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SELF-EMPLOYED PEOPLE AND NATIONAL INSURANCE CONTRIBUTIONS

Anne Corden

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SUMMARY

Chapter One: Introduction

There is thought to be considerable under-collection of Class 2 National Insurance Contributions (NICs) from self-employed people, arising from non-registration and debt. The Contributions Agency (CA) is committed to increasing compliance with the law regarding Class 2 NICs, and the Department of Social Security (DSS) has commissioned research to inform policy, from the Social Policy Research Unit.

The first stage was a literature review of the characteristics of self-employed people. Looking at what was already known about self-employed people provided useful insights into possible reasons for under-collection of Class 2 contributions.

The literature review (Boden et al., 1997) threw into sharp focus the gaps in current knowledge about perceptions, understanding and conceptualisation of National Insurance amongst self-employed people.

This qualitative study was commissioned to help to fill some of those gaps. The main aims of the study were to explore the views, decisions and behaviour of self-employed contributors concerning payment of Class 2 NICs and any associated arrears. Findings from the study will inform steps that the CA may take to encourage timely payment, promote more effectively direct debit arrangements, and reduce debt.

To achieve the proposed aim, the specific objectives of the study were:

- to explore knowledge and understanding of the Class 2 NICs scheme, including liabilities for payments, associated entitlements to contributory pensions and benefits, and views regarding participation in this scheme;
- to explore knowledge and understanding of the two current payment methods for Class 2 NICs, and any other payment scheme known about or experienced, and the perceived advantages and disadvantages of each;
- to explore reasons for choosing a particular method, and experience of paying Class 2 NICs by that method, in relation to business, financial or personal circumstances;
- to explore views about Class 2 debt, including knowledge of CA procedures and sanctions, and any experience of Class 2 arrears.

The research was conducted by means of a series of 38 depth interviews with people in four local areas. Tape recordings of the interviews were transcribed for analysis, which was handled manually.

Chapter Two: The personal and business characteristics of the Class 2 contributors

Response

It was necessary to contact 147 addresses in order to achieve 38 interviews. Problems in making contact with contributors were partly due to the long working hours of self-employed people. Addresses supplied by the CA were out of date in several cases. A relatively high rate of refusal among people invited to take part was associated with problems in finding time, for business or personal reasons. Some who refused were no longer self-employed, and thought the CA should already know this.

Personal circumstances

The study group was built to include contributors making Class 2 payments in response to quarterly bills; and by direct debit arrangements; and contributors who were dealt with by the Debt Collection Unit (DCU) of the CA, and the Civil Recovery Section (CRS).

There were 14 women in the group, and ages ranged from 21 to 66 years. People of minority ethnic groups were included. Twenty-nine people lived with a partner, and families included those with and without children. There was a wide range of personal and family circumstances.

The self-employed work

All the main Standard Occupational Groupings, except clerical work, were represented among the work done. There were 18 sole proprietors, and seven people traded in partnership. The group also included subcontracted workers, and people who worked on a 'freelance' or 'commission only' basis. Five people had additional work as employees; eight regularly employed other people and seven made work available to other self-employed people. Various lengths of self-employment were represented.

Earnings

Estimates of annual profit suggested that two self-employed people traded at a loss. Profits otherwise ranged to above £40,000, and more than one half of the group were probably also liable for Class 4 NICs.

Among those who lived with a domestic partner all except two of the couples were essentially dual earner households.

The study group was not representative in a statistical sense, but nothing suggests that it was atypical.

Chapter Three: Perceptions of National Insurance among self-employed people

Conceptualisations of NI

People found it hard to talk about the NI scheme without specific questions. Spontaneous conceptualisations that were offered were brief, but three themes were apparent:

- 'paying in' for returns;
- a form of tax;
- an imposed liability.

<i>Perceptions of obligations</i>	<p>In answer to specific questions, most people thought that payments of NICs were compulsory for those in work. It was not generally understood that low earners might be exempt from payment, and people who might have taken advantage of this facility wished they had known about it before.</p> <p>The names of 'Class 2' and 'Class 4' contributions were often not recognised, and the distinction between the different classes of self-employed contributions was not well understood.</p>
<i>Returns for contributions</i>	<p>People currently paying by bill generally knew how much was due, but there was less certainty among those paying by direct debit. Lower earners knew more accurately the amounts of Class 2 NICs due. There was some confusion among higher earners about the amounts due to the Inland Revenue (IR) in Class 4 contributions.</p> <p>Understanding of the links between NICs and entitlements was patchy. Among people under 50 years old there was little expectation of benefiting personally from a basic retirement pension. Strong links were perceived between NICs and NHS provision.</p>
<i>Private pension and insurance arrangements</i>	<p>There was a wide spectrum of views on and levels of financial investment in private pension and insurance schemes. People in their 30s and 40s, especially those with higher levels of formal education, believed that it was important to make private arrangements.</p>
Chapter Four: Methods of paying	<p>No particular personal or business characteristic distinguished the contributors in this study who paid by bill and those who had direct debit arrangements. Use of one or the other method depended on a number of factors including understanding, advice, perceptions of level of income and cash flow, schemes for managing business and personal monies, perception of debt and previous experiences of dealing with the CA as a self-employed contributor but also as an employer or a previous employee.</p>
<i>Understanding payment methods</i>	<p>Not everybody had a clear picture of the payment method in which they were participating. Some billed contributors with a long-term pattern of missing payments and arrears had lost touch with the periodicity of the scheme. Some people listed among direct debit contributors had also lost touch with the way their payments were made – they relied on other people to deal with them, or NICs represented such a small fraction of their income that they did not think about them.</p>
<i>Choices in payment methods</i>	<p>Choices made about payment methods were linked to aspects of control and financial management. For each method, both high and low earners, with regular and irregular income flows could see advantages, while constraints such as low household income or high overdrafts operated on each side.</p>

People who knew they received quarterly bills used this method:

- as a way of retaining the control needed in financial management of low incomes;
- as a way of managing cash flow in more profitable businesses with irregular income and outgoings;
- because of a lack of confidence in or suspicion about the banking system;
- because they chose not to use a bank, for reasons of expense or inconvenience;
- because an attempt to arrange direct debit had not gone smoothly;
- because of lack of understanding of the direct debit option.

People who had themselves chosen to pay by direct debit used this arrangement:

- for ease and convenience;
- to make sure payments were being made.

Accountants sometimes advised the direct debit scheme, especially to people who had already got into NI arrears and were trying to sort out financial problems. On the other hand, some accountants pointed out to financially astute clients the financial advantages of paying bills in arrears, with no interest charged.

Alternative payment methods

Among higher earners, especially customers who received bills and had a pattern of late payments, there was support for an annual bill. There was little interest in paying by debit card. One of the few people who was enthusiastic noted that he would certainly have used a debit card, but he doubted that this would have changed much his irregular payment pattern.

Suggestions for improvement in service

Across the whole group, the main suggestion for improvement of service was for more information on a regular basis. It would be useful to be told regularly about the links between NICs and entitlements, and the exemption for low earners. People said they had learned about these things too late, and there were examples where this was linked to non-payment.

Chapter Five: What encourages compliance with Class 2 NICs payments?

Individual people do not fit neatly into those who do and do not register with the CA, do and do not pay regularly, and do and do not get into debt. People may fall into all these categories at different stages in their working lives.

Registration Two main patterns of influence encouraged immediate registration:

- personal understanding of need for a contribution record in order to maintain entitlements;
- advice from a significant person or help in making arrangements.

Delays in registration Only one person deliberately delayed registration. Others who discovered that they should have registered earlier were shocked to find themselves with NI arrears.

Reasons for not registering immediately included:

- non-recognition of formal employment status and corresponding NI liabilities;
- not getting round to the task in a busy start-up period.

It could be specially hard for some people to recognise their liabilities when they arrived at the formal status of self-employment without experiencing a change in circumstances. People moving to subcontracted status did not always recognise that they should register themselves and start to make payments.

Triggers that alerted people to their status and their NICs obligations included enquiries by the CA, and discussions with accountants and advisers.

Maintaining regular Class 2 NICs A number of factors influenced the maintenance of a pattern of regular payments:

- feelings of obligation to comply with requirements, sometimes strengthened by personal philosophies;
- incentives, in terms of benefits expected in return;
- avoidances of penalties, including lack of access to benefits, and the shame of debt;
- interventions, such as advice or practical help;
- prioritisation of income, such that NICs were relatively high on a list of priorities;
- appropriate methods of collection of payments;
- knowledge and understanding.

For each person who maintained a regular payment pattern, the 'balance' of the different factors was different. Appropriate payment methods were helpful, although personal and business characteristics were also important.

Chapter Six: What leads to missing payments?

Factors leading to missing payments

Many factors lead to people missing Class 2 NICs payments including:

- financial constraints;
- financial choices;
- personal characteristics;
- transitional situations;
- receipt of wrong information;
- experience of procedural and administrative aspects;
- lack of commitment to the NI scheme;
- dissatisfaction with entitlements;
- views on indebtedness.

Some of these factors are associated with personal and business characteristics, where the CA can exert little influence. However, there are some opportunities for intervention by the CA, where information and communication might help people avoid missing NICs payments.

Regaining a regular payment pattern

Most people tried to restore a regular pattern after one or two missing payments. Those who failed to do this after initial approaches from the CA fell into four groups:

- those who were choosing not to;
- those with severe financial constraints;
- people who were no longer required to pay Class 2 NICs;
- people for whom there had been some problems of communication with the CA.

Dealing with Class 2 NICs debts

Those who had got into serious debt to the CA, and dealt with the CRS, generally had no specific complaints about the way they had been treated. Most were trying to repay what was owed, but some were currently in personal circumstances from which it would be hard to repay debts. Only one person was deliberately avoiding settling debts, a person in dispute with the CA about his employment status.

In general, factors that help people deal with debts to the CA included:

- considerate, understanding and helpful CA staff;
- time to pay, sensible negotiations, instalments;
- advice and support from accountants and business partners;
- skilled assistance in dealing with multiple debts;
- family support;
- stability of income, sometimes from a change in employment.

Findings from this study fill some of the gaps in knowledge about self-employed people with liabilities for Class 2 NICs. Findings may help to interpret and understand what influences compliance and non-compliance among the wider contributor base.

Beginning and ending self-employment

Problems arising at the beginning and ends of periods of self-employment, in respect of Class 2 NICs, included non-recognition of formal status, lack of understanding of NI liabilities and confusion in communicating with the CA. Such problems led to non-registration and missing payments.

There may be opportunities for initiatives by the CA to overcome some of these problems including new ways of notification of the 'end' of self-employment, and encouragement of firms with subcontracted workforces to pass information and explanations about Class 2 NICs.

General understanding about National Insurance

Gaps in understanding about the general NI scheme and Class 2 contributions and liabilities were not encouraging compliance in a number of ways, for example by reducing incentives to maintain contribution records.

The CA might seek ways of providing more information, in particular about entitlements and the Small Earnings Exception rules. Mail-outs to quarterly billed and direct debit customers might be one vehicle. Other routes that might be considered include accountants and bookkeepers, and financial officers in large firms and companies which offer work to self-employed people.

Payment methods

Disadvantages attached to the quarterly billing system include opportunities for some people to maximise incomes by allowing arrears to accumulate. However, some people who use the quarterly billing system would find it hard to maintain regular direct debit arrangements.

Options for encouraging compliance among billed customers might be considered, including rewards for quick payments, administrative charges for late payments, fixed financial penalties for late payments, or interest charges. All these options would, however, penalise some people who try hard to comply but face financial constraints.

There was no evidence that introduction of debit cards might encourage compliance among the people studied. However, this option might be explored further among a representative sample of contributors.

There was general satisfaction about 'service issues'. This generally positive image of the CA and its staff did act to encourage compliance and communication. The disadvantage was that a tolerant and benign image did nothing to discourage people who went to the limits of non-compliance, short of court appearance. The CA has a hard line to tread here, but there would be much to lose in moving away from the current positive image.

This report presents findings from qualitative research into the views, decisions and behaviour of self-employed people registered with the Contributions Agency in respect of their payment of Class 2 National Insurance Contributions (NICs) and any associated arrears. The study was conducted by the Social Policy Research Unit (SPRU) at the University of York, for the Department of Social Security (DSS) who commissioned the work on behalf of the Contributions Agency (CA). The work took place during summer 1997 after a preliminary literature review (Boden et al., 1997).

1.1 The policy context

1.1.1 *National Insurance liabilities*

Under current arrangements, self-employed people are normally liable for Class 2 NICs at a weekly flat rate (£6.15 in 1997-98). Class 2 contributions are payable to the CA, and count towards entitlement to the contributory benefits:

- basic Retirement Pension;
- Widow's Benefit;
- Incapacity Benefit;
- Maternity Allowance.

Class 2 contributions do not count towards Contributory Jobseeker's Allowance, Statutory Sick Pay or Statutory Maternity Pay.

Special rules and contribution rates apply to share fishermen.

In addition to Class 2 NICs, some self-employed people are required to pay earnings-related Class 4 contributions on a band of income within specified thresholds. For the year 1997-98 Class 4 NICs were payable at six per cent of all annual profits above £7,010 and below £24,180. Class 4 contributions are payable to the Inland Revenue along with income tax. They are not related directly to personal entitlement to benefits, being rather a means of collecting earnings-related contributions from self-employed people with higher earnings.

People with low earnings from self-employment are required to register with the CA, but may not have to pay Class 2 contributions, as those with annual net earnings from self-employment below £3,480 (1997-98) may be granted a Certificate of Exception under the Small Earnings Exception rules. They may, however, elect to pay voluntary Class 3 contributions, set at £6.05 per week (1997-98), to count towards basic Retirement Pension or

Widow's Benefit. People who are both employed and self-employed may have concurrent liabilities for Class 1 and Class 2 NICs, up to a 'ceiling' which is linked to the contribution rates in force for any given year.

1.1.2 Payment of Class 2 NICs

There is thought to be considerable under-collection of Class 2 NICs. National Insurance inspectors identified underpayments of £5.7 million in 1989-90 (NAO, 1991) but at that stage records did not show how much of this they were able to collect. There are no published official estimates of lost revenue. Estimates prepared by DSS for Brown (correspondence reported in Brown, 1994) suggested that in 1987-88 there were nearly 900,000 self-employed people not paying Class 2 NICs and not in touch with the Department. Brown herself (1994), using numbers of self-employed people in 1990 as reported in *Social Trends*, 1993 and numbers of contributors as reported in *Social Security Statistics*, 1992, estimated 856,000 self-employed non-contributors.

There are various reasons for concern. Those people not making contributions are breaking the law. What may seem to be to their short-term financial advantage, in comparison with their fellow citizens who comply with requirements, may actually be to their eventual disadvantage. Without an appropriate contributions record they will not have entitlement to contributory benefits they and/or their dependants may need in the future. Should they then claim income-related benefits, amounts of entitlement are likely to be lower than the benefits available in the contributory scheme.

Non-compliance also leads to problems for management of the National Insurance Fund. If self-employed people are not paying their dues, there is a shortfall in the Fund, requiring increases in the balance necessary from the Exchequer to meet the costs of benefits payable and administration. Claims for income-related benefits also have to be met from the Exchequer.

The DSS recognises two kinds of non-compliance:

- non-registration, whereby self-employed people do not appear on the CA register;
- debt, whereby registered self-employed contributors have missing payments, or build up arrears.

The CA is committed to increasing compliance with the law relating to NICs. A number of initiatives have been conducted at the local level in Agency field offices to identify self-employed people with contributions liabilities, and to conduct educational and promotional work with groups of self-employed people and their advisers. One of the 1996/97 targets set for the Agency was to identify 40,000 persons with Class 2 liability who had an immediate requirement to pay contributions.

At a national level, there have been developments in liaison with the Inland Revenue, including initiatives under the Joint Working Programme. A joint self-employment leaflet has been available nationally since April 1996. This leaflet, CWL1, is directed at people commencing self-employed work, or starting a business in a self-employed capacity, and deals with income tax, NICs and Value Added Tax (VAT). A joint notification form, CWF1, is linked with the joint leaflet, and has also been available since April 1996. This form is for notification of commencement of self-employment. On return to the CA, the form is copied to the Inland Revenue, and where appropriate, to Customs and Excise.

In addition to these information and education initiatives to encourage compliance, there have been developments in the central NICs system for collection of payments, with a view to making it easier for self-employed people to make regular payments and avoid accumulation of arrears. Compliance is likely to be encouraged by collection schemes which accommodate, as far as possible, the income flows of self-employed people.

Currently, there are two main ways in which self-employed people can pay Class 2 contributions to the CA: by direct debit each month, or in response to quarterly bills, both in arrears. Direct debit was introduced in April 1975, as an alternative to the original weekly 'stamp card'. Direct debit is the CA's preferred method of collection, which is actively promoted, for example by inclusion of information with quarterly bills. The payment method laid down in the legislation is quarterly billing, which was introduced in April 1993 to replace stamp cards. Both methods are administered using computerised systems, which allow missing contributions to be identified and investigated. In 1997, about 1.4 million self-employed contributors paid by quarterly bills and about 1.5 million by direct debit (which is not currently available to share fishermen). From February 1997 the same CA staff have been able to handle both quarterly bill and direct debit applications, which may be helpful to some contributors and encourage compliance.

Although there are only two official ways of paying Class 2 NICs, the annual CA Customer Satisfaction Surveys consistently show that many self-employed people, 21 per cent of those sampled in 1996 (Craig, 1997), believe that they pay by some other method, including annual payments or payments in arrears when contacted.

The CA is currently considering the possibility of allowing the use of debit cards as a third main payment method. The Inland Revenue has recently carried out a trial of the use of debit cards for non-arrear payments of income tax. From February 1997 contributors who are in arrears may be offered the option of payment with a debit card.

1.1.3 *Collection of arrears* A large amount of non-compliance among self-employed people is due to arrears of Class 2 contributions. In April, 1995 the CA set up a specialised Debt Collection Unit (DCU) to contact people on the quarterly billing system who have missing payments. Staff then negotiate payments or, in some cases, agree instalments towards reduction of arrears. The DCU makes contact with people as soon as they have two missing payments (amounting to around £150 after six months). If a satisfactory offer to settle the debt is not made or the arrears continue, the case is referred to the Civil Recovery Section (CRS) of the CA which may take further action through civil proceedings in the County Courts.

Most of the collections by direct debit are paid on request. In 1996 less than one per cent of payments, approximately 10,000 each month, were not met. In these situations, the refusal of payment from the contributor's bank results in the CA being notified of the non-payment by the Bankers' Automated Clearing Services (BACS). The refusals might occur, for example, if there was insufficient money in the contributor's account, if the account had been closed or the contributor had died, or if the direct debit authorisation had been withdrawn. Each case is investigated by Direct Debit Section with the aim of retaining the customer on direct debit payments. Where a customer who has cancelled their direct debit does not respond to enquiries they are transferred to quarterly billing, and any arrears are dealt with as outlined above. Those whose bank accounts have run down may be subject to charges by their bank, and different banks have different arrangements for management of direct debits to the CA. Where breakdown in a contributor's direct debit payments occurs regularly the CA may discuss with the customer whether this payment method does suit their requirements and they may decide to transfer to quarterly billing.

It is hoped that offering some contributors in arrears the option of paying the DCU by debit card will further enable collection of arrears.

1.2 The need for research There are likely to be a number of factors influencing the under-collection of Class 2 contributions. At the **structural level**, the overall design of the contributions scheme itself will have an effect, including the levels of payments due, the entitlements available to contributors, and the general relationships between this scheme and other systems of financial liability and support. At the **administrative level**, there will be important influences such as the CA procedures and practices, skills and efficiency of staff, design and distribution of information, and resources available for dealing with self-employed people. At the level of the **contributors**, their beliefs, attitudes and behaviour will be critical components of the level of collection that can be achieved.

At this stage, the DSS has chosen to focus initial research at the contributor level. In 1996, the DSS (on behalf of the CA) commissioned a literature review of the characteristics of self-employed people. By looking at what

was already known about self-employed people, in the context of National Insurance, it was hoped to gain some useful insights into whether, and to what extent, there are barriers to understanding or meeting NICs obligations, or purposeful avoidance of obligations. The literature review was conducted by SPRU and published in March 1997 (Boden *et al.*, 1997). The following section summarises the main issues arising.

1.2.1 Self-employed people: a literature review

Definitions of self-employment:

The legal definition of self-employment is couched in negative and circular phraseology, linked to the common law definition of the contract of service, and as such, leaves room for ambiguities and uncertainties. Much of what is known about self-employed people comes from a sociological perspective, underpinning a popular representation of self-employment as activity characterised by enterprise, autonomy, choice and challenge, but this image is actually far from the reality of many forms of work.

Much contextual information about the characteristics of self-employed people is provided by labour and household surveys, but it is important to remember that these take different approaches to defining self-employment.

The demographic characteristics of self-employed people:

The proportion of all those in employment who are self-employed increased considerably during the 1980s, and has fluctuated around 13 per cent since 1990. Most self-employed people are men who do full-time work, but half of self-employed women work part time. Self-employed workers are more likely to be married or co-habiting than are employees, and the age profile is older than that of the working population generally.

Men are more likely to have moved to self-employment from work as an employee, but women, from a period of economic inactivity. Around a quarter of all men have experienced self-employment at some time during their working life, but only nine per cent of women.

The kinds of work done by self-employed people:

Self-employed men are concentrated in three industrial sectors: construction; distribution, hotels and restaurants; and banking, finance and insurance. The industrial sectors in which women are concentrated are distribution, hotels and restaurants; banking finance and insurance; public administration, education and health, and other services.

Self-employed people tend to work longer hours, on average, than employees. There is a rather mixed picture of their educational qualifications, but it is clear that union membership is low.

The organisation of self-employed work:

There is no satisfactory classification of self-employed work. Rather, it may be seen as a spectrum. At one end stands the traditional small business owner; at the other end, those whose situation is more like that of employees (the so-called quasi-self-employed). In between are professionals, craft workers, family undertakings or 'ways of life', franchises and co-operatives.

Small business, in general, is characterised by high levels of uncertainty. Business transactions within franchises may be complex, and hard to demonstrate. The majority of people working at home are probably self-employed. Less than a third of self-employed people have formal employees; there is no statistical evidence about the use of non-employee labour (contract or homeworkers) by self-employed people. Many self-employed people draw heavily on labour from within the family, but it must not be assumed that this is 'irregular work'.

There may be two in a hundred self-employed people who also work as an employee, and one employee in a hundred may have a second job as a self-employed person.

Incomes and living standards of self-employed people:

There are a number of problems in measuring self-employed earnings, including:

- the definition of self-employment;
- under-reporting of income;
- differential response rates;
- time-lags;
- concepts of earnings and measurement of profit;
- use of 'drawings' as a proxy for profit;
- derivation of profit by different accountancy methods.

At the level of individual earnings, mean monthly net labour income of self-employed people in 1991 was greater than that of employees (but not for women, considered separately). However, there is wide variability of income, particularly for women.

Analysis of Inland Revenue data on gross individual earnings suggested three groups of self-employed people:

- those for whom self-employed earnings represent a secondary source;
- those for whom self-employed earnings represent the main source, but provide a low wage;
- those earning similar amounts as the average employee, and in some cases, higher amounts.

Average household expenditures of households with a self-employed head are greater than the expenditures of households with an employed head, although average household incomes are lower.

Self-employed men and women are more likely to live in owner-occupied accommodation.

The organisation of business and personal finances:

For many self-employed people, the main or only source of information about National Insurance matters is likely to be the CA itself. About half of all self-employed people may use the services of an accountant, but there is probably a low level of professional advice available about NI from accountants.

Little is known about the organisation of earnings from self-employment within personal budgeting strategies.

The proportion of self-employed people belonging to personal pension schemes is gradually increasing, but large numbers are currently making no arrangements.

Self-employment, by itself, does not increase the risk of problem debt. However, instability or fluctuation in income is a predisposing factor, and business failure seems to be an increasingly common trigger for mortgage arrears.

Attitudes and understanding of personal financial responsibilities:

Ambiguities and uncertainties about employment status may concentrate among people in transitional situations, homeworkers, labour-only subcontractors, women and the lowest paid. This may affect understanding of responsibilities within the NI system.

In general, self-employed people may have greater opportunity to evade state financial regulatory control than people working as employees. Published studies of evasion deal mostly with evasion of income tax. In terms of benefit fraud, some people with undeclared earnings do derive some income from self-employment, such as petty trading.

Social attitudes surveys suggest that there is not wide-scale attitudinal resistance among self-employed people to the idea of making regular contributions to state welfare.

Basic retirement pension makes an important contribution towards maintaining living standards of the current generation of pensioners who have had a history of self-employment. However, there appears to be low take-up of income-related benefits among self-employed people, as well as benefits during sickness and incapacity for work.

There is little information about self-employed people's perceptions of the benefits of maintaining an NI contribution record.

The authors of the review made a number of practical suggestions to help the Contributions Agency in its commitment to understand and tackle non-compliance among Class 2 contributors. Current national data sets might be interrogated in more useful ways. It might be useful to attempt to develop statistical estimates of the self-employed customer base, and the level of compliance among different groups.

The authors suggested that, at the contributor level, reasons for failure to register with the CA were likely to include failure to recognise liability, problems in achieving registration, and, for some people, disinclination. Reasons for falling into arrears with Class 2 NICs were likely to include problems of managing payments from self-employed incomes, problems of prioritising resources among people on low incomes, and, for some people, general disinclination to pay.

One of the main findings of the review was the extent of the gaps in knowledge about the perceptions, understanding and conceptualisation of National Insurance among self-employed people, all of which are likely to have a bearing on their readiness to comply. The study reported here was commissioned in order to fill some of these gaps.

1.3 Research aims and objectives

The main aim of this study was to explore the views, decisions and behaviour of self-employed contributors concerning payment of Class 2 NICs and any associated arrears. Findings from the study will inform steps that the CA may take to encourage timely payment, promote more effectively direct debit arrangements and reduce debt.

To achieve the proposed aim, the specific objectives of the study were:

- to explore knowledge and understanding of the Class 2 NICs scheme, including liabilities for payments, associated entitlements to contributory pensions and benefits, and views regarding participation in this scheme;
- to explore knowledge and understanding of the two current payment methods for Class 2 NICs, and any other payment scheme known about or experienced, and the perceived advantages and disadvantages of each;
- to explore reasons for choosing a particular payment method, and experience of paying Class 2 NICs by that method, in relation to business, financial or personal circumstances;
- to explore views about Class 2 debt, including knowledge of CA procedures and sanctions, and any experience of Class 2 arrears.

1.4 Research design and methods

A qualitative approach was appropriate for the exploration of the perceptions, views and experiences of Class 2 contributors. Self-employment is characterised by extreme heterogeneity, especially at the lower end of the income scale where we might expect people to face more constraints and problems in maintaining a contributions record. People come into self-employment at different stages of their lives, and through different routes, bringing with them different financial histories and expectations, all of which might be important in their approach to NICs compliance. The range of occupations and business organisation among self-employed people is considerable, as is the way in which monies are received and made available for personal expenditure. Some use professional services of accountants and solicitors to help them manage their regulatory and financial responsibilities. Some self-employed people have additional Class 1 liabilities, from a second source of income as an employee, and some have responsibilities for paying employers' NI contributions for employees.

In-depth interviews were the most appropriate way of collecting the information required, given such a wide range of characteristics and business circumstances, and the fact that the material to be collected was personal and individual. People drawn from the contributor base were invited to participate in the research, and the research team contacted those who had not declined.

1.4.1 Study group

The study group of 38 people was built to include some contributors with experience of each of the two main payment methods, some people who had missed payments and been involved in negotiations with the Debt Collection Unit (DCU), and some people whose arrears had reached serious levels, involving them in negotiations with the Civil Recovery Section (CRS). It was also considered important that the group included self-employed people from a range of occupations and industries, types of business organisation, lengths of self-employment, income levels and patterns of earnings. A further requirement was that people were included from a variety of personal circumstances, including age, ethnic origin, household type, tenure, education and qualifications.

The contributors interviewed were drawn from four areas in England and Scotland. Urban and rural locations were represented, including some inner city areas, town suburbs, outer estates, market towns, small villages and coastal areas. Appendix One presents full details of sampling and recruitment to the study group. This study group is not representative of the general population of Class 2 contributors in a statistical sense, but there is no reason to believe that the people are atypical.

1.4.2 Research interviews

The topic guide used to guide the discussion is at Appendix Three, and this instrument was tested in four pilot interviews, one in each area. A team of three experienced research interviewers conducted most of the fieldwork, keeping closely in touch with the researcher as they built up a study group reflecting the range of characteristics described above. The researcher herself conducted a pilot interview, and further interviews in two areas.

Most of the interviews took place at people's homes, which were sometimes also their place of work. For a few people, it was more convenient to talk to the interviewer at their work premises, where the interviewer had the opportunity to observe the scale of work done. One man did not wish his current contact address known but was prepared to take part in a short telephone interview.

Domestic partners were sometimes present during the discussions, and this was helpful where the self-employed person's partner was influential in decision-making about budgeting priorities, or when the partner took responsibility for the Class 2 contributions. Indeed, one contributor was only prepared to take part in the study if the interview was conducted entirely with his wife, as he declined to participate personally.

Most people participating in the research gave their permission for the discussions to be tape-recorded, and the recordings were transcribed for analysis. The tape-recorder was not used for the telephone interview, which was recorded in note form, as was one further discussion with an older person who was not comfortable about the tape-recorder. Most interviews lasted between one hour and an hour and a half. At the end of each interview, copies of the information leaflet CWL1 were offered, and these were received with interest.

1.4.3 Analysis

Analysis began with a reading of the transcripts and notes, and arrangement of material under key headings, reflecting the main topics for enquiry and additional themes emerging from the data. The data was handled manually, and the analysis was a process of sorting and comparison, making additional lists and charts, and cross-referencing. The material was considered in relation

to the issues expected to be important by policy-makers and issues that had emerged from the previous literature survey, and was examined for new items and emphases. The researcher sought recurrent themes, patterns, exceptions, links and explanations.

1.4.4 *Validity of material*

For many people it was a novel experience to be asked their views and opinions about National Insurance, and some found it hard to talk about contributions and liabilities. Interviewers often needed to use prompts and reminders. The researcher is confident, from examination of the transcripts, that this was done skilfully and that the material emerging does reflect people's own views.

No attempt was made to check the veracity of what respondents told the interviewers about the scale and profitability of their self-employed work, or level of earnings. There were often opportunities to observe the scale of business, when the contributor's home was also the place of work, or when interviews were conducted in small shops or workshops. For this study, the accuracy in income reporting was important mainly in the case of those who reported low earnings, who may or may not have been able to claim exemption from payment of Class 2 NICs. Observations of the scale of business and material living standards in the homes of those who reported current annual earnings of £3-4,000 or less led the interviewers and researcher to conclude that these earnings were reliably reported.

In common with all retrospective interviewing (Dex, 1991) the technique used was likely to result in some gaps in information, and some inaccurate historical data, for example about payment histories. Although what people told the researchers was unlikely to be 'the whole story' about their dealings with the CA, especially when payment histories stretched across many years and included several episodes of missing payments, the discussions highlight those parts of the contributors' experience which remained uppermost for them. It is these experiences which will influence their future dealings with the Agency, contribute to expectations and future attitudes, and colour the accounts they pass on to other self-employed people, which, we shall see later, can be powerful influences on those other potential contributors. It is also likely that those experiences which were recalled and described reflect experiences which were of special significance, and these may point to particular problems or particular circumstances which will be of interest to the CA in attempts to encourage compliance.

1.5 The framework of the report

Chapter Two begins with a summary of the response to the interviewers' approaches to invite people to participate and goes on to describe the main personal and business characteristics of the people in the study group. As anticipated, the group reflected the general heterogeneity of the self-employed population, and it is useful to have a general overview of the group of people studied. This helps to set the context for further exploration and analysis.

Chapter Three explores beliefs and feelings of people studied about the overall NI scheme, and their obligations and entitlements in respect of Class 2 contributions. Chapter Four describes how people made their Class 2 payments.

Chapters Five and Six are concerned with aspects of compliance and non-compliance, and discuss what encourages registration and regular payments, and what leads to missing payments and debt. Chapter Seven concludes the report with a general discussion of the key issues emerging from the findings.

2 THE CLASS 2 CONTRIBUTORS: PERSONAL AND BUSINESS CHARACTERISTICS

This chapter begins with a discussion of the response to invitations to participate in the study, and goes on to describe the main characteristics of the 38 people who took part. In this and following chapters, respondents' own spoken words are represented as quotations in italic script.

2.1 Response When findings from small-scale qualitative research of this kind are presented, discussion of response is often found in an appendix. The assumption is that such details are more technical, and the reader can choose whether to pursue them. In this study, the results of approaches made to contact people on the lists provided are themselves important findings for the CA, and may explain some of the problems in maintaining compliance. Thus a short account of the response to the study is presented in this first descriptive chapter.

Table 2.1 presents the overall picture of the different approaches made, the contacts achieved and the interviews achieved.

Table 2.1: Approaches made to contributors, contacts achieved and response

	Contributors				Total
	paying by quarterly bill	paying by direct debit	dealing with DCU	dealing with CRS	
Approaches by letter from DSS	183	165	230	236	814
Contributors who declined to participate	27	25	23	18	93
Names issued to researcher	156	140	207	218	721
Contact attempted	31	46	72	39	188
Contact made at address	27	29	56	35	147
of which:					
home visited but contributor not contacted	2	-	4	6	12
home telephoned but contributor not contacted	7	8	8	6	29
contributor not invited to participate	-	-	5	-	5
non-participation by contributor for other reasons	2	7	13	9	31
Contributor contacted and invited to participate	16	14	26	14	70
of whom:					
refused on contact	7	4	11	5	27
broke appointment	1	-	3	1	5
Interview achieved	8	10	12	8	38
% of those invited accepting	50%	71%	46%	57%	54%

Table 2.1 shows that fewer than ten per cent of contributors sent letters by the DSS responded by declining immediately. However, this 'opt-out' rate is probably not a good indicator of unwillingness to participate in the research. Some people probably just did not get round to contacting the DSS in the period allowed. Also, the researcher is not confident that all these letters reached the people to whom they were addressed, as we shall see below.

It was necessary to contact 147 addresses in order to achieve 38 interviews. This was due both to problems in making direct contact with contributors, and to refusals from people who were contacted and invited to take part.

At 41 addresses visited or telephoned, the interviewers never spoke to the contributor, although it appeared that the addresses were correct. Typically, the person concerned was reported by a relative to be '*at work*' or '*working away at the moment*', or telephone answering machines were running at home and there was no reply to messages left. Interviewers made several attempts at the same address before abandoning the approach. The numbers involved here give some indication of the problems involved in making contact with some self-employed people, and the extent to which they are not at home.

The five men who were contacted at home but not invited to take part included three men whose employment circumstances were already well represented in the study group. Interviews were not pursued with two other men for reasons of personal security.

Table 2.1 shows that a further 31 contacts were made at addresses given for contributors but no interviews were subsequently conducted. A small number of people did agree to meet the interviewer but could not offer appointments within the research timetable, due to holidays, or especially busy periods of work. Most of the 31, however, were reported by current residents at the address as no longer living there. Parents said that self-employed sons or daughters were now living in separate households. Previous domestic partners said that relationships had broken down and self-employed partners had moved out. People were reported to have 'gone abroad' or 'gone back' to a country of origin.

The CA will be interested in the extent to which contributors were apparently not living at the address listed. This was a particular problem with lists of people currently dealing with the DCU and CRS. Contributors on the lists of people currently without missing payments were more likely to be living at the addresses listed. If people are not receiving bills or correspondence because the CA does not have their current address, this may contribute to non-compliance, and the CA will want to consider these numbers in the light of their current procedures for contacting contributors and keeping address lists up to date.

As expected, there was a relatively high rate of refusal among people who were invited to take part. Among reasons given for refusal was being too busy at work. Some people said personal circumstances of ill health, relationship breakdown or family responsibilities made it difficult for them to find time. A few people were dissatisfied with or angry about dealings in respect of NICs, including some who were no longer self-employed and said that they were tired of explaining this to the CA.

As shown in Table 2.1, there were fewest direct refusals from contributors currently paying by direct debit without missing payments. Refusals on contact were highest among people dealing with the DCU, across the whole group.

Having discussed important findings about response in this study, the chapter goes on to describe the characteristics of those 38 people who did take part. We can expect personal characteristics such as age, health and family responsibilities to affect people's views about participation in a contributory insurance scheme. Similarly, earnings levels and the way in which work generates income will affect experience of paying NICs. It is therefore useful to have an overall picture of the people in the study group, to set the context for our exploration of their views, understanding and reported experiences. The next part of the chapter looks at personal and family characteristics; the final part describes their self-employed work and earnings. For purposes of description of the overall group, this chapter does refer to numbers of people in various sub-groups, but no statistical significance should be inferred.

2.2 Personal characteristics

The interviewees were successful in building a study group which included people with a range of personal and family characteristics. The personal characteristics which are presented are those reported at the time of the interview.

2.2.1 Gender, age and health

Women form a quarter of the general self-employed population. Although there are fewer women than men, percentage increase has been greater for women than men in recent years (Boden *et al.*, 1997). We also know from previous research on low-income families with self-employed earnings that women often play an important part in dealing both with household budgeting and financial aspects of self-employed businesses (Eardley and Corden, 1996a). There were 14 women among the 38 contributors in this study.

The youngest people in the group were men of 21 and 22 years, both of whom were construction workers. The oldest people were three men, approaching or just over state retirement age. Within this age range there were both men and women in their 30s, 40s, and 50s.

For individual people, aspects of their own health or disability, or their caring responsibilities for others, may affect attitudes to paying contributions or demands on personal budgets. Most of those interviewed said that they currently had good health themselves, the exceptions being the oldest men. Men in their 60s who had spent years in construction trades linked current severe joint problems and arthritis with the nature of their work. A man currently confined to bed and wheelchair linked the stroke he had recently suffered to stress and financial problems trying to maintain his non-profitable shop. One man who had passed official retirement age was still enjoying his work, but waiting for major heart surgery.

Among those who reported that their current health was good were people who had suffered a serious accident or period of serious illness in the past. We see in Chapter Six how ill health could lead to missing Class 2 payments.

People who reported that other household or family members had health problems included a woman whose husband, her business partner, had a long-term disabling skeletal condition, and a man whose adult disabled son sometimes needed financial support from his father.

2.2.2 Ethnicity The importance of self-employment for some minority ethnic groups in the UK is well known (Boden *et al.*, 1997). People in this study group were asked whether they thought of themselves as belonging to a particular ethnic group. Those who identified themselves in this way included Scots and Irish men and women, two women originally from Australia and New Zealand respectively, a Punjabi Sikh man, a Pakistani man, a woman of mixed Scots/Asian origin and a Chinese man.

2.2.3 Family and household structure Most self-employed people live with a domestic partner, and in this study group 29 people were married or cohabiting. Some of these families included dependent children, who ranged from a few months old to 16 years; older children still living at home; and student children who lived at home for part of the year. Nine contributors lived alone, including divorced men, men and women who had not been married, and a widower approaching retirement age. The group included a lone mother and a lone father, both of whom had two children under 11 years.

2.2.4 Tenure Housing costs are one of the main financial priorities for people, and their home is also the place of work for some self-employed people. The study group included private, local authority and housing association tenants; owner-occupiers with current mortgages (some in arrears); owner-occupiers with paid-up mortgages; and a young man lodging with grandparents.

A married man with a family house had additional accommodation for himself provided free for six months each year as part of his work abroad, and the highest earner in the group had a second owner-occupied home.

Homes that also served as the place of work included those of a dress designer, a child-minder, a foster-carer and a journalist. Several others traded from home and had no separate business address, including farmers and subcontracted workers.

In summary, there was a wide range of personal and family circumstances among the 38 contributors in the study group. Later chapters show how personal circumstances were linked to views about NICs and payment histories.

2.3 Contributors' self-employed work

2.3.1 Occupations

Understanding what is involved in the different kinds of self-employed work done by the contributors in this study, and the way in which their work was organised, is important. Related to this are issues such as patterns of income flow, financial organisation and profitability, which are all likely to influence compliance with paying contributions. This part of the chapter explains what the respondents were doing, the length of their self-employed undertakings, the forms of business organisation represented and how much money they were earning.

At the time of the interview, eight people said they were no longer self-employed, although they had been at an earlier stage in their life. A man of 66 years had just retired and was claiming basic Retirement Pension, and the man who had suffered a stroke two years ago had since been living on Income Support and Disability Living Allowance. A young married woman had not been self-employed since 1989, when she had her first baby, and had since been at home caring for her family. Five other people had left self-employment more recently, and currently had paid work as employees. Included here was a man who said he was a company director (technically, an employee of his company) who was in dispute with the CA about demands for arrears of Class 2 contributions. All those who were no longer self-employed were among those who had been selected because they had dealings with the DCU or CRS.

Table 2.2 shows the occupations of the contributors in their current self-employed work, or when they were last self-employed.

Table 2.2: Occupations of contributors in their current self-employed work, or when last self-employed*

Men	Women
farmers (2)	tea room manager
contract cleaning manager	project manager
travel agency manager	shop fitter
catering service manager	solicitor
security services manager	computer trainer
engineer	dress designer
musician	costume agency proprietor
journalist	book shop owner
carpenter/joiner (3)	encyclopaedia saleswoman
electrician	hairdresser
plumber	beauty therapist
blacksmith	alternative medicine practitioner
flooring installer	foster carer
piano tuner	childminder
personal bodyguard	
taxi drivers (2)	
antiques dealer	
tobacconist (2)	
post office/shop owner	

* one man believed himself to be an employee

The occupations represented are mostly self-explanatory. Among the more unusual occupations, the personal bodyguard worked abroad, protecting a family. The project manager organised shop and office fitments. The beauty therapist had a salon, at which a number of services were offered. The alternative medicine practitioner worked mainly in residential establishments, offering relaxation techniques, massage and aromatherapy. There were representatives in the group from all the main Standard Occupational Groupings (as used for the Census) with the exception of clerical work. In the general self-employed population clerical work is done by some 11 per cent of women. In this study group, several women had had previous periods of clerical work as an employee, and some of their self-employed occupations involved a certain amount of clerical work, for example preparation of sales returns, client records and training material.

Another way of describing self-employed work is in terms of industrial sector. There was representation in the study group of all industrial sectors except banking, finance and insurance. Some 16 per cent of self-employed people work in this sector (Boden et al., 1997) as did some 16 per cent of self-employed contributors surveyed in the CA Customer Satisfaction Survey 1996. We might speculate that people working within the financial regulation and insurance industries might be more inclined to meet their own financial regulatory obligations, and thus less likely to have been sampled among the DCU and CRS contributors. Non-representation of this industrial sector does not seem a major omission here.

2.3.2 Forms of self-employment

Self-employed work is organised in a variety of ways. Table 2.3 shows the forms of organisation of the self-employed work done by the contributors in this study.

Table 2.3: Forms of organisation of the work done

Sole proprietors	18
Trading in partnership	7
Sole proprietor/subcontracted workers	4
Subcontracted workers	3
'Freelance'	3
'Commission only'	1
'Taxi-share'	1
Company director*	1

*an employee of his company

Probably the most familiar form of self-employment is the small business, and most self-employed people working in small businesses are sole proprietors, also known as sole traders. They carry sole responsibility for decision-making and some may have scope for determining business activity, cash flow or profitability. They may take earnings according to profit or loss, in ways that they decide. Eighteen of the 38 people shown in this study were sole proprietors, and examples included the dress designer and the plumber. People such as the piano tuner and the bodyguard, while not fitting directly into popular concepts of a 'businessman', were also technically sole traders.

Some self-employed people trade in partnerships, sharing the work, profits and risks according to the individual partnership arrangements. Each partner is separately responsible for their own Class 2 contributions on the share of profits allocated to them. However, practical aspects of management of payments may fall mainly to one business partner, typically that partner who tends to deal with the paperwork, who may also be a domestic partner (Eardley and Corden, 1996a). In this study seven contributors traded in partnership. A variety of partnership arrangements were represented including partnerships between spouses. For example, one of the oldest men ran a small tobacconist/confectionery shop in partnership with his wife; the antiques business belonged to both spouses. The group also included men in partnerships with a brother and an unrelated business colleague, respectively. The solicitor worked in a large law firm with more than 100 partners.

The study group also included people who said that they had previously been in partnership with another person, but recently had severed the business relationship to continue trading on their own. As we shall see in Chapter Six, this was a change of business circumstances which could lead to missing

Class 2 payments. We must include with this group the man who reported that he was currently in dispute with the CA about his employment status. He said he was the director of a limited company.

The organisational structures within which subcontracted people work can be quite different from those for people working on their own account. In terms of autonomy, control and independence, their circumstances can be more like those of employees (Boden *et al.*, 1997). Subcontracted workers provide their skills and labour, often using their own equipment or tools, and typically work for an hourly, daily or piece rate. Those who regularly work in this way may receive a '*wage slip*' showing earnings and deductions. This is common in the construction industry, where tax may be deducted at source. In this study subcontracted workers included two men working in construction - a joiner engaged by a double glazing firm and a flooring installer who was engaged by a number of local building firms. The foster carer had recently had a change of formal employment status, when the local authority which placed children with her had introduced formal subcontracting arrangements. As we shall see in Chapter Five, people with long experience of subcontracting understand how to pay NICs from their earnings, but people moving from being an employee to a subcontracting status sometimes do not realise that immediate changes in methods of payment may be necessary, and arrears can arise at this point.

Many small businesses can no longer get enough work by only trading directly with the general public, and it is not unusual to trade both as a proprietor of a small business and as a subcontractor. This was the case for four people in our study group. A farmer had seen the profitability of his holding plummet during the last decade, and now got about 60 per cent of his earnings from subcontracted work for larger agricultural undertakings in his local area. A further example was the musician, who worked in a number of ways, including subcontracted work for firms which provided bands for local events.

Three people in the study group described themselves as '*freelance*'. There are no clear definitions for this term, which is used in a popular sense and usually describes people who get work as they can, and are paid in different ways, often on a fee basis. The journalist, for example explained, a number of ways in which he generated earnings. He sold articles to newspapers for fees; wrote children's books which generated an advance payment from the publishers and then royalties on sales and associated merchandise over several years; and took commissions for reports. Receipt of earnings was sporadic, and single payments might represent monies due for work which had spanned more than one year. This kind of irregular income can be hard to manage in terms of financial reporting and regulation.

The encyclopaedia saleswoman worked on a ‘commission only’ basis, receiving a weekly payment which represented the commission earned on sales, less expenses determined by the employing firm such as her uniform and presentational material. Finally, although one taxi-driver in the study group worked as a sole proprietor, owning his own car, the second taxi driver worked according to a ‘*taxi-share*’ arrangement. The taxi company provided car and petrol, and he worked out and kept one-third of the fares received, on a daily basis. This arrangement, whereby one third of the takings was due to the proprietor of the firm and the remaining third for vehicle maintenance, has some similarities with ‘share-fishing’ arrangements, recognised by the CA as a special way of working.

2.3.3 *Employees and employers*

The current supply of work opportunities means that it is not unusual for people to build an income based on more than one job. In the same way that people working as employees sometimes have two or three part-time jobs running concurrently, self-employed people may also supplement earnings with other paid work. In this study group five people had additional work as an employee, either currently or in the recent past. The musician had regular short engagements in the leisure industry, when he was formally a paid employee. Most of those combining employee and self-employed earnings were women, however. The costume agency proprietor had short engagements with a broadcasting agency, as an employee; a woman in partnership in a family business also worked as a supply teacher when needed in the local school. One woman combined four quite separate occupations – three self-employed undertakings and a teaching post as an employee, and another had depended on employee earnings from an estate agency at the weekends, while she tried to build up her own new business.

People who work both as self-employed and as employees may have liabilities for Class 1, Class 2 and Class 4 contributions, and we shall see later that these separate liabilities can be confusing.

Self-employed people who employ others may have liabilities for employers’ Class 1 NICs in addition to their own Class 2 NICs. Eight people in the study group regularly employed other people. The largest workforce was retained by the security services manager, who had more than 30 full-time and part-time employees. Other employers had smaller workforces – there were four employees in the hairdressing salon, and five in a manufacturing unit managed by the engineer. In family businesses, employees are sometimes other family members – this was the situation in the cleaning agency where two branches of a family, and two generations of men worked together in managerial and practical tasks. One of the joiners paid his wife a wage as a formal employee, to deal with the book-keeping and accounts. Some of these employers found their NICs responsibilities for employees to be an onerous task, and views on the overall NI scheme and their own place within it were coloured by their experiences as employers, as we shall see in the following chapter.

Self-employed people who need occasional services of other workers or a small input from a person with specialist skills are more likely to subcontract other self-employed people, or pay for work on a fee basis. Thus the dress designer paid a fee to a milliner for a day's work each week; the shopfitter occasionally subcontracted work to a carpenter or painter. There were as many people in the study group who made work available to other self-employed people as there were people who had employees. Subcontracting was also recognised by some as a way of avoiding some of the administrative work and responsibilities that fall to employers.

Nearly everybody in the study group had some previous experience of working as an employee at some stage in their life. As we see in the following chapter, experience of regular deductions of Class 1 NICs in PAYE is one way in which people learn about the maintenance of a contribution record.

2.3.4 Length of self-employment

The person in the group of 38 who had been longest in self-employed work was a carpenter who had started work in his grandfather's firm at 12 years old, and continued in that business for 50 years. The person who had been self-employed for the shortest time was probably the man who had only been trading for a year and reported that he had incorporated his business soon after starting. Within this range were people of various lengths of self-employment.

2.3.5 Domestic partners' occupations

Peoples' understanding and views about participation in the National Insurance scheme may be influenced by what they learn from other people. In couple households, a spouse may have key influence on budgeting priorities or management of money. It is useful, therefore, to look at the employment status of spouses of those 29 self-employed people who lived with a partner.

All except two of the 29 couples were essentially dual-earner households. The wife of the Chinese man did not do paid work. One of the self-employed women had temporarily withdrawn from the labour market to care for young children, but was already retraining with a view to returning to work. Apart from these families, both partners in the families with self-employed earnings usually did paid work, or had done so until recently. The wife of the man who had suffered a stroke had had to give up her own job to care for him, and currently claimed Invalid Care Allowance. Men whose wives were elderly (65 and 70 years old) said that the women still helped in the businesses, and one drew a wage as an employee.

The spouses of the self-employed people had a variety of paid work. As we have already seen, some spouses were business partners and some made a contribution to their partner's self-employed work for which they received a formal wage as an employee. Most of those who had quite separate work of their own were engaged as employees. For example, the partner of the

musician had a full-time managerial post. Spouses who were themselves self-employed in a separate business venture included the partner of the antiques dealer, who also ran a separate business of her own. Spouses who had paid work themselves had separate liabilities for NICs, and the following chapter shows how this could influence knowledge and understanding of the contributors studied.

2.3.6 Earnings levels

It is hard to obtain quick, accurate measures of self-employed earnings in a research interview (Eardley and Corden, 1996b). The interviewers asked everybody for their estimate of earnings, but responses should be taken only as a guide to levels of income. Some people do not carry in their heads an accurate figure of self-employed earnings, and there is sometimes confusion between turnover, profitability and drawings. Table 2.4 shows approximate levels of annual profit for the most recent accounting period. In most cases this refers to a period within the last two to three years, but one estimate refers to a period of self-employment ending in 1989.

Table 2.4: Approximate levels of annual profit for the most recent accounting period in the self-employed work

Annual profit/loss	Number of people
Business loss	2
Business profit:	
up to £3,000	2
£3,001 - £4,000	7
£4,001 - £6,000	3
£6,001 - £10,000	10
£10,001 - £20,000	4
£20,001 - £40,000	5
over £40,000	3
not known	1
not reported	1

Observation of the scale of work, and information given during the interviews, suggested that the two people who were uncertain or preferred not to tell the interviewer how much they earned were both in the middle or towards the higher end of the income scale in Table 2.4. It seems likely from the information provided about earnings that at least four people might have applied for a Certificate of Exception on the grounds of low income: those making a loss and those with earnings below £3,000. There may have been a few more, on the border line. The following chapter discusses general understanding about exemption from payment of Class 2 NICs. The two loss-making businesses were no longer trading at the time of the interview, and the shopfitter, who estimated first year profit at around £2,500, had also gone out of business. Most others who reported earnings of £3 - 4,000 were approaching retirement, or depended on their spouses' earnings to boost family income. As we might expect, the highest earners included people with professional or specialist skills who had been in their profession or business for some time, including the solicitor, the engineer and the antiques dealer.

In 1996/97 the threshold of earnings for liability for Class 4 NICs was £6,860. The information about earnings, above, suggests that more than half of the self-employed people participating were likely to have been liable for Class 4 NICs. Class 4 contributions were not one of the main foci of this study, but we see in the following chapter that people often did not make clear distinctions between the different self-employed contributions.

2.4 Summary This introductory chapter has presented in some detail the personal and business characteristics of the overall study group. There was a two-fold purpose in starting the report of findings with a descriptive account of the people participating in the study.

First, the self-employed population and self-employed work are characterised by extreme heterogeneity. We can expect great differences between people in a small study group of self-employed people. Analysis of views, decisions and behaviour in respect of payment of Class 2 NICs depends on detailed understanding of the reasons and significance of the differences, in the context of the National Insurance scheme. This chapter has set out to paint a picture of the people in the group studied, for the analysis and exploration which follows.

Secondly, presentation of the characteristics of the study group has shown that the group is unlikely to be atypical. The group is not representative, in a statistical sense, of either the self-employed population overall or the NI Class 2 contributor base. However, nothing in the personal or business characteristics observed suggests that this group is atypical. Similar small groups of self-employed people which have been studied for different purposes have shown a similar range of personal and family backgrounds, and a similar spectrum of different kinds of work. We thus have some confidence that insights and explanations derived from this study will prove useful in informing policy.

3 PERCEPTIONS OF NATIONAL INSURANCE AMONG SELF-EMPLOYED PEOPLE

This chapter explores beliefs and feelings of people studied about the overall National Insurance scheme, and their obligations and entitlements in respect of Class 2 contributions. Knowledge and understanding affect people's response to requirements, and the acceptability of the scheme influences both their readiness to comply, and the extent to which they utilise the benefits. The first part of the chapter describes initial, spontaneous conceptualisations of the scheme. The second part discusses people's perceptions of their obligations to pay, and the following part explains what people believed the returns for contributions might involve. Views and experiences of paying Class 2 NICs may be influenced by people's commitments to personal pension plans, which are addressed in the fourth part of the chapter. The final part presents people's overall views on their participation in the Class 2 scheme.

This chapter begins the qualitative analytical approach to the material collected in the interviews. The previous chapter was mainly descriptive, in order to set the context and introduce the participants to the reader. There, the numbers of people in various sub-groups helped to paint the picture of the overall study group. From this point in the report there will be little further use of actual numbers of participants in the presentation of findings. It is the reasons for the different groupings that will be explored, rather than the numbers of people involved, unless the numerical patterns are strong enough to suggest some significance, for example when there are only one or two exceptions.

3.1 Conceptualisations of National Insurance

People found it hard to talk about the NI scheme without specific prompting. It appeared to be a topic that did not come up often in general conversation, and people had had little practice in formulating their perceptions. Those who said they had no picture at all in their mind about an NI scheme included young and older people. The highest earner said that she could not remember ever thinking about the scheme, as it had no significance in her life.

The spontaneous conceptualisations that **were** offered, before prompts and direct questions, were brief, but three themes were apparent:

- 'paying in' for returns;
- a form of tax;
- an imposed liability.

3.1.1 *'Paying in' for returns* One general picture was that the NI scheme involved '*paying in*' or '*putting away*' money, for which there was some return for particular circumstances. '*A pension*' was mentioned in this respect, and returns during periods of ill health. However, NHS provision including hospital care and dental treatment featured among the perceived returns during sickness as often as '*sickness benefit*', and even ambulance services were included here. There were also suggestions that Child Benefit was funded from NICs, and education and social services.

Initially, most of those who were thinking in terms of returns initially had their own needs and circumstances in mind. However, as the interviews developed it was clear that people did perceive links between the payments which they made and the pensions drawn by today's elderly people, and some benefits and services for other people. People also mentioned '*the dole*' available to others who were unemployed and linked this with their own NI contributions. Those who were themselves employers also mentioned the payments they made on behalf of their employees.

The language used by participants, before prompts by the interviewer, was often that of '*paying in*' or '*payments into*' the scheme, and, similarly, people observed that '*it pays you*' or '*you get it back*'. The suggestion that '*you have to pay your stamp*' came from older people. There was little use of official terms such as 'contributions' before the interviewers introduced these words themselves, and little spontaneous reference to different kinds of payments.

3.1.2 *A form of tax* Another initial unprompted conceptualisation was that NI was a form of tax. This observation came mainly from men, but not only from people with higher earnings who had experience of payment of some of their contributions to Inland Revenue. Those who conceptualised NI as a form of tax were among those who made a link between NI and returns from NHS provision. A middle-aged man, who had higher earnings at an earlier stage in his life but was currently working below the tax threshold, suggested that the NI scheme had originally been a form of tax for health care, but there had been a change in function. Suggestions also came from men that NI was a way the government got money to do what it wanted.

3.1.3 *An imposed liability* The suggestion that NI was something that '*everybody has to do*' tended to come from those who were most uncertain about the structure or purpose of the scheme. They understood that NI was an obligation but found it hard to suggest much else at this early stage in the discussion.

Initial conceptualisations that covered most fully the various components of the scheme came from a small number of middle-aged and older men, who had been self-employed all their working lives, or had higher levels of formal education. Their perceptions covered regular payments into the scheme,

availability of social security benefits as a result, and different kinds of payments according to income levels. Those with the fullest and most accurate conceptualisation of the overall scheme included men who had a history of regular Class 2 payments and men with arrears.

3.2 Perception of obligations to pay Interviewers generally had to ask specific questions about key details of the scheme to explore levels of understanding of and views on the obligations of self-employed people in the NI scheme. Topics pursued included how far people understood that participation was compulsory, whether people knew about the different classes of contributions, and how much they thought self-employed people had to pay, with a focus mainly on Class 2 contributions.

3.2.1 *Compulsory participation* Most people thought that NI payments were compulsory for people in work, or, if they had never considered this before, told the interviewer, on reflection, that they assumed this would be the case. One person who was certain that NI payments were compulsory said that it definitely said this on forms he received from the CA. Those who did not know whether payments were compulsory were nearly all people currently paying by direct debit. It is possible that regular bills from the CA may serve to reinforce the structure and rules of the Class 2 scheme, and we return to this later.

It was not generally understood that those with low earnings might apply for exemption from payment. Those who were best informed about this included people who had considered applying or made enquiries at some stage about their own situation in respect of exemption. These were all low earners who had concluded that they might be entitled to claim exemption but decided not to, as they were uncertain what effect this would have on their entitlements. There were both men and women here, at different stages of their working lives. One of the younger women had also been put off applying for exemption by her assumption that much paperwork would be involved.

Also well-informed about the low earnings exemption was a young man with well-paid work as a subcontractor, who had followed with interest the experience of a personal friend who was a *'charity worker'*. His friend had successfully claimed back overpayments of NI after demonstrating that he was entitled to a Certificate of Exception, and the details were etched in the respondent's memory.

Nobody in the group reported ever having claimed a Certificate of Exception at any stage in their self-employment.

Those who thought they were learning for the first time of the low earnings exemption reacted in various ways. It could be puzzling to discover that

some self-employed people actually had such low earnings. Moving beyond this, people's immediate interest lay in what happened to the contribution record of those who had a Certificate - were they awarded NI credits? This seemed essential information to those apparently thinking about the exemption arrangements for the first time.

Of special interest are those people who apparently had not known about the possibility of exemption during a period of low earnings, but might have been helped to avoid arrears to the CA or financial hardship as they struggled to maintain contributions, by opting for exemption. Included here were elderly tradesmen whose age and declining health meant that it was hard to earn much any more. They struggled to keep going until they reached state retirement age and could draw a pension. When interviewed, one was not currently in arrears to the CA, although he had been at various times in the last few years. The other man had built up £600 in arrears in the last two years of his working life. When interviewed he had reached 65 years, and was living on his pension, but fearful that the arrears would now be reclaimed from this, his only source of income. Without full details of the men's contributions records we do not know how a period of exemption would have affected their entitlement to a full pension at age 65 years. The men regretted that they had not known enough to be able at least to think about this themselves.

A similar feeling was expressed by young women whose attempts to get self-employed businesses off the ground had proved financially disastrous. One had closed the business after 18 months, taken full-time work as an employee, and was managing to pay her arrears to the CA. The other had tried to keep going for slightly longer, but ended up in multiple debt, owing money to a number of creditors. It was currently three years since this business failed but she still owed the CA £200. Both women, learning from the interviewer about exemption, said that if they had known they might have chosen this route as an alternative to their mounting debt.

It may be useful for the CA to consider how self-employed people can be kept informed about the exemption facility, so that they can make the most sensible decisions. Different approaches may be needed for people at the beginning of a period of self-employment, and those who have been self-employed for longer. Better information and advice about the Small Earnings Exception might help to prevent the build-up of arrears.

3.2.2 Different classes of contributions

Those who had additional jobs as employees all understood that NI contributions were deducted from their earnings, and the term Class 1 appeared to be familiar to this group.

However, the names of Class 2 and Class 4 contributions were often not recognised, and the distinction between the different classes of self-employed contributions was not well understood. The language used tended to be ‘*national insurance*’ or ‘*insurance payments*’ for what were technically Class 2 payments, and those who knew that additional payments were deducted by Inland Revenue often referred to these as ‘*the others with tax*’ or ‘*the ones for higher earners*’.

It was not the case that those with earnings clearly above the lower threshold for Class 4 were better informed about Class 4 contributions, although they were probably having deductions made by the Inland Revenue. Some higher earners apparently were unaware that they were paying additional NICs, while people who did understand that additional contributions were made by higher earners included people with earnings well below the threshold. People who had noticed reference to NI payments in their tax forms, or in their business accounts had sometimes wondered what these were. One woman had asked her accountant, but remembered that she did not understand what he told her, and had not pursued it further. No clear patterns were apparent to suggest why some people understood better than others the different classes of self-employed contributions.

As they learned about the structure of the overall scheme from the interviewer, people asked questions themselves. It is useful to look at what they wanted to know. One query was why there should have to be different classes of contributions for self-employed people. The interviewers explained that the flat-rate contributions were linked to benefits, but the Class 4 contributions were a way of getting higher contributions from higher earners, not linked directly to benefits. They reminded participants here that employees paid higher Class 1 NICs and Class 4 NICs helped to balance this up. There was a mixed reception to this explanation. Those who thought it a reasonable arrangement tended to be those who generally agreed with a collective, public insurance scheme. Those who thought the additional NICs were unfair, were those who felt thought that people should have the choice of making private provision with their own money.

Another issue that participants raised was the possible inefficiency of having two separate collecting agencies.

Having to pay both Class 1 and Class 2 contributions was another topic raised with the interviewer by people who had two kinds of work. They checked whether they had additional entitlements as a result of their ‘*double*’ payments, and discussion led to queries as to why they had to pay both. One woman said that her self-employed husband was currently not paying Class 2 NICs, as he was not certain that he had to pay these in addition to the occasional Class 1 contributions when he took work on an employed basis.

Not everybody wanted to fill the gaps in their knowledge about the overall scheme. Some felt they did not need to know what did not apply to them. However, others felt they should be better informed. We see in Chapter Six that confusion about different classes of payment had contributed to arrears in some cases, and one issue for policy-makers is whether different approaches to information dissemination about NICs for self-employed people might be useful.

In terms of understanding the levels of Class 2 payments, most people currently or recently paying by bill could put a figure to the amount they should pay. Most mentioned the quarterly amount due, suggesting figures between £68 and £80; there were occasional weekly amounts quoted, of £5 or £6. There was much less certainty about liabilities among the direct debit customers. Those who suggested a monthly amount were right (within £2-3) but some claimed to have no idea – they paid what they had to pay and did not think about it. Higher earners sometimes suggested a percentage of earnings rather than an amount of money, suggesting some confusion with Class 4 NICs. In general, among those who were currently paying regularly, it was the lower earners who knew most accurately how much was due.

People who were no longer self-employed did not always remember the amounts that had been due, especially if their self-employment had ended some years ago, or their payments had been irregular.

3.3 Returns for contributions

Understanding of the links between NICs and entitlements to pensions and allowances was patchy. As we might expect, the link between NICs payments and retirement pensions was made most strongly by older people. Expectation of a pension in old age was a definite reason for maintaining payments among older people with low earnings and little else to rely on when they retired from work. However, few working people in their 50s or 60s knew how much money they might expect from their basic Retirement Pension. Indeed, an elderly man who was approaching retirement with ill health and financial problems had been too anxious to make enquiries about this, fearing bad news.

Younger people also knew of the link between NICs and retirement pensions. However, among those in their 20s, 30s and 40s only a minority were confident that they would benefit themselves. They had learned from the media, their friends, from their financial advisers and the people who tried to sell them private pensions that '*pensions were being phased out*' or '*would not be worth anything*'. The interviewees were told about issues that had reinforced such views. Seeing elderly people shopping in supermarkets and trying to buy things they could afford was evidence for younger women that the value of pensions was already too low. The New Zealander described how people in her country had paid contributions into a public pension scheme that had been abolished. Others thought that there were too many demands

on contributions and there would be *'nothing left'* by the time they needed a pension. Those who understood that today's contributions went to today's pensioners and thought it was likely that the pension scheme would be abolished said that they wondered if they were going to be *'cheated'* in this way.

A small group of younger people, all in their 20s and 30s, some without and some with missing payments, were surprised to learn that NICs were linked to retirement pensions, and said they had not realised this before. Included here were people whose initial conceptualisations of the NI scheme had included returns through NHS services and *'dole'*. They wondered why they had been told, by the media and by financial advisers, that everybody now had to make private arrangements for a pension in old age.

Among people who had not understood the link between NICs and retirement pensions, or believed that they would never benefit themselves, those who felt they could afford to had tried to make some private arrangements. Those who had found they could not afford to start or maintain a private scheme said that they worried about their situation sometimes, and intended to try harder with their pension plans. Interviewers were also told that having parents who died young and thus had no returns after a lifetime of contributions, did not encourage interest in their own pension arrangements.

The language used by participants to describe benefits available during illness was *'sickness benefit'* (not Incapacity Benefit). Again, some were surprised to discover from the interviewer that there was a link between entitlement to *'sickness benefit'* and paying NICs. Claiming benefit for short periods of sickness was sometimes thought not worthwhile anyway, in view of the administrative work involved, problems anticipated in negotiating, and the amount of money perceived to be available. Those who had actually made a claim for Sickness or Invalidity Benefit against their Class 2 contributions were all people who had had a long period of severe illness, or a serious accident. There were mixed views about this experience. Receiving £42 a week had seemed a real help to a woman who usually only had low income from her work, and this had seemed a good return for paying contributions. To an older businessman, however, the same amount had seemed a poor rate of return, and his wife said that he had been both disbelieving and angry that he was entitled to so little. She explained that her husband's anger about this experience was one reason why he declined to participate in the research himself.

There were also strong views from men whose claims for sickness benefit had been disallowed because they had not been made within the time limits. Both men said they had been immobile in a hospital bed when the time limit had expired, and they were angry to discover that they had lost out on their

entitlement. This experience had been a strong influence on both men's views about the CA and the insurance scheme, and in one case was the direct reason for withholding further Class 2 contributions, as we see in Chapter Six.

Nobody mentioned spontaneously entitlement to Widow's Benefit through NI contributions, and there was little interest when this was explained.

There was more interest in Maternity Allowance. A young woman had been surprised to discover that her short period in self-employment had entitled her to claim Maternity Allowance before she was married. This claim had been made about six years previously, but she remembered how pleased she had been at the time. Other people who had not realised before were surprised to learn that claims for Maternity Allowance might be made against self-employed NICs. There were several observations, from both young women and young men, that this was '*pretty good*' or '*all right*'.

As explained earlier, the links that were made between NICs and returns for contributions were often inaccurate. Hospital care, dental treatment and specialist medical services including infertility treatment were associated with paying contributions. Those who described having used these services thought they were a good return for their money. Both men and women who had been in hospital for long periods, or needed expensive dental treatment for which they had been able to pay reduced charges, thought that they '*couldn't grumble*' or they '*had had their share*'. This kind of perception tended to reduce confidence in the availability of a retirement pension when needed, for people who thought that their personal contributions balanced against their personal returns in some way. People who had this concept in mind, even when it was hazy, thought they might have drawn out already in NHS provision everything they had ever paid in (and more).

It was not clear whether anybody believed that they would be refused NHS provision if they had not paid contributions. However, discovering that NICs were less important in financing the NHS than they perceived could be a big surprise to both young and older people. The people concerned absorbed this new information without saying how they felt about it.

Links between '*the dole*' and NICs were made by younger people, especially those who had had a period of unemployment themselves, or who had friends who had been without work. Interviewers attempted to explain that Class 2 NICs did not count towards Contributory Jobseeker's Allowance, but it was apparent from the discussions that people often did not recognise the names of the new benefits for people out of work. People's own understanding, which was fairly widespread, was that self-employed people could not claim '*unemployment*' but '*dole*' was available to those with no other means.

Strong support for access to benefits by people who needed them, from resources collected from the general population, came from some of the higher earners in the group. The highest earning woman thought it was right that people like her should contribute some resources to those who had less. One of the highest earning men expressed political support for a welfare system funded partly by redistribution of earnings. However, strong support for such principles was not always matched by regular contributions. People who believed that NI was a good scheme for the general population could still build up heavy arrears of NICs.

Not everybody thought they should have to contribute to a scheme which made benefits available to others, however. There was also some resentment about apparent ‘*abuse*’ of the NICs scheme. This centred around use of benefits by people who chose not to work, and also the avoidance of employers’ Class 1 contributions by other people known to participants.

3.3.1 *Gaining knowledge about NICs*

Interviewers asked people how they had built up their knowledge about the NI scheme and Class 2 contributions. Most people said this happened piecemeal, from various sources and over long periods of time. Previous experiences of paying Class 1 contributions were identified as important in reinforcing the importance and need for regularity of contributions. This experience had been transferred to periods of self-employment in some cases. The influence of relatives and business partners who apparently had authoritative knowledge was mentioned, for example fathers and spouses who were self-employed themselves set patterns and expectations about paying NICs. Friends with experience of self-employment sometimes shared knowledge, but we shall see later that friends can also be a source of misinformation. Direct communications with the CA and DSS were mentioned, usually in association with specific circumstances. For example, an Asian couple remembered a visit from a local DSS officer, soon after they had opened a small business, to discuss NICs and methods of payment of contributions. People learned more about NICs when they tried to claim benefits – Maternity Allowance and unsuccessful claims for Sickness Benefit were mentioned here. For a small number, it was visits from NI Inspectors about employers’ contributions, confrontations with the Inland Revenue or focused activity from the CA in respect of arrears of NICs that had increased knowledge bases.

In general however, people thought their knowledge about the overall NI scheme and Class 2 NICs was sparse. There was a feeling that people found out about such things when they needed to know them, and that there was no need to know a lot about parts of a complicated scheme that did not concern them. It could seem more important to younger people and the higher earners to find out about and try to understand private sector pension and insurance schemes.

Some people did regret, however, that they had not understood things at appropriate times. We have already described how some of those in financial hardship, and NICs arrears, wished they had understood the low earnings exemption rules before learning about these from the interviewer. Those whose arrears stemmed from delays in starting payments when they moved to self-employment said it would have been helpful to know at the time how important this was. Wishing they had been better informed was mixed with anger about the way in which the system worked for those men whose claims for Sickness Benefit were made too late.

There was considerable interest in the copies of the joint leaflet CWL1 that interviewers left with participants. Nobody said they had already seen one of these, but remarks made at the end of interviews suggested that some participants planned to look carefully at the leaflet, to find what was relevant to their own circumstances.

3.4 Private pension and insurance arrangements

We have seen already that there was no general expectation of benefiting personally from a basic Retirement Pension, as a return for Class 2 NICs, in this group. Other forms of pension provisions available to some self-employed people include personal pension plans. Some people who have worked previously as an employee may have been in an employer's occupational scheme in the past, or, if their employer did not provide an occupational pension, they may have been in SERPS (State Earnings Related Pension Scheme). None of the participants, including those currently also working as employees, mentioned access to resources in retirement through occupational schemes or SERPS. They did talk about their commitment to personal pension plans and private insurance for ill health, accident or inability to work.

There was a wide spectrum of views and levels of financial investment in private pension and insurance schemes. At one end was a 50 year old widower who said he had never considered joining any private schemes, having been a low earner throughout his working life. He tried to keep financial matters as simple as possible, being unable to read or write, and was content to rely on participating in the state schemes. At the other end of the spectrum was the highest earner, to whom the state NI scheme seemed personally irrelevant. She had financial investments in more than six personal pension plans and health insurance schemes, and paid for professional advice in maintaining this portfolio. She and her husband expected to maintain a high standard of living at times of ill health and during retirement.

Within this wide spectrum lay a variety of commitments and views. Those who currently had no personal pension investment were all people who had had low earnings over a fairly long period, or people currently in financial difficulty, or climbing out of a bad patch. They had thought about private pensions but decided they could not afford one, or had previously belonged

to a private scheme but cancelled or '*frozen*' it as businesses collapsed or debts mounted. Only one of the people in this group said that she did not believe in private pension arrangements; she and her husband had never had high earnings and were content with quite low financial resources. This was unusual, however; most of those without any private investment would have felt more secure if they had one. However, a 66 year old man who was already drawing his basic Retirement Pension thought that a private investment at the level he could have afforded during his working life would not have provided a better return in terms of value for money than the pension he drew on the basis of his Class 2 NICs. Another couple who felt they could not afford a private pension said they worried about this, and women said that the research interview had brought the matter to the front of their minds again, and they hoped they would get round to doing something about it.

Men who expected to go on working after the formal retirement age had occupations that could be continued on a part-time or casual basis, and this was seen as some compensation for having been unable to afford to contribute to a private pension. The group did include one man who still had a busy working life at 66 years.

There was a feeling among people in their 30s and 40s, especially among those with higher levels of formal education, that a private pension arrangement was an important requirement in life today. Higher earners made monthly payments of £200-£250, and some contributed to more than one scheme. Most monthly contributions were lower than this, however. A 28 year old single woman paid £100 per month from annual business profit of £16-17,000. Among the older people, contributions were being made at very low levels, in schemes that had been arranged 20 or 25 years ago. Men of 60 and 62 years made annual payments of £100 and £125, respectively, and neither had any idea what return they might expect from this investment.

In general, apart from those higher earners who had substantial personal pension arrangements, few people had much idea what return they might expect from their private investments. Some understood that this might depend on how the company had invested their money and what happened in financial markets in the future. Others seemed optimistic that they would get a '*good return*', and had trusted advice from accountants and financial advisers.

Very few in the group had any substantial private insurance for sickness or disability. Those men who had made such arrangements pointed to special risks attached to their work, in farming or outdoor work.

There was no evidence that people who had to cut down expenditure, or got into financial difficulty, made choices between maintaining payments into personal pension plans and private insurance schemes and maintaining regular NICs. Refusals by banks to meet direct debits affected payments due both to the CA and to private companies. Those whose arrears to the CA were associated with business collapse also reported that their personal pension plans had been frozen.

There was no indication of where preferences would generally lie if people could choose to opt out of the NI scheme. One young man with a family expressed the view that he should be allowed to choose how to invest his own money for financial security, and he would prefer not to participate in the NI scheme. The opposite view came from a man of similar personal circumstances but slightly higher earnings who said that he would prefer to be able to make a higher investment in the NI scheme and avoid the poorer value personal pension plan that he had joined.

3.5 Overall views on participation in the National Insurance scheme

The interviewers asked people how they generally felt about their participation in the Class 2 NICs scheme, after talking about their contributions and liabilities, and commitments to personal pension plans and private insurance.

As we might expect from the picture presented so far, there was a wide spectrum of views. Being asked about NI was such a novel experience to some that it proved hard to offer any opinions, but most offered some of their views and feelings. Those who expressed firm support for the NI scheme, thought that on the whole it was a good thing, and wanted to be part of it, included regular payers and those who had missed payments, both men and women.

Reasons for support included believing there was good value in terms of returns for contributions, or, at least, better value than was available through personal pension plans or private health insurance; belief in sharing responsibilities for welfare with other people (what readers might term principles of collectivity); and, among those approaching retirement age, keen understanding of the importance of their pension.

At a slightly lower tier of support were those who were not specially enthusiastic, but said on reflection, that NI was not an unreasonable scheme, and the payments due seemed *'fair'* or *'not too bad'*. This was often qualified, however, with a feeling that efforts must be made to prevent abuse wherever possible (referring in particular to people who chose not to work but drew benefits, and other employers who did not pay Class 1 contributions appropriately). A further qualification was a creeping feeling that contributors would be cheated if pensions were not there when they needed them.

More neutral feelings in terms of support or antipathy came from people who said they generally behaved as required, and as people had to pay NICs they would expect to pay the same as everybody else. There is more to say about this view in Chapter Five.

A small group of people disagreed with the obligation to participate in the NI scheme. Views here were that NI was yet another tax imposed by government, and that people should have greater choice in spending their own money. People in this group did not subscribe to feelings of collective responsibility and saw little in the way of personal return. Most were younger or middle-aged people all earning less than £10,000 annually from their self-employed work, or the work they were currently doing as employees.

3.6 Summary People found it hard to talk about the NI scheme without specific questions. Spontaneous conceptualisations that were offered reflected three themes: a scheme that involved '*paying in*' for returns; a form of tax; and an imposed liability.

In answer to specific questions, most people thought that payments of NICs were compulsory for those in work. It was not generally understood that low earners might be exempt from payment, and people who might have taken advantage of such a facility wished they had known about it before.

The different classes of self-employed contributions were not widely recognised by name or understood.

People currently paying by bill generally knew how much was due, but there was less certainty among those paying by direct debit. Lower earners knew more accurately the amounts of Class 2 NICs due. There was some confusion among higher earners about the amounts due to the IR in Class 4 contributions. Understanding of the links between NICs and entitlements was patchy. Among people under 50 years there was little expectation of benefiting personally from the basic Retirement Pension. Strong links were perceived between NICs and NHS provision.

There was a wide spectrum of views on, and levels of financial investment in, personal pension plans and insurance schemes. People in their 30s and 40s, especially those with higher levels of formal education, believed that it was important to make private arrangements.

4 METHODS OF PAYING

There are currently two ways in which self-employed people can pay their Class 2 contributions, as explained in the introduction. Payment by direct debit is preferred by the CA, as there are proportionally fewer interruptions in payments from contributors paying directly through their banks. Direct debit arrangements are promoted to contributors paying in response to quarterly bills, but approximately half of those liable for Class 2 NICs continue to pay the bills. It is among the quarterly billed contributors that missing payments occur most often, and for some, this leads to accumulation of serious arrears.

One of the main aims of the study was to find out why people use the different methods of payment, and whether the CA might take any action to make it easier for people to pay their Class 2 NICs. Discussions with the Class 2 contributors covered their knowledge of the current main methods of payment, and their experiences of and views on these payment methods. Views were also sought on alternative payment methods. Some long-term, self-employed people also have experience of the stamp-card payment method, and the CA does still receive NI stamps from some contributors who bought stamps in advance, and go on submitting these to meet their liabilities. A potential payment method that reflects the way that some people currently manage other financial transactions is the debit card, and the CA is actively considering this as a payment option for Class 2 NICs. The interviews provided an opportunity to seek people's reactions.

This chapter presents what people said about payment methods. First, we look at those who were currently receiving bills or had received bills in the past, and report their views and reasons for paying this way. The people paying bills included both self-employed people who were maintaining regular payments and people who had missing payments or considerable arrears. The second part of the chapter looks at people who were currently paying, or had previously paid, by direct debit. Again, we include here people currently paying regularly, and those who were, or had in the past been, dealt with by the DCU or CRS.

It is important to remember, throughout, that although the division between those who pay bills and those who pay by direct debit is useful for analytical purposes, contributors do not fall neatly into these two distinct groups. In terms of the personal and business characteristics described in Chapter Two there were no clear differences between people who received bills and people who paid through the bank. Some of those currently paying bills reported previous debit arrangements, and some of those currently paying through bank transfer had received bills in previous arrangements.

4.1 Contributors receiving quarterly bills
4.1.1 Understanding receipt of bills

All those who had been selected for the study because they were quarterly billed customers and currently had no missing payments were all still self-employed at the time of the interview. They all knew that they received bills from the CA for insurance contributions, and knew that the bills came every three months.

This was not true of those who had been selected because they were currently being dealt with by the DCU or CRS and were still self-employed at the time of the interview. One of the highest earning men thought that the bills he received for contributions came twice a year. He only paid twice a year, and sometimes even these payments were late. He described himself as ‘an erratic payer’ who always got round to it in the end although his payments were late. It was these late payments that were being dealt with by the DCU. Another higher earning man was vague about the frequency of bills from the CA. He took little notice of bills that he received himself because he assumed that these were copies of bills sent to his accountant, whom he expected to deal with such matters on his behalf. A lower earning man appeared to have lost touch with his current position regarding NICs. He could not remember having heard directly from the CA for at least 18 months, and only expected to pay when he ‘*was chased*’, although he made it clear that he was not seeking to evade payments altogether.

Among the DCU and CRS contributors who were no longer self-employed there was also some confusion about previous receipt of bills from the CA. A man with Class 2 arrears who had recently passed retirement age, knew that he never had a direct debit arrangement but could not remember any regular bills arriving. His approach had also been to settle ‘*on demand*’, when the CA sent strong letters. Another older man who was now retired from work thought that there had been bills, but did not expect to deal with these himself as he could not read, so he was not sure how often they came. People whose businesses had collapsed or who had got into serious financial trouble when they were self-employed were also vague about the regularity of bills received from the CA.

One situation where confusion might arise about bills is when people who receive quarterly bills for current Class 2 payments also make separate regular payments to the DCU to reduce arrears. There were only a few people in this situation in the study group. Among these, people who would have preferred not to be in arrears and were keen to make up the missing payments or reduce their arrears, had a clear picture of the difference between the two kinds of payments they were making, and knew approximately how much was currently outstanding. Other people understood the difference, but, in practice, did not deal separately with the different liabilities. They were people who were less worried about arrears and less committed to paying regularly. They believed that the cheques that they sent to the CA went towards whatever amount was owing at that stage. This was how they

expected to meet their liabilities. An example was a man who had worked as a sole trader for about 20 years. Earnings were about £9,000 and he had never made much money. Income came in irregularly. Throughout this time he had dealt with NICs by '*sending them a cheque from time to time*'. He had never been in what he perceived as '*serious arrears*' although he knew that sometimes his payments drifted for more than a year. He doubted that he would change this pattern of payment, as long as it remained possible.

The person who described himself as a company director thought that it was the CA that was confused about the quarterly bills issued to him. He said that his liabilities were dealt with through PAYE, and he could not understand why bills were still being issued. He now ignored them.

The study was not designed to look at people's reactions to the wording or information on correspondence received from the CA. There was only one spontaneous comment of this kind, from a woman who had not started making contributions from the first date of trading and had subsequently had to sort out missing payments with the DCU. She said how annoying it was to get computerised letters that did not take account of matters already settled by correspondence or telephone discussions with the CA. She said that being treated in such a manner made her angry and the CA should '*take more care*'. She felt that if she treated her own customers in that way, she would have few left.

4.1.2 Reasons for paying by bill

Looking first at customers who currently had no missing payments, we might expect to identify some people who had chosen to receive bills because this method suited them. Information was sent to them regularly about the direct debit option but they had not acted on it, and were currently managing to meet demands regularly.

There was indeed a strong pattern within this group. With the exception of one woman who said that she knew about direct debits but was quite satisfied with her current arrangement and saw no reason to change, everybody was clear about their reason for having bills. It was a matter of preference or need for personal control and management of resources.

People on low incomes explained how they survived by careful money management, juggling payment of bills and sometimes accepting fairly low material standards of living. At low income levels, business and personal monies were often not kept separately. People spent only what they had to, in order to keep their work going and meet personal requirements.

Examples were people approaching retirement age, struggling to keep small shops going for a couple more years; a small farmer whose profits had declined steadily but who wanted to stay on the land; a couple trying to get a craft business going as an alternative to unemployment, and trying to live on an annual profit of £6,000 while housing two unemployed teenage children. In some cases, problems of living on a low income were compounded by cash-flow problems when people had to buy stock forward and wait for payments. Such people managed to keep going in their self-employed work but it was hard, financially.

For them, the NI quarterly bill was one of the payments that had to be juggled. It was helpful to some to know that they had 28 days to pay the NI bill and that interest was not charged. There was praise from people who had occasionally been late in paying, and then met with enquiries from CA staff. The staff they had dealt with did seem to understand the problems they faced and the way in which small self-employed businesses kept running. People appreciated being treated politely and sensibly. This had helped some people to take the initiative themselves and telephone the CA if they anticipated a problem with their bill.

Direct debit arrangements, for these people, seemed unwise. Some could not guarantee having enough money available on a specific date, and bank overdrafts would incur further costs and anxiety, making life more difficult. An elderly shopkeeper had no bank account anyway, specifically to reduce all unnecessary costs. He ran his business in note and coin.

Being able to pay NICs in response to bills contributed to the financial control needed by these low earners.

Another feeling, which was less widespread but felt strongly by those who described it, was lack of trust in the banking system. People who had experienced previous problems when direct debits for other purposes had proved hard to stop, and people who thought their bank managers had made unfair financial decisions at some stage, were now more wary of releasing direct control of their resources.

The close financial control which bills enabled was not only sought by the lower earners. Bills could also give financial flexibility to better-off people. One successful business was run at the limit of a high overdraft on a bank account used for business and personal monies. This had been negotiated with the bank so that the proprietor could buy expensive stock when it became available. Going over the overdraft limit would incur high bank charges, so direct debits of any kind tended to be risky. It made better business sense to choose carefully when to pay bills, including NICs. Three-

monthly intervals were too short for this person, who would have preferred an annual bill to settle at the end of his financial year. Although he was selected for the study as a contributor currently without missing payments or arrears, he explained that at other times he might have been in debt. This businessman also appreciated that no interest was due on late payments.

There was evidence that accountants sometimes pointed out to financially astute clients that three-monthly payments in arrears were interest free, and that interest was not charged on late payments.

An additional reason for receiving bills was that this gave the possibility of withholding payment if dissatisfied with the service received. The electrician said he had not done so himself, but liked to have the option. We see in Chapter Six that one man had withheld payments to demonstrate dissatisfaction.

Most people who remembered the previous stamp system said that they never bought stamps regularly. This had been too much trouble. It had been more convenient to wait until the end of their financial year, or when they heard from DSS, and then settle with a large payment. In this way it had been possible to pay 12-15 months in arrears, without interest, which had been an advantage to some. There was no support for returning to the stamp system, however, among quarterly billed customers without missing payments.

The third potential option, debit card payments, also drew little support. None of the people described so far was interested in the possibility of paying NICs by debit card. There was lack of knowledge, and some suspicion, about '*plastic*' among the lower earners, including both younger and older people. Some had also had bad experiences in the past when they had used card transfer systems, and the differences between different kinds of facilities (Visa, Access, Switch, cheque guarantee cards) was not well understood. A high earning man also avoided transfer payments as far as possible; it seemed more '*business like*' to write cheques, and deal personally with money transfers.

The woman who fell right outside this pattern of opting for a method that gave financial control saw no particular advantage in any method. Indeed, she had once paid NICs by direct debit, in a previous venture, but changed her bank account to a building society account when she moved into a new enterprise. At that stage, the building society had not offered direct debit arrangements. She believed these facilities were now available but was entirely satisfied with the bills and saw no reason to change. This person paid immediately on receipt of the bill, by cheque, as a matter of good business practice. She was also a low earner, but felt no financial pressure as her

husband had a well-paid job. She was the only person among those paying by bill, with no missing payments, who had any interest in the debit card option which she thought might be a sensible way of paying for others who liked to use cards. She herself saw no reason for changing as the current method worked well.

We have so far, in this section, looked at reasons for paying by bill among people without missing payments and the circumstances in which this was the preferred option. We now look at people who were selected because of failure to maintain regular payments, and who said that they were being billed when they started to miss payments, to see if the same patterns are repeated, or whether there are any further insights. By definition, the quarterly payments system has not worked entirely well for these people.

The best information here came from those who were still self-employed, or had only recently left self-employment. Again, need for personal and immediate control of financial resources was expressed. Low earners said that they could not have guaranteed enough money in their account to meet a direct debit requirement and could not risk additional charges. It could be more important to buy stock (paint, tools, ladders, for example) to keep modest enterprises running, or to meet more pressing bills (telephone, advertising, household and family needs), and it might be necessary to put the NI liability towards the bottom of the pile of bills. One business, a small shop belonging to an Asian man, had never generated a profit. All takings went to renewing stock, and the family eventually lived on gifts and loans from relatives. There was no possibility of a direct debit arrangement.

Some people who had missed payments while receiving bills voiced suspicions about third party control of their resources. A high earning man regularly noticed the CA's promotion of direct debits, but explained that he did not agree at all with the idea of *'other people in charge of my money'* and avoided direct debit arrangements and standing orders. An elderly man had closed his bank account some years ago when he believed that money had been withdrawn without his knowledge.

Although the CA can do little about people's lack of confidence in bank accounts, it might be able to improve the dissemination of information. Among billed customers who had got into debt was one young woman who said she did not remember having been told that direct payments were an option, even when she negotiated payments of arrears earlier that month, by telephone. She said that she was not good at understanding money matters. In the interview it became apparent that she had not even realised that expenses from her home-based work as a child-minder could be counted against takings to estimate her profit, and she was paying NI and tax on the basis of takings. She said that in her work, there was little contact with other self-employed people and it was hard to get to know about all the things that had to be done for the various authorities.

Another person who might not have run up such high arrears if he had been paying by direct debit, was a higher earning man who said that his busy and exciting work left no time for dealing with some of the more mundane practicalities. His payments in response to bills were, he agreed 'erratic' although he always paid eventually. He remembered that at some stage he had filled in the forms necessary to arrange a direct debit, in order to try to regularise his position regarding contributions. The attempt did not work, because, he believed, he had not sent the forms to the right address. It was then too much trouble to sort it out and start again, and the bank arrangement was never made. He had other direct debit arrangements, and thought that if the CA had been more proactive, he might have been drawn in. He was one of the few people in the study group who thought that a debit card would be a good way of paying. He was comfortable with the use of different kinds of cards, and said that this would be quick and easy, and would have fitted the income flows in his work. It is important to note, however, that he was not suggesting that a debit card would have increased the regularity of his payments.

Again, the predominant view among those who had been paying by bill when they missed payments, was that they would not use debit cards for NICs. In this group were some people with a history of previous financial problems due to inappropriate use of 'plastic', and others who were wary of using cards.

In summary, the people who knew they received quarterly bills used this method:

- as a way of retaining the control needed in financial management of low incomes;
- as a way of managing cash flow in more profitable businesses with irregular income and outgoings;
- because of lack of confidence in or suspicion of the banking system;
- because people chose not to use a bank, for reasons of expense or inconvenience;
- because an attempt to arrange direct debit had not gone smoothly;
- because of lack of understanding of the direct debit option.

Most did not want to change to a direct debit arrangement, and there was little support for use of a debit card.

4.1.3 Dealing with the bills

People manage their personal money in a variety of different ways. Having a domestic partner or children adds a further dimension to household budgeting. People who are self-employed have to manage business monies as well, and some employ book-keepers or accountants to act on their behalf.

There may be constraints on budgeting due to low incomes or pressing needs, and some people have greater skills and aptitude in money matters. All these factors are likely to affect the way in which people respond to and deal with the bills sent by the CA.

The interviews have been examined for any patterns or links between:

- whether Class 2 NICs are thought of as personal or business expenses
- whether people keep 'business money' separate from 'personal money';
- whether people pay NICs at the post office or by cheque through the post;
- whether payment is dealt with by a domestic or business partner;
- whether payment is dealt with by an accountant.

Within this heterogeneous study group, no clear patterns emerged from the interviews.

People who thought of the NICs bill as a personal expense, met from private money, included both low and higher earners from different kinds of occupations. Those who perceived NICs as a personal expense often made a link between contributions and their personal or family needs, or referred to the benefits available. Others, however, who thought of NICs as a business expense, were more likely to link NICs liabilities with tax demands and to say that these were payments that had to be made in order to keep their work going. There was some interest in this latter point – some realised as they were talking that although they had been quick to include NICs among business expenses, it would be more appropriate to describe the contributions as a personal expense.

Not everybody kept business and personal monies separate, or even perceived a difference. This was especially the case at lower earnings levels, where people had few expenses to count against takings, for example the piano tuner and the childminder. In more complex businesses and at higher earnings levels it was more usual to have a 'business account' and to take drawings out to a separate 'pool', sometimes a joint account with a domestic partner. So there were various different pools of money from which the NICs bills were paid.

An example of a person who made no distinction between business and personal money was the tobacconist approaching retirement age. He had closed his business account at the bank, to cut down costs, and ran his business on a cash only basis. He could only take occasional drawings, in cash, to meet the immediate needs of himself and his wife. When the NICs bill came he would pay it at the post office, taking cash from the till. By contrast,

a farmer kept business and personal money quite separate, with regular monthly drawings shown in his accounts, which went into his wife's personal account. His own personal pool was cash in his pocket. The NICs bill was dealt with in the same way as a purchase invoice, when '*the books*' were brought up to date at the end of each week. A cheque was sent through the post, drawing on the business account. A higher earning businessman also drew a cheque on his business account, although he put regular drawings into his own personal account. The NICs bill was seen as a business expense, and was 'juggled' at the limit of a big business overdraft, with occasional missing payments, although there were regular personal drawings of £1,000 per month.

The method of transferring money was often important. People who paid in cash at the post office were people without a bank account, such as the tobacconist described above, or with an account but no cheque book – for example the shop owner who kept her money in a building society. People who sent a cheque through the post included those who did not spend time visiting banks or post offices, such as men who worked long hours. Most people used one method only and had reasons for their choice.

Payments were not always dealt with by the contributors themselves. In families with a self-employed husband it is common for wives to take responsibility both for keeping the books, and for household budgeting (Eardley and Corden, 1996a). There were examples of this pattern of financial management among the customers paying bills. The farmer's wife dealt with his Class 2 bills, seeing this as her responsibility in their division of family activity. In the blacksmith's family, it was the woman who decided which bills could be met, and which could be left a bit longer, and she who took the cheque to the post office. The women's careful budgeting and financial management of the low incomes were considered essential by the men trying to keep their work going.

Among people who had accountants, dealing with the Class 2 bills was not usually seen as the accountant's responsibility. The view was that accountants should be asked to do only what was absolutely necessary, as their services were expensive. The one person who believed that his accountant was dealing with the bill was trading in a long-established and profitable business, and passed most responsibility for financial records to his accountant. As we shall see in Chapter Six, his bills were probably not being paid regularly by the accountant.

4.1.4 Suggestions for change

It is now clear that most of the people who chose to pay in response to bills were satisfied with this method of collection of NICs. The periodicity of the bills (three months) was thought to be about right by most of the lower earners – larger bills would be harder to pay, and it was a waste of time on

both sides to have monthly transactions. Only the childminder, who had got into debt and said she was not good at managing money, thought that she would find it easier to manage monthly or even fortnightly payments from her fluctuating income. Among the people running more profitable businesses, established over many years, an annual bill for Class 2 NICs seemed more appropriate. It could be settled along with tax and additional contributions, and would cut down transaction time.

There were some specific suggestions for an improvement in services. Several people liked the idea of an annual statement, similar to a savings account statement. This could also be a vehicle for the various different kinds of information required. Some people wanted to be reminded what they were paying towards, and where their money had gone. Some wanted reassurance that their accounts were up to date, or a document that showed how their debt was reducing. Some thought it would be good to have regular reminders about their entitlements in return for contributions. The latter comment often came from people who had realised during the earlier discussion how little they understood about their entitlements. One observation was that it would be especially useful to remind people about their entitlement to Incapacity Benefit before they became ill. We saw in the previous chapter that losing entitlements during periods of sickness could result from not being fully informed at an appropriate time. Such losses had influenced future willingness to comply.

Suggestions made by individual people were that impending increases in rates of contribution might be notified earlier, and that it would be helpful to have a stamped addressed envelope in which to return a cheque.

In general, however, people were satisfied with the 'service' aspects of paying their contributions by bill, and, when asked, compared them favourably with collection of VAT and income tax. Employers who had to pay employers' Class 1 NICs on behalf of employees said that considerable work was involved, and paying Class 2 NICs was easier.

4.2 Contributors with direct debit arrangements

4.2.1 *Understanding direct debit*

Those self-employed people who had been selected for the study because they were currently direct debit contributors who apparently had no missing payments, were not as closely in touch with the payments they were making as people paying bills. The lower earners in the group (below £10,000 annual profit) all knew they currently had direct debit arrangements for NI, but this was not the case among the higher earners. People who relied on accountants or other business partners to manage financial aspects of their business, and those higher earners for whom the NI liability represented a small fraction of income, were not sure at the beginning of the interview how their payments were managed. At the end of the interview higher earning women were still uncertain what happened, and were not confident that they did have direct debit arrangements.

By contrast, contributors dealt with by the DCU and CRS, who were currently paying regular NICs by direct debit, were certain that these arrangements existed. As we shall see later, it was the experience of previous arrears that had influenced the choice of direct debit arrangements in some cases and such people now wanted to be certain that current payments were being made. People who were both paying current dues by direct debit and reducing arrears with separate payments understood the difference between the two kinds of payment.

4.2.2 *Reasons for paying by direct debit*

A clear pattern emerged among all those who knew they paid by direct debit, both those with no current missing payments and those with arrears. People had chosen this arrangement:

- for ease and convenience;
- to make sure payments were being made.

These are not separate reasons, but overlap one another. Some people initially emphasised one or the other but most people mentioned both in some way during the discussion. Advice from accountants and discussions with staff from DSS and CA had been influential in some cases, especially among people who had got into arrears and wanted to regularise their situation.

The convenience aspects were stressed by people who found even small administrative tasks onerous. A taxi driver did not want to have to think about contributions and an Asian man found it hard to deal with correspondence in English. Higher earning people pointed to the waste of time in writing separate cheques for small amounts. The man who worked abroad for six months each year said bank transfer systems were essential for him to manage his financial affairs and make sure all the business and household bills for his family were paid at appropriate times. People who had previous experience of PAYE sometimes preferred direct debit as more like the direct deduction scheme.

Making sure that payments were being made was stressed by people who had found themselves in debt to the CA. There were several people, both low and higher earners, who had been surprised to find themselves with Class 2 arrears, as we shall see in the following chapter. They did not want to risk this happening again and saw the direct debit arrangement as a way to ensure that it did not. Employers who had found it hard to manage the payment of Class 1 contributions for their employees were glad that their own contributions could be paid by direct debit. A higher earning man in a business partnership, which employed people on a temporary and casual basis, had experienced visits from NI Inspectors and been fined, and did not want '*any more hassle*'. He wished that the employer Class 1 contributions were also flat rate and could be paid by direct debit.

Direct debit arrangements also represented a way of managing low incomes. In the previous part of the chapter, we saw how one way of managing a low income was to retain close control of outgoings and juggle all the bills. Such financial management requires a certain amount of practice and skill, if the juggling act is to be maintained and debt to be avoided. A different way of managing is to reduce the amount of money over which there is direct control, so less juggling is required. This can suit people who have less confidence in their abilities to manage their whole income, and want to be certain that they are not going to get into trouble. Having direct debits and standing orders can make it easier because liabilities are met, and what remains can be spent with less anxiety. The low earners who explained how they chose this way of managing tended to be people with a strong feeling that all debt was to be avoided.

An example here was a man who had opened a small shop, with a low profit margin. Soon after opening he was visited by DSS to discuss NICs payments, and he was sure that the direct debit arrangement would be best for him. He would then be certain that payments were being made with no possibility of forgetting, and getting into debt.

There was evidence that accountants sometimes advised the direct debit scheme, especially to people who had already got into arrears and were sorting out financial problems. A woman who had sought help from an accountant said she '*did as she was told*' at that stage.

Nobody currently paying Class 2 NICs by direct debit thought they were likely to return to the billing system. Those who remembered the stamp card system said, as had the quarterly billed contributors, that they rarely or never bought the stamps, and just settled a large payment at the end of the year. Among the direct debit customers no one would currently prefer to be able to settle by an annual bill, and there was no interest in using a debit card as a payment option. Indeed, it was just this kind of direct involvement that many were seeking to avoid. Again, there was considerable suspicion about the use of plastic money, and confusion about the different kinds of plastic cards that are available.

4.2.3 *Dealing with direct debit*

Detailed information was not sought in this study about the process of setting up the direct debit arrangement. Once the arrangement is in place, little further administrative work is required from contributors. The important thing, however, is that there is enough money in the account to cover the request, on a regular basis.

Among higher earners, as we might expect, this was usually not an anxiety, and they or their accountants arranged things so that there was sufficient in the account each month to cover the various transfer arrangements. As with

the quarterly billed customers, people had different views on whether NI represented a personal or business expense, and the direct debits were made from both personal accounts and accounts kept for business matters. Those higher earners who did monitor whether there would be enough to meet the monthly request were people who ran a high overdraft. As with the billed customers, people tried hard to avoid costly negotiations with banks when overdraft limits were exceeded.

Among those on lower incomes, keeping enough money in the bank was more of a problem. A lone mother who earned approximately £4,000 per annum had to stay at home in the school holidays to care for her children, resulting in a big dip in the cash coming in. She had to be careful in order to meet the July and August requests. Another woman earning less than £5,000, whose husband did not have separate earnings, said that her bank had refused the direct debit payment request on two separate occasions when there had not been enough money in the account. It seemed that her bank had not made a charge, however, and she had been able to make the additional payment and continue with the direct debit arrangement. Both these women had found themselves in arrears with NICs because they did not start making payments as soon as they started self-employment. They found it easier to cope with the anxiety that occasionally there might not be enough in the bank to meet the monthly payment than with the anxiety about being unable or forgetting to pay a larger three-monthly bill.

There was only one person in the study whose direct debit arrangement had failed completely. This was a tradesman who was unable to get much work at all and suffered poor health as he approached retirement. His overdraft increased, in order to meet living expenses, and when it reached £2,500 his bank stopped his direct debit. He had since retired. He understood clearly what had happened, and had just heard from the CA that he still owed £600. He was one of those people who wished they had understood the exemption for low earners. He suggested that more information might be sent to people with direct debit arrangements.

Other direct debit customers felt that they would like more information from the CA. Their bank statements provided a record of the payments they had made to the CA, but, in the same way as the billed customers, some people would like to be reminded about their entitlements.

4.3 Summary This chapter has shown that no particular personal or business characteristic distinguished the contributors in this study who paid by bill and those who had direct debit arrangements. Use of one or the other method depended on a number of factors including understanding, advice, perceptions of level of income and cash flow, schemes for managing business and personal monies, perception of debt and previous experiences of dealing with the CA as a self-employed contributor but also as an employer or a previous employee.

Not everybody had a clear picture of the payment method in which they were participating. Some billed contributors with a long-term pattern of missing payments and arrears had lost touch with the periodicity of the scheme. Some people listed among direct debit contributors had also lost touch with the way their payments were made – they relied on other people to deal with them, or NICs represented such a small fraction of their income that they did not think about them.

Choices made about payment methods were linked to aspects of control and financial management. For each method, both high and low earners with regular and irregular income flows could see advantages, and constraints such as low household income or high overdrafts operated on each side. Direct debit arrangements offered convenience and less engagement to those to whom this was important.

Among higher earners, especially customers who received bills and had a pattern of late payments, there was support for an annual bill. There was little interest in paying by debit card, and it was interesting that one of the few who was enthusiastic noted that he would certainly have used a debit card, but he doubted that this would have changed much his irregular payment pattern.

Across the whole group, the main suggestion for an improvement of services was for more information on a regular basis. It would be useful to be told regularly about the links between NICs and entitlements, and the exemption for low earners. People said they had learned about these things too late, and there were examples where this was linked to non-payment.

5 WHAT ENCOURAGES COMPLIANCE WITH CLASS 2 NICs PAYMENTS?

Chapters Five and Six of the report are concerned with aspects of compliance and non-compliance with payments of Class 2 NICs. To comply fully with requirements, a person entering a period of self-employment should register immediately with the CA and, if liable for contributions, make regular Class 2 NICs until the end of the period of self-employment, or until no further contributions are required, for example on retirement. There is considerable non-compliance, however. Some people delay their registration, have missing NICs payments or build up arrears.

It is important to remember that individual people do not fit neatly into those who do and do not register, do and do not pay regularly and do and do not get into serious debt. Individual people may fall into all these categories at different stages in their working lives. We have already seen that some people who were selected for this study on the basis of current regular payments had, in the past, experienced debt to the CA. On the other hand, some people currently dealing with the DCU or CRS had been fully compliant regular payers at other times in their lives. The analysis in Chapters Five and Six thus draws on interviews with all the contributors in the study group.

For purposes of analysis we look first in this chapter at what encourages registration and regular payments. Chapter Six then considers what leads to missing payments and debts to the CA and how people deal with these. In seeking answers to such questions, in both chapters, we look at the personal and business circumstances of the contributors themselves; their understanding of and attitudes towards NI; their beliefs about personal financial responsibilities, and the administrative practices and procedures of the CA. Understanding what happens in individual people's lives often depends on appreciating how a number of these different influences are linked together.

Chapter Five is concerned with the following significant issues for the CA:

- What leads to immediate registration at the start of self-employment?
- Why do some people delay registration?
- What leads a non-registered, self-employed person to register with the CA?
- What encourages regular Class 2 payments, once registered?

The structure of this chapter follows the four questions above, and the analysis seeks answers to help the CA encourage general compliance with registration and regular payments.

5.1 What leads to immediate registration at the start of a period of self-employment?

The best information about what leads people to register with the CA comes from those who started a period of self-employment fairly recently. First, there is more likelihood of accurate recall. Also, and importantly, the economic and social circumstances in which people started self-employment some years ago are different from those of today. It was, of course, interesting to hear from a man who started paying Class 2 contributions in the late 1940s that *'everybody knew about it'*, as we know that the Beveridge Report with the new insurance scheme was indeed widely discussed at that time. However, that context is not relevant now and provides few pointers to the CA in considering how to encourage today's new entrants to self-employment to register timeously.

To find answers to this question, we therefore looked at people whose most recent period of self-employment started within the previous ten years. There appeared to be two main patterns of influence which encouraged immediate registration.

The first was personal understanding of the need for a continuous contribution record in order to maintain entitlements. This was reported mainly by people who came into self-employment in their 30s and 40s, from a previous job as an employee. Most of those people had had fairly low earnings throughout their working lives, and had little in the form of private pensions or insurance. They had a previous pattern of paying Class 1 NICs in PAYE, understood the link to pensions, and took initiatives to find out what to do about NICs as a self-employed person.

People who had had a previous period of registered self-employment also knew that they had to notify their new venture.

It was not necessary to understand the importance of a contribution record, however, to register immediately. The second important influence was being told to register by a significant person, or having practical arrangements made on their behalf. Older self-employed relatives were influential. Thus a young woman with no previous business experience was encouraged by her parents to set up a salon, and they helped with many of the initial arrangements. They told her what to do about NI contributions. Another young woman explained that responsibility had been taken on her behalf. She had not thought much about NI herself but when she became a formal partner in the family business her father-in-law was careful that everything was done correctly.

Apart from relatives, staff who offered business advice at Enterprise Allowance meetings had also been influential. Young women using this scheme to start small enterprises remembered being told to get in touch with the DSS

straightaway. There was also evidence of proactive work by the DSS/CA in telling people about the need to register and pay contributions. A couple who opened a small shop remembered a visit from the DSS soon afterwards, to discuss NICs liabilities and suggest how these might be paid.

The CA may be able to do little to encourage private information giving, but already uses the other opportunities mentioned above – dissemination of information by Jobcentres, Business Start-up and their own staff. There may be other opportunities through large firms, as seen below.

5.2 Why do some people delay registration?

Only one man said that although he knew he should have registered and started to pay Class 2 NICs as soon as he set up in self-employment, he decided to wait some time before doing so. He is described at the end of this part of the chapter.

For everybody else who had delayed their registration, it had been a shock to discover an NI debt at an early stage in a new venture. Such people had gone on to make sure they understood what had happened, to check themselves that they did owe the money and to make sure it did not happen again. They explained clearly to the interviewer why they had been late in registering their move to self-employment.

A strong pattern emerged: either they had been unaware of their NICs requirements, in a period of transition, or else they had just not thought about NICs during the busy start-up period as they worked to get a new enterprise off the ground.

None of the transitions in which there was lack of awareness involved a move, by choice, from work as an employee to working as self-employed. Rather, they were moves that had been necessary to keep their jobs, when ‘employers’ asked people to become subcontracted workers, or they were what might be called ‘fuzzy’ transitions – changes in formal status which take place although the person concerned sees no clear moment of change of activity. There are often no triggers, or formal interventions that help people recognise their new employment status, and their new liability for Class 2 NICs.

This pattern of non-recognition of formal employment status has been recognised previously in research on non-take-up of in-work benefits by self-employed people (Boden and Corden, 1994). Examples in this study included women who had built up a small home-based activity into a source of family income. They gradually increased their hours of work and earnings, but were not aware that for purposes of social security administration they

had attained formal status as self-employed people. Other situations reported by men were the transition from student to self-employment by the musician, and building up a small craft business while living on the income from a window cleaning round.

People who were asked by previous employers to become self-employed sometimes did not understand the implications. A young man was asked to move to subcontracted status by his building firm, and a foster carer was told that all people offering foster care to her local authority were now to be treated as subcontracted workers. Neither of these changes in status were welcome to the people concerned, and neither grasped immediately all the financial regulatory requirements. Both emerged with a NICs debt for arrears during a period of initial non-registration and non-payment.

As we might expect, the people concerned were annoyed that they had not realised soon enough that they should contact the DSS/CA. The person who had had a window cleaning round pointed out that unemployed people got a lot of help and advice about starting a business, but there are few channels for similar help for people moving between different forms of low-earning self-employment. There were strong feelings that 'employers' who imposed self-employed subcontracted status on their work-force had obligations to make sure that the people concerned understood the implications.

A different reason for not registering at the start of a venture was being so busy with other practicalities that it was overlooked. A woman who decided to try, in a small self-employed capacity, work she was already doing for an employer, had many things to arrange at that period of her life. She had formed a new relationship and moved to a new area of the country. In the first months of her new enterprise she had to find suitable premises, contact potential customers, build up stock and arrange appointments. Her private life was also busy, moving to a new home. She did not think about NICs at all at that stage. The man who took an opportunity to work abroad said he had one day's notice of the flight that had been arranged for him and had little time for anything except packing.

There was no reason to think that anybody in this study who had not registered early enough had tried to evade NICs liabilities. The one person who explained that he purposefully delayed notification thought that what he had done was sensible. This man had previously worked as an employee in his father's business, and was familiar with the tax and NI arrangements for self-employed people. He was uncertain when he started up on his own whether his small enterprise would be viable. There was the option of returning to his father's firm. He had decided to wait until the first year's profit and loss account was available, to see how he was doing, before committing himself

either way. At that point, he planned to sort out the NICs that he knew would have accrued, and if he decided to continue on his own, would register as a self-employed business. It seemed to him that this left his options open, and saved administration and '*hassle*' that might prove unnecessary.

5.3 What leads a non-registered person to register with the CA?

Not everybody who recognised that they had delayed their registration remembered the triggers that had been effective in confirming their status with the CA, but some retained a clear picture of what had happened.

Those who were contacted directly by the CA included the young man who was waiting to see how things turned out, and the man who worked abroad. They were not surprised that the CA knew of their work, believing that information passed between previous employers, the IR and the CA. They were also not surprised when contacted that they owed Class 2 NICs.

The encyclopaedia saleswoman, on the other hand, was not expecting to hear from the CA. She had not realised that she had to register with the CA and start paying contributions from 'commission only' earnings, and was upset at the level of her arrears. She had worked out that her 'employer' probably provided lists of people in the workforce for regulatory purposes for various agencies, including the CA.

It was sometimes accountants who alerted people to their position. The two women who had started small businesses only realised they had done nothing about payment of NICs when asked about them by their accountant at initial meetings.

The foster carer discovered that she should have registered as self-employed when she tried to sort out her new way of receiving payment with the local authority finance office. Delays in 'wages' received under the new arrangements led to meetings and discussions and eventually she understood her new obligations.

All those described responded to the CA, or got in touch for the first time, as soon as they were alerted to the requirement.

This was not the case with the youngest man in the study group, who had been transferred to subcontracted status by his 'employer'. As we see in the next chapter, he had little grasp of what his new status involved, and was not good at managing his income. He '*could not handle it at all*' and said he did not respond to letters from various authorities. He found letters hard to understand, anyway, and did not seek help. Confusion and misunderstandings led to further delay in sorting out his NI position.

Findings here show that initiatives taken by the CA, using information gathered from other sources, was important in alerting people to their position in respect of Class 2 NICs. Some of those who understood what they were told readily complied and went on to pay regular contributions and make up arrears. They were relieved that they had not got further into debt, and that they had been contacted by the CA. Not everybody could deal with the information and letters sent to them however, and one person was poorly equipped to deal with the financial aspects of self-employment.

Other agents who are effective in triggering registration include accountants and ‘employers’ of people working as subcontracted, or on a commission basis, and it might be possible for the CA to strengthen these channels of information.

5.4 What encourages regular Class 2 payment by registered contributors?

This section draws mainly on the discussions with people who did not currently have missing payments. Some of those selected on this basis, as previously explained, did have a history of missing payments, but at the time of the interview, their contributions were up to date. Interviewers asked them directly why they were among people who were paying regularly.

The analysis also draws on what these people said about their knowledge and understanding of the NI scheme, the payments methods used, and their perceptions of debt, and penalties for non-payment. All such factors could be influential and the balance of the components was different for each person, as we might expect with a heterogeneous group of this kind.

The factors that appear to be influential are set out below; the order in which they appear is not significant across the group of people studied. Factors that can encourage people to make regular Class 2 payments include:

- feelings of obligation;
- incentives;
- avoidances;
- interventions;
- prioritisation of income;
- appropriate methods of collection;
- knowledge and understanding.

This section continues by discussing each factor identified.

5.4.1 *Feelings of obligation*

The belief that people paid their contributions because ‘*everybody has to*’ was widespread among those who currently had no missing payments. People who went further to explain that they usually complied with regulatory

requirements of all kinds tended to be women and older people. People rarely used terminology such as ‘legal’ or ‘the law’ in their own language, but, as they understood it, ‘*it’s the rule*’ or ‘*you’ve got to pay*’.

Personal philosophies or political views could strengthen feelings of obligation to pay, although as explained in Chapter Three, feelings of obligation to other people in a collective scheme were not strongly expressed by many. Some of the highest earners thought they ought to make some contribution to the needs of those who were not able to earn much, or were disadvantaged. The highest earning woman explained this as a personal belief, grounded in the way she had been brought up.

5.4.2 Incentives Links perceived between contribution records and the benefits and allowances available in return were identified as strong incentives to pay by people who had some expectation of needing such entitlements. Wanting a retirement pension was one of the main reasons for maintaining payments among people approaching retirement age. Elderly men whose health was poor, and whose businesses made little or no profit, explained that one of the reasons for continuing to keep the business going was to make sure that they could pay their NICs and get a full pension. A 62 year old man whose work as a tradesman now brought in only about £3-4,000 profit for himself and his wife had never enjoyed high earnings. His Class 2 NICs had sometimes fallen behind, although he had always managed to get on top of them again. In the last few years of his working life he was making certain that his record was up to date.

The small number of younger people who linked their own eventual need for a pension with making regular Class 2 payments tended to be people who were not making private provision, as they felt they could not afford it, or did not like the idea of private pensions.

Ensuring entitlement to benefits during periods of ill health was a reason for paying regularly, but it was also common for people to say that they wanted to be able to have hospital treatment if they needed it, and access to dental treatment and a GP. The mistaken belief that NICs were important in funding the NHS was mentioned as an encouragement to pay NICs among people at middle and higher income levels who were making private provision for retirement income, but could not also afford private health insurance as well.

5.4.3 Avoidances If we think of perceptions of obligation and incentives as positive influences encouraging compliance, we may characterise as negative influences those aspects that some people were seeking to avoid, when they tried to maintain regular payments. Some people wanted to avoid debts. There was a spectrum

of feelings and experiences of indebtedness, but certainly there were, among those without missing payments, people who said that they tried never to owe any money. It was people living on low earnings, whose business finances were relatively simple, who said this most forcefully. It was possible for them to conduct their business and private lives without owing money and this was what they preferred, even if it constrained business opportunities or reduced personal living standards. An Asian man explained that he would feel great shame if he owed any money.

Some people were seeking to avoid penalties for non-payment. These included being unable to have pensions and benefits. Other sanctions that people wanted to avoid included telephone calls or letters from the CA about money owed. People who tried hard to avoid debt did not even want to have to manage reminders or requests. Those who thought it was unlikely that they would get into arrears found it hard to think about the possibility of sanctions such as court proceedings, and were uncertain about what might happen. Some wondered if interest might be charged on arrears, or whether fines were imposed for non-payment. It was hard to discuss the possibility of court proceedings as an eventual penalty for non-payment with people who thought this was a most unlikely development for them personally. The Asian man said that he did not want to talk about such things at all, they were so shameful.

It was people who had least experience of missing payments, or having to deal with the CA about arrears, who expressed the strongest wish to avoid such things. Also keen to avoid sanctions were some who had previous experiences of major financial problems and multiple debt, who hoped such problems were not going to return.

One reason for maintaining regular Class 2 payments was to keep the CA at arms length. One family business had experienced scrutiny from NI Inspectors in respect of employers' Class I contributions. The business partner interviewed did not want any further investigations of this kind and it thus seemed sensible to keep his personal contributions up to date. Another entrepreneur at higher earnings level tried to keep out of the spotlights of financial regulatory agencies. For him it was therefore wise to avoid serious arrears with the CA.

5.4.4 Interventions

Advice from other significant people could be a strong influence in maintaining regular payments. People who trusted and believed the advice they had received that it was important to maintain regular payments, had done so. When such advisers also took over practical responsibilities for ensuring NICs payments, this helped people with little personal interest or knowledge to establish regular payments.

Following advice or leaving practicalities to other people did not always work, however, as shown in the next chapter.

5.4.5 Prioritisation of income

People who maintained regular payments were found throughout the earnings range. Some of the poorest people had the strongest commitment to regular payments, and there was no clear link between earnings levels and payment patterns.

Within financial management strategies and personal budgeting, high prioritisation of NICs encouraged regular payments. When Class 2 NICs were competing with pressing domestic expenses, however, they could go to the bottom of the list of priorities, and we discuss this further in the following chapter.

5.4.6 Methods of collection

We saw in the previous chapter that using a payment method that was perceived as appropriate encouraged regular payments. Some felt that bank transfer methods were helpful in maintaining their compliance. They did not have to remember to pay and payments were managed automatically. Others felt that they would have been more likely to default on monthly payments, and they needed to be able to juggle the quarterly NI bill along with others to keep on top of all their commitments.

Experiencing polite and helpful CA staff could also help people to maintain payments. People who anticipated a positive response when they telephoned were more likely to seek information, and more likely to ask for advice if they anticipated problems in meeting a payment.

5.4.7 Knowledge and understanding about NI

It was not necessary to have good understanding about the NI scheme to make regular payments. Among people without missing payments there were some who had little grasp of liabilities or entitlements. However, as explained in Chapter Two, some people said that it would be generally helpful to have greater understanding about NI, and they would take part in a scheme more effectively if they knew more about it.

The finding that gives cause for concern here is that compliance appeared to be encouraged by a specific misunderstanding – that Class 2 NICs were important in counting towards NHS provision.

This section concludes by presenting two illustrations to show how a number of influences may combine to encourage a pattern of regular payments. Ms A received quarterly bills; Mr B paid by direct debit.

Ms A was 48 years old, and had a small shop. Her husband had a separate self-employed business but profits from both enterprises were low. Ms A believed herself to be below the low earnings exemption threshold but preferred to pay full contributions in order to get a full Retirement Pension. She had claimed Sickness Benefit during a period in hospital, which was helpful. Neither she nor her husband supported the idea of private pensions.

Ms A had to manage household bills carefully, and the NICs bill was probably lowest on her list of priorities, below the electricity bill. However, she had never missed a payment, and did not like being in any kind of debt. She said she would be most unlikely to miss a payment - if earnings really dipped she would have to get another job. She had never thought what might happen if she did not pay her NICs bill, apart from losing entitlements and was surprised to learn that some people do build up serious arrears. Ms A said her husband shared her views about paying money that he owed. He had chosen to pay his own Class 2 NICs by direct debit, however, because he was less organised than she was and more likely to forget to pay a bill.

The second illustration was Mr B. He was the same age as Ms A, and had experience of several small businesses. He was currently working in a highly competitive trade, in a family enterprise. Some relatives were business partners and some were employees. Other employees were taken on on a casual basis.

Mr B did get into NICs arrears in 1989/90, soon after he started in business, and he decided to have a direct debit arrangement to prevent this happening again. He did not mind paying NICs, as long as the system was not abused by people who claim benefits when they should not. However, he did not expect that the Retirement Pension would be worth much when he needed it, and had made private arrangements as well. He thought part of the NI contributions went towards paying for hospitals.

Mr B said he needed his accountant's help to manage the high turnover. He had 'run-ins' with the IR and the NI Inspectors recently and had become uncertain about his accountant's competence, and the long-term viability of the enterprise. He was keen to keep his own NICs in good order.

5.5 Summary This chapter has shown that experience of paying Class 1 NICs alerted some people to the requirement to register as a self-employed contributor, and that advice from other people could also be helpful.

It could be specially hard for some people to recognise their liabilities when they arrived at the formal status of self-employment without experiencing a change in circumstances. People moving to subcontracted status did not always recognise that they should register themselves and start to make payments. Discovering arrears due to delayed registration was usually an unwelcome surprise.

A different reason for non-registration was that some people just did not get round to doing this in the busy start-up period. Triggers that alerted people to their status and their NICs obligations included enquiries by the CA, and discussions with accountants and advisers.

A number of factors influenced the maintenance of a pattern of regular payments. Appropriate payment methods were helpful, although personal and business characteristics were also important.

6 WHAT LEADS TO MISSING PAYMENTS AND DEBT?

In the general population there is a wide spectrum of views and experiences of personal indebtedness. Some people avoid owing any money while others at similar income levels find themselves in multiple debt. This is sometimes linked with previous misuse of credit arrangements, although others are skilled at managing forms of credit made available to them, and their use of credit does not turn into problem debt. For some, the idea of being in debt evokes feelings of shame and guilt, while others are more comfortable about owing money, and may take a pragmatic view of indebtedness as a way of practical management of their lives.

Self-employed people who have to manage business monies may have additional opportunities for access to credit, and risks of different kinds of debt. People may feel differently about using credit or owing money in business, compared with their feelings about financial management in their personal or family life.

Our study group was heterogeneous in personal and business characteristics, and it was likely that the group would reflect a wide range of feelings about and experiences of indebtedness, and different concepts of 'problem debt'. The analysis confirmed this - each of the 38 people had a different story to tell about the significance of debt in their lives, and how they felt about owing money to different creditors. It is not useful, for purposes of this enquiry, just to describe this range of views and experiences of being in debt across the study group, or even to compare those currently without missing payments with those with arrears.

Rather, the analytical approach taken follows that of the previous chapter in seeking answers to key policy questions. This chapter therefore goes on to look for the key factors that help explain:

- what leads to missing payments?
- what helps people regain regularity of payment?
- why do some people fail to restore a payment pattern?
- how do people deal with debts owed to the CA?

Much of the material in this chapter draws on the interviews with people who were currently being dealt with by the DCU and CRS. However, some of those who were currently paying regularly also had provided useful information about their previous experience of Class 2 arrears, and the analysis also draws on this material.

6.1 What leads to missing payments? There were many different factors, and combinations of factors that led to people missing Class 2 payments, summarised below:

- financial constraints;
- financial choices;
- personal characteristics;
- transitional situations;
- receipt of wrong information;
- experience of procedural and administrative aspects;
- lack of commitment to NI scheme;
- dissatisfaction with entitlements;
- views on indebtedness.

There is no significance in the order of the factors summarised above. Different people identified different main reasons for having missed payments, or different combinations of reasons. This part of the chapter goes on to look at each factor in turn, to explore its significance and the circumstances in which it was influential.

6.1.1 Financial constraints

We saw in Chapter Two that some of the lowest earners in the group had no other significant source of income. Some of those who might have been granted exemption from payments on the grounds of low earnings did not know of this option and were trying to maintain their contributions. In this study, the people who appeared to be in greatest financial hardship were older people approaching retirement age, with poor health. Put simply, these men did not have enough money to pay Class 2 contributions. Two businesses had traded at a loss.

Two other older married men, in similar circumstances, ran businesses which still generated a small profit of less than £6,000 which met their living expenses, but it was hard to pay NICs. These were both people who juggled their NICs bill along with other payments due, and one said that he had missed payments in the past when bills for electricity or gas took priority.

There were also pressing financial problems for the man whose family of four people depended on his annual profit of £6,000. Responsibility for juggling their bills fell to his wife. So far, they had not missed a NICs payment, but thought this might happen as they did not have enough money to meet their needs.

Other examples of people whose earnings from self-employment were insufficient to meet their liabilities were those whose businesses ended in what they themselves called '*disaster*'. When businesses start to collapse,

regular NICs payments may be low priorities compared with rents for premises, bills for stock, wages to employees, telephone and electricity bills. Two women in their 20s and 30s had been optimistic when they each started small businesses and had acquired large financial commitments quickly. In retrospect, the women saw that they had been inexperienced. It had been hard to attract enough trade, and both businesses had major cash flow problems. Both women found themselves in serious financial difficulty. They had both registered with the CA, but one had been late in registering so started out with Class 2 arrears. As the businesses declined and got into difficulty, so NICs payments stopped.

People have different levels of skill in managing their personal money and for some, financial constraints were due more to lack of budgeting expertise than to low earnings. The young man who had been asked to work as a subcontractor for the firm which had previously employed him started his Class 2 contributions history in arrears, through late registration. He found it hard to manage his money when he started receiving earnings on a monthly basis however, and went rapidly into multiple debt.

6.1.2 Financial choices

At higher income levels where people could make more choices about financial management, some saw advantages in letting payments slide, and settling the arrears by cheque once or twice a year. Advice from his accountant that it was more sensible to pay in arrears had led one man into a general pattern of missing payments and meeting arrears on demand.

People who chose to operate businesses at the edge of a high overdraft could also miss NICs payments if direct debit requests were refused.

People in the middle or higher income group, who were interested in ways of maximising their income within regulatory schemes (tax and NI), sometimes pointed out that the NICs scheme did offer opportunities, which they would take unless prevented.

6.1.3 Personal characteristics

Being unable to read or write meant that an older man left all his bills to his son. He knew that NICs had to be paid regularly, but was disadvantaged in dealing with this himself. The NICs bill, along with others, sometimes stayed on his mantelpiece waiting for attention, and payments were missed as a result.

Those who can read and write have different levels of skill and interest in dealing with administrative day-to-day tasks. The childminder thought she was not good at this kind of thing, and tended to put tasks off. Moving house had been disruptive, and during that period she had avoided thinking about other things, including the NICs bills that arrived.

Other important life events that had distracted people from routine tasks included having a baby. One young woman had stopped working at that point, and had not dealt with the bill when it arrived.

6.1.4 Transitional situations

We saw in the previous chapter that confusions and misunderstandings arose at the point of transition from one formal employment status to another, and this was an important reason for non-registration. When such people did eventually register with the CA, they were notified of arrears in respect of the payments they had already missed since the start-up dates identified. They described situations such as building up a small home-based activity into a source of family income; the transition from student to self-employed person; and moves between different kinds of small-scale self-employment interspersed with periods on Income Support. Moving from being an employee to being subcontracted by the same 'employer' was another transition linked with non-registration, and missing payments. People who had this kind of experience were described in Chapter Five.

There were further examples of transitional situations which led to missing payments as people disbanded limited companies and became self-employed. Ms C had disbanded the company that she had formed with a colleague, and was currently working on her own. She had known that she must register immediately as self-employed. It made her angry that, despite letters and telephone calls and repeated efforts and explanations, it had been hard to convince the CA that she was now self-employed. As a result she missed payments and fell into arrears.

Moving in the opposite direction, Mr D had started trading in a business partnership but quickly incorporated his business, and was currently in dispute about his continued registration as a self-employed person. He did not accept that he had any missing NI payments or arrears.

Others had also not 'ended' a period of self-employment effectively, in terms of communication with the CA. They had stopped paying Class 2 NICs, because they were no longer doing their work, but they were still apparently registered as self-employed by the DSS/CA, which recorded missing payments and accumulation of arrears. A woman who said she had stopped work in 1990 when she had a baby, went on receiving NICs bills even though she was claiming Maternity Allowance. The encyclopaedia saleswoman said it had taken many months, and several telephone calls, to convince the CA she had left that work, even though she was by then paying Class 1 NICs in another job.

In retrospect, exact details of these apparent failures of communication with DSS/CA are unclear, and we do not know what correspondence or telephone conversations took place. However, similar circumstances were described

by some of the people who refused to take part in the research altogether. They told the interviewer that they were no longer self-employed and were angry that this information was not being dealt with effectively by the CA (see Chapter Two).

It may be useful for the CA to look at their current arrangements whereby people notify the end of self-employment. At the time of writing there was no specific form on which people could notify that they were no longer self-employed. The CA relied either on personal letters and telephone calls from contributors, or on what was learned when direct debit requests were refused by banks. It seems possible that some missing payments were being recorded against people who were no longer self-employed, tending to inflate levels of non-compliance.

6.1.5 Receipt of wrong information

We saw in the previous chapter how people act on advice and information provided by others who are trusted to have authoritative knowledge and experience of self-employment. When the advice is right it can be helpful: for instance, we saw that advice helped people to register at the appropriate time, and reinforced the importance of regular contributions.

Information and advice from other people can be wrong, however. Some people who were told that they did not need to pay Class 2 NICs did stop paying. The musician heard from a friend that people who worked as he did, combining fees and sub-contracted work with occasional spells as an employee, did not also need to pay NICs as a self-employed person. The musician knew personally other people in his occupation who did not make any contributions. He stopped paying the Class 2 NICs bills without seeking further information.

6.1.6 Experience of procedural and administrative aspects

We have already seen that, for some people who wanted to regain a pattern of regular payments, a polite and helpful response by the CA to missing payments at an early stage, and sensible arrangements for making up arrears, had the effect of encouraging compliance and resumption of regular payments.

For the CA the disadvantage of this is that people who prefer to let payments drift find that they can do so fairly easily. Those who told the interviewer that they missed payments because the system allowed them to were fairly knowledgeable about eventual sanctions. They knew that they had sufficient resources to pay off the arrears before the situation became too serious, although some had previous experience of being summonsed to court for non-payment of debts, including debts to Customs and Excise, the IR and the DSS.

For some people, and in some self-employed occupations, experience of a court judgement, or even bankruptcy, is not a major sanction in preventing further non-payments. One man who had faced bankruptcy charges in a previous spell of self-employment, when he ran up a large unpaid VAT bill, had not found this a disadvantage in getting the kind of work he was currently doing, and he was not worried about his bill for arrears. He agreed he did owe the CA the missing payments, and intended to pay before a court summons.

As with receipt of advice, management of NICs by another person can have effects in opposite directions. When payments are managed appropriately, this can act to encourage regular contributions, and avoid missing payments. When payments are not being made in the way anticipated or believed, then this can lead to missing payments. One high earning man told the interviewer that his accountant took care of all his NI contributions, and he put any correspondence from the CA in the bin, believing it to be copied automatically to his accountant. The fact that he was selected for this study on the basis that he was being dealt with by the CRS suggests that appropriate arrangements had not been made. He did not properly understand the difference between Class 2 and Class 4 contributions, and he was dismissive of the idea that there might be outstanding debt.

6.1.7 Lack of commitment to the NI scheme

This factor was not identified by anybody as the main reason for having missed payments, but analysis suggests that it could be a strong reinforcement of other factors. For example, the musician who had believed his friend's advice that he need not pay, would have preferred not to be part of the NI scheme. He was one of the people who thought that people should make their own pension and insurance arrangements.

A joiner, who had made private pension arrangements since he was 25 years old, and expected little in the way of personal return from his NICs, was one of the people who said he '*begrudged paying it*' and also one of the people who said his chosen pattern of payment was to send an occasional cheque to clear arrears.

6.1.8 Dissatisfaction with entitlements

The strongest dissatisfactions about returns for NICs came from men who had put in late claims for sickness benefits to cover periods when they had been in hospital. One of the highest earning men, who also paid Class 4 NICs and employers' Class 1 NICs had been in hospital for nine months. He had been so angry to discover that he was not entitled to benefit for the full period that he had decided to withhold Class 2 contributions in order to recover the amount of Sickness Benefit he believed he was owed, and to demonstrate his dissatisfaction.

There were other indications that some contributors expect to be less cooperative with the CA if they are dissatisfied with entitlements. We have already described how one man declined to be interviewed because his entitlement to Sickness Benefit had seemed such a poor return for his NICs.

6.1.9 *General views on indebtedness to CA*

In the previous chapter we explained that strong feelings that it was wrong to owe any money did encourage regular payment of NICs. When some people talked about owing money, however, they often referred more to the outcomes and practical effects of different debts that might arise than to the moral or emotional connotations of owing money per se. Thus, some low earning people with families felt they were less likely to risk defaulting on housing costs, or utility bills, and they would prioritise spending on food, even if this meant missing NICs payments. It was possible to make up the NICs arrears without the major impacts attached to other non-payments, such as loss of home or electricity disconnection.

NICs were not always low on the list of priorities for avoidance of debt, however. Some people argued that if they could not keep their work going, everything else would be jeopardised, meaning their homes and families. For these people, keeping up to date with business bills was most important and this could include tax and NICs.

The findings so far, in respect of the factors that lead to missing payments, suggest that there are some opportunities for intervention by the CA, with information and communication, that might prevent missing payments. In particular, the points of transition between different kinds of employment status do offer a focus for attention and action. However, since so many of the factors identified are related to personal characteristics outwith the CA's influence, there remains considerable risk for many people of missing some Class 2 NICs payments. So a key issue for the CA is to determine what helps people with one or two missing payments restore their payment pattern, and not go further into serious debt.

6.2 *What helps people regain a regular payment pattern?*

There is not much information available about what helps people to regain a regular payment pattern after missing just one or two NICs, because not many people had had this experience recently. There were people who currently had no missing payments who reported that they had defaulted in previous years, but details of what had then happened, in terms of negotiating with the CA, were not always clearly recalled. Some people, however, mentioned that the matter had been dealt with helpfully.

Among contributors currently dealing with the DCU, one woman who had been late in registering was just about to start repaying arrears that had accrued, as well as the quarterly bills that she expected to go on receiving. For her, living on a low income and not good at managing money, one important aspect had been that staff at the CA had remained pleasant and helpful. She had agreed instalments of £65 a month, which seemed manageable, and appreciated having payments slips to help her manage these.

The woman working for commission only had been annoyed to find that she owed NICs after starting work. She telephoned the CA when she received their letter, paid the arrears in a lump sum immediately, and made direct debit arrangements for further regular payments. The man who had deliberately delayed registering had always expected to have to pay a year's arrears. He had telephoned at the end of his financial year, registered with the CA, and agreed that £392 was owing. He arranged a direct debit for his current NICs, and agreed £30 monthly instalments towards the arrears. He was pleased that it would be organised in a 'business-like' way, and had no suggestions for improvement. He understood clearly the difference between the DCU and the Direct Debit Department, and observed that this seemed a well-organised arrangement.

It had not always been easy to arrange payment of arrears, however. One woman who had missed two payments, through non-registration, had agreed to pay three instalments of £50, at the same time arranging a direct debit for current liabilities. It proved hard to communicate effectively however, and she thought it had taken nearly a year to bring the matter to a conclusion. Her belief was that she had sent the first instalment without the appropriate payments slip, but with a covering letter, and this had not fitted the system. She was dissatisfied with the additional telephone calls and letters that had been necessary, and wished she had settled with a lump-sum payment.

Although there were few examples of people who had already managed to restore a regular pattern of payments, what seemed important to people was that arrangements could be made speedily, and easily, and that things were dealt with in a business-like way.

Other contributors currently dealing with the DCU were no longer liable for regular Class 2 NICs, having passed retirement age, or left self-employment. We look at their experiences of dealing with the debts in the next part of the chapter.

6.3 Why do some people fail to restore a payment pattern?

Analysis suggested that in this study group, people who had not restored a pattern of regular payments after approaches from the CA (through the DCU) fell into four groups:

- those who chose not to;
- those with severe financial constraints;
- those who were no longer liable for regular NICs;
- those with problems of communication with the CA.

6.3.1 *Choosing not to restore a pattern of regular payments*

The situations of people who chose not to try to restore regular NICs payments with the CA, and those who continued in their preference to settle NICs by cheques when convenient, have all been described already. For example, the man who had incorporated his business believed he was not self-employed and did not intend to pay; a businessman had withheld NICs to demonstrate dissatisfaction, and two men continued to make payments in their own way.

These people understood the penalties and sanctions that might follow, in terms of loss of entitlement and possible court action, but had not been put off. The person who had deliberately withheld his liabilities expected to demonstrate his dissatisfaction by going to court. The other three men expected to be able to avoid sanctions, by settling eventually, or resolving the dispute.

6.3.2 *Facing severe financial constraints*

For one group of people, the missing NICs payments were part of a slide into severe financial difficulty in self-employment. There was no money to pay NICs, or the other mounting bills and debts. The elderly man with health problems had little further work before retirement and had little to live on; the young subcontracted worker got into multiple debt; the hairdressing and shop fitting businesses ended, with both proprietors facing financial problems; an elderly shopkeeper had a stroke as debts mounted. All these people had left self-employment by the time of the interview.

6.3.3 *No longer liable for regular payments*

People who did not re-establish a regular payment pattern included those who passed retirement age and were no longer liable, and a woman who left work altogether to care for her children. There were no examples in this study of people who changed their employment status specifically to avoid Class 2 liabilities.

6.3.4 *Experiencing problems in communication with the CA*

There remain a few people for whom there had been some breakdown in communication with the CA, which had contributed to the failure to restore a regular payment pattern. It is hard to understand what had happened here, however. The people involved were those with whom some communication problems might be expected: the man who could not read or write; the man who worked abroad, and the man who apparently did not realise he owed any money to the CA because he left all such matters to his accountant.

Looking across the findings from this part of the chapter, the personal and business circumstances involved were mostly outwith the influence of the CA. Those situations where communication with CA had been problematic were not easy to understand. However, it is possible that personal visits from CA local staff might have resolved some of the communication problems.

In the final part of the chapter, we follow the people previously identified, who had failed to restore a regular payment pattern, to see what happened to them and how they handled the debt.

6.4 How do people deal with debts owed to the CA?

Those in dispute with the CA had not been deterred from non-payment by the possibility of sanctions. The man who had expected to be summonsed to court had been found guilty of non-payment, and he paid the arrears and costs. He felt he had made his point. He said the matter had been properly dealt with, and he intended to pay further contributions, although it seemed likely that he would continue the pattern of sending cheques once or twice a year. The man who said he had incorporated his business maintained that he was an employee, had changed his address but not notified the CA in order to avoid further communications.

Those who thought they would probably go on paying NICs by occasional cheque had not changed their minds. One had received a court summons for non-payment and was about to send his cheque. The other was awaiting developments - he would certainly avoid a court judgement because that would affect his credit rating and be detrimental to his business.

Younger people who had got into severe financial difficulty when self-employed were managing to improve their circumstances. Exact sequences of events were not clearly recalled, but they spoke about the general 'nightmare' of visits from bailiffs, creditors' representatives, and summonses to court. They were currently working as employees when interviewed; had received help from banks, accountants and in one case a new domestic partner and were gradually reducing what was owed, to the CA, the IR, and in one case the local authority and utility companies. They were hopeful that they were in control of their financial circumstances again, and had no complaints about dealings with the CRS.

The oldest men who were dealing with the CRS still had serious financial problems, and it seemed unlikely that they could repay what was owed to the CA - one had retired, and the man who had suffered a stroke was cared for by his wife.

People who were no longer liable for regular payments were not certain of their current situation regarding the money owed. The 66 year old man thought he was coming to the end of his instalments to reduce debts, but a young woman who had not had paid work for seven years wondered what had happened. She had not heard from the CA for several years.

Among those for whom there had been some kind of communication breakdown, the taxi driver had been surprised that a court summons had arrived. His solicitor had advised him to pay the debt, and he remembered that he did not have to pay all the court costs involved, for which he was grateful. He thought the CA had been '*quite fair*'. He hoped he would be able to meet further regular bills, but said he had struggled with financial problems all his life.

Although the situations described are all different, we can sum up the factors that help people deal with debts to the CA as:

- considerate, understanding and helpful CA staff;
- time to pay, sensible negotiations, instalments;
- advice and support from accountants and business partners;
- skilled assistance in dealing with multiple debt;
- family support;
- stability of income, sometimes from a change of employment.

6.5 Summary Many factors lead to missing payments, and some of these are associated with personal and business characteristics, where the CA can exert little influence. However, there are some opportunities for intervention by the CA, where information and communication might help people to avoid missing NICs payments.

Most people tried to restore a regular pattern after one or two missing payments. Those who failed to do so included people who were choosing not to; those with severe financial constraints; people who were no longer required to pay Class 2 NICs; and people for whom there had been some problems of communication with the CA.

Those who had got into serious debt to the CA, and dealt with the CRS, generally had no specific complaints about the way they had been treated. Most were trying to repay what was owed, but some were currently in personal circumstances from which it would be hard to repay debts. Only one person was purposefully avoiding settling debts, a person in dispute with the CA about his employment status.

7 DISCUSSION

Findings from this study fill some of the gaps in our knowledge about self-employed people with liabilities for Class 2 NICs. As with other qualitative studies of this kind, what has emerged provides pointers, insights and explanations. Findings about the way in which self-employed people participate in the Class 2 scheme should be used to interpret and understand what influences compliance and non-compliance among the wider contributor base. Although the study group was not a representative sample and findings should not be generalised, there are nevertheless some strong patterns emerging that it is important to consider.

This final chapter points to general issues that have emerged from the study which are likely to be of key importance to the CA in its efforts to improve compliance with Class 2 NICs requirements.

7.1 Beginning and ending self-employment

There were many examples throughout the study group of the problems that can arise at the beginning and end of periods of self-employment, in respect of Class 2 contributions. As people attained the formal status of a self-employed person, for social security purposes, they sometimes failed to recognise this at the appropriate time. This was often associated with a change in formal status that took place without the person concerned experiencing much change in occupation or activity. There were no triggers or external interventions which alerted people to their new status.

Even when people did understand that their employment status had changed, there could be confusions and disputes between potential contributors, their 'employers' and the CA itself about how they should be dealt with. This particularly affected people who were working in the 'grey areas' between more distinct forms of employment, such as company directors and subcontractors.

People who were newcomers to subcontracting sometimes did not understand the resulting implications for their NICs. Subcontracting is a traditional way of working for men in the building industry and associated trades, but is now also widespread in other occupations and industries. There was also a lack of awareness of the implications of employment agreements for newcomers to 'commission only' working and others who joined large controlling companies but remained formally self-employed.

There are not always clear ends to self-employment either. Women sometimes wound down their work when they were expecting babies, and in some kinds of occupations it was then possible to 'do bits and pieces' or 'keep their

hand in' while combining this with family responsibilities. People whose health deteriorated so that work came to an end as they approached retirement age did not think of themselves as '*not self-employed*' which might have triggered an approach to the CA. They thought of themselves as '*waiting to get to retirement*' and if there were long-term patterns of ill health they saw no clear distinction between being '*sick*' and '*being able to work*'. For younger people facing business collapse, the pattern was one of a slide into business loss, and debt to several creditors, and this descent could last several months. The point at which their business ended was not distinct, especially if they found it hard to accept their failure and struggled on longer than might have been sensible, in financial terms. In a dual earner family, especially if the working partner has a reasonable level of income, a small failing business can continue in this way for longer than might be possible if the proprietor had to guarantee their personal income, and register their unemployment in order to claim out-of-work benefits.

At the beginning of a period of self-employment the circumstances and experiences described led, for some, to non-registration as a Class 2 contributor, and subsequent missing payments, with demands for arrears as matters were eventually sorted out. Administrative work was increased for the CA. The people themselves started their Class 2 contribution record in arrears, and were shocked to discover themselves in this situation. In low-earning work the arrears could be a major problem at the start of a new venture and it could be hard to make up the missing payments and establish a regular pattern of contributions.

At the end of a period of self-employment, the circumstances described could lead to the recording of missing payments against people who did not have self-employed earnings. Sorting out the problem meant additional administrative work for the CA and annoyance for the people concerned. The estimated level of non-payments might be wrongly inflated, or some people might pay arrears which were notified but not properly due.

It would seem worthwhile looking for any initiatives that the CA might take to help people recognise their formal employment status and the implications of this for NI purposes. Similar issues have arisen for the Benefits Agency and the Child Support Agency, and there may be comparisons that can be made. Suggestions made by people in this study included availability of official forms, on which to notify the end of a period of self-employment. The CA might also consider how firms with large subcontracted or 'commission-only' workforces could be encouraged to pass information and explanations about paying NI to the people who worked for them. There were strong criticisms of such employers, some of them large multi-nationals, high street names and local authorities, who were thought not to be meeting their responsibilities to people who worked for them in a self-employed capacity.

7.2 General understanding about NI

The gaps in understanding about the general NI scheme, and Class 2 contributions and liabilities were contributing to non-compliance, or at least, not encouraging compliance in a number of ways. Incentives for maintaining a contribution record were reduced for people who were unaware of entitlements. Confusions about different Classes of contributions led to missing payments. Awareness of the Small Earnings Exception rules might have prevented some non-payments, by providing an alternative option to arrears. This was important at the end of a period of self-employment, and among people long-established in self-employment, as well as among people whose low earnings were associated with starting up. People needed better understanding of how to apply for benefit in periods of ill health, before they became ill, so that they did not miss out. This latter problem was a source of great dissatisfaction among those people who had this experience, and led to non-co-operation, even non-compliance with further payments.

One way of providing more information is to use the vehicle already available – the quarterly bill mail-out, and people made this suggestion themselves. Those who had direct debit arrangements which were being met regularly seemed generally less in touch with their contributions circumstances than those paying regularly by bill. Mailing a regular information sheet to the direct debit customers might be helpful, and this was also suggested by people themselves.

There are a number of other routes to contributors and potential contributors, which the CA may want to consider. People who regularly advise self-employed people such as accountants and book-keepers, and financial officers in large firms and companies can encourage compliance, and literature and information designed for their use might be helpful. The CA is already in touch with many employers, and many of these are people who offer work to self-employed people. One route for dissemination of information is already available.

There was evidence of some loss of confidence in the NI scheme, in the belief that the state Retirement Pension was being allowed to wither. This did not encourage compliance, and policy-makers must address this. The possibility of promoting the importance of NICs by emphasising entitlements by way of return is harder for the CA to handle if there are likely to be major changes in the Retirement Pension scheme. On the other hand, mistaken beliefs that Class 2 NICs were important in maintaining NHS provision were encouraging compliance. We do not know whether there would be any effect on compliance if it were widely understood that only a small part of people's NICs went towards the popular NHS.

7.3 Payment methods

It was clear that appropriate methods of paying Class 2 NICs were important in helping people meet their liabilities. Direct debits, which are favoured by the CA, did suit many people who chose this method of paying. However, some of those who preferred to pay in response to bills said that they could only manage to pay NICs from their low incomes, or irregular cash flow if they had longer periodicity of payments, and some people do not have bank or building society accounts, for reasons which are important to them.

There is a problem, however, in that the billing system does offer some opportunities to people who try to maximise their incomes in ways made possible within regulatory systems. Some people chose not to pay the regular bills, and had managed their NICs payments over a number of years by sending cheques to cover six months, or annual dues, or only *'when chased'*. There was some evidence that accountants see this as an acceptable way of maximising income, as interest is not charged on arrears, and it is possible to go a long way along this course of action without effective sanctions. Some people knew that as long as they sent a cheque when the *'final demand'* from the CA came, nothing much would happen and they could maintain their contribution record.

It is illegal not to meet Class 2 liabilities, and there is inequity among contributors if some choose not to comply fully. Practical problems that arise for the CA include the extra administrative costs of dealing with people who choose to behave in this way. A problem of a different order is the lack of credibility of the CA, if it is relatively easy for people not to comply. There are options for the CA to consider, such as rewards for quick payment, making an administrative charge for late payment, fixed penalties for late payments or charging interest. Although self-employed people may be liable to pay Class 2 NICs, the penalties described might make it harder for people who try to comply to do so, if they are facing financial constraints.

There was no evidence from this study that the introduction of debit cards as a third option might encourage late payers to comply. There was little support for use of a debit card in this study group. There was some mistrust of the use of cards, and confusion about the different kinds of cards in circulation, and how they might be used. This was surprising, perhaps, as there appears to be widespread use of cards among the general population. The finding may be linked to the selection of the study group, as people who have arrears to the CA or have had experience of serious financial problems may be less confident about their use of cards, or feel more restricted in their management of money. Nevertheless, in this study, even people who currently had no missing payments were not much interested in using debit cards to pay NICs.

7.4 Dealing with the CA Although a few people had specific complaints about the time it had taken the CA to resolve their situation, there was general satisfaction about what might be called service issues. People had not, in general, received letters that they did not understand. Most of those who had spoken to CA staff on the telephone, including staff who were dealing with their missing payments and large debts, said those people had been polite, and had explained what was necessary. People who had been anxious about getting in touch, because they faced financial constraints, had been relieved that they had not been made to feel guilty. Some observed that staff did understand how small businesses worked in terms of cash flow. The man who had purposefully allowed his non-payment to be dealt with in court said that the matter had been dealt with properly. Not being asked for interest on payments that sometimes could not be met was experienced as fair and reasonable, especially if arrears had accrued when people were unaware of their liabilities. This was contrasted with the harder line taken by the IR, in charging interest on unpaid tax, and fines imposed for not paying Class 1 employers' contributions.

Those people who were asked to compare how they were dealt with by the CA with the service received from the IR or Customs and Excise thought that things were easier with the CA, and paying Class 2 NICs was compared favourably with paying Class 1 employers' contributions, in terms of the administrative work necessary. People had noticed that there had been administrative changes at the CA in recent years, and there were observations that the CA seemed '*better organised*' than it had been.

This generally positive image of the Agency and the staff, at all levels, did act to encourage compliance. Communication did not seem hard, in general, and people were prepared to seek advice. There may be some disadvantages as well, however. A tolerant and benign image did nothing to discourage people who went to the limits of non-payment, short of court appearance. Some people thought that they might have paid more regularly if the CA had been more assertive, or asked for interest on arrears. Those who suggested that financial penalties might be effective tended not to be low earners. Seeking interest on arrears among people struggling to regain a regular payment pattern would have been a hard blow to some of the poorer people interviewed, and probably counter-productive.

The CA has a hard line to tread, in seeking to encourage compliance from differently motivated people, but it seemed that there would be much to lose in moving away from the current positive image.

To conclude, the study has shown the range of factors that influence compliance and non-compliance with Class 2 NICs. A number of these are personal and business characteristics of the people concerned and the enterprises in which they work, over which the CA has little control, such as health, literacy, income level, business skills and experience, and cash

flows. There is scope, however, for the CA to adapt its service and collection methods so that these different characteristics are accommodated as far as possible, to encourage regular payments. The study suggests that there are further opportunities for information provision to contributors themselves, and, importantly, for other people in contact with them, including the accounting profession and organisations with self-employed work-forces. There may be other payment options, and debit card transfers should be further investigated with a larger number of contributors. The study was not primarily concerned with Class 4 NICs, but the CA will also be considering the effects on compliance of having two differently located collecting systems.

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APPENDIX I RECRUITMENT TO THE STUDY GROUP

The study is based on in-depth interviews with 38 people who were registered with the CA as having liabilities for Class 2 NICs.

Fieldwork
Sampling The initial aim was to interview 36 people. A sample was drawn of approximately 200 names in each of the four local areas, allowing a good margin for non-response, non-contact and doorstep/telephone selection to ensure a full range of personal and business characteristics. Responsibility for the sampling lay with the DSS, who drew names and addresses from the Class 2 contributor base, and ensured representation of people in each of the four key sub-groups:

- contributors paying by quarterly bill (QB);
- contributors paying by direct debit (DD);
- contributors who had missed payments, and dealt with the DCU;
- contributors who had been in serious arrears, and dealt with the CRS.

The DSS then wrote to each of these contributors, explaining the purpose of the research and encouraging participation (Appendix Two). After two weeks in which people had the opportunity to withdraw, the DSS passed to the researcher the names and addresses of those who had not declined to participate. In each area, an interviewer then contacted people again, to arrange appointments. The interviewers were fully briefed about the need to build up a study group with a range of personal and business characteristics, and had a framework within which to work, as shown overleaf.

The interviewers achieved the study group within the framework set without having to eliminate many respondents on the basis of introductory enquiries made on initial contact. In one area a high proportion of the people on the DCU list and the CRS list were found to be subcontracted workers and small traders in the construction industry - plumbing, carpentry, joinery, painting. Here the interviewer found it harder to achieve a good mix of occupations and business organisation, and did not invite three initial contacts to participate in the study, choosing other people instead.

In order to make sure the framework was achieved, an additional interview was conducted in two areas, bringing the study group to 38 people.

Framework for building up the study group

In each geographical area interviewers aimed to include:

- a mix of occupations;
- not more than one taxi driver;
- at least one person in partnership;
- at least one sole trader;
- at least one subcontractor;
- at least two with dependent children;
- at least two with an outstanding mortgage;
- at least one single person;
- at least one from a minority ethnic/cultural group.

Each interviewer aimed to include at least one person who was not accessible by telephone.

The aim for the overall study group was:

	Direct debit		Quarterly bill		Debt Collection Unit		Civil Recovery Section	
	men	women	men	women	men	women	men	women
Area A	1	1	2	-	2	1	1	1
Area B	2	-	1	1	2	1	2	-
Area C	1	1	2	-	2	1	2	-
Area D	-	2	1	1	1	2	1	1
Total	4	4	6	2	7	5	6	2



Social Research Branch
Department of Social Security
FREEPOST PHQ5
London WC2N 6BR
Phone: 0171 962 8847

Name
Address

Date: 22 May 1997

Ref: ES/CA 00DC1

Dear XX

Research on Payment Methods of Class 2 National Insurance Contributions

I am writing to ask for your help. The Contributions Agency (CA) would like to find out about self-employed people's attitudes to payment methods for Class 2 National Insurance Contributions (NICs). The DSS has commissioned the Social Policy Research Unit (SPRU) at the University of York, an independent social research institute, to carry out this study.

You have been selected from Contributions Agency (CA) records of all people registered to pay Class 2 NICs. The researchers would like to talk to a range of self-employed people who pay by either direct debit or quarterly bills. They are also interested in the views of people who have got behind with their payments.

A researcher from SPRU will telephone you after **6 June** to make an appointment to come and speak to you. We would expect the interview to take about an hour. **All information gathered during the interview will be treated in the strictest confidence. No information will be passed to the CA or DSS, or published in a form which could identify any individual.**

This study is an important part of the CA's evaluation of Class 2 NICs payment methods. However, if you would prefer not to be contacted, please write to me at the FREEPOST address at the top of this letter or telephone me on 0171-962-8847. Please quote the reference number at the top of this letter. Whatever you decide, your dealings with the CA or DSS will not be affected, either now or in the future.

Yours sincerely

Elaine Squires
Senior Research Officer

APPENDIX III TOPIC GUIDE FOR INTERVIEWS

Self-employed people and
payment of Class 2 National
Insurance contributions

Thank you for agreeing to take part.

The purpose of the research is to seek the views of self-employed people about payments of Class 2 National Insurance Contributions. Learning more about the experiences of people registered for Class 2 contributions will help the Contributions Agency provide a service that is appropriate for self-employed people.

This will be a discussion, rather than a list of questions, but there are a number of topics I hope we can cover. Briefly, I would like to start by asking you for a picture of yourself, and the work you do, or were doing, as self-employed. Then I would like to talk about the overall National Insurance scheme for self-employed people, and your place in this. I will ask you about your earnings from self-employment, and how you deal with Class 2 contributions. Finally, I would like to talk about ways of preventing arrears building up.

Check that this is acceptable.

Explain use of tape recorder and ask permission.

1. PERSONAL CIRCUMSTANCES

Can you tell me first about your personal circumstances, and who there is in your family/household?

family/household structure

employment/activity of domestic partner and other household members, including children

housing: type, tenure and type of finance, length of residence

health: general health of self and others; disability and long-term sickness
age

any other family responsibility, e.g. child maintenance, student children

do you think of yourself as belonging to a particular ethnic group?

2. CURRENT WORK

Thinking now about the work you are doing as a self-employed person, I would like to know what you do, how this work is organised, and how you came into this self-employed work.

If not currently self-employed, ask this about the work that was done as self-employed, and route out of self-employment.

nature of work: trade/profession/service/craft

business organisation: subcontracting/sole trading/partnership/franchise
(partnerships: ask who is involved, and how work and profits are shared)

other people employed: number, occupations, employment status (employee/self-employed; full-/part-time/casual)

other people engaged in work: domestic partner/children/relatives

route into current self-employed work

length of undertaking

Do you have another job as an employee?

occupation

how does this fit around the self-employed work?

Do you have any qualifications or training?

formal qualifications/training

If respondent has a domestic partner ask:

Can I check again your partner's employment situation?

if joint self-employed enterprise, ask how work shared, and formal employment status

if working in different job, ask details

qualifications and training

3. THE NATIONAL INSURANCE SCHEME

Now that I have a picture of you and the work you do I would like to talk about the National Insurance scheme.

What do you have in mind as the overall National Insurance scheme for self-employed people?

Encourage respondent's own terminology and concepts, but look for knowledge of components such as different classes; exception; benefit entitlements. Use general prompts, if necessary:

if somebody starting self-employment asked you how National Insurance worked, what would you tell them?

are payments compulsory?

how much do people pay?

do people get anything in return for paying?

How did you learn what you know about the National Insurance scheme?

Explore:

source of knowledge

timescale of growth of understanding

any 'trigger' events mentioned or significant people

self-perceived gaps/confusions

I would like to focus now on the Class 2 contributions (check understands). What is your own current situation with regard to paying Class 2 National Insurance contributions?

Explore:

amounts of payment required

are payments being made? reasons for any missing payments

and what about your partner (domestic partner):

perceived liabilities for National Insurance

are payments being made?

What do you expect to claim as a result of your Class 2 contributions?

Explore expectations and views.

Ask:

Have you already made any claims?

Explore outcomes and views.

What are your views about participating in the Class 2 scheme as a self-employed person?

Encourage spontaneous response first.

If necessary, prompt:

What do you feel about the levels of payment?

What is your view about what people get in return?

How does participating in the Class 2 scheme compare with other ways you have to deal with government?

Explore respondents' own conceptualisations. If necessary, prompt.

How does it compare with paying income tax or VAT?

How does it compare with paying Class 1 contributions (as employee or employer)?

Do you make any private arrangements for retirement provision, sickness or unemployment protection? (I mean private pension or insurance schemes.)

Explore each arrangement:

reason

cost and anticipated returns

payment record

comparison with Class 2 scheme

Thank you for telling me your views. I'm going to recap the overall scheme for self-employed people now, and I would like to know if any of this information is new for you, or whether anything you learn changes your attitudes to paying National Insurance.

Interviewer: Recap the scheme yourself. You may want to use Card A. Look for any surprise or new interest as any misunderstandings are corrected, or gaps in knowledge are filled. Explore reactions. Refer back to previous discussion in this section if necessary. Explore why there were gaps in knowledge or misunderstandings. How might they have been filled or corrected? Does respondent have suggestions here?

4. FINANCIAL ARRANGEMENTS

In order to understand your situation with regard to Class 2 contributions, it would be helpful to know more about your financial arrangements.

How do you organise the financial record-keeping and reporting from your self-employed business/work?

person responsible

Arrangements made: e.g. accounts book; computer package; professional services - bookkeeper, accountant.

reasons for doing things in this way

What are the main money flows arising from your business/work?

periodicity of inflows and outflows

reasons: trade/seasonal cycles, payrolls, fee settlements

any cash flow problems arising

May I ask how much you earn from your self-employed work?

Annual net business profit/loss (for subcontracted workers, this is annual income less business expenses, before tax)

Most recent figures available. If unable to offer above, explore as far as possible to get a measure of earnings for a specified period or date. If respondent prefers not to give earnings figure, offer Card B.

If respondent has another job as an employee:

May I ask how much you earn from your work as an employee?

If domestic partner does paid work:

May I ask how much your partner earns from her/his work?

Do you take a regular salary or wage, or do you take drawings in a different way?

separation/integration of personal/business monies

reason for these arrangements: preference or constraints

Do you think of Class 2 National Insurance contributions as a business or private expense?

same as/different from income tax (or VAT, if paid)

reason for this view

So how do you actually deal with Class 2 payments? *If respondent has told you that payments are falling behind, or have stopped, ask this question about 'the last time you were paying Class 2 contributions'*

which 'money pool' used

whose responsibility

payment method used

Is it hard to make your money go round at the moment, or have you had times like this in the last three years?

Explore reasons, and gain a general picture of current situation.

If respondent has financial problems, ask:

Are you receiving any help in dealing with this?

This is a list of expenses that self-employed people often have to meet. Will you explain how you set priorities in making payments. I mean, if you have to pay any of these, which do you/would you try to meet first, and which might get left until last?

(Card C)

Explore reasons for priorities and where Class 2 payments fit in.

5. MANAGING CLASS 2 PAYMENTS

I would like to talk now about ways of paying Class 2 contributions.

You told me earlier that you pay/were paying by (). Can you explain how you came to be using that method of paying?

Try to build up the 'payment history', and reasons for decisions and behaviour. Check for:

periods without registration; what led to registration?

registration periods with Certificate of Exceptions/Class 3

start of Class 2 contributions

route to current/recent payment method

any change in methods – reasons

Does/did this method (confirm which one) suit you, and your self-employed work?

Explore advantages and disadvantages. These might include:

levels of control and involvement

time periods involved (quarterly/monthly/other)

amounts of money in relation to cash flow

location of responsibility – people involved

Are there any problems about this method of paying that the Contributions Agency might do something about?

How does this method compare with any other ways of paying National Insurance Contributions that you have experience of?

Explore perceived advantages/disadvantages for self-employed people.

There are other ways of making payments for regular expenses. I mean other expenses, apart from National Insurance. Do you have any experience of these?

Encourage spontaneous observations. If necessary, prompt:

Some people use debit cards (to bank or building society accounts). These are sometimes called switch cards. What do you think of using debit cards to pay Class 2 contributions?

Can you think of anything else that might make it easier or more convenient for you to pay Class 2 contributions (now or previously)?

6. CLASS 2 ARREARS AND DEBT

In the last part of the discussion we are looking for ways of preventing Class 2 arrears building up.

Do you know what happens if people miss Class 2 payments?

Explore knowledge:

speed of CA action

CA procedures

views on this

Have you had experience yourself of missing any Class 2 payments?

Explore:

contributory circumstances

what did CA do?

outcome

views on CA procedures: effectiveness/help

If the respondent has never missed Class 2 payments, ask next two questions:

Why do you think you are one of the people who always pays their contributions?

Explore. This might include:

circumstances of work

payment procedures

attitude to debt

need for financial security

CA action

Do you think there are any circumstances in which you might start to miss Class 2 payments?

Explore:

contributory circumstances

views and beliefs

what might prevent missing payments

Do you know what happens eventually, if self-employed people go on missing their payments and build up a big debt to the Contributions Agency?

Explore understanding. Prompt, if necessary:

Do you know that this might lead to a County Court order?

Is this something you worry about yourself?

reason for fear

Have you already had an experience of serious financial difficulty or debt?

contributory circumstances

ways of managing

significance of NI arrears

outcomes

Is there anything else that the respondent would like to say about the National Insurance scheme for self-employed people?

7. FUTURE PLANS

We are coming to the end of our discussion now. I would like to finish by asking you how you see your self-employed work developing. Do you have any plans or expectations for the coming year?

(adapt this to suit the work situation and circumstances described).

CONCLUSION

Thank the respondent.

Explain the next stage: similar discussions are being held with other self-employed people in various kinds of work, in several different areas of the country. The tapes will be sent to the University of York, and transcribed for analysis. The person responsible is Anne Corden, should they wish to get in touch about anything. She will write a report for the Department of Social Security, presenting the views and experiences of everybody interviewed in the research. Nobody taking part will be identified in the report - what is important is to present the overall picture that comes from talking to a group of people.

Finally, explain that occasionally the Social Policy Research Unit would like to talk to people in relation to other pieces of research. Would they be willing to take part again at some later date? ??

OTHER RESEARCH REPORTS AVAILABLE:

<i>No.</i>	<i>Title</i>	<i>ISBN</i>	<i>Price</i>
1.	Thirty Families: Their living standards in unemployment	0 11 761683 4	£6.65
2.	Disability, Household Income & Expenditure	0 11 761755 5	£5.65
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26.	The Effects of Benefit on Housing Decisions	0 11 762157 9	£18.50
27.	Making a Claim for Disability Benefits	0 11 762162 5	£12.95
28.	Contributions Agency Customer Satisfaction Survey 1993	0 11 762220 6	£20.00
29.	Child Support Agency National Client Satisfaction Survey 1993	0 11 762224 9	£33.00
30.	Lone Mothers	0 11 762228 1	£16.75
31.	Educating Employers	0 11 762249 4	£8.50
32.	Employers and Family Credit	0 11 762272 9	£13.50
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35.	Choosing Advice on Benefits	0 11 762316 4	£13.95
36.	First-time Customers	0 11 762317 2	£25.00
37.	Contributions Agency National Client Satisfaction Survey 1994	0 11 762339 3	£21.00
38.	Managing Money in Later Life	0 11 762340 7	£22.00
39.	Child Support Agency National Client Satisfaction Survey 1994	0 11 762341 5	£35.00
40.	Changes in Lone Parenthood	0 11 7632349 0	£20.00
41.	Evaluation of Disability Living Allowance and Attendance Allowance	0 11 762351 2	£40.00
42.	War Pensions Agency Customer Satisfaction Survey 1994	0 11 762358 X	£18.00
43.	Paying for Rented Housing	0 11 762370 9	£19.00
44.	Resettlement Agency Customer Satisfaction Survey 1994.	0 11 762371 7	£16.00
45.	Changing Lives and the Role of Income Support	0 11 762405 5	£20.00

46.	Social Assistance in OECD Countries: Synthesis Report	0 11 762407 1	£22.00
47.	Social Assistance in OECD Countries: Country Report	0 11 762408 X	£47.00
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Social Security Research Yearbook 1996-97	0 11 762570 1	£27.00

Further information regarding the content of the above may be obtained from:

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