

Financial Wellbeing

Collaborating for better outcomes
for self-employed professionals



Why we've written this

- Every day we see the inequalities and challenges facing self-employed professionals (SEPs) in the key areas of financial services
- We believe there is a lack of awareness of these difficulties and we want to shine a light on the unique challenges facing this important segment of the UK workforce
- We want to empower the self-employed by expanding their knowledge of the situation and the solutions available to them today
- We want to facilitate the mobilisation of industry and government to drive greater awareness, clearer communication and above all, fair access to financial solutions
- We are fighting the corner of the self-employed to achieve parity with their counterparts in employment when accessing financial services
- We want to lead the charge in creating long term financial wellbeing and peace of mind for the self-employed



About The CMME Group & IPSE

The CMME Group is a leading UK mortgage & financial advisory service, specialising in the needs of Independent professionals; SMEs, Contractors, Freelancers, Interim Managers & Directors – people who often have more complex income and finances than their PAYE counterparts. The CMME Group believes the way people choose to work should not limit their choices in life and has spent the last 18 years working directly with banks, building societies and other providers to change the way they view this valuable and significant segment of the UK workforce.

Recognising the importance of financial wellbeing, The CMME Group has developed its capabilities to offer a full end-to-end financial advisory service, providing advice, education and solutions across mortgages, personal and family protection, pension, savings and investment planning. Clients benefit from a holistic assessment of their personal finances ensuring that their mortgage solution is optimised alongside their other financial choices.

Unlike many other brokers, The CMME Group provides a true one-stop-shop service for independent professionals. In doing so, it has helped over 120,000 clients gain fair access to financial services and achieve the financial wellbeing they deserve.

120,000

*clients helped to
gain fair access
to financial
services*

IPSE is the largest association of independent professionals in the UK, representing freelancers, contractors and consultants from every sector of the economy, owned and run by its members. IPSE believes that flexibility in the labour market is crucial to Britain's economic success and dedicates its work to improving the landscape for the freelance way of working through an active and influential voice in government and industry.

Our joint commitment

CMME and IPSE recognise that despite the significant contribution the self-employed make to the economy and society, they are poorly served with financial solutions that best suit their situations.

We are utilising our complimentary skill sets to support the self-employed; from IPSE's strong background in research and campaigning, to CMME's expertise in delivering specialist financial services advice, solutions and in fostering strong relationships with financial services providers.



Together, we are committed to creating greater awareness, better education and above all, parity across the UK workforce in gaining fair access to financial services solutions. In this way we want to enhance the financial wellbeing of self-employed professionals and enable them to enjoy the financial peace of mind they deserve.

The Self-Employed landscape today

12% of the current workforce in the UK are self-employed. That's an estimated 4.1 million people.¹ The market grew steadily in the twelve years prior to the pandemic starting in 2020. The self-employed make a huge contribution to the UK's economy, adding over £300bn in value¹ and working across a range of industries from construction and agriculture to textiles, food preparation and accounting, as well as lawyers, doctors, writers, managers and many others.

However, over the past two years, the self-employed have been disproportionately impacted by the pandemic and government reforms. From gaps in the government's Covid support schemes which excluded over 1.5 million self-employed people², to deeply damaging reforms to IR35 legislation – the self-employed have seen their businesses collapse, incomes fall, and contracts dry up. The UK's self-employed population is now 5% smaller than it was before the pandemic began, as a result.¹

The consequences extend beyond this, however; more self-employed people are now experiencing financial difficulties, meaning greater barriers to building a financial safety net, saving for later life and obtaining a mortgage.

4.1 million
*self-employed
people in the UK¹*

1.5 million
*self-employed
people excluded
from government
Covid support
schemes²*

5% less
*self-employed
people in the
UK since the
pandemic began¹*

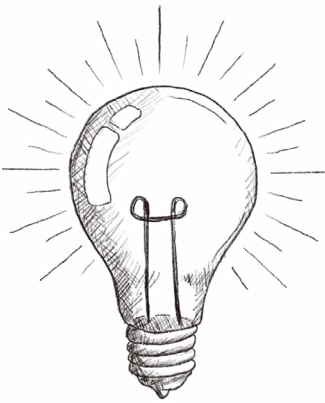
¹IPSE, The Self-Employed Landscape in 2021, 2022

² Institute for Fiscal Studies, Who is excluded from government's Self Employment Income Support Scheme and what could the government do about it? 2021

How CMME and IPSE are working to address the challenges

As champions of the self-employed sector, we strongly believe that knowledge is power when it comes to best supporting our clients and members make the best financial decisions for their needs. Our combined strength is predicated on three core competencies:

Empowering SEP's through knowledge sharing



1. Through our strong industry relationships and networks we are able to stay at the forefront of market trends and dynamics and ensure we pass this onto our end clients through relevant and topical content.
2. We regularly sense check the mood of self-employed professionals and their view on financial services through consumer research – the latest is available here at www.cmmemortgages.com/news/are-the-self-employed-treated-unfairly-when-getting-a-mortgage/
3. We share plain English information, insights, tips and tools to give self-employed people the full picture about their finances – accessible through media including webinars, events, blogs and podcasts – there's something to suit even the busiest self-employed professional

Providing expert advice and guidance



The CMME Group provides expert advice and tailored solutions across the key areas of mortgages, protection, pensions and investments.

CMME specialists spend time understanding the different situation of every client. Then they explore and research a range of scenarios based on the client's plans and put forward recommendations on the best solutions for their unique needs. This is where the team's detailed understanding of the self-employed landscape delivers the best outcomes; whether that is the right mortgage, best protection for their situation or investments that maximise their returns.

Delivering better financial solutions for the individual needs of SEP's



We both work to bring the best deals to our communities – from discounts offered through IPSE's commercial partnerships, to CMME's expertise and relationships with financial services providers, as well as regularly reviewing plans to ensure they continue to meet clients' changing needs.

But we cannot do it alone...

To continually deliver the best financial solutions for the self-employed community, we need to ensure two things:

We have a deep understanding of our clients changing world and needs

We drive support and change from government and the FS industry

So together, CMME and IPSE have explored the unique obstacles facing the self-employed as customers in the financial services sector and set out the measures we believe government and industry could adopt to help alleviate these challenges.



Getting a mortgage

Common challenges for self-employed buyers:

68%

of those planning to purchase a property in the near future felt that securing a mortgage would be difficult because they are self-employed³

38%

of freelancers found the process of getting a mortgage difficult³

2 in 5

SEPs claim to have experienced difficulties in getting a mortgage in 2021 due to their SE status – up 57% from 2020³

Nearly 50%

(47%) of those surveyed chose to stay with their current mortgage lender vs switch for a potentially better deal, as perceived to be easier due to their self-employed status.³

Lenders often misunderstand how the self-employed work and become entrenched in a risk averse approach.

Different lenders make different assessments about the perceived level of risk when considering providing products like mortgages. Differing commercial priorities between lenders mean that whilst some have a better understanding of the self-employed sector, many others perceive the risk of lending to those who aren't employees to be too great. This makes it difficult for self-employed people to know which lenders to approach for a mortgage application and runs the risk of drawing out the home-buying process as well as having an application rejected.

Generalist lenders can lack the knowledge and capabilities to get the best outcomes for the self-employed.

Meeting the needs of self-employed buyers requires getting to know more about how their business works. But when the majority of decisions by generalist lenders are governed by algorithms and automated assessments, it's no wonder that 50 per cent of freelancers believe they won't be treated fairly by lenders. New ways of working, including the growth of umbrella companies, have exploded over the past couple of years – without specialist knowledge of the sector, many lenders simply cannot keep pace with the big changes affecting the self-employed. For instance, some lenders are now requiring at least one to two years' experience of contracting via an umbrella company as a prerequisite to obtaining a mortgage.⁴

The self-employed are left underserved and penalised for their employment status.

All of this leaves the self-employed to navigate a mortgage landscape that is vastly more restrictive than that for employees. Limited product choice, higher rates and greater volumes of paperwork are a risk for self-employed buyers.⁵

In fact, 59 per cent believe they were penalised in their mortgage application for being self-employed.³ By forcing the self-employed to jump through more hoops to receive a worse outcome, the process of buying a home is made more painful for the more than 4 million people who work for themselves.

³ IPSE/CMME, Freelancers Financial Wellbeing, 2021

⁴ <https://www.ftadviser.com/mortgages/2021/07/27/how-ir35-changes-have-affected-mortgage-affordability/> Accessed 23/11/2021

⁵ IPSE/CMME, Getting the self-employed on the property ladder, 2021

Recommendations for mortgages

- 1.** Government and the mortgage industry should work together to explore tailored products and ways of making it easier for the self-employed to successfully apply for mortgages. This should include regular reviews to ensure lending criteria accurately assesses self-employed professionals financial situations and enables fair access to mortgage options.
- 2.** Mortgage lenders should ensure they are fully open to working with brokers who specialise in servicing the self-employed. Strong collaboration between lenders and specialist brokers will help foster deeper understanding and fairer treatment of the self-employed. In turn, more self-employed professionals will be able to secure the mortgages they deserve based on their true financial standing and borrowing potential
- 3.** Government should ensure that self-employed people who have made use of mortgage payment holidays, the SEISS scheme or the job retention scheme, are able to access other loans in future without being penalised. The borrowing potential of an individual should not be impacted by whether a business recovery loan or grant has been taken in the recent past. Clear guidelines should be laid down to ensure that mortgage applications are not treated unfairly as a direct result and that borrowing levels are not unduly reduced.
- 4.** Modernise the tax and employment system to make it easier for lenders to assess freelancers' financial situations and de-risk them as customers.



Getting financial protection

Staying financially secure in self-employment

55%

of self-employed people have no life insurance, private medical insurance, critical illness cover, or income protection insurance⁶

Unlike employees, the self-employed do not enjoy access to company perks like life insurance and death in service benefits, and are also ineligible for state benefits such as Statutory Sick Pay (SSP).

This means that the self-employed are often only one illness or accident away from being placed in serious financial adversity.

Mitigating against life's unexpected challenges can be a complex task for the self-employed; they need a wide range of personal and business insurances, from professional indemnity cover to income protection insurance. It can be difficult to work out which forms of cover to prioritise and the wide variety of products available makes it tricky to find the right product at the right price.

All of this leads to significant numbers of the self-employed population lacking a strong safety net, leaving them exposed to life's twists and turns. Research from 2019 found that 55% of self-employed people have no life insurance, private medical insurance, critical illness cover, or income protection insurance⁶ – this is despite later research showing that over 50% of those who took time off after injury or illness, returned to work before recovery because they couldn't afford any more time off.⁷

⁶ArmstrongWatson, Financial education and wellbeing: Empowering employers and employees, securing futures and providing peace of mind, 2019

⁷<https://www.iv.com/about-us/press/one-in-five-self-employed-and-contract-workers-unable-to-survive-a-week-without-work> Accessed 17/11/2021

Recommendations for protection

1.

Extend Statutory Sick Pay to sole traders

With the pandemic and government gaps in support only exacerbating issues around limited financial protection for the self-employed – often having to choose between their health and income – government should extend the support of Statutory Sick Pay to all forms of employment, including those who work for themselves.

As a result of the pandemic, **58 per cent of freelancers now believe they should be entitled to some form of sick pay.**⁸ Building on the SEISS framework, government could extend Statutory Sick Pay protections to sole traders, enabling them to claim a proportion of average earnings should their income decline due to short term illness.

2.

Expand the remit of free financial consultations for the self-employed.

Knowing which financial insurance products are best suited to you as a self-employed individual can be particularly difficult, with many experiencing seasonal working patterns or fluctuating incomes. Whilst some insurance providers do offer flexible and tailored financial insurance, government should extend free consultation schemes such as the Midlife MOT to also cover insurance provision, to further support the self-employed in financial planning for the future.

3.

Flexible insurance products that account for fluctuating incomes

Changing a sum assured on income protection and life insurance policies can be very difficult, with insurers not always paying out if earnings dip due to insurance providers often failing to take fluctuation of income into account.

For the self-employed, particularly those most likely to experience periods of fluctuating income, greater flexibility in these products is required to secure their financial future. Ultimately, industry must develop a greater understanding of freelancers' finances and afford much-needed flexibility in the insurance products on offer.

⁸IPSE, *Supporting the self-employed: Assessing the concerns and support needs of the sector*, 2021

Longer term planning

The challenge for self-employed savers

71%

of freelancers are concerned about saving for later life³

14%

freelancers are not currently saving for later life in any way³

The self-employed are facing a pensions cliff edge – with only 16% contributing to a private pension compared to 48% in 1998.⁹

This decline is extremely concerning, particularly as pensions and other long-term savings products can have the biggest impact on people's financial goals in retirement – but they are often less well understood than other areas of financial services. Research suggests 67% of self-employed don't understand tax breaks of private pensions¹⁰, and 27% say they have never received any information or advice about pensions.

Beyond pensions, the self-employed have additional financial priorities to contend with, such as managing company investments and tax planning, as well as dealing with irregularity of income. The discretionary and changeable nature of self-employed financial planning means that making personal financial plans can fall down the to-do list.

We believe the solution to this lies in one of the greatest characteristics of the self-employed – flexibility. Broadening access to more flexible financial products – ones which enable self-employed savers to make larger contributions when times are good and smaller payments during leaner periods – could play an important role in solving the self-employed savings crisis.

³ IPSE/CMME, Freelancers Financial Wellbeing, 2021

⁹IFS, Retirement saving of the self-employed, 2020

¹⁰<https://www.citizensadvice.org.uk/about-us/about-us/media/press-releases/half-of-self-employed-people-do-not-trust-pensions/> Accessed 17/11/2021

Recommendations for pensions

1. **For government to commission a 2022 review of the state of self-employed savings, to fully understand the barriers and challenges facing this cohort in the post-pandemic economy.**

Pension utilisation among the self-employed was already far below that of employees before the pandemic began – it is now at critically low levels and shows no sign of abating in the face of inflationary pressures on the cost of living.

Now is the time for government to help set a new agenda for self-employed savings by engaging key stakeholders in the long-term savings sector, including pension providers, the Financial Conduct Authority, and Money Helper, to form a new vision for the guidance and products needed to boost engagement with pensions across the self-employed sector.

2. **Government should embed planning for later life into its guidelines throughout the self-employed journey.**

Launching a self-employed business means spending a great deal of time on ensuring compliance with tax rules and other operating requirements – not least on growing the business itself – meaning that arranging a pension can fall down the list of priorities early on. Government should consider how it can give more visibility to the importance of setting up a personal pension as early as possible in a self-employed career by revamping its guidance for those considering self-employment.

The 'midlife MOT' could also be a good means of engaging those working for themselves to take stock of their financial situation – but to do so it must be more proactive. Government should expand the Midlife MOT's remit to include self-employed individuals, offering tailored advice around financial planning by reaching out directly to self-employed professionals in the target age group. It is essential that government-backed efforts to get people engaged with their plans for later life do not overlook the self-employed.

3. **Explore the benefits flexible pensions to help the self-employed with their long-term savings.**

Research points to a decline in pension utilisation among the self-employed, suggesting that this group is not currently being adequately catered for. We believe that this could be reversed by expanding the availability of more flexible pension plans – one such option is the Sidecar. The Sidecar model enables savers to prepare for later life, whilst also paying into a separate 'rainy day' fund, that can be drawn down during leaner periods, without penalty. With 58% of the self-employed worried about irregularity of income¹¹, the Sidecar model could transform how the self-employed engage with their pension by encouraging them to prepare for both the short and long term.

An ongoing trial of the sidecar pension is now testing whether an opt-out joining mechanism will encourage more employees to save through the scheme – but this is currently open only to a handful of employers. It is essential that the exploration of new savings methods also accounts for the self-employed, ensuring that the full benefits of the sidecar pension can be felt by people in all forms of employment.

¹¹IPSE, Supporting the self-employed: Assessing the concerns and support needs of the sector, 2021