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### **Lifetime experiences of self-employment.**

**Genevieve Knight  
Stephen McKay**

Policy Studies Institute

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Department of Social Security

Research Report No 120

# Lifetime Experiences of Self-Employment

Genevieve Knight and Stephen McKay

A report of research carried out by the Policy Studies Institute on behalf of  
the Department of Social Security

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## SUMMARY

### Introduction: The rate of self-employment

This research analyses self-employment over the working lifetime, and the effects of self-employment on pension provision. The analysis is based on the Family and Working Lives Survey (FWLS) Dataset, a nationally representative survey of 9,139 people aged 16-69 years conducted in 1994 and 1995. It contains information concerning non-state pension rights; data about state pension rights has been derived.

A total of 12 per cent of those doing any paid work were self-employed, as they defined it, in their main job. This represents about 2.9 million workers whose main job was self-employed (Section 1.2). These figures match established information from other surveys.

Self-employment was more common among men than women - 16 per cent of men were self-employed, compared with only seven per cent of women (Table 1.1). The self-employed, as a proportion of all workers, also tend to increase with age. Only five per cent of workers aged 16-29 were self-employed, compared with 13-15 per cent of those workers aged 30-59, and 21 per cent for the over 60s (Table 1.2). The high rates of self-employment for the over 60s mostly reflected a small number of employees in this age range - we estimate that there are only about 220,000 self-employed over 60 (and 850,000 employees), compared with one million in their 40s (and 5½ million employees).

The proportion of men working as self-employed seems to have fallen slightly in recent years.

### Personal characteristics of the self-employed

The general picture of the self-employed is one of stability: stable lives, stable employment. Large numbers of the self-employed were male (73 per cent), 'middle-aged' (34 per cent were in their forties, and only 12 per cent under 30) and married or cohabiting (82 per cent). They were also more likely to have children aged under 16 (60 per cent of self-employed compared with 50 per cent of employees). These figures relate to those working as self-employed in 1994/95. The self-employed were more likely than employees to have vocational qualifications, but less likely to have attained academic qualifications (Section 2.1).

There were strong links between employment status, and the type of work done by a person's partner and parents. The precise reasons for these links were not entirely clear. Nevertheless, more than twice as many of the self-employed had working partners who were self-employed as did employees (34 per cent compared to 15 per cent) (Table 2.6). The rate of self-employment was twice as high for those whose father was self-employed (20 per cent), rather than an employee (10 per cent). There

was also an effect for those whose mother was self-employed, though this was weaker than for the father's status (Section 2.2).

Those with health problems affecting their work were more likely to be self-employed than the general population. The self-employed were no more likely than employees to be providing care for a disabled or elderly person. However, 43 per cent of carers working as self-employed said it affected their work in some way, compared with 26 per cent of employees who were carers (Table 2.12). More detailed investigation found that the self-employed were more able to combine caring for someone with paid work than were employees, more of whom left paid work in the course of caring (Table 2.13).

#### Job characteristics of the self-employed

There was no difference in 1994/95 between employees and the self-employed in rates of working part-time, but rates of working at home were higher among the self-employed (31 per cent of self-employed, compared to six per cent of employees). Home working was particularly important for disabled people, carers and lone parents. Almost two thirds (65 per cent) of the self-employed worked on their own, employing no other staff (Section 3.1).

The self-employed were concentrated in particular jobs and industries. Some 25 per cent of self-employed declared themselves 'managers and administrators', (compared to 12 per cent of employees) and 22 per cent defined their occupation as 'craft and related' (compared to 10 per cent of employees): this group mainly comprises skilled manual workers with a 'trade'. Very few of the self-employed (just two per cent) worked in the kinds of clerical/secretarial jobs quite common among employees (16 per cent of employees) (Table 3.6).

Some 45 per cent of the self-employed did not give details of their net earnings, predominantly because they said they were unable to (Table 3.8). This large amount of missing data means we should be particularly cautious about interpreting earnings figures for the self-employed - as all other research has found.

Among those whose net earnings were known, the self-employed were more likely than employees to appear at both the lower and upper ends of the earnings distribution (Table 3.9). As many as 29 per cent of the self-employed earned below £3,600 per year (£69 per week) compared with 22 per cent of employees. But one in five (21 per cent) of the self-employed had net annual earnings of £18,501 (£356 per week) or more, compared with just seven per cent of employees (Table 3.9). Self-employed workers employing staff had the highest earnings, on average, with 39 per cent of men and 19 per cent of women earning receiving net annual earnings of £18,501 (£356 per week) or more (Table 3.12). More than half (55 per cent) of self-employed women earned less than £69 per week, net (Table 3.10).

There were no clear links between self-employment and being made redundant, or having experienced unemployment. However, the self-employed were marginally more likely than employees to have experienced long-term unemployment (of six months or longer) (Section 3.4).

#### Self-employment over the lifetime

The number of people of working age who had tried self-employment, but were no longer self-employed, was about equal to the number of those currently self-employed - seven per cent of the population in each case. One man in every five (20 per cent) had been self-employed at some stage (including those still self-employed), double the proportion (nine per cent) of women (Table 4.1).

Almost all of the self-employed (94 per cent) had at least some previous experience of being an employee (Table 4.3). Conversely, only seven per cent of current employees had any experience of being self-employed. Nearly half (48 per cent) of the currently self-employed had first been self-employed before the age of 30 (Table 4.9).

There was a great deal of diversity in the motivations for becoming self-employed. The most popular reason was *flexibility of being own boss* (27 per cent), followed by the *nature of the job* (23 per cent). *To earn more money* (14 per cent) and *self-fulfilment* (13 per cent) were also strong motivating factors for starting self-employment (Table 4.10).

For all spells of self-employment (current and previous), the median duration was close to eight years. Spells of self-employment are getting shorter over time, with spells begun in the 1990s being particularly shorter than before. Those moving into self-employment from unemployment stayed in this status, on average, only half the time of those who were employees immediately prior to becoming self-employed (Section 4.5.2).

Taking all spells of self-employment, immediately prior to becoming self-employed, nearly two thirds (65 per cent) were working as an employee, 23 per cent were inactive (not working, and not looking for work), and 11 per cent unemployed and looking for work (Table 4.5). Among younger age groups, more of the moves into self-employment came from unemployment (26 per cent for those aged under 30) (Table 4.6). After a completed spell of self-employment 57 per cent moved into employment, 29 per cent into inactivity and 14 per cent into unemployment (Table 4.13).



**Trends in self-employment** The long-term economic trend towards a larger services sector, and a smaller production sector, seems likely to sustain a high level of self-employment. Other factors influencing the number of self-employed are rather more difficult to predict.

Analysis of the FWLS found that the trend towards greater self-employment among younger generations had come to an end. Those now aged 16 to 29 were about as likely to be self-employed, in their 20s, as were those now aged in their 30s at the same age. Previously, each generation was *more* likely than the last to be self-employed (Section 5.2.1).

Analysis by year of becoming self-employed found that inflows had risen in the 1980s, but were slowing down in the 1990s (Table 5.1). More of the entrants to self-employment in the early 1990s, than previously, were working part-time and did not have staff. A higher proportion in more recent years have been in 'personal/protective services', and rather fewer working as 'managers'. An increasing number have worked in the financial sector rather than hospitality (Table 5.1 to 5.4).

The self-employed are a diverse group. There are no straightforward methods of classifying them into particular types. However, some of the main patterns of self-employment are linked to their age (whether 'young', prime or older), gender and working hours, and whether they employ staff (Section 5.3).

**Financial provision for retirement** The self-employed (under state pension age) were more likely than employees under state pension age to have relatively high levels of savings. Of those with savings, about one in five (19 per cent) of the self-employed had £20,000 or more saved, compared with nine per cent of employees, whilst eight per cent of the self-employed had £50,000 or more saved, compared with three per cent of employees (Table 6.1). They were also more likely to be outright owners of their accommodation (Table 6.3).

Three-quarters (75 per cent) of the self-employed had spent some time contributing towards a non-state pension, as had 72 per cent of employees. The self-employed had spent an average of 4½ years in occupational pensions, and five years in personal pensions of all types (9½ years in total). The total for employees was similar (8½ years), but with the majority of that time spent in occupational pensions (7½ years) and very little time in personal pensions (one year on average).

Analysis controlling for age found that:

- Rights to the basic state pension were being built up at very similar rates among employees and the self-employed, although self-employed women appear to be spending longer in the labour market than employed women.

- The average amounts of time spent in SERPS were rather low, reflecting the date of the survey (1994-95). Those most likely to have been in SERPS were the young (who were least likely to have opted out), and employees in their 50s (who had spent longer in the scheme).
- The average number of years spent contributing to non-state pensions was similar for each age group among employees and the self-employed. Employees were much more likely than the self-employed to have occupational pension rights, and less likely to have made personal pension arrangements.
- The ex-self-employed appeared to have built up fewer pension rights than the currently self-employed (Section 6.3.2).

In 1994/95, occupational pensions which the currently self-employed had previously joined were less likely to be 'defined benefit' schemes than for employees (45 per cent of the currently self-employed, compared with 61 per cent of employees), and more likely to be 'defined contribution' (Table 6.11).

About one quarter (23 per cent) of those who were currently self-employed and who were aged 30-55 had 'limited' second tier pension provision (defined as less than five years in a second tier pension, whether state or non-state), compared with 18 per cent of those who were currently employees and who were of the same age. However, among those who had spent at least 40 per cent of their working life self-employed, some 40 per cent had limited second tier pension coverage.

#### Work, income and savings after state pension age

A total of 129 respondents over the state pension age had some experience of self-employment. Among this small total, more than half (56 per cent) were men, compared with 31 per cent of those with no experience of working as self-employed (Table 7.1).

There was no clear evidence that the experience of self-employment reduced the level of income after state pension age (this is consistent with the findings of Meager et al, 1994, using different data) (Section 7.4).

The main sources of income after state pension age are state and non-state pensions, earnings, savings and other benefits. Those with experience of self-employment were among the most likely to still be in paid work - eight per cent of those who had ever been self-employed were in full-time work, and a further 14 per cent were working part-time, compared with four and eight per cent of those over state pension age without experience of self-employment (Table 7.2). About half of those with some experience of self-employment had income from an occupational or personal pension - the same proportion as those who had never been self-employed (Table 7.3).

Experience of self-employment was associated with higher levels of savings, and a slightly lower than average chance of receiving a means-tested benefit in retirement (Sections 7.3 and 7.4).



## 1 INTRODUCTION: THE RATE OF SELF-EMPLOYMENT

This report analyses self-employment over the working lifetime, and looks at the effects that being self-employed may have on pension provision. More specifically, the main areas covered are the proportion of workers who are self-employed, and how this varies across age and gender; characteristics of self-employed workers; characteristics of self-employed jobs; movements into and out of self-employment, and the effects of self-employment on provision for retirement, and on incomes in later life.

Previous research reports have described self-employment in some detail (e.g. Boden et al 1997; Eardley and Corden 1996; Hakim 1988; Meager et al 1994; Rubery et al 1993). These reports have tended to concentrate on those currently self-employed, and not those who have left self-employment, or on trends over time rather than analysis of individuals who are self-employed. Moreover, and particularly relevant to this study, the pension entitlements of the self-employed (both current and former self-employed, and both retired and of working age) have rarely been investigated in any detail.<sup>1</sup>

This research therefore provides an important opportunity to assemble a large volume of information about the self-employed, and to investigate their pension provision (state and non-state) in depth.

The structure of this report is as follows. This chapter provides a brief overview of statistics on self-employment, and shows how results from the Family and Working Lives Survey (FWLS), the main source of information for this study, compare with other nationally representative surveys. Chapter 2 investigates the personal characteristics of the self-employed, and in particular how the self-employed compare with employees. Chapter 3 continues with a detailed investigation of the characteristics of the jobs of the self-employed and how they compare with jobs held by employees.

In Chapter 4 the emphasis switches to a longitudinal dimension. This chapter investigates movements into and out of self-employment, looking at labour market circumstances before and after self-employment. This type of analysis continues in Chapter 5, which is a discussion of trends in self-employment, and if recognisably 'new' forms of self-employment have emerged over time. Chapter 6 analyses the pension situation of the self-employed, focusing on those of working age. In Chapter 7 we investigate the consequences of self-employment for incomes in retirement, mostly looking at those over state pension age.

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<sup>1</sup> Meager et al. (1994) analyse the incomes of older groups, with different experiences of self-employment. Some of their results are summarised in Chapter 7.

## 1.1 The Family and Working Lives Dataset

Almost all the results in this report are based on analysis of data from the Family and Working Lives Survey (FWLS). This is a survey of 9,139 people, conducted in 1994 and 1995. The FWLS is nationally representative of individuals in Great Britain aged between 16 and 69 years. It collected a great deal of information about people's current situation, especially their economic activity. A distinctive feature of the FWLS is a concentration on people's working lives to date, since the age of 16. Details of all major 'life events' were collected (covering jobs, unemployment, having children, disability, caring, housing and marriage, to name the most important).

The FWLS was conducted for a consortium of Government departments, including the Department of Social Security (DSS). The survey asked respondents direct questions about non-state pensions, such as the type of arrangement made and the time spent in particular pensions. The information on economic activity means that state pension rights may also be imputed to individuals in the survey.

## 1.2 The rate of self-employment

The **rate** of self-employment is the percentage of all those in paid work who are self-employed. A total of 12 per cent of workers<sup>2</sup> were currently self-employed in 1994-95. This corresponds to a population of about 2.9 million workers whose main job can be described as self-employed. In the FWLS, information about being an employee or self-employed relates to a person's main job, and not to any 'second' jobs they may have.

### 1.2.1 Gender

More than twice as many men as women were self-employed in the FWLS. About one working man in every six (16 per cent) was self-employed, compared with seven per cent of women (Table 1.1).

**Table 1.1 Proportion of workers who are currently self-employed, by gender**

	<i>Column percentages</i>		
<i>I now want to ask you about your main job in more detail ...</i>			
<i>May I just check are you an employee or self-employed?</i>			
	Men	Women	Total
Employee	84	93	88
Self-employed	16	7	12
Base (= 100 per cent)	2671	2726	5397

Base: all respondents in paid work<sup>3</sup>

<sup>2</sup> Workers comprise both employees and self-employed, full- and part-time, who defined themselves as being in paid work, whatever their 'main' economic status.

<sup>3</sup> The Tables in this chapter are based on respondents of all ages, up to the survey limit of 69. Removing those above state pension age does very little to affect the results.

1.2.2 Age The rate of self-employment tends to increase with age (Table 1.2). Younger workers were the least likely to be self-employed. Among those aged 16-29, just five per cent of workers were self-employed, compared with 13-15 per cent of those aged 30-59, and 21 per cent of the over 60s. There was relatively little difference in the rate of self-employment between the ages of 30 and 59.

There are several reasons why older workers are more likely than younger groups to be self-employed. Self-employment is usually only a viable alternative for people who have built up either sufficient labour market expertise, or a sum of money to enter business for themselves. By the age of 30, the prospective self-employed generally have at least ten years of labour market experience to draw on.

**Table 1.2 Proportion of workers who are currently self-employed, by age group**

	<i>Column percentages</i>					
	16-29	30-39	40-49	50-59	60-69	Total
Self-employed	5	13	15	13	21	12
Employed	95	87	85	87	79	88
Total Number	1400	1579	1320	833	265	5397

Base: all respondents in paid work

For both men and women, the percentage of workers who were self-employed was highest for those in their 60s, an age group for which some 25 per cent of men, and 13 per cent of women, were self-employed *when working* (Table 1.3). However, of course relatively low proportions of people in this age group have paid jobs. As a result there were actually relatively few self-employed people in this age group - the proportion of workers who were self-employed was high because there was also only a small number of people working as employees at these ages.

Moreover, despite the low percentage of workers who were in their 20s in self-employment, there were more self-employed respondents who were in their 20s than in their 60s.

Apart from those over 60, workers most likely to be self-employed were, among men, those aged 40-59 (20 per cent self-employed), and, among women, those aged 30-49 (10 per cent self-employed).

The age group with the highest proportion of workers in self-employment was younger for women than for men. This suggests that younger women are experiencing rises in the propensity to become self-employed, a theme that is confirmed using more detailed methods of investigation in Chapter 4. However, almost all working women aged 16-29 were employees (98 per cent) with only two per cent of working women in self-employment. The overall self-employment rate for all working women was seven per cent.

**Table 1.3 Proportion of workers who are self-employed, by gender and age group**

<i>Numbers and cell percentages</i>				
Age group	Men		Women	
	Unweighted number self-employed in FWLS	Per cent of this age group self-employed	Unweighted number self-employed in FWLS	Per cent of this age group self-employed
16-29	60	8	21	2
30-39	119	16	76	10
40-49	131	21	65	9
50-59	76	19	27	6
60-69	40	25	14	13
Total	426	16	203	7

Base: all self-employed respondents

### 1.2.3 Total numbers self-employed in Britain

As mentioned above, the high proportion of workers over 60 in self-employment reflects a large fall in the total in paid work at these ages, for both self-employed and especially for employees. The number of self-employed aged 50-59 was 498,000, compared with 222,000 in their 60s. But total employment for the older group was just over one million, compared with nearly four million for the younger group in their 50s. There may only be half as many self-employed in their 60s as in their 50s, but the total number of employees was very much lower. There were about one million self-employed workers in their 40s, and almost as many (about 850,000) in their 30s.

**Table 1.4 Number of workers who are self-employed, by age group (Grossed up to national population totals†)**

	<i>Number ('000s)</i>					
	16-29	30-39	40-49	50-59	60-69	Total
Self-employed	351	846	980	498	222	2,897
Employed	6,163	5,600	5,444	3,303	850	21,360
Total number in paid work	6,514	6,446	6,424	3,801	1,072	24,257

Base: all respondents in paid work

† This analysis is based on grossing factors constructed by Research Services Limited for the FWLS, by comparing FWLS respondents with Census and other data

We show in Chapter 4 that few people actually *become* self-employed for the first time late in their working life. The high proportion of workers who are self-employed later in life is not the result of people switching into self-employment, but more a product of later retirement ages for the self-employed than employees.

### 1.3 Comparisons with other information

In the FWLS, 12 per cent of workers were self-employed. Insofar as comparisons are possible, this figure is very close to those found in other large national surveys conducted at the same time.

Research surveys usually accept the person's *own definition* of their status as employee or self-employed. This helps to limit nuances of legal definition. However, the interview collection periods for surveys do differ. The Labour Force Survey (LFS) conducts surveys over three months, the General Household Survey (GHS) is annual across the financial year, interview dates for the 1994/5 British Household Panel Study (BHPS) covered nine months (September 1994-May 1995), while the FWLS main sample interviews stretched over 12 months (May 1994 to April 1995). These difference in interview period, combined with any seasonal changes, could cause some variation (probably small) in the estimates.

The LFS is considered the best source of employment data, and the most appropriate for monitoring short to medium term trends. According to the LFS, 13.8 per cent of workers were self-employed in Spring 1994, (18.6 per cent of men and 7.9 per cent of women). However, second jobs are included in the LFS estimates after 1993, inflating the LFS estimates, whereas in the FWLS only self-employed main jobs are counted (the LFS definition has changed over time, and must be interpreted with care, as explained in Appendix A).

The proportion of workers self-employed by age indicate that the FWLS corresponds very well with the 1991 LFS (Campbell and Daly 1992)<sup>4</sup>. This showed that the rate of self-employment was 17 per cent for men, while female self-employment was seven per cent, results that correspond very well with FWLS estimates (Table 1.5).

**Table 1.5 Proportion of workers who are self-employed, by age, in the 1991 LFS and the 1994-95 FWLS**

	<i>Cell percentages</i>						
	16-24	25-44	45-54	55-59	60-64	65+	Total
LFS							
Self-employed	5	14	16	15	16	30	13
FWLS							
Self-employed	3	13	14	15	18	30	12

Bases: LFS Total employment; FWLS all respondents in paid work.

Additional data Source: Table 10, p277 Campbell and Daly (1992)

<sup>4</sup> The 1991 LFS is used because it contains results in a comparable form to our own, and pre-dates the change to the self-employment rate definition to include second jobs.



Results from three other reliable survey sources are also consistent with the FWLS results:

- The General Household Survey (GHS) reported an annualised self-employment rate for Great Britain of 13.8 per cent for the 1994 financial year, and 13.3 per cent for 1995.
- The fourth wave of the British Household Panel Survey (BHPS) 1994/95 shows that 13 per cent were self-employed in their main job.
- The rate of self-employment in the April 1991 Census of Population was 12.4 per cent, and equated to 2.9 million people who were self-employed (Clark and Drinkwater 1998: 385). Both figures fit the FWLS results very closely.

Given the many possible sources of variation, these different surveys show a remarkable degree of consistency, all within about one or two percentage points (though usually a little above the FWLS figure). This close correspondence of survey results increases our confidence in results based on the FWLS for the self employed. In addition, a range of research papers (Barnes et al 1997, McKay et al 1996, McKay and Heaver 1997a, 1997b) has confirmed the general reliability of the FWLS in the areas of disability, caring, pensions, work and family formation.

#### 1.4 Possible changes in the future?

The LFS statistics to Spring 1998 confirm that the self-employment rate for the 1990s is still about 13 per cent, as suggested in 1996 by Eardley and Corden. The overall self-employment rate for Great Britain 1990-1998 was 13.2 per cent compared with 11 per cent in the 1980's. The most recent LFS figures for GB (unadjusted) show the September 1998 self-employment rate was 12.5 per cent.

The self-employment rate for men does, however, seem to be falling. The proportion of male workers in self-employment has dropped from a peak of 19 per cent in Spring 1995, to 17.1 per cent in Spring 1998 (figures from the Labour Force Survey). The self-employment rate for women has remained around 7.5 per cent during the same period. Reasons for the changes in the level of self-employment, and possible future changes, are discussed in Chapter 5.

## 2 PERSONAL CHARACTERISTICS OF THE SELF-EMPLOYED

In this chapter we describe the characteristics of people who are self-employed.

In Section 2.1 we describe the background characteristics of self-employed workers. Previous research emphasises that some characteristics of the self-employed differ markedly for men and women, so where appropriate, we analyse men and women separately, although sometimes small sample numbers prevent such a breakdown.

In Section 2.2, we look at self-employment among current partners and the family of origin. In Section 2.3, the links between disability, caring and self-employment are explored.

The focus in this chapter, and the next, is those people currently working as self-employed. Chapters 4 to 7 analyse people who have previously been self-employed, even though they may now be employees, or not working at all (including those who were retired).

### 2.1 Backgrounds of the self-employed

#### 2.1.1 Gender

While employees were almost equally divided between men and women, self-employment was largely male. Almost three quarters (73 per cent) of the self-employed were men, while just over one quarter (27 per cent) were women (see Table 2.1). In comparison, 52 per cent of employees were male, and 48 per cent female.

The proportion of the self-employed who are women seems to have remained stable between 1989 and 1995 (at 24 per cent, see Daly 1991: page 112).

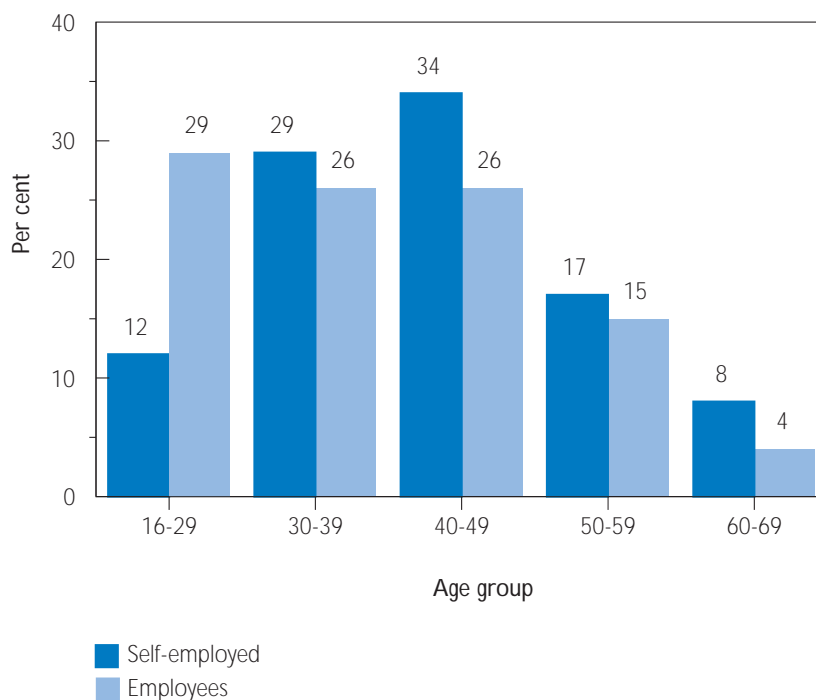
**Table 2.1 Current employment status, by gender**

	Work Status		Column percentages
	Self-employed	Employees	Total (those in any kind of paid work)
Gender			
Male	73	52	55
Female	27	48	45
Number of workers in the survey (=100 per cent)	629	4768	5397

Base: all respondents in paid work

**2.1.2 Age** The age profile of the self-employed is rather older than that of employees (Figure 2.1), with many fewer younger people. Over one third (34 per cent) of the self-employed were aged 40-49, compared with 26 per cent of employees. By contrast, just 12 per cent of the self-employed were aged under 30, compared with 29 per cent of employees.

**Figure 2.1 Age distribution of employees and the self-employed**



The average age of the self-employed was 43 years, five years older than for employees, whose average age was 38 years. The average age of self-employed workers does not seem to have changed since the early 1990s (Meager et al 1994: Table B.1).

Self-employed men aged 30-59 represented 57 per cent of all the self-employed, and self-employed women aged 30-59 a further 23 per cent (four-fifths of all the self-employed between them). This is regarded as the primary working age group.

Some eight per cent of the self-employed were aged 60 or over. Part of the reason for older self-employed working beyond state pension age might be the freedom to do so, while some employees face enforced retirement at age 60 or 65. Alternatively, the self-employed may be less able to afford to retire (though evidence in Chapter 7 suggests otherwise), or perhaps reluctant to retire from an enterprise they have built up.

**2.1.3 Marital status** The majority (74 per cent) of the self-employed were married, compared with 62 per cent of employees (Table 2.2); similar proportions were cohabiting. As a result, the proportion of single people in work who were self-employed (seven per cent) was only half that of couples (14 per cent). This reinforces the picture of the self-employed as tending to be older and more ‘settled’ than employees, at least on average.

**Table 2.2 Current employment status by marital status**

	Work Status		Column percentages
	Self-employed	Employees	Total (workers)
	Marital status		
Married	74	62	64
Cohabiting	8	7	7
Single	11	24	22
Widowed	2	1	1
Divorced	4	4	4
Separated	1	2	2
Number of workers in the survey (=100 per cent)	629	4768	5397

Base: all respondents in paid work

There are several reasons why self-employed workers are more likely to be married than employees. In particular, people are both more likely to become self-employed, and to marry, as they grow older. The association could also reflect having greater financial resources available, or the partner providing financial security, or from the two forming a business partnership. The effect of the partner’s status on working as self-employed is examined in Section 2.2.

**2.1.4 Dependent children** Sixty per cent of the self-employed had dependent children under the age of 16 compared with 50 per cent of employees.

However, it is children under the age of five that are generally found to reduce the labour market participation of parents, particularly for women. For those with young children, self-employment may provide a flexible means of combining child-care responsibilities with paid work. Working women with children under the age of five were almost twice as likely to be self-employed as women without young children (12 per cent compared to seven per cent). The proportion of men working as self-employed was not related to the presence of young children.

**Table 2.3 Self-employment rate, by presence of children under five**

	<i>Column percentages</i>				
	Men		Women		Total
	No children under 5	Children under 5	No children under 5	Children under 5	
Self-employed	16	18	7	12	12
Employed	84	82	93	88	88
Total Number	2380	291	2523	203	5397

Base: all respondents in paid work

There was only a small number of *lone* mothers, limiting the statistical reliability of their analysis. However, the self-employment rate for lone mothers aged 30-59 with dependent children under five was 22 per cent, three times that of single women aged 30-59 with no dependent children, at seven per cent.

It is possible that women working when they have young children are choosing self-employment over employment (or, that self-employed women are more able to make this choice than employees). This may be because self-employment offers increased personal control over the flexibility of work, facilitating childcare for women with young children. This flexibility of self-employment could consist of more 'home-working' (examined later) or adjustment of the number or timing of hours worked. An alternative possibility is that more limited access to maternity pay may be 'forcing' more self-employed than employees to return to work quickly when there are young children.

#### *2.1.5 Educational qualifications*

Employees and self-employed held a similar range of educational qualifications. About one in ten held a degree, and three per cent a higher degree (Table 2.4). One in five of the self-employed held vocational qualifications of various kinds, compared with 14 per cent of employees. By contrast, employees were more likely to have attained O levels (16 compared to 13 per cent) or A levels (11 compared to eight per cent). Quite commonly respondents in work had no qualifications (33 per cent of self-employed and 30 per cent of employees). Overall, employees were slightly more likely to have obtained qualifications while at school, while the self-employed were more likely to have gained qualifications related to a particular trade.

**Table 2.4 Educational qualifications by current employment status**

Qualifications	Work Status		Column percentages
	Self-employed	Employees	Total (workers)
	Higher degree	3	3
Degree	10	9	9
ONC	9	13	13
Vocational	20	14	15
A level	8	11	11
O level	13	16	15
CSE	4	4	4
No qualifications	33	30	30
Number of workers (=100%)	629	4768	5397

Base: all respondents in paid work

Both male and female self-employed were more likely to hold vocational qualifications than employees (Table 2.5). While only 15 per cent of female employees held vocational qualifications 18 per cent of female self-employed did, and only 14 per cent of male employees held vocational qualifications compared to 20 per cent of male self-employed. A greater proportion of self-employed women held degrees (13 per cent) than either self-employed men, or female employees (nine per cent respectively).

**Table 2.5 Educational qualifications by current employment status, by gender**

Qualifications	Column percentages			
	Self-employed		Employees	
	Men	Women	Men	Women
Higher degree	4	2	4	4
Degree	9	13	10	9
ONC/OND/HND	11	7	17	11
Vocational	20	18	14	15
A level	5	13	8	14
O level	14	13	14	17
CSE	4	1	4	4
No qualifications	34	33	28	34

Base: all respondents in paid work

There is often a connection between the employment status of couples. Campbell and Daly (1992: page 277) found that among working men with self-employed partners, 49 per cent were themselves self-employed. Similarly, for working women with self-employed partners, 23 per cent were themselves self-employed.

Where the main respondent was self-employed, in couples where both worked, over one third (34 per cent) of their partners were also self-employed (Table 2.6). By contrast, among respondents in dual earner couples who were employees, only 15 per cent had partners who were self-employed.

**Table 2.6 Proportion of workers who are self-employed, by partner's status**

	<i>Row percentages</i>	
	Partner self-employed	Partner Employee
Respondent's employment status		
Self-employed	34	66
Employed	15	85
Number of workers (=100%)	145	692

Base: all respondents in paid work with working partner

There could be several reasons why couples are often both self-employed. The first is that they work in some kind of formal partnership. An alternative (e.g. Hakim 1988) is that partners may have separate businesses, but supply each other with work and services. For instance, a self-employed wife may supply cakes for her partner's shop. It is also possible that some of the barriers to self-employment, such as taking responsibility for fiscal matters, are reduced where both members of a couple are self-employed.

Previous research has not been able to disentangle these different possibilities, and the FWLS did not ask questions that could enable us to do this. Campbell and Daly (1992) found that for 75 per cent of 'self-employed couples', both partners worked in the same industry, and that this type of self-employed couple working in the same industry made up just under a fifth of all self-employment, and almost a third in 'distribution, hotels and catering'.

Rubery, Earnshaw and Burchell (1993: page 40) report for Social Change and Economic Life Initiative (SCELI) 1986 data, that 17 per cent of women in 'self-employed couples' worked in the same industry as their partner, while only six per cent of men in 'self-employed couples' worked in the same industry as their partner. They speculate that this indicates more women than men are working alongside their partner in self-employment in a family concern.

### 2.1.6 Parents' self-employment

Previous research has found links between self-employment and the employment status of parents. There are several reasons why such a relationship could occur. Respondents could have a family business passed on to them, and analysis of 1986 data found that about one sixth (17 per cent) of those currently self-employed could be linked to the direct inheritance of a business (Rubery, Earnshaw and Burchell 1993). Alternatively, a family history of self-employment may influence the industrial and occupational choices of individuals, who may then choose a similar line of work (which is more likely to be self-employment), or even work within the same going concern. They might also 'inherit' from their parents some kinds of 'entrepreneurial traits' associated with self-employment, but such a theory is hard to test.

The FWLS confirms the importance of family background for becoming self-employed. Some 27 per cent of the self-employed also had a father who was self-employed when the respondent was 16 years old, compared to just 15 per cent of employees.

As shown in Table 2.7, the rate of self-employment was 20 per cent for those whose father was self-employed, but half this (10 per cent) for those whose father was an employee.

**Table 2.7 Proportion of workers who were self-employed, by father's status at age 16†**

	<i>Column percentages</i>		
	Father self-employed	Father employee	Total
Self-employed	20	10	12
Employed	80	90	88
Number of workers (=100%)	778	3993	4790

Base: all respondents in paid work, whose father was working when the respondent was 16

† Excluding 19 cases where the father's status was not known

There was a similar effect for the mothers' employment, although not quite as strong. Among self-employed workers 13 per cent had a mother who was self-employed when the respondent was 16 years old, compared to just seven per cent of employees.

Looking at this another way, the chances of being self-employed were nearly twice as high for those workers with a self-employed mother. The rate of self-employment was 17 per cent for those whose mother was self-employed compared with 10 per cent for those whose mother was an employee (Table 2.8).



**Table 2.8 Proportion of workers who were self-employed, by mother's status at age 16†**

	<i>Column percentages</i>		
	Mother self-employed	Mother employee	Total
Self-employed	17	10	10
Employed	83	90	90
Number of workers (=100%)	246	2828	3092

Base: all respondents in paid work, whose Mother was working when the respondent was 16

† Excluding 18 cases where the mother's status was not known

There is no direct data in the FWLS about whether a family business has been passed on, or whether the children have inherited some unmeasured skills, knowledge, work ethic, or risk-attitude from their 'entrepreneurial background'.

## 2.3 Disability and caring

### 2.3.1 Health

Boden et al (1997) and Eardley and Corden (1996) suggest that self-employment can be attractive for some people with disabilities or health problems. Self-employment may offer those with disabilities the opportunity to vary their working hours, and to work from home, each of which may be advantageous to them.

Analysis of the FWLS shows that the incidence of current long-standing illness, disability or infirmity is slightly higher for the self-employed, and more of the self-employed found it affected their ability to work. The questions asked in the FWLS about disability mirror those in several major surveys (such as the General Household Survey), and the results from each of these surveys are remarkably consistent – see Barnes, McKay and Walker (1997).

The proportion of the self-employed who have **ever** had any long-standing illness, disability or infirmity was, at 12 per cent, about the same as that of employees (11 per cent) (Table 2.9). However, more of the self-employed reported a current disability, so that some 10 per cent of the self-employed had 'a long-standing illness, disability or infirmity', compared with eight per cent of employees.

More of the self-employed said their disability affected their ability to do paid work. Two in five (39 per cent) of the self-employed with a current long-standing illness, disability or infirmity found it affected their ability to do paid work, whereas only 25 per cent of employees with a current long-standing disability found it affected their ability to do paid work.

However, some 22 per cent of the self-employed with a disability gave a 'negative' reason for entering self-employment, that is, a reason connected with a lack of alternative options rather than an inherent desire to become self-employed. This compared with 12 per cent of all self-employed (see Chapter 4).

**Table 2.9 Distribution of disability and health problems by working status**

<i>Column percentages</i>			
<i>Do you have, or have you ever had any long term illness, disability or infirmity?</i>			
	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Yes	12	11	11
No	88	89	89
Number of workers (=100%)	628	4767	5395
Base: all respondents in paid work			
<i>Do you currently have any health problem or disability?</i>			
	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Yes	81	71	72
No	19	29	28
Number of workers (=100%)	81	525	606
Base: those who had ever had a disability			
<i>Do these health problems or disabilities have any effect on your ability to do paid work?</i>			
	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Yes	39	25	27
No	43	45	45
Don't know/refused	18	30	28
Number of workers (=100%)	66	373	439
Base: those who have a current disability			

### 2.3.2 Caring responsibilities

Self-employment may provide a way of reconciling the need for employment with caring responsibilities, but there are few estimates of the prevalence of self-employment amongst carers. Eardley and Corden (1996) refer to the qualitative study of Twigg & Atkin (1991) where ‘...around a third of carers they interviewed were in employment, most worked part-time or in work which allowed them control of their work circumstances - usually self-employment.’, although these patterns cannot be readily generalised to the population.

Caring duties were evenly spread across the working population. Ten per cent of the full-time working population, whether self-employed or employee, had cared for someone who was sick, disabled or elderly, for at least three months (see Table 2.10). Analysis of the FWLS found that it provides good estimates of the proportion of people providing significant amounts of care per week, and mirrors the results of the Family Resources Survey in this regard. However, the General Household Survey finds a higher number of carers who do a few hours care each week, probably because the GHS question wording allows for a broader interpretation of care – see Barnes et al 1997 for further analysis.

**Table 2.10 Experience of providing care, by current employment status**

<i>Column percentages</i>			
<i>Do you currently, or have you ever regularly looked after someone, for at least 3 months, who is sick, disabled or elderly?</i>			
<i>disabled or elderly?</i>	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Yes	10	10	10
No	90	90	90
Unweighted number (=100%)	629	4768	5397

Base: all respondents in paid work

Although caring seemed to be spread across the working population, it differed according to the hours of employment. More part-time workers had been carers - 14 per cent of part-time employees and 17 per cent of part-time self-employed (Table 2.11). As many as 28 per cent of men working part-time as self-employed had experience of providing care (this figure is based on only 32 part-time self-employed men, and so should be treated with caution). In general, male self-employed were more likely than male employees to have provided care to someone, or to have done so in the past. Among women the differences were small, and tended to suggest that employees more often than the self-employed were providing care at the time of the survey, or had done so in the past.

**Table 2.11 Experience of providing care, by hours worked**

<i>Cell percentages</i>		
<i>Do you currently, or have you ever regularly looked after someone, for at least 3 months, who is sick, disabled or elderly? (proportion saying yes)</i>		
	<b>Self-employed</b>	<b>Employees</b>
Full-time	9	9
Part-time	17	14
Men: full-time	8	6
Men: part-time	28	9
Women: full-time	12	13
Women: part-time	13	15
Unweighted number (=100%)	629	4768

Base: all respondents in paid work

The consequences of caring may include giving up work, or working fewer hours. Despite the similar proportion of people with caring duties, more of the self-employed said that the hours they could spend on paid work were affected, although employees had other aspects of their work affected.

For those who were currently carers, under half (48 per cent) of the self-employed found it had no effect on their work (Table 2.12), compared with 70 per cent of employees (there were only 21 self-employed carers, so the first figure should be treated with caution). Of employee carers who reported that their work was affected, 60 per cent found that caring duties meant working fewer hours but 40 per cent found that caring meant that their work was affected in some other way, such that they now did a different type of work, earned less money from work, could only work at certain times of the day, or had missed out on promotional/career opportunities. Fewer of the current carers who were self-employed worked part-time (23 per cent) than currently caring employees (33 per cent).

**Table 2.12 Effect of caring on paid work, by current employment status**

<i>Column percentages</i>			
<i>Has caring for your dependants</i>			
<i>meant that you...</i>	<b>Self-employed</b>	<b>Employees</b>	<b>Total number</b>
Work fewer hours	43	16	19
Other effect on work*	0	10	9
No effect on work – still working	48	70	68
Don't know	9	4	4
Actual number of workers in the survey, currently caring (=100%)	21	158	179

\* Includes 'now do a different type of work', 'earn less money from work', 'can only work at certain times of the day', 'have missed out on promotional/career opportunities'

Self-employment may provide a way of reconciling the need for employment with caring responsibilities. While the self-employed did not appear to have caring duties any more often than employees, more of the self-employed found that caring duties impeded their work than did employees. However, the next section uses the information in the FWLS about change over time to investigate this conclusion in more detail.

### 2.3.3 *Dynamic analysis of self-employment and caring*

The previous section was based on the current employment status of carers. This provides a limited picture, because the nature of caring responsibilities may have forced respondents to alter their working patterns. Perhaps fewer employees are affected by caring, because most employees who tried to combine work with caring found it impossible, and left their work. Similarly, the self-employed may be experiencing a greater degree of impact from caring precisely because it is they who have continued to work.

To some extent, this picture just described is true. It is possible to use the FWLS to look at economic activity when care began, and look at how economic activity changed over time. Table 2.13 shows the economic activity that people were doing both when caring started, and when it ended (or, for those still providing care, what they were doing at the time of interview).

The proportion who were self-employed when they started caring had not changed by the time caring had ended (at six per cent). In fact, some 69 per cent of those who were self-employed at the start of the caring spell were also self-employed at the end. Overall, however, the proportion in employment fell from 62 to 49 per cent, accompanied by an 11 percentage point increase in inactivity, and a two per cent increase in those unemployed and seeking work.

**Table 2.13 Economic activity at start and end of caring spell**

	<i>Column percentages</i>	
	<b>Economic activity at start of spell of caring</b>	<b>Economic activity at end of spell of caring</b>
Employed	62	49
Self-employed	6	6
Inactive	28	39
Unemployed	4	6
Base (=100 per cent)	1326	1326

Base: most recent spell of caring (including currently caring)

The different sizes of effect are shown separately for men and women in Table 2.14. The net change in self-employment for men was +1 percentage point, and there was no change for women. The net change in employment was -17 for men, and -10 for women. The reduction in paid employment was mostly accounted for by a rise in inactivity - those not in work and not looking for work.

These figures suggest that a period spent caring did not affect the proportion in self-employment. However, a large proportion of those in employment left to become inactive.

**Table 2.14 Economic activity at start and end of most recent spell of providing care, by gender (of the carer)**

	<i>Column percentages</i>			
	<b>Economic activity at start of spell of caring</b>		<b>Economic activity at end of spell of caring</b>	
	Men	Women	Men	Women
Employed	74	56	57	46
Self-employed	10	4	11	4
Inactive	9	37	23	46
Unemployed	7	3	9	4
Base (=100 per cent)	380	946	380	946

Base: most recent spell of caring (including currently)

### 3 JOB CHARACTERISTICS OF THE SELF-EMPLOYED

In this chapter we continue to examine the profile of the self-employed compared to employees. The focus is on the job characteristics of those currently self-employed, and how these job features (working time, occupation, industry, etc.) compare with employees' jobs. Previous research has found that the FWLS closely matches the employment information found in other reliable surveys (McKay and Heaver 1997a)

This chapter covers, first, the working arrangements of the self-employed. Section 3.1 also investigates the number of staff that some self-employed workers employed. Section 3.2 covers the types of job held by self-employed workers. The level of earnings, and its distribution, forms the subject of Section 3.3, and confirms previous findings that self-employed earnings are very diverse. A final section describes some of the labour market experiences of the self-employed, including their experience of unemployment and redundancy. Both are sometimes thought to prompt movements into self-employment, and we explore this in this chapter.

#### 3.1 Working arrangements

##### 3.1.1 Working hours

Self-employment is often thought to provide greater access to more flexible types of work, such as part-time working, because of the greater personal control over work. However, slightly fewer of the self-employed were working part-time (21 per cent) than were employees (25 per cent) - work of up to 30 hours was defined as part-time, and work of over 30 hours as full-time, in the survey.

This apparent difference can be explained by the smaller proportion of women among the self-employed. Nearly all (92 per cent) male self-employment was full-time, but female self-employment was divided fairly evenly between full-time work (54 per cent) and part-time work (46 per cent). The same is true of employment. After controlling for gender, rates of full and part-time working did not vary between employees and the self-employed (Table 3.1).

**Table 3.1 Working hours by gender and employment status**

	<i>Column percentages</i>			
	Men		Women	
	Self-employed	Employee	Self-employed	Employee
Full-time (over 30 hours)	92	93	54	56
Part-time (up to 30 hours)	8	7	46	44
Total	426	2245	203	2523

Base: all respondents in paid work

### 3.1.2 Home-working

'Home-working' is commonly associated with self-employment, and Hakim (1988) suggests that working from home is integral to an early stage of self-employment. Among all 'home-workers' in the FWLS, just over two-fifths (42 per cent) were self-employed, and 58 per cent were employees. Of course, the proportion of home-workers who are self-employed is much higher than among all workers (12 per cent), confirming a strong relationship between self-employment and working at home.

Looking at this another way, about one third (31 per cent) of the self-employed had ever worked from home, compared with six per cent of employees. Women were even more likely than men to have worked at home - representing nearly half of female self-employed (49 per cent), compared to a quarter (24 per cent) of male self-employed (Table 3.2). Among employees, eight per cent of women and just four per cent of men had ever worked at home.

**Table 3.2 Home-working by current employment status and gender**

	<i>Column percentages</i>			
	Self-employed		Employees	
	Men	Women	Men	Women
<i>Have you ever spent a period of time working at home? By this I mean actually working in your home as your main location, not just using it as a base from which to work</i>				
Yes	24	49	4	8
No	76	51	96	92
Base (=100 per cent)	426	203	2245	2523

Base: all respondents in paid work

The ability to work from home could be an advantage for workers with health problems or caring responsibilities. Some groups in particular were more likely to say that they worked from home. More self-employed workers with a long-standing illness, disability or infirmity (49 per cent) were 'home-workers', than the self-employed generally (31 per cent). Conversely, only five per cent of employees with a disability worked from home. For disabled people in work, self-employment seemed to provide better access to 'home-working'. Similarly, more self-employed carers (38 per cent) had ever worked from home than the self-employed generally (31 per cent).

The reasons given for home-working, by both employees and the self-employed, are shown in Table 3.3. In fact, self-employed workers tended to give reasons related to the nature of their job or business decisions for working at home. Overall, these reasons for home-working lend credence to the idea that working from home is an integral stage of self-employment. Even those with health problems, or who were lone parents mostly gave

such reasons. Fewer self-employed than employees cited ‘*Can still look after children*’. However, respondents could only give one *main* reason, and it is possible that second or other reasons might have shown a different pattern.

Slightly more of the self-employed with health problems, pointed out that this type of job *could* be done from home (30 per cent). This might indicate that self-employed with health problems have chosen this type of work to be able to work from home.

**Table 3.3 Main reason for home-working, by current employment status**

<i>Column percentages</i>			
<i>What is/was your main reason for working at home?</i>	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Nature of the job - has to be done from home	41	33	36
Type of job that can be done from home	25	21	23
Keeps overheads down	17	5	10
Waiting to get office/other premises	3	1	2
Can still look after children	10	30	21
Other	5	9	8
Number of workers (=100%)	209	285	494

Base: all respondents in paid work who ever spent a period of time working at home

These reasons were working home are broken down for men and women, in Table 3.4. About four women in every ten (39 per cent) quoted child-care as their main reason for home-working, compared with less than one per cent of the men. Self-employed women were much less likely to see this as a means of keeping down overheads, at least as their main reasons for working at home.

**Table 3.4 Main reason for home-working, by current employment status and gender**

<i>Column percentages</i>						
<i>What is/was your main reason for working at home?</i>	<b>Self-employed</b>		<b>Employees</b>		<b>Total (workers)</b>	
	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>
Nature of the job - has to be done from home	39	43	47	24	42	30
Type of job that can be done from home	27	21	29	16	28	18
Keeps overheads down	23	9	11	3	17	5
Waiting to get office/other premises	4	2	1	1	2	2
Can still look after children	-	24	1	46	*	39
Other	10	1	12	10	11	7
Number of workers (=100%)	109	100	100	185	209	285

Base: all respondents in paid work who ever spent a period of time working at home



### 3.1.3 Number of staff

One of the key distinctions often mentioned in relation to self-employment is between those with, and without, staff. Two thirds of the self-employed had no staff (65 per cent), while one third had one or more workers (Table 3.5). A handful of self-employed men had more than 25 staff working for their business, but most commonly just one or two people were employed. While about one third (37 per cent) of self-employed men were 'employers', only 27 per cent of self-employed women were 'employers'.

**Table 3.5 Number of staff amongst those currently self-employed**

	Self-employed		
	Men	Women	Total
No staff	63	73	65
1-2 staff	20	8	17
3-5 staff	8	7	8
6-25 staff	8	12	9
More than 25 staff	*	0	*
Total (=100 per cent)	353	140	493

Column percentages

Base: all self-employed respondents, where firm size given

## 3.2 Types of job: occupation and industry

### 3.2.1 Occupation

The self-employed were found across a wide range of jobs, but were most heavily concentrated within 'managerial' and 'craft and related' occupations (Table 3.6). Some 25 per cent of the self-employed were 'managers and administrators' (compared to 12 per cent of employees), and 22 per cent did 'craft and related' jobs (compared to 10 per cent of employees). By contrast, only two per cent of the self-employed worked in clerical/secretarial occupations, which represented 16 per cent of all employment. The 1995 BHPS (Taylor 1997) found a total of 23 per cent in managerial occupations (compared with 25 per cent in FWLS), but as many as 28 per cent working in craft and related occupations (22 per cent in FWLS). The occupational distributions were otherwise very similar between the two surveys.

**Table 3.6 Occupation by current employment status**

	<i>Column percentages</i>	
<b>UK Standard Occupational Classification (1990 Major Groups)</b>	<b>Self-employed</b>	<b>Employees</b>
Managers and administrators	25	12
Professional occupations	11	9
Associate professional & technical	13	9
Clerical and secretarial	2	16
Craft and related†	22	10
Personal & protective services	7	10
Sales occupations	5	8
Plant and machine operators	4	8
Other occupations	5	8
Not classified	7	9
Total (=100 per cent)	629	4768

Base: all respondents in paid work

† Mostly skilled manual trades, including roofers, tilers, glaziers, steeplejacks, lathe and press setter-operators

**3.2.2 Industry** There were certain industries where the self-employed were concentrated to a greater degree than employees. In 'agriculture, hunting and forestry' 50 per cent of workers were self-employed, while in 'construction' 40 per cent were self-employed. These are key industries for self-employment. About a fifth of both 'real estate; renting, and business activities' (21 per cent) and 'other community and personal service activities' (19 per cent) were self-employed.

These figures may be looked at another way, to consider in which industries the self-employed are most commonly found. In fact, the self-employed were found most commonly working in three industries, which were the construction industry (18 per cent); 'real estate; renting, and business activities' (17 per cent) and 'wholesale and retail trade; repair of motor vehicles' (16 per cent).

**3.2.3 Region** As for employment generally, the greatest concentration of the self-employed were in London (15 per cent) and the South East, excluding London, (23 per cent).

However, the distribution of self-employed workers by region did differ slightly to that of employees. More of the self-employed were in London (15 per cent, compared to 11 per cent). In contrast, fewer self-employed workers were in Scotland (six per cent) compared to nine per cent of employees. In the 1995 BHPS, 16 per cent of the self-employed were in London (15 per cent in FWLS), five per cent in Scotland and only three per cent in Wales (Taylor 1997). Overall the regional distributions of self-employment were quite similar.

**Table 3.7 Regions by current employment status**

	<i>Column percentages</i>		
	Self-employed	Employees	Total (workers)
Scotland	6	9	9
Wales	5	5	5
North	4	5	5
North West	10	11	11
Yorkshire & Humberside	8	9	8
East Midlands	9	7	8
West Midlands	7	9	9
East Anglia	3	4	4
South East	23	21	21
South West	10	9	9
London	15	11	12
Number of workers (=100%)	629	4768	5397

Base: all respondents in paid work

### 3.2.4 Industry and region

Campbell and Daly (1992: page 282) showed that variation in the industry mix of regions accounts for perhaps a third of the regional variation in self-employment. The regions with heavy concentrations of self-employed do seem to have some strong connections with the important industries associated with self-employment. Half of construction work by the self-employed (51 per cent), and 'wholesale and retail trade; repair of motor vehicles' (51 per cent) was carried out in London, the South East, and East Midlands. 'real estate; renting and business activities' by self-employed were mainly carried out in the South East and London (45 per cent). Of the self-employed in 'other community and personal service activities', who were mainly hairdressers and artists, 45 per cent were in the South East and London.

Dex and McCulloch (1995), using BHPS data, link the regional concentration of self-employment to low unemployment. They conclude that areas with low unemployment are likely to have higher levels of self-employment because small businesses are the 'engines for economic growth'. However, an association between more buoyant labour markets and self-employment may also be due to self-employment feeding off other businesses.

## 3.3 Earnings

### 3.3.1 Data issues

It is notoriously difficult to obtain reliable data on the earnings of the self-employed. This reflects both a lack of knowledge on the part of the self-employed, and an unwillingness to divulge the information. So it is not surprising that a great deal of self-employment earnings data was missing in the FWLS. Among the self-employed, some 45 per cent of information on net earnings was missing (32 per cent didn't know, while 13 per cent refused to answer). In contrast, net earnings were missing for 16 per cent of employees (11 per cent refusals and five per cent didn't know) - see Table 3.8.

**Table 3.8 Missing data on earnings, by current employment status**

	<i>Column percentages</i>			
	Self-employed		Employee	
	Net monthly	Gross monthly	Net pay	Gross pay
Don't know	32	8	5	11
Refused	13	9	11	1
NA, other reasons	-	45	-	11
Total Missing	45	62	16	23
Total valid	55	38	84	77

Base: all respondents in paid work

This level of missing data for self-employed earnings is not unusual to the FWLS, but is generally the case when self-employed earnings are measured. Meager, Court and Moralee (1994: page 123) show that net monthly labour income<sup>5</sup> for the self-employed in the BHPS 1991 had a very similar level of missing information - 47 per cent.

In the FWLS, for both self-employed and employees, more data was missing for gross, than for net, earnings. For the self-employed the question format meant that all those who refused or didn't know net earnings (45 per cent) were not asked about their gross earnings (eight per cent refused and nine per cent didn't know, for the gross earnings question, plus the 45 per cent who were inapplicable as they had not supplied net earnings). In addition, inspection of the data showed that there were some very high levels of gross earnings for the self-employed, suggesting that answers might relate to 'turnover' or 'sales' by respondents.

For these reasons, the analysis will use net earnings, where data was provided.

The presence of missing data was not affected by gender - both men and women seemed equally likely to have missing data. Age did affect the level of missing data - younger workers were the least likely to have missing data, and the amount of missing data generally increased with age. This was especially apparent for men - only 26 per cent of self-employed men aged 16-29 had missing earnings data, compared with 64 per cent of men aged 60-69. The self-employed women working full-time (52 per cent), and self-employed who have staff (men 50 per cent, women 54 per cent) were also very likely to have missing data for earnings.

The implications for the analysis are unclear. It is possible that this pattern of missing data suggests that higher-earning self-employed (older, and with staff) were less likely to report their earnings, meaning that averages based on those providing information are below the true average.

<sup>5</sup> Derived from those self-employed who draw up 'profit and loss' accounts

### 3.3.2 Earnings levels

In 1994/95 the FWLS showed that net earnings for the self-employed were £680 per calendar month (median). For the 1991 BHPS, Meager et al (1994: Table 3.1), found a median monthly net labour income of £652. This is a very close fit between two rather different sources - and the slightly higher figure in the FWLS could well reflect inflation between the dates of the two surveys.

The percentage of self-employed and employees falling into the various earnings bands are shown in Table 3.9. The self-employed were generally more likely to appear at both the lower and upper end of the earnings distribution. As many as 29 per cent fell below £3,600 per year, compared with 22 per cent of employees. At the higher levels of earnings - one in five (21 per cent) of the self-employed had earnings of £18,501 or more, compared with just seven per cent of employees.

**Table 3.9 Net earnings of the self-employed and employees**

Annualised net earnings	Column percentages	
	Self-employed	Employees
Up to £3,600	29	22
£3,600 - £8,999	20	36
£9,000 - £18,500	30	34
£18,501 and over	21	7

Base: all workers with valid net earnings or pay data, missing data excluded

Women were those most likely to appear at the lower end of the earnings distribution. Over half (55 per cent) of self-employed women earned below £3,600, compared to 32 per cent of female employees (Table 3.10). Similarly, a slightly higher proportion of self-employed men than employed men had earnings in this lowest band (18 compared to 15 per cent). As seen above, and in other data (Meager et al 1994), the dispersion of self-employed earnings is much greater than that of employees. More than one quarter (27 per cent) of male self-employed were taking home over £18,500 per year, compared with 11 per cent of the male employed.

**Table 3.10 Net earnings of the self-employed and employees, by gender**

Net annualised earnings	Column percentages			
	Self-employed		Employees	
	Men	Women	Men	Women
Up to £3,600	18	55	15	32
£3,600 - £8,999	18	24	29	45
£9,000 - £18,500	37	13	46	21
£18,501 and over	27	8	11	2

Base: all workers with valid net earnings or pay data, missing data excluded

Earnings also varied with age group, for men, but with less of a clear pattern for women. For men, generally speaking, earnings were higher for older workers, reaching something of a peak for those in their fifties (Table 3.11). As many as 43 per cent of self-employed men in their fifties were earning over £18,500 per year, compared with 14 per cent of male employees of the same age.

Among women, there was no clear relationship between age and earnings,. Those self-employed and aged in their thirties were the most likely to be earning over £18,500 a year (13 per cent of the age group). But this was also the group with the highest proportion (55 per cent) reporting self-employment earnings of below £3,600. The earnings of self-employed women were more dispersed than those of employed women, with larger numbers at each end of the earnings distribution - the self-employed included more low earners, more high earners, and fewer middle earners, than among employees.

**Table 3.11 Net earnings by age and gender, for employees and self-employed**

Net earnings per annum 1994/5, by age	Column percentages			
	Self-employed		Employees	
	Male	Female	Male	Female
<b>16-29</b>				
Up to £3,600	29	52	22	28
£3,600 - £8,999	24	27	41	51
£9,000 - £18,500	30	12	35	19
£18,501 and over	17	9	2	2
<b>30-39</b>				
Up to £3,600	14	55	10	34
£3,600 - £8,999	17	22	19	36
£9,000 - £18,500	44	11	54	28
£18,501 and over	26	13	18	2
<b>40-49</b>				
Up to £3,600	19	55	10	29
£3,600 - £8,999	15	25	18	45
£9,000 - £18,500	39	19	56	24
£18,501 and over	27	1	15	3
<b>50-59</b>				
Up to £3,600	17	43	11	39
£3,600 - £8,999	12	35	33	44
£9,000 - £18,500	28	16	42	15
£18,501 and over	43	6	14	2
<b>60-69</b>				
Up to £3,600	9	85	29	50
£3,600 - £8,999	34	-	40	41
£9,000 - £18,500	25	-	27	7
£18,501 and over	32	15	5	2

Base: all workers with valid net earnings or pay data, missing data excluded

Being an employer seemed to have the largest impact on earnings, with men and women much more likely to have higher earnings when they were an employer (Table 3.12). Self-employed men employing staff were the least likely to have low earnings, and some 39 per cent were in the top earnings bracket used for this analysis.

**Table 3.12 Net earnings of the self-employed by whether staff employed**

Net annualised earnings	Column percentages			
	No staff		With staff	
	Men	Women	Men	Women
Up to £3,600	23	61	9	31
£3,600 - £8,999	22	25	7	18
£9,000 - £18,500	33	9	45	32
£18,501 and over	21	5	39	19

Base: all self-employed workers with valid net earnings or pay data, missing data excluded

### 3.4 Labour market experience

Smeaton (1992: page 2) points out that ‘...the decision of a predisposed individual to seriously consider self-employment at a particular point in time will often be triggered by an event either positive..., or negative, for example unemployment or the threat of unemployment’. Thus, redundancy and the associated threat of unemployment may incline people towards the option of self-employment. This section therefore explores some of the labour market experiences prior to the current status, and investigates the experience of unemployment in some detail.

#### 3.4.1 Redundancy

Redundancy payments, in particular, have been linked to self-employment. Those who are made redundant have sometimes been given redundancy money, as required by statute for involuntary redundancy, or as a ‘golden handshake’ to encourage voluntary redundancy. It is often surmised that these payments facilitate the capital investment required for self-employment, and so a link is often assumed to exist between self-employment and previous redundancy. Robson (1994) provides tentative evidence that redundancy payments have an appreciable effect on encouraging the establishment of new businesses.

In fact, any experience of redundancy or lay-off<sup>6</sup> had affected the same proportion of the currently self-employed as employees, with three in ten ever made redundant or laid off. There was also no discernible difference between the proportions of current self-employed and employees who had ever received redundancy money.

<sup>6</sup> Respondents are asked ‘Have you ever been made redundant or laid-off?’, so responses reflect their perception of what is defined as a redundancy or layoff. Redundancy usually means that the employer has dismissed you for economic reasons, with ‘voluntary’ or ‘involuntary’, based in employment law, indicating whether the employee was given any choice. ‘Laid off’ is used less frequently now, and was originally a temporary dismissal for economic reasons where recall to work was possible.

3.4.2 *Previous unemployment* Rubery et al. (1993: page 105), using SCELI 1986, found no significant effect of previous spells of unemployment on the likelihood of entering self-employment. In the FWLS, about the same proportion of the self-employed and employees had previously been unemployed (44 per cent). However, on closer investigation, the length of unemployment spell did appear to mark a difference between those now self-employed and employees.

Of the currently self-employed who had experienced unemployment, 42 per cent had been unemployed for at least six months, compared to 37 per cent of employees. Whilst this difference is rather small, it may support the suggestion by Taylor (1994) that there is sometimes a choice between *prolonged* unemployment spells and self-employment, and this 'push' nudges predisposed individuals to seriously consider self-employment. Thus long-term unemployment might be considered a possible trigger for predisposed individuals to enter self-employment, whereas unemployment *per se* does not seem to act in this way.

3.4.3 *Methods of leaving long-term unemployment* Those who had been long-term unemployed (that is, for more than six months) were asked what helped them to find work in the end: 'The last time that you were unemployed for more than six months what helped you to find work?'. There were a large number of different reasons given, but these may be grouped in the following categories:

- continued Job search (e.g. just kept looking, local press/media);
- informal/family job offers;
- some change in circumstances (e.g. health improved so able to get back to work, moved house within the UK);
- formal job assistance (e.g. government scheme, agency, job club, job centre);
- returned to previous/seasonal work;
- enterprise grant or became self-employed or considered alternative types of employment.

Continued job search was the most important reason for both self-employed and employed. Yet, there were two types of reason, which stood out as being more important for the self-employed than the employed: '*change in circumstances*' and '*became self-employed/considered alternative types of employment*'.

A change in circumstances was the important trigger out of long-term unemployment for 13 per cent of self-employed, compared to only five per cent of employees (Table 3.13). The most important of these '*change of circumstance*' was '*went into further training*', (40 per cent of such moves resulting from a change in circumstances). Further training was also most important for employees as well, but to a lesser extent (28 per cent of



changes of circumstances that ended long-term unemployment). ‘*To become self-employed, or consider alternative types of employment, or an Enterprise Training Grant*’, was the route out of long-term unemployment for 12 per cent of the currently self-employed, but for virtually no current employees.

**Table 3.13 Method for what helped to find work the last time unemployed for more than 6 months, among those currently self-employed or employed**

	<i>Column percentages</i>		
	Self-employed	Employees	Total Number
Continued job search	44	67	64
Informal/family job offers	14	14	14
Change in circumstances	13	5	6
Formal job assistance	4	8	7
Return to previous/seasonal work	0	1	1
Enterprise grant or became self-employed or considered alternative types of employment	12	0	2
No response/don't know	13	5	6
Base (=100%)	118	771	889

Base: those who had previously had long-term unemployment of more than 6 months

#### *3.4.4 Discrimination and dismissals*

Similar proportions of the currently self-employed and employees had experienced employment discrimination at some time, with about one in ten workers reporting that they felt they had been discriminated against when applying for jobs. Twice as many of the self-employed had been previously dismissed, with seven per cent of the self-employed ‘ever dismissed’ but only four per cent of employees ‘ever dismissed’.

## 4 SELF-EMPLOYMENT OVER THE LIFETIME

People may enter and leave self-employment at various points in their working lives. Those currently self-employed are only a sub-group of those with any experience of self-employment. The distinctive advantage of analysing the FWLS is that it enables consideration of the role played by self-employment across the working lifetime.

This chapter investigates the experience of self-employment across people's working lifetimes. It broadens the analysis from those currently self-employed, the subject of most of the report so far, to investigate the nature of self-employment and to examine the circumstances of those who have ever been self-employed. The chapter also looks at the circumstances under which people enter, and leave, self-employment, and for how long they remain self-employed.

Section 4.1 provides an overall summary of the proportion of respondents who had ever been self-employed, and the proportion that remain so. Almost all those now self-employed have some experience of employment, and this section quantifies the different amounts of labour market experience of different groups.

Section 4.2 looks at the circumstances at the point of entry to self-employment, and Section 4.3 at the circumstances of those leaving self-employment. Most movements into and out of self-employment involve employment, but moves from inactivity and unemployment are still of significant size. Section 4.4 provides a bridge between these two types of information, linking entry and destination states. Finally Section 4.5 estimates the duration of self-employment among particular groups.

### 4.1 A summary of self-employment experience

Among the sample as a whole, seven per cent were currently working as self-employed, and a similar proportion were no longer self-employed but had been in the past (Table 4.1). By far the largest group, 82 per cent, had never been self-employed, whilst the remaining three per cent were not working as self-employed when interviewed, and had no work history record to investigate any past experiences - mostly this group are young people in full-time education, who can be assumed to have never been self-employed.

One man in every five (20 per cent) had been self-employed at some time, double the proportion (nine per cent) of women.

**Table 4.1 Current and previous experience of self-employment, by gender**

	<i>Column percentages</i>		
	Men	Women	Total
Currently self-employed	11	4	7
Worked as self-employed in the past, but not currently	9	5	7
Not working as SE, past situation unclear	3	3	3
Never worked as SE	77	88	82
Total = (100 per cent)	4062	5077	9139

Base: all respondents

There are different ways in which people's current age may affect their opportunities for having been self-employed. Older groups have had a longer time in which to think about becoming self-employed, but we also know that self-employment is increasing over time. These points suggest that self-employment is linked both to people's age, and the prevalence of self-employment during their working lifetime. In fact, a higher proportion of today's 50-59 year-olds had ever been self-employed than among today's 60-69 year-olds - 19 per cent compared to 14 per cent. Those in their forties, in turn, had had more experience of self-employment (21 per cent had ever been self-employed) than those in their fifties (Table 4.2). These results suggest a rising propensity to self-employment across successive generations, a result confirmed in Chapter 5.

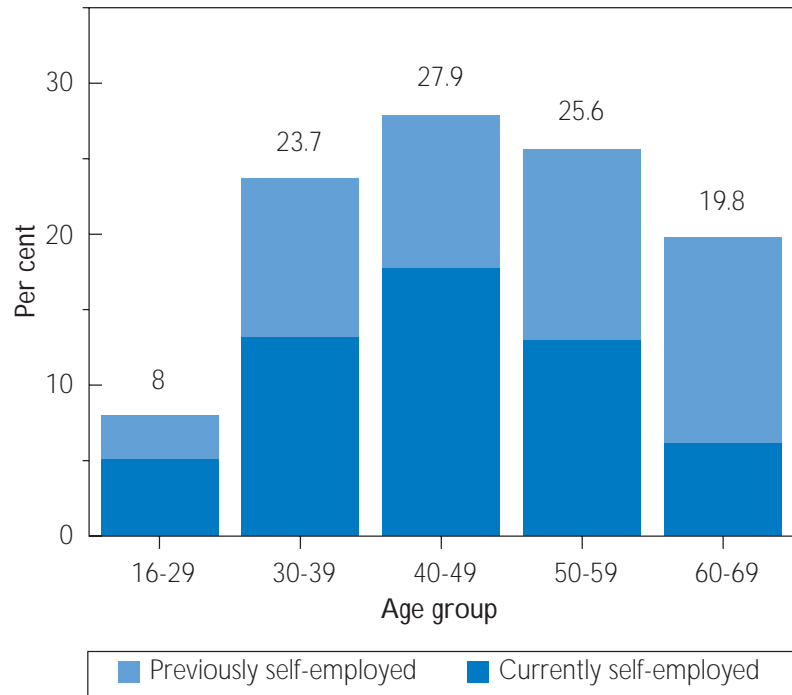
**Table 4.2 Current and previous experience of self-employment, by age group**

	<i>Column percentages</i>					
	16-29	30-39	40-49	50-59	60-69	Total
Currently self-employed	3	10	12	8	4	7
Working as SE in the past, but not currently	2	7	9	11	10	7
Subtotal: Ever self-employed	5	17	21	19	14	14
Not working as SE, past situation unclear	8	1	1	1	1	3
Never worked as SE	86	82	79	80	85	82
Total = (100 per cent)	2338	2217	1704	1400	1479	9139

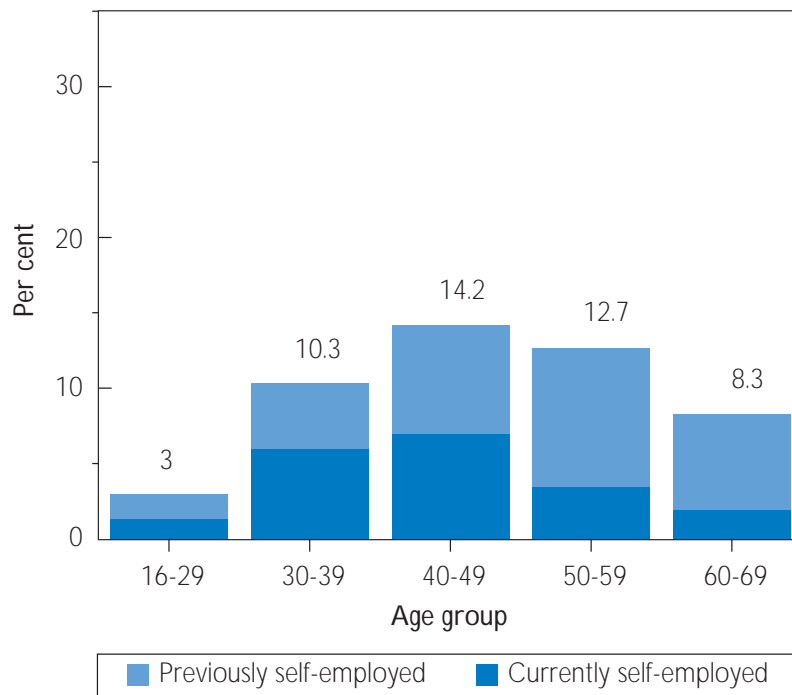
Base: all respondents

Men and women show a similar pattern of self-employment experience by age group (Figure 4.1 and 4.2). The main difference is that men were around twice as likely as women to have been self-employed at each point in their working life.

**Figure 4.1 Experience of self-employment by age (Men)**



**Figure 4.2 Experience of self-employment by age (Women - drawn to same scale)**



#### 4.1.1 Total labour market experience

This section considers previous experience of unemployment, employment and inactivity among the currently self-employed.

Almost all of the currently self-employed (94 per cent) had had some previous experience of being an employee (Table 4.3). This is an important result, and implies that very few people spend an entire working lifetime as self-employed. Conversely, only seven per cent of current employees had had any experience of self-employment. Among both groups, about one in five had had some experience of unemployment, while about half had spent some time economically inactive (that is, without a job and not looking for work).

**Table 4.3 Experience of different economic activity by current activity**

	Current economic activity			Column percentages
	Self-employed	Employed	Not working	Per cent across all groups <sup>†</sup>
Has previous experience of:				
Self-employment	100	7	10	14
Employment	94	100	92	96
Unemployment	21	20	30	24
Inactivity	49	52	88	65
Base (= 100 per cent)	624	4716	3554	8894

Base: all respondents with work history information

<sup>†</sup> That is, 14 per cent of the whole sample had some experience of self-employment, 96 per cent of employment, and so on

This type of analysis was repeated for those with *any* experience of either employment or self-employment, not just those currently in these states. This confirmed that experience of employment was nearly universal for those who had ever been self-employed: 96 per cent of those who had **ever** been self-employed had some experience of paid employment. Some 14 per cent of those who had ever been an employee had at least some experience of self-employment.

These figures give an indication of the variety of different labour market situations that have previously been held by employees and the self-employed. But they only tell us that people did these activities - self-employment, employment, etc. - and not for how long. It is also important to know how long was spent in each of these activities, and this analysis is the subject of Table 4.4.

Those currently self-employed had spent more than half (53 per cent) of their working lifetimes as employees, on average, while about one-tenth of their working lifetime had been spent not in paid work. By contrast, just over a third (36 per cent) of their working years had been spent as

self-employed. Similarly, among those with any experience of self-employment, 56 per cent of their working lives had been spent as employees (compared with 85 per cent for current employees). For those who had ever been self-employed, they had spent under a third (31 per cent) of their working lifetime as self-employed,

Across the whole sample in the FWLS, only four per cent of working years had been spent as self-employed, compared with 72 per cent of the time spent as an employee.

**Table 4.4 Percentages of working life spent in different economic activities**

	<i>Row percentages</i>				
	Per cent of working lifetime spent in these economic states				
	Unemployed	Inactive	Self-employed	Employed	Total
Currently self-employed	2	9	36	53	100
Currently employee	2	12	1	85	100
Any experience of self-employment	2	11	31	56	100
Any experience of employment	3	19	4	74	100
Total (N = 8876)	3	21	4	72	100

Base: All respondents with work history information

## 4.2 Transitions into self-employment

This section looks at the process of becoming self-employed. What are the reasons people give for such a move, and what were they doing immediately before they became self-employed?

### 4.2.1 Activity prior to becoming self-employed

The activities that people did before becoming self-employed comprised nearly two thirds (65 per cent) working as an employee, 23 per cent inactive, and 11 per cent unemployed and looking for work<sup>7</sup> (Table 4.5).

Women who had moved into self-employment were evenly divided between those from employee status (50 per cent) and inactivity (47 per cent). Having been unemployed was more significant for men, comprising some 15 per cent of moves into self-employment. However, the dominant route of entry was still from employment, which accounted for nearly three-quarters (72 per cent) of men's moves into self-employment.

<sup>7</sup> These numbers do not sum to 100 per cent because of rounding. The figures to two decimal places are 11.49, 23.33 and 65.18 per cent.

**Table 4.5 Economic activity states just prior to moving to self-employment**

	<i>Column percentages</i>		
	Men	Women	Total
Employee	72	50	65
Inactive	13	47	23
Unemployed and looking for work	15	4	11
Total (=100 per cent)	852	463	1315

Base: all movements into self-employment

Among younger age groups, more of the moves into self-employment came from unemployment, amounting to about a quarter (26 per cent) for those aged under 30 (Table 4.6). This partly reflected a smaller proportion entering self-employment from inactivity, but also meant that just over half (56 per cent) of those under 30 moving into self-employment were working as employees in the period immediately prior.

**Table 4.6 Economic activity states just prior to moving into self-employment, by age**

	<i>Column percentages</i>					
	16-29	30-39	40-49	50-59	60-69	Total
Employee	56	65	65	64	73	65
Inactive	18	22	23	30	20	23
Unemployed and looking for work	26	12	12	7	7	11
Total (=100 per cent)	110	346	378	270	211	1315

Base: all movements into self-employment

The types of job from which people entered self-employment were often in relatively small firms, with half of those working in firms with fewer than 25 employees in total (Table 4.7). This was a slightly greater number than would be expected on the basis of all employees.

**Table 4.7 Size of firms from which people entered self-employment, compared with all employment**

	<i>Column percentages</i>	
Size of firm	Per cent (prior to self-employment)	Per cent (all spells of employment)
Up to 24	50	45
25-99	23	22
100-499	16	21
500 and over	11	13
Total (=100 per cent)	606	24304

Base: all movements into self-employment from employment where size of firm known, and all spells of employment

#### 4.2.2 *The first spell of self-employment*

The above figures look at all movements into self-employment. Of course, for the older age groups there will have been more opportunity to make such movements. And the types of movement made may also reflect a person's age, and their previous labour market experience.

Restricting attention to the *first* spell of self-employment, the balance of origin states changes to 10 per cent unemployment, 24 per cent from inactivity and 66 per cent from employment. In other words, little different from the distribution found for all moves into self-employment. This is because most people who have ever been self-employed, have been so only on one occasion. In all, 82 per cent had been self-employed once, 13 per cent twice, four per cent three times, and just one per cent four or five times.

#### 4.2.3 *Reasons why jobs ended, prior to spell of self-employment*

Table 4.8 shows the main reason why the job immediately prior to self-employment had finished. For just over one third (35 per cent) of moves from employment to self-employment, respondents gave a generally positive reason - 'to go self-employed'. The second most common answer was redundancy, although we know from Chapter 3 that current employees are just as likely as the currently self-employed to have been made redundant in the past. Otherwise, a very diverse range of answers were given (including moving house, retiring, and having had an argument with their boss).

**Table 4.8 Main reason why spell of employment, prior to self-employment, finished**

<i>Column percentages</i>	
<b>Why did this period of employment finish?</b>	<b>Per cent</b>
To go self-employed	35
Made redundant	8
Another job	5
Better job	4
Moved home	3
Wanted a change	3
Firm closed	3
Contract finished	2
Retired	2
More money	2
Change of career	2
Argument with the boss	2
Health reasons	2
Sold business	2
Didn't like job	2
All other reasons†	23
Base (=100 per cent)	833

Base: all movements into self-employed preceded by employment, with known end reason.

† a total of 94 different reasons were coded



#### 4.2.4 Age started self-employment

On average, those self-employed in 1994/95 (when the survey was conducted) had first become self-employed at the age of 31. Nearly half (48 per cent) of the currently self-employed had first started working for themselves before the age of thirty, 52 per cent at age 30 or older.

Of course, many of the younger and middle-aged groups may still go on to become self-employed, so it is important to look at the effect of current age, on the age that people first became self-employed (Table 4.9). Among the self-employed in their sixties, only seven per cent had *first* become self-employed when aged 60 or older. As many as 60 per cent of those self-employed and aged 60-69, had first become self-employed before they had reached the age of 40. However, a sizable proportion (19 per cent) of those self-employed and in their 60s had first become self-employed in their 50s.

Among the self-employed now in their 50s, some 85 per cent had first been self-employed before the age of 50.

These figures suggest that only a minority of older workers (in their 50s or 60s) who are self-employed have taken up this form of working recently. Instead, the high rates of self-employment at this age reflect, to a large extent, later ages of retirement among the self-employed rather than large-scale transitions into self-employment.

Table 4.9 also shows the ages at which the *most* recent spell of self-employment began. It is, of course, possible that people are self-employed when young, and then later return to this type of working. However, there were relatively few respondents with more than one spell of self-employment, so the effect is unlikely to be great. Indeed, among those self-employed and over 60, just 12 per cent began that particular spell when in their 60s. And 22 per cent of those self-employed and in their 50s started that particular spell of self-employment when aged 50 or over.

**Table 4.9 Age started first and most recent spells of self-employment, among the currently self-employed**

	<i>Column percentages</i>					
	16-29	30-39	40-49	50-59	60-69	All
<b>Age first became self-employed</b>						
16-29	100	67	31	27	23	48
30-39		33	43	22	37	32
40-49			26	36	14	16
50-59				15	19	4
60-69					7	1
Average age (mean)	21.2	26.3	33.1	37.0	38.1	30.9
<b>Age became self-employed in current spell</b>						
16-29	100	53	19	24	10	38
30-39		47	45	20	31	36
40-49			36	34	19	20
50-59				22	29	6
60-69					12	1
Average age (mean)	21.7	28.1	35.6	38.9	43.0	33.1
Base	58	162	169	83	42	514

Base: those currently self-employed

#### 4.2.5 Motives for becoming self-employed

The reasons for becoming and remaining self-employed can vary. In Chapter 3, the reasons for being self-employed were ‘imputed’ for some groups with particular characteristics who seem to be drawn more to self-employment than to employment (disabled people and carers, for example).

However, the FWLS also included a direct question about why people became self-employed. Only one answer was allowed, with five pre-coded options:

- earn more money;
- flexibility of being own boss;
- self-fulfilment;
- nature of the job;
- other (specify - interviewer records the response).

Respondents were not asked why they had become employees.

There was a great amount of diversity in motivations for self-employment (Table 4.10). The most popular motivation was ‘flexibility of being own boss’ (27 per cent). ‘The nature of the job’ (23 per cent) was the second most common reason. This was particularly common among those whose occupations were ‘associate professional and technical occupations’ (particularly among them the artists, musicians and driving instructors). To ‘earn more money’ (14 per cent) and ‘Self-fulfilment’ (13 per cent) were also strong motivating factors for becoming self-employed.

Some 23 per cent of the self-employed volunteered an ‘other’ type of response, rather than the selected pre-coded replies. These reasons included an inability to get another job, having been made redundant (four per cent in each case) or joining a family business (two per cent). A few respondents mentioned a partner becoming self-employed, or that this option permitted a form of semi-retirement from full-time work.

**Table 4.10 Motivations for becoming self-employed among currently self-employed**

	Column percentages
Why did you become self-employed?	Self-employed
<i>Flexibility of being own boss</i>	27
<i>Nature of the job</i>	23
<i>Earn more money</i>	14
<i>Self-fulfilment</i>	13
Could not get another job	4
Made redundant/closed down	4
Family business	2
Forced into it, no choice	2
Something I wanted to do	2
Can continue doing this retiring from full-time work	1
Partner became self-employed	1
Told to become self-employed by employer	1
To be able to look after family/children at the same time	1
Fed up with working for other people	1
Tax advantages	1
Number who Refused or didn't know	3

Base: all respondents currently in self-employment. Note: the answers in italics above were pre- codes, the remainder were coded up from other responses given. Only one answer was permitted

#### 4.2.6 Push or pull?

It has been suggested that some people’s decision to enter self-employment is triggered by a cogent, voluntary ‘positive’ ‘choice’; for others it is a ‘negative’ ‘push’, where the ‘push’ comes from labour market reasons, such as unemployment. With this in mind, a classification of reasons for becoming self-employed was made - comprising ‘pull/positive’ reasons, ‘push/negative’ reasons and other more neutral motives.<sup>8</sup>

<sup>8</sup> ‘Pull’ or positive motivations for self-employment were taken to be ‘*earn more money*’, ‘*flexibility of being own boss*’, ‘*self-fulfilment*’, ‘*bought the business*’, ‘*can continue doing this retiring from full-time work*’, ‘*retired- convenient to do some part time work on self-employed basis*’, ‘*to be able to work from home*’, ‘*to be able to look after family and children at the same time*’, ‘*tax advantages*’, ‘*something I wanted to do*’, ‘*didn't want to work for large organisations*’.

Negative’ or ‘push’ positive motivations for self-employment were ‘*could not get another job*’, ‘*forced into it/no choice*’, ‘*partner became unemployed*’, ‘*made redundant firm closed down*’, ‘*told to become self-employed by employer*’, ‘*illness of the respondent*’, ‘*fed up with working for other people*’, ‘*needed the money, illness of other family members*’.

A number of motivations, which were particularly difficult to classify in this way, were classified ‘neutral’, these included ‘*nature of the job*’, ‘*family business*’, ‘*partner became self-employed*’, ‘*government support/encouragement to become self-employed (got more benefit)*’.

It is, of course, difficult to know how far people attempt to give more positive reasons for their choices than was, in fact, the case. In addition, for some of the longer-term self-employed the reasons they *remain* self-employed may become conflated with the reason they *became* self-employed in the first place. However, the majority of self-employed workers (59 per cent), reported that they chose or were ‘pulled’ towards self-employment. Only 12 per cent reported that they were ‘pushed’ by labour market factors into becoming self-employed, with twice as many (26 per cent) motivated to be self-employed by ‘neutral’ factors (Table 4.11).

**Table 4.11 Push or pull motivation factors amongst those currently self-employed**

<i>Column percentages</i>	
Reasons for becoming self-employed	Self-employed
Pull / positive	59
Neutral	26
Push / negative	12
Refused / don't know	3
Number of workers (=100%)	629

Base: all respondents currently self-employed

Men older than 60, were more likely to cite ‘push/negative’ factors than younger men (Table 4.12). The answers reported by women were, in fact, rather similar to those of men, although older women were much less likely than older men to report ‘push/negative’ factors for becoming self-employed.

**Table 4.12 Motivations for self-employment status amongst those currently self-employed**

<i>Column percentages</i>						
	16-29 years		30-59 years		60-69 years	
	Men	Women	Men	Women	Men	Women
Pull / positive	57	60	61	57	50	57
Neutral	31	33	22	30	25	24
Push / negative	6	7	14	8	25	9
Refused / don't know	5	0	3	5	*	10

Base: all currently self-employed respondents

### 4.3 Leaving self-employment

Some 46 per cent of those who had ever been self-employed were still self-employed at the time of the interview. Excluding these, the destinations after a completed spell of self-employment were 57 per cent into employment, 29 per cent into inactivity and 14 per cent into unemployment (Table 4.13). Moves into unemployment were most common for those in their 20s and 30s, whilst those in their 40s were the most likely to switch to employment after a spell of self-employment.

**Table 4.13 Economic activity status just after leaving self-employment**

	<i>Column percentages</i>					
	<b>16-29</b>	<b>30-39</b>	<b>40-49</b>	<b>50-59</b>	<b>60-69</b>	<b>Total</b>
Still self-employed	52	51	50	42	28	46
Of those leaving self-employment						
Employee	51	61	64	55	46	57
Inactive	30	19	21	32	49	29
Unemployed and looking for work	18	20	15	14	5	14
Base for those leaving self-employment (=100 per cent)	60	200	218	182	174	834

Base: all destinations after self-employment

The destinations after self-employment are shown separately for men and women, in Tables 4.14 and 4.15. Overall, whilst 23 per cent of men left self-employment to become 'inactive', as many as 41 per cent of women ended a spell of self-employment in this way. Men were correspondingly more likely to become unemployed at the end of a spell of working for themselves. These differences were smallest among the youngest age group (the 16 to 29 year-olds).

**Table 4.14 Economic activity status just after leaving self-employment (Men)**

	<i>Column percentages</i>					
	<b>16-29</b>	<b>30-39</b>	<b>40-49</b>	<b>50-59</b>	<b>60-69</b>	<b>Total</b>
Still self-employed	56	52	54	48	30	49
Of those leaving self-employment						
Employee	49	64	65	61	49	59
Inactive	32	12	17	21	43	23
Unemployed and looking for work	18	25	17	18	8	18
Base for those leaving self-employment (=100 per cent)	38	129	135	106	110	518

**Table 4.15 Economic activity status just after leaving self-employment (Women)**

	<i>Column percentages</i>					
	<b>16-29</b>	<b>30-39</b>	<b>40-49</b>	<b>50-59</b>	<b>60-69</b>	<b>Total</b>
Still self-employed	41	47	42	27	23	37
Of those leaving self-employment						
Employee	56	55	62	45	39	52
Inactive	26	38	29	49	61	41
Unemployed and looking for work	17	7	9	6	0	7
Base for those leaving self-employment (=100 per cent)	22	71	83	76	64	316

Base: destinations after all spells of self-employment

#### 4.3.1 *Subsequent unemployment*

Some self-employed respondents may move through a variety of different states after self-employment, whatever they do immediately on leaving self-employment. This section looks at how many go on to become unemployed, at some stage after leaving self-employment.

Twenty-five per cent of the formerly self-employed went on to experience unemployment at some subsequent point in their lives - as did exactly the same proportion of those who had moved through at least one spell of employment (Table 4.16). However, rates of unemployment subsequent to self-employment were slightly lower than rates of unemployment subsequent to employment, once account was taken of differences in the proportion of men and women who pass through these types of activity.

**Table 4.16 Experience of subsequent unemployment among those previously self-employed and employees, by age and gender**

	<i>Cell percentages (and numbers)</i>	
	Percent who went on to become unemployed	Unweighted number who went on to become unemployed
Previously self-employed		
All	25	765
Men	31	470
Women	15	295
16-29	31	59
30-39	30	189
40-49	23	201
50-59	27	163
60-69	17	153
Previously an employee		
All	25	7978
Men	33	3451
Women	19	4527
16-29	28	1638
30-39	31	1976
40-49	24	1580
50-59	24	1340
60-69	18	1444

Base: all respondents with completed spells of self-employment, and completed spells of employment

### 4.3.2 Occupational and industrial stability

Many self-employed people did not change industry or occupation in subsequent spells of self-employment, although two thirds of those with two or more spells of self-employment did change (Table 4.17). One third of people who had been self-employed on two or more separate occasions, were working in the same occupation, and a similar proportion went on to work in the same industry. This is despite the fact that the analysis uses a very detailed measure of both occupation and industry<sup>9</sup>, numbering several hundred different industries and occupations. In fact, when changes of occupation or industry did take place, respondents usually went into a very different kind of job.

<sup>9</sup> Occupation to three digits, and industry to four digits.

**Table 4.17 Number of different occupations and industries for those self-employed more than once**

	<i>Column percentages</i>			
	<b>Number of spells of self-employment</b>			
	<b>1</b>	<b>2</b>	<b>3 or more</b>	<b>Total</b>
Actual number	974	156	56	1186
Number of different occupations				
1	100	32	35	88
2	0	68	25	10
3 or more	0	0	40	2
Average number	1.0	1.7	2.2	1.1
Number of different industries				
1	100	35	31	88
2	0	65	28	10
3 or more	0	0	40	2
Average number	1.0	1.6	2.2	1.1

Base: all respondents ever self-employed

#### 4.4 Flows through self-employment: linking origins and destinations

It is possible to look in more detail at the types of flow *through* self-employment. That is, to consider how the economic activity prior to self-employment is linked to what people did once they had left self-employment. This is a rather more complex piece of analysis than is often presented, and the resulting table (Table 4.18) is therefore quite detailed. It shows the possible origin states before self-employment (three in total: unemployed, inactive and employed), and those after self-employment (four in total, unemployed, inactive, employed and still self-employed). That generates 12 possible routes through self-employment: = three origins x four destinations.

The third column of the table, labelled (1), summarises each of the twelve possible routes, with U=Unemployed, N=iNactive, E=Employed and S=Self-employed. This contains the same information as the first two columns, but in a shorter format.

The fourth column, labelled (2), shows the proportion of all the 12 flows through self-employment. The most common scenario was a movement from employee status to self-employed, which was continuing at the time of interview, and this accounted for 29.7 per cent of all movements into self-employment. The second most common route was from employee to self-employed, then back to employee again - some 22 per cent of all transitions into self-employment. No other 'route' accounted for as much as 10 per cent of labour market transitions into self-employment, the next most common being movements from inactivity to self-employment, where the respondent was still self-employed (9.8 per cent).



The fifth column, labelled (3), shows the outcomes of transitions into self-employment from a given origin. So, of those movements into self-employment from being unemployed, 15.3 per cent resulted in a movement back to unemployment, 17.3 per cent led to inactivity, 21.9 per cent went on to employee status, whilst just under half (45.5 per cent) were still self-employed at the time of interview.

Movements into unemployment, after a period of self-employment, were more common if the origin had also been unemployment: 15.3 per cent of moves into self-employment from unemployment ended in unemployment, compared with 5.2 per cent of those moving into self-employment from inactivity, and 7.4 per cent of those moving into self-employment from employment. However, even among those who had moved into self-employment from unemployment, subsequent moves into employment (21.9 per cent) outnumbered moves back into unemployment (15.3 per cent), with moves into inactivity falling somewhere in between (17.3 per cent).

**Table 4.18 Flows through self-employment**

Prior to SE (‘origin’)	After SE (‘destination’)	(1) Summary of flow	(2) Per cent of all flows	Column percentages	
				(3) Per cent of flows from this origin	(4) Number of transitions
Unemployed (and looking for work)	Unemployed	U - S - U	1.7	15.3	28
	Inactive	U - S - N	2.0	17.3	24
	Employed	U - S - E	2.5	21.9	37
	Still SE	U - S ...	5.2	45.5	68
			100.0		
Inactive (not in paid work)	Unemployed	N - S - U	1.2	5.2	17
	Inactive	N - S - N	5.8	24.5	91
	Employed	N - S - E	6.8	28.9	91
	Still SE	N - S ...	9.8	41.5	133
			100.0		
Employed	Unemployed	E - S - U	4.8	7.4	66
	Inactive	E - S - N	8.5	13.0	127
	Employed	E - S - E	22.0	33.9	303
	Still SE	E - S ...	29.7	45.7	375
				100.0	
Total transitions into self-employment			100.0		1360

Base: all transitions into self-employment

## 4.5 The duration of self-employment

### 4.5.1 Measuring the duration of self-employment

There are a number of important technical issues involved in computing the duration of self-employment. First, how to treat spells of self-employment that were ongoing at the time of interview, and had not finished. These represented about half of all episodes of self-employment in this sample. This problem requires statistical techniques known as 'survival analysis', which look at the proportion of spells that have finished after different elapsed times. This 'life-table' approach enables us to calculate the time it takes for half of a group to leave self-employment (the 'median', one type of average), and to observe the proportion who have left self-employment after given lengths of time - after, say, one year, five years, and so on.

A second issue is how to treat people who change jobs, but remain self-employed. Should this count as two self-employed jobs, or as a single spell of self-employment? Since our focus is self-employment in general, we combine consecutive periods of self-employment to investigate the duration of self-employment, rather than the duration of specific self-employed jobs.

A third point concerns the nature of the sample. The FWLS contains a sample of people, and their records of self-employment. It is not a sample of all spells of self-employment in a given year, particularly those years some time in the past. Some of those self-employed in, say, 1980, will be deceased at the time of Survey fieldwork, have gone abroad, or will be older than 69, and therefore excluded from the Survey. It is often therefore sensible to look at specific age groups (birth cohorts) and contrast their experience, rather than relying on generalisations that apply to the whole sample

### 4.5.2 Durations of self-employment

For all the spells of self-employment observed among the sample, the median duration was almost eight years (94 months). Nearly four in ten (39 per cent) had ended within five years of starting, of which about one spell of self-employment in every ten ended in its first year.

This suggests a good deal of stability in self-employment. For comparison, jobs working as an employee had a similar median duration, of 104 months (8½ years).

Table 4.19 analyses three age groups (young people, prime-age workers and older workers). It shows the average duration of spells of self-employment, analysed by (a) the age at which spells started, and (b) the year in which spells began. Naturally, older groups cover a wider range of ages and years. While it is not (and never) possible to disentangle the separate influences of age, timing and year, the figures do tend to suggest that spells of self-employment are getting shorter over time, with spells begun in the 1990s particularly shorter than previously. For example, among today's 30 to 50 year-olds, the duration of self-employment was 95 months for those begun in the 1980s, but only 63 months for those begun in the 1990s.

The methods used to calculate these figures – survival analysis – are based on evaluating the proportion of spells that end at each point in time, accounting for spells that are not yet complete. In principle it does not matter, for calculating the median duration, that spells begun in the 1990s will have had shorter to run than those starting in the 1980s. Half of each group of spells have already finished, and so the median may be observed in a fairly direct manner.

However, in practice the true picture may well be less extreme. People may tend to forget relatively short spells that happened some time in the past, but to recall the short periods of self-employment they had in more recent times.

**Table 4.19 Duration of spells of self-employment in months by age group**

	<i>Median months duration</i>					
	Current age					
	16-29		30-50		51-69	
	N	Median	N	Median	N	Median
<b>Age when spell started</b>						
Up to age 29	127	44	390	87	145	188
30-39	-	-	328	84	154	141
40-49	-	-	88	-	133	116
50-59	-	-	-	-	82	70
60-69	-	-	-	-	21	[50]
<b>Year when spell started</b>						
Before 1949	-	-	-	-	22	[359]
1950-59	-	-	-	-	53	149
1960-69	-	-	23	88	144	163
1970-79	-	-	165	96	122	131
1980-89	54	90	404	95	136	95
1990-95	73	30	213	63	58	33

Base: all spells of self-employment

The duration of self-employment was also affected by people's economic activity just prior to self-employment. Those moving into self-employment from unemployment lasted, on average, only half the time of those who were employees immediately prior to self-employment (a little over four years, compared with more than eight years). About one in five of the formerly unemployed left self-employment within the first year, twice the average.

There was a small group of respondents (48 people, or about three per cent of those who ever worked as self-employed) who became self-employed immediately on leaving full-time education. This group were the most likely to remain in self-employment, with two-thirds (63 per cent) still self-employed some ten years later.

**Table 4.20 Duration of self-employment by previous economic activity**

	<i>Months, column percentages</i>					
	Employee	Self-employed, doing another type of job	Un-employed	Inactive	Full-time education	Total
Number of spells of self-employment	844	105	153	318	48	1468
Median duration (life table estimate)	101	94	52	84	[495]	94
Cumulative per cent ending within:						
1 year	9	10	20	7	5	10
5 years	39	32	52	40	25	39
10 years	55	55	68	58	37	56

Base: all spells of self-employment

Of those 48 people who had started self-employment straight after school, more than half (55 per cent) had a father who was self-employed. This might, of course, suggest some family business or line of work consistent between the respondent and his or her father. Consistent with this, the time people spent in spells as self-employed was generally rather longer if either of their parents was self-employed (Tables 4.21 and 4.22), and shorter if either parent was an employee.

**Table 4.21 Duration of self-employment by parental employment status: Father's status**

	<i>Median months and column percentages</i>			
	Father self-employed	Father an employee	Father absent, or not in work	Total
Number of spells of self-employment	325	987	156	1468
Median duration (life table estimate)	131	84	119	94
Proportion ending within five years	31	42	39	39

**Table 4.22 Duration of self-employment by parental employment status: Mother's status**

	<i>Median months and column percentages</i>			
	Mother self-employed	Mother employee	Mother absent, or not in work	Total
Number of spells of self-employment	96	630	742	1468
Median duration (life table estimate)	154	86	100	94
Proportion ending within five years	37	44	36	39

Base: all spells of self-employment

Spells of self-employment tended to be longer in the 'professional' occupations, and rather shorter for clerical workers and those in sales occupations. Overall, the duration of self-employment was shorter in blue collar occupations (Table 4.23). This table also shows the distribution of self-employment by occupation. Nearly 3 spells of self-employment in every 10 (29 per cent) were as 'managers and administrators'. The next most frequent occupation (22 per cent of all spells) was in 'craft and related' jobs.

**Table 4.23 Duration of self-employment by occupation**

Occupational group	Number of spells	Percent of all spells of self-employment	Median duration (months)	Per cent ending within five years
Managers and administrators	424	29	105	36
Professional occupations	118	8	109	34
Associate prof & technical	178	12	94	39
Clerical and secretarial	44	3	55	53
Craft and related	318	22	104	39
Personal & protective services	109	7	80	43
Sales occupations	114	8	53	53
Plant and machine operators	62	4	119	34
Other occupations	97	7	83	46
All occupations	1468	100	94	39

Base: all spells of self-employment

It is well-known that self-employment is more common in particular industries. The distribution of self-employment spells, and their duration, across the main industrial groups is shown in Table 4.24. Almost three spells in every 10 (28 per cent) were in the 'distribution, hotels and restaurants' sector, with nearly two spells in every 10 (19 per cent) in 'construction'. Self-employment lasted longest in 'agriculture and fishing', with very long average durations indeed, although for a relatively small and distinct group of respondents. The next longest durations - nearly double the average for all spells of self-employment - were in 'public administration, education and health'.

**Table 4.24 Duration of self-employment by industry**

<b>Industry</b>	<b>Number of spells</b>	<b>Per cent of all spells of self-employment</b>	<b>Median duration (months)</b>	<b>Per cent ending within five years</b>
Agriculture & fishing	85	6	474	31
Energy & water	3	*	-	-
Manufacturing	97	7	73	46
Construction	271	19	96	36
Distribution, hotels & restaurants	408	28	80	41
Transport & communications	72	5	122	42
Banking, finance & insurance	246	17	85	43
Public admin, education & health	122	8	152	25
Other services	164	11	73	47
All industries	1468	100	94	39

Base: all spells of self-employment



## 5 TRENDS IN SELF-EMPLOYMENT

This chapter looks at some of the longer-term trends in self-employment. It investigates why self-employment has risen in Britain, and considers how far analysis of the FWLS can shed light on future trends. The second part of the chapter evaluates how far self-employment may be said to fall into particular types, and how far more recent entrants to self-employment may be said to constitute a 'new' form of self-employment.

**5.1 Background** The rate of self-employment increased dramatically over the 1980s, and has been at a high and stable level in the 1990s. Why has this growth occurred, and will it continue? A number of reasons have been suggested for the rise in self-employment (Meager 1993).

First, there are long-term structural changes in the economy that might be thought to be increasing the level of self-employment. Many advanced economies began with a large agricultural sector, which shrank as a manufacturing sector developed during industrialisation. More recently, the service sector has increased whilst manufacturing has contracted. Because self-employment is most common among agricultural and services sectors, this general pattern would be associated with self-employment falling during the industrial age, and rising as the service sector of the economy continues to increase (Acs, Audretsch and Evans 1992). This theory sounds plausible. However it largely fails to explain the quite rapid change in Great Britain, and the much slower rate of change elsewhere. As a whole, this theory would suggest longer-term continued growth in the rate of self-employment, though probably at quite a slow rate.

Second, rises in self-employment may have been affected by changes in the demographic structure. The workforce is slowly ageing, and rates of self-employment are highest among older workers. As the population continues to age, we might anticipate a slowly rising rate of self-employment. However, there are some other demographic changes at work, such as more women in the workforce, which may have been expected to offset this increase. So it is difficult to predict how far future changes in population will affect self-employment.

Third, among more recent factors, the rise in self-employment has been linked to the (generally) higher level of unemployment. The unemployed may choose to switch to self-employment, if jobs are not readily available, implying that higher unemployment will generate more movement into self-employment. Some of the evidence for this theory comes from the period 1979-81, when both unemployment and self-employment rose strongly. But this explanation is subject to a number of criticisms. First, there are several ways that higher unemployment might reduce the level



of self-employment - unfavourable economic circumstances might discourage people from becoming self-employed, or shorten the time a new business would be able to survive. Second, the supposed link between unemployment and self-employed does not fit all of the facts. When unemployment rose in the mid 1970s, the rate of self-employment fell, the opposite of the early 1980s recession. And during the mid-1980s when unemployment fell, the rise in self-employment continued unabated. So it is unclear just how much credence should be given to changes in unemployment. Abell et al (1995: page 12) cite conflicting studies that have found that unemployment raises, lowers or has no effect on the level of self-employment.

Fourth, there have been changes in the practices of organisations. Rather than employing staff to do particular ancillary services (security, cleaning, PR, etc.) some firms have concentrated on their 'core' business and contracted-out many other services. This change has also been mirrored in similar changes within the public sector. To the extent that this is a major cause of change, the rise in self-employment already seen may be a one-off effect, with fewer changes in the future.

Fifth, there may have been changes in people's attitudes towards self-employment, that make them more favourably disposed to this form of working. This might attribute the rise in self-employment during the 1980s to 'Thatcherism', and the more generally pro-enterprise culture that prevailed. This is a different theory to test, and what attitude data there is available (e.g. Blanchflower and Oswald 1992) does not indicate any major changes in this direction.

To this list may be added a looser regulatory regime in Britain, allowing the easier establishment of businesses (Meager et al 1994) and possibly the easier availability of capital in Britain. The housing boom of the late 1980s might have been expected to provide a ready supply of capital to finance new businesses. Trends in self-employment will also depend on legal/official decisions about the status of different occupations. For example, the construction industry contains a large number of labour-only contractors who have traditionally been regarded (and treated) as self-employed. However, recent Inland Revenue practice appears to have been to change this treatment, and to regard many such contractors (who often work predominantly for one firm) as employees rather than self-employed. The future effect of such changes is, of course, difficult to predict.

This background suggests that many factors were driving the rises in self-employment that occurred in the 1980s, and 1990s. Some of these changes may now have come to an end, and been partly responsible for the recent reduction in the rate of self-employment, taking place among men.

However, there are also longer-term reasons why the rate of self-employment may be expected to rise, particularly the general trend towards a larger service sector. In the next section, we consider what light may be thrown on these trends by analysis of the FWLS.

## 5.2 Family and Working Lives Survey analysis

We use the FWLS in two ways. First, to look at the different rates of self-employment among different birth cohorts. This helps to show whether each new generation is more or less likely to be moving into self-employment. Second, we look at entrants to self-employment at different points in time, over the last 20 years. This helps to show the size of the flow into self-employment, and the types of self-employment that have been more likely to start over the last two decades.

### 5.2.1 Analysis of different generations

In this section, the analysis looks at the proportion of workers in self-employment at different ages, among different age groups. Figure 5.1 shows the rate of self-employment (that is, self-employment as a proportion of all workers) for the whole working life of the male sample respondents; results for women are in Figure 5.2. Results are shown separately for different age groups. The results are shown for each month, from the twentieth birthday until the contemporary age.

The experience of today's men aged 60-69 may be divided into three phases. Up to around the age of 35, there was a gradual increase in the rate of self-employment. From 35 until the mid-50s, the rate of self-employment was fairly constant at around eight per cent of the workforce. After this age, the rate of self-employment increased significantly, reaching close to 15 per cent in the early 60s. There was a further sharp increase in the rate of self-employment past the state pension age.

These changes in the rate of self-employment do not necessarily indicate that more people were becoming self-employed at given ages. It could be that more of the employees were leaving the labour market, and thus increasing the rate of self-employment. Indeed, no-one became self-employed after the age of 65, and the sharp rise in the rate of self-employment at that age mostly reflects earlier retirement among employees (as shown in Chapter 4). By contrast, the rise in the rate of self-employment during the late 50s, for the 60-69 age group, did coincide with a higher rate of entry to self-employment than at younger ages.

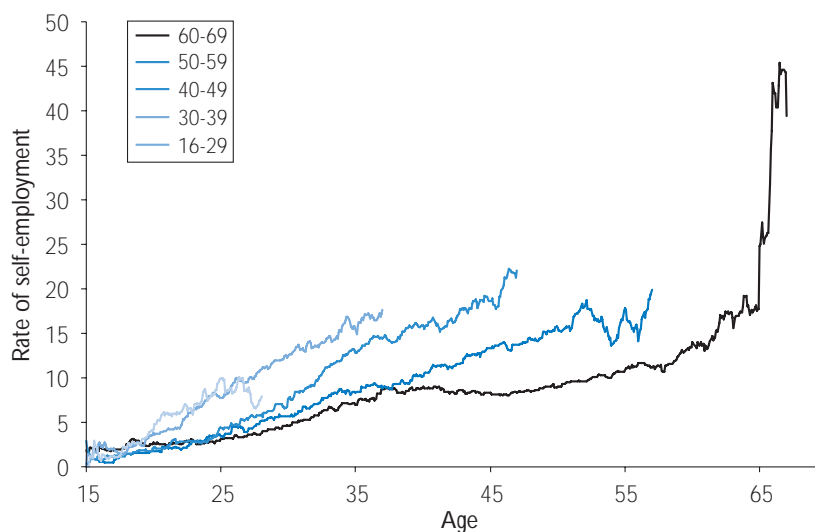
Figure 5.1 contrasts the experience of different generations of men. For today's 50-59 year-olds, the rate of self-employment did not stagnate after the age of 35, as it had for today's 60 year-olds. Instead, the self-employment rate continued to rise into the 40s and 50s. Likewise, the experience of people in their 40s when interviewed is consistent with a rising propensity to become self-employed.

For younger groups the evidence for a continuing trend is less clear. The self-employment rate for those in their 30s may be converging with the experience of those ten years older. Nor do the youngest group (aged 16-29 at the time of interview) appear more likely to become self-employed, at given ages, than those in their 30s.

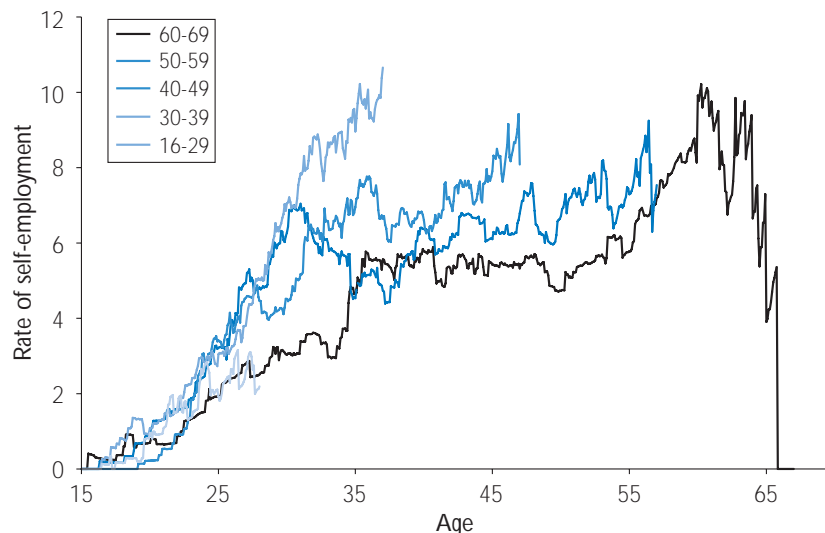
The results for women (Figure 5.2) are much less clear. Over time the proportion of women in paid work has generally been increasing, but these analyses are based on the rate of self-employment among workers and so allow for this trend.

The lifetime pattern of self-employment for women aged 60-69 was similar to that of men - at a much lower rate of self-employment. That is, a gradual rate of increase until the mid-30s, followed by a stable level of self-employment, followed by a sharp increase towards state pension age. Likewise, there was some evidence of higher rates of self-employment among those in their 50s or 40s when interviewed. The trend appeared to be still upward for those in their 30s, but not for the youngest group - those in their teens and 20s - who had relatively low rates of self-employment.

**Figure 5.1 Rate of self-employment by age and birth cohort: Men**



**Figure 5.2 Self-employment rates by age and birth cohort:  
Women**



In summary: successive generations have generally been more likely to work as self-employed. However, this is not true of the youngest group analysed - those aged 16-29 when interviewed in 1994-95. The younger group is not experiencing rates of self-employment, in their 20s, that were found among today's 30 and 40 year-olds. This halt in the trend provides some initial evidence that the recent trend to higher rates of self-employment is coming to an end.

This next section looks at flows into self-employment at different points in time, *across* each of the age groups discussed above.

*5.2.2 Analysis across time - 'new' types of self-employment*

The work histories recorded in the FWLS are not a perfect representation of all movements into self-employment. The closer they are to the current date, the better the fit. For periods that were long in the past, the data will increasingly reflect those who were young at the time - the older groups having been outside the scope of the sample at that time. For example, in 1990 (five years before the survey), our sample of 16-69 year-olds will have been aged 11-64, which will be a good guide to the behaviour of the working population of the time. But in 1980, the sample will be aged 1-56, and so the behaviour of anyone aged 57 or older in 1980 will be excluded. Going back to a further 10 years to 1970, we only have information about those who were aged up to 46 years, or younger, at the time (that is, those aged up to 69 at the time of the FWLS in 1994-95).

The FWLS sample, like any one-off survey, is going to provide a much less accurate picture about labour market flows the further back that one looks.

The main method used to tackle this problem is to restrict the sample to those below a certain age at the time of transition (e.g. Rubery et al 1993). By looking only at those up to the age of 50, and for the period 1975-1995, we have ensured that we have the same age profile for each year under consideration. So we are comparing like with like. The drawback is that the experiences of those over 50 are not included (a group analysed in relation to current self-employment throughout this report). However, we do know that transitions into self-employment tend to be relatively infrequent at older ages, although 25 per cent of the currently self-employed are in this age bracket.

Even so, this adjustment does not deal with all the potential problems of using work history data in this way. It is likely that shorter spells of self-employment are forgotten, the longer ago that someone was self-employed. And the details of the period of self-employment that were collected may relate to the future development of the business, rather than how it was at the beginning (such as taking on staff). However, this adjustment, dropping data relating to anyone older 50 at the time, seems to be the best means of making use of the data.

We have divided the flows into self-employment by date, looking at entry to self-employment during each of 1975-78, 1979-83, 1984-87, 1988-91, and 1992-95. These years have been chosen to ensure sufficient sample sizes, and to capture changes in economic conditions at particular points of the economic cycle. Entrants to self-employment during each time period may be compared. In each case, the sample is made up of those aged up to 50 in the years being analysed.

The number of entrants to self-employment was much higher in the period 1979-83, than previously. The high number of entrants continued in later periods, but was then lower in the most recent three years. Even allowing for the fact that most interviews were in 1994 (not 1995), the trend towards higher rates of inflow to self-employment does appear to have ceased. This is consistent with known figures about trends in the *level* of self-employment over the 1980s and 1990s.

Entrants to self-employment in the most recent period, and in the late 1980s, appear to be slightly less likely to be working full-time (more than 30 hours), with something of a rise in part-time working from a low point in the mid-1980s (Table 5.1). The rates of part-time working among those entering self-employment before 1984 were higher than in 1984-91, but lower than among entrants to self-employment during 1992-95.

**Table 5.1 Working hours by year of starting self-employment spell**

<i>Column percentages</i>					
	Year started spell of self-employment				
	1975-78	1979-83	1984-87	1988-91	1992-95
Working hours					
Full-time	82	85	90	88	75
Part-time	18	12	8	11	23
Not known	1	3	2	1	2
Base (=100 per cent)	120	208	241	262	171

Base: all movements into self-employment during 1975-95, among those then aged 15-50 years

One of the key characteristics that can be used to differentiate between different types of self-employed people is whether they employ staff. The proportion of new entrants to self-employment, who say they employ staff, did seem to be lower in the 1990s, than before (Table 5.2). One fifth (20 per cent) of those entering self-employment during 1992-95 were employing staff, compared with 33 per cent of those entering self-employment during 1988-91, and a similar proportion for those entering self-employment in the mid-1980s. However, we also know that longer-lasting self-employed concerns may be more likely to take on workers.

**Table 5.2 Number of staff by year of starting self-employment spell**

<i>Column percentages</i>					
	Year started spell of self-employment				
	1975-78	1979-83	1984-87	1988-91	1992-95
Number of staff					
None	67	63	68	67	81
1 or 2	10	17	15	17	11
3 to 6	11	15	9	7	5
6 or more	12	6	8	9	4
Base (=100 per cent)	120	208	241	262	171

Base: all movements into self-employment during 1975-95, among those then aged 15-50 years

Fewer of the more recent entrants to self-employment became 'managers' - down from 38 per cent of new self-employed during 1975-78, to just 18 per cent of those starting as self-employed during 1992-95 (Table 5.3). At the same time, the level of entry into the 'associate professions', has been much higher - accounting for 19 per cent of those becoming self-employed in the 1990s, but only 10 per cent for 1975-78. The proportion going into a 'craft or related' job seems to have been fairly stable since the late 1970s, at 22-25 per cent of the inflow. Some 10 per cent of the inflow to self-employment during 1992-95, went into the personal and protective services (e.g. hairdressing and security guards), an increase from six-seven per cent in the mid 1970s to late 1980s.

**Table 5.3 Occupation by year of starting self-employment spell**

Occupation	Year started spell of self-employment				
	Column percentages				
	1975-78	1979-83	1984-87	1988-91	1992-95
Managers and administrators	38	29	29	29	18
Professional occupations	10	5	6	12	11
Associate professional & technical	10	11	14	11	19
Clerical and secretarial	1	1	4	1	5
Craft and related	15	23	25	23	22
Personal & protective services	6	6	7	7	10
Sales occupations	8	9	5	6	9
Plant and machine operators	4	9	3	5	3
Other occupations	7	7	6	6	4
Not known	1	*	-	-	*
Base (=100 per cent)	120	208	241	262	171

Base: all movements into self-employment during 1975-95, among those then aged 15-50 years

There were also changes in the industries in which the newly self-employed worked (Table 5.4). The proportion of new entrants to self-employment going into 'distribution, hotels & restaurants' fell from 38 per cent in the late 1970s, to 18 per cent during the mid 1990s. In contrast, the proportion moving into the industry 'banking, finance and insurance' had reached 31 per cent during 1992-95, increasing throughout the period observed from 10 per cent in 1975-78. There was a strong rate of inflow to construction for most of the 1980s, reaching a peak of 25 per cent during 1984-87. However, by 1992-95, this had reduced to 17 per cent of the newly self-employed.

**Table 5.4 Industry by year of starting self-employment spell**

Industry	Year started spell of self-employment				
	Column percentages				
	1975-78	1979-83	1984-87	1988-91	1992-95
Agriculture & fishing	7	4	2	4	4
Energy & water	-	-	-	*	1
Manufacturing	6	10	5	4	7
Construction	10	21	25	22	17
Distribution, hotels & restaurants	38	32	29	19	18
Transport & communications	5	6	4	7	5
Banking, finance & insurance	10	12	15	25	31
Public admin, education & health	11	4	9	9	11
Other services	13	10	11	9	7
Base (=100 per cent)	120	208	241	262	171

Base: all movements into self-employment during 1975-95, among those then aged 15-50 years

These results do indicate something of a change in the type of job that people do when they enter self-employment. There has been, in particular, a movement away from management. Instead, more of the self-employed are in the professions, and an increasing number are working in the financial sector. In the 1980s there was a strong rate of flow into construction, which seems to have slowed considerably. There also seems to be a long-term trend away from self-employment in the hotels/restaurant sector.

### 5.2.3 Conclusion - future trends in self-employment

Evidence from different birth cohorts, and from new entrants to self-employment, confirms the rising numbers of self-employed seen in the 1980s. They are also consistent with a more stable level of self-employment, as seen in the 1990s. In combination with the overall theories about the growth of self-employment discussed in Section 5.1, there seems only limited prospects of a continuing strong rise in self-employment. Instead, the current level seems likely to continue, perhaps with a slight reduction in the short term. Over the medium term, the continuing switch to services should ensure that self-employment remains, by historical standards, relatively high.

Of course, important one-off factors - such as legislative changes, and major divergence in economic conditions - could radically alter the picture. At present, there would seem to be incentives from the introduction of the National Minimum Wage for lower-wage employers to prefer to use self-employed workers rather than employees, where they have the freedom to do so. It remains to be seen how large an effect this might have.

### 5.3 Types of self-employment

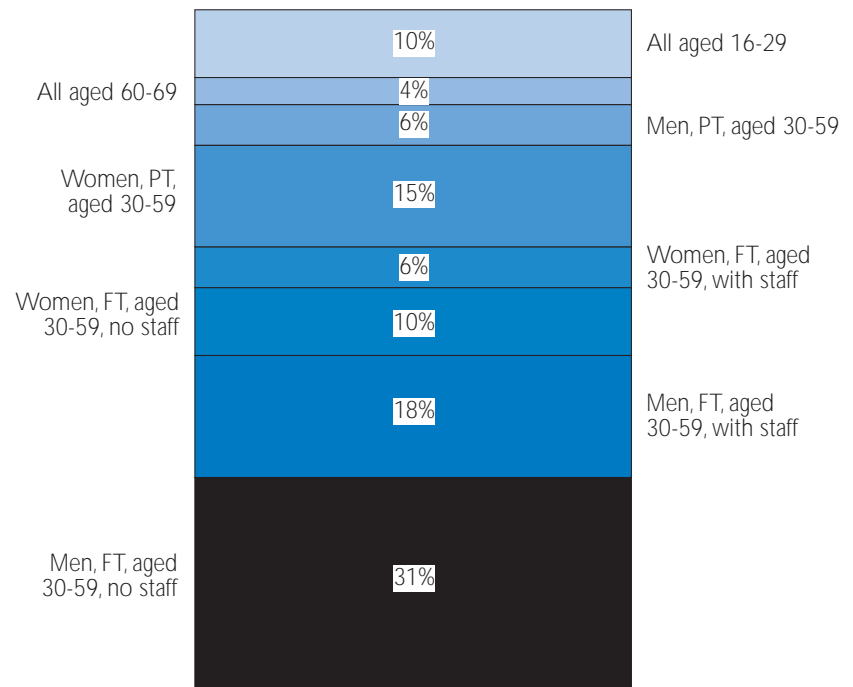
The breadth of this research has indicated the great *diversity* of the self-employed, across a great variety of characteristics. Generally, the self-employed were more diverse in their characteristics than employees. To establish a particular typology of the self-employed, the aim would be to describe several groups among the self-employed, that could be distinguished from each other, especially for retirement and pension issues, but which had similar characteristics within each group.

However, detailed investigation did not find any strong groupings which could be used to distinguish different types of self-employment on the basis of their labour market behaviour. Instead it was possible, both from previous research and our own analysis, to construct the groups most likely to have shared characteristics in common, that made them different to other self-employed. These groups could be defined by their age, gender, working hours and whether they employed staff.

Experimentation beyond these subgroups showed there was a large degree of crossover between most of these characteristics, which would make further subgroups of very limited explanatory value - or they were not generally of sufficient size within a group. The main groups this analysis generated are shown in Figure 5.3.



**Figure 5.3 Main groups of the currently self-employed**



The largest group of self-employed that we identified were male, ‘middle-aged’ (30 to 59 years) and working full-time, 31 per cent working without staff, while 18 per cent were employers. These two groups accounted for close to half of total self-employment. In terms of their current and previous labour market experiences, self-employed women 30 to 59 years were significantly different, with full-time self-employed with staff (six per cent) also differing from the 10 per cent without staff.

Other distinct groups included men aged 30 to 59 years and working part-time (six per cent), and women of this age working part-time (15 per cent). The remaining groups, with different patterns of labour market characteristics were youths aged 16-29 (10 per cent) and those working as self-employed in their 60s (four per cent).

Attempts to move beyond this relatively simple classification did not prove successful.

## 6 FINANCIAL PROVISION FOR RETIREMENT

This chapter looks at the ways people of working age are building up rights to an income in retirement. It begins with some background about the different treatment of the self-employed and employees within the state and non-state pensions sectors (Section 6.1). The next section (Section 6.2) looks at the level of savings and housing assets that may be available, before the main part of the chapter (Section 6.3) looks in detail at the pension provision of the currently self-employed, and how it compares with that of employees and those not currently in work. A final section (Section 6.4) assesses the proportion of people who have relatively limited rights to non-state pensions. The information in the FWLS is as reliable on pensions as other survey information (McKay et al 1996).

It is worth remembering that almost all of the self-employed (some 94 per cent) have previous experience of employment. Most have more experience of employment than they do of self-employment. This means that many of the currently self-employed will have spent time as members of occupational pension schemes, and have made contributions towards those parts of the state pension system not normally associated with the self-employed.

Some parts of the analysis also include those who are no longer self-employed, but who were in the past.

### 6.1 Background

The state National Insurance system is made up of contributions from employees, their employers, the self-employed and other people who may choose to pay them. However, the self-employed are treated differently from employees within the National Insurance system.

Employees pay an earnings-related amount ('Class 1') which provides entitlement to all the contributory social security benefits - such as Incapacity Benefit and the basic state pension. A part of the contribution is also used to finance an earnings-related pension, the State Earnings Related Pension Scheme (SERPS), unless employees elect to 'contract-out' into an occupational or (appropriate) personal pension.

By contrast, the self-employed pay a flat-rate amount of National Insurance ('Class 2') that provides entitlement to most contributory benefits including the basic state pension (but not contribution-based Jobseeker's Allowance)<sup>10</sup>. They do not contribute towards SERPS, the earnings-related element of state pensions. The self-employed may also pay an amount of National Insurance related to their profits ('Class 4') which carries no entitlement to benefits.

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<sup>10</sup> Changes to the treatment of the self-employed for National Insurance contributions were announced in the 1999 Budget.

Some people pay no National Insurance contributions because they are not in paid work, but are nevertheless 'credited' with contributions. These will be counted towards their contribution record when they claim contributory benefits. Credits are paid in a number of circumstances, such as while unemployed or sick; while caring for a sick relative and receiving Invalid Care Allowance; while in certain types of education or training; while on jury service or on maternity leave. These credits do not entitle people to benefit in precisely the same manner as full contributions, and in themselves cannot confer entitlement, but they go a long way towards making up gaps in contributions records. A system of Home Responsibilities Protection also exists, in effect, to mitigate the qualifying conditions for a full basic pension for those (usually women) who stay at home to look after children or disabled people.

Qualitative research has suggested that the self-employed may give greater thought to retirement than employees (Thomas, Pettigrew and Tovey, 1999), and the financial issues that inevitably raises. This may reflect the fact that they tend to have greater involvement in sorting out their own tax and National Insurance matters. Those formerly employees may also realise that they no longer have access to occupational pensions when self-employed, and need to think about provision for retirement in a more proactive manner.

## 6.2 Savings and housing

Some self-employed people may plan to live in retirement on the capital from the sale of their business (Thomas, Pettigrew and Tovey, 1999). This would only be possible for those with significant business assets, of course, which is a rather small group (Disney et al, 1997). It is not possible to explore how far this will be an option for the self-employed in the FWLS, as respondents were not asked directly about this. However, it is clear that some retired self-employed have very substantial levels of liquid assets indeed (see Chapter 7).

Most provision for retirement is in the form of pensions, and the analysis of pensions forms the main part of this chapter. But some people, and perhaps especially the self-employed, may rely on accumulating savings or fixed assets to be used in retirement. In this section, we investigate the levels of savings that people have, and whether they own their home. Either could potentially provide a source of income, and perhaps security, in later life. However, the survey did not ask whether this was the *intended* use of any savings or property, so their future use cannot be determined.

Nearly three-quarters (74 per cent) of those working as self-employed said they had at least some savings, as did 70 per cent of employees (Table 6.1 part a). The question related to the more readily realisable assets - as indicated by the footnote with the precise wording of the question.

The self-employed were more likely than employees to have the highest level of savings (Table 6.1 part b). Of those with savings, about one in five (19 per cent) of the self-employed had at least £20,000 saved, compared with nine per cent of employees. Eight per cent of the self-employed had £50,000 or more saved, compared with three per cent of employees.

**Table 6.1 Savings by current economic status**

	<i>Column percentages</i>			
	Self-employed	Employee	Not in paid work	Total
<i>(a) Do you (or your partner) have any savings of these kinds?<sup>1</sup></i>				
Yes	74	70	52	64
No	21	25	41	30
Refused	4	5	7	6
Don't know	0	*	1	*
<i>(b) In total, how much do you (and your partner) have in savings?<sup>2</sup></i>				
Up to £500	21	29	31	29
£501-3,000	25	32	23	29
£3,001-8,000	20	17	14	16
£8,001-£20,000	16	13	14	13
£20,000-£50,000	11	6	11	8
£50,000-£100,000	4	2	4	3
£100,001-£200,000	3	1	2	2
Over £200,000	1	*	1	1
Median level (estimated, those with any savings)	£4,000	£2,100	£2,600	£2,300

Base: (a) All respondents aged under state pension age

(b) All respondents aged under state pension age with savings and giving a valid answer

<sup>1</sup> The question (B14) asked *Do you or your partner have any savings of these kinds?* and respondents were presented with a list showing 'Building Society; National Savings account; Post Office savings account; Bank deposit account; Bank current account; Trustee savings account; Co-operative society; Premium bonds; Stocks, shares or other securities; Other savings'

<sup>2</sup> These bands were on a show card, and respondents were asked to indicate in which of these ranges that their total savings fell.

The self-employed were slightly older, on average, than employees (see Section 2.1). Since savings tend to increase with age, it is sensible to make savings comparisons across the same age groups.

For almost all of these age groups, the self-employed had on average higher levels of savings than employees (Table 6.2). Summary statistics at the foot of the table illustrate the median level of savings, including and excluding those with no savings. The average level of savings increased

with age. The level of savings for the self-employed increased from an average of £320 (including the zeros) for those aged 16-29, to £1,800 for those aged 30-59, and to £5,860 for those aged 60-69 (and still working as self-employed). The corresponding figures for employees for each group were lower at £230, £1,240 and £2,600 respectively.

**Table 6.2 Savings levels by age and employment status**

	<i>Column percentages</i>					
	16-29		30-59		60-69	
	Self-employed	Employee	Self-employed	Employee	Self-employed	Employee
None	33	35	22	22	14	26
Up to £500	22	26	12	14	2	6
£501-3,000	24	23	13	18	12	8
£3,001-8,000	13	6	11	12	14	9
£8,001-£20,000	1	3	11	9	6	13
£20,000-£50,000	-	1	7	5	10	8
£50,000-£100,000	1	*	3	2	2	6
£100,001-£200,000	-	*	2	1	4	2
Over £200,000	-	-	*	*	8	-
Has savings: amount not known or refused	6	7	20	17	27	23
Median ( <i>including</i> zero amounts, dropping missing)	£320	£230	£1,800	£1,240	£5,860	£2,600
Median ( <i>excluding</i> zero amounts, dropping missing)	£1,420	£880	£5,020	£2,770	£10,100	£10,700
Base (= 100 per cent)	76	1286	471	3050	51	192

Base: all respondents in paid work, answering first savings question

In addition to any liquid assets they possess, people may be able to use the value of their housing for income in retirement. The self-employed were more likely to be owner occupiers than employees (Table 6.3). Almost one in five (18 per cent) of the self-employed were outright owners of their accommodation, nearly double the figure of 10 per cent for employees. Even after accounting for age, the self-employed were still more likely to be outright owners of their accommodation. The proportion buying with a mortgage was similar among employees and the self-employed.

**Table 6.3 Housing tenure by current economic status**

Summary of current housing tenure	Column percentages			
	Self-employed	Employee	Not in paid work	Total
Own outright	18	10	27	17
Buying with mortgage	62	61	26	48
Rent-free	1	1	1	1
Social tenant	7	5	7	6
Private tenant	7	10	26	15
Live with parents	5	11	10	10
Live with others	2	2	4	3
Base (=100 per cent)	600	4647	2746	7993

Base: all respondents below state pension age

### 6.3 Pension arrangements

Respondents were asked about their membership of occupational and personal pensions, both at the time of the interview and in the past. Their situation with regard to the various state pensions was not the subject of direct questions, except for some questions about contracting-out of SERPS. Their rights to the various state pensions have been imputed from information about their working situation, caring status and membership of non-state pensions, and how these have changed over time.

Table 6.4 presents results for non-state pensions among employees and the self-employed. The proportions with a non-state pension were remarkably similar, representing about three-quarters of each group. Over one-quarter (27 per cent) of the self-employed had both an occupational and personal pension, compared with 14 per cent of employees. Unsurprisingly, the self-employed were more likely to have a personal pension (30 per cent, compared to 10 per cent of employees), while employees were more likely overall to have an occupational pension (50 per cent, compared to 19 per cent of the self-employed).

The sizeable coverage of occupational pensions among the self-employed may seem surprising. However it is consistent with the results presented in Chapter 4, where it was found that 94 per cent of those currently self-employed had been an employee at some stage of their working lives. Moreover, the total number of years they had spent as self-employed was less than the total time spent as employees. This helps to explain why a high proportion of the self-employed have some rights to occupational pensions - the fact that they mostly have considerable experience of employment prior to their spell of self-employment.

**Table 6.4 Occupational and personal pensions among those currently self-employed or employed**

	<i>Column percentages</i>		
<b>Occupational pension and/or a private or personal pension scheme<sup>1</sup></b>	<b>Self-employed</b>	<b>Employees</b>	<b>Total (workers)</b>
Both occupational pension and personal pension	27	14	16
Occupational pension only	19	50	46
Personal pension only	30	10	12
No occupational pension or personal pension	24	26	26
Actual number of workers in the survey (=100%)	629	4768	5397

Base: all respondents in paid work

<sup>1</sup> The precise questions asked were: P13: 'Some people receive a pension from their employer when they retire as well as the state pension. May I just check, have you ever belonged to a pension scheme or superannuation scheme run by an employer for any employees, that is an occupational pension?' and P20 'Do you contribute, or have you ever contributed to, or arranged, a private or personal pension scheme?'

The pension status of the respondents is, of course, not limited to non-state pension arrangements (personal and occupational pensions). They may also have been building up rights to the basic state pension, and to the additional element through SERPS, and perhaps have accumulated credits to the basic state pension. A summary of the proportions with each type of pension arrangement is shown in Table 6.5. Coverage of the basic state pension may be gained whilst self-employed, employed, or in other activities that generate credits. Almost all of the self-employed appear to have been building up some state pension rights<sup>11</sup>, as had nearly nine in 10 of employees (or all except part-time workers among the employees).

Just over a fifth of each group appeared to have some entitlement to Home Responsibilities Protection (HRP). This is based on those women looking after children, or (much more rarely) those caring for disabled people and receiving Invalid Care Allowance. This provision effectively makes any existing National Insurance contributions more valuable, by reducing the number of years of contributions needed to qualify for the full basic state pension. About half of each group (47 per cent of the self-employed, and 49 per cent of employees) appear to have built up some SERPS entitlement in the past. Again, this reflects periods of employment for the self-employed, occurring after 1978 when SERPS became effective. The situation was rather different the longer that people had spent as

<sup>11</sup> It has been assumed that the self-employed are paying class 2 National Insurance contributions, though it is recognised that evasion is a problem in practice.

self-employed. Among those who had been self-employed for at least 40 per cent of their working life (roughly the top third of self-employment durations), less than one in three (31 per cent) had spent any time contributing to SERPS.

The results are also shown separately for men and women. By and large, men have made greater pension provision than women, while women have spent longer out of the work force. Even so, 60 per cent of female self-employed had at least some rights to a non-state pension, compared with 80 per cent of self-employed men. Unsurprisingly, a much higher proportion of women than men seemed likely to benefit from HRP provisions (43 per cent of women, compared to four per cent of men - independent of current employment status).

**Table 6.5 Proportion with particular pension arrangements, by employment status and gender**

Type of 'pension'	Cell percentages					
	Self-employed			Employees		
	All	Men	Women	All	Men	Women
I. Any state basic (class 1 or 2)	97	99	92	89	94	84
I. Any NI credits	14	16	11	12	15	10
I. Any HRP	21	4	43	23	4	43
II. Any SERPS	47	50	39	49	52	46
II. Any non-state pension	75	80	60	72	80	63
III. Any savings	78	76	80	74	75	73
Base	613	414	199	4732	2230	2502

Base: all respondents in paid work and below state pension age, with work history information

Having pension rights of a certain type does not indicate the significance of those rights. Table 6.6 shows the number of years that people have been contributing (or having contributions paid on their behalf) to each type of pension. This is probably the best measure available on the significance of pension rights, in the absence of detailed data on levels of contribution and earnings people had in the past.<sup>12</sup>

It is worth noting that the self-employed have more labour market experience than employees, some 27 years on average, compared to 23 years for employees. This reflects their slightly higher average age. This small difference puts into perspective some of the differences in accumulated rights to state and non-state pensions between employees and the self-employed.

<sup>12</sup> A small proportion of these contributions may have been 'cashed-in'. They are not excluded, since the effect is quite small, and it is not clear how such money was used. In addition, it is not known what proportion of those currently making contributions will 'cash' them in.



As would be expected, only the currently self-employed had any appreciable level of Class 2 National Insurance contributions - more than nine years on average. This type of contribution is flat-rate in nature, and only made by people when they are self-employed. The total level of contributions to the basic state pension, that is, combining Class 1 and Class 2 contributions, was also greater among the self-employed than employees, and by more than the four-year difference in total labour market experience.

Employees appeared to have spent a slightly longer time than had the self-employed as part of the SERPS scheme. This small difference can only increase as employees spend longer in the scheme, while the currently self-employed will remain with their existing SERPS record (unless the self-employed move back into employment, and do not contract out of SERPS).

The self-employed had spent an average of 4½ years in occupational pensions, and five years in personal pensions of all types (a total of 9.4 years). The total for employees was similar (8½ years), but with the majority of that time spent in occupational pensions (7½ years) and very little time in personal pensions (one year on average). Of course, not all non-state pensions are equally beneficial. It is not possible to compare the rates of contribution being made into each type of pension in the FWLS, nor the actual size of the pension that will be paid out. Nevertheless, most people paying into personal pensions do not approach the levels put into occupational pensions *jointly* by the employee and employer.

**Table 6.6 Number of years accumulating rights to different types of pension arrangement**

	Average (mean) number of years, including those with none		
	Self-employed	Employee	Not in work
Average number of years since leaving school	26.7	22.8	25.9
Class 1 NI	12.5	14.7	12.4
Class 2 NI	9.3	0.3	0.6
NI credits	0.4	0.3	2.3
HRP	1.6	1.9	2.9
SERPS	2.5	3.0	2.4
Graduated retirement pension	2.9	1.9	2.2
Occupational pensions	4.5	7.5	4.9
Personal pensions	4.9	1.0	0.3
Base	613	4732	3208

Base: all respondents below state pension age

Men tended to have spent more years in particular types of pensions than women (Table 6.7). This is likely to have resulted from more years in the labour market, and not just higher rates of joining non-state schemes. On average, men had spent nearly twice as long as women as members of occupational pension schemes (five compared to three years among the self-employed, and 10 compared to six years among employees), and at least twice as long in personal pensions (six compared to two years among the self-employed).

**Table 6.7 Number of years accumulating rights to different types of pension arrangement, by gender**

<i>Average (mean) number of years, including those with none</i>						
	Self-employed		Employee		Not in work	
	Men	Women	Men	Women	Men	Women
Average number of years since leaving school	26.9	26.3	22.8	22.8	27.6	26.2
Class 1 NI	14.1	8.9	19.2	10.8	18.7	9.5
Class 2 NI	9.4	4.4	0.4	0.2	1.1	0.3
NI credits	0.5	0.3	0.4	0.3	3.6	1.8
HRP	0.3	4.5	0.1	3.7	0.7	4.3
SERPS	2.8	2.3	3.7	2.7	3.0	2.3
Graduated retirement pension	3.0	2.2	2.1	1.6	3.2	1.7
Occupational pensions	5.0	2.9	9.8	5.7	8.7	2.9
Personal pensions	5.8	1.9	1.4	0.7	0.5	0.2
Base	414	199	2230	2502	1158	2050

Base: all respondents below state pension age with valid work history

The figures presented in Table 6.7 are averages (means). As such, they may obscure differences in the distribution of rights under each heading.

### 6.3.1 *The distribution of pension rights*

We also analysed the distribution of years spent in each type of pension arrangement, separately for the self-employed and for employees. This enables us to compare not just the average number of years in particular types of pension arrangement, but also the proportions with greater and lesser degrees of provision. Results from this detailed analysis are contained in Tables B.1 to B.6 in Appendix B to this report.

The size of Class 1 contributions was rather higher for employees than for the self-employed, despite the longer work history of the self-employed. Even so, 21 per cent of the self-employed had some 20 years or more of these contributions, compared with 29 per cent for employees (Table B.1). Unsurprisingly, the picture for Class 2 contributions was very different (Table B.2). Few employees have ever been self-employed,

and those that had tended to be self-employed for a relatively small number of years. By contrast, 11 per cent of the self-employed had 20 years' worth of Class 2 contributions, with 23 per cent having made 10-20 years worth.

Employees were slightly more likely than the self-employed to have two or more years that should count towards HRP (Table B.3). One employee in six (16 per cent) had five or more years in HRP, compared with 11 per cent of the self-employed.

Only one third of each group had spent two or more years in SERPS (Table B.4).

In 1994/95, 45 per cent of those in work had spent two or more years in an occupational pension scheme - 38 per cent of the self-employed, and 55 per cent of employees. Nearly one third (30 per cent) of employees had been in occupational pensions for ten or more years, compared with 17 per cent of the self-employed (Table B.5).

Personal pensions were much more common among the self-employed than employees, and often they had been contributing for significant numbers of years. Even so, the majority of the self-employed (53 per cent) had only two or fewer years' of contributions, and only one fifth (18 per cent) had been contributing for ten or more years (Table B.6). The level of their contributions in money terms is not known.

### *6.3.2 Pension rights by age group*

One of the main factors affecting current pension status is age. The longer that someone has been in the labour market, the greater the opportunities to have made provision of various kinds. In comparing the self-employed with employees, because the self-employed are older on average, it is sensible to compare them within the same age bands. Table 6.8 is a comparison for men of different ages, and Table 6.9 shows equivalent figures for women. Three age groups are shown, covering the 30s, 40s and 50s. Younger groups have rarely spent much time contributing to pensions, and retirement is the main economic activity of those in their 60s.

A number of findings emerge from this detailed analysis, for men:

- Rights to the state pension are built up at very similar rates for employees and the self-employed.
- The average amounts of time spent in SERPS were rather low, and tending to benefit the young, and employees in their 50s, although the differences were rather small. The presence of SERPS is potentially a source of future income for lower-earning employees, but not lower earning self-employed. But, at least by 1994-5 it was difficult to detect much of a difference between employees and the self-employed in SERPS build-up.

- The average number of years spent contributing to non-state pensions was similar for any given age among employees and the self-employed, though always a little higher for employees, and unsurprisingly much more likely to be occupational pension rights for employees.
- The ever-self-employed appeared to have built up fewer pension rights than the currently self-employed.

**Table 6.8 Pension status by age and economic activity: Men**

	<i>Average number of years (including those with none)</i>		
	<b>Current employees</b>	<b>Current self-employed</b>	<b>Ever self-employed (including currently)</b>
<b>Aged 30-39</b>			
Basic state	16	17	17
SERPS	4	4	4
Non-state	10	8	7
<b>Aged 40-49</b>			
Basic state	27	27	25
SERPS	3	3	3
Non-state	16	13	11
<b>Aged 50-59</b>			
Basic state	36	36	36
SERPS	4	2	2
Non-state	18	17	14

Base: all male respondents aged 30-59 who have ever been in paid work

The pension status of women between the ages of 30 and 59 is shown in Table 6.9, from which a number of points emerge:

- As seen in other research, women have noticeably lower average numbers of years contributing to the basic state pension than men (*some* of which will be offset by HRP)
- As with men, SERPS had yet to establish itself as a major difference between employees and the self-employed.
- Female employees had spent longer in non-state pensions than the self-employed, typically in occupational pensions, although the difference was rather small. This pattern is similar to that found among men.

**Table 6.9 Pension status by age and economic activity:  
Women**

	<i>Average number of years (including those with none)</i>		
	<b>Current employees</b>	<b>Current self-employed</b>	<b>Ever self-employed (including currently)</b>
<b>Aged 30-39</b>			
Basic state	11	12	12
SERPS	3	3	3
Non-state	6	5	4
<b>Aged 40-49</b>			
Basic state	13	16	15
SERPS	2	2	2
Non-state	8	7	5
<b>Aged 50-59</b>			
Basic state	15	17	19
SERPS	2	1	2
Non-state	9	6	5

Base: all female respondents aged 30-59 who have ever worked

### 6.3.3 Types of previous occupational pension

The preceding analysis shows that a large proportion of both the currently self-employed, and those with some experience of self-employment, have spent some time in an occupational pension scheme. In combination with personal pensions, the self-employed are only slightly less likely than employees to have some non-state pension rights (once adjustment has been made for age). So it is worth investigating the types of schemes to which each group belonged, and the status of any occupational pension contributions that people made, but which may have then have been cashed-in, transferred or 'lost' on leaving their employer.

In this section the focus is on the most recent occupational pension scheme that people joined. This should provide an overview of any differences between employees and the self-employed in the types of occupational pension scheme that they were members of.

An important characteristic of occupational pension schemes is whether they are contributory, or non-contributory. This is also a characteristic that people report with a high degree of accuracy. In fact, there was no difference between employees and the self-employed as to whether their most recent occupational pension scheme was contributory or not (Table 6.10). For both groups, 82 per cent of the most recent occupational pension schemes were contributory schemes.

**Table 6.10 Contributory status of *most recent* (including any current) occupational pension scheme, by experience of employment and self-employment**

	<i>Column percentages</i>			
	Current status		Has experience of	
	Employee	Self-employed	Employment	Self-employment
Contributory	82	82	82	82
Non-contributory, with additional payments	6	8	6	7
Non-contributory	10	9	10	10
Don't know	2	2	2	2
Base (=100 per cent)	3020	286	4712	607

Base: all respondents who had ever been an employee or self-employed

The FWLS also asked respondents whether their occupational pension schemes were defined benefit (salary-related) or defined contribution (money purchase). Those with experience of self-employment, and the currently self-employed, were more likely to have been in a money purchase scheme, in their most recent occupational pension scheme (Table 6.11). Among current employees, the most recent occupational pension scheme was 'defined benefit' in 61 per cent of cases, compared with 45 per cent of the currently self-employed. There was also a difference for those with any experience of self-employment, about half of whom were no longer self-employed. This difference is consistent with the finding, from Chapter 3, that entrants to self-employment may be drawn from smaller than average firms.

**Table 6.11 Pensions entitlement status of *most recent* (including any current) occupational pension scheme, by experience of employment and self-employment**

Type of occupational pension scheme	<i>Column percentages</i>			
	Current status		Has experience of	
	Employee	Self-employed	Employment	Self-employed
Defined benefit	61	45	58	50
Defined contribution	19	30	20	25
Hybrid	7	4	7	6
Don't know	13	22	15	19
Base (=100 per cent)	3020	286	4712	607

Base: all respondents who had ever been an employee or self-employed

Last, in this section, we consider the current status of the most recent occupational pensions. Similar proportions (about one-fifth) of current employees and the self-employed had had all or some of their contributions returned to them in cash (Table 6.12). This is likely to be among short-lived pension schemes. In one third (34 per cent) of cases, the self-employed had opted to defer their pension, whilst another 21 per cent had transferred their rights into another type of pension (usually a personal pension). Among employees, 25 per cent had deferred. A similar proportion (21 per cent) had transferred their rights into another type of pension, evenly split between a personal pension and another occupational pension scheme.

About one quarter (26 per cent) of employees did not know what had happened to their contributions when they left their most recent occupational pension scheme, compared with just eight per cent of the self-employed. This tends to confirm that the self-employed have a higher level of knowledge of their pensions arrangements, than do the employed.

**Table 6.12 Current status of *most recent* (but not a current) occupational pension scheme, by current employment or self-employment status**

	<i>Column percentages</i>	
	Current status	
	Employee	Self-employed
Now drawing that pension	7	11
All (or some) contributions were returned to me in cash	18	22
Left with previous employer (deferred)	25	34
Transferred to another occupational pension scheme (including current employer)	10	3
Transferred to a personal pension scheme	11	18
I got nothing	6	6
Can't remember or don't know	26	8
Base	1463	252

Base: all working respondents *who had left* their most recent occupational pension scheme. Note that respondents could give more than one answer, so totals may sum to more than 100 per cent

#### 6.4 Groups with limited second tier pension provision

Respondents were defined as having 'limited' second tier provision if they appeared to have spent fewer than five years in any combination of SERPS and non-state pensions. Analysis was restricted to 30-55 year-olds. This was to exclude the large proportion of younger people who would count as having limited provision, and those rather close to state pension age.

About one quarter (23 per cent) of the currently self-employed aged 30-55 had 'limited' second tier pension provision (see Table 6.13). This compared with 18 per cent of current employees. However, among the group who had spent at least 40 per cent of their working life as self-employed, some 38 per cent had limited second tier pension coverage.

**Table 6.13 Groups with limited second tier pension provision**

	Base	Per cent having limited second tier pension provision
<i>Row percentages</i>		
<b>Current status</b>		
Employee	2905	18
Self-employed	426	23
Not in work	1259	49
All	4590	26
<b>Previous status</b>		
Never self-employed	3786	26
SE for up to 10 per cent of working life	227	15
SE for 10-39 per cent of working life	314	18
SE for 40+ per cent of working life	205	38
Total	4532	26

Base: all respondents in work or who have ever had a paid job

Taking just the currently self-employed, the groups most likely to have limited second tier provision were the single and divorced (particularly compared to married people); women rather than men; those in their early 50s and those from minority ethnic groups. Some of these findings are based on small sample sizes and should, therefore, be treated with caution. However, these are precisely the groups found to be on relatively low incomes, and low income is likely to be associated with more limited second tier pension provision.





## 7 WORK, INCOME AND SAVINGS AFTER STATE PENSION AGE

While Chapter 6 looked at making provision for retirement, this chapter looks at work, income and savings after state pension age. Experience of self-employment might be expected to reduce retirement incomes, through lesser access to occupational pensions and to SERPS.

The approach and methods used in this chapter are described in Section 7.1. Section 7.2 looks at how many of this older group had previously been self-employed, while Section 7.3 considers how many are still in paid work of various kinds. The main analysis of income - its level, sources, and any receipt of means-tested benefits - are examined in Section 7.4. Information about savings is discussed in Section 7.5 while a brief conclusion forms Section 7.6.

### 7.1 Background

The FWLS interviewed people who were aged up to 69 (and 16 or older). This upper age limit provides an opportunity to look at the situation of people in the years between the state pension age and 69 - women aged 60-69 and men 65-69. It is worth acknowledging that the experiences of the older retired (aged 70 or over) are excluded from the sample, and so not considered here. However, this older group may face particular problems of low income (PPG 1998: page 22).

The main sources of income for *individuals* above state pension age are:

- state pensions, including the basic retirement pension and SERPS;
- occupational pensions;
- personal pensions;
- income from savings and investments;
- income from other state benefits, including Income Support;
- and earnings.

The income of any partner will also contribute to the income of the household or family. Income for those above pension age may also be affected by decisions about *when* to retire.

Those who have been self-employed have almost always had experience of employment, too. But the converse is not true - very few employees have experience of self-employment. This movement between employment and self-employment is likely to have important consequences for income in retirement. Occupational pensions may be adversely affected by periods spent switching employment status (Brown 1992). Moreover, any rights to SERPS may be reduced by periods spent not in employment.

However, it is also known that the self-employed take a greater interest than do many employees in planning for their retirement. Their high take-up of personal pensions reflects this. In addition, for some of the more successful self-employed there is the possibility of using their business as an asset, perhaps selling it for a lump sum when close to retirement (to build up savings or to buy an annuity).

Further, the self-employed may have greater flexibility than employees about when to retire (at what age) and whether to adopt a more gradual transition to retirement rather than a sudden change. This flexibility may be viewed either positively or negatively (Meager et al 1994: page 78). Self-employment may provide the option to work for longer, or to work part-time, for those who wish to do so. However a reluctance to retire could also imply that the self-employed have more limited resources to fall back on when they do cease paid work. Perhaps both influences are at work, but for different groups of the self-employed.

This dataset provides an important and rare opportunity to analyse how far self-employment might be affecting the situation of people after retirement. But only a small number of people in the survey (129) above state pension age had some experience of self-employment. This limits the analysis that is worth conducting, and means that any results based on this group should be treated cautiously.

## 7.2 Previous experience of self-employment

The wider range of years covered for women, because of women's currently lower state pension age, meant that women comprised nearly two thirds (66 per cent) of those in the sample over state pension age.

Just over one third (34 per cent) of those in the FWLS aged between state pension age, and age 69, were men. But men made up more than half (56 per cent) of those with some experience of self-employment in this age group (Table 7.1). This over-representation of men affects any simple comparisons made between those with and without experience of self-employment. Men tend to have higher incomes than women, so comparisons by gender are important to understand any effects that are due to self-employment.

**Table 7.1 Proportion of men and women among those with and without experience of self-employment, among those older than state pension age**

	<i>Column percentages</i>		
	Never previously self-employed	Some experience of self-employment <sup>1</sup>	Total
Male	31	56	34
Female	69	44	66
Base (=100 per cent)	1006	129	1135

Base: all respondents over state pension age (60/65 years)

<sup>1</sup> Defined as at least one month spent as self-employed.

### 7.3 Economic activity

The long-term trend has been for fewer people to remain in paid work once they have reached state pension age. An increasing number do not even work *until* that age (Blundell and Johnson 1999). Evidence presented in Chapter 1 showed that those who do work in their 60s are more likely to be self-employed, than workers of younger age.

Similarly, those with any current or previous experience of self-employment were among the most likely to be in paid work after state pension age. Among those who had ever been self-employed, eight per cent gave their main activity as being in full-time work, compared with four per cent of the others over state pension age. A further 14 per cent of the ever-self-employed (over state pension age) said they were working part-time, compared with eight per cent of those who had never worked as self-employed.

Among men, some 10 per cent of those who had some experience of self-employment were in full-time work, compared with four per cent in total. Among women, previous experience of self-employment was associated with higher rates of *part-time* work (21 per cent of those who had been self-employed, compared with nine per cent in total).

**Table 7.2 Current economic activity by gender and previous experience of self-employment**

	Column percentages					
	Men		Women		Total	
	Total	With prior SE	Total	With prior SE	Total	With prior SE
Full-time work	4	10	4	6	4	8
Part-time work	7	8	9	21	8	14
Disabled	0	2	3	2	4	2
Looking after home	-	-	10	6	7	3
Retired	83	81	71	65	75	74
Other	-	-	2	-	1	-
Base (=100 per cent)	330	66	805	63	1135	129

Base: all respondents over state pension age

The different prevalence of earnings from paid work may affect the comparison of incomes between those with and without previous experience of self-employment. It is difficult to tell how far the self-employed continue working because they have 'pro-work' attitudes, or because they have financial motives as their main priority.

### 7.4 Income

Meager et al (1994) have used the 1988 Retirement Survey to investigate how work histories affect incomes in later life. This survey included people aged from 55 to 69. Their main conclusion was that:

*'There is no clear evidence that self-employment experience significantly reduces average expected income in old age, either before or after retirement.'*

(Meager et al: 1994: 82)

This result arises, at least in part, because personal pensions among the ever self-employed at least partially offset the more limited access to occupational pensions. As regards the basic state pension, the National Insurance contribution records of former employees tended to be slightly shorter than those with some prior experience of self-employment, leading the authors to conclude: *'no evidence here of spells of self-employment disadvantaging individuals with regard to the portion of their income which may come from the state in old age'*. However, they did not consider the position with respect to SERPS, which may have presented a less equal picture than for the basic pension.

However they did find that the net incomes of those with experience of being self-employed were more 'spread out' than among those who had only been employees:

*'There is some evidence that incomes in later life among those who have self-employment experience in their work histories exhibit greater dispersion than do the incomes of those who have worked only as employees.'*

It is worth being a little cautious about some of these results; sample sizes of the self-employed were relatively small.

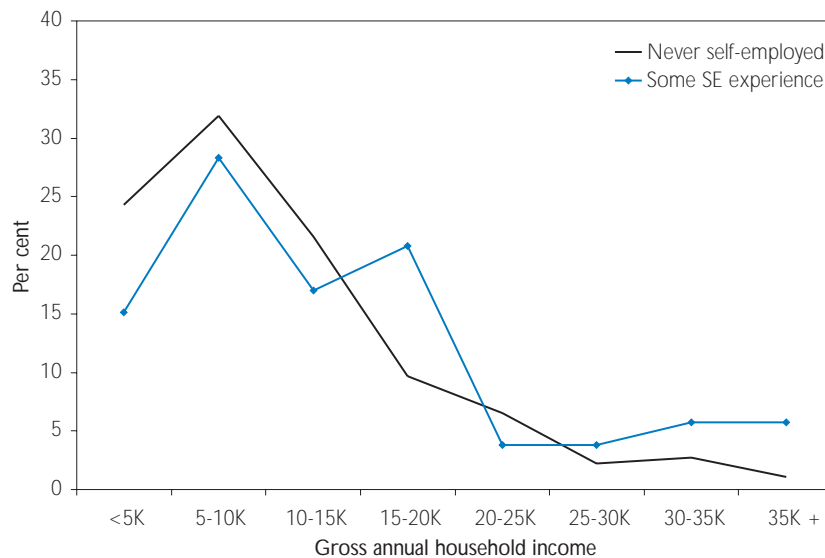
To measure income reliably, the best survey approach is to collect details of each potential component of income. This is how income has typically been measured in standard information sources such as the Family Expenditure and Family Resources Surveys. In a multi-purpose survey like the FWLS, without the time for such detail, the questioning was restricted to a single banded-income question, with later questions about particular sources of income. This approach provides a crude approximation to actual income.

Ideally, one would also take into account the relative size of each household, and the contribution of other members of the household to the overall income. However, there is insufficient information to be able to do this. This analysis takes the simplest possible approach.

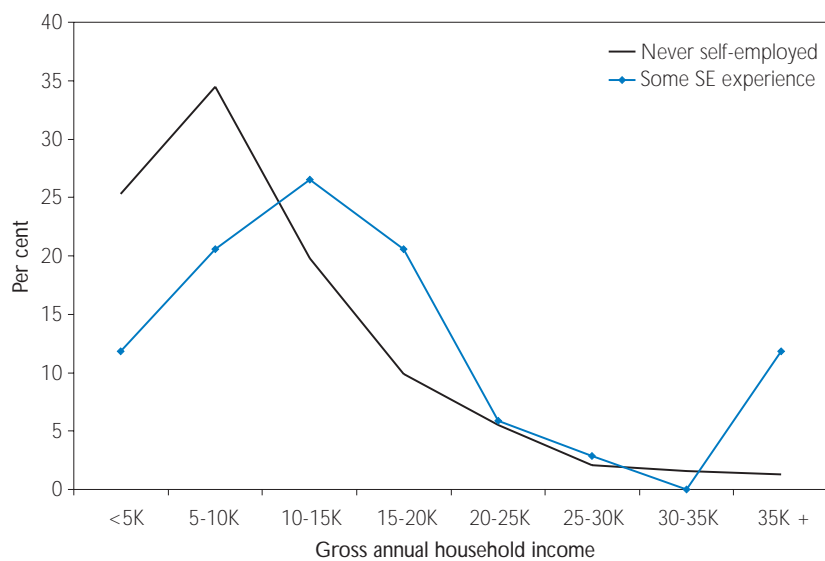
Figures 7.1 and 7.2, show the distribution of household income for those formerly and never self-employed. Results are shown separately for men and women, to deal with the over-representation of men among those who have ever been self-employed.

The sample numbers are small, so any interpretation must be cautious. The previously self-employed appear less likely to be in the very lowest income categories, and more likely to be on middle or higher incomes. These differences reflect, to a large extent, the higher rate of paid work over state pension age among those who had been self-employed. Any differences, particularly at the top end of income, are much reduced if the focus is restricted to those not in work - albeit the sample sizes are too small to reach any firm conclusions.

**Figure 7.1 Gross annual household income by experience of self-employment: Men**



**Figure 7.2 Gross annual household income by experience of self-employment: Women**



Base: Respondents above state pension age, with known income

Figures 7.1 and 7.2 suggest that previous experience of self-employment is not linked in any strong way to low income, for those between state pension age and 69 years. The result is, however, based on a relatively small number of previously self-employed. To take the analysis further it would be necessary to have a larger sample. Using the current dataset, a complementary approach is to look at a wider range of ages - say, all those aged over 50 - and again contrast the experiences of these different groups and note any differences related to gender and to economic activity status. This analysis confirmed the higher representation of respondents with experience of self-employment at higher income levels, among those aged 50-69, and a lower incidence of the lowest incomes.

#### 7.4.1 Sources of income

Among those over state pension age, about one quarter of those with previous experience of self-employment had income from employment or, more commonly, self-employment. This was nearly twice the proportion of those who had never been self-employed. This provides evidence of later withdrawal from all paid work among the self-employed, than for employees. Earlier results showed that switches into self-employment from employment, were quite rare among older groups.

Around half of those over state pension age had income from a non-state pension. Even among the previously self-employed, income from occupational pensions was more than twice as common as income from a personal pension (34 per cent receiving an occupational pension, and 16 per cent a personal pension).

**Table 7.3 Proportion of respondents over state pension age with different sources of income, by previous experience of self-employment**

Source of regular income	Never previously self-employed	Some self-employment experience	Cell percentages
			Total
Earnings	13	25	15
Pension from a former employer	43	34	42
Personal pension	7	16	8
Rent from boarders or lodgers	1	3	1
Base (=100 per cent)	1006	129	1139

Base: those over state pension age

#### 7.4.2 Receipt of means-tested benefits

Receipt of means-tested benefits may provide an additional measure of income situation. However, most surveys under-estimate the proportion of older people receiving means-tested benefits (Income Support, Housing Benefit and Council Tax Benefit), and the FWLS seems to be no exception. It is also sometimes suggested that the mind-set of the self-employed is rather independent, perhaps inimical to receiving a means-tested benefit. If true, this might lead to lower rates of take-up of benefits among those who had ever been self-employed.

Among those older than state pension age, 14 per cent of the never-self-employed were receiving means-tested benefits, as were 11 per cent of the ever-self-employed. This pattern - of a small not statistically significant difference - was true for both men and women.

#### 7.5 Savings

Research on the 1988 Retirement Survey, found that those with experience of self-employment tended to have higher levels of savings than those who had only worked as employees (Meager et al 1994). They also found that low levels of savings were associated with lower levels of income (a common finding from research on asset-holding, McKay 1992).

These results are confirmed by analysis of the FWLS. Those with some previous experience of self-employment, in this survey, were slightly more likely than other groups to have some savings, when over state pension age. This general picture was unchanged when analysis was conducted separately for men and women. The average value of savings was higher among the formerly self-employed than for others, but the differences were rather small (Table 7.4).

**Table 7.4 Extent of savings among those older than state pension age, by previous experience of self-employment**

	<i>Column percentages</i>		
	Never previously self-employed	Some self-employment experience	Total
Base (=100 per cent)	883	116	999
<i>Do you (or your partner) have any savings of these kinds?<sup>1</sup></i>			
With savings	79	84	80
No savings	21	16	20
Base: has savings (=100 per cent)	460	68	528
<i>In total, how much do you (and your partner) have in savings?<sup>2</sup></i>			
Up to £500	11	10	11
£501-3,000	20	19	20
£3,001-8,000	17	15	17
£8,001-£20,000	23	19	22
£20,000-£50,000	19	20	19
£50,000-£100,000	7	12	8
£100,001-£200,000	3	2	3
Over £200,000	1	3	1
Median level (estimated)	£9,000	£11,800	£9,100

Base: those over state pension age, and answering the respective savings questions

<sup>1</sup> The question (B14) asked *Do you or your partner have any savings of these kinds?* and respondents were presented with a list showing 'Building Society; National Savings account; Post Office savings account; Bank deposit account; Bank current account; Trustee savings account; Co-operative society; Premium bonds; Stocks, shares or other securities; Other savings'

<sup>2</sup> These bands were on a show card, and respondents were asked to indicate in which of these ranges that their total savings fell.

## 7.6 Conclusions

Most of this chapter is based on those above state pension age. There was no evidence that experience of self-employment led to low income in retirement. To some extent, the income levels of the recently or currently self-employed were protected by later ages of retirement than for employees. The previously self-employed were as likely to be receiving income from non-state pensions as were those with no experience of self-employment.





## APPENDIX A HISTORICAL INFORMATION ON THE RATE OF SELF-EMPLOYMENT

The Labour Force Survey (LFS) results are considered the best source of employment data for monitoring short to mid-term estimates. They are also considered the best source for estimates of the number of self-employed (Daly, 1991). The LFS is a survey of 60,000 private households in Great Britain, with a similar survey in Northern Ireland. The LFS was conducted once in Spring every two years between 1973-1983, then annually between 1983-1992, then quarterly from spring 1992 onwards. Spring is the quarter March to May. Results from various approaches to the LFS data are shown in Table A.1, at the end of this Appendix.

**A.1 Revisions** In March 1995, all LFS estimates in the historical series were adjusted to take into account the revisions to estimates that the 1991 Census of Population indicated were necessary due to the new benchmark. Because this adjustment led to some measurable changes in the rate of self-employment for some dates from 1984, we also cover the historical periods in Table B.1 of Eardley and Corden (1996: 21). In 1998, the form of reporting changed for these statistics, and they are now quoted for the UK and GB, and as seasonally adjusted. Seasonal adjustment for GB and UK LFS estimates is described in *Labour Market Trends* June 1998, pp 313-320.

Both before 1981 and after 1993, the self-employment figures for LFS were calculated using different methods. It is therefore important to note that the LFS series shown in Table A.1 is not consistent over time.

**A.1.1 Before 1982** The LFS estimates for 1979-1981, which are often used for comparisons pointing out a substantial rise 'since 1979', are constructed on a very different basis to LFS estimates after 1981. In this period before 1982, the LFS relates to May, in broad terms and the LFS estimates prior to 1981 are in fact not just derived from the LFS survey (*Employment Gazette*, February 1983, pp 55-56).

Prior to 1975, these estimates were constructed using various methods, with data interpolated from the 1971 Census of Population, and using National Insurance card data from the 'DHSS ½ per cent sample of Class 2 National Insurance cards due for exchange in June each year'. These estimates have then been used as a base for estimates 1975-1979. The LFS was first conducted in 1973. The data from the LFS surveys 1973-1979 was then used to adjust these estimates.

The LFS data was itself first adjusted. Firstly, by allocating those within each industry group with no recorded employment status to employment or self-employment in the same proportions as those respondents for whom status was known. For the two broad industry groups 'agriculture, forestry and fishing' and 'construction', which were found to be under-represented by the LFS sampling method, data from the Ministry of Agriculture's Census of Agriculture and the Department of Environment's Census of Construction were used instead of the LFS data. These 'LFS data' were then applied to adjust the previous estimates.

These adjusted estimates were then themselves revised in 1983, to take account of the 1981 Census of Population. Two different estimates of the number of self-employed were derived from the 100 per cent and 10 per cent Census of Population analyses. For the 1981 estimate of self-employed, the average of these two figures was taken, then an addition of 1.3 per cent, to allow for the different enumeration bases for the 1971 and 1981 Censuses of Population.

The 1971-1979 estimates were then revised to make them more consistent with the 1981 estimate. Firstly, six per cent was added, because the 1971-1979 estimates were based on analysis on the 10 per cent sample of the 1971 Census of Population. This was thus assumed to differ in the same way as the two different estimates of the number of self-employed which were derived from the 100 per cent and 10 per cent 1981 Census of Population analyses. Then 50,000 self-employed were added to 'distributive trades', pro-rata over all regions, on the basis of supplementary evidence. As previously described, the data from the Ministry of Agriculture's Census of Agriculture was used instead of the LFS data for 'agriculture, forestry and fishing'. There was also reconciliation of the 1980 Standard Industrial Classification to the 1968 Standard Industrial Classification previously used. Then, the final adjustment involved smoothing, so 'the differences between these provisional estimates for 1981 and the definitive estimates described above were spread back to 1971 by assuming they had accumulated uniformly over the ten years' (*Employment Gazette*, February 1983: 55).

These estimates have since been revised to take into account the 1991 Census of Population analysis.

Due to the large differences in construction, and high levels of interpolation and adjustment, comparison of self-employed estimates prior to 1981 with later estimates should not be made. Any changes between LFS self-employed estimates before 1981 and after 1981 could be artificial. Instead, as for Campbell & Daly (1992), comparison should be made between 1981 and 1991, for instance. As well, comparison should be made between the same quarters, such as the Spring quarter. In this way, any seasonal variation then does not need to be taken into account, and the lack of quarterly estimates prior to Spring 1992 does not impede analysis unduly. A final point is that, the year-on-year changes can also have 'sizeable fluctuations, partly due to sampling errors', and so small changes may appear but which are not likely to be statistically significant.

*A.1.2 After 1993* Revisions to the series after Spring 1993 have, in the move from 'people' to 'jobs', meant that second job self-employed have been included in the series. As well, the quarterly estimates have been 're-centred' so that the estimates over the three months are now centred on the middle month instead of the third month, also leading to some inflation.

The revisions to the LFS after 1993 mean that both main and second jobs that are self-employed are included in the number of self-employed from Spring 1994. Importantly for our comparison with FWLS figures, second jobs are included in the LFS estimates after 1993, inflating the LFS estimates, whereas in the FWLS, only self-employed main jobs are counted. This,

together with the other changes, is thought to generally inflate the size of the LFS estimates. Indeed, it can be seen that there is a sharp rise after 1993. Revisions backdating the addition of self-employed second jobs throughout the series before 1994 have not yet been completed. Until this has been completed, the self-employed estimates after Spring 1994 cannot be compared to those previous. As such, estimates showing a fall for Spring 1998 may change under revision.

**Table A.1 Proportion of workers self-employed (Labour Force Survey)**

LFS Spring	Eardley & Corden GB estimate		Revised LFS GB estimate		Revised LFS GB estimate s.a.		Revised LFS UK estimate		Revised LFS UK estimate s.a.	
	%	000's	%	000's	%	000's	%	000's	%	000's
1979	7.3	1,778	7.9	1,957	7.9	1,957	8.0	2,021	8.0	2,021
1980			8.2	2,048	8.3	2,048	8.3	2,112	8.3	2,112
1981	9.3	2,201	9.0	2,171	9.1	2,171	9.1	2,233	9.1	2,233
1982			9.5	2,229	9.6	2,239	9.6	2,390	9.5	2,299
1983	10.2	2,301	9.9	2,279	10.0	2,289	10.0	2,359	9.9	2,349
1984	11.4	2,618	10.7	2,529	10.8	2,539	10.8	2,680	10.7	2,599
1985	11.6	2,714	11.1	2,679	11.2	2,689	11.3	2,760	11.2	2,750
1986	11.6	2,727	11.3	2,715	11.4	2,725	11.4	2,798	11.3	2,788
1987	12.6	2,997	11.9	2,898	12.0	2,909	12.0	2,984	11.9	2,974
1988	12.8	3,143	12.2	3,092	12.3	3,103	12.3	3,186	12.2	1,375
1989	13.4	3,426	12.8	3,357	12.9	3,368	12.9	3,454	12.8	3,444
1990	13.5	3,472	13.0	3,461	13.1	3,472	13.1	3,557	13.1	3,457
1991	13.2	3,318	12.9	3,358	13.0	3,368	13.0	3,459	13.0	3,449
1992	12.8	3,131	12.5	3,166	12.6	3,178	12.7	3,270	12.6	3,259
1993	12.7	3,103	12.5	3,084	12.4	3,058	12.5	3,141	12.5	3,168
1994	13.1	3,208	13.8	3,436	13.7	3,443	13.7	3,520	13.7	3,527
1995			13.9	3,509	13.8	3,515	13.9	3,594	13.8	3,601
1996			13.5	3,488	13.5	3,495	13.5	3,581	13.5	3,588
1997			13.4	3,521	13.4	3,528	13.4	3,606	13.4	3,613
1998			12.9	3,449	12.9	3,464	12.9	3,539	12.9	3,554

\* Before 1981, and after 1993, self-employment figures were calculated using different methods.

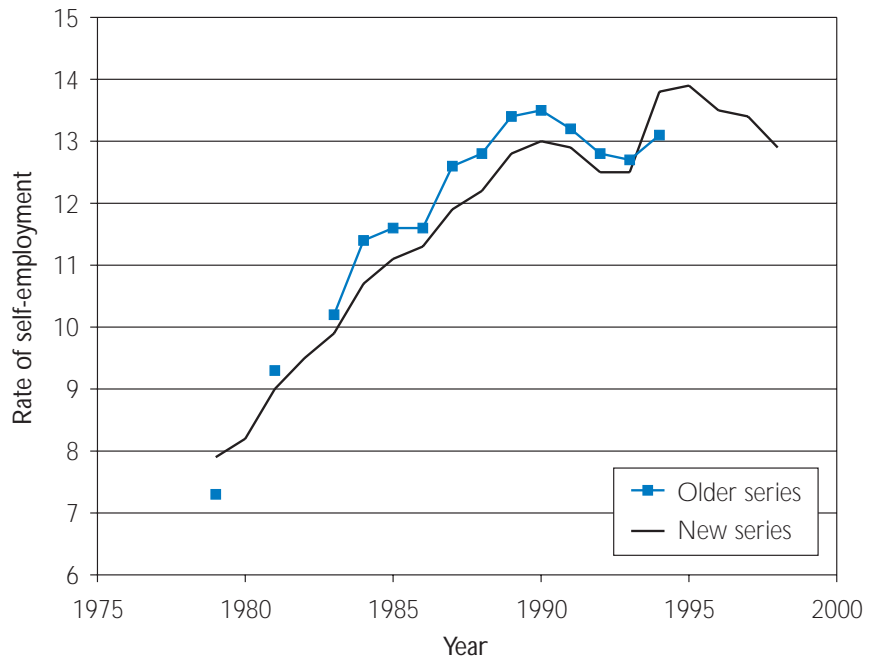
s.a. : seasonally adjusted

Base: All in employment

Source: LFS data for Historical Supplement no. 5

Figure A.1 compares the revised with the older series of self-employment rates, based on the LFS. They provide similar pictures of the trends in self-employment over the 1980s. The newer series had tended to provide lower estimates than the older series, but this changed for the 1995 estimate.

**Figure A.1 Rates of self-employment over time**



**Table B.1 Distribution of Class 1 National Insurance contributions (imputed)**

	<i>Column percentages</i>		
	Self-employed	Employees	Total
Up to 2 years	18	16	21
2-5 years	11	9	10
5-10 years	21	20	19
10-20 years	29	27	24
20 + years	21	29	26

Base: all respondents below state pension age

**Table B.2 Distribution of Class 2 National Insurance contributions (imputed)**

	<i>Column percentages</i>		
	Self-employed	Employees	Total
Up to 2 years	37	97	93
2-5 years	10	1	2
5-10 years	20	1	3
10-20 years	23	1	2
20 + years	11	*	1

Base: all respondents below state pension age

**Table B.3 Distribution of years counting towards HRP (imputed)**

	<i>Column percentages</i>		
	Self-employed	Employees	Total
Up to 2 years	83	80	76
2-5 years	6	4	6
5-10 years	5	8	9
10-20 years	6	8	9

Base: all respondents below state pension age

**Table B.4 Distribution of years spent in SERPS (imputed)**

	<i>Column percentages</i>		
	Self-employed	Employees	Total
Up to 2 years	67	65	67
2-5 years	14	14	13
5-10 years	13	13	13
10-20 years	6	9	8

Base: all respondents below state pension age

**Table B.5 Distribution of years spent in occupational pensions**

	<i>Column percentages</i>		
	<b>Self-employed</b>	<b>Employees</b>	<b>Total</b>
Up to 2 years	62	45	55
2-5 years	10	11	9
5-10 years	11	15	12
10-20 years	11	18	14
20 + years	6	12	10

Base: all respondents below state pension age

**Table B.6 Distribution of years spent contributing to personal pensions**

	<i>Column percentages</i>		
	<b>Self-employed</b>	<b>Employees</b>	<b>Total</b>
Up to 2 years	53	84	86
2-5 years	11	8	6
5-10 years	19	7	6
10-20 years	13	2	2
20 + years	5	*	1

Base: all respondents below state pension age

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