House of Commons

Work and Pensions Committee

Oral evidence: Self-employment and the gig economy, HC 847

Wednesday, 1 March 2017

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Watch the meeting

Members present: Frank Field (Chair); Heidi Allen; Ms Karen Buck; James Cartlidge; Richard Graham; Luke Hall; Royston Smith.

Questions 255 - 300

Witnesses

I: Chris Curry, Director, Pensions Policy Institute.

II: Yvonne Braun, Director of Long-term Savings Policy, Association of British Insurers, David Fairs, Immediate Past Chairman, Association of Consulting Actuaries, Joe Lane, Senior Policy Researcher, Citizens Advice, and Michael Mealing, Policy Chair for Employment and Pensions, Federation of Small Businesses.

Written evidence from witnesses:

– Association of British Insurers

- Association of Consulting Actuaries

- Citizen's Advice

Examination of witness

Chris Curry, Director, Pensions Policy Institute.

Q255 **Chair:** Chris, welcome. Might you identify yourself for the record and then James will begin our questioning?

Chris Curry: Of course. My name is Chris Curry. I am Director of the Pensions Policy Institute. We are an independent research organisation and our aim is to provide an evidence base around pensions and retirement income to feed into the policy-making process. I should also declare at this point that I have also been appointed co-chair of the advisory group to the DWP automatic enrolment review, but today I am appearing on behalf of the Pensions Policy Institute and not representing the review in any way this morning.

Q256 **James Cartlidge:** We recently had a session on the gig economy, as it is called, with senior people from Uber and Amazon and other companies like that, who employ lots of people who are officially self-employed. One of the points we were probing is people who may appear self-employed, but look and feel like a permanent worker in many ways. I put it to all of them, each of the people sitting there, would they consider some form of pension provision for people who are self-employed but effectively do lots of work for them? They all said yes, which is very encouraging, which then raises the question—taking Uber drivers and other low paid self-employed people—what generally can be done to help them save for retirement?

Chris Curry: The first point that we need to bring out is that although there has been a big increase in self-employment lately, there are lots of different types of self-employment. If we just talk about the type you have described here with Uber and some of the other representations you have had, where each individual is on a self-employed contract, but it looks externally as if they are working mainly for that particular contractor.

This is where we have had discussions and ideas around whether automatic enrolment would be a potential vehicle to use for those individuals. It seems that if you look like an employer, there is a contract in place, there are payment mechanisms where individuals are paid mainly by not the employer but the organisation, then there could be possibilities to include things like pension contributions as part of that. I also saw from the evidence last week that all of them already have schemes that they use for automatic enrolment for their permanent workforce as well. So there seems to be potential there to include that.

Some of the difficulties are a lot of the workers may not be paid well enough to qualify for automatic enrolment under the current rules as part of that. It is some of the elements of people working for more than one organisation. Some of the delivery drivers, especially Deliveroo, the evidence they gave was that 85% of them work for other organisations as well. That is the sort of thing that automatic enrolment has not dealt with as well so far. People with multiple jobs are another area where the review will look at that and see what is going on.

In principle, it is probably a good idea to try to look at some of the ideas around using inertia and trying to save on people's behalf rather than expect low-paid individuals to make a positive decision to save. Certainly if there was something that could be done around the regulations and legislation, that would be an interesting—

Q257 **Luke Hall:** Certainly something we felt through our session, we are not talking about one characteristic, one type of worker. There may be some who are very flexible and it suits them, but others who have been doing this for several years, like a permanent worker—either regular part-time hours or regular full-time hours—who may want that extra security, the obvious question is in order to have a financial product for that, do you have to have any kind of new employment definition for those types of people?

Chris Curry: That is a difficult one, because obviously the employment definitions at the moment put them outside the scope of automatic enrolment. I am sure it is something that is being tested as we speak through a number of court cases as to the precise definitions of the workers or employees or self-employed as we go through here. You are right to identify the different types of work and the different flexibilities that are involved in doing that, because one of the important things when we are thinking about pension coverage and pension contributions is to think about how this fits into an overall working life as we go through.

One of the features of self-employment that we have seen so far over the past 10 years or so is the variation in the types of self-employment, the types of contract that people are using and even the age distribution. It is interesting that a lot of the increase in self-employment has been at older ages rather than younger ages as we have looked at what has happened. That means it is very unlikely there is going to be a single approach that will fit every type of self-employment, but it also means we need to think carefully as to how important it is in a career. If people are in the gig economy or self-employed for a short period of time, two or three years potentially, and then spend most of the rest of the time in main employment then it might not be such an issue if they are not there.

Q258 **Luke Hall:** Just to be absolutely clear, there is currently no product out there that very obviously could fit this category other than simply referring to people to sort their own arrangements out?

Chris Curry: No, they can make their own pension arrangements. NEST will accept people who are self-employed without being referred through an employer. I think they are the only category that can go direct without going through an employer. There are other providers who will also take self-employed and historically, before automatic enrolment, part of the self-employment market was covered by the pension provision as well. It has just been this expansion has been in areas where there has not been as good private pension coverage. Also the average earnings in self-employed are lower than employees generally, so they do fall almost squarely in this target market for automatic enrolment, the group that Governments have been interested in, low to middle earners, to make sure that they do have some coverage.

Q259 **Richard Graham:** Chris, can I just come in briefly? Clearly, as you started off by saying there, there is a group of people who will, one way or another, end up by being categorised as employees and at that stage they then become eligible for the company's auto-enrolment scheme. So that body of people personally I am not too bothered about, that will be sorted. It is the people who still end up effectively, willingly or not willingly—many cases willingly—being defined as self-employed for whom this is going to be difficult, because the whole structure of auto enrolment is the contribution from the employee, the employer and the Government. So who will be the employer in that category?

Chris Curry: At the moment, in the absence of an employer, then that would probably fall on the employee to make up that shortfall. That is one of the difficulties with automatic enrolment and the self-employed is that automatic enrolment is designed to work through the workplace through an employer. It is an employer who chooses the scheme, it is an employer who operates the scheme and it is an employer who makes contributions alongside the employee, and it works with the PAYE system to get tax relief.

Allowing the self-employed or bringing the self-employed into automatic enrolment where there is not a case through an organisation like Uber, where it looks like an employment rather than a self-employment, is going to be difficult purely because there is no employer's contribution and there is no employer to do the arranging. When we look at some of the most popular self-employment or self-employed professions or occupations in plumbing and joinery and construction, where there is not necessarily an over-arching employer, where they are people working by themselves or for themselves and doing that, then the difficulty is going to be finding a mechanism to get them to, first, identify which pension scheme they would want to save in, if they are going to be automatically enrolled, and then there is a shortfall in the contributions.

Either they need to pay the employer contribution as well as the employee, which might place an additional burden on them, which they may not welcome, or an alternative would be through changing the proportion that the Government pays in as well, but of course that has cost to the Exchequer. There have recently been changes that have already been beneficial to the self-employed in the welfare system. For example, the new state pension gives the self-employed a good state pension coverage compared to the system that was there before.

Chair: There have been lots of things that have come out of that.

Q260 **Luke Hall:** I just want to come on to people who are self-employed, but effectively more secure, better-paid conditions and what can be done. Like you were just talking about, what mechanism can be used to encourage them to save for retirement?

Chris Curry: It is a difficult one. You can usually break it down into a number of different ways. You can either try to incentivise people to save more, which comes back to things like tax relief, which I know some people have suggested different tax relief arrangements for the self-employed. Although the experience that we have seen from research is that the tax incentives tend to have a limited effect and can maybe redirect saving from one form to another, but are not particularly effective at increasing levels of saving.

You can try to encourage people, so you can provide information to them. Some of the evidence you might hear later on is talking about communication and ways to tell people what might be in their best interest. But the other is enabling and this is where the idea of inertia in automatic enrolment has been so successful with the employed population, where you did have the same issues. Before automatic enrolment there were difficulties with people who were not saving even where it was obviously in their best interest to do so. The real trick for the self-employed is to find a way that works, the kind of changes, the default, so that they are saving automatically without having to make a decision to save and going through the complexities and administration of doing that.

To do that you need to find a touch point at some point, so something that every individual who is self-employed would do at some point. One potential avenue for that is interaction with HMRC through things like tax returns and whether there is a way in which a default could be set up, so there is an automatic contribution to a pension scheme made at the time of the tax return that people could opt out of, so it is not a mandatory thing. But something that allows the system to assume that people will make a pension contribution rather than assuming that they will not.

Q261 **Royston Smith:** I wonder if you could expand on how you would see that working.

Chris Curry: Without going into a fully-worked proposal, there are a few ideas that we could pick up from studies of behavioural economics and the way that people generally tend to interact. One is about the framing of questions. For example, if you are filling in a tax return you could automatically have a box to say, "Where would you like us to pay your pension contribution?"

Q262 **Royston Smith:** Do you think that is going to be a starter? Because the Government, with Universal Credit, is saying that people should be responsible for their own rent payments. We are pushing the responsibility on to people; this is what being grown-up is about. You seem to be advocating that we cannot trust the self-employed, whereas we can trust those on Universal Credit.

Chris Curry: What I am advocating is an approach that is similar to that or which has worked so well for employees, which is almost taking the decision-making out of the pension saving issue and trying to change the social norms and the expectations that would mean that a pension contribution is seen in the same way, for example, as income tax and National Insurance, which is something that is part of the fabric of the employment market. It is something that you pay automatically and it is something that is there for your own purposes.

Q263 **Chair:** You have to make a decision, don't you, about which pension scheme you are opting for?

Chris Curry: That is the difficulty or the difference with the self-employed rather than being an employee. With automatic enrolment it is the employer who determines which scheme the individual will be enrolled into. Even with a scheme such as this run through tax returns, the individual would still have to either select a scheme or have a scheme allocated to them that they could use for doing that. There is still an extra hurdle in place for the self-employed to use, which makes it difficult.

Q264 **Chair:** But how do we then get out of lining up future Governments? You arrange all this though tax returns, you have responsibility if my scheme goes phut. If you are doing that, why do we not just put them in NEST? Because we all know if NEST goes belly-up we are going to have to pay as taxpayers, aren't we?

Chris Curry: It is interesting that NEST already has to accept the self-employed as part of that, so that would be one home for self-employed contributions. The responsibility for the Government would be the same as the responsibility that employers currently take when they set their automatic enrolment pension scheme and the relationship there. I appreciate that for a Government it might be seen as a more serious problem if there is a problem with a provider, but it operates in the same principle.

Q265 **Royston Smith:** Assuming that there was some sort of box you ticked on your tax return, which was essentially an opportunity at that point to opt out or in, would you envisage then that some sort of scheme like that would increase the levels of participation to those similar to auto enrolment with employed people?

Chris Curry: That was just one idea, one example of the way in which the system could be designed to work with the way that people naturally behave. I would expect something like that, if it could be designed well, to probably have a bigger impact than just either incentives or extra information and encouragement to get people to do that, as we have seen with automatic enrolment. Whether it would achieve the same levels of very low opt-out rates, as we have seen with automatic enrolment, is difficult to determine. There are probably some certain different characteristics around the self-employed that may make them behave in a slightly different way, different pressures for people who are self-employed compared to people who are employed. I would not want to guarantee that it would have exactly the same impact, but that would be a very positive way to take the debate forward.

Q266 **Richard Graham:** The clue is in the name, isn't it? Auto enrolment is something you automatically go into unless you choose to opt out because the employer is obliged to provide it. With self-employment it is different because the scheme does not exist unless somebody either creates it or decides to opt into a scheme that exists provided by someone else. So it is no longer auto enrolment, it is something different, which leaves me to wonder whether auto enrolment is necessarily the right vehicle for the self-employed.

Can we widen it out a bit? What we are talking about is how to encourage the self-employed to save. There would be those—not necessarily in this panel—who would say these are the perfect customers for ISAs of a different kind, like a LISA, because that is what they want to save for. They want to save for a property and then later on they want to have something that looks like a pot for retirement. What would you say to that?

Chris Curry: There are two different issues wrapped up in there, one that we have been talking about, which is getting people saving and the decision that they make. The automatic element, which is what works so well in the employer space, is something that would not be able to work in exactly the same way with the self-employed, so we need to think carefully if we wanted to go down that route about how that would work.

The second issue is where the money goes and what people save into and whether something like a Lifetime ISA might be more attractive and therefore easier to get people into than a pension scheme. There are certainly some attractions to ISAs and Lifetime ISAs. The tax regime for Lifetime ISAs in particular might be attractive to the self-employed, but there are also some real difficulties as well.

A lot of the self-employed and self-employed people generally are older than employees and so not being able to take out a Lifetime ISA when you are 40 or older would be a big barrier to a lot of the self-employed, and a big increase in the self-employed as being people using self-employment as a bridge to retirement. So that would not be possible.

Q267 **Richard Graham:** Although the tax regime on the ISAs is very attractive to the Treasury, why would it be so attractive to the individual compared to a colleague working part-time or full-time that is an employee of one of these companies who are gaining the tax relief and the roll-up from both the employer and Government as well as their own contribution?

Chris Curry: With the Lifetime ISA, it is the bonus of having the upfront contribution from the Government, which almost mimics tax relief as that part, plus the guarantee—not the guarantee, the expectation; I should say very clearly not guarantee—that the money coming out at the end is all free of taxation can make it, in the absence of an employer contribution, which we mentioned before, at least as advantageous, if not more, in some circumstances than a pension scheme could be. But there are also other restrictions as well. We mentioned the age at which you could go in. You do not get any Government bonus for contributions above the age of 50, so again, given the age profile of the self-employed, people self-employed between 50 and 60 will not get the benefit of the equivalent of tax relief going in. That might make it less attractive than a pension scheme.

Also you cannot take money out until you get to age 60 without giving up the bonus, plus all the interest on the bonus plus a penalty, so it is not quite the flexible vehicle that a lot of the self-employed say they would prefer to see rather than a pension. There are probably just as many restrictions for the self-employed on a Lifetime ISA as there are on a pension scheme. Whereas with a pension scheme, once you reach age 55 we now have complete freedom and flexibility about how you withdraw from that, maybe some limitations as to how much you can pay back in if you want to carry on working, but there is probably just as much flexibility in the later part of people's career from a pension as there is from a Lifetime ISA.

Q268 **Richard Graham:** I would agree with all of that. What would your recommendation be?

Chair: He is going to make one.

Chris Curry: We do not make recommendations, but it depends what it is, what we are trying to achieve with the self-employed. I know there have been discussions in the past about allowing some emergency access to pension saving. If you were not looking at a Lifetime ISA, an ordinary ISA would not be as beneficial on the tax front but would allow you the accessibility if that was the most important part. It might be possible that people might think of products that combine ISAs, which then feed into pension savings so you could ensure that some money is locked away, but some is accessible.

It might be worth thinking about these products, but I would stress that designing a product that works for the self-employed is no guarantee that they will use it, and just as important as a product design is the mechanism that you use for either encouraging or enabling people to take part.

Q269 **James Cartlidge:** Just to follow up this point, a reminder that we are looking at the gig economy, where Richard is absolutely right. Some of these what I call permaflex workers may well have their status changed in law, but so far in employment tribunals they have not. It seems to me what we can say with some certainty is there are going to be many thousands of people in the country who are working in this pseudo-employment way, who are doing many hours for some years with the same company. Just specifically for them, because you just made a very good point, there is no guarantee someone would do it. Obviously auto enrolment we have a model there that works well in the employment context. Is there something you can do around hours possibly, so if someone is with Uber or whoever for a certain number of hours and has been there for a certain amount of time, they should have an entitlement to this sort of self-employed auto enrolment? By the way, if you start with those companies, they have very big resources, they can probably handle it and all said on here that they would.

Chris Curry: I did look over the evidence that they gave last week with interest and it was interesting. They all said that if they needed to they could offer that kind of service, which was a positive step. You are right, it does come down to a definition of who qualifies for automatic enrolment. It is not straightforward at the moment. There are already complexities over eligible job holders, non-eligible job holders, workers who qualify and who does not. There is work that could be done to that.

Q270 **James Cartlidge:** Is it fair to say that the easiest group to get into some form of auto enrolment are those who are closest to employment in the way that they are currently working in the gig economy?

Chris Curry: The main criteria are how much people earn and their age. It would be possible potentially in some way to use that definition to encompass a definition of earnings to include self-employed earnings as part of that to maybe look at it. But these are all issues that will be studied as part of the automatic enrolment going forward, but also it would be useful to get more evidence as to how widespread these practices are. I notice from the evidence last week there was some uncertainty as to how many people were working for more than one employer, what the spread of hours were. We had a lot of averages, but not much on the distribution. Seeing how that comes through and whether there is any evidence from the Taylor review, for example, would be a useful thing to see.

Q271 **Heidi Allen:** Just building on that, you are right, that is where it gets complicated if somebody is maybe holding down three or four jobs doing a few hours here and there. But James's point about if they are approaching essentially full-time or reliably with one majority employer, given that one of the points of auto enrolment is its flexibility, "I can move jobs. I am with one company one year" is that not the whole point of it, that it is a flexible product and could work very well for these sorts of workers?

Chris Curry: There is certainly potential for doing that. You can see where things look more like standard full-time employment or it may be not full-time but enough, where earnings are over thresholds, that you can see there could be ways and a possibility of which automatic enrolment could be extended with wider definitions of earnings. One of the things that came up last week was a concern on the employer's part that people would lose their definition of self-employment and some of the flexibilities around that; that is one issue that might need to be overcome.

Heidi Allen: I think that is more their concern than the worker's concern.

Chris Curry: That might be true.

Q272 **Heidi Allen:** A couple of extra things, if I may. If we think there is opportunity for what we have just discussed, where would the onus lie? Who would start that process of thinking about creating an auto-enrolment scheme? Because it seemed to us last week that the employers were very firm the Government needs to be leading the way here. Is that the case or could they do it themselves?

Chris Curry: Again, not knowing the legalities over the definitions between employed and self-employed, if organisations already have schemes that they are using for employees and they say they are willing and happy to put their other self-employed contractors into that particular scheme, maybe it might just be clarifying legislation to make sure that that does not have any other impact. But they are allowed to do that if they wish to do that. Again, that is no guarantee that they will, so again, depending on how important an issue we felt it was to make sure that all these people are covered, then that may be something that the Government needs to consider. It may be something that will be covered in the automatic enrolment review.

Q273 **Heidi Allen:** Because ultimately then the question and the conclusion is—and the thing that worried us, not just on pensions, but all aspects of the entitlements and benefits that one of these workers would get—if this is not fixed, if we do not find some kind of solution to this, what is your view on how reliant these workers are going to be on the state ultimately and their living standards? Because that was our worry, and certainly mine very strongly, that it felt like cheap labour, for the employer to avoid paying all the protection—sick, maternity, pensions—that a regular employee would receive.

Chris Curry: Yes, it is an important issue. Even with automatic enrolment for employees working full-time, they still need to do more than the minimum in order to give themselves a good chance of having an adequate retirement income. If you are spending time where you are not making contributions, and for the self-employed that is certainly true, if that builds to a serious amount of time then their income in retirement, assets in retirement through pension saving are likely to be low. It may be they have other forms of wealth, but given we are talking mainly about low to middle income individuals here, it is very unlikely they will have a business to sell on, property rights, they may not have other forms of housing wealth, they may be more likely to rent.

We are seeing that much more among younger generations now as well and have other forms of saving, so it is likely that there will be issues for these groups later in life, which might result in them having to work longer, if it is possible to do so. They may choose to do so; that is a question for them. But if they do not have enough saved up then they will either have to work longer or accept a lower standard of living.

There might be some implications for Government expenditure as part of that, although there is less means testing expected in future as a result of the new state pension. The actual difference between the new state pension level and the guaranteed credit level is very small at the moment. We are expecting there to be increases in the numbers of people renting in retirement in future, which might give rise to housing benefit costs. So if there is less private income available to this group, then there might well be more state expenditure needed in the future to help bring them up to, at the minimum, poverty levels, but hopefully slightly higher than that.

Chair: Thank you very much, Chris.

Chris Curry: Thank you.

Examination of witnesses

Yvonne Braun, Director of Long-term Savings Policy, Association of British Insurers, David Fairs, Immediate Past Chairman, Association of Consulting Actuaries, Joe Lane, Senior Policy Researcher, Citizens Advice, and Michael Mealing, Policy Chair for Employment and Pensions, Federation of Small Businesses.

Q274 **Chair:** Welcome back again to many of you. David, might you begin by identifying yourself, please?

David Fairs: David Fairs, Immediate Past Chairman of the Association of Consulting Actuaries and a partner at KPMG.

Yvonne Braun: Yvonne Braun. I am Director of Policy for Long-Term Savings and Protection at the Association of British Insurers.

Michael Mealing: Good morning. Michael Mealing, an honorary officer of the Federation of Small Businesses and Chairman of the Employment and Pensions Policy Unit.

Joe Lane: Joe Lane. I am Senior Policy Researcher and I lead at Citizens Advice pensions work.

Q275 **Ms Karen Buck:** Obviously you were all listening to that, so let’s start where it ended and ask if you could just give us a view of where you think, from your own experience in the organisations that you represent, the state of play and understanding is of people who are self-employed. Particularly let’s concentrate on the lower paid self-employed, their understanding of what their state pension entitlements might be, their understanding of what their savings requirements might be and what the barriers might be to achieving that.

David Fairs: Shall I start? The problem is that self-employment covers a very broad range of people. As a partner in KPMG I am self-employed, but probably not the focus of—

Ms Karen Buck: Top demographic, no.

David Fairs: —somebody who needs help in improving their savings. The challenge is that prior to auto enrolment we did lots of communication about encouraging people to join pension schemes and to increase their contributions. A lot of people look at their financial situations and think, "I will be better off next year and maybe I will think about doing it next year" so over a period of years they defer starting saving. We all know through compound interest the earlier you start saving the better your finances will be. I think these people are under the view they will start saving at some point and things will get better, but they never quite get around to doing it. I think there is a need to encourage people, in the same way as with auto enrolment, to start people on that savings journey and get them into a savings mindset. We at the ACA have put forward some ideas on how that might happen and maybe we will return to that at some point.

Yvonne Braun: I think there is a lot still to be found out about the self-employed, which is why it is good that the Committee is looking into it and also the Taylor review. Of course there are also the various legal cases that are going on at the moment, which are going to determine whether these people are in fact employed rather than self-employed. We would see, like you, this as a growing problem because there is almost two graphs. The number of self-employed people is going up and up and up. At the same time, the provision self-employed people have made for their pension is going down. It is now at historically low levels, so something needs to be done about it.

We think, similar to your previous witness, that we need to look to the success of automatic enrolment and see whether some of the lessons from that can be utilised in helping these people and we can come on to that a bit later. Some interesting proposals have been made by one of our members, Royal London, but whenever there is a state-generated initiative of that sort it is also important that it is communicated and communicated in the right way.

One promising avenue to get to a better place, I think, is various initiatives to make pension language clearer, retirement language clearer, which we have been doing quite a lot on and we will be doing more on, but also technology and greater ease of getting to the information that there is about your entitlements. We are, on behalf of the wider industry and on behalf of the Treasury, leading work on the pension dashboard prototype, which has that aim, to give people an all over vision of what progression looks like.

Q276 **Ms Karen Buck:** Just on this important point—and others might have a view on it as well—we know from the experience of the WASPI campaign that communicating with people about pensions is phenomenally difficult. What is the means by which we can reach this hardest to reach group in a way that we haven't explored before?

Yvonne Braun: I think it is a real challenge and I don't think it has been cracked yet; you are absolutely right. I do think that technology has a role to play here and ease, because one of the big problems—which I think is fundamental, regardless of whether you have employed people or self-employed people—is the sort of, "Oh, it is too hard. I have so many other things to do. I'll do it tomorrow, I'll do it next week" and it never happens. I think that sort of behavioural trait is the same, so ease to my mind is absolutely crucial here, which is why we and the industry across the board are putting an enormous amount of effort into this pension dashboard development in the prototype, which we are hoping to unveil at the end of this month. We believe giving people very visibly clarity about what they have already is incredibly important. I was very struck by the evidence given by some of the witnesses that were here previously from Uber and some of the other companies, they said, "Well, I have no idea. I don't know what my state pension looks like" and that is quite scary.

I think ease, we know from banking apps that works. Apps generally, technology I think has a complete role to play here. I am not saying it is going to work for everybody. There are clearly people we are not going to reach with that, especially perhaps older people who are less technology savvy, but I think it has an important role to play.

Michael Mealing: The Federation of Small Businesses, 170,000 members, tends to represent the one-man bands and very small micro-businesses. We don't have a significant presence as far as the mass self-employed of the Ubers of this world. We have done extensive research on pension awareness and about 30% of our members do have membership of a private pension plan. Their contributions to that plan vary from over £500 a month to less than £50. Possibly for someone of reasonably advanced age, less than £50 a month is hardly a significant contribution, but at least it indicates an awareness of post-retirement income.

The situation of course is very complicated by, as we have heard earlier, the fact that they are such a diverse group. Many of our members are over 45. Some will have multiple involvement, some with employment part-time, self-employment. There isn't certainly a one size fits all approach, in our view, and it is very sad to report that 15% of our members who responded to the survey have no provision at all for their post-retirement income and don't know what they will do, other than fall on the state. Now, that is a matter of concern.

Having said that, we feel that there is no single answer, but improved transparency from the financial services industry is bound to be a good thing. The dashboard is bound to be a good thing. Possibly reminders can play their part, but certainly I think our view would be that unlike auto enrolment, where the individual starts in and has the opportunity—not an attractive one—to get out, we feel that compulsion is not the answer as far as the self-employed are concerned. They are a different animal, though perhaps we should say a number of different animals. What possibly would be attractive to them would be some sort of financial vehicle that provides savings and income protection, which would not necessarily lock their money away in the same way as a conventional pension scheme does.

Chair: Let's come back to some of those points. Joe.

Joe Lane: I think the case that something drastic needs to be done has been made incredibly strongly in previous sessions and by other people and our research and other people on the panel's research. The point around the complexity of self-employment and their uniqueness can be overstated. Citizens Advice helps around 80,000 people with pensions issues, consumer issues, on the state pension, on pension credit, on personal pension pots, in addition to giving 70,000 people pension-wise guidance. All people struggle with thinking about their pension, knowing what their state pension entitlement is, and they are very similar, both materially and attitudinally, when you look at over 55s. Both self-employment and employed people have round £7,000 on average in the bank. They are not significantly different.

From the work that has been done with employed people, we know that communications are incredibly difficult. It is a very, very difficult thing to go out and educate and enlighten people and get them to take tough, long-term decisions. Employees, even with the incredible incentive of employer contributions, pre-auto enrolment were not enrolling, so the idea that we are somehow going to go and create a common strategy that transforms self-employed people's behaviour is incredibly unlikely. The success of auto enrolment, the questions should almost be posed in the opposite way: is there strong evidence why it shouldn't be extended? It is a very rare thing to have a policy that has cross-party support, what is in effect an incredibly robust trial, another group of people who are not benefiting from that now, and then to say, "Why should we do it?" I think we should be asking "Why shouldn't we do it?"

Q277 **Ms Karen Buck:** A last question from me, which is obviously fragmentation and diversity is part of the problem here. Some people do well, many people won't, and that is to do with the level of income. That will be to do with their ability to navigate a complex system. Is there any role for any collective form of organisation that we have not yet thought of as an intermediary for this? Obviously one of the institutions that we do not talk about in this context are trade unions, but there may be others, to lie between Government and the individual to just try to support people through this process.

Chair: Quick answers can we have, starting with you, Joe.

Joe Lane: In terms of the mechanics of getting it done, I am sure there will be lots of people interested in the particular model. Again, I would come back to we have a model that works in terms of directing employed people to save in their pensions, the auto enrolment. Yes, taking Richard's point from earlier, that would look different for the self-employed because they wouldn't have the employer to choose the pension provider and to put them into that process. But I think there are models, for instance, the Child Trust Fund worked along a sort of carousel model where you became an approved provider and then if you did not choose one you could be randomly assigned into a private provider. I think there are models that can be built alongside auto enrolment that would work for self-employed people, which work on the model that—

Chair: Thank you. Michael?

Michael Mealing: As an organisation, we have certainly looked at the opportunities to encourage the development of collective arrangements for the self-employed, associated with a number of the risks of employing people and being self-employed themselves. Certainly, I think with some feedback from the insurance industry, this may encourage people and include pensions arrangements for the self-employed themselves, but—

Q278 **Chair:** Do you have a model you could suggest to us though?

Michael Mealing: There is a Danish model of the collective insurance against self-employment risks, which we found quite interesting. I can arrange for that to be forwarded to you. It does not specifically cover pensions. Our view is it might be extended to do that.

Q279 **Chair:** Like a National Insurance scheme?

Michael Mealing: Yes.

Yvonne Braun: I think I would distinguish between the sort of gig economy and perhaps the more classic or traditional self-employed person. For the gig economy, as has already been pointed out, Uber are perfectly well-organised and they do the administration of the paperwork and all of that, so why couldn't they take on the proper role of an employer? That is obviously going through the courts anyway.

For traditional self-employed people, I think it is a much, much harder nut to crack because you do not have the employer to make the choice for the individual. We do not have a settled position, to be clear, but we think one—

Q280 **Richard Graham:** But you did say you had a member with an interesting suggestion.

Yvonne Braun: We have a member with an interesting suggestion that we certainly think bears exploring, and the proposal has been made by Royal London. What they have suggested is to say for those self-employed people who have profits over, I think it is, £8,060—so who pay the class 4 National Insurance contribution—there could be an across the board raise from 9% to 12%. Those additional 3% could be diverted into a pension, provided the individual themselves also pays 4% and then tax relief of 1%. That would take you to an 8% model. As I said, that is not the ABI position, but we certainly think that model and others need to be looked at very carefully to make sure that we utilise the lessons we have learned from auto enrolment.

David Fairs: My concern around the National Insurance solution is that if you are the employee, that would look rather like a tax on the individual and it potentially doesn't get employees into the mindset of saving. It is just they are being taxed and money is ending up in a different place for them.

Q281 **Chair:** It is going into their pension, isn't it?

David Fairs: It is, but whether they feel that they are saving or the Government is taxing them and then putting money to one side for—

Q282 **Chair:** That is pushing them to save, isn't it?

David Fairs: It is. It is a possibility. What we thought was that if you look at the characteristics that have been successful with auto enrolment, it is the fact that people are defaulted into saving. They never receive the money and then have to hand it back to somebody, so the payments are automatically taken before the individual receives them and the administration is taken care of. Could you find an entity that does those things equally well, without creating an entire new infrastructure just for self-employed people?

Q283 **Chair:** Have you done that, David?

David Fairs: It occurs to me that, just as you are saying, entities like Uber have a characteristic that there is a customer, there is an IT system and then there is the supplier of that service. It would be perfectly reasonable to say, "Instead of paying the individual £10, maybe that could be rephrased to pay the individual £9.20 and 80 pence will then be put into a pension arrangement for those individuals". It is taking much of the characteristics of auto enrolment, presenting it to individuals that they will have some money put aside. They could opt out of that and say, "No, I don't want that, thank you. I would like to receive the £10". But you are taking those characteristics of being successful under auto enrolment and trying to deliver them in the gig economy.

Chair: I think everybody now wants to come in on that very point. Karen, do you have any points to follow up on that?

Ms Karen Buck: No, thank you.

Q284 **Heidi Allen:** Very speedily, and this is a slightly leading question, so I hope you don't mind. Exactly what you have just said then, for example, instead of paying them £10 they get £9.20 or whatever it might be. Might there be an argument then for Uber, for example, to pay £11 and £1 goes into the pension?

David Fairs: I think there has been some research in the US that where the amount that you are putting to one side reaches 10%, then people think that is an awful lot of money and they will opt out of that process. So I do not think the research is fully complete but it seems to be that as soon as you get into double-figure deduction, then you start to turn people off.

Q285 **Heidi Allen:** I am being more cheeky than that. I am suggesting that possibly the pension contributions should have come from the employer in the first place.

David Fairs: I guess what I was implicitly saying is while you take £10, the individual is giving up 30 pence, some money is coming from the Government and some money is coming from the employer. Now, we can take a view of does that mean the charges will go up to customers? Does that mean margins will get squeezed? Does it mean that the employee, if you like, or the worker has less money? I think there would have to be some restrictions around that with the entity—be it Uber or whatever—paying their share of the contribution in that, because otherwise, as far as the individual is concerned, if you say, "You can either have £9.20 and 80 pence will go into a pension scheme or you can take £10" the temptation will be to take the £10.

Chair: You wouldn't want to give them the freedom, would you? No. Richard.

Q286 **Richard Graham:** It is quite interesting because once you get into the detail, the differences in your thinking emerges, so crudely we have Joe who is saying, "Well, why not just extend auto enrolment?" to which the obvious objection is who is the employer? We have Michael who says, "Certainly not auto enrolment, but there might be something interesting in Denmark about which we don't really know, but it doesn't affect pensions at the moment". Yvonne is saying, "It is all jolly difficult, but Royal London may have something to do with class 4 contributions" and David is saying, "Why don't we effectively use auto enrolment as the vehicle?" But it begs the question again as to what the employer contribution is going to be, because if you have someone who is delivering for three different companies, you are not going to get any one of those particular companies wanting to volunteer to pay the employer contribution when that individual is working for three people.

If, as we know, you have some people who are genuinely categorised as self-employed, like the description of the person who is working for Sainsbury's in the daytime and then does a bit of delivery of stuff in the evening, they have their auto-enrolment pension sorted through Sainsbury's anyway. In fact, you might be on more than an auto-enrolment pension. So the question is about the genuinely self-employed, not the ones who are working 40 hours plus a week for Uber—and I am quite sure that sooner or later they will be categorised as employees—but it is the ones who are doing a bit here, a bit there and a bit everywhere, for whom the mechanics of auto enrolment could work quite well. It is just in a sense, David, coming back to your point, if the admin is going to be done, who is it going to be done by and who is going to make that employer contribution? That is the bit I think that is the rub of it. What do you—

David Fairs: The ACA has had a very clear line that we think the £10,000 threshold and the lower earnings deductible excludes many people from auto enrolment, typically the very low paid, women—women tend to have multiple jobs, slightly more than men—and the disabled. To our mind within the auto-enrolment review, every pound might start to be considered as being subject to auto enrolment. Where you have people who have multiple employments and trying to work out whether they have hit some kind of threshold, it becomes quite challenging. Therefore, if you went down my concept, you would have to change auto enrolment to say, "We will do that for every £10 you earn, not once you have earned more than £10,000" or whatever, because the administration of collating people who have multiple jobs—

Q287 **Richard Graham:** Who would do that? How would that function administratively?

David Fairs: I think you just say, "Every pound is now subject to auto enrolment, as opposed to once it reaches £10,000". Then you—

Richard Graham: I see, so whichever employer they are working for.

Chair: Could we bring Royston in? I think we can get a distinction and then we can all come in once again. Royston.

Q288 **Royston Smith:** Thank you. To what extent then do the challenges around savings and pension differ between high paid self-employed and low paid self-employed? I am interested particularly because the FSB represents 170,000 members and as an organisation you say you don't like the idea of being made to save in auto enrolment or something else, then there is a distinct difference between the higher paid and lower paid employees. I suppose it is for David and Michael to answer jointly.

Michael Mealing: One of the main differences is the insecurity of self-employment and the variability of income.

Q289 **Chair:** Your contributions would just go up and down then, wouldn't they? You could not be worse off.

Michael Mealing: The £10,000 threshold does seem to make sense to me, but clearly some self-employed people operate very fragile businesses. In fact, a sole trader without employees is probably not a business. They are in business, but they don't behave as a business does and employ other people and so on. A lot of the activity of our members is sole traders trading with other sole traders. The notion of them being an employer there, other than the self-employed basic concept, is inappropriate.

Q290 **Chair:** Before you come in, David, on Royston's question, if we say, "Scrap the idea that the auto enrolment has to be tripartite. It is between two people" we are chasing a mystical figure otherwise. Why don't we just accept there is somebody who is going to contribute and the Government is going to contribute and they are going to go for auto enrolment? What is wrong with that, David?

David Fairs: I think at present a lot of the auto-enrolment legislation is predicated on there being an employer who decides who is a worker, what the earnings are and if it is not compliant, then the employer is responsible for those failings. I think either you would have to create an entirely new system for self-employed people or you take the legislation and say, "Can we change it a little bit so that it can be used to bring in self-employed people?" It seems to me that defining whoever owns that technology that sits between the customer and the individual, with a redefinition of what the employer is, could take on those duties that currently are expected of employers.

My understanding of the US is where they are looking in some states to introduce auto enrolment, they are using that. If there is a technology system, then that means that you would be required to auto enrol. What it is excluding from that requirement is hobbyists at home who are doing a few things, who then would be exempt from the legislation, but wherever there is a technology that provides payments between the customer and the worker, then those people should be required to put money into a pension scheme.

Q291 **Royston Smith:** I just want to bottom out with Michael a bit more, if I can. Is it your opinion there should be no compulsion or is that the opinion of your members? Because ultimately, to look at responsibility, responsibility while you are employed, but what about responsibility in your retirement? If you are not saving now for your retirement then someone picks up that tab at the end of your working life. Isn't it sensible to be contributing to that now, so that you have choices, dignity and the rest in retirement that you wouldn't otherwise have?

Michael Mealing: It is certainly the FSB's stance that members are encouraged to make provision. We facilitate this in a number of different ways, but as a democratic organisation, it is quite clear that our members do not like compulsion. In the particular case of the self-employed with the fluctuation of earnings, even the additional cost deferred because you didn't get anything that week, it could be a very damaging thing as far as a business is concerned. Smaller businesses—

Q292 **Royston Smith:** How could it be deferred? If you did not earn anything that week you just did not pay.

Michael Mealing: Yes, but certainly it is a drain on the resources of the business, that when income is coming in, the labour cost essentially is going up. In a number of cases—as I say, this is particularly true of very small businesses obviously—having an additional bill, albeit one that is from a social policy point of view quite desirable, would be damaging to the success of that business, certainly in its early years.

Q293 **Royston Smith:** I struggle to understand how it would damage the business, because it is either profit or it is investing in your future to some degree. Unless of course there is an element there, it is investment as opposed to what is being taken out in earnings.

Michael Mealing: Obviously a pension contribution from a self-employed person adds to the money they take out of the business. With very small businesses, particularly when they are young, it is frequently necessary to forego any earnings at all. Then if the earnings level you are able to return to is higher than it otherwise would be, there is a problem.

David Fairs: I entirely agree with you, Royston. I think your thrust is whether you earn a lot or a little, you should still be subject to the same requirements. I absolutely agree with that. The only exception to that is where very high-earning individuals have registered for protection against lifetime allowance charge then they would need to be able to opt out, otherwise they would lose the protection that they otherwise had. But otherwise I don’t think there is an issue with people—

Chair: Michael’s point is met by the scheme that we are trying to find our way to. If you are not earning anything then there is no contribution. We are making heavy weather of this, aren’t we?

Q294 **James Cartlidge:** I may well be stating the absolute obvious here, but the key to what we seem to be saying particularly about auto enrolment and Joe’s point about how robust it has been, in effect this is deferred consumption. In order to force someone to deferred consumption, the only effective way you can do it is to force it, so at the source where money comes in, you take the money out before the person can go and spend it, broadly speaking. I suspect with respect for a lot of the self-employed, they would either spend it. They are not big investors.

Surely the key is the banking system, because if you are self-employed, the source of money, as opposed to your wages coming in, is your invoice being paid. I seem to recall there are high street banks who had this system where each time you paid for something and it cost £1.89 or whatever, 11 pence would be saved and you had these mechanisms. Is there a way that the banking sector could agree almost like a payment auto enrolment? Basically your income, you have an income account, which could be subject to a structured payment system. It seems to me that whatever you go for, on all of these new things like a tax, somehow someone has to be taking the money to guarantee you get significant uptake.

Joe Lane: Yes. I think in terms of the biggest opportunity we have come across is using the personal tax account, so moving from an annual paper or online tax return to more regular, either quarterly or just live, using real-time information, as the taxation system is moving to. When you put in your income, the original breakdown you get is it says, “You are paying this in National Insurance, this in taxation and this is going into your pension pot. This is the tax relief you get. Do you want to opt out?” “Yes, I want to opt out.” “Then you are going to lose your 20% tax relief.” If there is another form of incentive on top of that, whether that is a contractor levy or a clawback on class 4 National Insurance contributions, you also see those—

Q295 **James Cartlidge:** The default position could be that they are in there, so effectively auto enrolment.

Joe Lane: Yes. From the options we have seen, that is the best mechanism to recreate auto enrolment for self-employed people.

Yvonne Braun: I think the key is to recreate the touch points for the self-employed setting, because the touch point for employed people is the employer, exactly as Joe says. This is also in the Royal London proposal, the self-assessment system is a very, very good way of making that happen. As I said earlier, technology has a huge role to play in making this straightforward and ensuring that people don't see the money. It is already directed to a pension.

Q296 **James Cartlidge:** My concern would be David's point. I accept what you are saying. As a mechanism that is there, then it really might look like a tax in that sense if it is part of self-assessment.

David Fairs: The challenge to me is if I choose to translate Spanish to English and I put myself out there on 10 different websites and whichever one gives me a job to do then I will translate, how do you capture all those disparate entities providing me with an income? It seems to me that if I am putting myself on to that website, if the website is responsible for putting money into my pension scheme, then I will capture that individual. Because there are people who chose that sort of lifestyle and those sort of people are growing, so it is how do you deal with those as opposed to the more traditional self-employed person?

Q297 **James Cartlidge:** Just to be clear, every single person who is self-employed, unless they want to break the law, as it were, is auto enrolled into the tax system in that sense. It is not auto enrolment. It is statutory, so that must be the best way. Are you saying, Yvonne and Joe, that in effect that is a payment mechanism that would sit there with most people?

Yvonne Braun: I think that works well for the traditional self-employed, where we are not talking about the gig economy or the platform economy. When we are talking about the platform economy, where we have Uber or a similar organisation that does a lot of the administration, then I think your model is quite powerful—

Q298 **James Cartlidge:** Sorry, Yvonne, if you had the Uber situation and we had this self-assessment sort of auto enrolment, presumably the difference would be simply that they might choose to contribute to it because you have your—

Yvonne Braun: Yes.

James Cartlidge: So you could.

David Fairs: The challenge is that I have had my money and then I file my tax return and then I pay my tax sometime after that. I have had the money. You see sometimes with self-employed people, they spend the money that they should have put to one side to pay the tax due. The real danger I think is if at the point you file your self-assessment return you are also required to make a pension contribution, that just becomes a bit more of a challenging thing for the—

Q299 **James Cartlidge:** That is surely a technology thing. You need a real-time solution there, don't you? That is good for the industry, great.

Michael Mealing: If I could just make the point, the income of self-employed people is not just the value of the invoices, it is always a lesser sum because of the costs of running a business. Therefore the tax system looking at the actual income the individual derives is obviously the more reliable vehicle.

Chair: These are not insurmountable obstacles, are they, if we wanted to do something.

Richard Graham: I think that is right, Chairman. In fact, some of the points, Michael, you were mentioning there, the sort of traditional small business concern about interference and bureaucracy, reminds me very much of what it was like three or four years ago talking to small businesses about apprenticeships and so on. Many of them managed to get over those hurdles surprisingly easily. Chairman, shall I have a go at trying to say what I think we have heard and then give any of our witnesses the chance to fine-tune it?

Chair: Perhaps we should not give them the chance.

Q300 **Richard Graham:** Well, very briefly. We all start from the position that savings are a good thing and there are not enough savings. It would be an odd thing to have a fast-growing part of the economy that was completely excluded from the different vehicles that we have available. Auto enrolment has various advantages, which you have all outlined in different ways, that have made it a successful Government programme in a road that is littered with the failures of various Government pension scheme failures. Of course part of the success of this is that it is auto enrolment, so if we think that that is key, then it suggests—and I think a couple of you have made positive, specific proposals—that this could be adapted in a way that makes it available to people who are earning less than £10,000, who are self-employed in one way or another, using advantages of technology to get those contributions deducted at source, because it gets harder later on if it is an opt-in type thing.

Is that crudely a reasonable summary of what I think we have heard today? In which case that gives Chris some food for thought. I hope, Chris, that you will be lining up some of our witnesses to contribute to your review. When does that start? When does it get underway?

Chris Curry: The review has started. We are collecting evidence until 22 March.

Richard Graham: So it is quite a small window. David, I hope that you are chipping in your thoughts there specifically.

Chair: We might do ours, mightn't we?

Richard Graham: We might try to do something to meet that deadline. But, Chairman, I think we would like to thank all our witnesses for contributing so much this morning.

Chair: Absolutely. Thank you very much indeed.