FABIAN SOCIETY

community

prospect

bectu

SELF-CARE

PROVIDING INCOME SECURITY FOR THE SELF-EMPLOYED

Luke Raikes

December 2025

Acknowledgements

This project was made possible by the support of Community and Prospect / Bectu trade unions. We would particularly like to thank Dominic Armstrong, Rosie Carter, Philippa Childs, Tom Railton, and Kieren Walters for lending their support and expertise throughout the project.

Thanks also to our excellent Fabian Society colleagues. Particular thanks to Eloise Sacares, who led the overall project and led on the sick pay research which informs the first section of this report. The author would also like to thank Joe Dromey for feedback on the draft and to Iggy Wood for his editing.

About the author

Luke Raikes is deputy general secretary and research director at the Fabian Society.

CONTENTS

SUMMARY

There are 4.4 million self-employed people in the UK, making up 13 per cent of those in work. Their income tends to be lower than employees. And while many choose to work under this status, others would prefer to be employees.

Self-employed people get sick, have children and retire, just like employees do. But their income is not adequately protected by sick pay, parental leave or private pensions.

The government is currently making significant and welcome improvements to employee rights. Now, they need to improve income security for self-employed workers too. There are several practical options the government should consider.

Sick pay

The government should create a new opt-out sickness insurance system, with costs shared between the self-employed and the organisations which engage. They should:

- Automatically sign-up self-employed workers and engagers to contribute to a central sick pay fund, which would pay out at the current statutory sick pay rate.
- Charge freelancers and gig economy workers £5 per month, and engagers 3p for every hour they hire a self-employed worker.
- Charge self-employed people who do not have an engager, such as business owners, £10 a month.

Parental leave

The government should explore new parental leave options for the self-employed. They could:

- Raise maternity allowance to 90 per cent of earnings for the first six weeks.

- Create a new paternity allowance – first at the level of current maternity allowance, and later rising to 90 per cent of earnings for the first six weeks.
- Increase the number of 'keeping in touch' days to 30 and allow half-day increments.
- Investigate adoption and shared parental leave.

Pensions

The government should consider new pensions and savings initiatives for the self-employed. They could:

- Create new auto-enrolment self-employment pensions through self-assessed tax returns.
- Raise awareness of existing incentives for pension saving, including tax relief on personal pension contributions and saving incentives in universal credit rules.
- Reform or replace LISAs to provide a saving product allowing people to contribute up to the state pension age.

INTRODUCTION

There are 4.4 million self-employed people in the UK. This is 13 per cent of people in work, and they make a substantial contribution to the economy.[1]

While some are relatively well off, average net income for a full-time self-employed worker is 12 per cent lower than for a full-time employee. And while many actively choose this way of working, many are trapped – two-in-five self-employed workers would work a salaried job if they could.[2]

Many self-employed people face a major income shock when they fall sick, have children or retire. This is because, while some self-employed people do save or take out insurance policies, the overwhelming majority do not.

The government is acting decisively to improve employment rights. The employment rights bill, currently before parliament, includes several important and much-needed provisions to improve rights for employees – including on sick pay. The government is also consulting on parental leave and has set up a new Pensions Commission to ensure private pensions provide an adequate income in retirement.

The self-employed must be included in this welcome drive to improve working conditions and income security. The government is taking forward some important reforms: the right to a written contract, tackling late payments, extending health and safety and blacklisting protections, reforms to employment status and a 'Freelance Champion'. But this important part of the workforce needs more, and there is a risk of a widening 'rights gap' between employees and the rest of the workforce.

There has been speculation that the government may try to close the 'tax gap' between employees and the self-employed. This debate often ignores the fact that the state supports employees substantially more than the self-employed. This would remain true if the government implemented the policies in this report: all of the options set out are funded by self-employed people and the organisations that hire them ('engagers') and supported by government in various non-financial ways.

This briefing paper sets out three income protection options for the government to consider, dealing with sick pay, parental leave, and pensions in turn.

1. SICK PAY

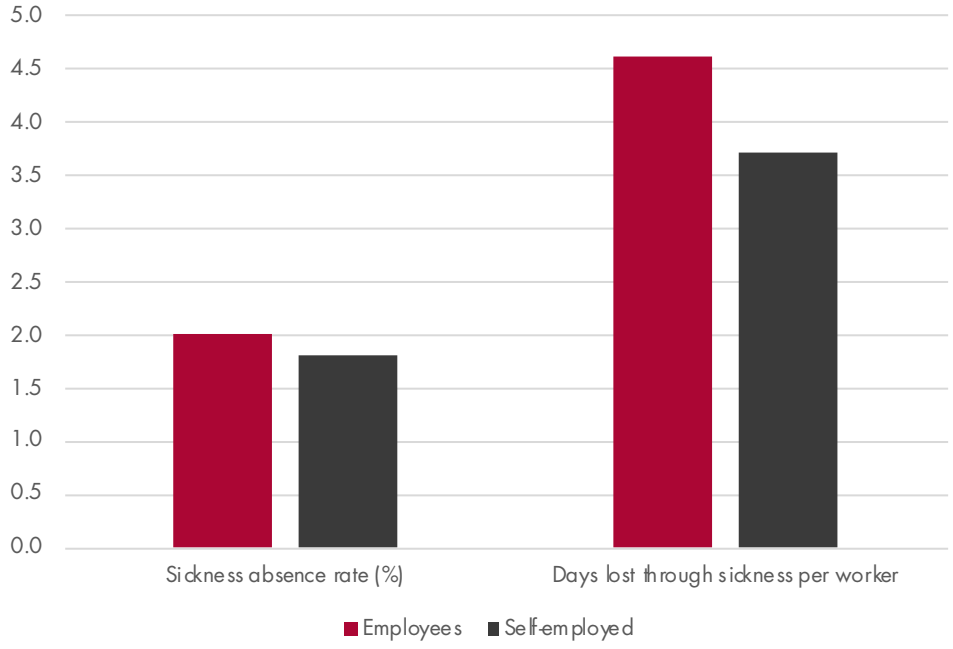
Self-employed people face a dramatic income shock when they fall sick.

- Self-employed workers lose 1.8 per cent of total working hours because of sickness absence, compared to 2 per cent for employees.[3]
- 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.[4]
- 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.[5]

Better sick pay for the self-employed would have wider benefits. Evidence suggests that it would: reduce the spread of viruses, and speed up recovery from illness; improve productivity; improve inclusion in key industries, such as the creative sector, construction and agriculture; and help reduce pressure on the NHS and social security bill.[6]

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

Sickness absence rate and days lost through sickness by status (per cent)



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

Current sick pay options are limited

Despite a strong case for protecting self-employed workers, their current options are severely limited:

- The 'engagers' who hire self-employed workers have no duty to provide sick pay, unlike employers.
- Government support via either universal credit (UC) or employment and support allowance (ESA) is a poor alternative – it is a low rate, and many do not or cannot claim due to low awareness, uncertainty, complexity, long wait times and limited eligibility.
- Private insurance schemes are costly (£24 per month on average), have low take up rates (6 per cent), poor coverage of pre-existing conditions, long wait times, and perverse interactions with UC.[7]

Box 1: Sick pay for the self-employed in other countries

Other countries have a better sick pay offer than the UK: from Norway's state-funded sickness insurance, which provides 100 per cent income replacement for freelancers from the 17th day of sickness; cooperative 'Bread funds' in the Netherlands, and Canada's employment insurance system, which includes 55 per cent of earnings up to a cap of $695.

Source: Sacares, E, and Raikes, L, I Ill-prepared: Strengthening sick pay for the self-employed, Fabian Society 2025

The government should strengthen sick pay with opt-out sickness insurance

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, though they could opt-out if they wished.
- Charge freelancers and gig economy workers £5 per month and engagers 3p for every hour they hire a self-employed worker.
- Charge self-employed people who do not have an engager, such as business owners, £10 a month.
- Administer this fund from central government, via HMRC and DWP. The government should ensure this fund is sustainable, by lending to it if needed.

2. PARENTAL LEAVE

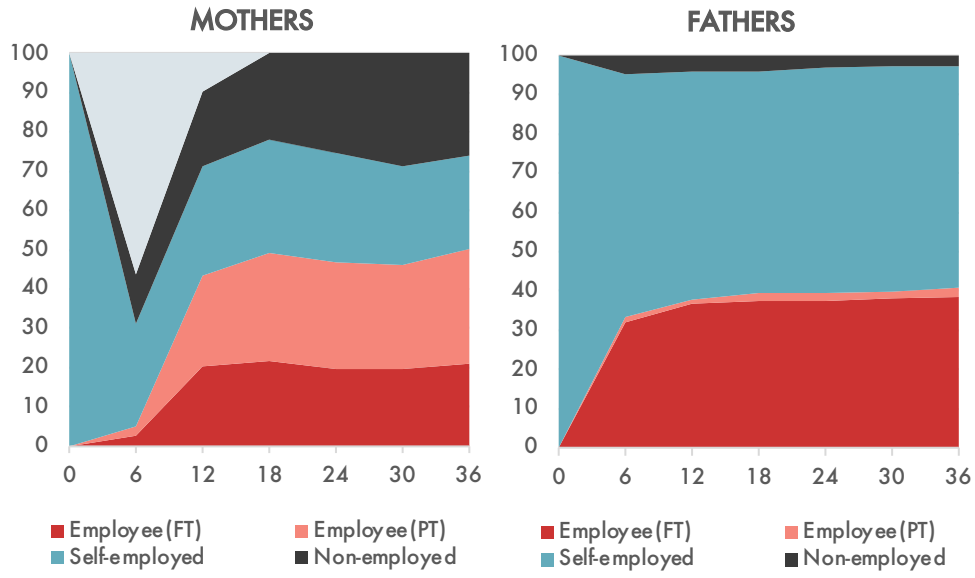
Self-employed people's work is dramatically affected by having children.

- 19,600 self-employed make a new claim for maternity allowance per year[8] and there are an estimated 554,000 self-employed mothers – around 13 per cent of all self-employed people.[9]
- A quarter of mothers (24 per cent) self-employed before their child's birth were still self-employed three years later; a quarter (26 per cent) were out of work.[10]
- Over half (56 per cent) of fathers self-employed before their child's birth were still self-employed three years later, and only 31 per cent took time off when their child was born.[11]

Wider society would benefit from better parental leave for self-employed workers. Important sectors are dominated by self-employed people, including creative industries, construction and agriculture. Gender equality in income could improve with a more generous and flexible maternity allowance, while paternity allowance would help share responsibilities more equally.

FIGURE 2: SELF-EMPLOYED MOTHERS AND FATHERS ARE BOTH AFFECTED BY PARENTHOOD, BUT ESPECIALLY MOTHERS

Employment status trajectories for mothers and fathers self-employed at birth



Source: Harkness, S, Borkowska, M and Pelikh, A, Employment Pathways and Occupational Change After Childbirth, 2019

Current parental leave options are limited

Self-employed parents have few, if any, options for leave when they have a child.

- Maternity allowance isn't always claimed by those who need it – awareness is low, and the qualifying period can be a challenge for some to fulfil.
- The rate of maternity allowance is very low – £27-£187.18 a week for up to 39 weeks depending on national insurance contributions. This rate is cut if they work more than 10 'keeping in touch' days.
- Fathers, partners and adoptive parents have no leave or shared leave.

Box 2: Parental leave for the self-employed in other countries

Many other countries provide far better parental leave for self-employed people. In Austria, self-employed maternity benefits are related to income. In Belgium, mothers can work 'half-time' during their maternity leave period (except for the three weeks after birth) and fathers or partners can claim paternity and childbirth allowance for 20 days (or 40 half-days). And, in the Netherlands, mothers receive 100 per cent of net trading income (similar to profit) up to a monthly cap.

The government should improve parental leave for the self-employed

The government could:

- Raise maternity allowance to 90 per cent of recent earnings for the first six weeks, simplify the application process, and base it on annual income over the previous year, to account for intermittent working – with an estimated total cost of £26m.[12,13]
- Create a new paternity allowance for self-employed fathers and partners for two weeks at the current maternity allowance rate, costing an estimated £7m. It could later raise the rate to 90 per cent of earnings for the first six weeks, in line with reforms to paternity leave for employees, costing a further £26m.[14,15]
- Increase the number of 'keeping in touch' days self-employed mothers can take without losing their entitlement to 30, and allow half-day increments.
- Investigate paid adoption leave and shared parental leave when two parents are self-employed, or when either parent is self-employed, and parental bereavement leave for the self-employed.

3. PENSIONS

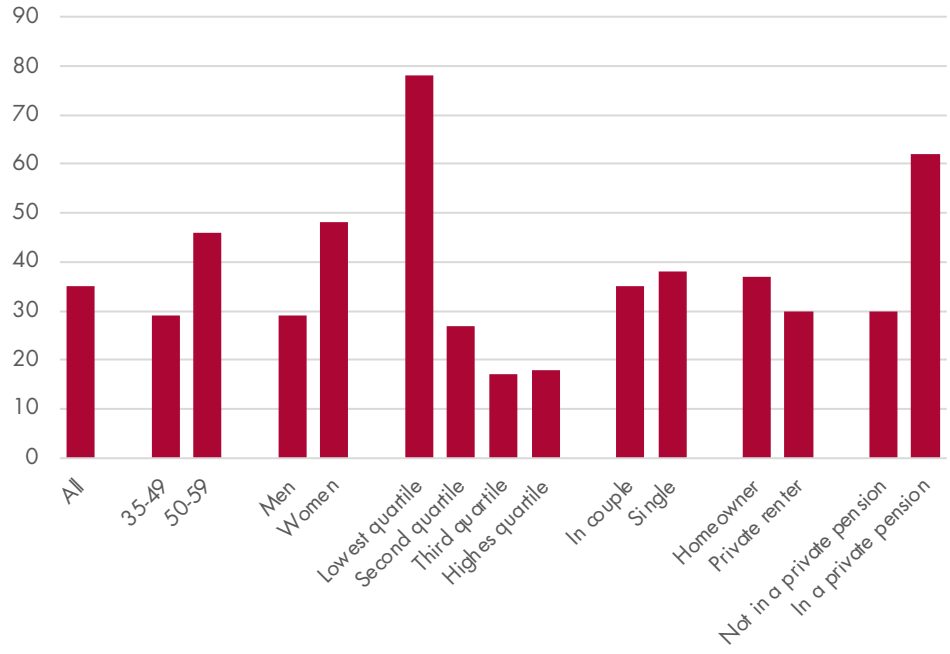
Self-employed people need to save more into private pensions.

- Each year, an estimated 132,000 self-employed people retire.[16,17]
- Only 35 per cent of self-employed people are on track to meet their target replacement rate in retirement.[18]
- The share on track to meet their target replacement rate is particularly low among men, 35 to 49-year-olds, and private renters.[19]

The benefits of better private pensions saving would extend beyond the self-employed. It would prevent even higher spending on health and social care costs that result from pensioner poverty – and alleviate the pressure on the state pension to address this issue. It would also reduce inequality between pensioners – some self-employed people have high wealth in property and business wealth which they use as a pension, but others have no wealth at all, and little or no private pension or savings to draw on.

FIGURE 3: VERY FEW SELF-EMPLOYED PEOPLE ARE ON TRACK TO MEET THEIR TARGET REPLACEMENT RATES IN RETIREMENT

Share of self-employed meeting target replacement rates



Source: IFS analysis of wealth and assets, survey wave 7

Current pensions options are inadequate

- Self-employed people retiring before 2016 will have only the basic state pension, which is particularly low – at £230 per week in 2025.
- Self-employed people retiring after 2016 will be entitled to the full new state pension at the same rate as employees, but this still isn't enough to prevent them falling into poverty.
- Self-employed workers are not auto-enrolled. They must arrange their own pensions. However, few do so: IPSE found that only 38 per cent of self-employed people earning £10,000 or more are paying into a pension.[20]

Box 3: Pensions for the self-employed in other countries

Low pension savings rates are common among self-employed people in other countries too, and auto-enrolment remains quite rare. But there are some countries which have used this approach and others are considering it. In Chile, the self-employed were targeted for auto-enrolment and a tax rebate is directed to their pension account unless they opt out. In Lithuania, employees and the self-employed are auto-enrolled by the same state social security institution.

Sources: Muller, P, Ladher, R, Devnani, S and Pate, L, Best practices and performance of auto-enrolment mechanisms for pension savings, European Commission, 2021

The government should support the self-employed to increase their pensions

They could:

- Create new auto-enrolment self-employment pensions through self-assessed tax returns.[21]
- Raise awareness of existing incentives for pension saving, including tax relief on personal pension contributions and saving incentives in universal credit rules.
- Reform or replace LISAs to provide a saving product allowing people to contribute up to the state pension age.

Endnotes

[1] Office for National Statistics, Labour Force Survey, 2025

[2] LSE, Self-employed Feel Trapped as Incomes Stagnate, 2023

[3] Office for National Statistics, Sickness Absence in the UK Labour Market: 2023 and 2024, 2025

[4] Fabian Society calculations based on Department for Work and Pensions, Family Resources Survey, 2025 and Department for Work and Pensions, Benefit and pension rates, 2023-24, Employment Support Allowance, accessed 18 August 2025. Note: We only use the pre-work capability assessment rates for these calculations, as these are the most comparable to a sick pay system for the self-employed - as those who pass a work capability assessment are treated as long term sick and unfit to work, making them eligible for further government support. As most claimants will be over 25, we use the rate for over 25s. As the median average earnings data is from 2023/2024, we also use the ESA rates from 2023/24.

[5] LV=, Reaching Resilience: Protection Insights, Powering Impactful Conversations, 2025

[6] WPI Economics, Making Statutory Sick Pay Work, WPI Economics, 2023; Skagen, K and Collins, A M, The Consequences of Sickness Presenteeism on Health and Wellbeing Over Time: A Systematic Review', Social Science and Medicine, 161, 2016; Centre for Progressive Change, Strengthening Statutory Sick Pay: Evidence from the Centre for Progressive Change, House of Commons, 2025; Johns, G, Presenteeism in the workplace, Journal of Organizational Behaviour, 31, 2009; Asfaw, A et al. Paid Sick Leave and Nonfatal Occupational Injuries', American Journal of Public Health, 102, 2021; Sutton Trust, Research

Reveals Stark Class Inequalities in Access to the Creative Industries

[7] Sacares, E, and Raikes, L, I Ill-prepared: Strengthening Sick Pay for the Self-Employed, Fabian Society 2025

[8] In the latest year of available data – the year to November 2023. Maternity Allowance statistics are based on a 5 per cent sample so estimates of self-employed claims should be treated with caution

[9] Department for Work and Pensions, Maternity Allowance Statistics: Data to November 2023, 2024; IPSE, The Self-Employed Landscape 2024, 2024

[10] Harkness, S, Borkowska, M and Pelikh, A, Employment Pathways and Occupational Change After Childbirth, 2019

[11] Harkness, S, Borkowska, M and Pelikh, A, Employment Pathways and Occupational Change After Childbirth, 2019; Trades Union Congress, 1 in 2 Families Struggle Financially When Dads Take Paternity Leave – TUC poll, 2023

[12] Based on full-time average pay for all self-employed people and assuming no behaviour change. The cost could be lower, because many work part-time and women tend to be paid less, but would rise if more people claim.

[13] Harrop, A, Reed, H and Sacares, E, In Time of Need: Building Employment Insurance for All, Fabian Society, 2023

[14] Based on paternity allowance claims equalling the number of maternity allowance claims in the most recent year of data, full-time earnings levels and not accounting for behaviour change.

[15] Woodruf, L, Improving Statutory Paternity Leave Would Benefit Families and the Economy, Joseph Rowntree Foundation, 2025

[16] Office for National Statistics, Understanding Changes in Self-Employment in the UK: January 2019 to March 2022, Office for National Statistics, 2022

[17] Only figures for the year to March 2021 are currently available.

[18] Cribb, J, Emmerson, C, O'Brien, L and Sturrock, D, Private Pensions for the Self-Employed: Challenges and Options for Reform, Institute for Fiscal Studies, 2024

[19] Cribb, J, Emmerson, C, O'Brien, L and Sturrock, D, Private Pensions for the Self-employed: Challenges and Options for Reform, Institute for Fiscal Studies, 2024

[20] IPSE, Data brief: How the self-employed save for retirement, 2025

[21] Harrop, A, Good Pensions for All: The Left's Agenda for Private Pensions, Fabian Society, 2022; Otto, S, Mature Decisions: The Role of Social Security in Alleviating Pensioner Poverty, Fabian Society, 2025