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FACTSHEET

Self-employed finances

Looming pensions saving crisis on the horizon

The number of people running their own businesses has soared since the financial crisis, with a significant number being set up by someone aged over 50. But an unhealthy number of self-employed workers in the UK do not currently save into a pension.

New research[1] has highlighted that self-employed workers are heading towards a pension saving crisis as they cannot afford to save for their retirement. Starting your own business and becoming self-employed is exciting. But being your own boss can have some challenges – saving for retirement is certainly one of them.

The nationwide study found that more than two fifths (43%) of those working for themselves admit they do not have a pension, compared to just 4% of those in employment. A key reason is that 36% of the self-employed say they cannot afford to save for retirement.

LESS COMFORTABLE RETIREMENT

Self-employed workers now make up 15.1% of the UK workforce, with more than 4.8 million people working for themselves[2], but the research found they are heading for a less comfortable retirement, with many not planning to stop work.

Around one in three (31%) say they will be relying entirely on the State Pension worth around £8,545 a year to fund their retirement, while 28% will be reliant on their business to provide the income they need.

DAY-TO-DAY EMERGENCIES

Self-employed workers are savers, but the research found they are more focused on day-to-day emergencies than the long term of retirement. Two thirds (64%) of the self-employed save to build up a safety net in case of an emergency, in comparison with 57% of those in employment.

Just one in ten self-employed people see a financial adviser regularly, despite having potentially more complex requirements than someone in employment. One in five (19%) are not confident with money and financial matters, while a quarter (24%) worry that they do not know enough about money.

PENSIONS FOR THE SELF-EMPLOYED

All this adds up to an education gap when it comes to the importance of pensions for the self-employed, as 20% admit they do not take pension saving seriously as they do not think it applies to them.

Saving for retirement is tougher when you are self-employed, as there is no one to organise a pension for you and no employer making contributions on your behalf. On top of that, self-employed workers often don't have a regular income, so many will focus on setting aside money as a safety net if they cannot work.

FUNDING A COMFORTABLE RETIREMENT

Saving for a pension is still important, as no one wants to work forever. And no matter what your employment status, having money to fund your retirement is essential, as the State Pension is unlikely to be enough to fund a comfortable retirement.

If you leave an employer and become self-employed, you should continue to pay in to your workplace pension if possible. Some workplace pension schemes allow you to carry on saving once you have left your employer and become self-employed.

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 20–21 June 2018 among 1,178 UK adults

[2] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07

SUPPORTING YOUR RETIREMENT JOURNEY

Starting your own business will be a busy time, and you will be feeling the financial pressures from all directions, so it's understandable that a pension might not be on your immediate radar. Wherever you sit in your retirement journey, we're here to support you. Whether it's starting a pension, saving more into your plan or to help with your options for retirement, please contact us.