



Summary

- Self-employed workers are at risk of falling behind full-time employees' retirement savings. This is hampered by irregular income patterns and the time-poor nature of the self-employed.
- The industry is taking comfort from the Pensions Commission's attention to the self-employed issue, but wants this to translate into tangible and realistic solutions.
- There are things the industry can do – better education, use of digital tools, more flexible product development – to better engage with the self-employed.
- Experts want auto-enrolment to be extended to the self-employed but acknowledge there are significant logistical challenges in the way.

Self-employment and pension saving: Navigating the challenge

Greater policy attention is being given to the self-employed retirement savings gap, but what is realistically needed to help close this?

The statistics make for grim reading, with only 4 per cent of people whose income comes solely from self-employment saving into a pension. This means approximately 15 million UK workers are under-saving for retirement. Figures like this from the Pensions Commission's interim report demonstrate a greater recognition by policymakers but it remains to be seen what the final recommendations will hold. The inclusion of self-employed pensions in the commission's work has been applauded, but many now want this to move on to real, practical solutions. For AJ Bell senior pension and savings expert, Charlene Young, this includes adopting the right attitude.

"This opportunity will be lost if [the commission] falls into the trap of simply repeating the issues and drawing simple conclusions from data," says Young. "There's a danger that doomsday figures and political soundbites perpetuate the myth that pensions are

something to put off for another day, or worse still, are something to fear."

Like Young, Fidelity International head of platform policy, James Carter, welcomes the commission's work but hopes it appreciates the complexity of the issue in its work.

"This is a complex challenge without a single solution," says Carter. "For many self-employed individuals, wealth is held across a mix of assets, including property and their business, so improving outcomes means taking a more holistic view of long-term financial resilience and how these elements come together to fund retirement."

Self-employed issues

Given the UK's self-employed population falls outside auto-enrolment, there is a danger this cohort is left behind when it comes to retirement provisions. This challenge is exacerbated by the complex and varied nature of self-employed work, which Aviva head of savings and

retirement, Alistair McQueen, points out is anything but homogenous.

"Self-employed workers range from high-earning professionals to those with very low or highly variable incomes," says McQueen. "That diversity sits at the heart of the perceived challenge when it comes to saving into a pension. Irregular earnings can make it difficult to commit to consistent, long-term pension contributions, which is why flexibility is key."

Not only can self-employed income be irregular and hard to predict, but these individuals are often having to take the responsibility of retirement planning in addition to everything else. Pension contributions may be handled in a PAYE fashion for traditional employees, but PensionBee chief business officer UK, Lisa Picardo, points out such convenience is lacking for others.

"For the self-employed, the pension sits alongside everything else they are managing alone, such as their tax returns, business costs, irregular cashflow, lack of sick pay, lack of parental leave or paid holiday, with little or no safety net," says Picardo. "Set against that context, then asking them to prioritise long-term saving today for tomorrow, without addressing the wider pressures, is asking a lot."

The 'wider pressures' for self-employed can't be ignored, especially when pensions can sometimes be guilty of being tackled in isolation. A growing narrative has been that pension reform needs to be part of a bigger picture, taking into consideration issues such as financial education, and Scottish Widows

head of pension policy, Pete Glancy, is in favour of changing the conversation for the self-employed.

“Parts of the workplace pensions industry have a tendency to be very isolationist and consider pensions in a vacuum within the wider challenge of preparing for retirement,” says Glancy. “The retail pensions industry tends to look at things more holistically, where pensions sit alongside ISAs and other investments within a single proposition (known as a platform). The challenges around self-employed workers’ retirement savings need more of that mindset.”

Filling the gap

One way to help tackle the retirement shortfall faced by the self-employed is to better reflect the fundamentally different ways these savers generate income.

“For the industry, this means thinking more creatively about how to engage the self-employed, who lack the natural touchpoints that exist in the workplace,” says Carter. “The implementation of targeted support creates an important opportunity to provide prompts that support decisions about pensions and retirement, which may help to support this engagement.”

Pension awareness is also an issue – Aviva research shows that only 24 per cent of self-employed workers and 22 per cent of freelancers know about SIPP and stakeholder pensions. This requires a concerted effort but, as the pension industry tries to improve awareness and understanding of retirement saving in general, the approach could require tinkering for nuances of self-employment.

“In practice, this could mean solutions that allow individuals to build short-term savings first, before gradually increasing contributions into pensions over time,” says McQueen, who sees the use of apps and digital solutions as being of help. “There is an opportunity to embed nudges, prompts and defaults into the tools self-employed people

already use to manage their finances, making it easier to save consistently and build towards retirement.”

Additionally, given self-employed people have to sort their own taxes, Picardo sees self assessment as an “obvious” place to target.

“It’s the one moment in the year when the self-employed are forced to look at their finances in the round,” she explains. “Embedding pension education, tax relief information and contribution prompts at that point would make better use of a key moment of reflection and business planning that already exists in the calendar every year.”

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The auto-enrolment solution

Full-time employees have been able to benefit from auto-enrolment, arguably one of most significant policy changes to encourage retirement saving in recent years. Many see extending this to somehow include self-employed workers as a priority for the commission. Doing so, however, is easier said than done.

Experts point to the absence of an equivalent infrastructure or ‘free money’ in regard to employer contributions, but there are potential solutions to bridge the gap and help extend auto-enrolment to the self-employed. Young points to a potential opportunity arising from the way in which tax is reported and collected from these workers.

“Self-employed people are now part of ‘Making Tax Digital for Self

Assessment’, which requires them to submit quarterly updates to HMRC where income is over £50,000 per year,” explains Young. “This gives us a new source of information and a potential link up to ‘default’ pension saving that we’ve not had before.”

Likewise, Picardo sees a way to sync up automatic contributions for those self-employed workers who run their own limited companies with payments automated from these entities instead of their personal salary.

“These contributions count as a business expense, reducing your corporation tax bill, and saving on National Insurance,” says Picardo, who argues the combined saving could be as much as 40 per cent, depending on the company size. “The personal pension product exists and caters for the self-employed, but there really needs to be a greater nudge and better education to get people started for themselves early, and fully engaged with how they can change their outcome.”

Others aren’t as convinced. Glancy points out that auto-enrolment only worked because of its default nature, with same mechanism having to be somehow replicated for the self-employed.

“A pension as we currently know it won’t be the right solution,” adds Glancy. “Pensions will either need to be integrated with other savings and investment products, or a new type of retirement savings product specifically for the self-employed would need to be developed.”

It remains to be seen what recommendations come from the commission, due in early 2027, or what innovations will be unveiled by the industry in the meantime. But it’s clear that tackling retirement savings for the self-employed population is an even more complex issue than the challenge traditional employment already poses.

Written by Jon Yarker, a freelance journalist