Going it alone

Pensions saving among the self-employed is woefully low. And yet this segment of the workforce has been increasing, potentially leaving a significant amount of people without adequate retirement savings. What recommendations does the industry have to help improve the rate of self-employed retirement saving?

Auto-enrolment been incredibly successful so far, with more than 10 million people saving into a pension. Yet self-employed workers do not have access to auto-enrolment, leaving 15 per cent of the British workforce at a disadvantage.

Enabling auto-enrolment for the self-employed through the tax system is the only realistic option if the government wants to encourage mass participation from this section of the workforce. But this isn't easy. The way in which self-employed workers interact with the tax system – often tending to make larger, less frequent payments – will make this difficult to achieve.

It's important the government also looks at the type of investments for self-employed workers; Being auto-enrolled into a combination of a pension and a liquid savings vehicle should be considered as they may need better access to capital, depending on the nature of their business. We would oppose early access to pension assets.

The People's Pension director of policy Gregg McClymont

One idea suggested by Matthew Taylor, who conducted the Taylor Review of modern working practices – commissioned by the government in 2017 – was to effectively auto-enrol self-employed people into a pension and administer this through HMRC's self-assessment process. So, for example, when a self-employed individual submits their tax return to HMRC via self-assessment, they could also be expected to provide 4 per cent of their income towards a pension unless they choose to opt out.

The report also suggested making the most of the digital advances that underpin the gig economy by creating payment software that automatically transfers money directly into a pension or Lifetime ISA, so that it becomes as much of a norm as when an employed person has their employee pension contributions deducted at source.

Those that are self-employed tend to be those that are engaged in their own personal destiny and as such, the way to encourage savings in this segment will need to be significantly different to those targeted by auto-enrolment. If you were to introduce something similar for the self-employed, I could easily see that the opt-out rates would be higher due to their need to be in control.

I feel that we need to revisit the complexity of pensions and yet again the tapered annual allowance. Earnings are significantly more likely to fluctuate if you are self-employed, which could either mean you end up contributing too much, locking funds away that may be needed or getting a tax charge because you have earnt too much.

We have previously suggested that the tapered annual allowance should be calculated a year in arrears and this is just another example of how it could be of benefit. In addition, the self-employed would really benefit from being able to claim tax relief contributions paid in one year, but tax from another. This would be a radical departure from the current process of only allowing tax relief in the year in which contributions are paid, but for those with fluctuating earnings it would make it far easier to plan.

St. James's Place Group head of pensions strategy Claire Trott

The success of auto-enrolment has clearly demonstrated that the key to increasing pension saving is to make membership of a pension scheme automatic. If people have a choice about whether to save or not, present bias and inertia generally prevent them choosing to save. For the self-employed, the added risk of short-term cashflow problems gives them another reason to keep their money in an easily-accessible vehicle, such as a bank account, rather than locking it away for the longer term.

The self-employed have to complete a tax return every year. Pension contributions should be automatically deducted as part of filing a tax return, using regulatory minimum contribution rates but with the option to pay more. A default scheme would be available (probably Nest) but with an option to specify a different scheme. In order to replicate the principles of auto-enrolment, there would be the ability to opt out by submitting a separate opt-out form at a later date – the experience of auto-enrolment suggests a relatively small percentage would do this.

The sidecar initiative being tested by Nest is also a good example of striking a balance between keeping sufficient funds accessible in the short term and securing savings for the long term. This facility should be a key feature of any pension scheme offered to the self-employed.

Bravura Solutions pensions product manager, Jonathan Wileman

When thinking about ways of increasing the level of pension savings amongst the self-employed, it is important to remember that this is a hugely diverse group and effective solutions will need to be equally diverse if real progress is to be made. Revenues, cashflows, profits can all be very volatile when running your own business and therefore committing a regular amount to a pension – instead of say investing more into the business or paying yourself a decent wage – can be a challenge. In addition, evidence suggests that the self-employed have a preference for more accessible forms of savings (eg ISAs).

The government has committed to testing a number of policy interventions; these include more targeted marketing campaigns and the use of certain behavioural nudges. I believe the greatest opportunity lies in the intersection between the self-employed, their service providers (eg accountants, banks) and government (eg HMRC). There have been fantastic digital developments in recent years with the likes of Xero, Tide and Starling Bank offering software that fully integrates all aspects that the self-employed need to run their business. Together with the government's making tax digital initiative, it would be possible to both deliver targeted messages and set up rules-based savings triggers to make it much easier to make pension contributions. For example, when filing annual accounts, an individual could agree to contribute a pre-determined amount to their pension if profits exceeded a certain number. The benefits of doing this both from a tax and long-term savings perspective could be clearly presented.

Redington director of DC and financial wellbeing Jonathan Parker

The self-employed need more help to ensure that their financial future is secure. We have therefore asked the government to do two things to help them. This applies not just to retirement savings but overall financial resilience.

The first is a tax-free advice allowance of £500. This is the amount that employers can spend on their staff each year as a tax-free allowance to enable them to get financial advice. We want this to be extended to the self-employed as a tax-free allowance, offset against profits. After all, they not only have to fund their retirement savings, life and health cover themselves, with no help from an employer, they must also source suitable arrangements.

Secondly, the self-employed suffer from uncertainty of income and bad debts can make this even more challenging. This makes it harder for them to plan. We would like to see the option of carry back of pensions tax relief reintroduced. This would enable the self-employed to assess their financial position, after all debts are collected, and give them more confidence in committing to long-term savings from a position of financial security.

It would also assist the self-employed who may spend the early years of a business building it up to have the option of carry forward of pension savings tax relief, without the need to have a pension plan open in those early years. This is an obscure rule, not understood by the public and can result in two self-employed people, with identical profits, having very different outcomes in terms of their tax-relievable pension contributions.

LEBC Group director of public policy Kay Ingram