UNLOCK YOUR FINANCIAL FUTURE

Generation Self-Employed

A report to help the self-employed enhance their financial wellness and meet their financial goals

Fidelity™ INTERNATIONAL

Foreword

Emma-Lou Montgomery, Fidelity International

It takes drive, determination, ambition and a 'can do' attitude to make a success of running your own business. You don't get to where you want to be without having a clear goal and the passion to see it through.

But your financial goals shouldn't be forgotten along the way. Putting your business first is one thing, but doing so at the expense of your own financial security is damaging – and also easily avoidable.

Yet, when we look at the data it's evident that it's all too easy for Generation Self-Employed to leave their personal financial futures to chance.

We get it. Having it all is hard work and more often than not, the bigger, more pressing goals take priority.

But you work hard, so you want to make sure your money works just as hard for you. It's all about channelling some of that same focus and foresight that makes you a success in business and using it to ensure you also meet your goals.

With a little planning, in a few simple steps you can ensure that your financial future is another thing you can tick off your ever-growing 'to do' list.

And make having it all just that little bit easier.

Contents

Methodology

We worked with ComRes to conduct an online survey of 1,032 employed people and 1,028 self-employed people. The survey was conducted from the 14-30 January 2019 across the United Kingdom. The data was weighted by age to be representative of self-employed people. Ages were categorised in the following ways;

- Generation Z (18-22)
- Millennials (23-38)
- Generation X (39-57)
- Baby boomers (58-72)
- Older generation (73+)

Source of all data: Fidelity International, April 2019. Where results do not add up to 100, this is due to rounding.

1 Introduction

Who is Generation Self-Employed?

Attitudes to work, where we work, how we work, and what we want to achieve are constantly evolving. What we do know is that everyone deserves the opportunity to reach their financial goals irrespective of how or where they choose to work.

Fidelity has taken in-depth look into ‘Generation Self-Employed’, exploring how those who have chosen to work for themselves are managing their personal finances, and their attitudes and behaviours when it comes to saving and investing.

We go one step further by delving into the challenges that the self-employed are facing when it comes to saving for their futures, and how the self-employed cope with the benefit gaps between the employed and self-employed.

By exploring these issues and acknowledging the obstacles we can begin to define solutions tailored specifically to those in self-employment. The aim of this report is to empower Generation Self-Employed to take the best care of their financial wellness. Whilst they have taken control of shaping their career they also can be the boss of their personal finances.

Key findings

62% of self-employed people currently have no form of pension savings.

The most popular method of saving amongst the self-employed is an ISA (39%).

39% of self-employed people have not heard of a Self-Invested Personal Pension (SIPP).

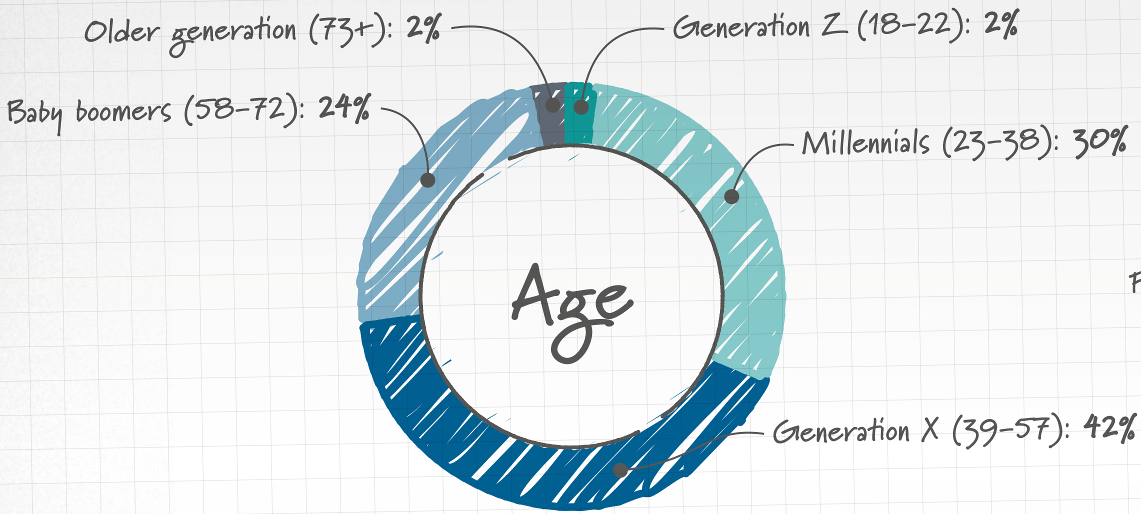
82% of self-employed millennials chose to become self-employed to earn a higher wage.

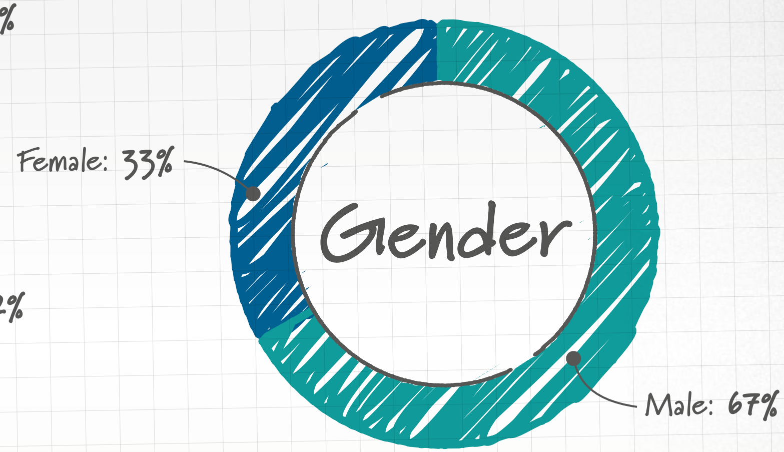
3 in 5 (61%) of self-employed women do not think they are saving enough for their future.

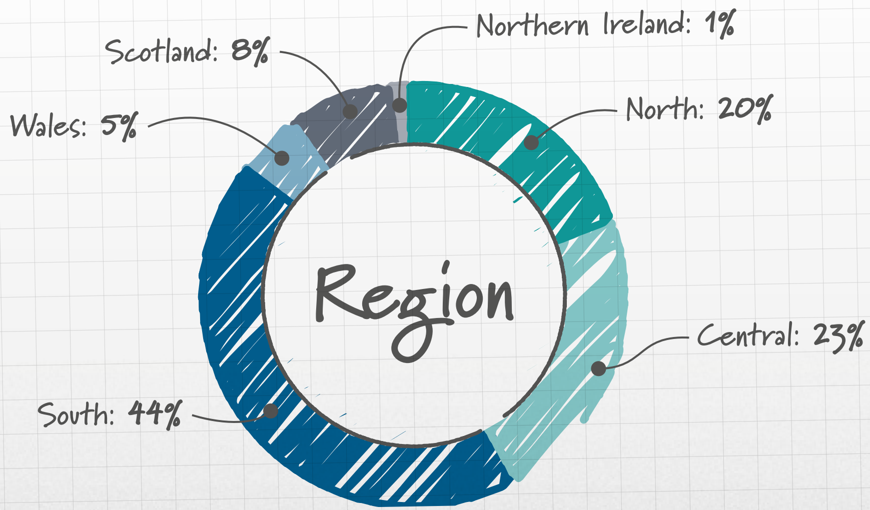
1 in 4 (25%) self-employed women worry they would not be able to afford to go on maternity leave.

Let’s empower Generation Self-Employed

Meet Generation Self-Employed...







3 in 10 (28%) self-employed people are currently not saving for anything.

3 in 10 (28%) self-employed people are currently not saving for their future on a regular basis.

Taking control

Having more control of your work (96%), managing your own work-life balance (95%), and having the freedom to choose where you work (90%) are some of the top reasons given as to why people decide to choose self-employment. Those who are currently employed but planning on becoming self-employed in the near future also name having control of my own work (95%), work life balance (95%), and freedom to choose where I work (95%) as the top reasons why they want to become self-employed.

Other benefits of self-employment that are highlighted by the self-employed as being key motivating factors are their desire to start their own business (80%), potential to earn a higher wage (65%), and lack of opportunities in their previous workplace (52%).

> We all foster many financial hopes and dreams, but the truth is we can't always have everything we want in life all at the same time. Achieving your financial goals is a marathon, not a sprint, and takes some financial planning in order to achieve one, if not all of them. That is why it is important to be clear about what your financial goals are and identify those that are a priority, before you can develop a realistic financial plan. Once that's in place, you have your roadmap to reach those milestones.
>
> **Emma-Lou Montgomery**

2 Financial challenges

Self-employed JAM

'Just About Managing' is the norm

When asked about how they feel about their financial situation nearly half (45%) of self-employed people say 'I'm getting by,' while 36% say they are comfortable or extremely comfortable. On the other end of the spectrum, 18% of self-employed say they are struggling financially and are either unable to or finding it difficult to make basic payments.

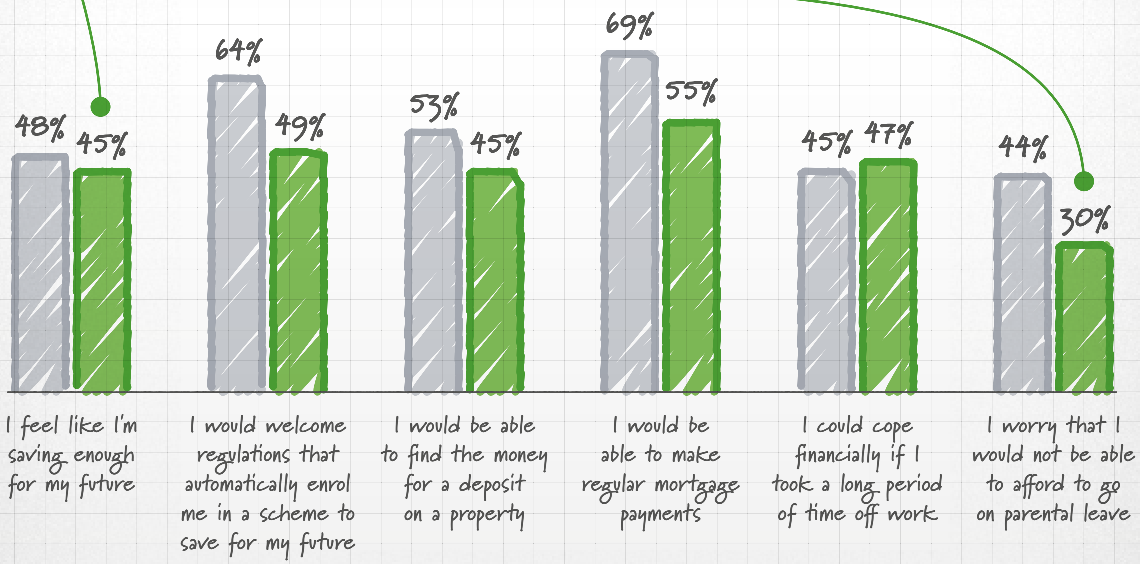
On one hand the good news is that many of those in self-employment don't seem to be worse off than their employed counterparts. On the other hand, almost two-thirds (63%) of those who are self-employed say they are just 'getting by' or struggling financially. We need to consider whether there are ways of improving this situation by making their money work harder.

Emma-Lou Montgomery

The top three financial challenges for the self-employed...

Self-employed and employed respondents are saying the following:

1. Only 45% of self-employed people feel they are saving enough for their future.
2. Two in five (38%) of self-employed people have a pension compared to two-thirds (68%) of employed people.
3. 30% of self-employed people are concerned that they would not be able to afford to take parental leave, compared to 44% of employed people.



3 Pensions

Self-employed and pensions

As well as saving for your short-term financial goals, it is equally important to stash away enough money for your future; namely retirement.

In the UK, under automatic enrolment, it is compulsory for employers to offer eligible workers a workplace pension. Every employee who earns at least £10,000 with their employer is automatically enrolled into the pension scheme, which requires a minimum contribution to be made every month, which is usually made up of contributions from both the employer and the employee. Total minimum contributions currently stand at 8%, of which 3% must be paid by the employer.

If however, you are self-employed, because you don't have an employer you miss out on receiving a workplace pension and the employer contributions that come with it.

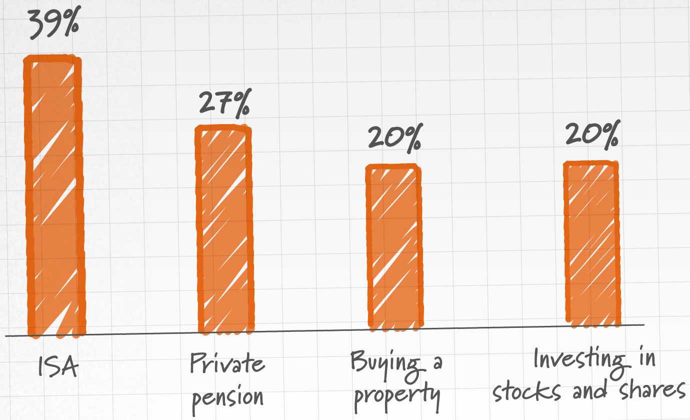
Our research reveals that 3 in 10 (28%) self-employed people are not currently saving for their future. Out of those who are not saving for their future, more than two-thirds (70%) say this is because they cannot afford to save for their retirement. Despite this 8% say they are not saving for their future because they don't know what the best way is.

What you should know...

- Generally the government will give you 20% tax relief on anything paid into a pension, up to 100% of your earnings to a maximum of £40,000 (the annual allowance for 2019/2020). If you pay tax at above the basic rate, you can claim further tax relief through your annual tax return.
- It may be possible to pay in and receive tax relief on more than your annual allowance if you have unused allowance from the last three years. If your earnings are above £110,000 a year or you have taken taxable money using the pension freedoms, your annual allowance may be lower.
- Fidelity offers a SIPP where you can make payments from as little as £40 a month. Fidelity's SIPP can be found on our website.
- With Fidelity's retirement planning calculators you can see how much more you need to save in order to reach your retirement saving goals.

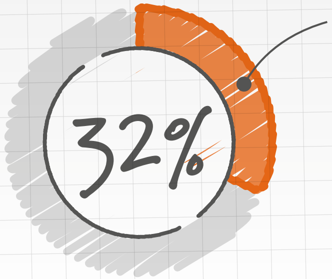
This information is not a personal recommendation for any particular product, service or course of action. If you are in any doubt whether or not a pension is suitable for your circumstances you should seek advice from an authorised financial adviser. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a SIPP will not normally be possible until you reach age 55.

For those self-employed people setting aside money for their future, the most popular ways of saving are:



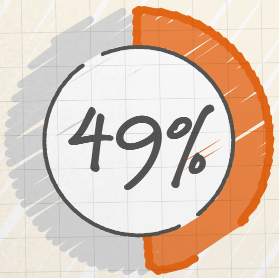
3 in 10 (28%) not currently saving for future

Self-Invested Personal Pensions (SIPPs)



Only a third (32%) of self-employed people say they know what a SIPP is. Interestingly, more self-employed people are aware of SIPPs compared to the employed (25%).

Out of those self-employed people who say they are familiar with the SIPPs, 65% said they were favourable towards them.



Half of self-employed people (49%) said they would welcome government regulations that automatically enrolled them in a scheme to save for their future.

4 Self-employed women

Mind the gap

Women's financial power has been compromised for centuries, with the gender pay gap yet to be surmounted. The fact that women earn less than men has many knock-on consequences that affect their wealth. For example, the size of a woman's pension pot at the age of retirement is likely to be impacted if the woman has taken maternity leave and is earning less than her male colleagues.

But what about self-employed women – do they also experience a gender pay gap, and are they also struggling with balancing caring for their families with their career? We discovered that when it comes to self-employment, women and men have different experiences.

Firstly; self-employed men are more likely than self-employed women to have both a workplace pension from a previous employer (21% vs 16%) and a private pension (32% vs 18%), and they are more likely than self-employed women to say that they know about the SIPP (40% vs 15%). As a result 61% of self-employed women do not think they are saving enough for their future, while 34% of self-employed women are not currently saving for their future on a regular basis – including for a pension.

Next; self-employed women say caring for children was an important part of choosing to become self-employed. However, one quarter of women say they are concerned they would not be able to afford maternity leave, while 32% say that they would be reliant on their partner's income if they were to take maternity leave.

Finally; self-employed men are more likely than self-employed women to describe themselves as comfortable (40% vs. 28%)

81% 81% of employed women who plan to become self-employed say lack of opportunities at their current workplace is an important factor in their decision.

55% 55% of self-employed women say earning a higher salary is a motivating factor for choosing self-employment.

54% Half (54%) of self-employed women say caring for children and/or dependents is important in their decision to become self-employed compared with just 47% of self-employed men.

> We are still a long way off achieving gender financial equality; however, women can take action to drive the momentum of change forwards. There is no doubt that women are good savers, but they tend to keep their money in cash rather than invest in the stock market. But here is the thing; women can also make excellent investors, and changing the way women think about investing, and getting them to start to think about themselves as an investor is a necessary first step.
>
> Emma-Lou Montgomery

5 Self-employed millennials

The millennial generation (aged 23-38) makes up 30% of the respondents; only behind Generation X (39-57) who account for 42% of all self-employed respondents.

While millennials are highly motivated to work alone and earn a higher wage, this doesn't necessarily equate to financial security. One in four self-employed millennials say they are struggling financially (26%) and 72% are concerned about being rejected for a mortgage.

Why wait?

When it comes to investing, time is your best friend and the earlier you invest your money the more time your returns will have to grow and benefit from the magic power of compounding – the snowball effect where your returns generate further returns.

There is also no need to try and time your entry into the market. Not only is it very difficult to get this right, but it also doesn't pay in the long run. Diversifying your portfolio across a broad range of sectors, asset classes and geographies is a good way of cushioning your portfolio against dips in the market. After all, there has never been a time where all asset classes have fallen at once meaning your safest bet is not putting all your eggs in one basket. Remaining invested will also mean that you are equally well positioned and won't miss out on unexpected highs or those unforeseen opportunities that can come about following market lows.

The sooner you start, the sooner you will be able to fulfil your financial ambitions – whether that is buying your first home, having the financial freedom to follow your entrepreneurial dreams, or affording that 'once in a lifetime' holiday.

So, why are millennials choosing to become self-employed?

94% said...Having the freedom to choose where I work.

86% said...Starting my own business.

82% said...Earning a higher salary.

Self-employed millennials are currently saving for the following:

40% said...They are saving for a holiday.

34% said...They are saving to buy a house.

20% said...They are saving to take a career break.

63% of millennials said they would consider investing in stocks and shares next year, compared to only 36% of self-employed Generation X.

6 Getting invested

Attitudes – why have you not invested your money?

Only 20% of self-employed people currently invest in stocks and shares. The most common reasons given by self-employed for not investing are;

- I cannot afford to invest money: **50%**
- I think investments are too risky: **46%**
- I don't have enough information about investing: **15%**

These are the most common reasons given by not only the self-employed, but by employed people as well. At Fidelity it is our aim to make investing easy and give people the knowledge that will empower them to get invested and make good investment decisions.

Busting the myths

Myth #1 I cannot afford to invest money

There is a perception that you need to have a lot of money to invest. This is incorrect. In fact you can start regularly saving in a stocks and shares ISA from as little as £50.

And finding the money to invest doesn't have to mean sacrifice either. Look at your spending and see where you could divert money away from needless fripperies and instead put that to work for your future.

You can start regularly saving in a stocks and shares ISA from as little as £50.

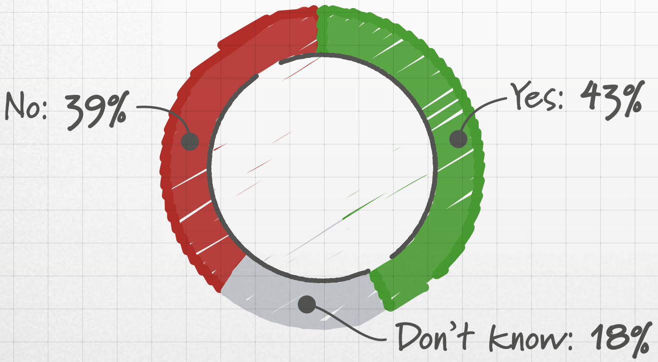
It's important to keep in mind that the value of investments can fall as well as rise, so you may get back less than you invest. This informational is not a personal recommendation for any particular investment. If you are unsure about the suitability you should speak to an authorised financial adviser. Tax treatment depends on individual circumstances and all tax rules may change in the future.

Myth #2

Investments are too risky

An effective way to cushion your portfolio against the risks associated with market volatility is diversification. This means spreading your investments across a wide range of asset classes (equities, bonds, property, etc.) and geographies.

We asked self-employed respondents if they would consider investing more money in stocks and shares next year



Myth #3 Investing is too complicated for me

Fidelity Personal Investing provides guidance and has plenty of tools to help navigate you through the world of financial planning and investments.

Especially for the self-employed who do not have the support from a workplace investment scheme, it is essential to utilise the information provided by financial solutions providers. For example, Fidelity provides an array of guidance services including news and insights, investment data, videos and tools to help everyone, from first-timers to experienced investors.

- Out of all the self-employed respondents who took part in our survey, (20%) of them invested in stocks and shares, and out of those 30% had invested more than £10,000 in the last year.
- According to Fidelity's research ISAs are the most common form of saving among self-employed people with 39% saying they are saving for their future with one.
- More employed than self-employed people say they would consider investing in stocks and shares in the next year (56% vs 43%)

Conclusion

What can the self-employed do to improve their financial wellbeing?

Our findings show that the most common reasons for becoming self-employed are to have more control of work, work-life balance and working hours.

However, we have found that the financial future of self-employed people is not necessarily secure, given 28% are currently not saving for their future on a regular basis and just 38% have some form of pension savings.

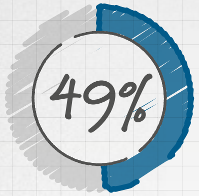
While self-employed women have the flexibility to manage how and where their time is spent, they have also expressed concerns about managing maternity leave without statutory maternity pay, and 61% say that are not saving enough for their future.

Meanwhile, even though 82% of self-employed millennials say they were motivated to be self-employed by the prospect of earning a higher salary, more than a quarter say that they are financially struggling.

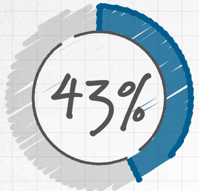
Overall though the majority of the self-employed are not in current financial disarray, with nearly half (45%) describing their financial situations as I'm getting by, and 36% saying they are either comfortable or extremely comfortable.

What this tells us is that the self-employed have money, and importantly, the scope to do more with their money to really reach the full potential of their financial power.

The appetite is there...



of self-employed would welcome government regulations that would automatically enrol them in a scheme to save for their future.



would consider investing more money into stocks and shares next year.

What we can do together

More needs to be done to empower the self-employed to save more and get invested. Here are some simple things that self-employed individuals can do to pave the way to reaching their financial goals:

1

Open a Self-Invested Personal Pension (SIPP): It is never too early to start saving for retirement, and in fact, the sooner you start, the better. A SIPP puts you in control of your pension and you can open one whether you have an employer or not. You can contribute to your SIPP either as a lump sum or by drip-feeding money into your SIPP through a regular savings plan. You may even be able to make contributions directly through your limited company, if you have one. For more information on Fidelity's SIPPs visit our **website**.

This information is not a personal recommendation for any particular product, service or course of action. If you are in any doubt whether or not a pension is suitable for your circumstances you should seek advice from an authorised financial adviser. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a SIPP will not normally be possible until you reach age 55.

2

Get Invested: For first-time investors a great place to start is a stocks and shares ISA. Everyone over the age of 18 has a tax-free allowance of £20,000 which can be saved in a Stocks and Shares ISA. For more information on how to get started with a Fidelity Stocks and Shares ISA please visit our **website**.

It's important to keep in mind that the value of investments can fall as well as rise, so you may get back less than you invest. Tax treatment depends on individual circumstances and all tax rules may change in the future.

3

Make a savings plan: Finally, making a savings plan is a good way to make sure that you are on track to reach your financial goals. As someone who is self-employed, without the guidance of workplace investing schemes, it is even more important that you take control of your finances and drive them in the direction that you want. Even setting aside or investing as little as £100 a month can make a difference in the long-run. There are a lot of financial saving solutions and investments out there, so do your homework and don't be afraid to put any questions you have to your financial services provider. You will soon find that taking control of your finances feels just as good as taking control of your career.

About Fidelity International

Fidelity International offers world class investment solutions and retirement expertise. As a privately owned, independent company, investment is our only business. We are driven by the needs of our clients, not by shareholders. Our vision is to deliver innovative client solutions for a better future. We invest £235.5bn globally on behalf of clients in 26 countries across Asia-Pacific, Europe, the Middle East, and South America. Our clients range from central banks, sovereign wealth funds, large corporates, financial institutions, insurers and wealth managers, to private individuals. In addition to asset management, we offer investment administration and guidance for employer benefit schemes, advisers and individuals in several countries. We are responsible for £81.7bn in assets under administration. Data as at 31 March 2019.

About ComRes

ComRes is the leading research consultancy specialising in Corporate Reputation, Public Policy and Communications. It was established to deliver better quality, specialist research to support communications objectives. For more than a decade we have taken the latest developments in opinion research and tailored them to provide our clients with evidence and insights. Our sector specialist consultants work with clients to deliver research that informs strategies, changes behaviour and defines debates.

For more information, please visit the **ComRes website**.

Download Fidelity's Generation Self-Employed Report here: **fidelity.co.uk/self-employed**

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