

Self-employment and retirement

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The study aimed to increase understanding about how self-employed people plan financially for their retirement, how they make decisions about saving and retirement, and about how self-employment can play a part in extending people's working lives. The study also aimed to shed light on how self-employment differs from employment in the barriers and incentives the self-employed face in saving for retirement.

Semi-structured qualitative interviews were conducted with 40 self-employed people over 40 years old, including some who had reached State Pension age. The sample included 19 men and 21 women, with annual earnings up to £30,000.

In the interviews data were collected on how people came to, and their experiences of, self-employment, their current pension provision, attitudes to saving, knowledge of pensions and other financial products, and plans for the future.

Key findings

- The experience of self-employment was extremely varied. Some self-employed people in the sample were faring well in successful businesses while others were struggling to make a living.
- Experiences of self-employment were reflected in people's pension provision. Some had been in occupational pension schemes that would form part of their income in retirement. Others were relying on personal pensions, some of which were expected to provide a relatively low income. Some people expected the State Pension to be their main source of income.
- Knowledge of pensions was very patchy. The general picture was of low levels of knowledge of state pensions, personal pensions and other financial products. There was very little understanding of the tax relief available on pension contributions.
- Apart from some people approaching or beyond State Pension age, many viewed personal pensions negatively. Some expressed strong disillusionment in personal pensions.
- Views about occupational pensions were largely positive. People particularly liked the automatic deduction of contributions that had been their experience with such schemes.
- There was a widespread faith in 'bricks and mortar' as a safe way of investing money. Financial products such as Individual Savings Accounts (ISAs), building society accounts and stocks and shares were not seen as major sources of income after retirement.
- Sources of information and advice on pensions and financial products varied, but impartiality and trust were key issues for the people in the study. Government was sometimes seen as a reliable source of **information** but not for **advice**. Experiences of independent financial advisers were very mixed. Accountants were often seen as trusted sources of financial advice by self-employed people, although they were not seen as a source of advice on savings and pensions.
- People in the sample generally wanted more information about pensions, but few were able to say specifically what information they would like. Some suggestions, such as pension forecasts and tracing old pensions, are already available.
- There is scope for increasing self-employed people's knowledge about pensions and

savings. No single information strategy is likely to be appropriate for this group. However, any strategies to promote pension saving messages need to take account of the perspective of self-employed people.

- Decisions about working beyond State Pension age were linked to people's financial position, and the satisfaction they derived from work. For some the notion of a 'retirement age' was not salient.

Working as self-employed

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

Paths to self-employment among both men and women were:

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

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

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

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

Among couples in the sample decisions about working as self-employed were often joint decisions. Both partners among people who lived in couples were generally doing some paid work.

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

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

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

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

Financial products and information

There were a range of views about financial products, and different ways of providing income for retirement.

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

People's perceptions about savings and pensions products showed uncertainties and gaps in understanding. Some people were unsure about their entitlement to the State Pension and about its money value.

Although it is possible to defer receipt of the State Pension people in the sample who were over State Pension age had generally decided against deferment. Most people were contributing to one or more personal pension schemes, or were already drawing an income from a pension. The prevailing view of personal pensions among

those still contributing was largely negative. People talked about the inherent risk and lack of certainty, poor performance and low value. The tax relief on personal pensions was not widely understood.

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

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

Some expected the sale of their business to form the basis of their income in retirement. However, for people with children who were also involved in their business the idea of selling a business to raise retirement income was a difficult issue.

In terms of information and advice received on saving for retirement and financial issues generally what mattered was impartiality and trustworthiness. Opinions varied sharply as to whether independent financial advisers could provide this. There were generally positive views of services provided by accountants, but few expected to receive advice about savings and pensions from this source. Family members, friends and business colleagues were mentioned as trusted sources of advice. Among people who said they tried to keep their knowledge up to date, frequently mentioned sources of information were the financial pages of the national and local press.

Thinking about and moving from self-employment to retirement

An important consideration in decisions about whether to work beyond State Pension age may be the perceived adequacy of anticipated income. People in the sample varied in their levels of confidence about the adequacy of income after State Pension age, from the **confident** and **generally confident**, to the **worried** and generally **unaware**.

People **confident** that income would be adequate to meet need tended to be 'savers' as opposed to 'spenders' and in a later stage of life, with higher earnings, paid up mortgages, and no debt.

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

Some in the sample were **worried** that their income after retirement would be inadequate. They reported being unable to save due to declining businesses (currently or in the past), irregular earnings, and debt. Some had cashed personal pensions to pay debts. They expected to rely on the State Pension for income after State Pension age. Some appeared to have no contacts with any sources of help or advice.

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

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

Winding down after State Pension age by reducing working hours was attractive to some people. Some were extending work due to job satisfaction; others were continuing due to work commitments. Continuing work was often financially motivated, either for extra 'pocket money' or until other financial plans came to fruition.

Some people with no plans to stop paid work in the foreseeable future expected to continue working until health or old age forced them to stop. Some expected to extend working life through financial necessity; others were mainly motivated by job satisfaction. Being able to work flexibly was often important in deciding to extend working life.

Those who were not thinking this far ahead included some of the youngest people in the study. They found it difficult to predict when they might stop work.

Summary of findings and policy implications

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

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

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

- providing information about pension and savings products;
- promoting use of sources of information and advice;
- addressing negative views of some pension products.

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

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

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

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

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84712 106 3. Research Report 395. October 2006). It is available from Paul Noakes at the address below.

You can also download this report free from: www.dwp.gov.uk/asd/asd5/rrs-index.asp

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