Pension age;
- being fit and healthy;
- job satisfaction;
- social interaction;
- intellectual stimulation;
- loyalty to the job;
- having flexibility in working;
- positive experiences of working as self-employed;
- desire for ‘pocket money’;
- life stage.

Although it is not possible to draw firm conclusions, our findings do suggest that there is a relationship for some self-employed people between their confidence in their retirement income and their thoughts about retiring. We can represent this in Table 4.3 which indicates how confidence in level of income in our study influenced expectations of working life. There was one exception: a woman who was unaware of her income after State Pension age but expected to stop work by State Pension age due to health reasons and job dissatisfaction.

Table 4.3 Confidence in level of income and expectations of extending working life

	Stop work by state pension age	Working beyond state pension age	No plans to stop work	Unknown
Confident	✓	✓	✓	
Generally confident	✓	✓	✓	
Worried			✓	✓
Unaware			✓	✓

This chapter has shown that confidence in expected level of income, or lack of it, was an important influence for extending working life and, for some, financial necessity was the overriding factor. However, other factors also influenced the decision to extend working life. This is borne out by the finding that having confidence in their expected income after State Pension age did not necessarily mean stopping work around State Pension age. For these people, financial issues were not at the forefront of their decision. Indeed, those over State Pension age, with no plans to stop work in the foreseeable future, were semi-retired; they were undertaking paid work they enjoyed and could balance this with other interests.

5 Summary of findings and policy implications

5.1 Introduction

Chapter 5 is in two parts. First, we summarise the main findings of our analyses of people's routes to self-employment, their experiences and views of financial products, and their plans to move from self-employment into retirement.

In the second part of the chapter we consider what policy lessons might be drawn from the study. In particular we look at how government might act to improve self-employed people's pension provision, and whether and how self-employment might be promoted to extend working life. Reference is made extensively to the recommendations made in the reports published by the Pensions Commission.

5.2 Summary of main findings

This study was commissioned to address two overarching research objectives:

- to explore how self-employed people plan financially for retirement, and what influences their decisions;
- to gain information about ways in which self-employment may offer flexibility to extend working lives.

This section will summarise the key findings from previous chapters with the view of addressing these objectives, and the key research questions.

5.2.1 Working as self-employed

Routes into self-employment

Our study aimed to identify why people move into self-employment. It identified a number of different patterns into self-employment. Some paths into self-employment were similar for both men and women, while others were identifiable for men but not for women and vice versa.

Both men and women in the study had taken up work that was traditionally done on a self-employed basis, including farming, fishing and work in the construction industry. These had worked in self-employment for all of their working lives. However, generally among people in our study, lifetime self-employment was unusual. A common route into self-employment for both men and women was moving from working as an employee in the same or related work. These people were able to take skills and experiences into self-employment. For some, this move was perceived as effectively involuntary as a result of redundancy. For others, it was a voluntary move as a result of losing some job satisfaction or being invited to do freelance work while still an employee and moving gradually into self-employment. There were also examples of men and women moving into new areas of work as self-employed people with the view to seeking a complete life change. Reasons for this decision included being bored with their employment, disillusioned by new working practices, undertaking hard or low-paid work for large companies and wanting more control or a better quality of life.

Some routes into self-employment were different for men and women. For men, a move into self-employment was sometimes linked with a move towards retirement, wanting further stimulation and activity or to boost income. The study also showed that for some women the move into self-employment was by developing a leisure interest or voluntary activity into a career as children grew up. Some women came into self-employment through seeking ways of working to fit in with family needs.

Advantages and constraints of self-employment

The study next tried to address what advantages and constraints self-employment produced at different stages in the life/employment cycle. Relatively little information was gathered in relation to experiences at different stages because the research participants found it difficult to make comparisons, and were more likely to talk about current views. Two main advantages to being in self-employment were identified: the independence and choice of being 'your own boss' and the way self-employment fitted around family life.

The findings show that women who liked having control of their work included some who had voluntarily left jobs as employees in search of independence, and also those who had built up particular interests or voluntary activities into self-employed work. Men who liked having control often compared this to previous employment, liking not having to accommodate the inadequacies of other people's work, being accountable for their standard of work and being free of the burden of bureaucracy or work politics.

The study found that women who had specifically chosen self-employment to fit family responsibilities had found their expectations fulfilled, being able to work part time from home, having control over when work needed to be done and taking contracts which fitted in with school holidays. Men who described self-employment as fitting their family circumstances perceived it as an advantage to work from home and take part in their children's lives or being able to share cooking and housework with a partner.

Some saw working independently differently, however. Having to seek new contracts or customers was stressful, and having responsibility for staff and customers had sometimes caused problems. Others found working at home could be lonely or difficult to stop, and having long periods between contracts could lead to unpredictability of earnings and financial insecurity. Indeed, financial insecurity was seen as a big disadvantage, with irregular incomes making it difficult to save. Also, taking holidays or being sick resulted in loss of earnings.

Flexibility

A key research question was whether people perceived flexibility in self-employment that would enable them to work in ways that suited them in later years. We found that for some people there was opportunity for flexibility in their self-employment, with many valuing being able to choose working hours to fit work around their children, families, social life, bereavement and holidays. But flexibility came with a price, with loss of earnings or business and future opportunities, particularly for men whose earnings made a major contribution to family income.

There was also evidence that flexibility in working was important in decisions for extending working life. For some of those over State Pension age, especially professionals, flexibility in working was valued, and some would not have extended working life without it. Having independent sources of income, especially occupational pensions, offered increased flexibility in working, as they did not have to worry about the impact that flexibility had upon financial security. Younger people, in their 40s and early 50s, with expectations of extending working life emphasised the importance of flexibility of working in thinking about the future. For some this was with the view of winding down towards retirement, while for others it was a question of being able to balance work with other interests.

There were, however, a number of people in the study whose experience of self-employment was very different. They described having no flexibility at all in what they did, for example having to keep shops open all day; run hotels in busy holiday seasons; maintain animals and crops on farms or maintain seven-day services for clients. Some men over State Pension age were working very long hours to maintain living standards.

Role of advisers and supporting agencies

The study also aimed to understand the role of advisers and supporting agencies in business and financial development, including accountants and similar professionals. The information gained could not provide a full picture, relying on memory and recall by people.

Some people, or their partners, worked in the financial industry as accountants or other professionals and had no need for financial advice from accountants or others, being able to use their own expertise. Generally, however, people used and trusted accountants, usually for tax returns or advice on Value Added Tax but rarely did accountants give advice about other issues. There was little evidence that self-

employed people in our study had been in touch with an organisation specifically offering advice and support with business start up. For some, bank managers offered useful financial support on business development, but others perceived them as only interested in promoting their own financial products. Advice was also gained from partners and friends with legal, marketing or business experience.

5.2.2 Financial advice and products

Views of savings and pensions products

An important question that the study sought to answer is how self-employed people view different savings/pensions products. These views may influence decisions and behaviour surrounding saving for retirement. Views arose from the advantages and risks perceived to be attached to different products.

State pension

There was little knowledge about the value of the state pension, especially among younger people in the study in their 40s. But the general view of its value was that it was 'very little.' Some people thought the value was so small that it did not feature in their expectations of income after State Pension age, while others thought they would use it to go towards leisure activities. There were some exceptions, usually older people, who were surprised about the value of their state pension, especially given their lengthy period of self-employment.

Information was also gathered in relation to views about deferment of the state pension. Younger people (up to their mid-50s) were less likely to express a view or to keep an open mind. Older people had usually made an informed view about whether to defer or not, with most deciding against it, either because of the uncertainty of life expectancy or for financial reasons. Deferring was thought not being worth it in terms of the extra amount eventually payable. Some made the point that it was more sensible to take the state pension and invest it elsewhere.

Personal private pensions

There was some evidence of positive views about personal pensions among older people (in their late 50s and 60s) already drawing their pension, especially if the scheme offered flexibility in contributions. However, views expressed about personal pensions in the study were largely negative among others in the study group, sometimes as the result of personal experiences. For many, this was due to the risk inherent in personal pension schemes and the lack of certainty about its performance and value, with some viewing it as sensible to spread the risk among several different savings vehicles rather than relying on a personal pension. Some in our study had totally lost faith in personal pensions, and once confidence had been lost, it was difficult to regain.

Occupational pensions

In contrast to the state pension and personal pensions, self-employed people in our study expressed generally positive views of occupational pensions, particularly in relation to their perceived compulsory nature. This meant that people did not have to think about saving for retirement, as the decision to invest was largely taken out of their hands. It also removed the temptation to spend the money for other purposes, which some people identified as a disadvantage of personal pensions. While this was not a reason to decide not to take a personal pension out, it was given as a reason why funds accrued were low.

Property

A striking finding in the study was the widespread faith self-employed people had in 'bricks and mortar' as a safe way of investing money, both in terms of downsizing but especially in relation to second properties. Indeed, faith in their investment by those who had been able to invest in rental property was reflected in the confidence they had in their expected income after State Pension age.

Other financial products

Generally, other financial products such as stocks and shares, Individual Savings Accounts (ISAs) or building society accounts were not viewed in terms of providing an income in retirement, with the small amount of money that could be invested in ISAs, and the perceived risky nature of these other financial products given as reasons for this view.

Financial advice for retirement

The study also addressed the issue of the financial information and advice used to make decisions about saving for retirement, including sources and preferences. The two areas of influence when seeking advice for people in the study was the extent that the source offered impartiality, and the extent that the source was trusted.

Our study showed that, while a few people reported positive experiences of using financial advisers, there was a more prevalent perception that they were not impartial but concerned to sell particular products and thus did not have the individual's interests at heart. These views were sometimes a result of bad experiences and poor advice given by financial advisers, but were also given by those who had had no contact with financial advisers.

The government was trusted by some people in our study to provide impartial information, but not for advice²⁰. Others had a general distrust of government, which was at times unspecified, but also a result of their perceived agenda to reduce the costs of the state and occupational pensions by shifting the burden to individuals.

²⁰ The government is only able to provide general information, but not advice to individuals.

Other sources of information included the media, the internet, leaflets, professional journals and meetings of the local Chamber of Commerce. Levels of interest in keeping informed via these sources varied, and reflected people's confidence in their income after state pension. Those with greater interest, or with interested partners, were relatively confident, and those with little interest and somewhat disconnected from networks of help or advice were either worried or unaware about their income after State Pension age. Indeed, low interest sometimes led to confusion or lack of knowledge about the value of financial products, especially personal pensions.

Gaps in information and advice

The study also sought to understand the information needs of self-employed people, the gaps in information and advice, and how these might be filled.

People in our study thought that information would have been useful when they were much younger; when they were starting out on self-employment; in relation to savings generally, and about the risks associated with particular pension schemes. Only a few people mentioned specific information that was currently required including pension forecasts for state and occupational pensions, information about 'A Day', moving abroad, selling business assets, and inheritance tax.

The study also found that there was little knowledge about the changes that 'A Day' would bring, perhaps because the changes had not yet been implemented at the time of the interviews. There was also lack of knowledge surrounding entitlement to state pension, and the differences between employer and employee contributions, with lack of clarity over entitlement to the state pension for self-employed people. Also, our findings show a general lack of detailed knowledge about personal pensions, and the tax relief available on contributions.

5.2.3 Saving and financial planning for retirement

A key research question was to explore feelings about and expectations of financial security at the end of working life, and the key influences on such views. This included understanding what influences personal saving among self-employed people. The study identified four different levels of confidence in expected retirement income:

- confident that their income would be adequate to meet their needs;
- generally confident, but with some concern that their income would mean a drop in living standard;
- worried that their income would be inadequate;
- unaware of whether their level of income was adequate.

Our study showed that the extent to which people were confident in their expected income was related to ability to save, and that the ability to save was influenced by a number of factors, including: attitudes towards saving, in particular being 'savers'

as opposed to 'spenders'; being debt free; and being at a later stage in life, with higher earnings, no mortgage and no financially dependent children. For women, being the sole earner in the household was also important as it meant that greater effort was put into saving in order to maintain living independently, with divorce sometimes being a trigger for saving.

Work history was also important for influencing saving and level of confidence in expected income after State Pension age. Successful work histories, often as a professional in a specialist occupation, were important in terms of creating enough earnings to save for retirement. People who had been employees had the advantage of enjoying a period of regular earnings, which made it easier to save. Irregular income associated with self-employment, and the difficulty of managing this, impacted significantly on the ability to make regular savings for those who had been self-employed for much of their lives. Also, having worked as an employee, especially if for a lengthy period of time, often meant having the opportunity to accrue an occupational pension, sometimes a substantial one, which was important for generating confidence in expected income after State Pension age.

In addition to occupational pensions, having, or not having, other investments also impacted upon confidence in expected income. Investing in property, especially for younger people, influenced confidence due to faith placed in 'bricks and mortar.' On the other hand, having to rely on personal pensions for income, with its perceived associated risks, was linked with lower confidence in expected income. Those relying on, or expecting to rely on, the state pension as their sole or main income were generally worried their level of income after State Pension age would not be adequate, reflecting their views of the low value of the state pension. However, having partners with investments meant that people were generally confident about their expected income, even if the people had not made any direct investments themselves.

5.2.4 Moving from self-employment to retirement

A key research question was to gain information about ways in which self-employment may offer flexibility to extend working lives. In order to understand this, the study explored the expectations of self-employed people in relation to extending working life, and the influences on expected patterns of moving from self-employment to retirement.

The study found that there were differing expectations of moving from self-employment to retirement. Some people expected to stop paid work before or around State Pension age, usually by winding down in the years leading up to State Pension age by reducing hours, but sometimes by stopping suddenly. This expectation was due to a number of factors including ill health, developing negative experiences of self-employment after many years of working as self-employed and, crucially, being confident or generally confident that expected income after State Pension age would be adequate to meet needs. Others expected to extend working life, either by winding down gradually after State Pension age or had no current plans to stop. The

expectation to extend working life was influenced by a combination of financial viability, job satisfaction and flexibility in working.

The extent that financial motivations played a primary role in extending working varied. Those winding down after State Pension age were sometimes doing so with the view of working until financial plans came to fruition or to gain extra 'pocket money.' Some people in our study had no plans to stop working as a result of financial necessity; they needed money from earnings to have an adequate income after State Pension age. For others, job satisfaction was the primary motivator, both for some winding down and others with no plans to stop working. However, the study found that influences on expectations to extend working life were not clear cut; some who needed to work for financial necessity also gained satisfaction from their job and did not necessarily view a financial need to extend working life as a negative. Also, some who were extending working life primarily as a result of job satisfaction were also doing so for financial reasons.

The study was also interested in the influences of plans and expectations about leaving self-employment to work as an employee before retiring. Few people in our study expected to follow this pattern. Those who were, were doing so usually as a result of poor health, declining profits, the physical nature of the type of self-employment, developing a leisure interest and in order to wind down towards retirement.

Another research question was whether moving from self-employment towards retirement matched initial plans and expectations, and there was some evidence that it did not always. Some people had expected to extend working lives into their 80s but experiences of self-employment meant that plans had changed and they expected to wind down after State Pension age. More often, people who had expected to stop work before State Pension age were now expecting to extend working life as a result of financial motivations and concern about boredom in retirement. The study also found that, among those working beyond State Pension age, there were examples of people who had extended working life as a result of job satisfaction, loyalty to the job or unfinished work when, before reaching pension age, they had had no intention of doing so.

5.3 Policy implications

As mentioned in Chapter 1, there is evidence from the Pensions Commission (2004) that many self-employed people have pension provisions that are likely to generate low incomes in retirement. Two of the principal ways in which inadequate retirement incomes can be addressed are for self-employed people to have better pension coverage and for them to extend working life beyond State Pension age. These two policy areas are explored in Sections 5.3.1 and 5.3.2. Before exploring specific policy ideas, however, it is worth taking a broader view by considering the kind of policy strategies that might be appropriate for the different groups of self-employed people identified in Chapter 4.

The **confident** group of self-employed people considered that their income in retirement would be adequate for them to maintain their desired standard and style of living. Some were planning to retire before the State Pension age, others to wind down towards retirement, while others had no plans to stop working at present. It seems likely therefore that this group is not of immediate policy concern. If their perceptions about their retirement income are correct then they should not be in danger of falling into pensioner poverty.

The **generally confident** group did not have serious concerns about their retirement income but expected possibly to have to restrict their expenditure and activities. Again it is difficult to see this group as a major policy problem. No one in this group intended to carry on working indefinitely due to financial reasons.

In this research project it was not possible to make any assessments of whether people's judgments about their retirement were well-founded or not. Hence, even people who were confident or generally confident might benefit from information and advice that would ensure that their judgments were well-informed. Promoting opportunities for making contact with high-quality sources of advice might therefore be one area of policy response.

The **worried** group present more of a policy challenge. Although they perceived that their income in retirement would be a problem, they were not generally taking action to improve it. For some, opportunities were few; they had low incomes from their self-employment from which to make savings or had expenses linked to their household circumstances (for example, bringing up children or providing care). Others talked about patterns of personal spending that appeared to take preference over saving. This group also took a low level of interest in their potential retirement income and did not make much use of sources of advice, although some had already come to the conclusion that they would have to continue working after state retirement age in order to maintain an adequate income. The challenge is therefore to encourage this group to take pensions more seriously. Some may be able to make better use of the money they are currently saving for retirement, while others might sensibly be encouraged to think about changes to current lifestyles. Either way, the important first step is to bring this group into contact with competent and trusted sources of information and advice. Making saving easier and more financially attractive might also encourage people to save more. We discuss the possibilities here in Section 5.3.1.

The **unaware** group, as we have defined it, contained people who did not know what their retirement income might be. That some people, particularly in the younger age groups in the study sample (in their 40s and early 50s) were unaware is not surprising. Eventual retirement income will depend partly on the success of their self-employment and partly on the performance of pension funds and other financial products. Making prospective assessments of either of these over a possible 15 to 25 years of further working life seemed, for some, to be impossible to make. Among this group there was particular mistrust of pension products and

providers, and hence they were not big users of advice sources. Again, as with the *worried* group, it would seem that the unaware would benefit from information and advice about their future pension provision.

5.3.1 Saving for retirement

Although some people were confident about their pension provision, the findings from this study are useful for elaborating why some people thought that their income in retirement would be a problem for them. The principal reasons for people's concerns were inadequate savings coverage and poorly performing pension products. For some people, inadequate coverage was due to constraints on the ability to save, for example because of low self-employed incomes or high levels of expenditure (sometimes in response to crises or to pay-off debt). For others however, what seemed to be possibly inadequate coverage was better explained by lack of knowledge about how best to plan and implement saving for retirement, for example by choosing risky or low interest savings vehicles or, more simply, not saving enough.

The scope for government to improve self-employed people's pension provision is partly limited by the voluntary nature of savings (compared with paid employees who might be automatically enrolled in a company occupational pension scheme). However, there is clearly scope for increasing people's knowledge about existing options for providing for a pension.

The experiences and views of the people in this study suggest that the following are policy options that might be expected to increase knowledge:

- providing information about pension and other savings products;
- promoting the use of sources of financial information and advice;
- addressing negative views of some pensions products;
- increasing incentives to save;
- making pensions saving compulsory.

We will look at each of these in turn.

Providing information about pension and other savings products

Although there were some people in the study group who were knowledgeable about pension products, it was apparent that, generally, levels of knowledge (and sometimes interest) were low. It was noteworthy that detailed knowledge about the tax relief available on personal pension contributions was slight. Knowledge of the new opportunities for pensions savings from 'A Day' was even less. Some people appeared resistant to the idea of learning more about pensions but many did seem more interested and might therefore be expected to be responsive to the provision of more information.

Hence there does seem to be a group of self-employed people, particularly those lacking confidence in pensions and unsure about their income in retirement, that might form a focus for government initiatives to engage and inform self-employed people about pensions.

Options for government to increase the flow of information include mailshots of leaflets or other promotional material. Co-ordination between the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC) to bring together information about pensions and tax credits respectively would perhaps reduce possible confusion or overload.

Given that there was interest among the study group in the 'money pages' of the national and local press, there appears to be scope for working with financial journalists to generate more coverage of pensions issues. It might also be worthwhile investigating the usefulness of working with professional and trade journals to promote more targeted information for self-employed people working in specific occupations.

There is some, though not powerful, evidence from this study that some people take notice of television and radio programmes that present items about pensions. It is not possible to conclude from this that these media are effective or ineffective as channels of information. It is not known, for example how much coverage pensions actually receive or how often people see or listen to specialised financial programmes. However, television and radio will always be ways of providing information and advice to a potentially large audience.

Another way of getting information about pensions to self-employed people might be through a trusted third party. The amount of trust in accountants among the study was interesting and prompts the idea that accountants might be encouraged to act at least as conduits for official information (i.e. information produced by DWP and HMRC). From the evidence of this study it seems improbable that many accountants would want to go further than this and act in an advisory capacity (though some might). However, if a trusted accountant was the source of information then some self-employed people might take more note or interest in pension provision.

It is difficult to assess the importance of the lack of trust that some people in our sample expressed about government in general and DWP specifically. Government sources are only one of a number of sources of information and advice. It might therefore be less important to persuade people of the *bona fides* of government and DWP than to ensure that multiple sources of high-quality advice are encouraged and supported.

Providing general information about pensions will be an effective activity only if it influences people's behaviour in some way. This might be to review current savings portfolios, start the process of buying a new financial product (or increasing existing contributions), or seek out more personalised help and advice. However, in practice

(as we have seen in Chapter 3) it was more usual that information on pensions produced none of these effects. One of the explanations offered for this was that general information, though of some interest, was often difficult to relate to people's individual circumstances. There is therefore a possible role for government in promoting the use of sources of *personal* financial information and advice.

Promoting the use of sources of financial information and advice

As we have seen in Chapter 4, many people in the study were confident or generally confident that their income in retirement would be adequate for how they wanted to spend their retirement years. It was not possible within the design of this project to make any assessments of whether this confidence was justified or not, but such people are probably not of immediate policy concern.

Of more concern are the people who were worried about their pension provision or did not know what they might eventually receive. In the research interviews there was a distinction between the desire for **information** and the desire for **advice**. Many people seemed to want just information (i.e. in the sense of descriptions of savings products with projections of their likely payments) but some also expressed a desire for advice about what decisions to make. From the experiences of the study group it appeared that some individuals and organisations in the financial sector were prepared to offer information but to stop short of advising people what to do. Hence, it is possible to suggest that facilitating the bringing together of self-employed people with services providing personal assessment and advice might be to their advantage.

If government wanted to respond to the expressed need for advice in addition to information, therefore, this could be done in different ways. For example, information leaflets could encourage the use of services provided by independent financial advisers. Not everyone in this study had trust in such advisers however because they were perceived to be biased towards pushing financial products for which they would receive a commission. Some were more trusting of government sources because they were perceived to have no financial interest in any information given. Some consideration might be given therefore to the notion of DWP and/or HMRC offering an advice function to self-employed people. This could be limited to some sort of 'health check', in which the adequacy of pension contributions and projected payments would be discussed, rather than making recommendations about which products to buy. From the evidence of this study, such a service could be useful for some self-employed people. One source of information and advice that was not mentioned by the people in this study was the Financial Services Authority (FSA), which provides, for example comparisons between financial products and advice on financial planning.²¹ Although it is not possible to generalise from a small qualitative sample, findings do suggest that knowledge of the FSA is likely to be very limited

²¹ See, for example, the FSA website at <http://www.fsa.gov.uk>.

among self-employed people. It is possible that a neutral organisation such as the FSA (i.e. not involved in selling or promoting particular financial products) might be attractive to people who are sceptical or mistrusting of other sources of information and advice. There is a case, therefore, for greater publicity and promotion of the FSA from itself and from government more widely.

Some people in the study group were not particularly proactive in seeking advice even when they recognised that this might be useful. This is perhaps not surprising given that working as self-employed is often very time-consuming beyond a traditional full-time 40-hour working week. To engage such people therefore, there might be a need for the proactive approach to come from someone from government or from the financial sector.

There is clearly no single strategy for getting pensions information to self-employed people effectively. People need information that is relevant to them at an appropriate time; otherwise there is the likelihood that information will be ignored. Targeting information through a variety of channels, and repeating the exercise occasionally will therefore increase the chances that people get the right information at the right time for them.

Addressing negative views of some pensions products

One of the principal means of providing for an income after retirement for self-employed people is a personal pension. Personal pensions have been promoted to self-employed people and incentives are in place through tax relief to encourage investment in them. However, for a range of reasons explained in Chapter 3, there is an element of distrust in personal pensions and in the financial services sector more generally.²²

One policy response, which is introduced by the Pensions Commission and developed further in the White Paper on pensions (DWP, 2006), is to offer ways of saving for a pension through a system of low-cost personal accounts that may offer an alternative to private pensions or other savings vehicles.

The issue of lack of confidence and trust in personal pensions is difficult to resolve. Personal pensions are by their nature inherently risky investments and, as discussed in Chapter 3, some self-employed people do not appreciate the implications of investing in them. There is perhaps little scope for convincing people about the reliability of personal pensions among those with deep-seated negative views about them.

²² This is an observation also made in the second report of the Pensions Commission (2005).

Increasing incentives to save

The principal incentive provided by government to encourage self-employed people to invest in personal pensions is the tax relief available. However, the Pensions Commission (2005) has recognised that '*...initiatives to stimulate personal pension saving have not worked*'. The findings from this study are similar. As explained in Chapter 3, detailed knowledge of the tax relief available was not much in evidence. Those that knew about it liked the idea of getting tax relief but no-one said that it influenced their decisions about saving or acted as an incentive to take out a personal pension.

There was evidence in this study that pensions saving varied throughout people's period of self-employment according to what could be afforded and, in many cases, increased as businesses became more successful or when expenditure (particularly on dependent children) decreased over time.

In principle, the effect of tax relief is to increase eventual pension payments by adding from the public purse to the contributions made by the individual. It is possible that such a reward is too far into the future to have much of an effect on most self-employed people more concerned with the immediate demands on their business.

Increasing knowledge about tax relief (through some of the mechanisms described above) might have some positive impact on the take up of personal pensions but it is difficult to assess the scale of any impact.

Making pensions saving compulsory

One of the issues dealt with by the Pensions Commission in its second report on pensions reform was compulsion. The Pensions Commission commented that '*...attitudes to compulsion are ambivalent*'. This would undoubtedly be reflected in the population of self-employed people.

In its recommendations, the Pensions Commission rejected the idea of compulsion in favour of employees being automatically enrolled into a National Pension Saving Scheme (NPSS) with the option to opt-out. They considered that this would overcome the barriers of inertia and high cost which deter voluntary private pension provision. This recommendation was further developed in the Pensions White Paper (DWP, 2006) through the proposal for a system of personal accounts.

Automatic enrolment was not extended to self-employed people though, as there are clearly practical difficulties with introducing automatic enrolment for this group, such as the uncertain, irregular or seasonal nature of income in many occupations (which make it difficult to presume a minimum contribution rate) as well as providing for a process for deducting contributions from income. Instead, the White Paper proposed that self-employed people should have the option to join a personal accounts system on a voluntary opt-in basis.

However, it was interesting that some people in the study group had used the flexibility not to pay regular contributions to their personal pension as a reason not to save, and regretted this decision.

5.3.2 Extending working life

The Pensions Commission identified that working beyond the current State Pension ages for men and women was one way in which people could provide a better income for themselves rather than relying solely on pension rights accrued up to that point. It was seen as a clear way of reducing pensioner poverty. In its second report (2005), the Commission discusses a series of existing and potential measures to facilitate employees working beyond pension age, including age discrimination legislation, deferment of the State Pension, incentives for employers to employ post-pension-age workers, greater occupational health provisions, and increasing training and education opportunities for older workers. It can be seen that apart from the opportunity to defer receipt of the state pension, these policy measures do not have direct relevance for self-employed people. This is not surprising perhaps since self-employed people do not face the same array of barriers to extended working as employees. In effect, the decision to stop working is mostly up to them, and as we have seen in Chapter 4, there were people in our study group who had already decided to work beyond State Pension age for a range of reasons or intended to do so. For some, the notion of a 'retirement age' was not particularly salient.

It is difficult to see how government policy could facilitate working beyond pension age for existing self-employed people or whether any such measures are needed.

A separate but related policy question is whether self-employment offers a worthwhile, sustainable way of working in later life that perhaps government could promote. Here the evidence from the study is inconclusive. In Chapters 2 and 4 we have presented data on how people move into self-employment, their experiences of working as self-employed, and their views about working up to and beyond the State Pension ages. What we find is a great deal of heterogeneity. For many people moving to self-employment after a period as an employee was a mainly positive experience, particularly when there was a degree of financial security provided, for example by existing or guaranteed occupational pensions, personal pensions, or redundancy payments. In contrast, some others had found the transition not so easy.

It is not possible from this or other studies to generalise about the pros and cons of self-employment *per se*. Some people we spoke to enjoyed a welcome degree of flexibility in their self-employed lives, and many working over State Pension age would not have extended working life without this flexibility. But for others, the nature of their business (such as retail outlets or seasonal trades) had the opposite effect of imposing constraints on how time was spent. Some people appeared to work very hard and very long hours and while this was a source of dissatisfaction for some, others did not raise any complaints. But it is hard to see here how government policy can intervene to make self-employed work more flexible or easier.

Where there is perhaps some scope is in helping people in the early stages of self-employment. It was not uncommon for people in the study to refer to difficult early years when set-up costs were being incurred and customer bases being established. From some people in the study this was a general area where they thought, retrospectively, that some financial help or relaxation of burdens would have been welcome. Also, if government wanted to promote self-employment in later life, connecting people with advice services such as Business Link could be beneficial.

5.4 Final reflections

This was a small qualitative study of the experiences and views of self-employed people about working and planning for retirement. Although it is never possible from qualitative samples to generalise to a wider population, there are valuable findings from the in-depth interviews that contribute to understanding about how self-employed people engage with the world of savings and pensions.

Clearly self-employment is a positive way of working for many people who need no particular input from government to ensure that they are adequately provided for whenever they choose to stop working. Others struggle. They do not derive large incomes from self-employment and, partly as a result, have made pension arrangements unlikely to provide a secure income after retirement. To some extent, they share the problems of low-wage employees.

The proposals of the Pensions Commission can be expected to have a positive impact on self-employed people as well as employees, but because of the voluntary nature of their participation in the proposed NPSS, there is always the danger that, for a variety of reasons, they do not take up the sort of opportunities that might benefit them when they retire. A possible way forward therefore is to ensure that such people are connected to networks of help and advice that are competent and trusted, and can offer individual assessments and advice to complement more general information provided through mass publicity or advertising campaigns.

Appendix A

Self-employment and retirement: research methods

A.1 Consultancy

At an early stage in development of this study, Rebecca Boden, Professor of Accounting at the University of Wales Institute, Cardiff, provided some consultancy to the research team. Professor Boden has worked directly with the Social Policy Research Unit on several previous studies of self-employment.

As background information for the research team, Professor Boden wrote a briefing paper about pensions and retirement savings for self-employed people. This explained the background to recent growth in the private sector financial industry, and the range of savings and investment products available to achieve 'retirement income'. The paper explained the differences in access to pension schemes for employees and self-employed people, and considerations for self-employed people who might have tangible or intangible business assets to fund retirement. Professor Boden explained the details of different kinds of pension schemes for self-employed people, the way in which they attract tax relief, the way in which the government regulates use of the funds, and simplifications in these rules, due to be introduced in April 2006.

Professor Boden gave a seminar in the research unit in September 2005, attended by members of the research team and the Department for Work and Pensions (DWP) research managers. Issues covered in her background paper were discussed and explored. The researchers were then well equipped to engage in full discussion with self-employed people about all the topics of interest in this study, some of which are complex and technical. As further practical support, Professor Boden wrote a single sheet of summary information, for the researchers to have at hand during the interviews, to remind themselves of key issues in respect of different pensions and savings products.

This initial consultancy was a useful component of the overall study.

A.2 Drawing a sample

In designing the research study the aim was to recruit self-employed people across different age groups from 40 years upwards, focusing particularly on people approaching state retirement age, and people known to be working as self-employed beyond retirement age. The researchers hoped that identifying people in this way would provide opportunity to understand how people viewed retirement at different stages in their working lives, and the plans and decisions they made, accordingly. The researchers hoped also that talking to people at these different life stages would provide insights into levels of understanding and awareness of different savings and financial products, including pensions, as these became especially salient towards the end of working lives. There was particular policy interest in people who were continuing self-employed work beyond the age at which they might have drawn their state pension.

The aim was to recruit equal numbers of men and women up to age 64 years, and a small group of men working beyond 65 years. Policy makers were primarily interested in people whose earnings came primarily from self-employment, in low- and middle-income groups. This study was not designed to include self-employed people with high earnings, nor people whose self-employment provided secondary earnings.

A further aim was to recruit people from a range of occupations, and different kinds of self-employment (for example, business partners, sole traders, franchisees and agents). The researchers decided that recruiting people from two local areas, North Yorkshire and Outer London, was likely to provide such a range of activities. North Yorkshire has rural and coastal areas in which people work in agriculture and fishing, as well as city and market town environments where there is a range of trade and professional self-employment. There is also a well-developed market for provision of care services, and a thriving tourist industry, which provides opportunities for different kinds of self-employment. Outer London might be expected to provide recruits working in financial services and construction, and in both areas the researchers expected to recruit people working in transport, small manufacturing, distribution, hotels, catering and repairs, and other services. It was thus likely that people would be recruited from all the main industrial sectors.

Previous experience of research with self-employed people suggested that a relatively high level of non-contact and non-response would be likely. Self-employed people are often away from home, and prioritise their time in terms of work and/or family life. Some refusals might also be expected on the grounds that investments and savings were private matters. The researchers thus aimed to draw a relatively large sample, in order to achieve a study group of 40 people.

With agreement for data sharing between Her Majesty's Revenue and Customs (HMRC) and DWP, the self-assessment records of self-employed people were used for a database for drawing a sample. The main selection criteria were location (using postcodes for North Yorkshire and Outer London); gender; age; and an indicator of

annual income. Income was calculated as the sum of profits and losses across all sources of sole trade and partner profit/loss, excluding people who also receive earnings as an employee. Income was indicated in three groupings:

A £5,000 – <£10,000

B £10,000 – <£20,000

C £20,000 – £30,000

DWP and HMRC were responsible for drawing the sample shown in Table A.1.

Table A.1 Sample of self-employed people, selected from HMRC self-assessment records

Age	Profits indicator			
	A	B	C	All
Men in North Yorkshire				
40-49	54	69	18	141
50-54	42	61	29	132
55-59	16	28	13	57
60-64	16	20	3	39
65-70	40	39	5	84
All	168	217	68	453
Men in London				
40-49	41	72	45	158
50-54	37	62	31	130
55-59	21	38	14	73
60-64	15	31	11	57
65-70	46	40	15	101
All	160	243	116	519
Women in North Yorkshire				
40-49	27	30	12	69
50-54	20	24	15	59
55-59	31	11	4	46
60-64	22	12	11	45
All	100	77	42	219
Women in London				
40-49	31	25	9	65
50-54	22	26	10	58
55-59	26	30	7	63
60-64	26	20	1	47
All	105	101	27	233

A.3 Recruiting participants

There were three waves of fieldwork. A small pilot study comprising three interviews was conducted in November 2005 to test the approach to recruitment and the suitability of the topic guide. The main fieldwork was arranged in two waves in late 2005 and early 2006 (to fit around the Christmas/New Year period). For the pilot and each wave, the researchers sent a letter explaining the research and offering ways for people to indicate that they did not want to take part (copy at Appendix B). The researchers sent a total of 502 letters of explanation. One hundred and thirty-six people got in touch to say they did not want a researcher to contact them, and two letters were returned. A small number of people contacted the research team at this stage to express interest in taking part, and most of these were included in the final study group.

Two weeks after letters had been sent, the researchers began to get in touch by telephone with people who wanted to take part, and those who had not so far opted out of the research. Using the sampling criteria information supplied (location, age, gender, and income group) the researchers selected and invited people to take part in a research interview, at a time and place convenient to them. Appointments made were confirmed by letter.

Some people in the sample proved hard to contact. Some were reported by other household members to be out at work or away and repeated calls were unsuccessful. Increasingly, people use an answer phone for incoming calls asking for the name of the caller and a return number, but this raises confidentiality issues in research. The researcher has no control over who takes such answer phone messages, and our practice is not to respond to such answer phone requests.

There are also issues of confidentiality when domestic partners answer the telephone and expect to be told who is calling and why. Each of the latter situations was dealt with as seemed appropriate to the individual researchers, but this situation led to some domestic partners declining on behalf of the person invited. Among potential respondents who were contacted personally by telephone, not everybody wanted to take part. Reasons for declining included never taking part in research, not being self-employed, not remembering any invitation letter, being too busy or engaged on family matters (and dogs!), not wanting to spend personal time, not wanting to talk about bad experiences with pensions, issues of privacy and, for one person, concerns about having sufficient English language. There were also a number of other situations in which contacts were made which did not lead to appointments. For example, some potential respondents kept asking the researcher to try them again, but did not commit themselves to appointments, or people answering the telephone reported the relevant person no longer at that address.

The overall picture of response and recruitment is shown in Table A.2.

Table A.2 Overall response and recruitment

Invitation letters sent	502
Letter returned by the post office	2
People declining to take part	134
366 people remaining:	
Contacts achieved	88
Refusals by the self-employed person	31
Domestic partners intervened and declined	4
Appointments not made for other reasons	13
Interviews achieved	40

Recruitment was generally harder in London than in North Yorkshire, and harder among men than among women.

A.4 Conducting the research interviews

The research team designed a topic guide of key questions and areas for exploration, based on the aims of the study (Appendix C). The main areas for enquiry were:

- working as self-employed, and fit with personal circumstances;
- views on retirement, and expectations of and plans for retiring from paid work;
- expectations about income after State Pension age;
- reflections about financial plans for the end of working life.

The topic guide was tested in the three pilot interviews, and was generally found satisfactory. A few small adjustments were made for the main fieldwork.

Most interviews took place in respondents' homes; a few on respondents' working premises. In some interviews, respondents invited domestic partners to listen and take part, particularly when they were also business partners.

After explaining the aim of the research and what topics would be explored, the researchers discussed how the interview was confidential and how findings would be reported. People were asked to sign a formal consent form (Appendix D) to indicate agreement to take part. People received a money gift of £20 in recognition of their time and help. The researchers explained the use of a tape recorder for the interview and sought permission to record interviews in this way. One person was not expecting a tape recorder and preferred the researcher to make hand written notes during the interview.

Interviews generally lasted around one hour. Researchers gave people who were interested copies of the 40-page public information leaflet 'Pensions for the self-employed: your guide' September 2005, issued by The Pension Service.

A.5 Data analysis

Following the interviews, tape recordings were transcribed professionally (one recording found hard to hear by the transcriber was dealt with by the researcher involved). The data was analysed systematically and transparently, using the Framework model originally developed by the National Centre for Social Research (Ritchie and Spencer, 1994).

A thematic framework was developed for classification and summary of the data from interviews according to themes emerging. This approach meant that the analysis was grounded in respondents’ own accounts, at the same time enabling analysis to address key policy interest and issues. The building of data extraction charts enabled data interrogation and comparison both between cases and within each case, and the researchers used this data extraction to build descriptions and search for explanations.

A.6 Characteristics of participants

A.6.1 Age and income

Targets for selecting the study group were explained in Section A.2. Nineteen men and 21 women took part in the study. Table A.3 shows the age groups, and income groups to which the participants belonged.

Table A.3 Age and income groups of participants

Age	Income group		
	A	B	C
	£5,000 – <£10,000	£10,000 – <£20,000	£20,000 – £30,000
40-49 years	3	4	2
50-54 years	3	3	3
55-64 years	7	4	4
65+ years (men)	3	3	1

A.6.2 Occupational groups

Description of this small group of people within standard industrial and occupational groupings as used for the Census and Labour Force Survey is not useful for purposes of this report. Such groupings are too general and would not provide readers with a helpful overview of the kinds of activities on which people were engaged. One way of providing a picture of the self-employed work being undertaken among participants might be to make a simple list of all participants and their occupations. This would compromise people’s anonymity, however, as some of those who took part were engaged on relatively specialist or less usual activities.

We have thus chosen to provide a general overview of occupational and trade groupings in this study by adapting the Trade Classification Number variables already attributed to participants in the HMRC self-assessment database from which the sample was drawn. For the purposes of tax and National Insurance administration by HMRC, occupational groups are brought together and numbered under trade classifications. Building on this list, we have combined some of the numbered groups which are closely related (for example, various different kinds of farming) to produce a picture of activities useful for this report. This is presented in Table A.4 which shows the main trade and occupational groupings of participants. At least four people had a second and completely different stream of self-employed work, for example selling items made at home or providing services for a small number of clients retained from previous professional careers. Where people were engaged on more than one activity, we describe their main occupation as that which provided most of their earnings for them.

Table A.4 Main trade or occupational grouping of participants

	Men	Women
Farming	1	2
Fishing	1	-
Machinery repairs	1	-
Textile working	-	1
Food manufacturing	1	-
Building craft trades	2	-
Hotels and catering	-	2
Shops, retail outlets, garages	4	2
Vehicle driving and hire	3	-
Architecture and accounting	1	1
Business services/support, research	4	4
Health and care services	-	4
Television and radio	-	4
Personal services not elsewhere	1	1

Table A4 shows that the study group included a spread of self-employed occupational groupings. The number of women working in television and radio (all of whom lived in Outer London) is interesting, and may be related to the London location chosen for sampling. The fact that the study group included relatively few men working in manual construction work may be related to the age profile of the study group. Some men who were engaged in building and construction work were among those who declined to take part in the research.

A.6.3 Forms of self-employment

Self-employment is extremely heterogeneous, and there is no satisfactory standard classification of different types of self-employed work. There is a wide spectrum of forms of organisation of work. At one end we might put the traditional small-business owner, sometimes working in partnership with others, and with employees. Such people at the other end might be people whose circumstances of working are very little different from those of employees, for example some sub-contracted people working for a single employer or organisation. Along the spectrum are other arrangements such as franchising: a particular relationship between larger firms and self-employed people; and co-operatives. Some people are identified by themselves or those for whom they work as freelance or agency workers, terms which cover a range of relationships between workers and those who pay them, including fees for contracts, fees for services, hourly or daily rates. Other terms used to describe ways of working include sole trading or working on own account, and home-working. There is overlap between all such terms such that a person working, for example as a plumber, might say that she ran her own business, but also took some sub-contracted work, and reported her financial affairs to HMRC as a sole trader.

Most of these different ways of working as self-employed were represented in this study group. There were a number of small businesses including shops, garages, hotels, farms, small factories, and personal and professional services. Partnerships were well represented among the businesses, including equal partnerships between spouses or between parent and son or daughter; equal partnerships between three family members, and partnerships between non-relatives, in some of which other partners had a junior status.

There were two franchises, one owned by a sole trader with four employees, and one a joint partnership between husband and wife.

There was strong representation in this study of people who said they worked on their own account or on a freelance basis. Most were offering professional, and sometimes highly specialist services in broadcasting, design, research and training.

One person always worked as a sub-contractor for building firms and some others sometimes took sub-contracted work to help maintain earnings or to maintain market contacts. The group also included a share fisherman, fishing off the North East coast. (Share fishing is a particular form of self-employment, in which fishermen pay National Insurance contributions at special rates which count towards contribution-based Jobseeker's Allowance, unlike other Class 2 contributions.)

A.6.4 Household circumstances and health

Most of the people in this group lived with their husband or wife. Three women lived alone one of whom was widowed, and another lived with her school-age child. Seven other families included dependant children. Five self-employed people had adult children in their household.

At the time of the research interviews, three of the women who took part in the research said their day-to-day lives were currently affected by health conditions. Two said they had long-term musculo-skeletal conditions which involved some pain and mobility effects for them, and one had a life-long condition requiring continuous medication, which meant periods of fatigue and inactivity. Two women said they were affected by the health of family members. One said that her husband was particularly vulnerable to stress and another said that her adult child, who was also her business partner, had a serious health condition with major impact on the family generally.

Among the men, one of those in the 50-54 year age group said he developed a serious health condition a few years ago, which had a major impact on his day-to-day activities. A slightly older man had also developed serious illness, currently requiring continuous medication and management, and one of the oldest men in the group had a condition which affected his mobility and energy. Other men reported conditions linked with the wear and tear of getting older, while one of the younger men was recovering from an accident at work and another said that he was aware of raised blood pressure which was affected by stress.

Four self-employed men reported health problems within their family. Two of the men aged 65 years and older said that their wives were seriously ill. Two younger men said that their wives had major responsibilities for the care of frail, elderly parents living close by, and received formal carers' allowances.

Appendix B

Approach letter

Social Policy Research Unit
The University of York
Heslington
York YO10 5DD

DATE

Dear

I am writing to ask for your help with some important research commissioned by the Department for Work and Pensions (DWP) to explore self-employed people's experiences of working and planning for retirement. The research will help government understand more about decisions self-employed people make about working and about saving for retirement, and will give you an opportunity to voice your views.

The research is being carried out by the Social Policy Research Unit (SPRU) at the University of York, which is an independent research organisation not connected with the DWP. **Your answers will be treated in strict confidence in accordance with the Data Protection Act.** No information that could identify you will be passed onto the Department or anyone else.

Your name has been randomly selected from records held by Her Majesty's Revenue and Customs (HMRC). A researcher from SPRU may be in touch in the next week or so to see if you would like to take part in an interview and to answer any questions you might have. They will also talk to you about a suitable time to meet for an interview and discuss any requirements you may have which will make it easier for you to take part. The interview would last about 60 minutes. Everyone who is interviewed will be given £20 as a small token of thanks for their help.

I hope that you do decide to take part in the study. If you do not wish to take part, please let us know by Friday 28 October. You can either use the reply slip at the end of this letter and the pre-paid envelope or telephone Sally Pulleyn on 01904 321951. If you would like to know more about the research, you can call the person responsible for commissioning the research at DWP, Claire Murphy, on 0207 712 2516.

Please be assured that your involvement is completely voluntary and will not affect any dealings you have with any government department or agency, either now or in the future. I hope you will be able to take part in this important study and enjoy talking to the researcher.

Yours sincerely

Dr Roy Sainsbury
Social Policy Research Unit (University of York)

IF YOU REQUIRE THIS INFORMATION IN LARGER PRINT, ON AUDIO TAPE, IN BRAILLE OR IN ANOTHER FORMAT PLEASE CONTACT SALLY PULLEYN ON 01904 321951.

Appendix C

Topic guide

Self-employment and Pensions Topic Guide

Interviewer's introduction

Introduce self. Explain that this research is funded by DWP, but SPRU is an independent organisation.

Explain that we are interested in finding out how you, as a self-employed person, are thinking about retirement, and whether you have made any plans, in particular any financial plans. Findings from the study will be useful to DWP in developing their policies and services on saving for retirement.

Explain the issues to be covered:

- how they have come to be in self-employment (including how it fits in with personal circumstances);
- their thinking about retirement and working;
- financial planning and savings for retirement;
- past and future financial planning.

Interview will last around one hour or so, and will be in the form of a discussion.

Ask for permission to use tape-recorder.

Explain use of transcripts, confidentiality and how the material will be used. Explain discussion will have no effect on any benefits or dealing with Jobcentre Plus, DWP etc. Answer any questions or concerns

Check informed consent.

Give incentive payment.

1. Working as self-employed

This section aims to provide individual contexts, including personal circumstances (age, education, employment history, family and household responsibilities and health) and the nature and history of self-employed work and partner's labour market participation. This will enable us to understand more about the relationship between self employed people's feelings, perceptions and behaviour surrounding retirement and individual experiences of work, life cycle stages and personal circumstances.

Q. Could we start by telling me about your self-employment, and how you came to be doing it.

- Route, chronology.
- Type of work, occupation, skills.
- Organisational structure (business, sole trader, agency worker).
- Place of work; hours (is this seasonal?).
- Periods as employee; unemployed; inactive; other self-employment.
- If moved from employment to self-employment, why the move?

Q. Can I just ask who lives with you?

- What does your partner do?
 - Partner's past employment/non employment.
 - Nature of partner's employment – self-employed/employee/employee in their business?
- Who is the main earner in the household – respondent or partner?
- What do other adults in household do?
- Do they have responsibility for any children?

Q. Has your health over the years influenced your becoming self-employed, or the way you work now?

Q. So, having now been self-employed for xx years, what would you say are the (dis)advantages of the way you work?

- Nature of work, hours, place, job satisfaction.
- Job security, control.
- Income and living standards.
- Suitability for health condition, family circumstances, other responsibilities.
- Comparisons: working as employee, different life stages, different stages in building business.
- Match with expectations.

Q. Some people say self-employment means flexibility in working. What do you think?

- Meaning of flexibility.
- Influence on decisions/choices.
- Experience.

2. Retirement

This section aims to explore self-employed people's feelings about, expectations and plans for retirement, in particular in relation to extending working life.

We have talked about your work, now could we turn to talking about retirement.

Q. Do you think about retirement much?

- When they expect to retire.
- What they expect to be doing.
- Do they talk about it with their partner?

If not, probe for reasons:

- Uncertainty, fear.
- Lack of knowledge.
- Too young.

Q. Some people go on working after State Pension age, what about you? (NB adjust wording for respondents over pension age)

- Do/did they expect to work and why?
- What/who influenced their thinking? (including financial situation)

Q. Have you made any definite plans about moving from work to retirement?

- Will they gradually wind down their work/stop suddenly/go on working? Probe fully for reasons.
- How does your being self-employed/move to employment fit into these plans?
- How do your partner's plans fit in?
- Influences on plans (including financial situation).
- Any change in plans, when did these take place, what/who influenced this?
- Future trigger points for action.

Q. How will your health influence your plans for retirement?

- Expectations of how health will develop.
- How does this affect retirement hopes and expectations.
- Influences of health of partner and other family members.

Q. Thinking about your plans for moving from work to retirement, how will your income change? Probe for changes in household income/partner's income

- Sources.
- Levels (relative or amounts).

(NB interviewer instruction: make note of expected sources of retirement income)

3. Financial planning and savings before retirement

This section aims to understand more about the behaviour of self employed people in relation to financial planning and savings towards retirement.

Now we have talked about your expectations for your income in retirement, could we talk more about your financial planning.

Q. Looking back over your life could you tell me what your general approach to savings has been? Have you put money aside?

- Reasons for saving/not saving.
- Changes in savings and reasons.
- Long term versus short term savings patterns.

Q. What kind of financial advice and support have you had?

- Who gave each type of advice/support.
- Stage(s) at which advice/support was given.
- Business advice (accountant, small business organisations).
- Financial assistance for business (including small business set up; PRIME).

Q. Do you think specifically about saving towards retirement?

- When did you start/expect to start thinking about this.
- What triggered/will trigger you starting to think about this.
- What would need to happen before you started thinking about this?
- Do you think of pensions as savings?

Q. Some people have to take into account debts when thinking about saving, do you?

- Kind of debts.
- Extent of debts.
- How do they impact on saving for retirement.

Q. You told me about the sources of income you (and your partner) expect to have in retirement. Can we talk about these in more detail, and then some that you did not mention?
(Ask about those mentioned FIRST. Then ask about those not mentioned, whether considered, and views)

State pension (NB some people will already be entitled)

- Do/did you know how much you will/would get from the state?
- Do/did you know you can/could defer your pension?
 - Reasons for and against; intentions/decisions.
- Do you know the differences in state pensions for self-employed people and employees?
 - Decisions; influences.

Business assets

- How will your business assets provide retirement income? What will you actually do?
- Information and advice needed, sought.
- Do you think of using business assets in this way as a form of pension?

Personal pensions

- How do you make contributions?
 - Payment method; frequency; suitability; convenience.
- What influenced you in choosing this scheme?
- How easy is it to keep up payments (use of earnings, savings?)
- How will you receive money?
 - expectations of lump sums; annuities
 - views about this
- do you understand how there is tax relief for personal pensions?
- are personal pensions a good way of saving for retirement?
- What would make a personal pension more attractive or affordable for you?

Other sources of retirement income**NB ask as appropriate about**

- Endowment policies
- Savings products (ISA, TESSA, bonds, insurance, equities)
- Occupational pension (from employment)
 - Do you know how much retirement income this will provide?
 - What influenced you in saving in this way?
 - Is this a good way of saving for retirement?

Q. Have you thought about any other ways of providing yourself with an income when you retire, and decided against?

- Type of income, when considered, how did they find out about it
- What put them off?
- Working longer?

4. Past and future financial planning

This section aims to understand more about self employed people's expectations of their retirement income, the gaps in information, advice and planning and their attitude toward self-employment at the end of working life.

Q. We have now talked quite a bit about the financial plans you have made for retirement. So, thinking about the financial circumstances you have described, how do you feel about the income that will be available to you in retirement?

- Adequacy
- Where does working fit in (e.g. inadequate if didn't work beyond state retirement age)
- Satisfaction with plans: perceived gaps, missed opportunities, anxieties, things still to be done.
- What if it's less than expected? What would they do? Change their plans?

Q. Do you keep an eye on things (products, government policy)

Q. What about the information available to you about planning financially for retirement?

- What kind of information do/did they have?
- What would help/would have been helpful?
- Who else they might ask, and when. Who do they trust to provide impartial advice? The government?

Q. The government is thinking that self-employment can be helpful for some people towards the end of working life. What do you think?

Q. What more do you think the government can do about self-employed people and pensions?

Q. Have you anything else to add?

Appendix D

Consent form

THE UNIVERSITY *of York*

S | P | R | U
SOCIAL POLICY RESEARCH UNIT

Name and address

Study of self-employment and planning for retirement

Consent Form

I have received the letter of invitation from the Social Policy Research Unit and I understand the purpose of the research and what it involves. I understand that the information I give to the researchers will be treated in strict confidence according to the Data Protection Act. The research report will include my views, along with the views of other people, but I will not be identified. I understand that I can withdraw from the research at any time without giving a reason.

I agree to take part in an interview with a researcher **YES / NO**

Name

Signature

Date

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