

'New Age' of self-employment

Changes in how people save, invest, and plan for retirement

Self-employment plays a vital role towards the UK's economy. In recent years the number of people who are self-employed has risen steadily. But one of the main drawbacks is that the self-employed do not have the advantage of an employer to help arrange pension provision.

At a time of rapid technological advances and societal changes, the increasing prevalence of the self-employed not only represents a change in how people work, it also calls for changes in how people save, invest, and plan for retirement.

SERIOUSLY CONCERNED

Last year, the coronavirus pandemic forced even more Britons to become their own bosses. More than 5 million people are now registered as self-employed in the UK, up from 3.2 million in 2000^[1]. The self-employed account for 15% of the UK workforce. Yet just 31% of the self-employed are saving into a pension. 67% of self-employed people are seriously concerned about saving for later life^[2].

Even if retirement seems a way off, there's no escaping the fact that we're going to need to fund it somehow. "Being your own boss has many attractions, but unfortunately it won't stop us from getting old."

PENSIONS CRISIS

It's perhaps no coincidence that only 31% of self-employed people pay into a pension^[3], compared with 84% of employees eligible for a workplace pension^[4], creating a situation that the Association of Independent Professionals and the Self-Employed (IPSE) is calling a pensions crisis.

And with the fastest growth in self-employment among the over 45s^[5], how to fund retirement is a question that many will have to face up to sooner rather than later.

TAX BENEFITS

There are certainly other savings and investment accounts you can use to save for your retirement, but the fact is that pensions are built for the job and come with tax benefits that you won't get elsewhere.

With pensions, the government gives tax relief equal to the highest rate of tax that you pay. So if you're a basic rate taxpayer, you only need to contribute £80 to end up with £100

in your pension pot. And if you're a higher rate or additional rate taxpayer, you can claim back even more tax relief when you fill out your self-assessment tax return.

COMFORTABLE RETIREMENT

It's worth noting that there's an annual allowance which limits how much can be paid into your pension each year while still receiving tax relief. It's based on your earnings and is currently capped at £40,000.

Exactly how much you should pay into your pension depends on how soon you start. The earlier you begin, the less you'll have to put away every month to afford a comfortable retirement. Starting late? You'll need to save more.

SELF-EMPLOYED AND LOOKING TO SORT OUT YOUR PENSION?

Here's what to do when you don't know where to start.



1. THE SOONER THE BETTER

When it comes to pensions, it pays to be an early bird. The sooner you start paying in, the more tax relief you'll get from the government, and the more time your money has to potentially grow.

2. AIM TO PAY IN A REGULAR AMOUNT

The thought of saving a large lump sum to pay into your pension can be daunting. Getting into the habit of saving for your future is half the battle for many people – so pay in what you can regularly.

3. INCREASE IT WHEN YOU CAN

If your earnings increase or you secure a new contract, consider increasing your regular payments or paying a lump sum into your pension.

4. VISUALISE YOUR FUTURE

If retirement is still a way off, it can be hard to think of your future self and no longer working. So instead, visualise the dreams and goals you'd like to pursue when you finish working. Thinking about the positive benefits of saving can be a good motivational tool.

5. HAVE A REGULAR REVIEW

Once every six months, take a look at your pension and consider whether you're on track to save enough. Just remember that, as with any investment, the value of your pension can go down as well as up, and you may not get back as much as has been invested. ■

NEED A HAND WITH YOUR RETIREMENT PLANS?

It can be harder to think about saving for retirement if you're self-employed and don't have access to a company pension scheme, but pensions shouldn't be ignored and offer valuable tax benefits. To find out more, or to discuss your situation, please talk to us.

Source data:

- [1] <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24>
- [2] The Association of Independent Professionals and the Self Employed 2020
- [3] <https://www.ipse.co.uk/uploads/assets/uploaded/de9c9fad-459a-4afa-96e85116aad25641.pdf>
- [4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/712812/workplace-pension-participation-and-saving-trends-2007-2017.pdf
- [5] <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/008728selfemploymentbyage2001to2017>

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