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@TheIFS

# Retirement saving of the self-employed



Economic  
and Social  
Research Council



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“A disproportionate percentage of the self-employed appear in danger of inadequate pension income in retirement.”

– Pensions Commission (2005)

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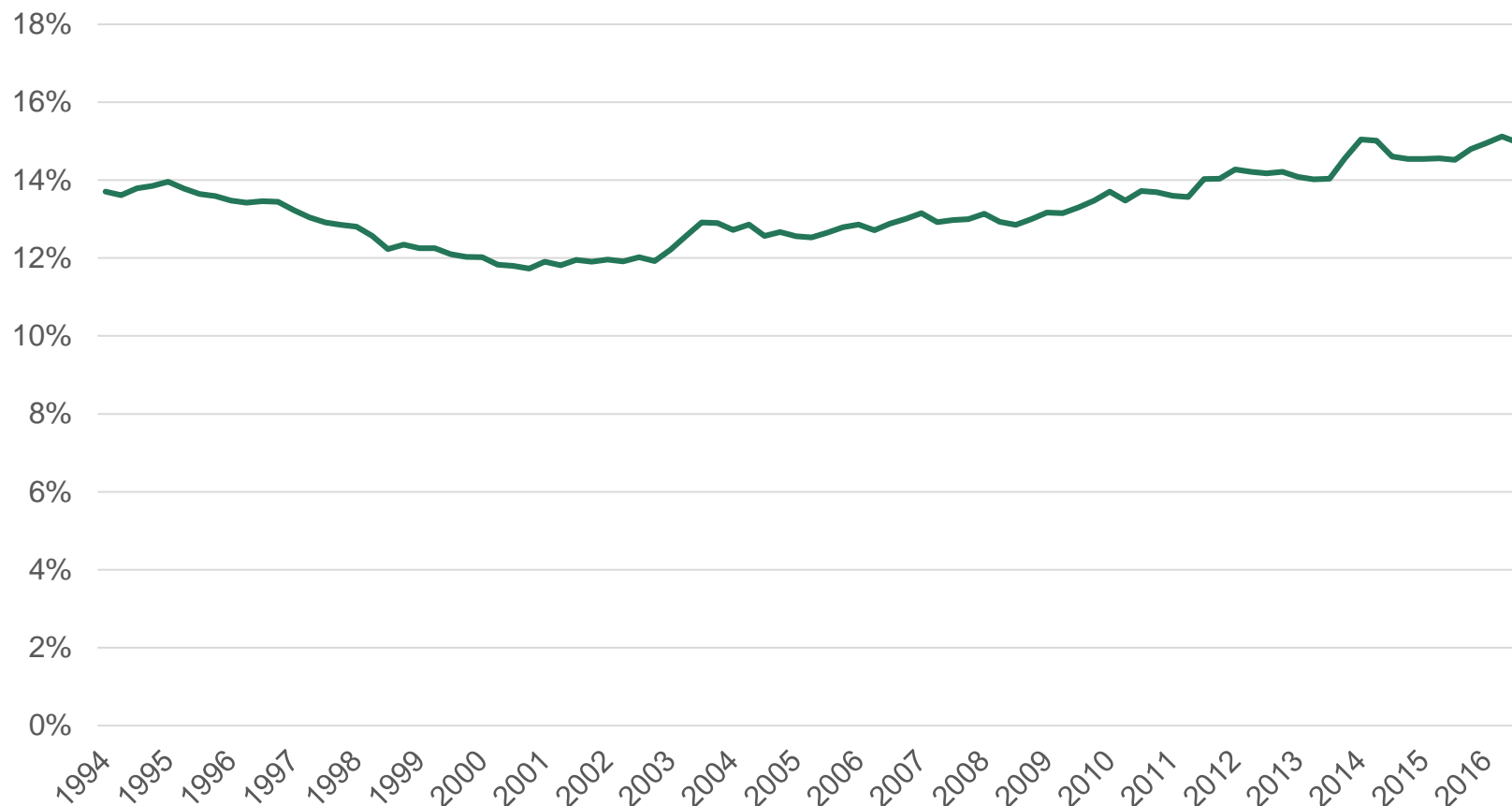
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“The expansion of self-employment during the 1990s has not... been accompanied by the emergence of a new category of retirement provision for other than a small minority. The fact that pension saving among the self-employed is not increasing therefore remains a concern.”

– Pensions Commission (2004)

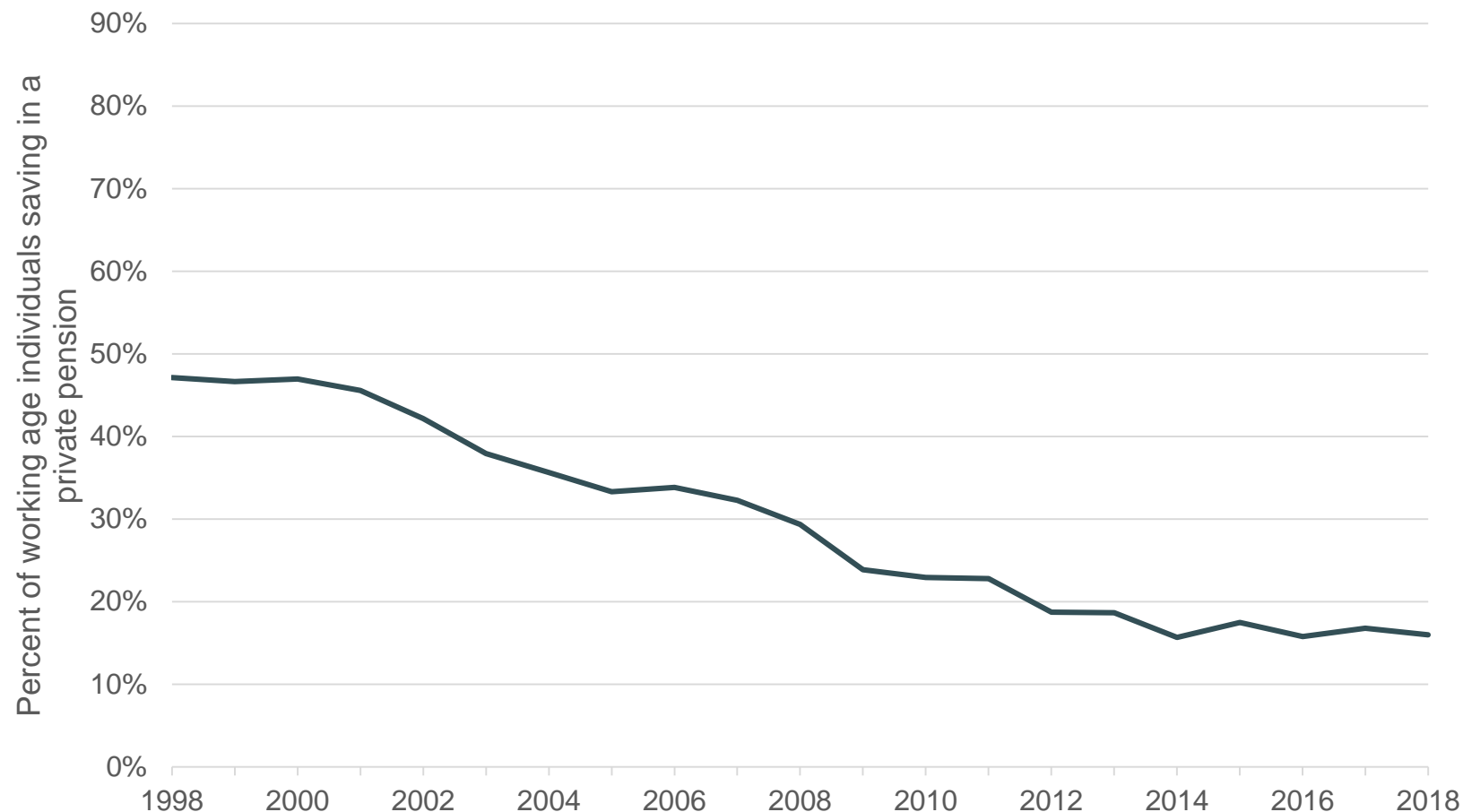
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# Proportion of the workforce working for own business



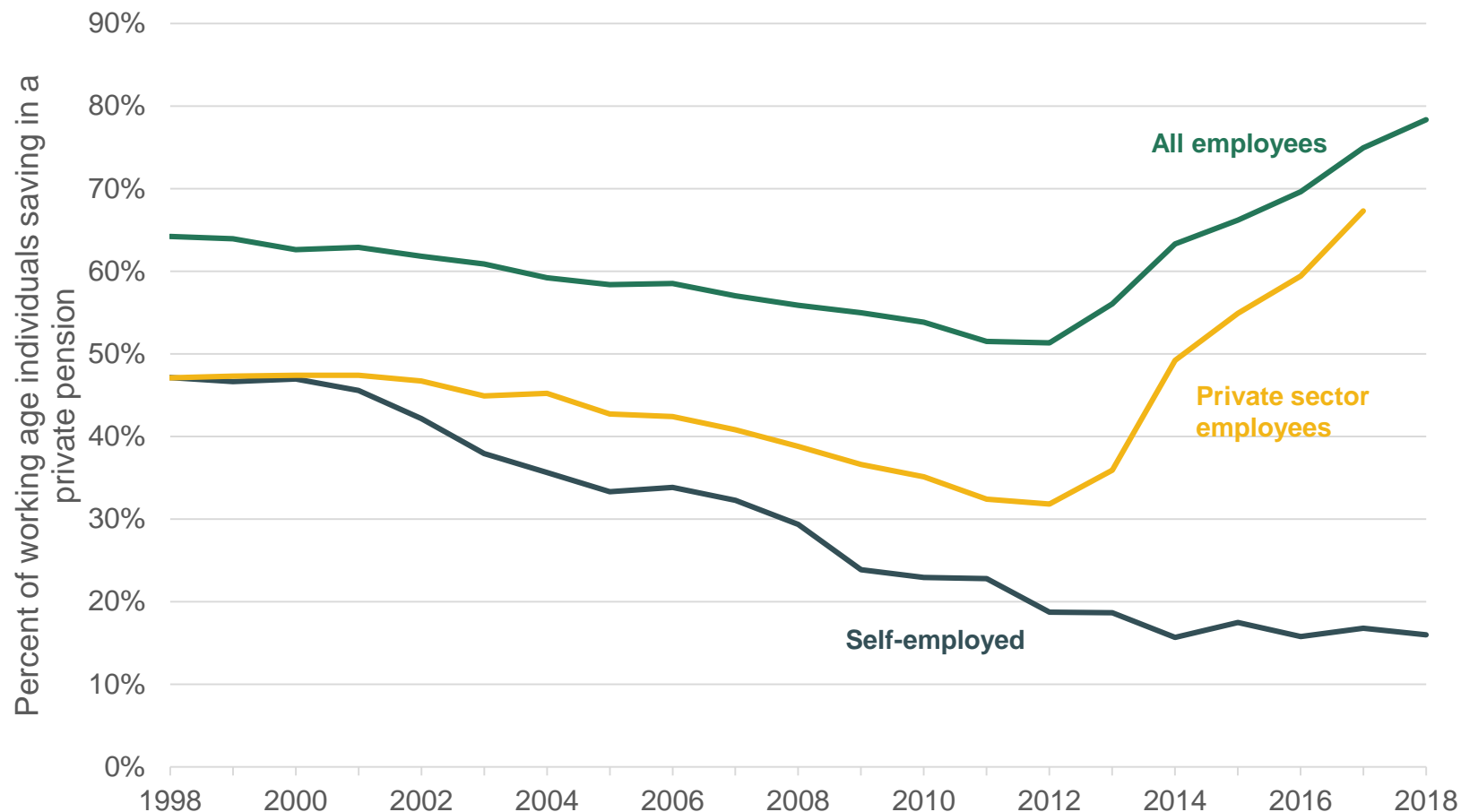
Source: Codreanu et al (2020) Figure 2.1.

# Private pension membership rates



Source: Crawford and Karjalainen (2020) Figure 1.1.

# Private pension membership rates



Source: Crawford and Karjalainen (2020) Figure 1.1.

- To what extent is the decline in saving among the self-employed driven by changing characteristics of the self-employed population?
- Have attitudes towards pension saving changed among the self-employed?
- Are the self-employed increasingly saving for their retirement in other ways?



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# Compositional effects

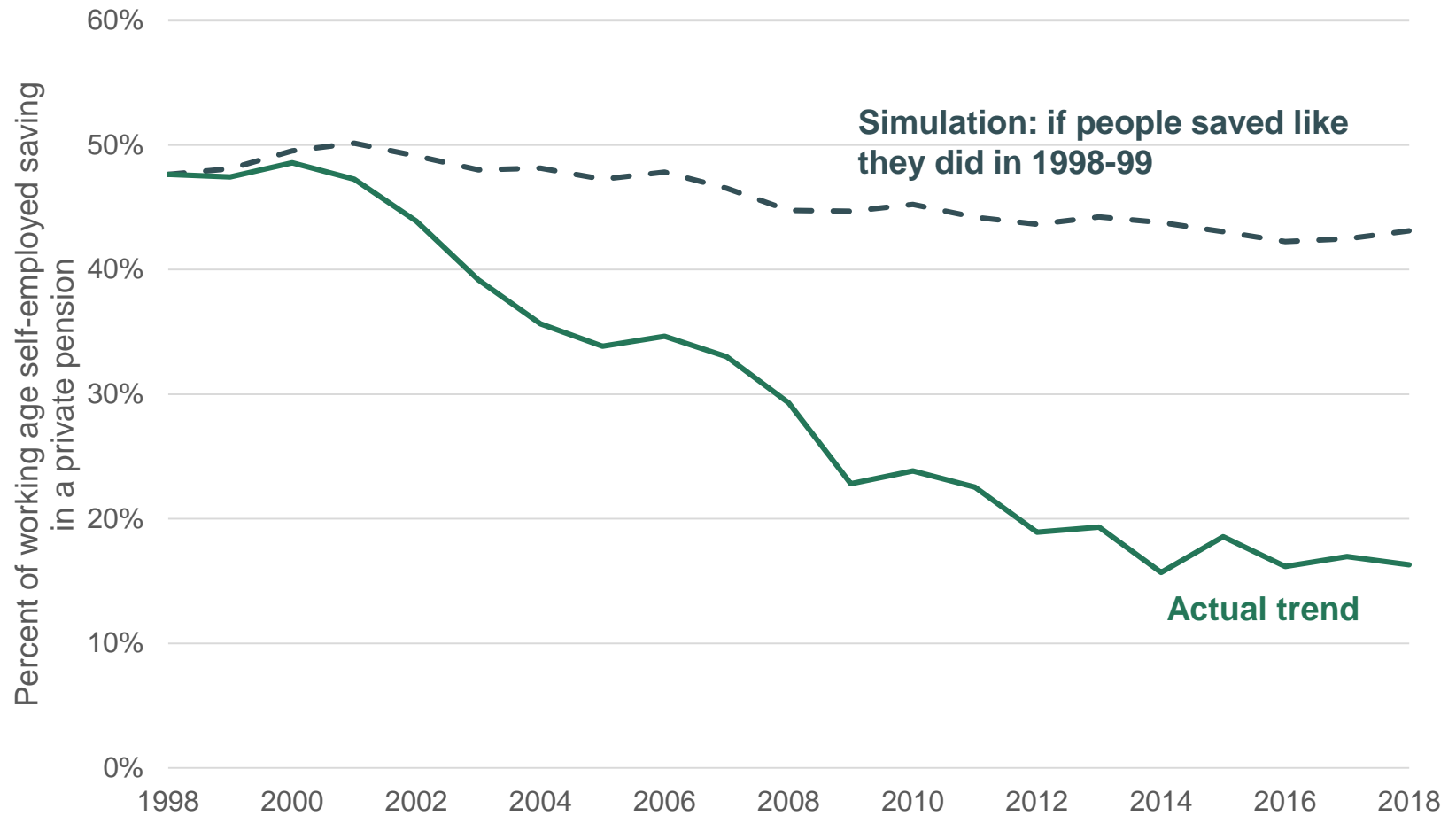
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# Changing characteristics of the self-employed population

- ↑ proportion female
- ↑ average age
- ↑ proportion part time
- ↑ proportion with degrees
- Little change in average time in self-employment
- ↓ average real weekly income
- Women less likely to contribute
- Older more likely to contribute
- PT less likely to contribute
- No clear correlation
- Long term more likely to contribute
- Lower earners less likely to contribute

# Decline not driven by composition



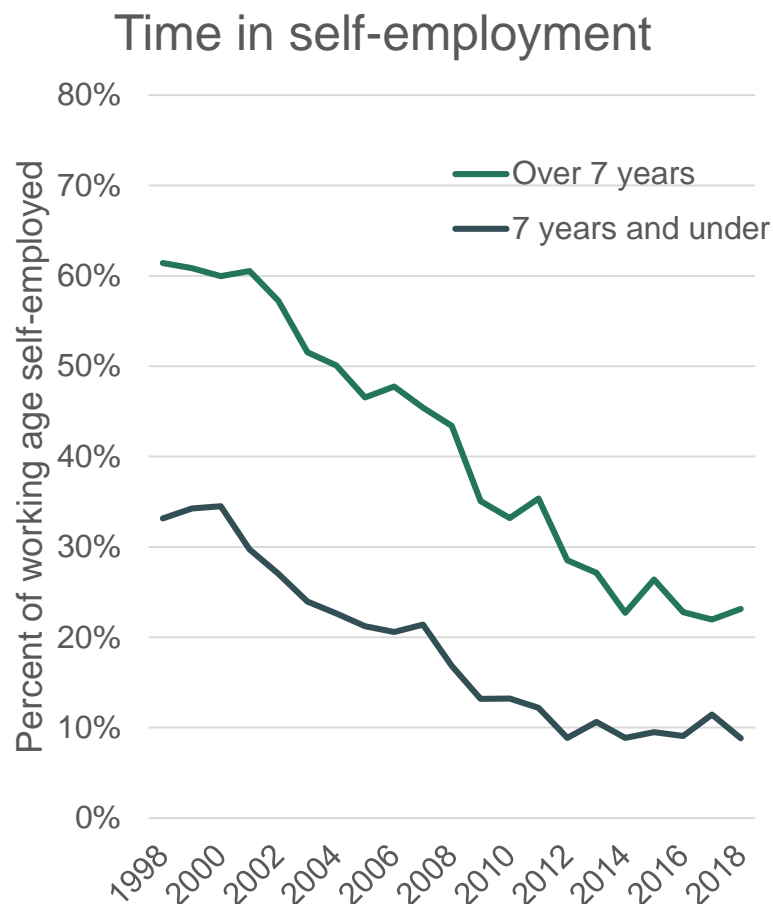
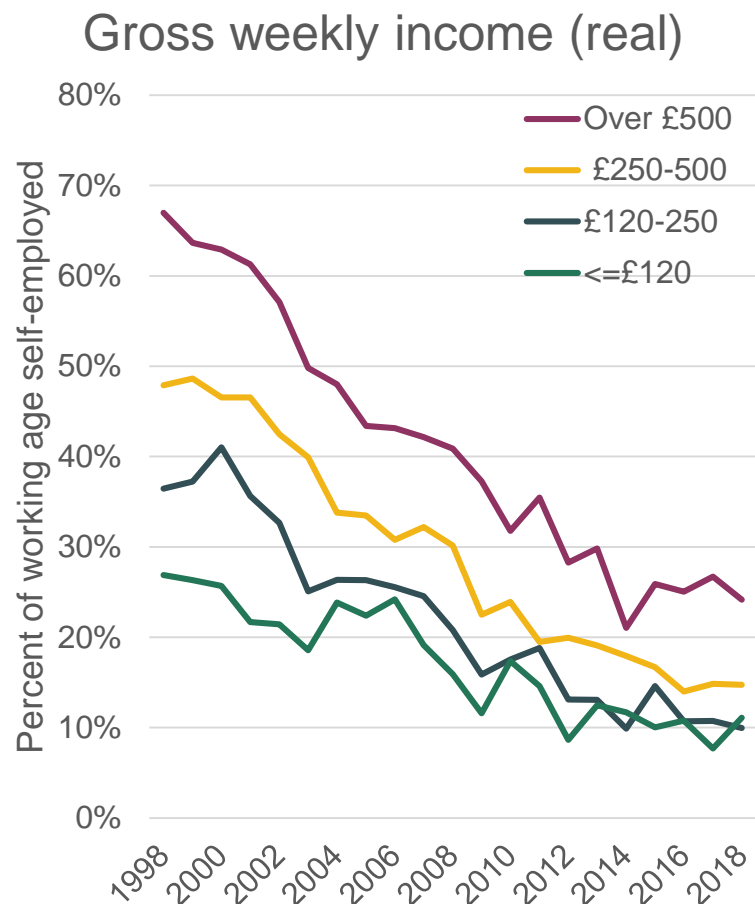
Source: Crawford and Karjalainen (2020) Figure 2.2.

# Declining pension participation



- Pension participation has fallen among individuals with the same set of characteristics
- Falls in participation are greater among groups who initially more likely to save
  - Men (vs. women)
  - Higher income (vs. lower income)
  - Longer-term self-employed (vs. newer self-employed)

# Pension participation: subgroups



Source: Crawford and Karjalainen (2020) Figure 2.3.



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# Have attitudes towards pensions changed?

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# Short answer: not obviously

- No single (self-reported) reason driving the decline in pension saving
  - Affordability most important reason (and rising)
  - 'Negative attitudes' towards pensions stable over time
- No evidence of shift in attitudes away from pensions as an asset on grounds of either risk or return
- Declining proportion of self-employed expect to get any income in retirement from a private pension
  - 56% in 2006-07 down to 45% in 2017-18



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# Are the self-employed saving in other ways?

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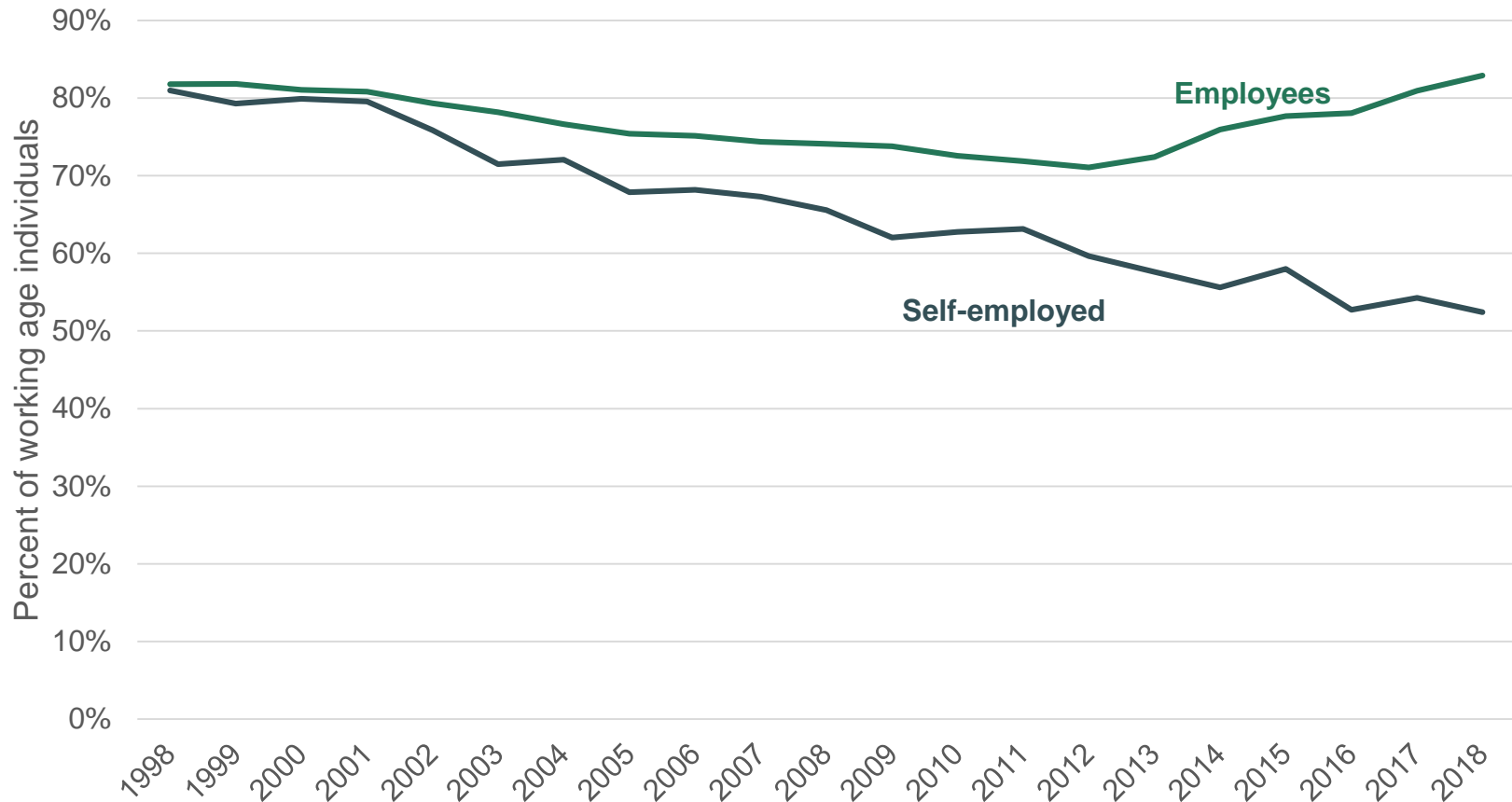
# Financial assets do not appear to be acting as a substitute



- New state pension more generous to the self-employed than old state pension system
  - But only introduced in 2016
- Proportion of SE with savings accounts / ISAs / shares flat or declining over time
  - Identical trends to employees
- Average amounts held (since 2006) slightly higher among SE
  - But not rising over time



# Saving in a pension, savings account, ISA or shares



Source: Crawford and Karjalainen (2020) Figure 4.6.

# Housing is important to the SE



- Asset most commonly reported to be the safest way to save for retirement AND the way that would make the most of their money
- Owner-occupation rates slightly higher than among employees
  - But falling: 85% in 1998-99 to 70% in 2018-19
- Average values among owners higher than among employees
  - (despite lower average wages)
  - Increasing over time – but similarly for employees
- Not obvious this can ‘explain’ faster decline in pension saving among the self-employed



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# Conclusions

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# Summary

- Composition of the self-employed workforce has changed
- This does not explain the decline in pension saving
- Decline in proportions saving in a pension greatest among groups that used to be more likely to save in a pension
  - Men, higher income, longer time in self-employment
- Little evidence of attitudes shifting away from pensions
  - (since 2006)
- Little evidence of saving elsewhere increasing to compensate
  - (though limited data on *amounts* held in other forms)

- Not all self-employed “non-savers” are a cause for concern
  - Not all are ‘lifetime’ self-employed
  - Many have low earnings and will be adequately served by the new state pension
- Decline in pension saving among higher income and longer-term self employed looks to be a concern
- Current Covid-19 crisis has highlighted the need for liquid savings
  - Policy to encourage retirement saving of the self-employed should be as targeted as possible

# Many thanks to the funders



## The IFS Retirement Savings Consortium



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