Summary
• The number of people who are self-employed has increased, but pensions participation within this group is in decline and they are not covered by auto-enrolment.
• The government has pledged to address the issue. The forthcoming review of auto-enrolment may recommend a new system to auto-enrol the self-employed, based on payment of pension contributions into a private pension by default, using HMRC infrastructure.
• The exact form of the system and whether government might top up or match an individual's contribution; and/or increase NICs for the self-employed, is as yet undecided.

Getting the gig

David Adams questions what more can be done to encourage self-employed 'gig workers' to save into a pension

If we had wanted proof that what academics Richard Thaler and Cass Sunstein have called the 'yeah, whatever' heuristic is visible within the UK workforce, auto-enrolment has delivered it. Almost eight million people have been brought into workplace pensions, arguably because they couldn't be bothered to stop it happening.

Brits shouldn't beat themselves up about this (if they could muster the effort to do so), because the same trick would almost certainly have worked in most other countries. And although there are still some questions hanging over the policy, such as whether opt-out rates will increase when employee contributions rise, the success of auto-enrolment is good news for everyone.

Excluded groups

The trouble is, it doesn't cover all the UK's workers. One significant group not yet in the fold are the self-employed. There were 4.85 million of them in the UK in September 2017 – just over 15 per cent of the total workforce, according to the Office for National Statistics (ONS). Not enough of them are saving into pensions.

While the DWP's 2015/2016 *Family Resources Survey* shows that the pension participation rate among the self-employed had increased slightly during the past year, to 17 per cent from 16 per cent in 2014/2015, it was well below the 2009/2010 level of 23 per cent. A 2016 government-commissioned report showed that one in five self-employed people thought they would just rely on the state pension for retirement income.

Of course, entrepreneurs running start-ups may just have too many other things on their minds to think about pensions. Some may also plan to sell their business to fund their retirement.

Other self-employed people may find it very difficult to save, because their incomes fluctuate and/or are very low.

This is particularly likely to be the case for low-paid workers in the gig economy, some of whom may be technically self-employed but relying on a single employer. The Taylor Review of modern working practices, published in July, recommended the creation of a new type of worker status, 'dependent contractor', to distinguish this group from other self-employed people. This would also make it easier to ensure these people could join auto-enrolment pension schemes run by the employers upon which they depend.

Inclusion methods

The Conservative manifesto for the 2017 General Election included a pledge to bring the self-employed into auto-enrolment, which should ensure that the issue is high on the agenda of the forthcoming DWP-commissioned review of auto-enrolment, due to report by the end of the year.

Any new system it proposes must exploit the power of inertia and a default-based approach, says Royal London director of policy and former pensions minister Steve Webb. He and Aviva head of financial research, John Lawson, worked on a document published jointly earlier this year by their companies that considered several different ways to address this issue.

Most were based on a default position of a pension contribution, of, for example, 3-4 per cent of an individual's taxable profit, being paid to a pension provider when the individual paid their tax and National Insurance contributions (NICs). If the individual already had a personal pension it could be paid into that pot instead. HMRC infrastructure could be used to manage the process. NEST could be the default option, or the pension might be allocated to one of a group of providers on a carousel basis.

Many in the industry believe it would be important to allow individuals to opt out. "The default will be that you're in, but you don't have to be," says Hargreaves Lansdown senior pension analyst Nathan Long. "It's not going to be for everyone."

But others suggest this could be an opportunity to increase NICs for the self-employed, to help pay for the system and to address the inequality between NICs for employees and the self-employed that the Chancellor tried and failed to remove in the March 2017 Budget. Class IV NICs for the self-employed could be increased from 9 per cent to 12 per cent, with individuals then given the option to divert the extra money paid into a pension (or a Lifetime ISA), rather than simply going to the Treasury. One suggestion is that the government could sweeten the pill by topping up the contribution with, for example a contribution to the pension pot equalling 1 per cent of the self-employed person's taxable profit.

An alternative proposal, suggested by the Tax-incentivised Savings Association (TISA) in 2015, is that the default would be a pension contribution of, say, 4 per cent of taxable profit that would then be matched by the government, effectively providing the equivalent of an employer's contribution.

One possible problem that might arise for a government trying to implement one of these proposals, or a hybrid version, would be the difference between the way employees and the self-employed interact with the tax system. Some employees may scrutinise their pay slips in great detail, but many do not give a great deal of thought to tax or National Insurance payments – or, indeed, to auto-enrolment contributions – because they never actually have that money in their bank account.

The self-employed, on the other hand, are very conscious of the amount of money they need to set aside to pay tax bills each January and July. An attempt to introduce any system that increases the amount of money with which they are asked to part, twice a year, might simply feel to them like a tax increase.

Long acknowledges that opt-out rates would probably be higher than for employee recruitment, but suggests that as more people were brought into the system it would eventually become the norm.

It might also be possible to break the contributions up, into monthly or quarterly instalments – but this would

have operational implications. "The problem is, you've got to manage the process of collecting the money," notes Pensions Management Institute (PMI) technical consultant Tim Middleton. "How practical that would be is something we must look into."

Webb emphasises the importance of communications – the advantages of following the default option would need to be very clear, including details of tax relief and perhaps also the government's matching or top-up contribution.

Industry help

Such a system would surely present the pensions industry with a significant opportunity – but could the industry have done more already to serve this growing market?

One reason this has not happened is that the economics of providing workplace pensions are so much more attractive than developing and marketing products to self-employed individuals.

Another is the impact of the Retail Distribution Review (RDR), which dismantled the commission-based sales model that helped to contact and sell pensions to the self-employed in the past.

But Lawson believes the industry is already making progress in this area. "We've developed direct products that are really good value for money," he says. ". You could probably get a SIPP very similar to what you would get with a workplace pension for about 0.6 per cent. We need to get that message out."

Many self-employed people would still find it difficult to lock money away for the long term, so it might be useful to encourage use of more flexible savings products like the Lifetime ISA instead. But this is currently only available for people aged under 40, and many of the newly self-employed are older than that.

For now, we will wait to see what recommendations will come out of the auto-enrolment review – or are announced in the Budget in November. Industry observers seem torn between optimism and pessimism when asked how quick we should expect meaningful progress.

"Brexit is going to dominate the parliamentary timetable," says The People's Pension head of policy Darren Philp. "But the government has said this is going to be a key feature of the auto-enrolment review.

"Whether they'll have the legislative space to do anything about it in the next couple of years, we'll have to wait and see."

But Middleton urges the government to take action. "The trend for self-employment to increase is unlikely to end any time soon," he says. "It's gone beyond the point of saying it would be nice to address this – this is something that needs to be fixed."

Written by David Adams, a freelance journalist

Worawee Meepian / Shutterstock.com