



Department
for Business
Innovation & Skills

The income of the self-employed

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The income of the self-employed

Summary

No one source of data gives us a comprehensive picture of the income of the self-employed. However, by looking at a range of sources, we can form some tentative conclusions:

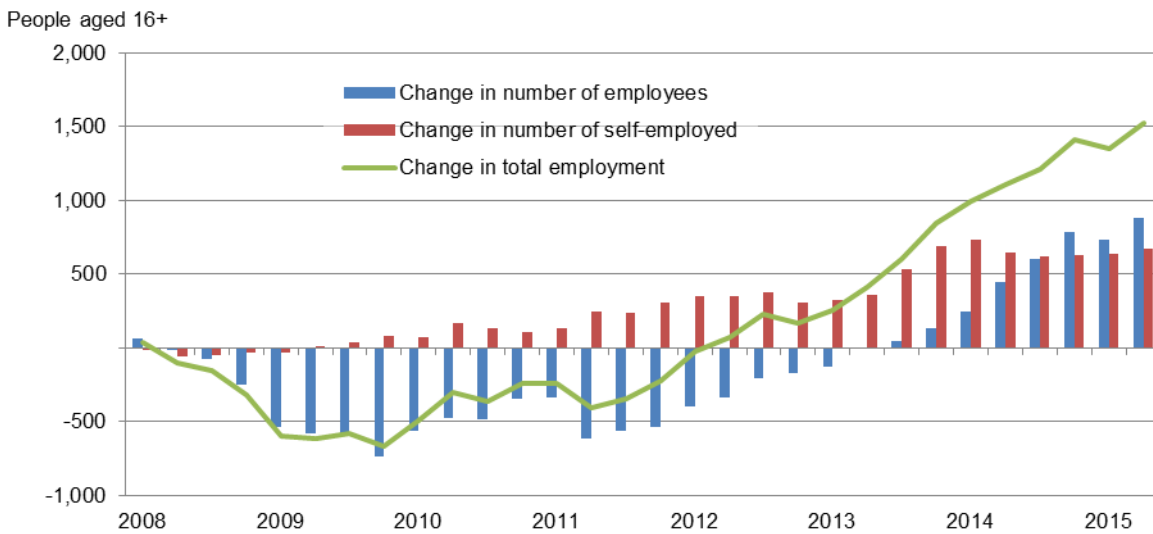
- The self-employed as a group have seen falling income since the recession
- But this is mostly down to the changing composition of self-employment
- Those individuals who have been self-employed over a number of years have seen income levels sustained, although with some self-employment earnings replaced by other sources
- There is little difference in overall life satisfaction levels between the self-employed and the employed

Background – recent trends in self-employment

According to the most recent Labour Force Survey¹, there are 4.613 million self-employed in the UK, 787 thousand higher than the pre-recession figure at the same time in 2008. This is a much larger proportional rise than for employees and indeed self-employment has accounted for more than 40 per cent of the total increase in employment over this time period despite only accounting for around 1 in 7 of the workforce.

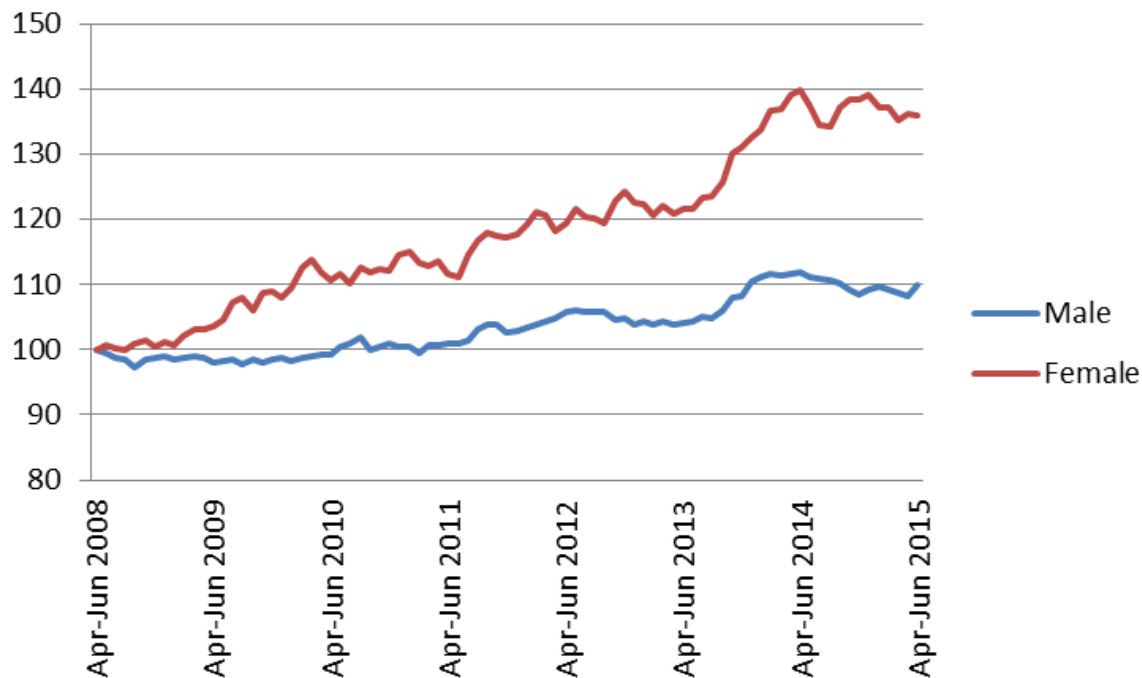
Chart 1 shows how employment has changed compared to its pre-recession levels up to late 2015. The chart shows cumulative change, so that by mid-2012, total employment had recovered to its pre-recession level and it is clear that this was entirely down to the increase in self-employment. Self-employment then remained fairly stable before rising steadily through 2013, reaching a peak at in early 2014. It is only recently that the increase in employment has caught up and contributes more to the overall increase in employment since 2008.

¹ Released on 20 January 2016 and covering the quarter to November 2015: [here](#)

Chart 1 – Change in employment relative to start of 2008 (thousands)

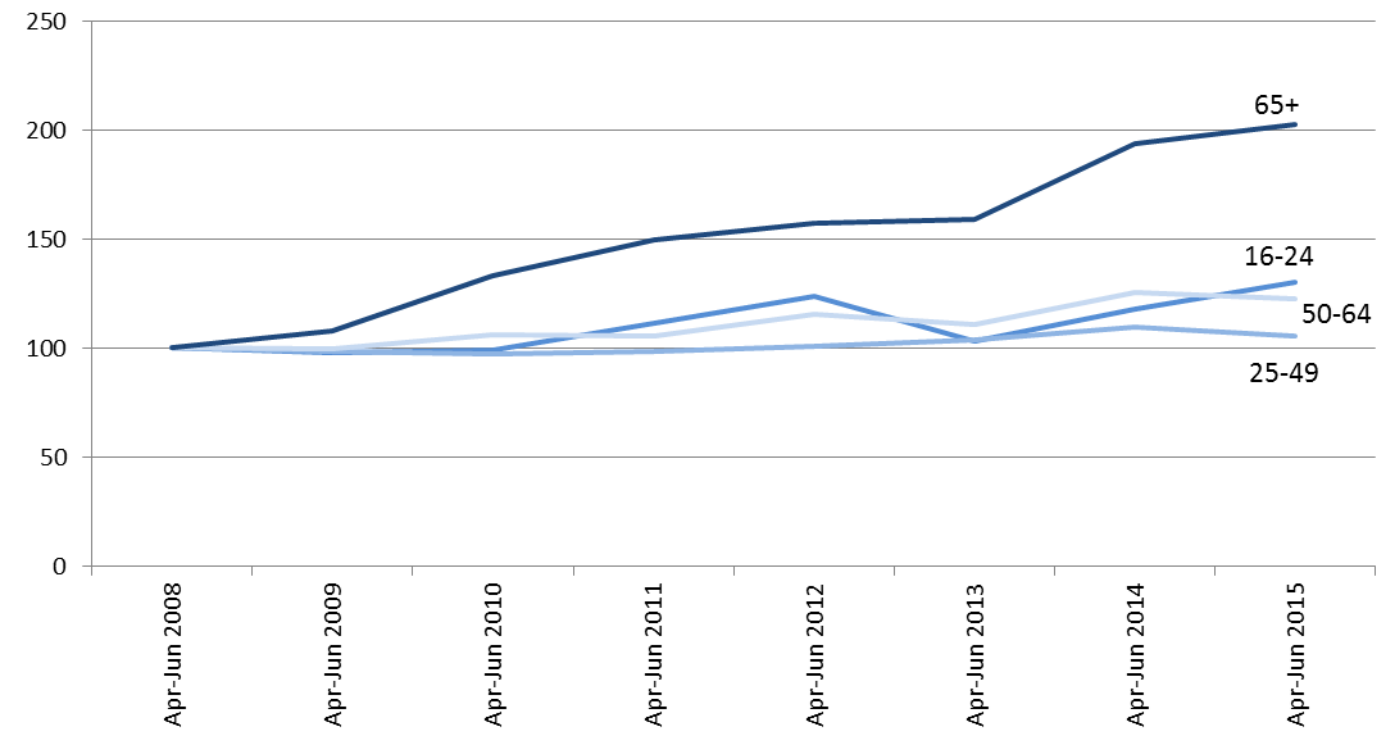
Source: *BIS analysis of Labour Force Survey, ONS*

Within this rise in self-employment are various components of interest and an obvious starting point is with gender. The proportion of females amongst the self-employed has risen steadily over this time series, from around 27 per cent in 2008 to 32 per cent in 2015. Overall the number of females in self-employment has risen by more than a third, as shown in Chart 2, while the number of males has risen by just under 10 per cent. Overall the increase in female self-employment accounts for 58 per cent of the increase in total self-employment over this 7 year period.

Chart 2 – Male and female self-employment (Index 2008=100)

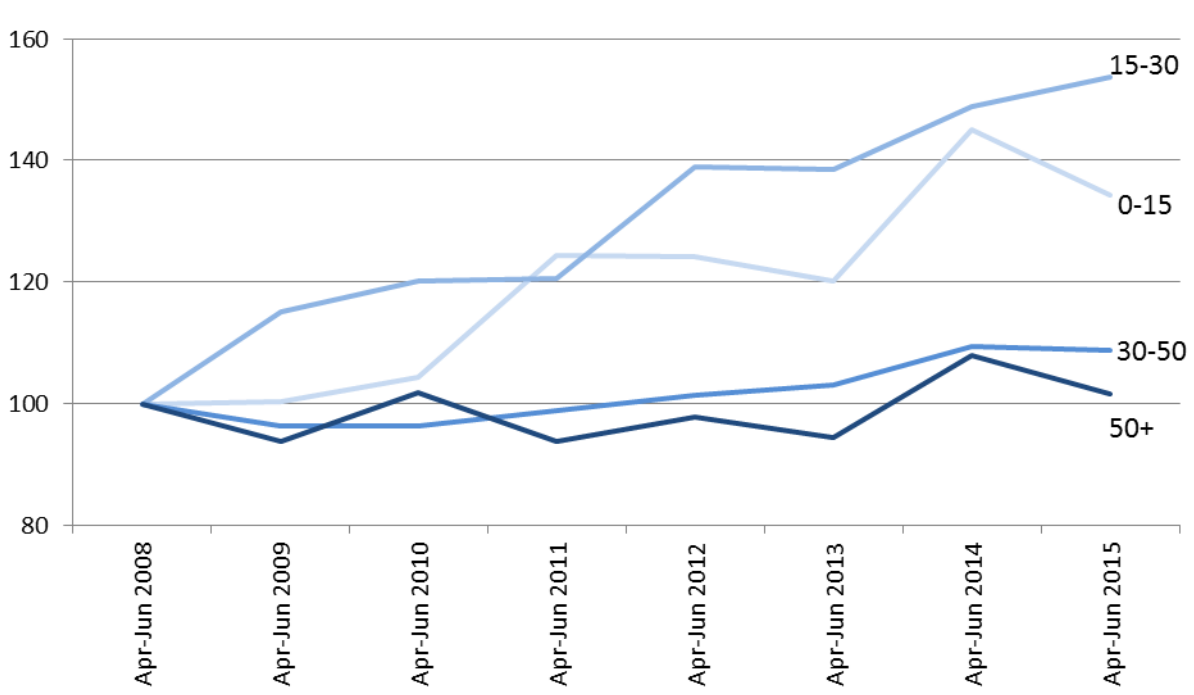
Source: BIS analysis of Labour Force Survey, ONS

Similarly, there has been a shift in the age composition of the self-employed. Chart 3 looks at a similar decomposition and shows how there has been a sharp increase in the number of the self-employed who are over 65. In 2008, this group accounted for less than 6 per cent of the total while by 2015, it had grown to more than 10 per cent. Combined with the increase in overall self-employment, this means this group has more than doubled in size over the series and has accounted for a third of the growth in self-employment. The 50-64 group accounted for a further 40 per cent of the total increase despite the 25-49 group being the largest group throughout the series.

Chart 3 – Self-employment by age group (Index 2008=100)

Source: BIS analysis of Labour Force Survey, ONS

The above charts suggest that a significant amount of the increase in self-employment has come from those who traditionally might be expected to work fewer hours. Examining trends in a similar way for hours worked, we see a consistent pattern. Chart 4 shows large increases in numbers working fewer hours and only relatively small increases amongst those working more than 30 hours. In 2008, 27 per cent of the self-employed were working a usual week of 30 hours or less, rising to 34 per cent in 2015. More than half of the overall increase in self-employment has come from the group working between 15 and 30 hours.

Chart 4 – Self-employment by hours worked (Index 2008=100)

Source: BIS analysis of Labour Force Survey, ONS

Earnings from self-employment

It is notoriously difficult to collect income data and self-employed earnings are perhaps the hardest type to collect reliably. Self-employed earnings are often complex (they can come in different forms and can be irregular over time) and can be blurred in with day to day spending. For example if a vehicle is used for personal use as well as for work, some petrol expenditure can be written off against tax, but it is hard to pinpoint precisely how much. The distribution of self-employed earnings is also very skewed, meaning that looking at medians or means can make a big difference.

However, there are data sources that collect self-employed earnings, and do so in a consistent way over time to at least ensure that trends ought to be reasonably accurate. Table 1 comes from the Family Resources Survey and shows the reported gross annual earnings of the self-employed (those who report themselves as having self-employment as their main activity) compared to employees over time. The figures are in constant prices and show a clear fall in the median earnings from self-employment. Earnings from employment have also fallen over the same period, but by much less; while earnings from self-employment have fallen by more than a quarter, earnings from employment have fallen by 11 per cent.

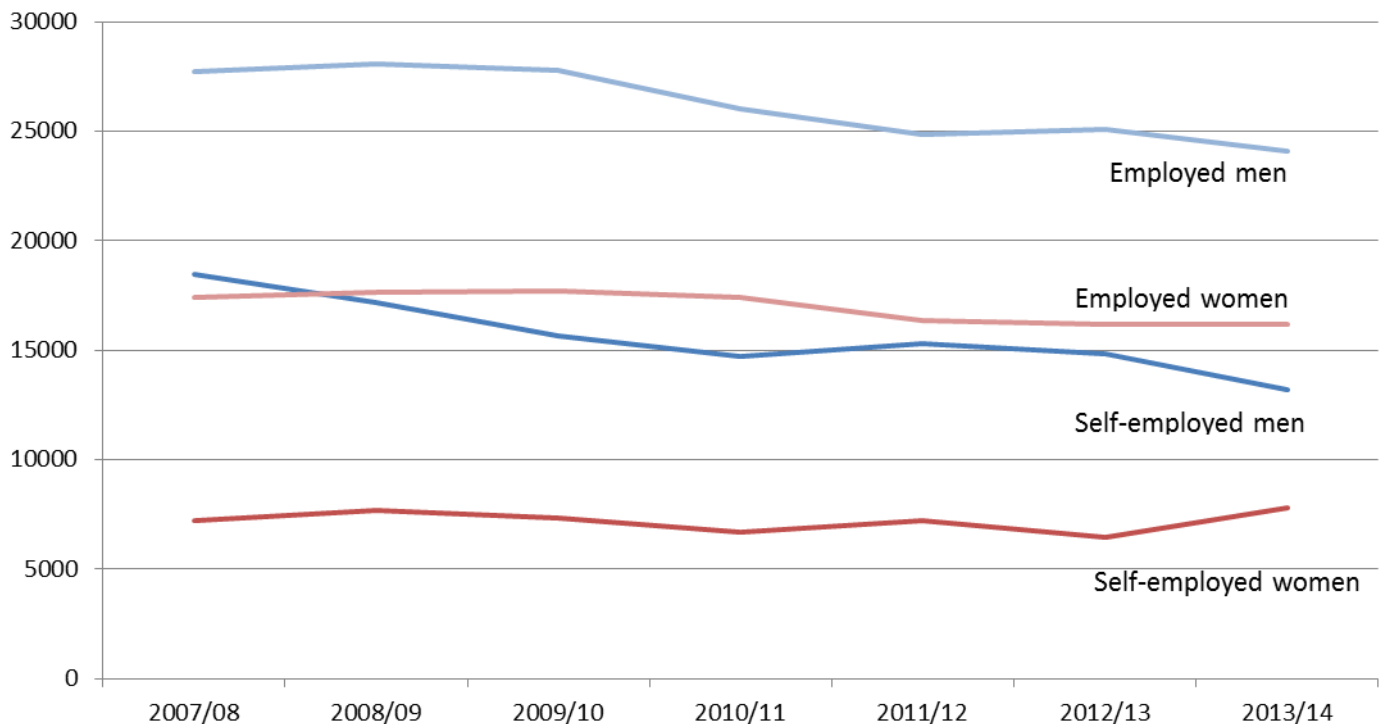
Table 1 - Estimated median annual earnings from self-employment and from employment (2013/14 prices)

	All self-employed	All Employees
2007/08	£14,535	£22,521
2008/09	£14,315	£22,392
2009/10	£13,206	£22,322
2010/11	£12,219	£21,578
2011/12	£12,752	£20,357
2012/13	£11,121	£20,595
2013/14	£10,800	£20,000

Source: Family Resources Survey (DWP)

Chart 5 explores this in more depth, looking at the gender split. Of these four groups, the only increase in earnings is from self-employed women, with an increase of more than 8 per cent although this is also consistently the lowest figure.

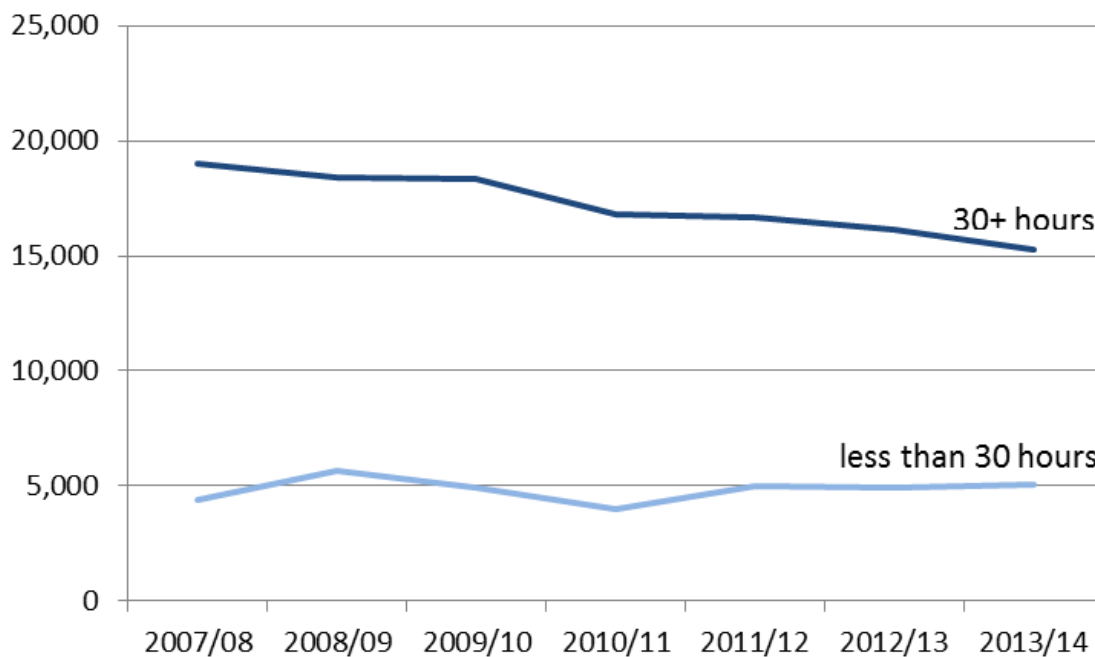
Chart 5 – Estimated median annual earnings from self-employment and from employment, by gender (2013/14 prices)



Source: Family Resources Survey (DWP)

Another element of what may be going on is consideration of hours worked, as touched upon by chart 4. FRS also collects this and it is interesting to split earnings according to hours. Chart 6 shows how those working fewer hours have actually seen a small increase in median earnings from self-employment. At the same time, those working more than 30 hours a week have seen a fall of some 30 per cent. Part of this may be due to a fall in hours worked within this group – FRS shows that the median hours worked by self-employed men in 2007/08 was 42, falling to 40 in 2013/14. Again this tallies with chart 4 where we see increasing numbers working fewer hours.

Chart 6 – Median annual income from self-employment, by hours worked (2013/14 prices)



Source: Family Resources Survey (DWP)

Income from all sources

The Family Resources Survey also collects details of income sources other than employment and can report total income. Table 2 shows the same as Table 1 but for total income, so includes all employment, benefits, tax credits, savings investments etc. In looking at total income, the medians have fallen by less over the series compared to table 1, although total income of the self-employed has still fallen by more (18 per cent compared to 10 per cent for employees). This suggests there is some kind of substitution going on – relatively speaking, people are getting more income from other sources over time. Or, less obviously, amongst the self-employed, the composition is changing by encompassing more people with different income streams, pensions being an obvious example for the growing group of the self-employed who are over 65.

Table 2 - Estimated median total annual income of the self-employed and employees (2013/14 prices)

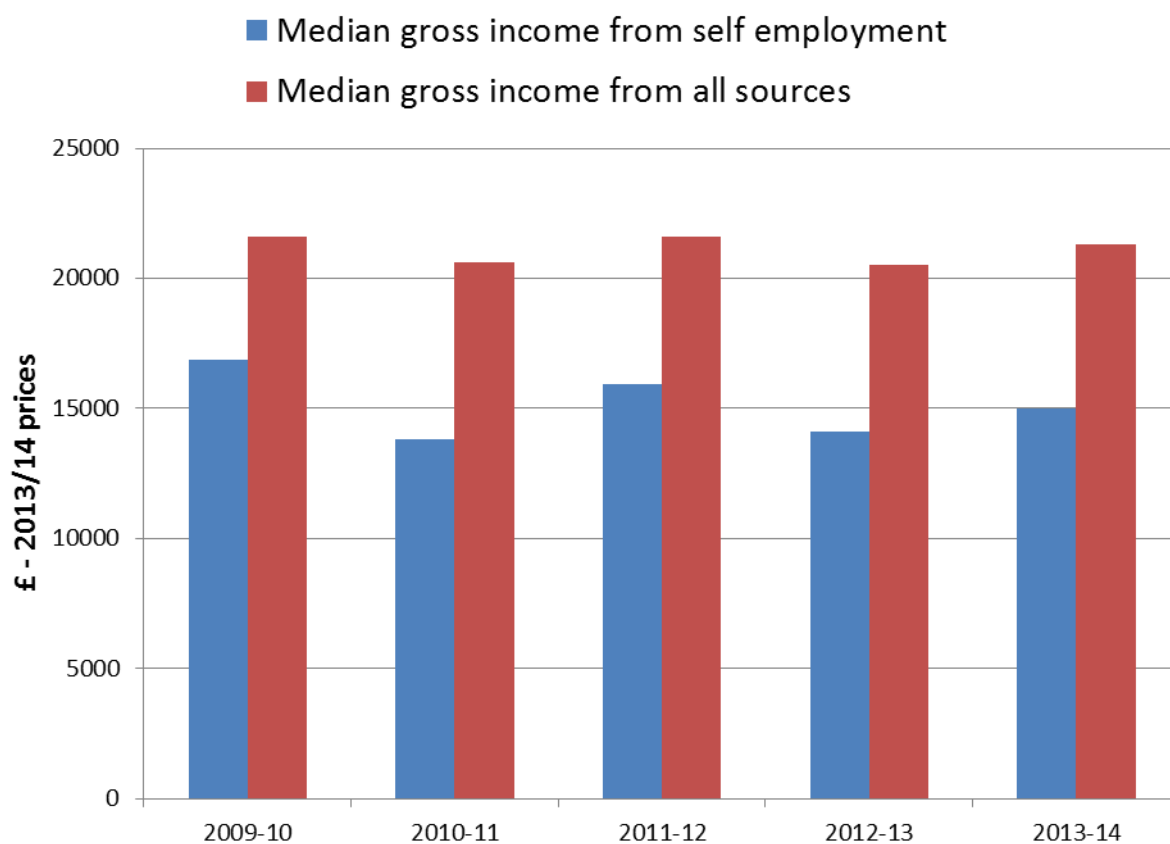
	All self-employed	All Employees
2007/08	19,000	24,451
2008/09	18,434	24,551
2009/10	18,343	24,704
2010/11	17,016	23,766
2011/12	16,961	22,408
2012/13	16,168	22,692
2013/14	15,643	22,104

Source: Family Resources Survey (DWP)

Following the same individuals over time

It is clear from some of the above that at least part of the story with the overall trends in what has happened to the self-employed is coming from a change in composition of self-employment as well as what may result from changing labour market conditions. One way of trying to isolate these elements is to look at how individuals who are self-employed fare over time. For this, we need a different source of data – Understanding Society, a large scale longitudinal study of households. There is less data to work with, but it is very rich as it goes back to the same households each year.

Chart 7 focusses on individuals who have been self-employed in each year of the survey so far, so the same people each year. For this group, we see that while annual earnings from self-employment in real terms has fallen between 2009/10 and 2013/14, total income has remained fairly stable over this same period.

Chart 7 – Income of the same self-employed individuals over time (2013-14 prices)

Source: BIS analysis of Understanding Society, Waves 1 -5

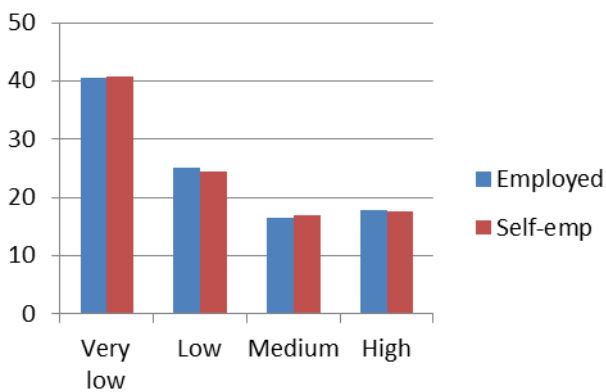
Chart 6 confirms that the trends in total income for the self-employed are at least partly explained by the changing composition of self-employment. If the constant stock of self-employed are seeing reasonably steady income when the overall population of the self-employed is seeing a more significant decrease, then it must be down to the inflows and outflows to/from self-employment.

Self-employment as a lifestyle

The next set of charts looks at the extent to which the self-employed are content with their work/life. The Office for National Statistics collects data on wellbeing as part of its Labour Force Survey, with large volumes of respondents reporting on their wellbeing as measured by 4 dimensions: how anxious they are; how happy; how satisfied with life and the extent to which they feel what they do is worthwhile. Two of these are presented below in charts 8 and 9.

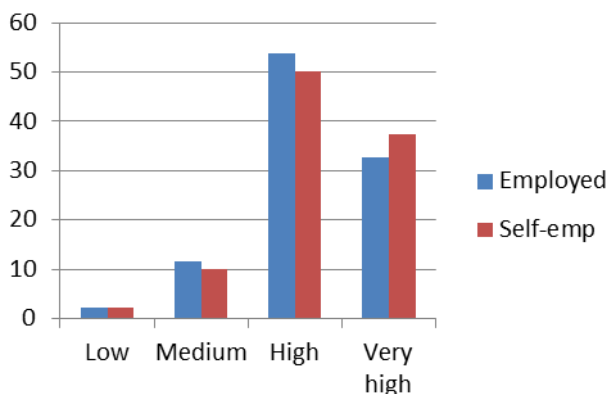
On anxiety levels there is little difference between the self-employed and the employed. On the three other measures, as exemplified by chart 9, the self-employed tend to have higher very positive views while the employed are more likely to have more moderated views. While this cannot be attributed solely to differences in employment status, it perhaps fits with the notion of the self-employed having more control over their lives. It is worth noting that these results are consistent with the regular Labour Force Survey results whereby there tends to be a higher proportion of employees looking for a different or additional job compared to the self-employed (7 per cent compared to 4 per cent in both Q2 and Q3 2015).

Chart 8 – Anxiety levels



Source: BIS analysis of ONS Annual Population Survey, wellbeing dataset

Chart 9 – Feeling of actions being worthwhile



Source: BIS analysis of ONS Annual Population Survey, wellbeing dataset

Conclusions

There has been no sudden deterioration in the income of the self-employed. On average the group is earning less from self-employment than it used to, but this is almost entirely down to compositional changes. As becoming self-employed has become easier than ever, numbers have risen more quickly amongst groups that tend to work fewer hours and consequently earn less – older age groups, women and part-time workers. The evidence is patchy and difficult to get to grips with, but it appears that people who remain self-employed over a period of time have more or less maintained their overall income. Wellbeing amongst the self-employed appears to be at least as positive as it is for employees, so there is no obvious problem with self-employment as a labour force choice and little evidence that conditions are getting worse.

Technical annex – about the data

This paper uses several different sources of data to attempt to get beneath the story of what is going on. This can be useful to enable analyses of extra dimensions, but there is a risk of introducing inconsistencies, especially as data around both self-employment and income is complex.

Main considerations

- Coverage: The surveys that are used in this work are based on samples which will naturally have some variability and for a variety of reasons we would not expect figures from different surveys to give rise to exactly the same estimates. Self-employment is particularly hard to capture in surveys – levels are relatively low, the self-employed can be hard to get hold of and income data for the self-employed is very complex. These surveys are based on what people declare to be their main activity, so there is still scope for great variation within the group of self-employed people from those who run large enterprises right down to those who do a few hours a week. BIS has also carried out some analysis of HMRC Self-Assessment data which is much more complete, and we hope to publish this also in due course.
- Cross sectional or longitudinal: FRS provides a snapshot each year and LFS interviews respondents for 5 successive quarters although is often used to produce snapshot type data. Understanding Society on the other hand specifically sets out to follow individuals over time and this enables some extra dimensions of analysis, as well as some complexities that have to be taken care of in the design of the survey.
- Median or mean: Income data tends to be highly skewed – many low figures and relatively few very high figures. This can result in large differences according to whether one looks at the mean or the median. This makes analysis tricky, although traditionally medians tend to be used where income is concerned.
- Timing: Ideally all data sources would use the same reference years, but unfortunately this is not possible. This paper has used whatever data is available and has deflated data to be in real terms, but it should still be borne in mind that the coverage is incomplete.

Links for further information

[Labour Force Survey](#)

[Understanding Society](#)

[Family Resources Survey](#)



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