# NEST Insight

Retirement saving and the self-employed: a research summary

# Authored by

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With thanks to our research partners, i2 Media, the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) and BritainThinks.

# About NEST Insight

NEST Insight is a collaborative research unit set up by NEST Corporation to help understand and address the challenges facing NEST members and other defined contribution savers.

# About NEST Corporation

NEST Corporation is the Trustee of NEST. It was established by legislation to run the NEST pension scheme. NEST Corporation is accountable to Parliament through the Department for Work and Pensions but is generally independent of government in its day-to-day decisions.

# About our strategic partner, Vanguard

Vanguard was founded with the purpose of taking a stand for all investors. In pursuit of this principle, Vanguard is proud to be the first strategic partner of NEST Insight, in its effort to help the UK public achieve the best chance of investment success, and a comfortable retirement.

With the route to retirement becoming increasingly complicated, Vanguard believes that improving the understanding and accessibility of the UK pension system will be vital in generating practical solutions to the challenges ahead.

Since establishing the first indexed mutual fund in 1976, Vanguard has grown into one the world's largest and most respected investment management companies. Vanguard manages £3.4 trillion on behalf of investors worldwide (source: Vanguard, as at 31 June 2017). For more information visit: **www.vanguard.co.uk**

# Retirement saving and the self-employed

NEST Insight, along with i2 Media, the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) and BritainThinks, have been working together to explore ways of improving retirement savings rates among self-employed people. The aim is to develop ideas for practical interventions that can be piloted and tested in 2018 and beyond. In preparation for this pilot work, the partners have each carried out a piece of preparatory research:

- NEST Insight and i2 Media have examined data on NEST's own self-employed population, run a stakeholder roundtable, and are now testing the potential appeal and practicability of different forms of savings approaches among this group.
- The RSA has carried out desk research into the financial situations and savings behaviours of the self-employed.
- BritainThinks has conducted a series of interviews with different types of self-employed people, to explore the motives and attitudes that drive their savings behaviour.

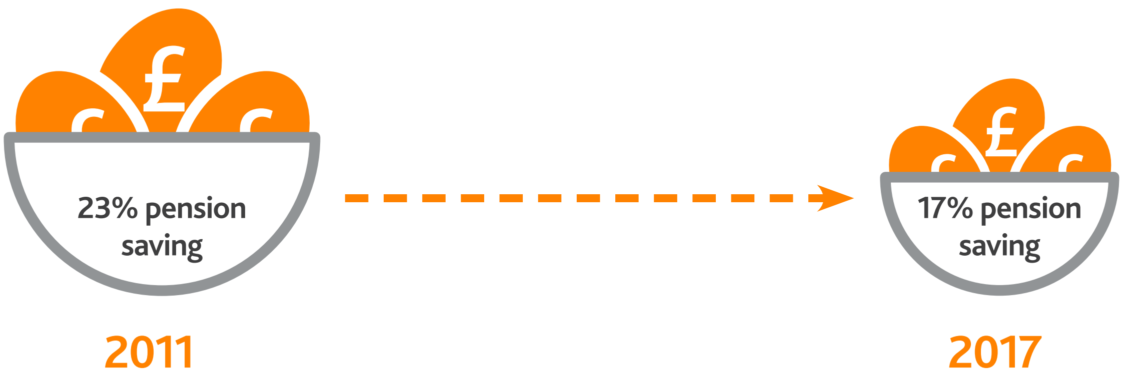
The RSA and BritainThinks have produced detailed reports on their studies.[1] This paper provides a more high-level narrative, built around both these reports, along with other research work. We recently shared this narrative at a stakeholder roundtable event, with the aim of stimulating discussion around potential solutions. By sharing these insights more widely, we hope to contribute further to the debate about long-term saving among the self-employed. In the next stage of our work, we'll aim to build on this debate by designing interventions that we can trial with different segments of the self-employed population.

[1] Dellot, B and Wallace-Stephens, F. (2018) *Venturing to Retire Boosting the long-term savings and retirement security of the self-employed*. Available **here**.
Britain Thinks (2018) *The Self-Employed and Retirement Planning*. Available **here**.

# The savings challenge for the self-employed

Just under 5 million people in the UK are classified as self-employed workers. That's a seventh of the working population. This figure is rising steadily year-on-year, reflecting a fundamental shift in the nature of work for many people. Yet, to date, interventions to encourage retirement saving, in the form of pensions, have tended to focus on those in formal employment. As observed in the 2017 review of auto enrolment, around 17 per cent of the self-employed population are saving in a pension, down from 23 per cent just 6 years earlier. This is in contrast to the 68 per cent savings rate among the employed population. The review recommended a joint initiative by government and the industry to develop and test interventions that can make retirement saving easier and more attractive to the self-employed.

**Of the self-employed population:**



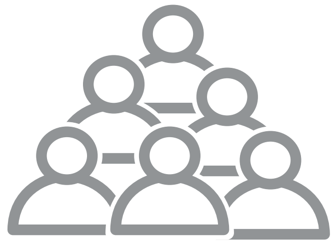

In tackling this challenge, there's been much talk about introducing auto enrolment for the self-employed. However, auto enrolment depends on an employer doing the heavy lifting of implementing a pension scheme, enrolling workers, and deducting contributions through payroll. In the absence of an employer, what might auto enrolment for the self-employed look like?

For now, in the absence of any such intervention, the pension profiles of employed and self-employed workers are diverging. One stark way of characterising this difference is to compare the enrolment methods of NEST's membership of more than 6 million people. The vast majority of this group were automatically enrolled by an employer. Only 5,789 went onto the NEST website to sign up as a self-employed person. Having said that, 4 per cent of NEST members recently surveyed identified themselves as primarily self-employed. Extrapolating to the entire membership, that's over 250,000 members describing themselves as self-employed.[2] It's interesting, therefore, that the vast majority of self-employed people enrolled in NEST were enrolled by an employer.

**Of NEST's membership of more than 6 million members...**

**5,789** signed up as a self-employed person


but **4 per cent** of NEST members identify themselves as primarily self-employed....



that's **over 250,000** members

[2]While there may be some sampling effects leading to this higher number, it is likely that the 'true' number is significantly higher than 5,789.

# No one-size-fits-all

Given the recent attention paid to new economy or 'gig economy' work, there's a tendency to think of the self-employed labour market in these terms; but in fact this fast-growing sector remains a minority form of self-employment. The sector encompasses professionals such as architects, skilled tradespeople such as plumbers and construction workers, and service workers like beauticians, as well as taxi and delivery drivers.

To further complicate this picture, the boundary between self-employment and traditional employment is fluid and porous, and this is borne out in their pension wealth. According to Office for National Statistics (ONS) data, over 50 per cent of self-employed people have retained rights in an occupational pension arrangement.

Levels of money management also vary significantly among the self-employed. Based on its qualitative research study, BritainThinks has developed a high-level typology that demonstrates the diversity of the self-employed population in relation to pensions and savings:

| Type of saver | Life and career | Retirement saving |
|---|---|---|
| **Confident savers** | Older, with a good hold on their finances. | Have done their research and started saving for retirement. |
| **Worried strugglers** | Have reached the point where they know they should start saving. | Feel unable to save. Plan to keep working as long as they can. |
| **Accepting questioners** | Flexible work suits them for the moment. Starting to feel they should be saving. | Uncertain about their ability to save, or what the options are. |
| **Happy present-livers** | Young, value the freedom their work gives them. | Living for the moment - pensions don't seem relevant. |

Our work on the user journeys of self-employed people is building on the above typology by exploring the practices and experiences that are shared by significant groups of people during their self-employment journeys. We hope that this work will help identify opportunities for interventions that can both reach, and have an impact with, large numbers of these workers. With so many different types and experiences of self-employment, and so many different types of people being self-employed, it will be harder to find a one-size-fits-all solution that can reach the whole population, and be suitable for all.

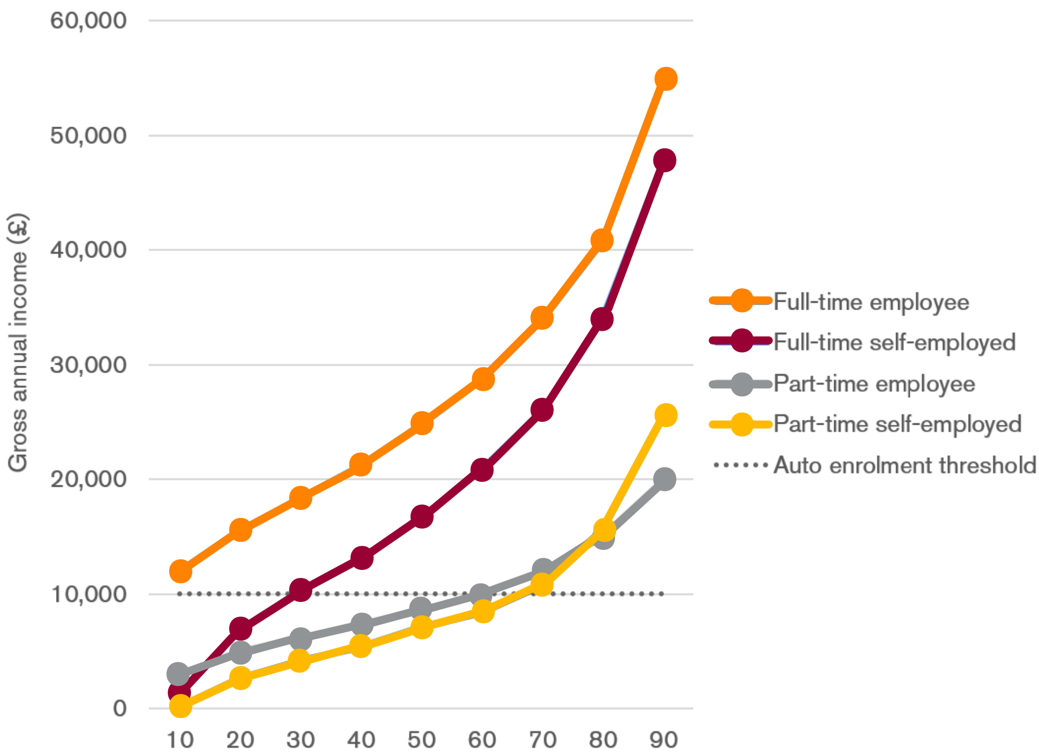
"December until around February, the courier work goes down, so I do Deliveroo or overtime to back-up extra income"

# Low incomes, low savings

Self-employed people are often income poor but asset rich. They fall disproportionately into the bottom quartile of earners, with nearly 40 per cent earning less than £20,000. However, they're also more likely to fall into the top quartile of household wealth. Taken at face value, this might support a commonly held conception of self-employed people as affluent professionals choosing to scale back their careers in later life. However, this picture tends to ignore stark differences between the financial circumstances of different types of worker. The RSA's '7 portraits of modern work' segmentation identified three main categories of self-employed worker, whose wealth profiles are very different:

- **High flyers** (38%) - business owners who are both asset and income rich.
- **Flexi-workers** (25%) - income poor but with either savings, or household members who can support them.
- **Acutely precarious** (22%) - income and asset poor, and battling income volatility.

Age is a significant driver of these differences. This effect can be stronger among the self-employed than among traditional workers. The RSA report presents the following distribution of incomes across age cohorts:

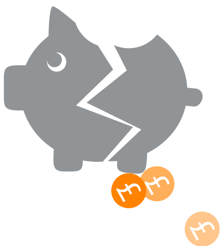


As can be seen, many self-employed people, especially the young, have earnings below the threshold for auto enrolment. This puts into some perspective the gap in pension saving between self-employed workers and traditional workers. However, this effect can be seen across the earnings spectrum. On average, self-employed people have less than £12,000 in pension wealth.

When asked why they're not saving in a pension, many self-employed people cite affordability as a major factor. Attitudinal data from the Wealth and Assets Survey shows that the top three reasons given by self-employed people who weren't saving in a pension were as follows.[3]

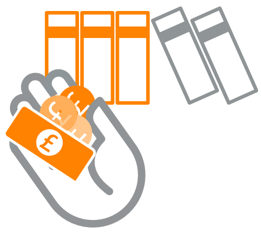
**Top three reasons for not saving into a pension**

1



**37.6 %** said they couldn't afford to (general)

2



**34.7%** said their income was low and/or they were still in education

3

**25.5%** said they had too many expenses, bills or debts

[3]Office for National Statistics (2015) *Wealth in Great Britain Wave 3: Relationship between wealth, income and personal well-being, July 2011 to June 2012*. London: Office for National Statistics

# Flexibility breeds uncertainty

The desire for flexibility is central to the decision to become self-employed. This needs to be taken into account when encouraging this group to save. However, the flip-side of flexibility is often uncertainty. By fulfilling their desire for flexibility, a self-employed person takes on the increased pressures created by an uncertain supply of work, and a volatile income. The RSA cite their own study, conducted with Populus, showing that 36 per cent of self-employed workers experience detrimental income volatility.

It should be noted these pressures are also felt by many people in conventional employment, for instance those on zero hour contracts. Still, it's striking that in BritainThinks' research interviews, the overwhelmingly greatest financial challenge facing the self-employed workers they spoke to was uncertainty and the lack of a guaranteed income. This is not just a question of an irregular supply of work, or of issues around late payment by customers. Self-employed people also lack many of the safety nets that employed people take for granted. If they become unwell, they don't receive Statutory Sick Pay to cover them during times of illness.

Given this, it's natural that self-employed people should place a higher premium on liquidity of savings. This seems to amplify the negative perceptions of pensions. Interestingly, though, it doesn't seem to translate directly into a preference for more liquid forms of savings product:

| | ISA | Savings account | Current account |
|---|---|---|---|
| **Self-employed** | **36%** have an ISA<br>Median value = **£6,000** | **53%** have savings accounts*<br>Median value = **£2,000** | **Most** have current accounts<br>Median value = **£500** |
| **Traditional worker** | **38%** have an ISA<br>Median value = **£5,000** | Median value = **£1,374** | |

*few have other savings vehicles

This to some extent questions the conventional narrative that self-employed people prefer ISAs to pensions. The qualitative research suggests that many prefer moving balances between current accounts, suggesting that many prefer informal mechanisms for managing their cashflows, rather than commercially-available savings products.

"People who work for a company, they have the same pay from month to month. But  I don't know what I'm going to make so I can't plan ahead"

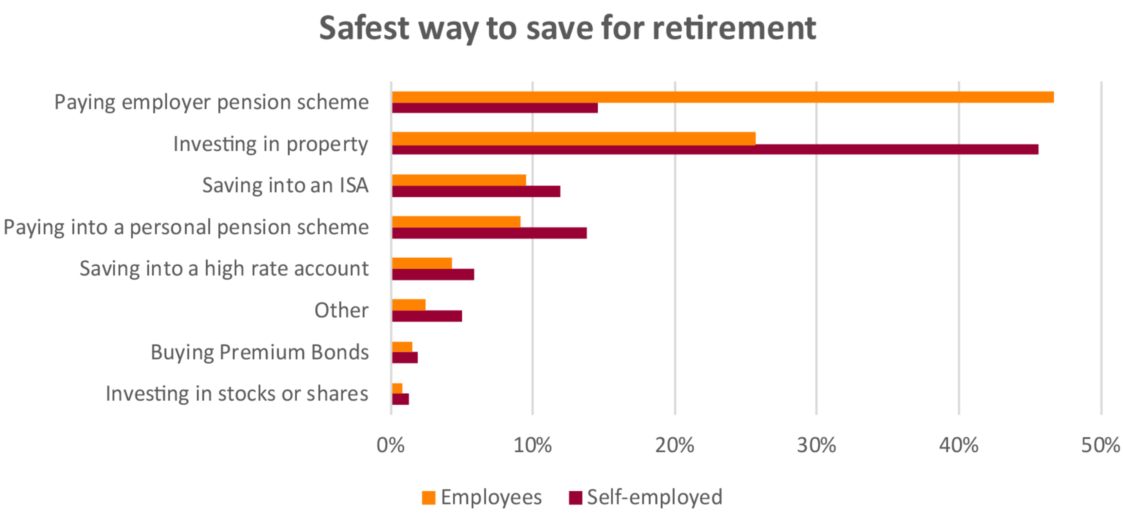
# Safe as houses

As might be expected given this focus on liquidity, an illiquid product like a pension is unlikely to feature high up a self-employed person's list of preferences. It's true that pensions are not a front-of-mind concern for most people, be they traditional workers or self-employed. However, the BritainThinks research, along with attitudinal data from the Wealth and Assets survey, shown below, suggest that this effect may be even more marked among self-employed workers.

Given this, it's perhaps unsurprising that many self-employed people look to alternative options to fund their retirement. In the Wealth and Assets ranking cited, the fourth most popular reason given by self-employed people for not saving in a pension was 'I prefer alternative forms of saving', at 17.8 per cent. As set out in the RSA report, some self-employed people hold large amounts of wealth in other assets such as property. Others assume that they can rely on their partner for retirement income, or simply keep working indefinitely. Options like these may feel more relatable and trustworthy to many self-employed people.

Property seems a particularly popular strategy, a fact reflected in both qualitative interviews and data analysis. 78 per cent of the self-employed have positive property wealth, compared to 74 per cent of traditional workers. This is not a particularly significant difference, but it's worth noting that the median value for those with positive property wealth is £180,000, compared to £130,000 for tradtional workers. 65 per cent of self-employed workers hold more in property wealth than in household pension wealth, compared to 47 per cent of traditional workers.

These attitudes are borne out in Wealth and Assets data.[4] Traditional workers and self-employed people were asked to state which of a list of vehicles they believed to be the safest way to save for retirement:




As set out in detail in the RSA report, there are reasons to doubt the reliability of property as a source of retirement income, especially where wealth is bound up in a principal residence.

[4] Office for National Statistics (2015) *Wealth in Great Britain Wave 3: Relationship between wealth, income and personal well-being, July 2011 to June 2012.* London: Office for National Statistics

# Simplicity and trust

Many of the self-employed people spoken to by BritainThinks said that even if they wanted to save in a pension, they'd have no idea where to start. There's a common perception among this group that pensions are complex, unreliable and lack transparency. This negativity about pensions is often complemented by anti-institutional sentiment, associated with the view that pensions have a high level of government involvement, and are provided by untrustworthy private actors. In the Wealth and Assets ranking mentioned above, the fifth most common reason given for avoiding pension saving was 'I do not trust companies/schemes', with 12.3 per cent of the unpensioned self-employed choosing this option.

Self-employed people also value their own personal capital and abilities over institutional status, and many have chosen their work to free themselves from the confinements of traditional work. In combination, these attitudes to pensions and to governmental involvement may also suggest that any form of mandatory approach to retirement saving could be unpopular with many in this population.

Having said this, solutions will need to be simple and require minimum effort and cognitive load on the part of the saver. Self-employed people are already feeling the burden of having to manage their own businesses. Without an employer to take on income tax, invoicing and other accounting activities around their earnings, they're more likely than other groups to feel the burden of administering their finances. This would help explain why simplicity was seen as such a strong priority by the self-employed people interviewed by BritainThinks.

"I could save, I'd love to to be honest. I don't know anything about them really...all I know is people say, 'Oh my husband's retiring, we're going to have a really good pension'"

# Designing effective interventions

Many of the proposed solutions to the self-employed savings challenge have suggested legislative interventions, or changes to the taxation system. Whilst many of these proposals may have merit, our own work is focused on interventions that can work within the current regulatory framework.

We believe any such solution needs to address three separate, but closely related challenges:

1. If a self-employed person is to sign up to retirement savings, they'll need to feel motivated to do so. The onboarding process will need to remove all possible barriers and friction to combat the many behavioural biases that mitigate against voluntary enrolment in pensions. In the absence of an employer to enrol them automatically, as is the case for most traditional workers, some other mechanism or intermediary may need to take on much of the heavy lifting involved in starting to save.
2. However, it's not enough to set up a pension, and perhaps make a single one-off contribution. To ensure sustainable retirement savings behaviour, some mechanism will need to be put in place to ensure that the worker continues to make regular contributions as they earn. For traditional workers, this has been achieved by deducting a percentage of their earnings during every pay period. It may be that a similar approach is needed for the self-employed. If so, it will need to be applied to the mechanism(s) through which they receive their income, for instance gig economy platforms, online marketplaces and accounting or invoicing software.
3. The nature of the savings product will also matter. As we've seen, the preferences of self-employed people may differ from those of traditional workers. Conventional illiquid pension products, on their own, may go against the desire to keep money on hand for the purposes of income smoothing. It might be better to encourage them to enrol in hybrid products that offer the best of both worlds by combining liquid and illiquid elements, similar to the 'sidecar savings' mechanism currently being explored by NEST Insight.[5] Unlike the sidecar approach, though, where a worker saves simultaneously into liquid and illiquid savings, a self-employed worker may prefer to start saving only into a liquid account, and only over time start contributing to an illiquid pension account.

[5]NEST Insight (2017) *Liquidity and sidecar savings*. Available **here**.

In developing suitable interventions, much of our focus is on identifying the touch points, platforms and tools that are commonly used and experienced by self-employed people in managing their working lives. Some self-employed people manage their finances through software packages and these kinds of tools may provide valuable opportunities to introduce savings nudges. However, users of these tools appear to fall into the 'confident savers' category, and they seem to be in the minority. Other platforms, such as gig platforms, contract or temp employers' payroll systems, and banking services, may all need to play a part.

The picture is further complicated by the fact that many self-employed people appear to have multiple sources of income. This could present barriers to finding a single touch point where a savings intervention could be introduced. The BritainThinks researchers give the example of delivery drivers whose income from that work may drop in the post-Christmas period. They may turn to new-economy 'gigs' as an alternative during such a lean period. If they were to save through both sources of income, two interventions might be needed. Alternatively, the intervention might focus on their primary source of income.

Based on their research, BritainThinks identifies five key factors to bear in mind when designing pension education or provision for the self-employed:

1. Flexibility to suit the varied and ever-changing income and lives of the self-employed.
2. Trust and transparency to ensure confidence that pension funds are protected and will ultimately be received when needed.
3. Ease of use for a time poor audience who often struggle with the complexity of pension plans.
4. Achievability, or the sense that setting up a pension plan is truly an option for those in self-employed work, particularly lower earners.
5. Knowledge of what pensions are, what makes them different and what options might best suit self-employed people.

In developing interventions to test, we'll need to take all of these factors into account.

“I always thought if I put money into a pension I don’t know when I’d be able to access it, or if I’d be able to access it”

# Section two

## Self-employed and pension saving: what's the solution?

# Roundtable summary

NEST Insight's roundtable event brought together pension industry, research and civil service experts to explore the challenges surrounding pension saving among the self-employed and identify possible solutions.

## At a public policy and regulatory level, what are the potential changes that could be considered to help self-employed people become more resilient in retirement?

### Extending auto enrolment to contract workers

"Amongst the self-employed there are contract workers, who are almost like employees. If you look at retail banks for example they have 30-35,000 contractors who are there to deal with specialist skills or for flexibility of workforce. You could see that extending auto enrolment to those people wouldn't be that difficult. It would put a lot of cost onto those businesses but it's not difficult."

"The vast majority of the self-employed are also in employment or some kind of employment. We need to consider solutions that might work with people that have been automatically enrolled or can be automatically enrolled whilst still doing some self-employment. What opportunities are there for them to contribute through their self-employed job whilst they might be contributing through their part-time job as well?"

### Raise Class 4 National Insurance

"One idea is to raise the Class 4 National Insurance (NI). It has a 'something for something' appeal to it. If you're self-employed and asked to pay more NI it might feel more palatable if you knew that was going directly into your pension savings, or whatever product you choose to put it in. Arguably it's unfair to traditional employees who pay 12 per cent NI, whilst the self-employed pay 9 per cent. Why should the self-employed have an additional 3 per cent going into a pension?"

### Reform and extend the LISA

"What about reforming and extending the Lifetime ISA (LISA)? The product has a certain attractiveness, but what some people are calling for is a more flexible LISA. Perhaps you should be able to draw upon your LISA and not lose your bonus as long as you pay that money back in within a certain period. The only downside is you'd create a complex product."

"You could take away the LISA's age 40 restriction which then means people with all motives could save into it. For me it's quite a nice product because it works for the hairdresser, plumber and electrician but, because there's a monetary limit on it, it means that the self-employed rich wont pile all of their money into it seeing it as another advantage."

"I think the duality of purposes is a real issue but if you rebranded it as a savings product for the self-employed then people would think, 'I'm self-employed so that's where I put my money in.' So it's a branding issue more than anything that needs significant change."

"Thinking about self-employed people's desire for liquidity though, with the LISA in its current form, people wouldn't just lose the government bonus they'd lose 25 per cent of what's in the LISA."

## Change the tax relief system

"Instead of having a tax relief system where you have a rate of 20 per cent for basic rate tax payers and 40 per cent for higher rate, you could instead have a tax bonus which is something like 30 per cent for all taxpayers. This would benefit around 85 per cent of all savers. It's difficult though, and that 15 per cent similarly have loud voices. And there are difficulties for defined benefit (DB) pensions. But it does address this question of where does the money come from."

"For those of us who are employees we would effectively be subsidising self-employment. I don't think that's really politically palatable."

## Deal with volatility and cash flow problems

"An indirect solution would be to deal with income volatility and cash flow problems. If we think people aren't saving because of volatile incomes or cash flow problems, let's try and deal with those things. For invoices over a certain level, for example, you could be required to have a written contract with your client. The whole purpose is that with a written contract you have payment terms in detail and there's no room for ambiguity. That's just one example of how to deal with these indirect issues which are the driving force for the need for liquidity. If we can smooth out incomes, it may be that actually people will be more comfortable with saving for the long term. I think we need to deal with both directly getting people to save, and save enough, but also making sure they feel comfortable to do so."

"Having money on hand in order to smooth consumption over a period where your income may fluctuate a lot does make sense. This relates very strongly to people not having pensions front of mind."

### The role of intermediaries

"If we went back to the days when the majority of self-employed people contributed to a pension, if we went back 30 years, it was because their accountant paid in at the year end. And, as a pension provider, we saw those single contributions added at year end. It was the accountant that encouraged them to pay that money in. I think the other thing that's taken us away from encouraging self-employed people to pay into a pension is just the structure of the industry. The industry no longer encourages regular contributions through intermediaries like accountants or financial advisers because commission is not paid to them on regular contributions. The cost of advice is just too high to justify unregular contributions and accountants are no longer involved directly because they're not regulated to do so. I think some of these structural issues might be part of the solution as well. Those intermediaries can help."

## What behavioural interventions might be available within the current regulatory and public policy landscape?

- How do you get people to take up pension saving in the absence of an employer who will automatically enrol them?
- How do you embed the act of contributing to a savings product into their everyday lives?
- How do you make it a natural, automatic, part of their financial lives in the way that payroll deduction enables for traditional workers?
- Is a traditional defined contribution illiquid pension product the right thing or might that be a barrier to some groups within the self-employed to building up greater long-term financial resilience. And, if so, what might some of the solutions, at a product level, look like?

### Self assessment

"One of the solutions we looked at was to use the self-assessment system as a potential solution to self-employed enrolment into a pension. At the end of the year traditionally self-employed people don't know how much they make in profit until the year ends. So using that point of the year end to make contributions seems sensible so they can put aside a percentage of the profit. If they don't make a profit that year, they don't make a contribution. So it's always affordable to make a pension contribution that year. We'd deduct it automatically along with the tax during the self-assessment process and they would have to opt out of that process if they didn't want to contribute to their pension. So that's the core of our solution and I think it's one idea we could push through in a trial to see how effective different solutions are."

"The challenge with that is, if you look at auto enrolment, it's successful because if you do nothing you're in and you have to do something active to opt out. But also you never get your hands on the money. If you do it through the self-assessment process you will have the money and therefore when you do your self-assessment return I would have thought there's a greater likelihood that you'd opt out because it means giving up some of the money you've already got."

"There are options that can be explored once making tax digital becomes reality. At the moment I think there's no capability for any type of self-assessment led solution."

## Use of apps and platforms

"For people who work off of platforms, where they get their work through a platform, so an Uber type driver if you like, the platform itself could be regarded as their employer. There's the hairdresser, the plumber, the electrician which in some ways is more problematic and then there's the, you might call them rich self-employed, the architects, lawyers and accountants which nobody should be worried about in terms of this debate. But I wonder whether breaking down the self-employed into categories like that helps you think about what the issue is and what the solution could be."

"There are some interesting things people have done in the states. Lyft, which is an Uber competitor, has partnered up with a fintech provider, Honest Dollar, to enable Lyft drivers to pre-commit to a certain percentage of the fares they bring in to go into a savings product. This sort of thing could be enabled in the current regulatory environment."

## The need for a flexible solution

"We've been surveying self-employed people and doing focus groups throughout the country. And when asking them to say what they'd like to see from a pension to get them to save, flexibility is the number one issue."

"We've been looking at how consumers engage with different products and services. We go in-depth to understand why people are doing what they're doing. I think probably the number one thing is about flexibility being absolutely essential. And, even more important than that, is that whilst saving into a pension, or for the future, is something they'd like to do it's not a realistic proposition. This came across especially in the London interviews we've had. The ideas of sidecar solutions were relatively well received. But, it's not a case of one size fits all, there are quite different profiles.

There was also this sense that they see themselves as self-employed through life - through my working life I will invest in myself and my skills to make sure that I'm able to work in different ways in the future, even if my health deteriorates I will be able to do the skill myself.

The sidecar solution appealed to some people, other people thought it was something they could do themselves. They just thought that the action of them moving money around was being taken away, they'd lost some control.

The NI contributions idea was quite liked by some people too as well as advice and information."

## Rebranding existing products

"What would be quite interesting is if NEST ran exactly the same product but rebranded it as 'the self-employed pension' and promoted it to the self-employed."

"There may well be a marketing component in all of this. And, as an industry, being a bit more on the front foot to these populations about this as a thing they can be doing, and testing out the messaging that might work.

Interestingly there was a big piece of work done in Mexico a couple of years ago where a very high percentage of the economy is informal. They did some work on how to encourage long-term savings and tested things like how you make a decision about the wellbeing of your family rather than the wellbeing of yourself. There's a lot of psychological messaging and behavioural science behind simply getting people to volunteer into something, and we haven't really tested very much of this yet as an industry."

## Improve messaging and information

"If you visit gov.uk and you're self-employed with a business, there are obligations you have to go through. If you have employees you have to enrol them but it doesn't say that if you're self-employed you might want to think about your own pension, and these are the options. So there might be at a government level something that can be done as well."

## Use of touch points with traditional employment or other financial services

"I think we also shouldn't ignore the huge change that's happening to people's experience of the pensions sector because of auto enrolment. We made the point that people move in and out of the formal contingent labour market and, as people move out of paid employment where they're receiving pension contributions and into self-employment, it's perhaps an obvious point at which to try to encourage them to continue to contribute so eventually more self-employed people are pension savers."

"I think the other side of the coin is debt and liability. So for people who are using credit to help fund their business, that's a big issue of prioritising debt repayment over saving into a pension or saving for the future. It comes back to a segmentation point about understanding where people are in terms of their savings, assets and liabilities.

But also thinking if people are using credit, they're also touching various financial institutions and providers of credit, which could be a gateway to discussing saving rather than borrowing."

## Save as you borrow

"I know some are looking at the idea of save as you borrow in which you volunteer into a slightly higher debt repayment where some of the repayment goes into a savings account rather than repaying the debt. I think that kind of thing, along with the fintech side, such as Acorn and Squirrel apps that round up a relatively small amount of money, potentially has some interesting application to the self-employed."

## Use invoicing software

"The one we've talked about a bit is invoicing software to create a pre-commitment device where someone says they will accept 3 per cent of this invoice income to go straight into a savings product of some kind. It meets all of those challenges of you commit now and pay later, so it fits with people's discount rates and the idea of pre-commitment. I think there's a whole load of things in there, both with debt and things about those everyday finances that create small opportunities. My view would be, although I agree in the end that there's an issue over sufficiency and adequacy, something first is better than nothing. Starting people on that journey towards making contributions to savings is quite a valid thing, even if it's not enough straightaway."

"You could combine your invoicing idea with the LISA and you could say the 3 per cent goes in but if you combine that with your LISA you can have £4 now of £5 goes into your savings."

"And it's taken away automatically so you'll never have it in your bank account. And that's the beauty with auto enrolment, that you never have it."

## Sidecar savings

"With the sidecar savings model there's the potential to lean on mental accounting type models where people start contributing into one thing and have some kind of roll over into a longer term LISA or pension product."

## Other considerations and observations

### Perception of pensions

"Many self-employed people don't think saving into a pension is achievable or something that they could have as a self-employed worker. Many thought it was something you get if you're a traditional worker."

"Self-employed people also tend to view property as the safest way to save for retirement, over pensions. This seems to fit with the narrative that people want to have more ownership of their wealth."

### Barriers to pension saving

"The evidence we've seen from research suggests that actually because they can only save a small amount they don't think it's worth it. How do you get over that barrier? With compound interest things will build up over time. We need to somehow help people understand that that's the case."

"I think this is where the qualitative research really helps. What we're seeing is that it isn't just one barrier, it's not just a motivational, opportunity or capability thing, it's a blend of all of that. And understanding that in real detail helps you start to think about solutions. For example, liquidity being a key thing. Does that point to things where we can set minimum levels of liquidity that you'd need and then things above that start opting into savings. But you do really need to think about the barrier before you think about which solutions are going to be the most effective. With the opportunities and information issue, you may not need to go as far as the self-assessment system to collect money. If the self-assessment system, a touch point all self-employed people have to go through, could give information about pension saving maybe that starts to erode into the issue. It may only be marginally but you would get some people starting to think about it."

"I don't think the solution is one thing. I think it's a blended approach that picks off those different barriers to saving. And those barriers can be very varied depending on who you are and what segment you're in."

### Trust

"What we've found so far in the interviews is that friends and family really are a major touch point in terms of trusting their advice. Some families have always been self-employed throughout the generations. They get advice from their Mum and Dad, and they know people around them, trusted accounts, people who have good social capital. So I think that's a distinction for the self-employed who have it in their blood versus people who come into it new and have savings in their 20s but have invested these savings in their tools and business, and their costs are going up in terms of setting themselves up as a business. They have to give it a bit of time to see whether it's going to work or not and then they'll decide whether they're going to change or do something else. They'd like the flexibility and like to give it a good go before they instead go and find a job."

"I think there's a difference between your own customers and the pensions industry generally. You find your own customers trust you a lot more than that general perception people have that they don't trust the pensions industry. I think people don't trust pensions because they see things about collapsed DB schemes in the headlines and think it's a disaster. With our customers we find there's a much higher level of trust."

"I think there's a key difference between your adviser and the advisory industry. We were finding that people had an advisor they trusted with everything they did but they don't trust the banking industry. So it's really key to understand how those relationships work and who they go to for advice. If you can then tap into those markets and get the advice being channelled through the right advisor, not a cold call or a letter through the post from the pensions industry, but from your trusted financial advisor, that will work. And it's not an easy thing because it probably varies a lot across the industry."

"There's a very big concern around advice they're getting and who they trust. Self-employed people often go online for advice and they don't think there's anything online to encourage them or tell them how to save. They don't think pensions are transparent because of the language used and the bureaucracy around them - hundreds of pages you have to read through. We need to tackle these issues. We then asked, who do you trust to tell you the truth? Number one is friends and family, and number two is the government. So there is a role here for government, definitely."

## Education and communication

"I think there's a good point on education, for example many people don't understand the value of compound interest.

Another issue is the media reporting on the collapse of DB schemes. People say they don't understand pensions and they don't trust pensions. No young people have DB schemes. The risks are completely different for DC schemes. How do you get that messaging across? I think there's a role for government there about who educates and how we get that education across."

"For years we've been paid by employers to communicate the benefits of paying into pensions, and it's moved the dial a tiny bit. You can talk to people and get them to try and understand, but actually auto enrolment has shifted the dial massively."

"Communication and information complements other things. One of the things the auto enrolment review looked at was the employers who engage groups of self-employed people. There may be a trial we can do looking at how they communicate pensions."

## Segmentation

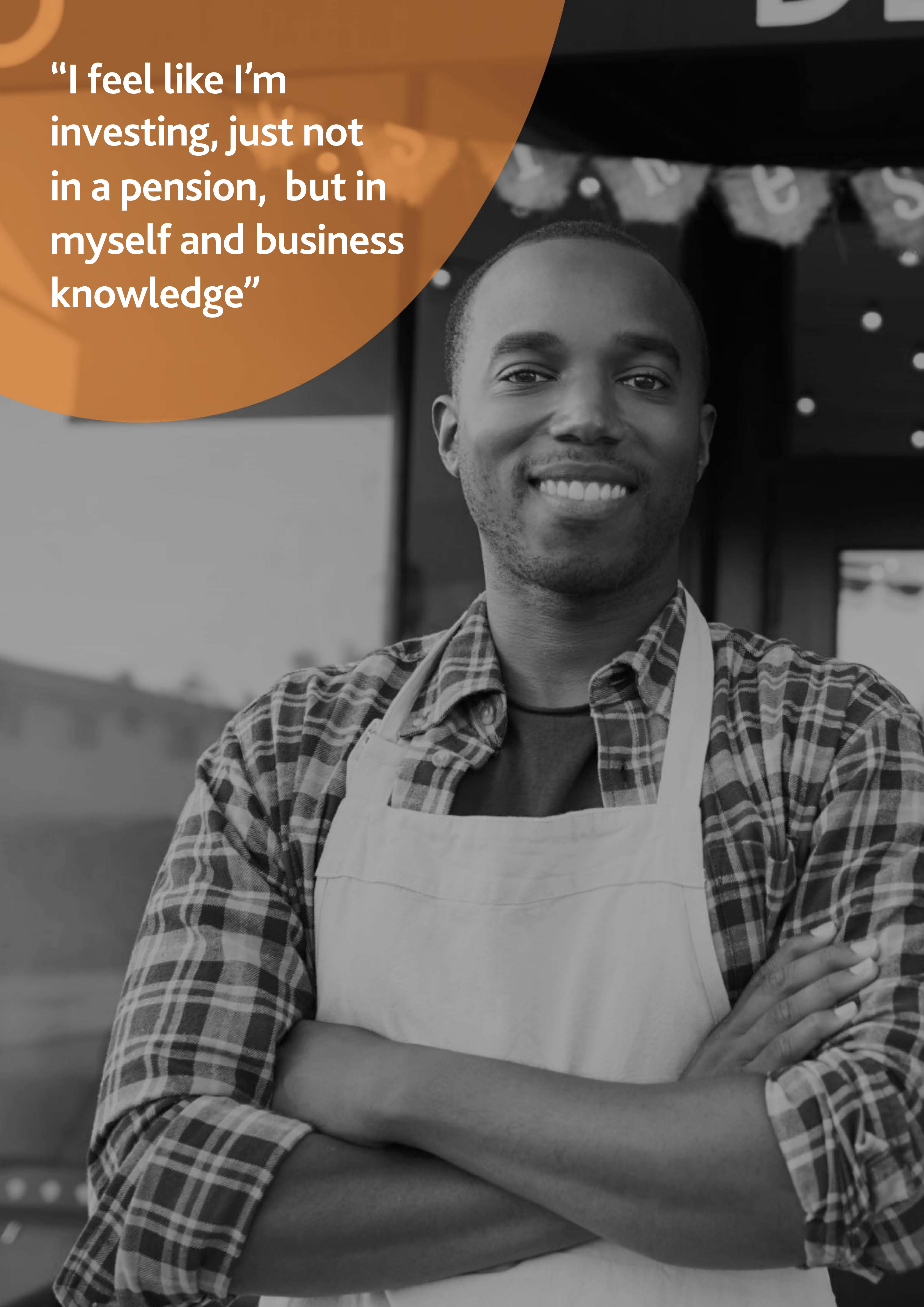
"I think there's something quite important about gender, background and ethnicity. It all comes back to segmentation. More personalised messages might help."

"I think we need to be really careful about how we segment because it can be really easy to do so demographicly but actually the more powerful segmentation is the behavioural side. What is it that's stopping people from saving for the future? Gender for example will probably come into that but the behaviour is the thing we actually need to target. How can we do that in the most effective way?"

## What does good look like?

"I wonder whether it's possible that we're all thinking about the challenge for the self-employed, anchored to the experience we've had of being employed, where around 90 per cent of people stay in when defaulted in. Whereas it's possible within time, that success for the self-employed may level out at a much lower number than that. As you've rightly raised, in the self-assessment system more people may opt out because of already having the money. If we're routing for 90 per cent of people doing something then it's bound to fail in this space. So I guess the questions we should be thinking about are, incrementally, how can we increase savings within this group without necessarily agreeing to achieve the incredibly high traditional employee watermark."

"I feel like I'm investing, just not in a pension, but in myself and business knowledge"



# Conclusion

The roundtable event, and the work we've done with our project partners to gather up existing evidence, have given us an excellent starting point to explore ideas and solutions in this space.

Whilst some of the solutions may be more regulatory in their nature, others are likely to be based on behavioural intervention, making tweaks to existing products, or creating something new. What's clear is that we'll need to look at a range of solutions in order to help the many different types of self-employed worker. It's unlikey that one size will fit all.

To find these solutions we need to think about the various financial situations of self-employed people, and how we can make the act of contributing a more invisible and automatic part of their lives. At NEST Insight we've been thinking about this challenge as two distinct behavioural issues that auto enrolment was similarly designed to tackle. That is, getting people to start saving, and then make regular and ongoing contributions. We're interested in what some of those interventions might be, that will fall short of fully defaulted auto enrolment in the absence of an employer, but might still move voluntary participation and long-term savings higher than it is today.

We're keen to step up to the challenge that's been laid down by government and think about what we could try in this space to see if there are things that could move the dial. We're very interested in working with the industry and academics to put together a few trials in the next year or two, and see what might work. We'll continue to contribute to the debate about long-term saving among the self-employed and share our findings along the way.

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