Article

Trends in self-employment in the UK

Analysing the characteristics, income and wealth of the self-employed.

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1. Introduction

The rapid growth of self-employment has been a pronounced feature of the UK labour market in recent years. The number of self-employed increased from 3.3 million people (12.0% of the labour force) in 2001 to 4.8 million (15.1% of the labour force) in 2017. Recent studies of this phenomenon have examined the characteristics of the self-employed (for example, Amankwah and Wales (2016), Tomlinson and Corlett (2017)) but have largely sidestepped the income of the self-employed.

One reason for the limited coverage of self-employed income is the difficulty involved in measuring it. As noted in recent discussion, existing data on self-employment incomes are largely based on survey responses. These surveys are likely to be more accurate for individuals with steady incomes, reflecting relatively stable working patterns. For the self-employed – a large fraction of whom may have irregular hours, or who may work on a project-by-project basis – the nature of their work may make it difficult to accurately report incomes for a particular period.

This article takes some steps to address this gap in existing analysis. The first part of this article uses the Labour Force Survey (LFS) and the Department for Work and Pensions’ Family Resources Survey (FRS) to analyse the characteristics and income of the self-employed. The second part of this article examines the wealth of the self-employed through the Wealth and Assets Survey (WAS), which provides information on the financial, housing and pension wealth of the self-employed. Bringing together these different sources builds a more detailed picture of the self-employed, their characteristics and financial position.

2. The characteristics and income of the self-employed

The UK labour market has performed strongly in recent years. The unemployment rate fell to 4.3% in the three months to November 2017, the lowest level since 1975, while the employment rate remained high over the same period (75.3%)\(^1\). This strength in part reflects the growth of self-employment, which has continued in recent years the upwards trend observed in the pre-downturn period. Consequently self-employment now represents a larger share of employment: up from around 12% of the labour force in 2001 to around 15.1% in 2016.

Total employment has been supported by growth in both the number of employees and self-employment since the economic downturn, but self-employment has made a larger contribution to this growth than its share of overall employment. Figure 1 shows the net change in employment between 2007 and 2016. While employee jobs fell during, and after the economic downturn, self-employment jobs continued to grow, contributing the most to employment growth up until Quarter 4 (Oct to Dec) 2014. Since then, self-employment jobs continued to represent a larger share of total employment growth than its share of overall employment, contributing around one-third to total employment growth.
Figure 1: The cumulative change in employee and self-employed jobs
Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Oct to Dec) 2016, UK

The aggregate number of the self-employed hides some differences in the composition of different types of self-employed. In particular, the number of self-employed reporting themselves as working on their own, or with a partner but no employees, has increased between 2001 and 2016, while those who report themselves as having employees has fallen over the same period. Figure 2 shows these trends using data from the Labour Force Survey (LFS). It indicates that the increase in self-employment over this period has been driven by those who work on their own, with a partner but no employees. This group now accounts for 4.0 million workers in 2016 compared with 2.4 million in 2001.

Source: Office for National Statistics
Given the growth of self-employment, it is important to understand the earnings of the self-employed in comparison with their employee counterparts. Figure 3 uses data from the Family Resources Survey (FRS), which captures the level of weekly earnings for both employees and the self-employed. It shows the distribution of self-employed and employee weekly earnings in the financial year ending 2016 and indicates that — in common with the income of employees — self-employment earnings varied considerably over this period.

However, it also suggests that modal income category — the level of earnings which is most common — among the self-employed is lower than among employees. The distribution of self-employed income appears centered around £240 a week, much lower than that for employees, which is centered around £400 a week. This may be the result of a number of differences between employees and the self-employed, including industry of employment, average hours worked or modes of remuneration.
Using data from multiple waves of the FRS, it is possible to inspect the distribution of self-employed income through time. The distribution of weekly earnings for the self-employed has remained largely unchanged between the financial year ending 2001 and the financial year ending 2016. Median income among the full-time self-employed increased from £276 to £347 over this period, while median part-time self-employed income increased from £98 to £150. Consequently, it appears that differences between the income distributions of the self-employed and employees are greater than differences in the distribution of self-employed income through time.

**Self-employment income by region**

The trend of rising self-employment has been evident in all regions of the UK. As a share of all in employment, the largest increases have been in London (rising from 13% to 17.4% of the labour force – an increase of 4.4 percentage points), Yorkshire and The Humber (an increase of 3.9 percentage points) and the South East (an increase of 3.7 percentage points) between the financial year ending 2001 and the financial year ending 2016. In absolute terms, around half the self-employed are located within London, the South East and the South West, although the mix of part- and full-time self-employment varies somewhat by region.
Figure 4: Self-employment as a percent of labour force participation by region

Financial year ending 2001 and financial year ending 2016, Great Britain

Data from the FRS also suggest that self-employed incomes vary considerably by region and have changed quite markedly through time. Figure 5 shows the median weekly earnings of the self-employed across the regions of Great Britain. Weekly self-employment earnings in the financial year ending 2016 were the highest in London (£352), East of England (£332) and Scotland (£300) compared with the North West (£200), which had the lowest of all regions. These trends are likely to reflect the mix of part- and full-time self-employment, as well as differences in the industrial mix of self-employment across regions. However, there are some marked differences compared with earlier years: median self-employment income in Wales, Scotland and Yorkshire and The Humber is notably higher in the financial year ending 2016 than in the financial year ending 2001, while it is unchanged in nominal terms in the North West.

Self-employment income by sex

The prevalence of self-employment increased among both men and women over the 2001 to 2016 period, although the underlying drivers for these common trends may differ. Figure 6 shows changes in the levels of male employment: self-employed and employees, part-time and full-time. It shows the marked growth in the number of male part-time self-employed workers over this period – which increased from 273,000 to 569,000 between 2001 and 2016 – alongside the growth in the number of male part-time employees, which increased from 1.07 million to 1.64 million over the same period. By contrast, growth in male full-time employee and self-employment was relatively slow during this period.
Female self-employment also grew over this period (Figure 7), although both full- and part-time modes were responsible. Female part-time self-employment increased from 439,000 to 812,000 between 2001 and 2016, while the number of female full-time self-employed workers increased from 433,000 to 732,000. By contrast, the number of female employees – either part- or full-time – has been relatively stable. This suggests a notable change in the mix of employment among women towards self-employment over this period.
Figure 7: Increase in female employment amongst full-time and part-time workers

Quarter 1 (Jan to Mar) 2001 to Quarter 4 (Oct to Dec) 2016

Figure 7 shows the increase in female employment amongst full-time and part-time workers from Quarter 1 (Jan to Mar) 2001 to Quarter 4 (Oct to Dec) 2016.


Figure 8 shows the income of employees and the self-employed by mode of employment and sex. Full-time male and female employees earned £368 and £280 per week respectively in the financial year ending 2001 compared with their self-employed counterparts, who earned £296 and £198 respectively over the same period. These differences in median weekly earnings between employees and self-employed workers have increased between the financial year ending 2001 and the financial year ending 2016, with earnings of both full-time male and female employees increasing faster than their self-employed counterparts.

This meant by the financial year ending 2016, full-time male and female employees earned £533 and £428 respectively, compared with £363 and £243 for full-time male and female self-employed workers. In level terms, full-time male and female employees earned 46.8% and 76.1% more respectively compared with full-time male and female self-employed.

While there is a large difference between full-time employees’ and self-employed weekly earnings in the financial year ending 2016, the weekly earnings for part-time employees and self-employed tends to be less stark in comparison with their full-time counterparts. Male part-time self-employed workers are better off than part-time employees, with male part-time self-employed earning £166 per week compared with £153 for their employee counterparts in the financial year ending 2016.
While the previous chart only looked at earnings from employment, it is important to consider the other forms of income that the self-employed (and employees) receive. Figure 9 shows the earnings of employees and self-employed from all sources of income by sex and hours. When comparing the income earned from all sources (Figure 9) and income earned from employment only (Figure 8), total income is higher for all groups and is especially so amongst the part-time employed. Looking at the self-employed, male and female part-time self-employed workers have the largest increase in their income when considering income from all sources, earning £356 and £243 respectively in the financial year ending 2016.

When comparing the male part-time self-employed with other groups, male part-time self-employed tend to appear better off, earning £356 per week, higher than both male part-time employees (£238) and female full-time self-employed (£294) when considering all income sources. Interestingly, the composition of the total earnings between these groups show that the male part-time self-employed earn the least from their respective employment activities (50.6%) compared with male part-time employees (60%) and for female full-time self-employed (83.7%) (See Figure 10).
Figure 10 helps to break down the different income streams that each group receives. While male part-time self-employed tend to receive most of their income from employment activities, a large proportion of their income also comes from pension and retirement income, representing 33.9% of their total earnings. This large share of pension and retirement income can be partly explained by the share of older males in this category, with older males aged 55 and above representing around 60% of this group.

For female part-time self-employed workers, income from employment activities also represents the largest share of total earnings, accounting for 64.7% of total earnings in the financial year ending 2016. While pension and retirement income represents the second largest share of total earnings for female part-time self-employed, its share is smaller as a percentage of total earnings when compared with male part-time self-employed.

In addition, female part-time self-employed also have a larger share of other income sources beyond employment and pension and retirement income, with remaining income, other benefits and tax credits making up 17.6% of the share in total earnings they receive. The higher share of income from employment and other income sources beyond pension and retirement income can be attributed to the composition of the group, with females aged 55 and above representing only 32% of the share in female part-time self-employed compared with 65% for females aged between 25 and 54.
Figure 9: Median weekly earnings from all sources of income for the employed and self-employed by hours and sex

Financial year ending 2001 and financial year ending 2016, UK

Source: Department for Work and Pensions, Family Resource Survey
The prevalence of self-employment for different age groups has also varied considerably in recent years (Figure 11). While levels of self-employment have been moving upwards for all age groups, the economic downturn saw a sharp rise in the number of those aged 65 and above moving into self-employment. This increase in self-employment among this group saw the number of self-employed increase from 159,000 to 469,000 between 2001 and 2016. While this was a large increase in absolute terms, its share of total employment increased from 0.6% to 1.5% over the same period. Another age group that saw strong growth in self-employment was the 16 to 24 year old category, which increased from 104,000 to 181,000 between 2001 and 2016, increasing its share of total employment from 0.4% to 0.6%.

While both age groups saw the fastest increase in self-employment growth, they both represent a very small share of total employment, with self-employment most prevalent in the 45 to 54 age group, representing 4.1% of total employment in 2016.
Looking into the self-employed growth of the 16 to 24 and 65 and above age groups more closely, Figure 12 shows the increase in self-employment among ages 16 to 24 and 65 and above by hours. Full-time self-employment growth among the 16 to 24 age group rose slightly just before the economic downturn but has remained relatively flat since 2008. In comparison, part-time self-employment grew strongly over the period. This meant by 2016, the share of ages 16 to 24 in part-time self-employment in relation to the total employed in this age group increased to 32.7%, compared with 19.9% in 2001. Previous work suggests that many of these workers did not want a full-time job or were part-time students, helping to explain changes in this age group (Wales and Amankwah, 2016).

While part-time self-employment grew strongly for the 16 to 24 age group, both full-time and part-time self-employment grew just as strong for those aged 65 and above.
Alongside these differences, the prevalence of self-employment by age, there are marked differences in pay between employees and self-employed, both full- and part-time. Figure 13 shows the median weekly earnings of employees and the self-employed by age and hours. Full-time employees of all age categories earned more on average than their self-employed counterparts in the financial year ending 2016, with growth in earnings between the financial year ending 2001 and the financial year ending 2016 also higher amongst employees. Part-time employees in all age categories tend to earn more than their part-time self-employed counterparts, with the age 65 and above category being the only one to receive higher earnings in comparison with its employee counterpart in the financial year ending 2016.
Figure 13: Median weekly earnings for employees and the self-employed by age and hours

Financial year ending 2001 and financial year ending 2016, UK

Source: Department for Work and Pensions, Family Resource Survey

Notes:

1. Part-time self-employed between 16 to 24 has been removed due to small sample size.

Self-employment by education

While the relationship between sex and age has already highlighted certain characteristics of the self-employed, education can also be an important factor. Figure 14 shows changes in the number of self-employed by highest qualification. Between 2001 and 2016, the growth in self-employment has been driven mainly by those who have a degree (or equivalent). This growth has led to the share of the self-employed with a degree or equivalent increasing from 19.3% in 2001 to 32.6% in 2016 as a share of total self-employed. When comparing the self-employed with a degree as a share of total employment (employees and the self-employed), the share of those with a degree increases from 2.3% to 4.9% over the same period, showing that relatively highly-qualified individuals are becoming more concentrated in the self-employed.3,4
Figure 15 shows the median weekly earnings of employees and the self-employed by sex and qualification. Employees and self-employed tend to earn more as they attain a higher qualification. The relationship between educational attainment and earnings tends to be less clear amongst the part-time self-employed, and even more so among female full-time self-employed.
Figure 15: Median weekly earnings of employees and self-employed by sex and education attainment

Financial year ending 2016, UK

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**Figure 15:** Median weekly earnings of employees and self-employed by sex and education attainment

**Source:** Department for Work and Pensions, Family Resource Survey

**Notes:**

1. Level 1 refers to individuals with GCSE grades D to G or CSE grade 2 to 5 or STAN.
2. Level 2 refers to individuals with ONC or National level BTEC, O or GCSE equivalent, (A to C) or O or CSE equivalent.
3. Level 3 refers to individuals with A levels or Scottish Highers.
4. Level 4 and 5 refers to individuals with higher educational qualifications or equivalent.
5. Level 6 refers to individuals with a degree level qualification or equivalent.

**Notes for:** The characteristics and income of the self-employed
1. See also ONS (2017) “Measures of Labour Market Underutilisation” in the October Economic Review.

2. However, breaking down self-employment income by industry and region is not possible with the Family Resources Survey.

3. The degree or equivalent includes education at degree level and above.

4. Higher education includes qualifications below degree level. The composition of this derived variable can be found on the Labour Force Survey (LFS) user guide.

3. The wealth of the self-employed

While the previous analysis focused on income flows, the following analysis provides an overview and comparison of the levels of total individual pension wealth, total property wealth and gross financial wealth for employees (part-time and full-time) and those who are self-employed).  

Net property wealth

Total household net property wealth is calculated as the sum of the values recorded for each household for the main residence plus any other property, minus the value of mortgage liabilities and equity release. It is also important to remember that this analysis uses the household reference person to present individual characteristics of the household's net property wealth and that negative values of net property wealth are included in the “Less than £125,000” wealth band.

Figure 16 shows the share of employees and the self-employed in each property wealth band for ages 35 to 54 and Figure 17 shows those aged 55 and above. Amongst the 35 to 54 age group, 25.3% of the self-employed and 26.9% of employees, as a share of their age and employment type, do not have any net property wealth. While these shares are similar across employees and self-employed, the self-employed do tend to have a higher share of individuals within the upper net property wealth brackets. Among the same age group, 27.0% of the self-employed have more than £250,000 in net property wealth compared with 17.6% of employees.

This narrative also holds for the 55 and above age group, where the share of the self-employed owning net property wealth greater than £250,000 is higher than the share of employees, with those who own wealth in excess of £500,000 or more representing 28.3% as a share of the self-employed compared with 12.7% of employees in the 55 and above age group.
Figure 16: Net property wealth for employees and the self-employed for those aged between 35 and 54

July 2014 to June 2016, Great Britain

Source: Office for National Statistics, Wealth and Assets Survey
Figure 17: Net property wealth for employees and the self-employed for those aged 55 and above

July 2014 to June 2016, Great Britain

Private pension wealth

Private pension wealth comprises wealth from defined benefit (DB) pensions, defined contribution (DC) pensions, personal pensions (including additional voluntary contributions), retained rights in DB and DC pensions, the remaining value of pension funds from which people were drawing an income through “income drawdown”, the values of pensions expected in the future based on the contributions of a former spouse or partner and pensions already being paid out (“pensions in payment”). The figures in this section relate to private pension wealth only, which means State Pension wealth is excluded from this analysis.

Source: Office for National Statistics, Wealth and Assets Survey
Figure 18 shows the share of employees and the self-employed in each private wealth band for ages 35 to 54 (Figure 19) and 55 and above (Figure 20). There is a clear divide between employees and the self-employed when it comes to private pension wealth. Among the 35 to 54 age group, a large share of the self-employed do not have any private pension wealth (45.1%) compared with employees (16.4%). This continues for ages 55 and above, with the highest share of the self-employed also having no private pension wealth. This paints an interesting picture between the two age groups, as the share of self-employed with no pension wealth in the ages 55 and above age category is 30.3%, much lower than the share of self-employed in the 35 to 54 age group (45.1%).

Figure 18: Private pension wealth for employees and the self-employed for those aged between 35 and 54
July 2014 to June 2016, GB

Source: Office for National Statistics, Wealth and Assets Survey
Figure 19: Private pension wealth for employees and the self-employed for those aged 55 and above

July 2014 to June 2016, Great Britain

Gross financial wealth excluding endowments

Gross financial wealth excluding endowments is the sum of formal financial assets (bank accounts but not including current accounts in overdraft, savings accounts, stocks and shares) plus informal financial assets (money saved in cash at home, money given to someone to look after or money paid into a saving and loan club) held by individuals within the household (adults and children) and excludes endowments for the purpose of mortgage repayment.

Figure 20 shows the share of employees and the self-employed in each gross financial wealth band for the 35 to 54 age group and Figure 21 that for ages 55 and above. When taking into account the gross financial wealth of employees and the self-employed, there is little difference among the 35 to 54 age group. For ages 55 and above, 19.4% of self-employed individuals fall into the £100,000 or more wealth band compared with only 12.2% of employees, showing that a higher share of self-employed individuals fall into the upper wealth brackets. By contrast, a greater share of employees in the 55 and above age group fall into the lowest gross financial wealth band (less than £20,000) compared with the self-employed.

Source: Office for National Statistics, Wealth and Assets Survey
Figure 20: Gross financial wealth excluding endowments for employees and the self-employed for those aged between 35 and 54

July 2014 to June 2016, Great Britain

Source: Office for National Statistics, Wealth and Assets Survey
Figure 21: Gross financial wealth excluding endowments for employees and the self-employed for those aged 55 and above

July 2014 to June 2016, Great Britain

Figure 21: Gross financial wealth excluding endowments for employees and the self-employed for those aged 55 and above

July 2014 to June 2016, Great Britain

Source: Office for National Statistics, Wealth and Assets Survey

Notes for: The wealth of the self-employed

1. Data from Wave 5 (July 2014 to June 2016) of the Wealth and Assets Survey are used for this analysis.
4. Conclusion

The UK’s labour market has changed notably in recent years. One important trend is the growth in self-employment. More people are now self-employed than before and the types of people who are likely to be self-employed are different to those in the past. While the underlying trends differ, self-employment has become more prevalent among both men and women since 2001. Among male workers, part-time self-employment grew the fastest between 2001 and 2016, while the growth in full-time employees and self-employment remained broadly flat. In comparison, both full-time and part-time self-employment grew strongly among females over the same period.

The increase in self-employment has also varied considerably among different age groups. While self-employment has been moving upwards for all age groups, the economic downturn saw a sharp rise in the number of those aged 65 and above moving into self-employment, with both full-time and part-time self-employment growing strongly among this group. The 16 to 24 age group also saw relatively strong growth between 2001 and 2016. While full-time self-employment among the 16 to 24 age group saw a gradual increase from 2001 to 2006, since then it has remained broadly flat while the growth in part-time self-employment has continued to grow.

While the relationship between sex and age has already highlighted certain characteristics of the self-employed, education can also be an important factor. Growth in self-employment has been driven mainly by those who have a degree (or equivalent), increasing its share amongst both the self-employed and total employment, showing that relatively highly-qualified individuals are becoming more concentrated in self-employment.

While this article has highlighted the diverse nature of the self-employed, these differences can also be seen in the income they receive. These differences can be seen both between employees and the self-employed, and within the self-employed group. Among full-time workers, full-time employees earned more than the full-time self-employed for their respective employments between 2001 and 2016, with the gap between these groups widening over the period. Among the part-time self-employed, male part-time self-employed earn more than their part-time employee counterparts, but for females this is reversed: part-time self-employed women earn less than their part-time employee counterparts.

When taking into account the income earned from all sources, total income for all groups increases, especially among part-time employees and the part-time self-employed. Interestingly, male part-time self-employed not only earn more than their part-time employee counterparts but also female full-time self-employed. The composition of total earnings among male part-time self-employed show that a large proportion of their earnings comes from pension and retirement income, which shows the importance of wider income sources in supplementing the income of this group.

While there are large disparities between the income of employees and the self-employed, there is also a similar story among the wealth of employees and the self-employed. In particular, the share of those with no net property wealth tends to be higher among employees than the self-employed in both the 35 to 54 and 55 and above age groups. A larger proportion of the self-employed also have net property wealth of £250,000 and above. Together, these trends indicate that the self-employed tend to have more property wealth on average than employees. However, a large proportion of the self-employed in the 55 and above age group have no private pension wealth, with the share increasing among the 35 to 54 age group. Equally, financial wealth of the self-employed tends to be similar to that of employees – suggesting that these two groups hold quite different levels of assets on average that differ in their mix.

5. Authors

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