

Who are the self-employed?



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Executive Summary

The labour market is changing. One of the key components of the change is the rise in the number of people who are self-employed. One in seven people now work for themselves, and the recovering strength of the labour market is in part down to the growing number of people who are self-employed. Citizens Advice now helps 30,000 people per year with self-employment issues. Existing research on this type of employment shows a mixed picture. Citizens Advice has shown that so-called bogus self-employment could affect almost half a million workers, and research from the ONS suggests that for those who do become self-employed, it offers positive choice, independence and flexibility.

So who are the self-employed? And how different is the picture to a decade ago? Citizens Advice has worked with the New Policy Institute to find out more about the growth in this diverse population.

Broadly, our findings can be categorised into three themes:

- The who, what and where of self-employment;
- Income and security for the self-employed; and
- Pensions, savings and the longevity of self-employment.

The who, what and where of self-employment

The number of people in self-employment has grown faster than the number of employees in almost every year since 2000, now making up over 14% of all those in employment. This equates to 1.25 million more people working for themselves. Compared with a decade ago, the largest increase in the type of employment is part-time work, and while men still dominate the self-employed population, women make up the single biggest increase in self-employed people; almost half a million more women are now working for themselves.

London has seen the largest increase in self-employment. This has increased by a third in the last 10 years; almost one in five people in the capital is now self-employed. However, self-employment makes up the smallest share of employment in the North East, where just one in ten people work for themselves. In terms of the type of jobs that the self-employed are doing; the largest growth sectors are in skilled occupations, with management and professionals now making up almost half of all self-employed people.

Income and security for the self-employed

Despite this growth in self-employed management and professional occupations where wages tend to be good, self-employed people at the lower end of the labour market take home considerably less in wages than employees. In 2013-14, the median income from self-employment was £209 per week, which is just over half (54%) of the median income of those in employment. This means that more than half of all self-employed people are paid less than the lowest quarter of employees.

In addition to this, and reflecting the general population trend towards lower levels of home ownership, an increasing number of self-employed people do not benefit from the security that homeownership can offer; 1.1 million self-employed people now rent their home, more than double that of 10 years ago. And, also reflecting the general trend, around a third of self-employed families have no savings.

Pensions, savings and the longevity of self-employment

There are now 740,000 more people aged over 45 in self-employment than 10 years ago. Approaching one in ten of those who work for themselves is over the age of 65.

There are a number of explanations for the growth of older self-employed people, One such reason brought out in this research is that, once people get a business off the ground, they tend to stay self-employed, suggesting that the early years of self-employment, when a business is developing, are crucial.

In 2015, one in three self-employed people had been so for over 15 years, and another third had been self-employed for between 5 and 10 years. We would hope this length of time in self-employment to be accompanied by a reasonably high level of pension take-up, but this research finds that pension take-up for self-employed people is extremely low, especially for women. Just 17% of self-employed people participate in any kind of pension, compared with over half (52%) of employees.

Summary and policy implications

Our research shows that the self-employed are not a homogenous group, and as this population has grown there is now even greater diversity in terms of age, gender, type of industry and financial well-being than a decade ago. And pertinently for policy makers, being self-employed today means that you are more likely to have a low income, to be a lone parent, to be a private renter and to have part-time

hours of work than 10 years ago. In short, self-employment is more likely than a decade ago to come with insecurity.

Most significantly we found that a very small proportion of self-employed people are paying into a pension scheme, despite the fact that people are remaining self-employed for longer, and more older people are now working for themselves. This can put those at the lower end of the labour market at a disadvantage. Lower pension savings and a considerably lower average income for those who are self-employed mean that financial security and well-being can be at risk. Policy makers should carefully consider the implications of growing self-employment in this context. The introduction of auto-enrolment for workplace pensions has improved levels of saving among employees, and an equivalent offer to support saving among the self-employed is one option to address this which deserves consideration.

The extent to which self-employment has grown and changed in the last decade gives us confidence in saying that it will remain a permanent fixture of the UK labour market. The UK's major political parties have recognised the need to support this group. The Government's review into the support for self-employed people is timely, and policy makers should continue to carefully consider the implications of the growth and variance of self-employment and the continuing impact that this will have, especially on financial security and pensions.

Who are the self-employed?

Key points

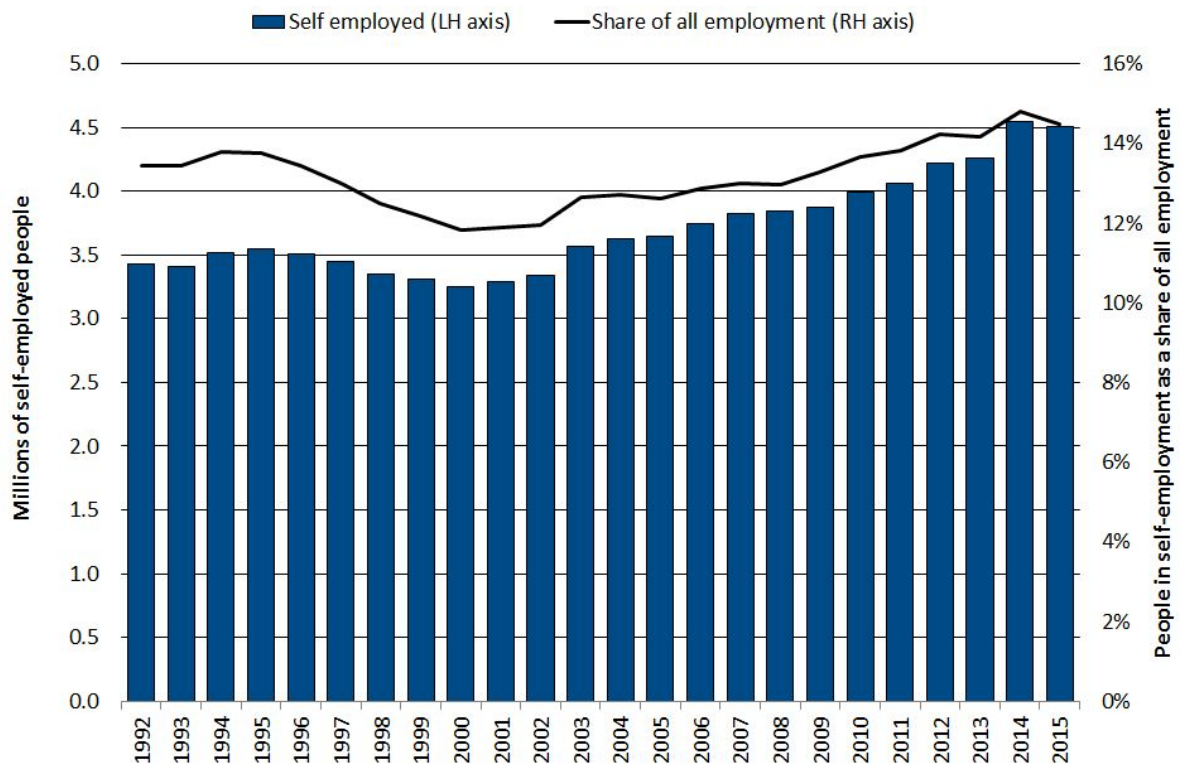
- The number of self-employed people has increased by 1.25 million since 2000, and now makes up over 14% of all those in employment.
- Median self-employment income has fallen by around £90 a week in 2013-14 value since its pre-recession peak in 2006-07. More than half of all self-employed people are paid less than the bottom quarter of employees.
- Compared with 2004-05, a larger share of self-employment work is part-time and a larger share is carried out by women, though it remains majority full-time and majority male.
- 33% of the self-employed in the first quarter of 2015 had started within the last four years. Inflows to self-employment are higher, but outflows are much lower. This change has led to increasing numbers of people being self-employed, but it is as much a story of people remaining self-employed for longer as it is one of people becoming self-employed.
- 81% or 740,000 of the increase in self-employed people has come from those aged 45 or older. Again, this is about people remaining self-employed for longer.
- The biggest growth occupations for self-employment were managerial, professional and associate professional work. These occupations now make up nearly half of all self-employed people.
- Private sector services accounted for much of the increase in self-employment by industry, though there were also large increases in education and health and social care.
- By family type, the largest increases in self-employment were for couples without dependent children and single adults. There are 200,000 more children living in self-employed families than a decade ago.
- Self-employed families generally have the same levels of subjective financial wellbeing as employee families of the same work intensity.
- The biggest increases in self-employment were in London, the South East and the South West. These three regions have the highest proportion of self-employment to overall employment.

- 74% of self-employed people live in owner-occupied homes, down from 85% in 2004-05. In line with overall trends, the number living in private rented accommodation has grown.
- 17% of self-employed adults participate in a pension compared to 52% of employees. Around one third of self-employed families have no savings, a figure roughly comparable with other family types of similar work intensities.

Context: growing self-employment and falling incomes

In the first quarter of 2015, 4.5 million people were self-employed - that made up 14.5% of all of those in employment. Figure 1 puts this in context.

Figure 1: Time series of self-employment

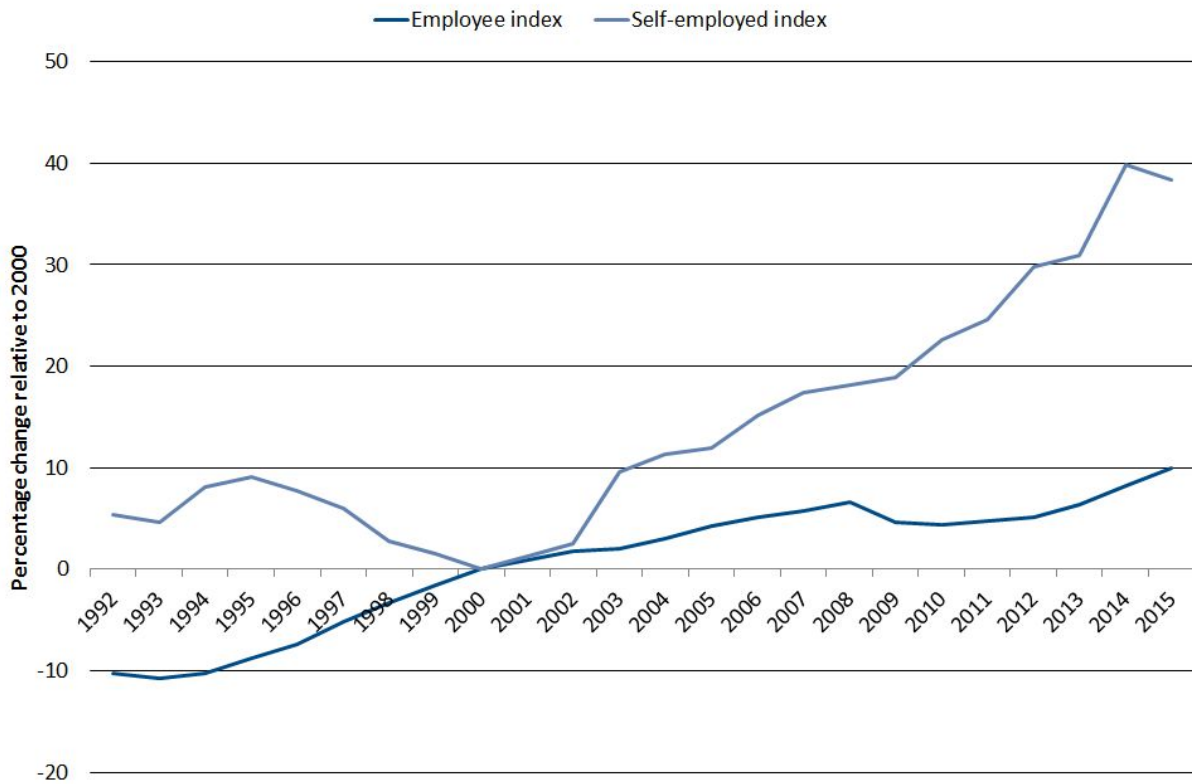


Source: Labour Market Statistics, ONS. The data is for 2015 is quarter one only.

Self-employment has increased by nearly 1 million compared to 10 years ago, and around 1.25 million since the low point of self-employment in 2000. In 2000, self-employment made up 12% of all employment.

Figure 1 reveals several other components to the trend in self-employment. Firstly, the number of self-employed people continued to grow, albeit slowly, during the recession and accelerated from around 2010 to 2014. Secondly, self-employment fell by around 250,000 people during the late 1990s. This suggests there may have been a cyclical component to the growth of self-employment that dissipated after the early 1990s recession – that is, some people may only have been self-employed then due to a lack of employee jobs. Thirdly, self-employment fell slightly, in terms of numbers and the share of total employment, between 2014 and the first quarter of 2015.

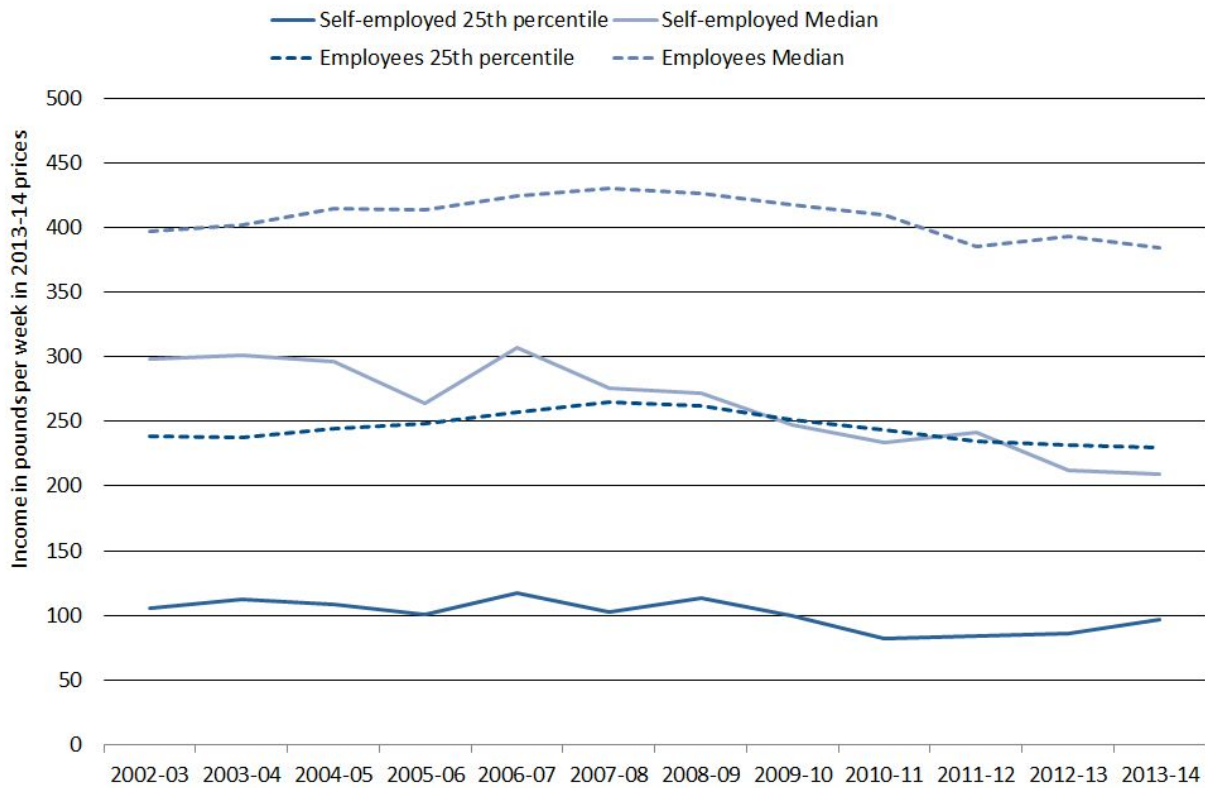
Figure 2: Change in self-employment and employee numbers



Source: Labour Market Statistics, ONS. The data for 2015 is one quarter only.

Figure 2 compares the increase in self-employment to the increase in the number of employees, based to 2000. Since then, self-employment has grown faster than other forms of employment in almost every year, with the numbers of self-employed people in the first quarter of 2015 38% higher than in 2000. The number of employees is around 10% higher than 2000, and also dipped during the recession of 2008-09 in contrast to self-employment.

Figure 3: Change in self-employment income



Source: Family Resources Survey, DWP.

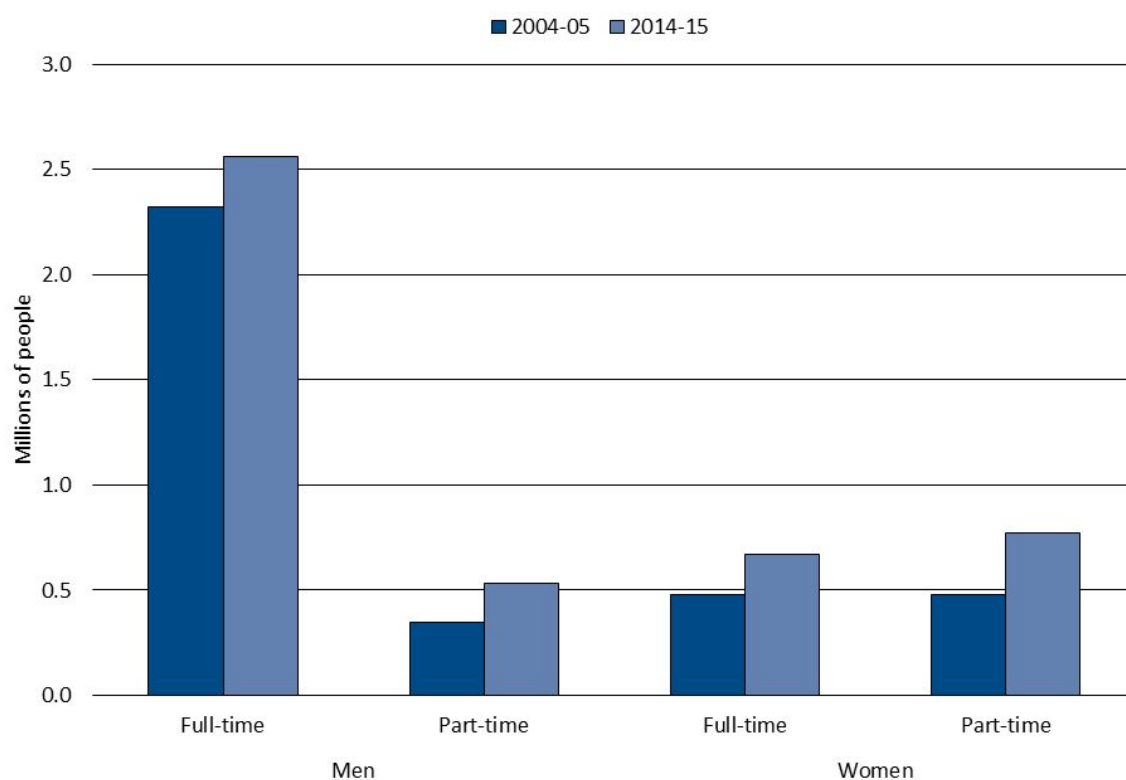
Figure 3 shows the income of employees and the self-employed in 2013-14 prices over time at the median and 25th percentile of the income distribution. In 2013-14, the median income from self-employment was £209 per week. This represents only 54% of the median income from employee employment, which was £384 per week. Income from self-employment was also lower at the 25th percentile level, at just £97 a week compared to £230 for employees. This means that more than half of all self-employed people are paid below what the lowest quarter of employees receive. This was not the case before the recession, though historically self-employment income has tended to be lower. It is possible this reflects both actual falling real income for the self-employed and compositional changes – for example, more part-time self-employed people.

This data also comes with several caveats. There are potential problems with reporting income for the self-employed compared to employees, as the latter generally receive the same amount each week or month, whereas income for the self-employed can be less evenly spread, leading to false recall. Some people may also have made a loss in that year, and so have negative income that shifts the distribution, whereas this cannot be the case for employees.

Who are the self-employed, and how has this changed?

More self-employed women are working part-time

Figure 4: Gender and work status



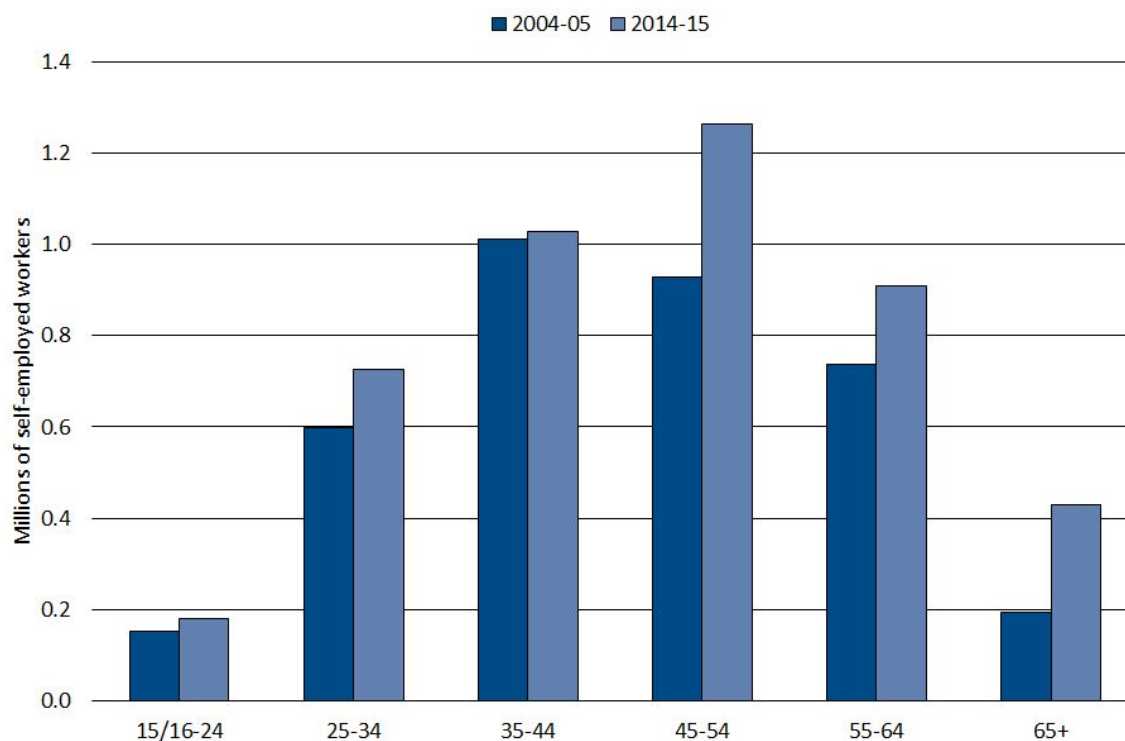
Source: Labour Market Statistics, ONS. The data is a four quarter average Q2-Q1.

Figure 4 compares the composition of the self-employed between April to March 2004-05 and 2014-15 by gender and whether they are full-time or part-time. All four categories have grown over the 10 year period. The single largest increase in the self-employed was the number of women working part-time, which increased by 290,000 from 480,000 to 770,000. The next largest was men working full time, with an increase of 240,000 up to 2.5 million. The number of part-time men and full-time women both increased by around 190,000.

Looking at these figures slightly differently, in 2004-05, 2.7 million or 74% of self-employed people were men. In 2014-15, 3.1 million self-employed people are men, but the proportion has fallen to 68%. At the same time, the share of self-employed work that is full-time has fallen from 77% to 71%, although the absolute numbers have increased from 2.8 million to 3.2 million. Self-employment overall has become more female and more part-time.

Self-employment has increased across age groups

Figure 5: Self-employed by age group



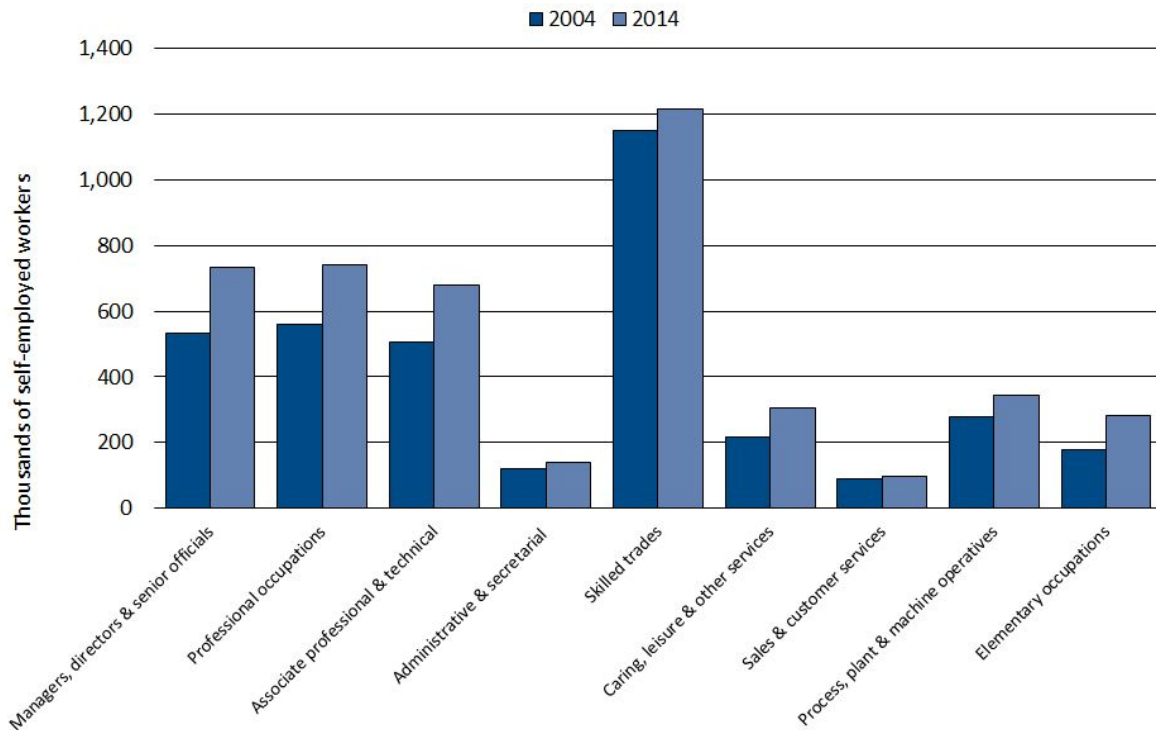
Source: Labour Force Survey, ONS. The data uses four quarter averages.

Self-employment has increased among all five age groups as shown in figure 5, but by varying amounts. The increases are much larger for the older age groups – the increase in self-employment for those aged under 45 was 170,000 compared to 740,000 for those aged over 45. The smallest increases were for the 35-44 and 15/16-24 age groups: these were 14,000 and 26,000 respectively. The latter is small in the context of overall self-employment, making up 4% of the total in both 2004-05 and 2014-15. 35-44 year olds have decreased in significance, from 28% of the self-employed to 23%.

The biggest increase was among those aged 45-54, up 340,000 on a decade previous. This group now makes up 28% of the self-employed, up from 26%. The next largest increase was for those aged 65 and over, with 240,000 more self-employed people. 9% of the self-employed are now over 65, compared to 5% in 2004-05.

Self-employment in low-skill roles has increased

Figure 6: Self-employed workers by occupation



Source: Labour Market Statistics, ONS.

Figure 6 shows the number of self-employed people in each occupational group in 2004 and in 2014. There were more self-employed people in every occupational group in 2014 than in 2004, though the increases in administrative and secretarial work and the sales and customer services sectors were very small. The largest absolute increases in self-employment were in the most skilled occupations, namely management, professional and associated professional work. In 2014, there were 200,000 more self-employed managers, directors and senior officials than in 2004, in addition to 180,000 more professionals and 170,000 more associate professionals. These three categories made up 49% of self-employment in 2014, compared to 44% in 2004.

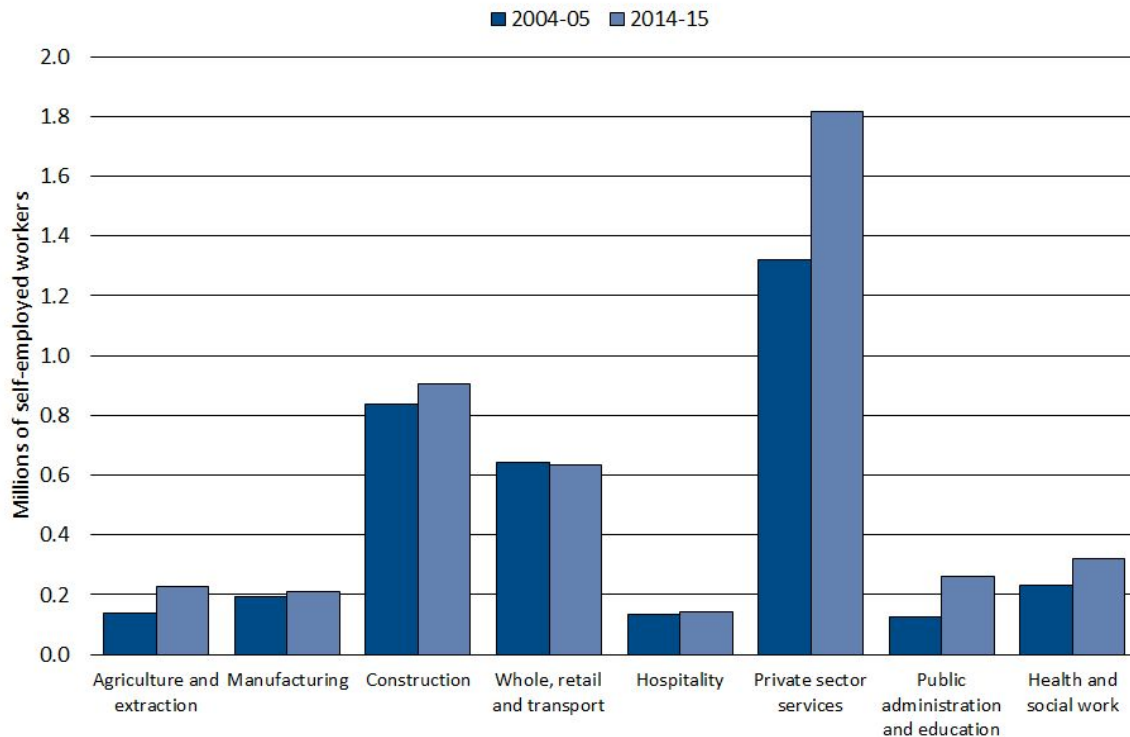
The next largest increases were in occupations that it might be thought are harder to do on a self-employed basis, namely elementary occupations (up by 110,000), and caring, leisure and other services (up by 90,000), though the former includes construction work and the latter occupations such as childminding. Those in elementary occupations are likely to have lower skill-sets and lower incomes, so the steep percentage increase in the number of self-employed in this type of work highlights the need for policy makers to address the insecurity which can accompany self-employment.

The single largest occupation is skilled trades, which increased by 70,000 but fell as a share of all self-employment from 32% to 26%. Although there have been

significant percentage increases in low-skill sectors, as a whole self-employment has become more professional and highly skilled over the decade to 2014.

Self-employment highest in private sector services

Figure 7: Self-employment by industry



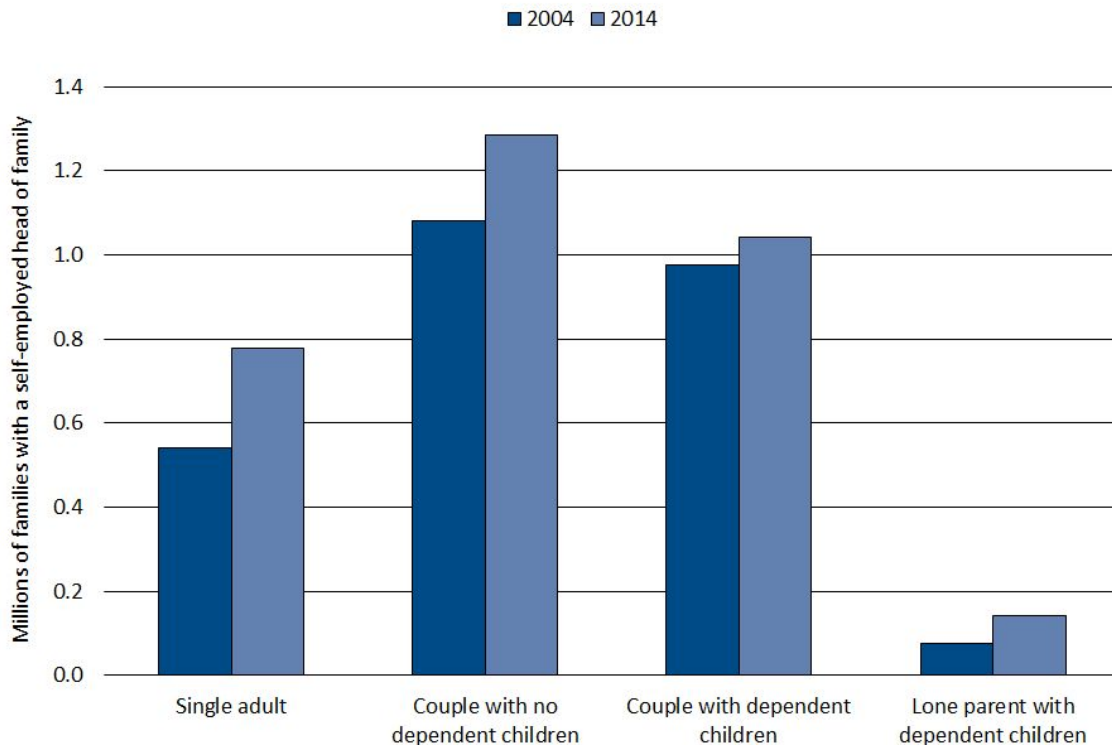
Source: Labour Force Survey, ONS. The data is a four quarter average.

Figure 7 shows the self-employed population in 2004-05 and 2014-15 by which industry they work in. The biggest increase has been in private sector services, which is also the largest industrial grouping in each time period. This includes information and communication, finance, real estate, professional activity, administration and support, and other services. Self-employment in this sector grew by 500,000 workers to 1.8 million. The biggest component within this increase was 'other services' which increased by 145,000. This includes work such as hairdressing and beauty services. The next largest increase was in public administration and education. Self-employment in these industries doubled to 260,000 workers. The vast majority of the 130,000 increase was in education, which increased by 117,000.

There were increases of between 70,000 and 90,000 self-employed people in health and social work, agriculture and construction. The smaller increases were in manufacturing, with 16,000 more self-employed people; hospitality with 7,000 more; whereas in retail and transport there was a fall of 12,000 self-employed.

200,000 more children in self-employed households

Figure 8: Family composition of the self-employed



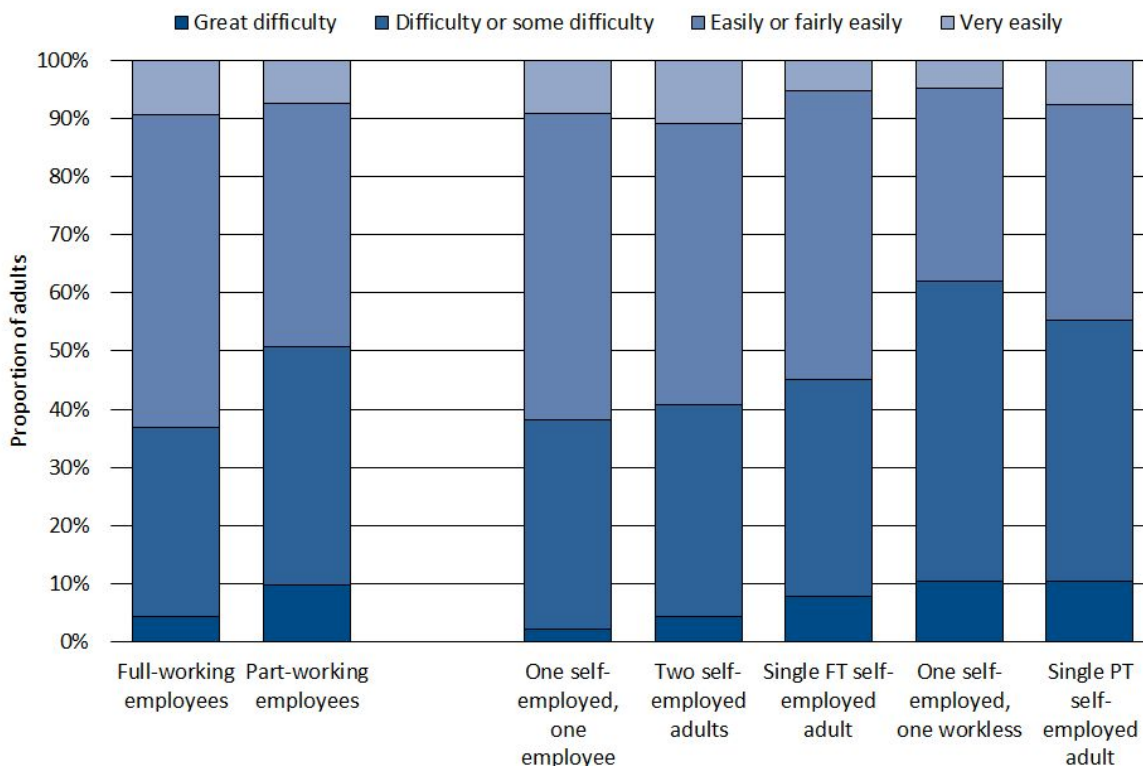
Source: Household dataset, Labour Force Survey, ONS. The data uses two quarter averages.

Figure 8 shows the number of self-employed adults by family type in 2004 and 2014. It includes families with a self-employed adult, regardless of whether or not they are the main earner. The largest increase over this period was in the number of self-employed adults living as a couple – an increase of 390,000. The second largest were self-employed single adults - there was an increase of 240,000 in this type of family. The number of self-employed parents also increased by 200,000. The smallest increase was in single self-employed parents. Self-employed lone parents remain the smallest group at just 3% of the total. Couples without dependent children are the largest group, making up 43% of the total. This is unchanged over the ten year period.

In 2014, there were 2.2 million children in families with a self-employed head, an increase of around 200,000 when compared to 2004. Over this same period, the increase in the number of children in employee families was 590,000.

Part-time self-employed more likely to struggle financially

Figure 9: Subjective assessment of finances by employment status



Source: Family Resources Survey, DWP. The data is for 2013-14.

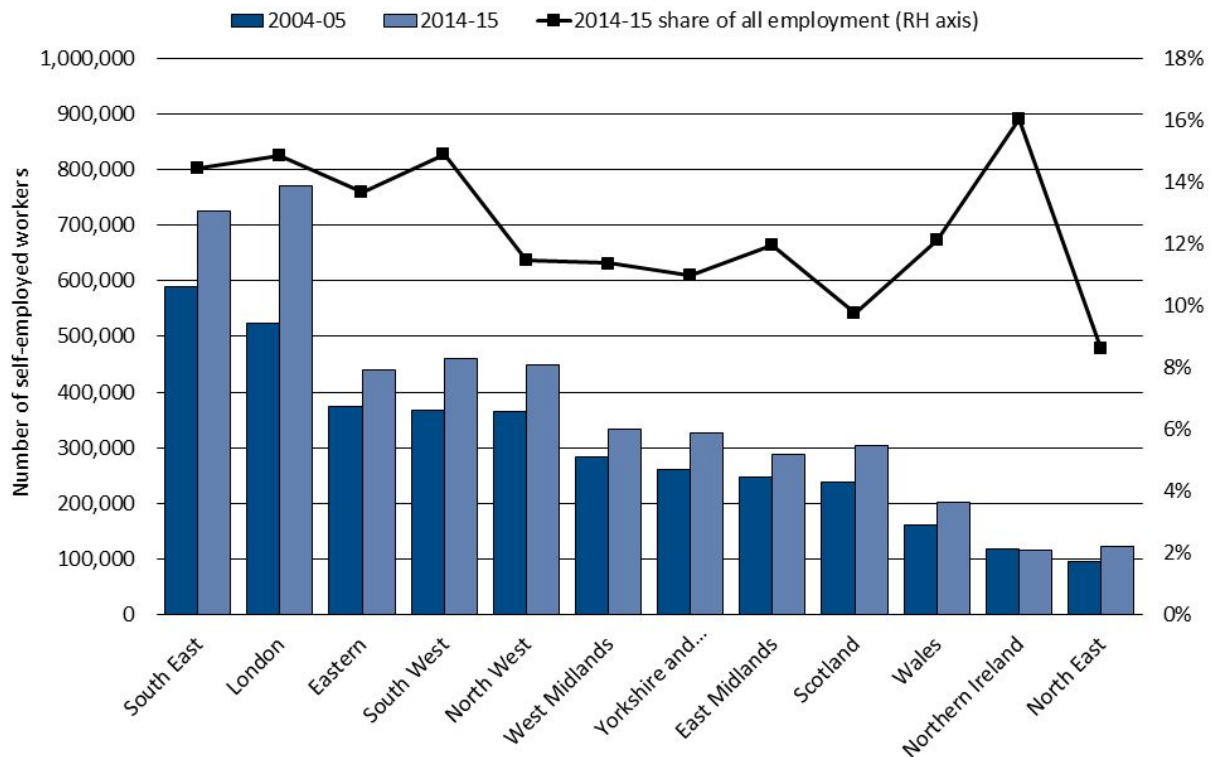
Figure 9 shows the proportion of people in each employment type by their assessment of how easy or difficult it is to make ends meet. In this chart, 'full-working' refers to families where all adults are in work but none is self-employed, with at least one in full-time employment. Part-working refers to all other employee-only arrangements, for example, all in part-time work, or one working and one not working.

As might be expected, of households with a self-employed member, those working fewer hours are more likely to report difficulties making ends meet. Less predictably, full-working employee families are as likely as families with two self-employed people to report difficulties making ends meet, at around 40%.

These results are slightly counter-intuitive in light of the much lower reported incomes among the self-employed. There are several possibilities to explain this. The self-employed could have lower outgoings: for example, they are more likely to own their homes outright than employees. Other explanations include underreporting of income from the self-employed and higher levels of savings to supplement income. This latter point will be explored in more detail later.

Self-employment up in every English region

Figure 10: Self-employment over time by region or country

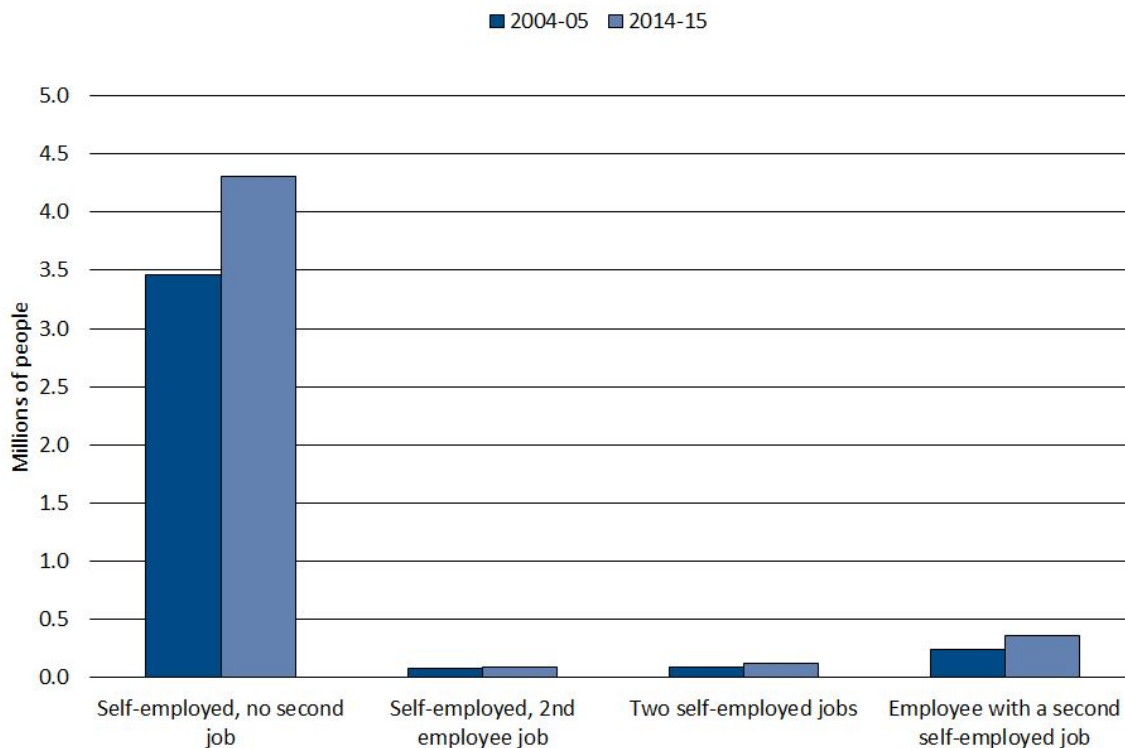


Source: Labour Force Survey, ONS. The data uses four quarter averages.

Figure 10 shows the numbers of self-employed people in each region of England, and in Wales, Scotland and Northern Ireland in 2004-05 and 2014-15. The line shows self-employment as a share of all employment in that region or country in 2014-15. The region with the biggest growth in self-employment over the ten year period was London, with a 250,000 increase in the number of self-employed people. This accounts for over a quarter of the overall increase. The South East had the next largest increase in self-employment, with an extra 130,000 people self-employed, followed by the South West with 100,000. These are also the three regions with highest ratio of self-employment to all employment in 2014-15.

Significant increase in self-employment as only income

Figure 11: Self-employment with other forms of work



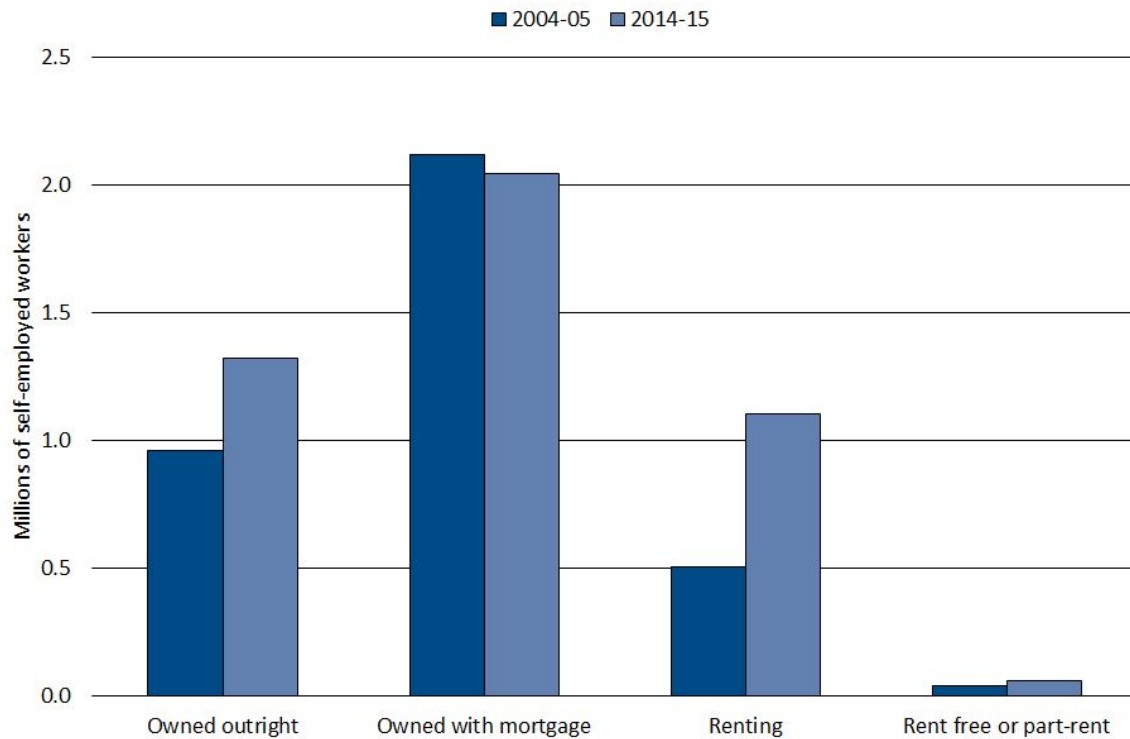
Source: Labour Force Survey, ONS. The data uses four quarter averages.

Figure 11 looks at everyone who holds a self-employed job as their main or second job. Only those who are self-employed as their main job, are included in the rest of the analysis in this paper, which is why the totals in this graph are larger. In 2014-15, there were 4.9 million people who were self-employed as a main or second job, an increase of just over 1 million on 2004-05.

There have only been relatively small increases in the number of people with two self-employed jobs between 2004-05 and 2014-15, up 40,000 to 130,000, and the number of self-employed people with a second job as an employee, up 20,000 to 100,000. The great majority of the increase (in terms of the total number of people) has been among those who are self-employed with one job only, though there has also been an increase in the number of employees taking on a second job in self-employment. This category has increased by 120,000 to 360,000 people.

Significantly more self-employed private renters

Figure 12: Self-employed people by tenure



Source: Labour Force Survey, ONS. The data uses four quarter averages.

The type of housing tenure held by self-employed people, as shown in Figure 12, highlights the potential insecurity of this cohort. In both 2004-05 and 2014-15, a clear majority owned their homes, but the proportion owning has fallen in line with the population as a whole. In 2004-05, 3.1 million or 85% of all self-employed people lived either in a home owned outright or with a mortgage. In 2014-15, 3.4 million or 74% of self-employed people lived in these tenures. The number owning outright has increased from 960,000 to 1.3 million, and is up from 26% to 29% of the total. The number who owned their home with a mortgage increased by 75,000 but fell from 59% to 45% of the total, due to the growth in the number of those who are renting.

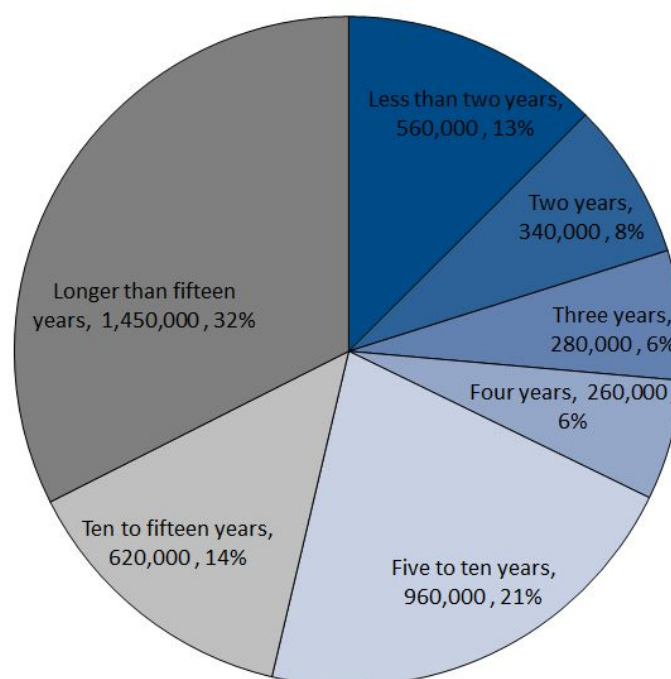
There are now 1.1 million self-employed renters, more than double the number in 2004-05. This data source doesn't allow renting to be broken down into the private rented and social rented sectors. However, the Households Below Average Income dataset suggests that between 2002-03 and 2012-13, there was a slight fall in the number of adults in families with a self-employed person in the social rented sector, and a large rise in the private rented sector.

Figure 12 suggests two points. Firstly, the overall increase in renting, seen throughout the population (see previous NPI research for Citizens Advice on the

private rented sector¹) is visible among the self-employed too. The same is true of the slowdown in mortgage holding. But the increase among those owning outright mirrors the increase in average age of self-employed people we saw earlier. Older people, even older working age people, are more likely than others to own their homes outright.

Duration in self-employment

Figure 13: Duration of continuous self-employment



Source: Labour Force Survey, ONS. The data is for January-March 2015.

Figure 13 shows how long those who were self-employed in the first quarter of 2015 had been continuously self-employed. 13% of the self-employed entered self-employment within the last two years, and 33% entered self-employment in the last four years. Going back each year, there is a slight decrease in the number, as would be expected: the longer back, the greater the chance they may have retired, become unemployed or inactive, or become an employee. A third of the self-employed, 1.45 million people, have been working continuously on a self-employed basis for over 15 years: this covers a long distribution, with the earliest year being 1950.

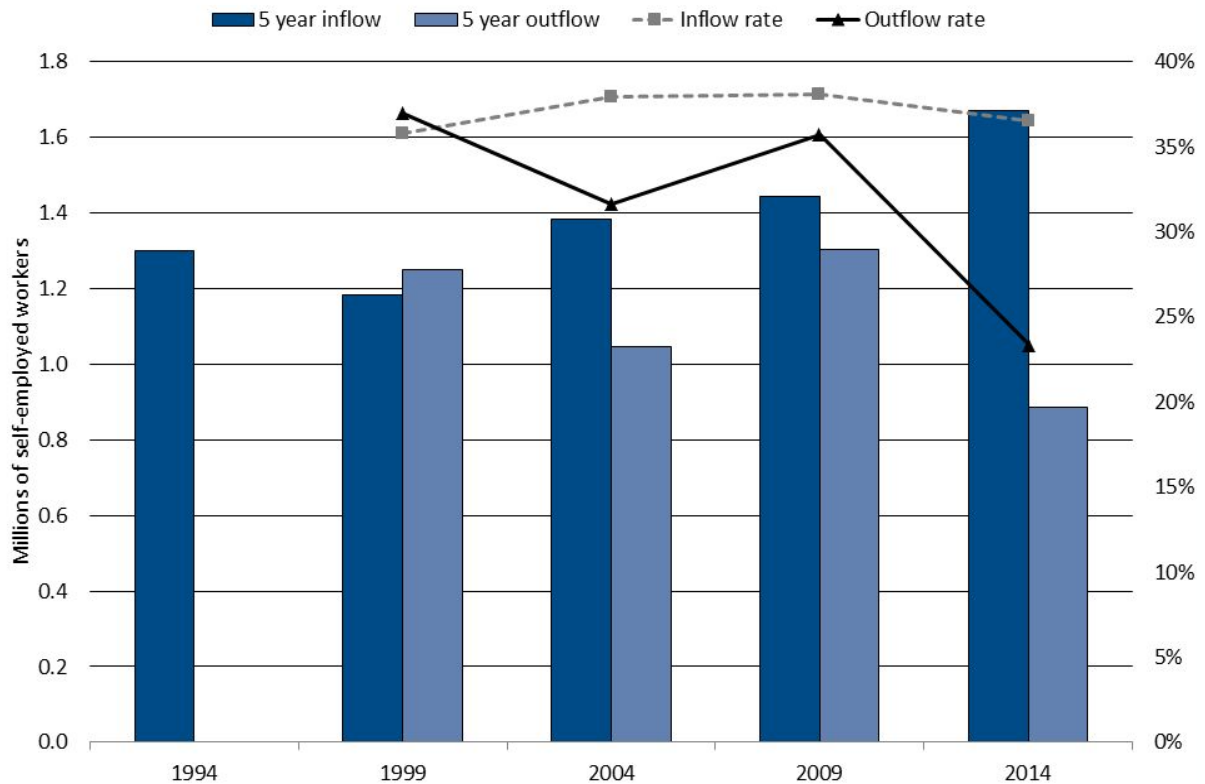
In quarter one of 2005, 1.2 million or 35% of the self-employed had started as such in the previous four years. This is around 200,000 lower than the four year figure in 2015. This means that the growth in self-employment over the last four years in

¹ Citizens Advice (2015), *A nation of renters: How England moved from secure family homes towards rundown rentals*.

particular cannot be explained by higher inflows alone. As the ONS has argued², and as will be looked at in the next section, reduced outflows explain much of the rise in self-employment.

Flows into and out of self-employment

Figure 14: Flows into and out of self-employment



Source: Self-employed workers in the UK, ONS.

Figure 14 presents two points. The bars look at the flows into and out of self-employment over five year periods going back to 1994. The lines express those flows as a percentage of the total number of self-employed people in each given year. As set out in the previous section, the inflow to self-employment in 2014 is 220,000 higher than the inflow in 2004. The outflow is 420,000 lower than in 2009. The combination of higher inflows and lower outflows produces the growth in self-employment, but the fact that people are staying self-employed for longer appears to be the larger of the two effects.

Self-employment inflows fell in the five years between 1994 and 1999, but then rose during each five year period from 1999 onwards. As discussed at the start of this report, this may be due to a cyclical reduction in self-employment due to an economic recovery. Inflows in the five years to 2014 were 16% higher than in the five years to 2009. Outflows show less of a clear pattern, but fell by almost one third between 2009 and 2014.

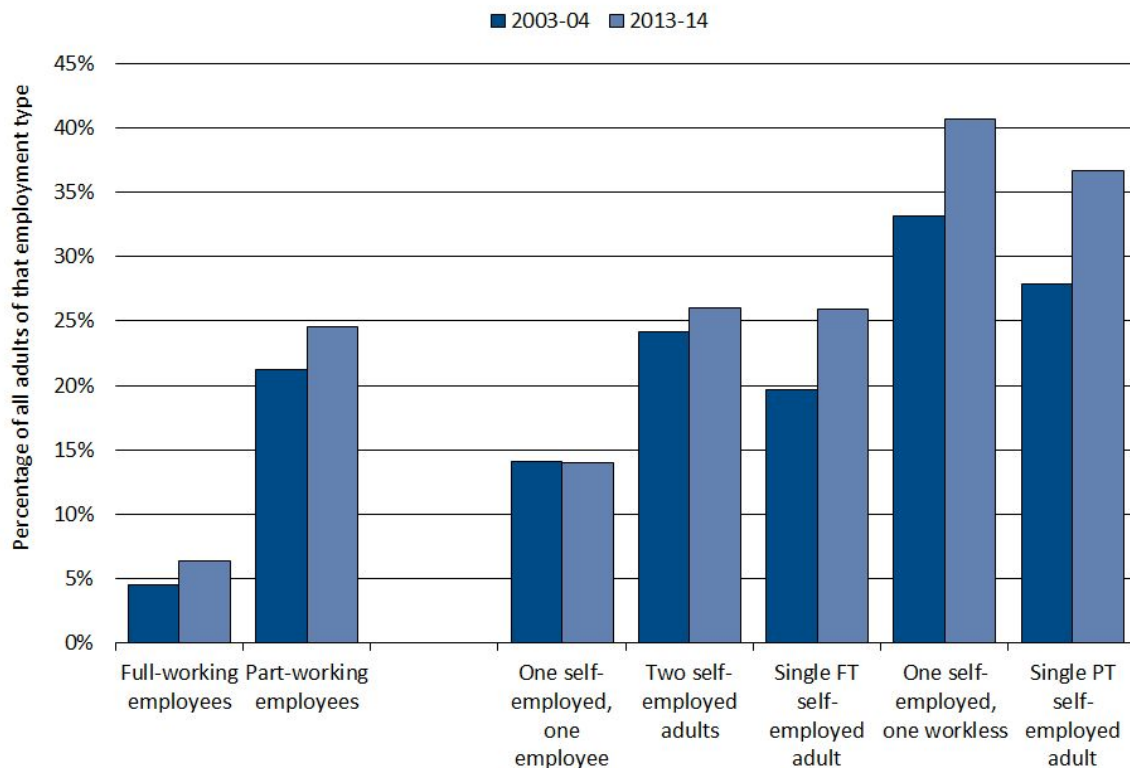
² Source: *Self-employment rises as fewer people leave*, News Release; August 2014; ONS.

36% of people who were self-employed in 2014 had entered self-employment within the last five years. This figure has not deviated substantially over the time period examined. The outflow rate, the proportion of people who had left self-employment compared with the total five years earlier, fell by 13 percentage points to 23% between 2009 and 2014.

Again, this may link back to the ageing profile of the self-employed. If growth in self-employment relates to people remaining self-employed for longer, rather than becoming self-employed at a faster rate, then the population of self-employed people will change. So the self-employed population is now older than before, having worked as self-employed for longer.

Self-employed families are more likely to be in poverty

Figure 15: Low income rates by employment status



Source: Households Below Average Income, DWP.

Figure 15 shows the proportion of different household types living below average income in 2003-04 and 2013-14. The low income threshold we have used is 60% of median household income, which is the headline relative income poverty measure used by the Government. All incomes are given after the deduction of housing costs.

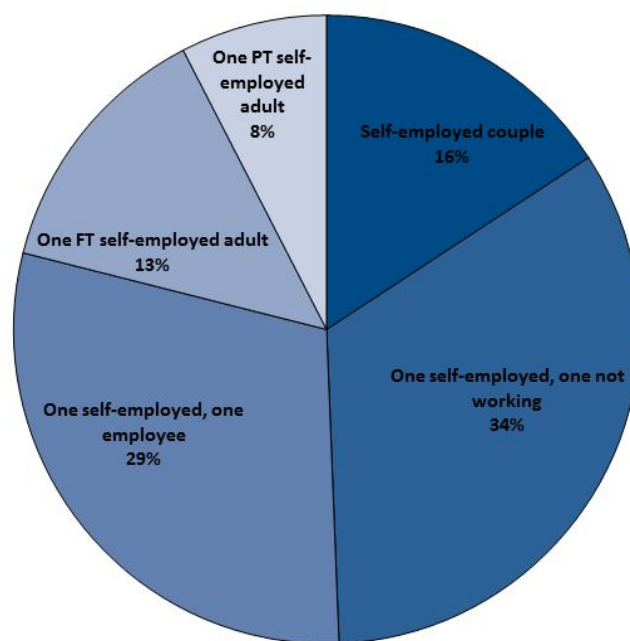
Self-employed families are more likely to be in poverty on this measure than full-working employee families. Only 6% of people in full-working employee families

are in poverty, whereas the lowest poverty rate among self-employed families is 14%. And even this is in a family with one employee and one self-employed person.

As might be expected, low income is associated with lower work intensities, so the highest poverty rate found is among families with one self-employed and one non-working adult. Four in ten of these families were in poverty in 2013-14. However, the chances of being in poverty are broadly the same for full-time self-employed adults as for part-time employees.

Low income self-employment, in depth

Figure 16: Employment composition of low income self-employed families



Source: Family Resources Survey, DWP. The data is for 2013-14.

Figure 16 looks at families in poverty (on the measure described above) where someone is self-employed. The largest group in poverty is those in families with one self-employed person and one non-working adult, at 34% of the total. As this family relies on one income to support two adults, it is perhaps not surprising that they make up a considerable proportion of those with low incomes. The second largest family type are those with one self-employed person and one employee: this group overall has a relatively small proportion in poverty, but are the largest family type within the self-employed.

Just over a fifth of those adults in a self-employed family in poverty are single adults, with more full-time than part-time. Self-employed adults in poverty are more likely to be renters, particularly private renters, and they are correspondingly

less likely to be owners. They are also more likely to be of working age, and more likely to be in a couple family with children.

Significant savings gap amongst the self-employed

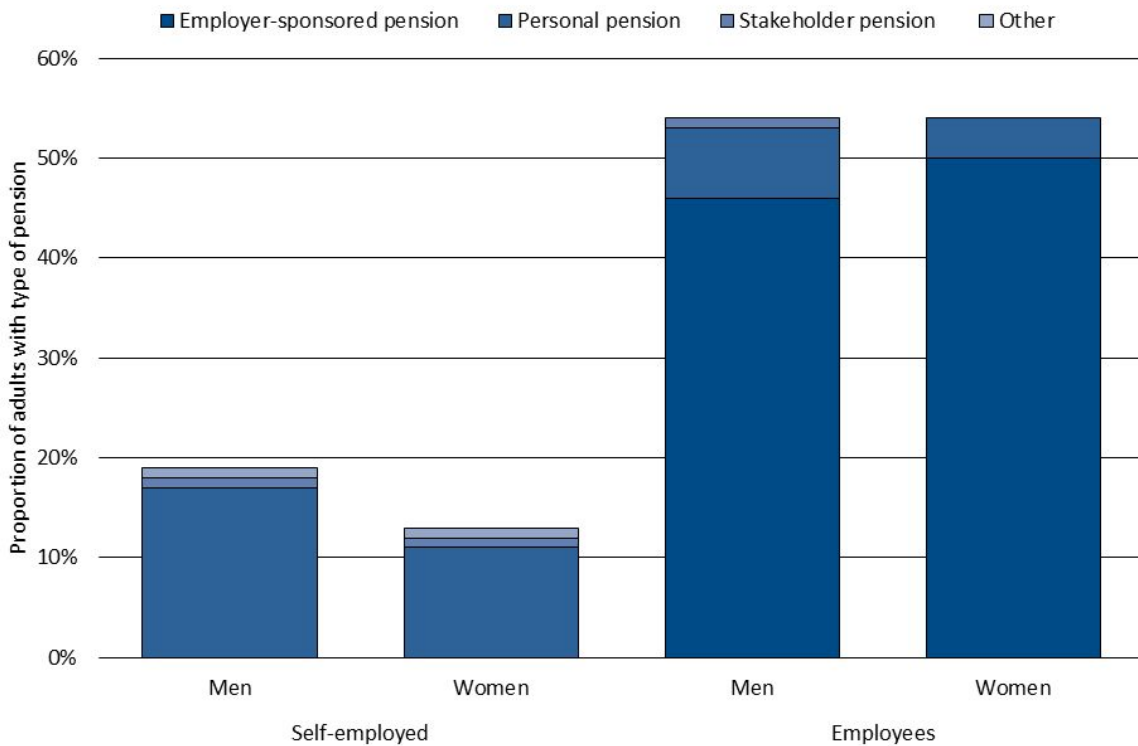


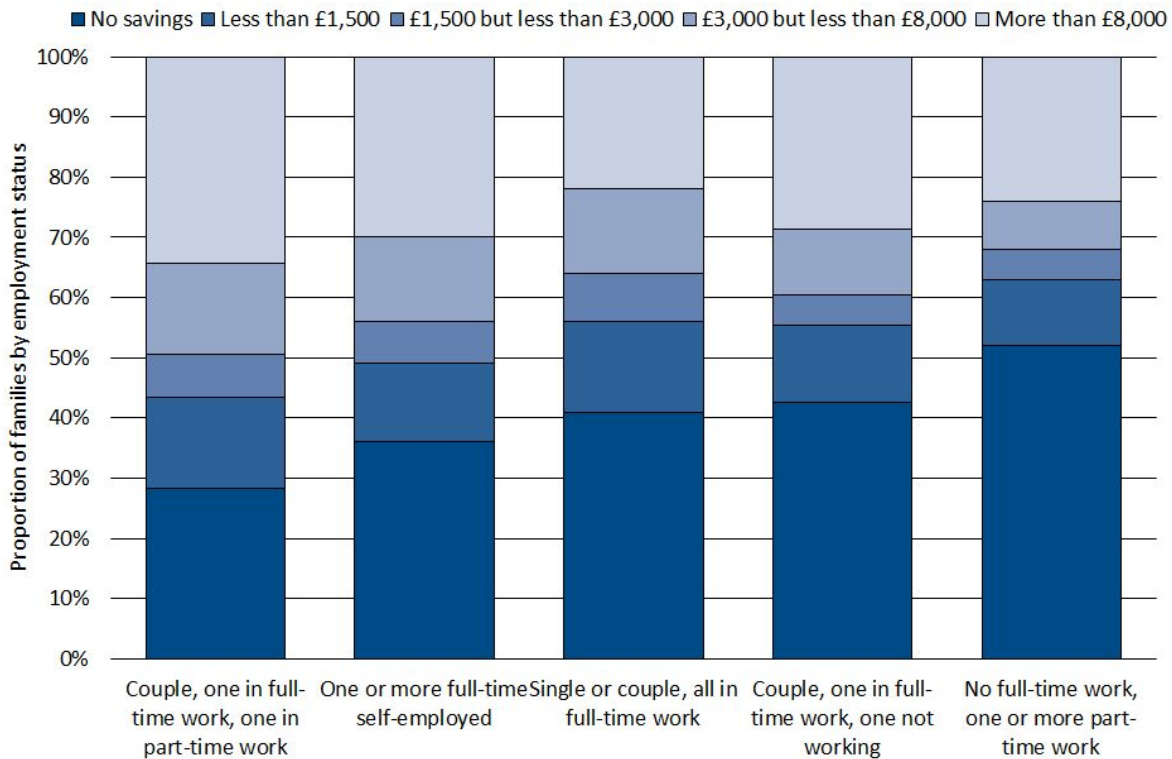
Figure 17: Employees and self-employed adults by pension participation

Source: Family Resources Survey, DWP. The data is for 2013-14.

Figure 17 shows pension participation by employment status and gender. Self-employed adults are less than half as likely to have any form of pension than employees, with self-employed women less likely to have a pension than men. 19% of self-employed men and 13% of self-employed women have a pension, compared to 51% of male employees and 52% of female employees. There is therefore a gender divide in self-employed pension participation that does not exist among employees. The vast majority of employee pensions are employer-sponsored. This is not an option for the self-employed, which may help to explain the lower participation rates overall. 89% of self-employed men and 85% of self-employed women who have a pension are using personal pensions.

Level of savings is low

Figure 18: Composition of families by amount of savings and employment status



Source: Family Resources Survey, DWP. The data is for 2013-14.

Figure 18 shows the level of savings held by different family types. Six in ten families with at least one self-employed adult have some form of savings, whereas this is true for less than half of families reliant on part-time work only. However, levels of saving are relatively low; fewer than one third of families where someone is self-employed have savings of £8,000 or more, suggesting a low level of financial resilience amongst many self-employed people.

Conclusion

The face of self-employment has changed in the past decade. Those who work for themselves now comprise a significantly higher proportion of the workforce, with self-employment an undeniably mainstream and important element of the UK labour market. Self-employment has been one of the drivers of the recovery of the labour market since the recession, and is a positive option for many people. We have seen however, that this work can be accompanied by insecurity and a lack of financial resilience.

The stark increase in the number of people working for themselves has been driven in part by a reduction in the number of people leaving self-employment. This has resulted in a rise in the number of older people working for themselves, and suggests that the early phases of self-employment, where a business may struggle to get off the ground, are key.

This structural change in the cohort of the self-employed brings with it a number of challenges. Foremost amongst these is the need to ensure the self-employed are incentivised to save for the future, and have an appropriate means of doing so. Whilst auto-enrolment for employees has increased pensions contributions for this group, retirement savings for the self-employed remain stubbornly low. As a result, the discrepancy in the level of savings between the self-employed and employees has grown sharply.

A lack of saving for the future amongst the self-employed is a challenge for policy makers and, unless addressed, could risk the financial wellbeing of many of those in self-employment. This, alongside the increase in private renting, and with 200,000 more children living in self-employed households, highlights the difficulty this group can have in achieving financial security and resilience.

In July 2015, the Government announced a Review into support for self-employment. Our analysis reinforces that such a Review is timely, necessary, and presents a significant opportunity to ensure that self-employment can be a secure and stable option for all those who enter into it.

This report was written and produced by the New Policy Institute (NPI) and Citizens Advice. The analysis of the Labour Force Survey, Family Resources Survey and Households Below Average Income was undertaken by NPI.

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