

## PPI Briefing Note Number 8

**Introduction**

In Spring 2003 there were 3.2m self-employed people in the United Kingdom<sup>1</sup>.

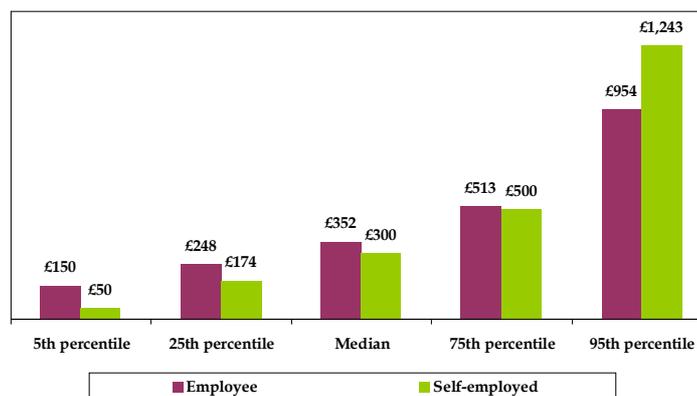
The rate of self-employment in the UK is among the highest in Europe. It is just below the rate in Australia, but significantly higher than the US<sup>2</sup>.

There was a sharp rise in self-employment during the 1980s, from 2.4m in 1980 to 3.9m in 1990, since when there has been a slight decline<sup>3</sup>. Several reasons for the long-term increase have been suggested, including more flexible contracts (e.g. franchising), a more entrepreneurial culture and the expansion of the service sector<sup>4</sup>.

**Who are the self-employed?**

Three-quarters of the self-employed people are men (73%)<sup>5</sup>, and the self-employed tend to be older than employees<sup>6</sup>. Most self-employed people report 'medium' levels of education (equivalent to 'A' levels)<sup>7</sup>. The main occupational categories for self-employed people are construction and banking, finance and insurance, and almost one-third are in skilled trade occupations<sup>8</sup>. On average, self-employed people work longer hours (42 hours per week) than employees (34 hours per week)<sup>9</sup>.

**Chart 1: Distribution of earnings, full-time workers with some earnings, 2001/2**

**How much do the self-employed earn?**

Data on self-employment income is often viewed with caution due to small samples, under-reporting and missing data. The data that is available suggests that on average full-time self-employed people (£580 per week) earn £150 per week more than full-time employees (£430 per week)<sup>10</sup>.

However, the distribution of earnings is very different for self-employed people compared to employees (Chart 1<sup>11</sup>). As well as containing a large number of very high earners, the self-employed group also contains a large number of very low earners. The median earnings of the self-employed are lower than the median earnings of employees.

**What pension provision do the self-employed have?**

Like employees, the self-employed qualify for the Basic State Pension. However, the self-employed do not earn rights to State Second Pension (S2P), or contracted-out equivalents.

In addition the self-employed do not have access to occupational pension schemes, or employer contributions.

Although people have less access to state and occupational pensions when self-employed, many self-employed people have been employees in the past, on average spending half of their working life in employment<sup>12</sup>. Almost half of self-employed people have belonged to occupational pension schemes in the past<sup>13</sup>.

**PPI Briefing Notes clarify topical issues in pensions policy.**

# Pensions and the self-employed

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Self-employed people are more likely to have personal pensions than employees. 57% of the self-employed had a personal pension in 2001/2, compared to 24% of employees<sup>14</sup>. However, there is no evidence to suggest that contributions to personal pensions are large enough to offset the loss of S2P or an employer contribution.

### Do the self-employed have other savings?

Self-employed people are less likely to be making regular savings than employees, but those who are saving are more likely to be saving long-term, and more likely to have 'long-term' assets such as stocks and shares<sup>15</sup>.

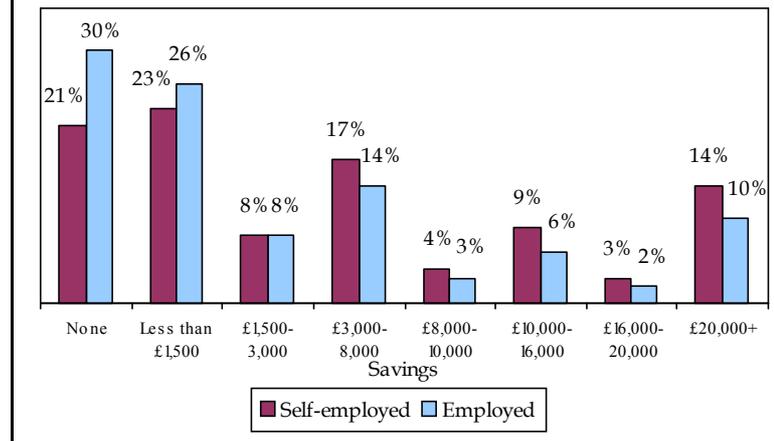
The self-employed are also more likely to have larger amounts of savings (Chart 2)<sup>16</sup>. As savings generally increase with age, some of this can be explained by the fact that the self-employed are, on average, older than employees. However, one-in-five of the self-employed had no savings, and only a similar number had more than £10,000.

House ownership levels are similar for employees and the self-employed. However, the self-employed are more likely to own their house outright (without a mortgage), and to have higher value properties (median value £120,000 com-

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Chart 2: Families where the main earner is self-employed or employed, by level of savings, 2001/2



pared to £85,000 for employees in Private savings contribute to this, 2000/1). The self-employed are also more likely to own second homes (21% compared to 9% of employees)<sup>17</sup>. Differences in housing ownership could be in part due to the older age of the self-employed, and could also be affected by the number of very wealthy self-employed people.

### Do the self-employed have lower retirement incomes?

Spending 10 years in self-employment from age 40 could reduce state pension income (BSP, SERPS/S2P and PC), compared to an employee with the same earnings by almost 15%<sup>18</sup>.

But there is no clear evidence that people with experience of self-employment have lower *total* incomes in retirement than those who have not been self-employed.

Private savings contribute to this, but it also helps that the self-employed work longer, on average retiring two years later than employees. This means that earnings play a more prominent role in retirement income for the self-employed. It is not clear if this is because self-employed people want to continue working, or because they need to for financial reasons<sup>19</sup>.

<sup>1</sup> Labour Force Survey, Spring 2003

<sup>2</sup> OECD *Employment Outlook 2000*

<sup>3</sup> Series EG6: DYZN - National Statistics

<sup>4</sup>, T Eardley and A Corden, (1996) *Low income self-employment* Social Policy Research Unit

<sup>5</sup> Labour Force Survey, Spring 2003

<sup>6</sup> Smith, A and McKay S (2000) *Lifetime experiences of self-employment* - DWP Research Report 120

<sup>7</sup> *Self-Employment in the United Kingdom and Ireland. Current Trends, Policies and Programmes* (Draft), C Duggan, Canadian International Labour Network

<sup>8</sup> PPI analysis of the Labour Force Survey, Spring 2003

<sup>9</sup> *Working time in the United Kingdom: evidence from the Labour Force Survey*, F Shortall, Bank of England Quarterly Bulletin (Summer 2002)

<sup>10</sup> PPI analysis of the Family Resources Survey, 2001/2

<sup>11</sup> PPI analysis of the Family Resources Survey, 2001/2

<sup>12</sup> Smith, A and McKay S (2000)

<sup>13</sup> Smith, A and McKay S (2000)

<sup>14</sup> Curry C and O'Connell A (2003) *The Pensions Landscape* PPI

<sup>15</sup> McKay, S (2002) *Self-employment, wealth and saving* Personal Finance Research Centre, University of Bristol

<sup>16</sup> DWP (2003) *The Family Resources Survey 2001/2*

<sup>17</sup> McKay (2002)

<sup>18</sup> Curry C (2003) *The Under-Pensioned: Technical Paper* PPI

<sup>19</sup> N Meager, G Court and J Moralee (1996) *Self-employment and the distribution of income*, in ed. J Hillis 'New Inequalities' Cambridge University Press