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STRENGTHENING SICK PAY FOR THE SELF EMPLOYED

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EXECUTIVE SUMMARY

There are 4.4 million self-employed workers in the UK today.[1] Many of them risk losing the vast majority of their income if they fall sick. The employment rights bill will rightly extend better protections to employees, including welcome and much-needed reforms to statutory sick pay. But while there are plans to reform employment status, and improve conditions for the self-employed more generally through measures such as the right to a written contract, tackling late payments, and extending health and safety and blacklisting protections, the government has no current plans to develop a sick pay offer.[2]

In this report we make the case for sick pay for the self-employed, review support in the UK and other countries, and set out recommendations for the government to consider.

Self-employed people need sick pay too

There is a strong case for providing a sick pay scheme for the self-employed.

This is a large and important group of workers who are poorly protected from income shocks such as sickness. The self-employed make up 13 per cent of people in work in the UK.[3] The solo self-employed (those who don't employ anyone else) contributed £366bn to the UK economy in 2024.[4]

Many self-employed people are on low incomes, and some only enter self-employment because there are few viable alternatives. Median net income for a full-time employee is 14 per cent higher than that for a full-time self-employed worker, and two-in-five self-employed workers would work a salaried job if they could. [5]

They fall sick at comparable rates to employees, and struggle financially when they do. Self-employed workers lose 1.8 per cent of total working hours because of sickness absence, compared to 2 per cent for employees.[6] . But a lack of sick pay means the income shock of falling sick for most self-employed workers is severe: the average full-time self-employed worker would lose 81 per cent of their income.[7] 19 per cent of self-employed people say they would have to carry on working if ill or injured compared to only 12 per cent of employees.[8]

Better sick pay for the self-employed would benefit us all. It would reduce the spread of viruses, speed up recovery from illness, improve productivity, improve inclusion in key industries and help reduce pressure on the NHS and social security bill.

But current options are limited to meagre state benefits or costly and unequal private insurance. The 'engagers' who hire self-employed workers have no duty to provide sick pay, and government support via the benefits system often proves inaccessible or leaves self-employed workers unable to sustain a liveable income. Government support via employment and support allowance is equivalent to only 21 per cent of the minimum amount required to live in dignity in the UK.[9] Finally, while employees can continue claiming universal credit (UC) when receiving statutory sick pay, the support available for sick self-employed people (through sickness benefits and private insurance) is deducted from UC payments in full, often leaving them no better off.

There are alternatives to our threadbare support system

Many countries have more generous social protection systems, which offer greater security for self-employed workers. They include:

Norway, which has state-funded sickness insurance providing 100 per cent income replacement for freelancers from the 17th day of sickness.[10] There is also state-run voluntary insurance to plug the gaps for the first few days of illness, where self-employed workers can choose to pay 3.3 per cent of their expected annual income from their tax return, and receive 100 per cent income replacement rate when sick. [11]

The Netherlands, where the removal of state support prompted new co-operative style 'bread funds.' Bread funds allow small groups self-employed people to contribute to a central fund to help out members when they fall sick, providing a much cheaper offer than private insurance.[12]

Canada, where a broader employment insurance system provides income replacement benefits to employees and self-employed, including 55 per cent of earnings up to a cap of $695 a week for sickness. This system is funded by employer and employee contributions, and allows self-employed people to opt in if they pay the employee premium only.[13]

The UK must develop sick pay for the self-employed

The UK must create better protection for self-employed workers who become sick. We suggest a series of policies for the short, medium, and long term.

In the short term (in the next year)

1. **Reform universal credit to give greater income protection to the self-employed.**

The government should:

- Allow individual income protection insurance to be treated as earned income instead of unearned income for the purposes of universal credit.[14] This would ensure those who have taken out insurance to protect their income in event of sickness don't lose their universal credit if they get sick.
- Treat ESA (or the new unemployment insurance) for self-employed people who are off sick, as earned income instead of unearned income in universal credit, as is currently the case with those receiving statutory sick pay. This would ensure that self-employed people on low incomes don't lose their universal credit when they fall ill. [15]
- Allow self-employed parents who cannot work due to sickness to continue to get the childcare costs element of universal credit, as is the case with those receiving statutory sick pay.[16] This would ensure self-employed parents do not face losing their childcare support during a short period of sickness.
- Consider reforms to the savings limit in universal credit so self-employed people saving for events such as sickness, parental leave, or saving in place of a pension remain eligible for universal credit when they have low earnings.[17]
- Clarify and simplify the process of removing the minimum income floor when self-employed workers become sick, so they can claim a greater top up in Universal Credit, based on their actual earnings.
- Review the impact of the minimum income floor on self-employed workers and consult on alternative policies to provide universal credit to this group.

2. **Support the development of bread funds in the UK.**

- The government should explore how it can assist the operation of bread funds by, for example, creating a regulatory framework for bread funds to collaborate to pool risk.
- The government should review barriers to developing bread funds in the UK, including reviewing legislation that prevents bread funds from setting up bank accounts.[18]
- Unions which represent self-employed or 'limb (b)' workers should consider providing incubator support, access to resources and raising awareness. [19]
- Groups close to self-employed people – such as business support and industry groups, banks, further education colleges, DWP and HMRC advisors, local councils, and businesses who employ freelancers and contractors – should explore how they can raise awareness of bread funds with their service users.

In the medium-term (within this parliament)

Create a new opt-out sickness insurance system under which engagers and self-employed workers share the cost of sick pay. The government should:

- Automatically sign-up self-employed workers and engagers to contribute to a central sick pay fund, which would provide statutory sick pay to self-employed workers who fall ill. This would cost self-employed workers £5 per month and engagers 3p for every hour they hire a self-employed worker.
- Administer this fund from central government, via HMRC and DWP. The government should ensure this fund is sustainable, by lending to it if needed.

In the long-term (next parliament)

Create full employment insurance for both employees and self-employed workers, including income-related sickness insurance for the self-employed. The government should:

- Introduce full employment insurance, entailing a combination of paid leave entitlements for employees and state income replacement benefits for the self-employed and other groups. This should be funded via premiums paid by employers, employees, and the self-employed to a self-funding social insurance body and should typically pay half a worker's current or recent earnings. This would cost approximately £9bn in additional public spending.[20]
- Include income-related sickness insurance for the self-employed in this new system so that, if self-employed workers cannot work due

to illness, they retain 50 per cent of average earnings across three years (up to a cap) for 12 months.[21]

- Combine this system with the engager and worker funded system in recommendation 3, with both systems in tandem providing a comfortable safety net for self-employed workers who become sick: 50 per cent of earnings plus statutory sick pay, up to a cap.

1. INTRODUCTION

The government's 'make work pay' agenda will see the biggest improvement to employment rights in a generation. There are some provisions in this agenda that will help the self-employed, such as reforms to employment status, the right to a written contract, tackling late payments, and extending health and safety and blacklisting protections. But as it stands, it risks leaving behind the 4.4 million people who are self-employed from key provisions such as sick pay.

The self-employed are a large, important and diverse group. Self-employed workers account for 13 per cent of all people in work. There are more self-employed people than work in manufacturing, and four times as many as work in finance and insurance. The solo self-employed (those who don't have any employees) contributed £366bn to the UK economy in 2024.[22] The self-employed community includes construction workers building our infrastructure; entrepreneurs innovating and running our small businesses; and the actors, writers, and technicians in creative industries who enrich our culture.

Self-employed workers often have more flexibility and autonomy over how, when and where they work. They also do not pay as much national insurance as employees do. These are just two reasons why some actively prefer this model of working.

However, self-employed people lack the security of income which comes from employment rights including paid maternity, paternity, and parental leave, pension auto-enrolment and sick pay. And self-employment is not always an active choice. Many enter into self-employment because there are no employee jobs which meet their need for flexibility or require their specialised skills on a permanent basis – or because of negative experiences of employee jobs at the lower-paid end of the labour market.

But regardless of the reason someone is self-employed, their income security is an important public policy consideration, particularly if they are forced out of work by sickness. Many self-employed people will simply not get paid if they fall ill. The organisations who contract self-employed workers have no duty to provide support, and government support does not exist at all for the vast majority. Voluntary schemes remain limited to (often costly and unequal) private insurance options. In a recent survey, nearly half (44 per cent) of self-employed people said 'not getting paid if I fall ill' was a challenge.[23]

This paper makes the case for sick pay for the self-employed.[1] We will first set out the nature of the challenge, and the positive case for sick pay for the self-employed, before looking at various policy options. Finally, we make several policy recommendations.

[1] Throughout we refer to the self-employed. However, we include within our scope people who have limb (b) worker status, who are in a similar position with regard to sick pay as the self-employed.

2. THE PROBLEM: SELF-EMPLOYMENT AND SICK PAY

This section sets out why sick pay for the self-employed is so important. We first set out the characteristics of the self-employed population before discussing the benefits of sick pay and the shortcomings of current provision.

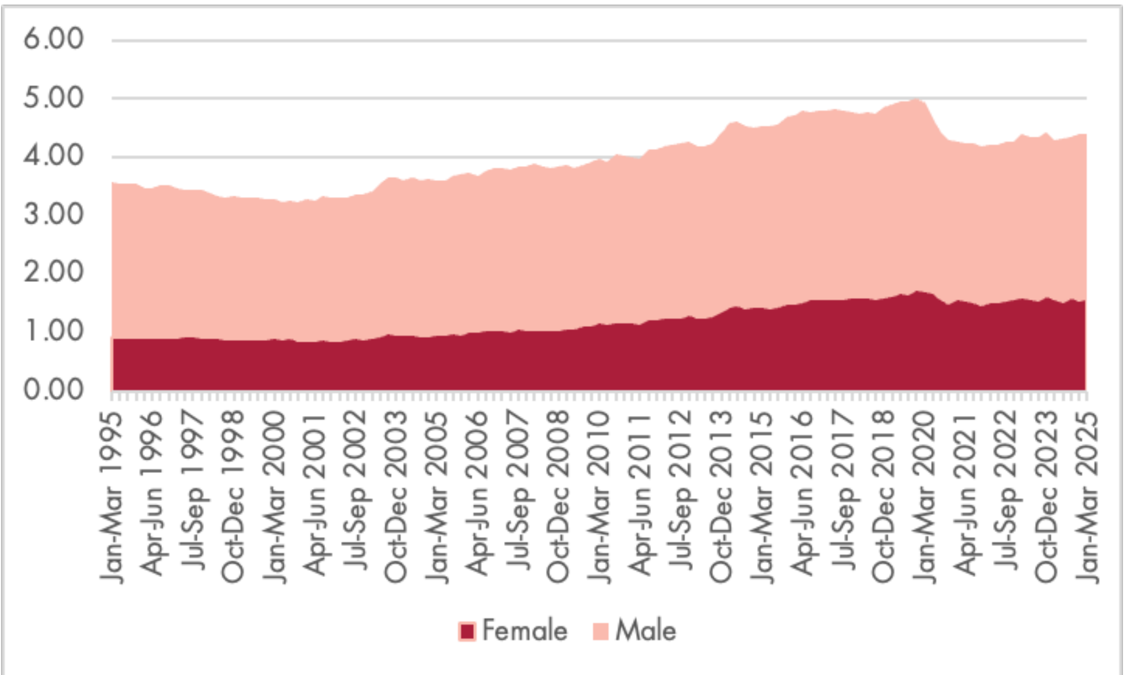
The self-employed are a large, important and diverse group

There are currently 4.4 million self-employed people. The number of people in self-employed work slowly increased from the late 1990s onwards before peaking at 5 million in late 2019 The pandemic saw a dramatic fall, and numbers have stayed at around 500,000 below pre-pandemic levels since.[24] The ONS has reported that this fall was partly due to people describing themselves as employees rather than self-employed after the furlough scheme was created.[25] However, this reduction has been sustained over the last five years, suggesting many people have left self-employment for good. Evidence suggests that being able to access employment rights was a key factor for many of those considering leaving self-employment at this time.[26] The majority of self-employed people are male but, as figure 1 below shows, there has been a steady, long-term rise in female self-employment. In 2005, women made up 27 per cent of self-employed people in work; now, they make up 36 per cent.[27]

There is also a group of people working under the intermediate 'limb (b) status'. These people work in a way that is similar to many self-employed people, but their relationship is closer with their engager, which qualifies them for certain employment rights, such as a minimum wage and holiday pay. In 2021, the supreme court ruled that Uber drivers should be classified under this status. It is unclear how large the intermediate limb (b) workforce is, and to what extent this is included in the self-employment figures below, but the government is currently investigating its composition as part of the move toward single worker status.[28]

FIGURE 1: THE NUMBER OF PEOPLE IN SELF-EMPLOYED WORK IS LARGE AND MAJORITY MALE, THOUGH A GROWING NUMBER ARE WOMEN

Self-employment by gender (millions)



Source: Office for national statistics, Labour Force Survey, 2025

Self-employed people work in a variety of roles. Construction dominates, with almost 800,000 working in this sector. As figure 2 below shows, there are also large numbers of self-employed people in professional services industries, wholesale and retail trade, transport, 'other services,'[2] education, and health – with the latter three providing more work for women than men. The highest concentrations of self-employed people as a percentage of total employment are found in agriculture, forestry, fishing, mining, energy, water, construction, and 'other services'. Other sectors, such as the creative industries, have double the proportion of self-employed workers than in the general working population (28 per cent of people in the creative industries are self-employed, compared to 13 per cent in the economy more broadly).[29]

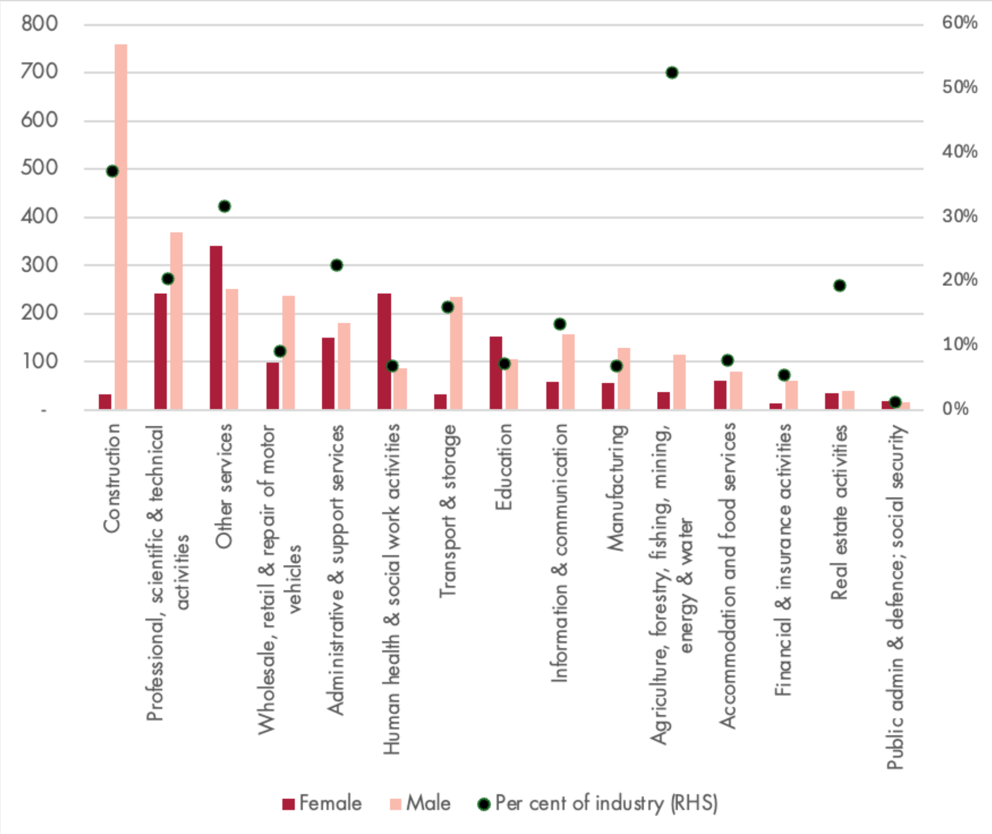
This sector created 5.3 per cent of GDP in 2024.[30] Sectors like this are more prone to needing self-employed workers, as organisations tend to require certain specialist skilled workers for shorter periods of time (such as camera operators or actors). Similarly, creative industry workers are often too

[2] This includes: activities of households as employers; undifferentiated goods and services-producing activities of households for own use

specialised to work for one company full time, so freelancing is more viable.[31]

FIGURE 2: SELF-EMPLOYMENT IS CONCENTRATED IN CONSTRUCTION, PROFESSIONAL, SCIENTIFIC AND TECHNICAL INDISTRIES AND OTHER SERVICES

Self-employment by industry (000s), ordered by total size



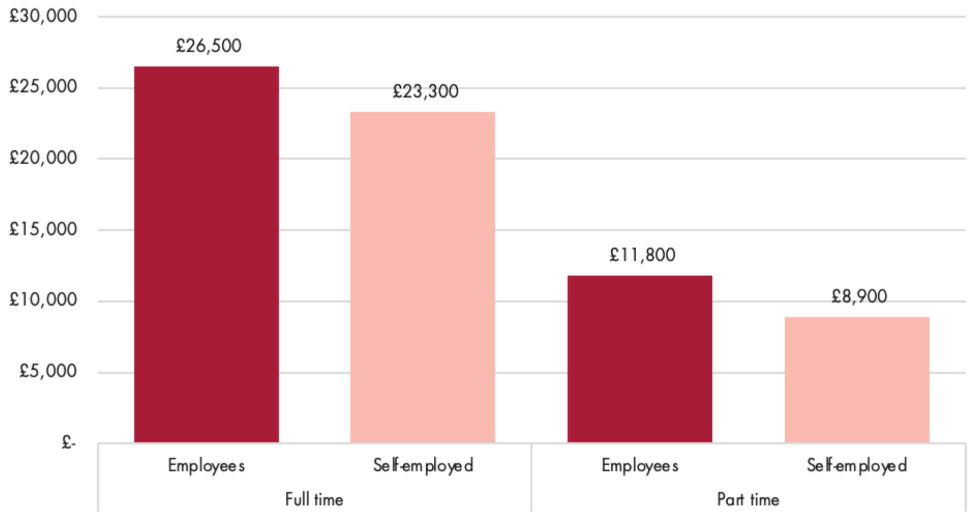
Source: Office for national statistics, Labour Force Survey, 2025

Many self-employed people are on low incomes

Many self-employed people are on low incomes. Median annual earnings are lower for self-employed people than for employees for both full-time and part-time workers, as figure 3 below shows. Full-time employees earn 14 per cent more than full-time self-employed people, while part-time employees earn 33 per cent more than part-time self-employed people.[32] In-depth analysis has shown that income growth has been much lower for the self-employed in recent decades, especially the solo self-employed, just as the number of people in self-employment has risen.[33] Self-employed people also appear to be at greater risk of economic inactivity.

FIGURE 3: SELF-EMPLOYED PEOPLE TEND TO HAVE LOWER NET INCOMES – WHETHER PART-TIME OR FULL-TIME

Median net earnings by employment status



Source: Department for work and pensions, Family Resources Survey, 2025

Self-employed people need support, but many don't have it

The data on self-employed people's health is mixed. Health Foundation research found there to be no notable differences in self-reported health between employees and self-employed people.[34] However, self-employed people do have characteristics associated with ill health, such as being older and having lower earnings. They are also more at risk of becoming economically inactive: experimental data shows that, each quarter, an estimated 3.2 per cent of self-employed people become economically inactive - significantly higher than the 1.7 per cent of employees who do so.[35]

Looking at absence from work due to sickness, the self-employed are generally either comparable or less likely to be off work due to sickness than employees. They lose 1.8 per cent of total working hours because of sickness absence, while employees lose 2 per cent. However, the rate of days lost due to sickness per worker is lower for the self-employed, at 4.6, compared to 3.7 for the self-employed.[36] This is likely linked to the lack of provisions for sick pay: in a recent survey, 19 per cent of the self-employed said they would have to carry on working through illness or injury, compared to only 12 per cent of employees.[37] And this has risen in the last year (previously only 14 per cent of the self-employed agreed with this). In total, 16m hours of work were lost due to self-employed people being sick in 2024.[38]

TABLE 1: SELF-EMPLOYED PEOPLE FALL ILL AT SIMILAR RATES TO EMPLOYEES, BUT TAKE LESS TIME OFF

	Employees	**Self-employed**
Sickness absence rate	2.0	1.8
Days lost through sickness per worker	4.6	3.7
Days lost to sickness (millions)	133	16

Source: Office for national statistics, Sickness absence in the UK Labour Market: 2023 and 2024

All people should be protected from acute financial insecurity from unexpected sickness, regardless of their employment status. Many self-employed people feel they need sick pay and would quickly struggle financially if they were sick for any period of time. Self-employed-led households tend to have lower financial resilience than those led by an employee.[39] A recent survey finds that three-fifths of freelancers (58 per cent) want the government to extend Statutory Sick Pay to them.[40]

The lack of sick pay safety net is particularly concerning for those who are only self-employed due to a lack of suitable employment alternatives. An in-depth survey found that around two in five workers would switch to a salaried job if they could secure the same income, and that around one-in-eight would accept a 20 per cent pay cut to switch.[41] For this group, income protection is clearly a major concern.

That does of course leave the majority who choose to remain in self-employment, and some might argue that this is the trade-off self-employed people consciously make. However, even if this were true, it should not disqualify them from financial support, especially when it relates to sickness which is, by its nature, unforeseen by the individual. Some of these people choose self-employment due to a need for more flexibility than traditional employment can offer, due to health or caring responsibilities – and these people might be even more likely to need sick pay.

BOX 1: COVID-19 AND THE SELF EMPLOYED

The Covid-19 pandemic exposed the precarity of being self-employed, with many people losing their entire income overnight due to the lockdown restrictions. Those who became sick from Covid or long-Covid quickly discovered the lack of protections for self-employed workers from income loss and sickness.

Government protections helped to provide some with an income cushion. However, many self-employed workers were ineligible from key schemes such as the self-employment income support scheme (SEISS). It is estimated that around 2 million solo self-employed people were ineligible, alongside a further 2 million owner/directors running their own small businesses.[42] A large problem was the sizeable number of people who had not been self-employed for long enough to quality.

The limited availability of support had serious knock-on consequences for many self-employed people. One in six self-employed people who had not experienced debt in the year before the pandemic fell behind on bills.43 Another survey estimated that over 1 million self-employed workers had to take on credit card debt to get by. Meanwhile, one in seven (14 per cent) had to use their overdrafts and more than a quarter (27 per cent) used up their savings.[44]

After the experience of the pandemic, over half of freelancers (52 per cent) did not feel supported by the government.45 Many left self-employment altogether, the number of self-employed workers falling significantly from 2020 and not recovering (see figure 1).[46] Of those considering leaving self-employment, 35 per cent cited being able to access employment rights as a contributing factor.[47]

Better sick pay has social and economic benefits

There are three key reasons why it is so important for the self-employed to have access to sick pay:

Economic. The economic benefits of sick pay are well evidenced, and many of these benefits apply to working with self-employed contractors, albeit in different ways. [48] Working whilst ill is between 15 and 36 per cent less productive, and those who do so are more likely to make errors or get injured than a healthy person.[49] Presenteeism can also make people more ill, leading to more time off work than would have been required had time off work been taken immediately.[50] This is particularly true with regard to mental health conditions. The business costs of this effect far exceed the cost of providing sick pay itself. Research has found that employees without sick pay policies are more likely to engage in such presenteeism, and this is likely true for the self-employed as well.[51] Sick pay policies also help with the attraction and retention of good employees. In the case of the self-employed, a sick pay scheme could make engagers more appealing to work on an ongoing basis, and many 'gig economy' companies now advertise some form of sickness insurance as part of their package.

Social mobility and equality. Providing sick pay for self-employed people will make key industries that rely heavily on this form of work more accessible and inclusive. It would particularly help those who have a chronic illness – who are able to work (and so ineligible from most of government disability support), but may face flare-ups that cause them to take numerous unexpected periods of sick leave. People with pre-existing conditions are also disadvantaged when it comes to sick pay protections, because private insurance models are more expensive for them. People from working class backgrounds, or those who have no parental safety net, are also likely deterred from self-employment due to the lack of protection from income shocks, including sickness: 17 per cent of self-employed people chose 'parents income/savings' when asked what their backup plan was if they couldn't work due to illness or injury compared to only 7 per cent of employees. While all industries would benefit from sick pay policies for the self-employed, the creative industries often rely on self-employment and are particularly exclusive: younger adults from working-class backgrounds are 4 times less likely to work in the creative industries compared to their middle-class peers.[52]

Health and public services. Inadequate sick pay makes it more likely that self-employed people will come into work carrying communicable diseases such as a cold, flu, or Covid – or more serious diseases such as mumps or tuberculosis – to avoid losing necessary income. [53] Doing so will have health impacts for the individuals themselves, often prolonging their period of illness, and risks infecting others, including employees, other self-employed people, and customers.[54] Sick pay policies help prevent such challenges, often quite significantly.[55] The evidence also shows wider health consequences in industries where people come into contact with food, such as hospitality. [56] And infectious diseases will clearly spread in circumstances where there are large audiences, such as the creative industries. Even for non-communicable illnesses, the stress of having to work while sick could prolong recovery; this is particularly the case for mental health challenges. Evidence shows that presenteeism perpetuates mental health problems and is associated with higher rates of depression.[57] These are potentially high health costs, both to the individual and to society. They are significantly higher when they lead to longer-term inactivity – which is more common with self-employed people, as discussed above.

Current sick pay options for the self-employed are very limited

In the UK, there is no comprehensive sick pay system for the self-employed. The self-employed can sometimes claim income when they are sick through a number of other benefits. However, there are often numerous barriers to doing so, making this a piecemeal and ineffective system.

'New style' employment and support allowance (ESA)

Currently, the main alternative to sick pay for the self-employed is new style ESA. Self-employed workers are entitled to it after a week without any earnings if they have a sufficient national insurance record. However, there are several key issues with relying on this as the main sick pay system for the self-employed:

Limited eligibility. New style ESA is a contributory benefit, meaning claimants need to have paid enough national insurance contributions, usually in the last 2 to 3 years, or have gathered enough credits to be eligible.[58] This can make ESA unavailable for some people who have had intermittent work records, due to caring responsibilities or illness, for example.

Low payment rate. Whilst a person's ESA claim is being assessed, they will normally receive the 'assessment rate' for 13 weeks. This is up to £72.90 a week for those under 25 or £92.05 for those 25 or over in 2024/25. This is significantly lower than the statutory sick pay available to employees (which is also widely regarded as very low and in need of reform).[59] As most illnesses don't last more than 13 weeks, these rates are currently the most comparable to sick-pay for self-employed.

After a Work Capability Assessment, claimants are placed in either the work-related activity group (for people deemed able to get back to work in the future) or the support group (for people with long-term illness that are not expected to be able to get back to work in the future). For those in the work-related activity group, the rate is up to £92.05 a week; for the support group, it is up to £140.55 a week.[60]

The rates are particularly low – the payment for a worker aged over 25 is only equivalent to 21 per cent of the minimum amount required to live in dignity in the UK. [61] A full-time self-employed worker on a median income would face an 81 per cent drop in income, if they fell sick and had to transition from full-time work to ESA. This means the average worker would lose over four fifths of their income. [62]

Wait times. ESA is not paid until the 8th day of absence, which means there is no protection for self-employed workers for the first seven days of illness. It is therefore unlikely an individual would be able to claim ESA for a short illness such as a cold or flu. This means that this benefit's impact on preventing the spread of short-term disease is limited. There are also often long waits (around 13 weeks) for a claim for the higher rate of ESA to be assessed through a work capability assessment.[63]

Low awareness. ESA has low awareness and low take-up. A DWP survey found that only 17 per cent had heard of it prior to claiming. Only 32 per cent knew it was a sickness benefit at the time they claimed, while over half (58 per cent) knew nothing about the benefit at all.[64]

Interactions with universal credit – ESA payments are treated as 'unearned income', and so deducted from universal credit. This means that low-income self-employed workers who are eligible for universal credit, and who fall ill and want to claim ESA for sickness, will find that their UC payment is reduced by the amount they are paid in ESA. This renders it virtually pointless to claim for ESA if you are already claiming a significant amount of universal credit – meaning there is no further protection for low-income self-employed workers in times of sickness. This stands in sharp contrast to the rules for employees receiving statutory sick pay. Statutory sick pay is treated as earned income, so a 55 percent taper rate applies, as does a work allowance. This means that employees receiving statutory sick pay are able to keep much more of their universal credit payments than self-employed people receiving ESA.[65] Intuitively, this is unfair: the only difference between these two cases is the employment status of the person receiving the sick pay.

Universal credit

Self-employed workers can claim universal credit in some circumstances. They must be able to demonstrate that they are gainfully self-employed, and either on a low income, out of work, or unable to work. However, due to self-employed people's tendency to have irregular earnings, payments after an initial year-long start-up period are subject to a condition called the 'minimum income floor'. This means that the DWP estimates what it expects you to earn each month (generally based on the national minimum wage for your age).

If a claimant happens to earn below this 'minimum income floor' in one month, they will not receive any additional universal credit. For example, if someone's minimum income floor is £1,600 a month, and they actually earn £800 that month, the DWP might work out their universal credit payment as if they had earned £1,600. This means they would receive less in universal credit than if they had used the claimant's actual earnings.[66]

The floor does not apply immediately if a person has not previously been gainfully self-employed while claiming universal credit and is actively trying to increase their earnings. Instead there is a 'start-up' period – typically a year – where payments are based on actual earnings instead.[67]

If the floor does apply to the claimant, but the DWP determines that a worker is sick, they might temporarily use their actual earnings (£800 in this example) instead of the minimum income floor. This allows the worker to receive more in universal credit when they are sick. However, it is only likely to be removed for a medium-term illness. A cold or flu would be considered too short; part of the intermittent working patterns that come with self-employment. On the other hand, a long-term, severely limiting illness or disability would lead to the claimant going down the 'no work related requirements' benefits pathway, so they wouldn't be considered gainfully self-employed, and the MIF would no longer apply at all. The MIF is most likely to be suspended for a temporary but work-limiting illness, such as recovery from an operation, or a broken leg.

There are several challenges for self-employed people relying primarily on this universal credit system when sick:

Limited eligibility. Only self-employed people on a low income can claim universal credit, meaning people on a medium or higher income who are off sick and lose self-employment income would not be entitled to any support through the UC system. One survey found 73 per cent of self-employed people were unable to access DWP support, such as universal credit, during the pandemic.[68] Another group which are ineligible for UC support are those who have £16,000 in savings. While this may seem like a lot, such savings are often necessary for self-employed people who lack access to pensions, redundancy payments, maternity / parental leave, bereavement leave, carers leave and more. There is a risk that such rules may disincentivise self-employed people from further saving, particularly for those approaching the £16,000 threshold who would lose their UC in its entirety by saving just a penny over the limit. Resolution Foundation research finds that 1.2 million families who would have been eligible for Universal Credit on the basis of income in 2020-22 , lose their entire entitlement to UC due to these rules.[69] It is essential that self-employed people are not disincentivised from saving, when this group already faces such financial precarity.

Uncertainty and complexity. The removal of the minimum income floor for people who are off sick is not guaranteed and requires self-employed people to call the universal credit helpline or speak to their work coach. This creates several hoops to jump through for a claimant to get a sufficient benefit rate when they are sick.

Low awareness and clarity. There is a lack of clarity over whether the minimum income floor can be suspended during sickness.[70] It is also likely that many self-employed people will not be aware that they can claim UC when working but on a low income, or remove the minimum income floor when they are sick.

Issues for self-employed parents. Self-employed single parents who cannot work due to sickness are ineligible to receive support for childcare costs element of universal credit. This, once again, stands in sharp contrast to the rules for employees who are off sick and receiving statutory sick pay, who remain eligible to receive this support for 28 weeks (the duration of statutory sick pay). This is particularly important for single parents, for whom support for childcare costs is essential in order to return to work.[71]

Unemployment insurance (proposed)

The government is currently consulting on a new benefit called unemployment insurance.[72] The suggested reforms would merge jobseeker's allowance (JSA) with ESA into a time-limited 'unemployment insurance' benefit. It is likely that this would provide £140.55 per week to workers who are off sick, and it would be available to both employees and the self-employed, without needing to pass a work capability assessment. This rate is the same as the current higher rate of new-style ESA, which is currently only available to those placed in the support group after a work capability assessment. This change would provide a higher benefit level to those previously claiming JSA and those currently receiving the lower 'assessment rate' of ESA. For those currently claiming the highest rate of ESA, there would be no change. The government has suggested this support might last 6-12 months.[73] This is set to be a welcome reform, though there are some challenges that will need addressing:

Adverse effects on some ESA claimants. The change could adversely impact those who are in the support group by introducing a time limit on ESA claims (currently claimants who are assessed as unfit to work can claim ESA indefinitely).

It falls far short of a full employment insurance model. Fabian Society research has previously recommended the introduction of comprehensive employment insurance for employees and the self-employed. The proposed changes are a step in that direction, but lack income-related entitlements, which could significantly increase sick pay for the majority of workers (see section 4). The suggested rate of the new unemployment insurance is only

£140.55 a week. While this is a significant increase from the current rates of ESA for people not in the support group, it still constitutes a 69 per cent income loss for the average self-employed worker. This means the average worker would still lose more than two-thirds of their income under the new unemployment insurance system.[74]

Private insurance

Due to the lack of support from the state, some self-employed people choose to buy private insurance. Individual income protection insurance and critical illness cover are the two main types. Critical illness cover pays out a single lump sum in the event of a serious illness, while income protection insurance pays out regularly to replace a portion of your income, typically 50 to 70 per cent of earnings.[75] However, there are significant challenges here, too.

Low take-up. Only 6 per cent of self-employed workers have purchased an income protection product.[76] This is significantly lower than employees, 16 per cent of whom have such a product, despite having more income protection from employment rights.[77]

Inequality – Typically, pre-existing conditions are not covered by these types of insurance. This means that many disabled or chronically ill people – often those who need such insurance the most – will not be covered, or will find that their insurance is much more expensive.[78]

Long wait times. Individual income protection policies have a minimum of four weeks wait after making a successful claim for payments to start. The default wait period is 13 or 26 weeks, but some policies can have periods of up to 104 weeks.[79] This makes it an ineffective option for short or medium-term illnesses – for example, flu, pneumonia, or recovery from a minor operation.

Interactions with universal credit. Individual income protection (IIP) insurance payouts are classed as unearned income under universal credit, meaning that the amount of IIP received is deducted from universal credit payments on a pound for pound basis.[80] Provided IIP payouts are higher than universal credit, this means that those who choose to take out an IIP policy are not entitled to any UC support. This limits the safety net available to self-employed workers with an IIP policy, and unfairly penalises those who chose to purchase a policy to protect themselves from risk by rendering them ineligible for government support. It also reduces the incentives for others to take up IIP policies. This policy issue impacts a large cohort – New Policy Institute research found that over half (54 per cent) of all IIP policyholders are estimated to have an entitlement to UC, and 39 per cent of

IIP policyholders would face their entire entitlement to UC being removed if they made a claim on their IIP policy.[81]

Cost. Many self-employed people are on very low incomes. These workers often need sick pay the most, but may be unable to pay premiums. The average cost of a two-year limited benefit term policy is £24 a month or £288 for a year. Many workers expect costs to be even higher which may put them off looking into such policies– one survey found that 37 per cent of UK workers overestimated the cost of income protection policies.[82]

While these options provide some protection to the self-employed, they do not constitute a holistic sick pay system. The complexity and barriers to claiming described above mean that many self-employed workers still do not feel they have adequate protection from sickness. A new system is required.

3. LEARNING FROM OTHER COUNTRIES

We need a new system which offers self-employed workers better protection when they become sick. However, there are practical challenges with establishing such a system. This section discusses the approaches other countries have taken.

Most European countries have stronger sick pay entitlements for the self-employed

One study, completed when the UK was still in the EU, found that we were one of only four European member states that did not extend some form of sick pay protection to the self-employed.[83] Spain, Denmark, and Finland all have generous state-funded sickness benefits for the self-employed.[84] Other countries have developed innovative solutions. Below, we discuss three such countries.

The Netherlands: Broodfonds (bread funds)

In 2004, the Dutch government abolished sick pay for self-employed people. Previously, there had been a mandatory insurance system that entitled self-employed people who became disabled to an income worth 70 per cent of the minimum wage.[85] The Dutch government took the decision on the basis that the risks faced by the self-employed were easier to insure against on the private market than the risks faced by employees.[86]

Bread funds were developed as a response to this change. A bread fund is a voluntary collective of 20-50 self-employed people who support each other financially in case of sickness for up to two years. Anyone can start a bread fund, and there is a national organisation that helps people to start a bread fund (De BroodfondsMakers). This organisation has formulated general guidelines and conditions for people to participate in a fund.[87] While still relatively small in number, Bread Funds have grown rapidly in the Netherlands. The first bread fund in the Netherlands was created in 2006, and this slowly increased to a total of 19 bread funds in 2012. More recent research in December 2022 estimated that now nearly 30,000 freelancers were involved in 635 local bread funds.[88] However this is still only a small proportion of the 1.3 million self-employed people in the Netherlands.[89]

Bread funds function like an insurance fund, but are owned by participants – similar to a co-operative. When entering a bread fund, the participant chooses which monthly payout they want to receive in the event of sickness. This translates into a monthly contribution level – a higher monthly contribution results in a higher pay-out in case of sickness. Participation in the fund costs between €33 and €112 per month. This is much less expensive than the formal public or private insurance schemes in the Netherlands, which often cost more than €200 per month. Each participant pays their monthly contributions into their own personal "bread fund account", which grows over time. When a participant in the bread fund becomes sick, they receive monthly donations from the bread fund accounts of all the other participants. These donations add up to meet the selected monthly pay out level of the sick participant. When a participant decides to leave the bread fund, they take their remaining sum of money in their individual bread fund account with them.[90]

The advantages of such a system are clear, but there is one significant problem: because the group is so small compared to a typical insurance system or a state-funded system, liquidity could be put at risk if a large number of contributors happen to fall sick or leave the scheme at the same time.

Some bread funds already exist in the UK, but they remain at the margins. While some have tried to set up pilot bread funds in the UK in 2017, several factors have inhibited their widespread rollout. This includes banking legislation making it difficult to set up bank accounts for bread funds, legislation that prevents the refund of unused funds to members when they leave, and the blurred lines between traditional employment and self-employment in the UK.[91] Research on bread funds in the UK has argued that more public presence would give these schemes more credibility, increase their recruitment potential, enable them to learn from the work of other initiatives, and put pressure on policymakers, regulators and potential funders to create the wider conditions in which they can succeed.[92]

Norway: state funded sickness insurance and voluntary insurance[93]

There are two elements to Norway's model:

State-funded sickness benefits. Self -employed individuals can claim sickness benefits from the state from the 17th day of sickness absence. Employees can also receive these benefits; they, however, also receive employer contributions from the first day of sickness, before the state benefit kicks in. The sickness benefit is paid at a rate of 100 per cent income for employees and freelancers, and 80 per cent for self-employed people who aren't classified as freelancers. This is calculated from income reported from employers and engagers to the authorities through a centralised system called 'a-ordning', based on income data for the last three months (freelancers) or average pensionable income for the last three years (self-employed people who aren't classified as freelancers under Norwegian tax law). There is a cap on the amount people can receive, and they have to earn more than a certain income to be eligible.[94] Such a generous system is possible because of the relatively high taxes Norwegian citizens pay.

Voluntary state-run insurance. To fill gaps left by the state-funded system for the self-employed, there is also a voluntary sick-pay insurance scheme available, run by the government. This allows self-employed people to gain 100 percent sick-pay cover from the first day of sickness. To be eligible for this, they must pay a premium of 3.3 per cent of their expected annual income from their tax return.[95] Such a system could be a way to provide sick pay to the self-employed in the UK in the medium term – without needing to raise taxes.

Canada – employment insurance (EI)[96]

Canada's sick pay is delivered through a comprehensive earnings-related system of income replacement benefits known as employment insurance (EI). Unlike most state-run social protection systems, it is not run directly by the government, but by an arms-length body. This institution is self-funding. The payments people receive draw on the premiums placed on employees and employers. In some ways, this is similar to how national insurance works in the UK, though the UK's National Insurance Fund is directly run by government and operates differently in other important respects.

Self-employed workers can opt in to all EI benefits except for unemployment benefit, and they only have to pay the employee premium (so not the employer premium). The self-employed are entitled to a range of benefits, including caring benefits, parental leave benefits, and a short period of paid training leave.

For sickness, they can claim 55 per cent of earnings up to a cap of $695 a week. This is subject to getting a medical certificate stating that the individual is unable to work for medical reasons for a period of time.

However, self-employed people have to opt-in to the system, rather than being automatically registered. Take-up is very low, meaning many self-employed people remain unprotected.

4. CHALLENGES AND OPPORTUNITIES OF A UK SYSTEM

While other countries provide some useful lessons, all countries are unique and will have to develop their own solutions. This section discusses the challenges before setting out potential options.

There are challenges to creating comprehensive sick pay protection for the self-employed in the UK

There are a number of challenges which the UK would face when implementing a comprehensive system of sick-pay protection.

The ability and willingness to pay in via tax, national insurance or other contribution. Data on self-employed people's willingness to pay extra in tax for increased social protections is mixed. A recent survey by the FSB found that only 22 per cent of self-employed people say they would be willing to pay more tax or national insurance contributions if that meant improvements to what they can claim from the state (eg maternity/paternity/sick pay). This is compared to 59 per cent who said they weren't willing, and 19 per cent who said they didn't know.[97] However, a 2021 survey commissioned by Prospect, Community, and the FSB found 51 per cent would support a scheme that gave freelancers, self-employed workers and the self-employed a stronger income safety net in exchange for some contributions out of their wages (12 per cent were opposed, and 38 per cent unsure).[98]

Uneven working patterns. Patterns of work for self-employed people can be irregular, meaning it is more difficult to create and administer a fair and accurate form of sick pay for them. First, self-employed people's work and earnings are often very intermittent. For example, in several creative industries it is normal to in work in bursts – with long days spent working on a project followed by a periods without work. Additionally, many people with disabilities and chronic health conditions choose intermittent forms of working, since they provide more flexibility to manage health conditions that may cause frequent periods off work or make it more difficult to work at certain times of day. Second, payment structures for self-employed people are varied: some workers are paid by the hour, but others are paid by the week, day, or for a specific project. Both of these factors make calculating fair sick pay for self-employed people more complicated. Basing sick pay payments on earnings over a longer period – eg years instead of months – could help to ensure payments are fair to those with intermittent earnings.

Administrative complexity. Self-employed people have fewer points of interaction with the government, making it more difficult to administer a sick pay system. However, the SEISS scheme in Covid-19 (see section 2) and Norway's sick pay system for the self-employed (see section 3) showed that it is possible to provide payments to the self-employed based on recent or average earnings. The UK is currently phasing in a system whereby self-employed people file quarterly digital returns, which could be an opportunity to introduce a sick pay offer.

The self-employed are often paid by several engagers instead of one employer. As freelancers and contractors tend to work for several engagers instead of one employer, it could be difficult to require engagers to pay sick pay directly as employers do with employees. Because self-employed people often provide specialised labour for a short period, engagers would have to pay both the cost of hiring a replacement and the cost of sick pay for the person who is not able to work, doubling their. This could also open the door to covert discrimination against those who have previously fallen ill, or who engagers feel are more likely to fall ill. However, the IPSE has suggested that engager's levies could work as a way to collect funds from those who hire the services of freelancers. This would apply a tax charge to the fee paid by a client when engaging a freelancer or contractor, calculated as a percentage of the free lancer's rate (be it an hourly, daily or project fee). While they propose this as a way to replace income lost from their proposal to scrap IR35 tax rules for contractors, the same principle could be used for engagers to fund sick pay for freelancers or contractors, in a more practical and affordable way.[99]

BOX 2: SOME 'SELF-EMPLOYED' PEOPLE SHOULD HAVE STATUTORY SICK PAY AS EMPLOYEES

A person's employment status is a crucial factor for sick pay entitlements. Statutory sick pay is only payable when there is an employer contributing NICs. Therefore, neither the self-employed nor intermediate limb (b) workers are entitled to it. However there are a large number of workers in bogus self-employment, who should be entitled to statutory sick pay, but who are not receiving it.

Bogus self-employment is when someone is only being afforded the rights and entitlements of someone who is self-employed, despite having a relationship that the law would judge to be that of an employee in reality. It can be very challenging for such individuals to enforce their rights and assert their employment status in practice, due to the lack of awareness, an imbalance of power, and a lack of support. This problem isn't particularly new, but it has become more significant and high profile. This is because gig economy businesses have often thrived on a model which relies on the consistency of service that employee models offer, while evading the requirement to provide employment rights, operate HR systems and pay employer NICs.

This means that there are potentially a large number of people who should have an employee's right to sick pay, but cannot exercise that right in practice. The size of this group is one of the great unknowns of the current UK labour market, but the government is currently investigating it. For those working in takeaway food delivery and for drivers, this is a particular issue, as the rate of workplace accidents is high.[100]

In a sense, there are technically two ways to provide sick pay for the self-employed. The first is to enforce, clarify or reform employment status so that many of the bogus self-employed, who are currently not able to claim statutory sick pay in practice, can do so.[iii] The second is to provide the self-employment protection schemes discussed in this report.

[iii] Some argue that single worker status will help to clarify this, and the government is exploring how this would work.

There are multiple options for how a new system could be funded and administered

The key challenge in designing a new sick pay system for the self-employed is how to pay for it. Several options for this exist: it could be funded by the state, by self-employed workers through a contributory system, or by engagers (the people who hire the services of self-employed workers). These options are discussed in table 2 below.

TABLE 2: FUNDING OPTIONS FOR SELF-EMPLOYED SICK PAY

Policy	Benefits	Challenges	Costs and Impact
1. State-funded **Create a new 'Sickness and Disability Allowance'[101] benefit which pays self-employed workers who are off sick Statutory Sick Pay (SSP).** **This would be funded through increased National Insurance Contributions for self-employed workers.**	Relatively easy to administer through DWP. All self-employed workers would have sick pay rights. International precedent exists. Several other European countries have state-funded sick pay for the self-employed.	Public finances are constrained. The data on whether self-employed workers would want more rights even if it meant paying more taxes is mixed (See the beginning of section 4). Self-employed workers would not have a choice of whether they want to pay extra in tax for these extra rights. Labour's manifesto ruled out increasing national insurance contributions for working people.	In 2023, Fabian Society modelling estimated that this would cost £60m, and this cost is likely to be greater now with recent rises in the SSP rate.

		Therefore, increasing self-employed NICs for self-employed workers would likely be a breach of the manifesto, so is unlikely to be possible this parliament.	
2. Opt-out voluntary insurance (state-run) **Workers would pay into a central fund and be eligible for payouts if they were to become sick.** **This could be an opt-out system, such as with auto-enrolment for pensions, to maximise take-up.**	Increased choice. Self-employed workers would have the choice to opt-out if they chose. This also prevents the scheme from breaking the government's fiscal rules, so it could be possible this parliament without breaching the manifesto. International precedent – countries such as Norway (see above) already have voluntary contributory social insurance systems.	Self-employed people would fund the cost of sick pay themselves, which could be seen as unfair compared to employees, where this is funded by employers. Those on very low-incomes who need sick pay the most may choose to opt out to avoid paying contributions, rendering them ineligible for support. Would involve the costs of creating and administering a new contributory system.	Self-employed workers would pay in approximately £10 a month to receive £118 a week (the value of SSP) if they fell ill.[102]

3. Engager-funded **Create a new system where engagers of self-employed workers pay a levy into a central fund when they hire self-employed workers.**	Replicates the system for employees where employers fund the costs of sick pay. Offers greater security for self-employed workers, without these workers having to fund this directly. Ensures businesses using self-employed labour cover some of the costs relating to sickness for these workers.	Entails a lot of administrative complexity due to the unusual working patterns of self-employed workers. Risk that engagers could account for the costs of paying into such a scheme by lowering the payment for those who are already on low incomes. This would only work for groups of self-employed people who have a set of engagers who hire their services and could pay the levy, such as contractors, freelancers and gig economy workers. Such a system wouldn't work for self-employed people who don't have a set of engagers eg business owners.	Engagers would face a levy of 6p per hour that they hire self-employed workers which would go towards a central fund to provide statutory sick pay of £118 a week when they fell ill.[103]

The above options are workable solutions to the current situation, but it is important to also consider a more ambitious system. All of the above models have challenges which could be addressed by a comprehensive employment insurance system, set out in box 3 overleaf.

An employment insurance system would provide a significant level of security from sickness for self-employed people. It could provide an income for 12 months of sickness of 50 per cent of recent or average earnings up to a cap. This model would also address the challenges the above models all share – low sickness entitlements, wider gaps in the safety net (such as parental leave) and low awareness. However, the cost of such a system would be far higher.

BOX 3: EMPLOYMENT INSURANCE

Full employment insurance would entail a combination of paid leave entitlements (for employees) and state insurance benefits (available to the self-employed and other groups), typically paying half of a worker's current or recent earnings.

The Fabian Society previously recommended an employment insurance system consisting of the following benefits for people without a job or who are self-employed:

- Unemployment insurance – 50 per cent of income for 6 months
- Sickness insurance – 50 per cent of income for 12 months
- Maternity and adoption insurance – 50 per cent of income for 6 months (followed by parental leave insurance below)
- Parental leave insurance – 50 per cent of earnings for 6 months
- Carer's insurance – 50 per cent of earnings for 12 months
- Retraining insurance – 50 per cent of earnings for up to 8 months over 5 years
- Free occupation health services (also available to SMEs)

This system was broadly popular, with 60 per cent of those surveyed (a representative sample including both employees and the self-employed) either saying they either strongly support or tend to support such a system.[104] The system would be funded in one of two ways. It could be funded through DWP and HMRC, with the additional expenditure to provide these entitlements funded by an increase in national insurance contributions for employers and individuals, including for the self-employed. Alternatively, it could follow the Canadian model, by setting up a new arms-length social insurance institution that would collect freestanding insurance premiums deducted from payroll (for employees and employers) or at the point of tax returns (For techs self-employed).

The government has made some progress towards this model, with the recent consultation on the introduction of unemployment insurance. However, there is still a long way to go particularly surrounding the self-employed who can't work for reasons of sickness, caring, or retraining.

5. RECOMMENDATIONS

This report has made the case for sick pay for the self-employed. We have shown how this large and diverse group of workers – many of whom face significant precarity – need sick pay to protect their incomes and ensure their financial security. We have shown that this would have wider benefits to the economy and public services. We have further shown how other countries have addressed the challenges of maintaining such a system and discussed the various options and trade-offs for a new UK system.

This section sets out our recommendations. First, we present some practical short-term options. Then, we present a variety of medium- and longer-term solutions.

Short-term

There are several small changes that could improve financial support for self-employed people who become sick. These could be done relatively quickly with minimal regulatory change and/or cost to public finances. We recommend that these be done in the next year.

1. Reform universal credit to benefit self-employed workers who become sick

There are currently several barriers within the universal credit system that prevent self-employed people from receiving a liveable income when they are sick. First, self-employed single parents are unable to claim the childcare costs element of UC when off sick. Second, those who have taken out individual income protection insurance end up receiving limited or no universal credit when they are sick, since payouts are treated as 'unearned income'. Finally, those with more than £16,000 in savings are ineligible for UC, limiting the amount of sick pay support available to self-employed people who may be saving for a pension, parental leave, or other future plans.

The government should reform UC to better support self-employed workers who become sick. They should:

- Allow individual income protection insurance to be treated as earned income instead of unearned income for the purposes of universal credit.[105] This would ensure those who have taken out insurance to protect their income in event of sickness don't lose their universal credit if they get sick.

- Treat ESA (or the new unemployment insurance) for self-employed people who are off sick as earned income instead of unearned income for the purposes of universal credit, as is currently the case with those receiving statutory sick pay.[106]
- Allow self-employed parents who cannot work due to sickness to continue to get the childcare costs element of universal credit, as is the case with those receiving statutory sick pay.[107] This would ensure self-employed parents do not face losing their childcare support during a short period of sickness.
- Consider reforms to the savings limit in universal credit so self-employed people saving for events such as sickness, parental leave, or saving in place of a pension remain eligible for universal credit when they have low earnings.[108]
- Clarify and simplify the process of removing the minimum income floor when self-employed workers become sick, so they can claim a greater top up in universal credit, based on their actual earnings.
- Review the impact of the minimum income floor on self-employed workers and consult on alternative policies to provide universal credit to this group.

2. Support the development of bread funds in the UK

The development of sick pay co-operatives can help provide a safety net to some workers in a landscape where there is limited state protection. They can also help to create community bonds among the self-employed – whether it be locally or within an industry – and their effectiveness has been demonstrated in the Netherlands.

- The government and other key organisations should create enabling conditions for development of bread funds in the UK. Unions, in particular, should explore how they can assist with the scaling-up of bread funds in the UK – for example, through 'incubator support', access to resources, or awareness-raising initiatives.[109]
- Groups close to self-employed people – such as business support and industry groups; banks; FE colleges; DWP and HMRC advisors; local councils; and businesses who employ a large number of freelancers and contractors – should also explore how they can raise awareness of bread funds with their service users.
- The government should review barriers to developing bread funds in the UK, including consulting on legislation that prevents bread funds from setting up bank accounts. [110]

- The government should explore how they can assist the operation of bread funds by, for example, creating a regulatory framework for bread funds to collaborate to pool risk.

Medium-term

In the medium-term, regulatory change, which requires little public spending, could help to protect self-employed workers. We recommend that this is introduced before the end of this parliament.

3. Create a new opt-out voluntary sickness insurance system, administered by central government, where engagers and self-employed workers share the cost of sick pay

In the medium term, a more formalised scheme of support is needed. There should be a responsibility for engagers to contribute to the cost of self-employed workers' sick pay, just as employers do for employees. While it would be unrealistic to expect engagers to continue to pay a self-employed worker directly for their work while they are ill, a small levy on rates to help provide a safety net for self-workers, is something most engagers could afford to pay. Self-employed workers should also have the opportunity to insure themselves against sickness by paying into a central fund without having to face the inequality and costs of private insurance models. This has been shown to be practical in Norway.

The government should create a new opt-out voluntary sickness insurance system where engagers and self-employed workers share the cost of sick pay. In this system, workers would contribute a certain amount a month to a central fund. Engagers would also contribute an amount for each hour they hire the services of a self-employed worker. Workers would then receive a certain level of sick pay if they fell sick.

This system would be administered by central government. HMRC would gather the funding and DWP would administer payments. It would be an opt-out system, as with auto enrolment for pensions, to ensure maximum take-up while retaining a voluntary element. Workers would be opted-in when first reporting their income to HMRC and could opt-out at any time via the HMRC website. Contributions would be deducted from their tax return, as is currently the case in Norway.

To begin with, we suggest an equal split between workers and engagers. Our initial calculations estimate that to provide the current level of statutory sick pay (£118.75 a week) for someone working 'full-time' in self-employment would cost workers just £5 a month, while engagers would pay a levy equivalent to 3p per hour when they hire a self-employed workers' service.[iv] As this charge is quite low, it is unlikely that it would cause engagers to significantly reduce self-employed labour, as the cost is likely to still be much lower than that of hiring a permanent employee.[v] Government should model different options of how this tax could be most effectively administered, for example, basing the levy charge on the total amount a company spends on self-employed labour every quarter. Any payouts from this scheme should be treated as earned income in Universal Credit. This is so that low-income self-employed people can keep at least some of their entitlement to Universal Credit when receiving sickness payouts, increasing incentives to remain opted-in to the sick pay scheme.

The money raised would be ring-fenced for providing sick pay to self-employed workers. However, the government would act as a lender of last resort if cash flow were low, due to, for example, a large number of sickness absences at any one time. The government currently supports the National Insurance Fund in a similar way. Alternatively, the existing National Insurance Fund could also provide this liquidity when needed.

Sick pay should be paid from the first day of illness, as will soon be required for employees' statutory sick pay if the employment rights bill passes as expected. To avoid abuses of the system, a medical note should be required to claim sick pay. However, where this cannot be obtained on the first day, the pay could be backdated to when the worker first became unable to work. After this it should be paid for up to 28 weeks, as is currently the case with statutory sick pay.

The engager contributions would only be available for those groups who have engagers, such as freelancers and gig economy workers. Self-employed people who do not have an engager, such as business owners, would have to pay 100 per cent of the cost. This would be amount to approximately £10 a month.

Long-term

In the long term, the government should offer greater protection and security to self-employed workers, including providing more significant public funding and the creation of new social security systems. We

[iv] These costings are preliminary and based on average sickness rates, so more detailed modelling based on the likely make-up of the cohort who would take part in the scheme, should be done by government before finalising contribution and levy costs.
[v] These costings are preliminary and based on average sickness rates, so more detailed modelling based on the likely make-up of the cohort who would take part in the scheme, should be done by government before finalising contribution and levy costs.

recommend that this happens in the next parliament, with the groundwork laid during this parliament.

4. Create full employment insurance for both employed and self-employed workers, including income-related sickness insurance for the self-employed

In the long term, a more comprehensive system of support is needed. Statutory sick pay is very low and most other European countries provide higher sick pay. However, it may not be possible to fund more generous sick pay with just engager and worker contributions. Engagers could respond to a significantly higher levy by reducing the use of self-employed workers or their pay. Also, many self-employed workers are on low incomes, and may opt-out of a system that requires substantially higher contributions. Self-employed workers also lack a number of other benefits such as maternity and parental leave. The government will need to have a substantial role in providing broader income protection for self-employed workers in the longer-term through sickness insurance.

The government should create full employment insurance for both employed and self-employed workers, including income-related sickness insurance for the self-employed. This would entail a combination of paid leave entitlements for employees and state insurance benefits available to the self-employed and other groups, typically paying half a worker's recent earnings.

This would include sickness insurance for the self-employed, meaning that if a self-employed worker could not work due to illness, they would retain 50 per cent of previous earnings for 12 months (up to a cap of £30,000 per year). Sickness should be verified on the basis of medical certificates.[111]

For self-employed people, earnings should be calculated as they were for the SEISS scheme – ie, average trading profits over 3 years. This would help guarantee self-employed people with intermittent earnings a fair calculation of their expected income by using a longer time period to assess average earnings. As with the SEISS system, claimants should be able to view how their payment has been worked out online, and they should be paid directly into their bank account. However, care should be taken to fix the gaps left by the SEISS system. For example, newly self-employed people were severely disadvantaged by the eligibility conditions of the SEISS scheme. The new employment insurance system could take previous employment income into account to support people who had not been self-employed for three years prior to falling ill.

Contributions and payments should be administered by a new self-funding social insurance scheme similar to Canada's employment insurance system.

Employee and employer premiums would be deducted from payrolls, and self-employed people would have premiums deducted from their tax returns. This option is preferable to increasing national insurance contributions since it places the system on a permanent footing and reduces the risk to entitlements being cut if current or future governments want to cut national insurance.

Fabian Society modelling in 2023 estimated that such a system would cost £9bn a year to cover both workers and the self-employed. This cost would be equivalent to a 0.7 per cent increase in national insurance contributions by individuals and employers – though this has likely risen in the years since with increases in average earnings.[112] The government could explore calculating social insurance premiums in a progressive way – for example, so that the lowest-paid self-employed did not have to pay any for the first year of self-employment. While the government's fiscal rules do not currently allow for tax rises on working people, we suggest this is the best way to fund such a more generous sick pay system for the self-employed in the longer term.

More comprehensive employment insurance could be introduced while retaining the engager and worker funded system in option 4, with both systems working in tandem to provide a comfortable safety net for self-employed workers who become sick. This would create an income floor of 50 per cent of earnings. The self-employed would receive the 50 per cent sickness insurance for those who are self-employed or without a job. On top of this, self-employed people would receive income from the voluntary system recommended above. We suggest that total payouts should be capped at 80 per cent of usual earnings, to provide parity with employees. Under the employment insurance system, employees would receive 80 per cent of earnings from employers for 28 weeks, before being eligible for the state-funded sickness insurance at 50 per cent of earnings if they remained unable to work past this point.

Endnotes

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