DEMOS

THE LIQUIDITY TRAP

FINANCIAL EXPERIENCE AND INCLUSION IN THE LIQUID WORKFORCE

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Ben Glover, Rose Lasko-Skinner and Ava Berry

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EXECUTIVE SUMMARY

"…we are at risk of becoming a society where large numbers of people…are unable to take time off when they are sick or even retire when they grow old."

In the UK today the threat of being out of work appears to have been replaced by a new worry: financial insecurity. As described by Andy Haldane, the Chief Economist at the Bank of England, "the jobs bonanza has been accompanied by a pay disaster."[1] With wage growth yet to recover to pre-crisis levels we expect financial insecurity to bedevil workers for some time still.

The liquid workforce are at the heart of these changes, driving the recovery in employment rates since the recession whilst being exposed to higher levels of financial insecurity. The liquid workforce encompasses the self-employed, now making up more than 15% of the labour market;[2] temporary workers, the second fastest growing employment category after self-employment;[3] zero-hours workers, freelancers and those with multiple flexible forms of employment.

As this report finds, the liquid workforce are less likely to be able to access financial services and products. This lack of financial accessibility, coupled with a lack of traditional employee rights and benefits, means that the liquid workforce are less financially secure than typical workers.

Unless the financial security of this group is strengthened we are at risk of becoming a society where large numbers of people are exposed to significant income volatility, are unable to take time off when they are sick or even retire when they grow old. Furthermore, the knock-on effect of a financially insecure workforce on a welfare state already squeezed by an ageing population and a social care crisis should not be underestimated. This is all the more important given we expect the liquid workforce to continue to grow in the future.

This report sets out a policy agenda to boost the financial security and inclusion of the liquid workforce. It considers three main research questions:

1. How does the financial experience of the liquid workforce differ to that of the general population?
2. In relation to their financial experience, what specific challenges does the liquid workforce face?
3. What steps can financial institutions, regulators and Government take to improve the financial experience of the liquid workforce?

Key findings:

- The liquid workforce are more likely to earn very low incomes than non-liquid workers, with 22% of liquid workers earning under £10,000 per year compared to just 7% of employees. However, the liquid workforce are also slightly more likely than other employees to fall in a number of higher income brackets.

1 The Bank of England (2019), Andy Haldane at Glanford Park Stadium, Scunthorpe, Speech, July 2019. Available at: https://www.bankofengland.co.uk/speech/2019/andy-haldane-speech-regional-visit-to-yorkshire-and-humber (accessed 6 November 2019)
2 Office of National Statistics, (2018), UK Labour and Employment Data, Available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018 (accessed 6 November 2019)
3 The Bank of England (2019), Andy Haldane at Glanford Park Stadium, Scunthorpe, Speech, July 2019. Available at: https://www.bankofengland.co.uk/speech/2019/andy-haldane-speech-regional-visit-to-yorkshire-and-humber (accessed 19 July 2019)

- The liquid workforce face significant financial exclusion. They are less likely to hold financial products and more likely to be turned down when applying for them; almost four in ten (39%) liquid workers have been turned down for a financial product in the last five years, compared to just a third of employees.
- After being turned down for credit, the liquid workforce are most likely to turn to family and friends - indicating a potential lack of institutional alternative for those trying to access credit. Liquid workers are nearly twice as likely (28% vs 16%) to turn to a payday lender to meet their credit needs than employees.
- Liquid workers are more likely to worry and feel stressed about their financial lives, particularly relating to how much they save. Zero-hours workers are particularly likely to feel stressed about their finances, being more than twice as likely than employees to report being very stressed and anxious about their finances in the last year (31% vs 15%).
- Whilst valuing flexibility, liquid workers are likely to be prepared to sacrifice some flexibility in the way they work for greater financial security, particularly those at the lower end of the income spectrum. We found that almost half of liquid workers (48%) would be prepared to sacrifice some flexibility in the way they work for more income security, with just over a fifth (21%) unwilling to do so.

Recommendations:

To build new social safety nets fit for the liquid workforce, we recommend that:

Recommendation 1: The Government should work with organisations beyond the public sector - trade unions or financial institutions seem viable candidates - to help them establish universal portable benefit schemes for liquid workers, modelled on the Ghent System. These schemes should offer liquid workers those benefits typically reserved for employees, including sick pay and holiday pay.

To improve access to pensions for the liquid workforce, we recommend that:

Recommendation 2: The Government should introduce an auto-enrolment scheme for the solo self-employed by acting as their 'de facto' employer. This could be collected during the self-assessment process with the default being to opt-in.

Recommendation 3: Employees leaving their place of work for self-employment should continue to participate in their previous employer's pension scheme on an 'opt out' basis.

To protect self-employed liquid workers from low pay, and help ensure they are better compensated by contractors for their lack of employment benefits, such as sick pay and maternity cover, we recommend that:

Recommendation 4: The Low Pay Commission should estimate the financial cost to self-employed people of not receiving important employee benefits, such as sick pay and maternity cover. This calculation should inform the creation of a 'Self-Employed National Living Wage' and a 'Self-Employed National Minimum Wage'.

To help people better manage their finances in the liquid workforce, we recommend that:

Recommendation 5: The Government should consider offering means-tested 'accountancy aid' to help liquid workers manage their finances.

Recommendation 6: Banks should offer free advice sessions to their customers that have recently entered the liquid workforce.

To increase access to financial products for liquid workers, we recommend that:

Recommendation 7: Financial institutions should continue to expand the range of financial management tools offered by their bank accounts. This could include jam jar budgeting, automated saving schemes, data visualisation and financial forecasting.

To reduce late payments, which are a key cause of financial insecurity within the liquid workforce, we recommend that:

Recommendation 8: The Small Business Commissioner's remit must explicitly include liquid workers (many of whom are not or do not see themselves as a business) and the Commissioner should produce targeted materials and support for liquid workers to tackle late payments.

To increase access to financial products for liquid workers, we recommend that:

Recommendation 9: **Financial institutions should develop new criteria for financial product eligibility that are more suited to the income of the modern, liquid workforce. The Financial Conduct Authority should lead an industry taskforce in a regulatory sandbox to pioneer new ways of doing so.**

Recommendation 10: **Financial services should offer more flexible services and products to reflect the increasing fluctuation of consumers income, e.g. 'pay what you can' loans, so users can pay a proportion of what they earn, rather than a set monthly rate.**

Recommendation 11: **Financial services should seek to develop fintech-powered income verification to help people on variable incomes, especially the self-employed, demonstrate their creditworthiness.**

Recommendation 12: **The Government should work with the Financial Conduct Authority and other key financial institutions to consider how to protect liquid workers from potential discrimination when accessing financial products. This could include consideration of whether a second list of protected characteristics should be created specifically for accessing financial products and services that includes employment type - e.g. self-employment.**

To boost take-up of financial products by the liquid workforce, we recommend that:

Recommendation 13: **The Financial Conduct Authority should create a list of approved providers that offer products of high impact for the liquid workforce (e.g. income protection insurance and private pensions).**

INTRODUCTION

Public debate in Britain today is littered with lofty pronunciations about the future of work. From the rise of gig work to the sharing economy, it seems everyone - at least in policy circles - is talking about it. But concerns about an increasingly flexible, transient labour market are nothing new. As Demos described over twenty years ago:

> *"People's working lives are becoming an increasingly diverse mix of full-time and part-time work, permanent and temporary jobs, self-employment...As a society we need to match the attractions of individualism and choice, the dynamic of the market and competition, with measures to promote cohesion, mutual self-help and belonging"*.[4]

That Britain has failed to achieve the above in the past two decades speaks to sustained failure of public policy. And despite the labour market changing in ways unimaginable in 1998, at its core the problem remains unchanged: how can we offer greater security to workers, whilst maintaining the flexibility and dynamism they enjoy and that benefits our economy?

We believe there are two main reasons for this failure. First, public debate has tended to focus on small pockets of the labour market, obsessing over Uber drivers or Deliveroo riders, for example. This means broader, more significant changes often go ignored. This report takes that broader view, considering all those that are not regular nine-to-five employees: self-employed people, freelancers, gig economy workers, agency workers, temporary workers, people on zero-hour contracts and those with multiple flexible forms of employment. This report refers to this collective as the 'liquid workforce'.

Second, discussion about this group has paid too little attention to the financial experience of liquid workers. This report seeks to put that right, outlining what steps Government and financial institutions should take to improve the personal financial experience of the liquid workforce. It builds on previous Demos research that aimed to develop a 'new deal' for the self-employed.[5]

Methodologically this report draws on:

- Desk-based research;
- A rapid evidence assessment and literature review of what is currently known about the UK's liquid workforce;
- An original Opinium polling survey of 2000 UK adults aged 18 and above, between 14th-18th June 2019;
- Two focus groups with 10 liquid workers in Sheffield and London respectively;
- A series of eight in-depth, semi-structured interviews with liquid workers;
- An expert policy forum with experts from practitioners, policymakers, business leaders, and civil society representatives.

4 Charles Leadbeater and Stephen Martin (1998), The Employee Mutual, Demos. Available at: http://www.demos.co.uk/files/theEmployeemutual.pdf (accessed 6 November 2019)
5 Alan Lockey (2018), Free Radicals, Demos. Available at: https://demos.co.uk/project/free-radicals/, (accessed 6 November 2019)

CHAPTER 1
THE LIQUID WORKFORCE - AN OVERVIEW

"...it is important for policymakers to consider the financial lives of these groups together as they share a number of important characteristics"

This chapter provides an overview of what we already know about the liquid workforce, drawing on the relevant academic and grey literature. First, we provide an overview of who the liquid workforce are and what recent changes there have been to the size of this group. Second, we examine what we already know about their financial experience and how this differs to the rest of the labour market.

Who are the liquid workforce?

In summary, we find that:

- The liquid workforce are an increasingly significant proportion of the UK labour market. In the first quarter of 2019 alone, the number of self-employed workers increased by 90,000 to reach a record high of 4.93 million in March 2019, according to ONS statistics. The self-employed here includes independent contractors and people working in the 'gig economy'.
- The solo self-employed – businesses working on their own account, without employees – are the fastest growing subset of the self-employed (4.4 million strong).
- The liquid workforce's income spectrum is in the shape of an 'hourglass', with some on particularly low incomes (these tend to be gig workers, agency workers and temporary workers) whilst others (solo self-employed and freelancers) are more likely to be on much higher incomes.
- According to the ONS, a larger proportion of the self-employed work on a full-time basis (71%) than on a part-time basis (29%). However, there is a big gender disparity here: of the self-employed working on a full-time basis, 78% were men and 22% were women. Of those that worked on a part-time basis, 60% were women and 40% were men.
- Whilst the self-employed continue to be dominated by men, the liquid workforce as a whole is becoming increasingly female. In particular, the number of highly skilled female freelancers has grown by 67% since 2008, compared to an increase of just 33% amongst men.
- The average age of liquid workers varies substantially between different sections of the liquid workforce. For example, the average age of a self-employed person is 46, significantly higher than the average age for agency or temporary workers, which is between 20 and 24.
- There is a geographical division in the liquid workforce: London and the South East has the highest level of self-employment whilst the North East has the lowest rates of self-employment and the highest rates of zero-hours contracts.

In this report we define the liquid workforce as people in any one of the following categories: self-employed, freelancers, gig economy workers, agency workers, temporary workers, people on zero hours contracts, and people with multiple flexible forms of employment. More detail is provided about these groups below.

We feel it is important for policymakers to consider the financial lives of these groups together as, despite being a group of high heterogeneity, they share a number of important characteristics that this report seeks to identify. It is also important to acknowledge that there is a lot of overlap within these groups; a freelancer, for example, may do gig work to top-up their income.

Self-employment

The self-employed are by some distance the largest group in the liquid workforce, comprising over 15.1% of the UK's total labour market.[6] The Government defines the self-employed as those that "run their business for themselves and take responsibility for its success or failure".[7] The group includes sole traders, individuals who become a partner in a business and people with limited companies.[8]

Figure 1 illustrates the considerable growth of self-employment in recent years. The 'solo self-employed' - those that work entirely on their own without employees - are the fastest growing category among the self-employed workforce and there now over four million 'solo self-employed' people in the UK.[9]

Citizens Advice estimate that one in ten self-employed people are 'bogusly' self-employed, meaning they fit the criteria of 'employee' yet their employer treats them as self-employed.[10] This can often provide significant savings to the employer, while the individual loses out on benefits such as holiday pay and sick pay.

Freelancers

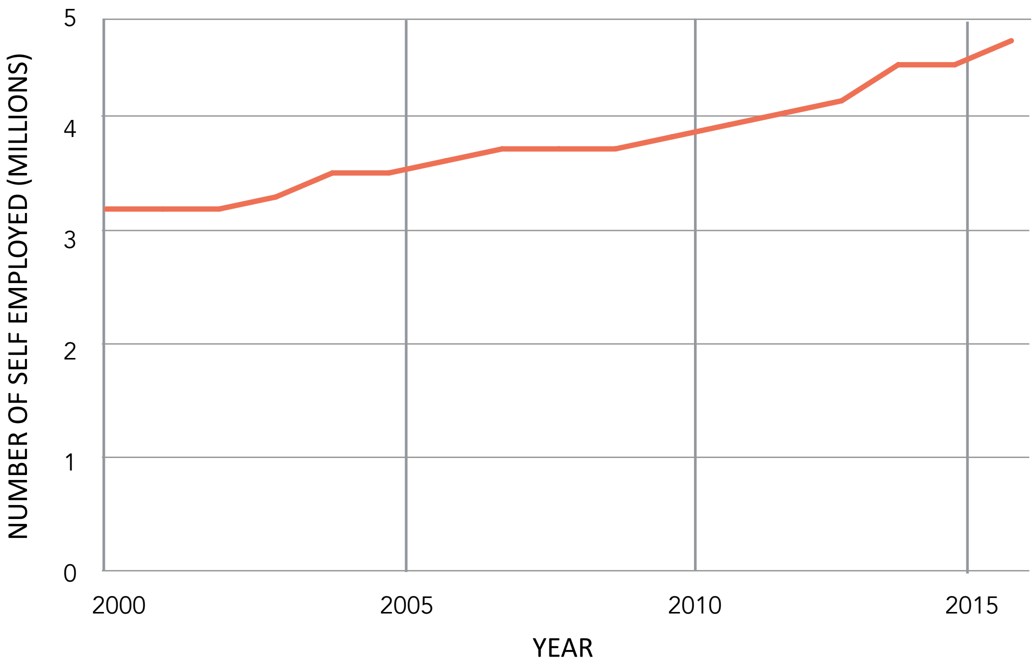
The Association of Independent Professionals and the Self-Employed (IPSE) define freelance workers as "independent professionals, who are neither employers nor employees, supplying labour services to clients on a temporary basis".[11] They are a subset of the self-employed and whilst 'freelance' carries no legal meaning, it is useful for comparing different elements of the liquid workforce.

The growth of 'solo self-employment' has been attributed, in part, to the vast expansion of the freelance workforce, which has grown by 46% since 2008. Freelancers now account for almost half (46%) of solo self-employment.[12]

FIGURE 1.

NUMBER OF SELF-EMPLOYED PEOPLE IN THE UK

Source: ONS, 2016



6 Office of National Statistics (2018), UK Labour and Employment Data, Available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018 (accessed 6 November 2019)
7 Gov.uk (2019), Employment Status, Available at: https://www.gov.uk/employment-status/selfemployed-contractor (accessed 6 November 2019)
8 Gov.uk (2019), Working for yourself, Available at: https://www.gov.uk/working-for-yourself (accessed 6 November 2019)
9 Chloe Jepps (2019), Self-Employment in the Modern Economy, IPSE
10 Citizens Advice, Neither one thing or the other: how reducing bogus self-employment could benefit workers, business and the Exchequer. Available at: https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/Neither%20one%20thing%20nor%20the%20other.pdf (accessed 6 November 2019)
11 IPSE (2008), Exploring the rise of self-employment in the modern economy, 2018, p1. Available at: https://www.ipse.co.uk/resource/exploring-the-rise-of-self-employment-in-the-modern-economy-pdf.html (accessed 6 November 2019)
12 IPSE, Exploring the rise of self-employment in the modern economy, 2018, p.3. Available at: https://www.ipse.co.uk/resource/exploring-the-rise-of-self-employment-in-the-modern-economy-pdf.html (accessed 6 November 2019)

Gig workers

The gig economy has received significant attention in recent years. The emergence of a range of online platforms which act as a broker between the 'gig' - a piece of work - and the client has created new, flexible ways of earning income. Gig workers often utilise their own assets for work purposes, for example through letting their home on AirBnB or using their car to drive for Uber.

It is important to note that gig economy workers are often only part of the gig economy for a short time.[13] The majority (58%) engaged in the gig economy are also employees and use it as a means to secure additional income, rather than to replace traditional modes of employment.[14] Being a gig worker, therefore, can often be a practical step to boost earnings whilst studying, retraining, or looking for permanent work. It is an area where members of the liquid workforce are likely to overlap with the non-liquid workforce.

Agency workers

Agency workers hold a contract directly with an employment agency who then 'supply' the worker temporarily to a particular workplace.[15] This could be for a single shift or longer term contracts. There is a notable overlap between temporary and agency workers, but it is also commonplace for a worker to be independently engaged in a temporary contract directly with an employer, such as people who work on a supply basis for a single business.

Zero-hours contracts

Zero-hours contracts are casual contracts with no obligation for the individual to work a fixed amount of hours or the employer to provide a fixed number of hours of work.[16] They have received increasing attention in the media in recent years and both the Trades Union Congress (TUC)[17] and Labour Party[18] have called for them to be banned. However, others - including Matthew Taylor in his review for the government of modern working practices - have argued that banning zero-hours contracts altogether could harm more people than it would help.[19]

Multiple flexible employment

'Multiple flexible employment' describes workers that belong to two or more of the groups described above. It also describes those that are employed full or part time on a standard employee contract in addition to earning income from at least one other source.

How is the liquid workforce changing?

The table in Figure 2 illustrates the population breakdown of the various components of the liquid workforce. We can see that by some distance the self-employed are the biggest component of the liquid workforce.

There have also been important changes in recent years in the composition of the liquid workforce. Several reasons for these changes have been offered. Some argue that increased global competition has encouraged firms to enter more flexible working relationships with employees to achieve cost savings.[20] Others point to technological change and the rise of app-based work, enabling people to 'work on demand' under zero-hour contracts. The UK economy's slow recovery after the 2008-2009 is also often highlighted as a key explanation: the unavailability of more traditional forms of employment may have pushed people into the liquid workforce.[21]

13 CIPD (March 2017), To Gig or Not to Gig? Stories from the Modern Economy. Available at: https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf (accessed 6 November 2019)

14 CIPD (March 2017), To Gig or Not to Gig? Stories from the Modern Economy. Available at: https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf (accessed 6 November 2019)

15 Citizens Advice. Agency workers- what you need to know? Available at: https://www.citizensadvice.org.uk/work/rights-at-work/agency-workers/agency-workers-what-you-need-to-know/ (accessed 6 November 2019)

16 HMG, Contract types and employer responsibilities. Available at: https://www.gov.uk/contract-types-and-employer-responsibilities/zero-hour-contracts (accessed 6 November 2019)

17 Scott Gilfillan (4 July 2019), Zero-hours contracts- what you need to know and why they should be banned, TUC blogs, Available at: https://www.tuc.org.uk/blogs/zero-hours-contracts-what-you-need-know-and-why-they-should-be-banned (accessed at 6 November 2019)

18 Scott Gilfillan (4 July 2019), Zero-hours contracts- what you need to know and why they should be banned, TUC blogs, Available at: https://www.tuc.org.uk/blogs/zero-hours-contracts-what-you-need-know-and-why-they-should-be-banned (accessed at 6 November 2019)

19 Department for Business, Energy and Industrial Strategy. Matthew Taylor (July 2017) Good Work: The Taylor Review of Modern Working Practices. Available at: https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices (accessed at 6 November 2019)

20 Conor D'Arcy and Fahmida Rahman (2019), Atypical approaches: Options to support workers with insecure incomes, Resolution Foundation

21 Conor D'Arcy and Laura Gardiner (2014), Just the job – or a working compromise? The changing nature of selfemployment in the UK, Resolution Foundation

FIGURE 2.

COMPOSITION OF THE LIQUID WORKFORCE*

Source: ONS, 2018; IPSE, 2015; RSA, 2017; CIPD, 2017; REC, 2017

**Please note: due to overlap between the various component groups of the liquid workforce, neither columns should be added to produce a total estimate of the size of the liquid workforce.*

Employment Type	Number	Percentage of the overall UK workforce
Self-Employed	4.8 million	15.1%
Freelance Workers	1.91 million	6%
Temporary Workers (including agency workers)	1.6 million	5%
Gig Economy Workers	1.3 million	4%
Agency Workers	1.3 million	4%
People with Multiple Flexible Employment	1.1 million	3.5%
People on Zero-Hour Contracts	905,000	2.8%

These explanations often presume people have been forced into the liquid workforce against their own will. However, there is good reason to believe this might not be the case. A survey by the then Department for Business, Innovation and Skills found 84% of respondents thought their life overall was better in self-employment compared to being an employee and over half believed they were better off financially. This is consistent with previous Demos research which found that the vast majority (80%) of the self-employed describe themselves as happy to be self-employed, having actively chosen this employment type.[22] The Resolution Foundation found the general characteristics of the self-employed have generally stayed the same since the financial crisis,[23] though the rate of those becoming self-employed due to a lack of better alternatives has increased from 10% to 27%.[24]

Gender and the liquid workforce

As Figure 3 illustrates, considerable gender divides exist in the liquid workforce. This is most apparent amongst full time self-employed people, more than three quarters (79%) of whom are men.[25] However, it is important to note that there has been an increase in the number of women in self-employment in recent years, with the number of men remaining fairly stable.[26]

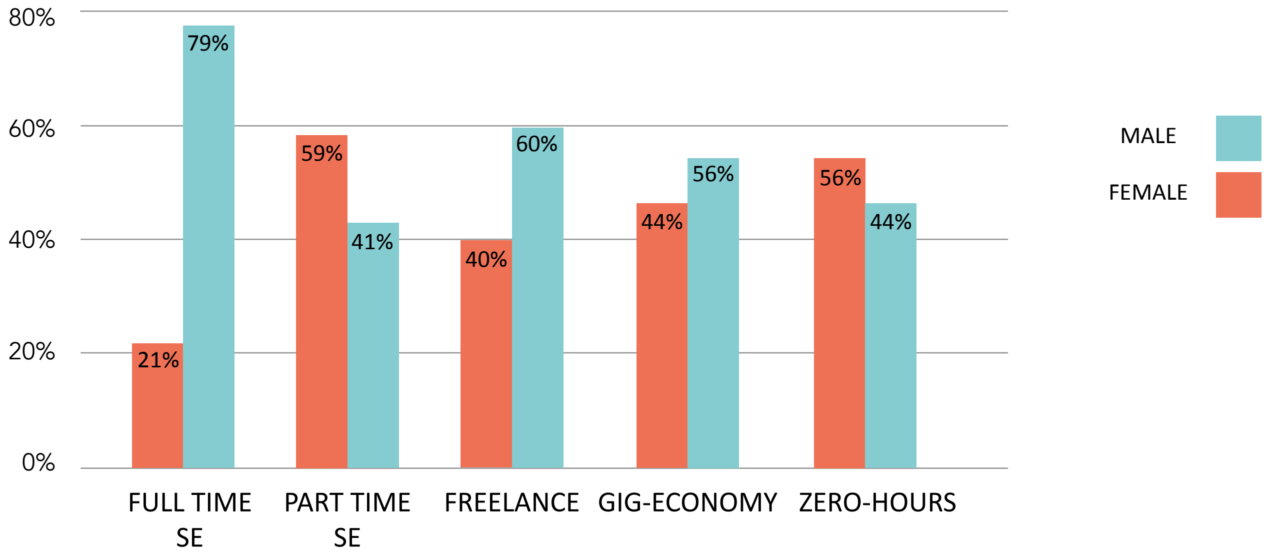
On the other hand, women in part-time self-employment outnumber men (59% vs 41%). This may be because women are still often more likely to be responsible for the care of dependents and older family members, drawing them to the flexibility afforded by part-time self-employment. In the freelance workforce, the number of mothers increased by 70% over seven years from 2008 to 2015.[27] The most significant growth in comparison to men can be seen amongst highly skilled freelance workers, with an increase of 67% women in comparison to a 33% increase of men since 2008.[28]

22 Alan Lockey (2018), Free Radicals, Demos, p.43. Available at: https://demos.co.uk/project/free-radicals/, (accessed 6 November 2019)
23 Conor D'Arcy and Laura Gardiner (2014), Just the job – or a working compromise? The changing nature of selfemployment in the UK, Resolution Foundation
24 Conor D'Arcy and Laura Gardiner (2014), Just the job – or a working compromise? The changing nature of selfemployment in the UK, Resolution Foundation
25 Office of National Statistics (2018), UK Labour and Employment Data, Available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018 (accessed 6 November 2019)
26 Office of National Statistics (2018), UK Labour and Employment Data, Available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018 (accessed 6 November 2019)
27 Kayte Jenkins (2016) Exploring the UK Freelance Workforce in 2016, IPSE. Available at: https://www.ipse.co.uk/uploads/assets/uploaded/de84dfb7-283a-4c26-ba446f95f5547c1f.pdf (accessed 6 November 2019)
28 Kayte Jenkins (2016) Exploring the UK Freelance Workforce in 2016, IPSE. Available at: https://www.ipse.co.uk/uploads/assets/uploaded/de84dfb7-283a-4c26-ba446f95f5547c1f.pdf (accessed 6 November 2019)

FIGURE 3.

GENDER AND THE LIQUID WORKFORCE

Source: ONS, 2018



The gender composition across other areas of the liquid workforce are more equal: just over half of gig economy workers are male and just over half of those on zero-hours contracts are female.[29]

Age and the liquid workforce

Self-employed people are on average considerably older than the general working population (46 years old vs 29 years old).[30] However, it is important to note that there has been an increase in self-employment amongst young adults aged 16-24 years in recent years.[31]

Perhaps unsurprisingly, gig, agency, temporary and zero-hours workers represent a much younger section of the workforce. These forms of employment are often more insecure and tend to attract people seeking flexible ways to earn income whilst studying or changing career.

Geography

There is significant regional variation in the distribution of the liquid workforce, as illustrated by Figure 5 below. Almost half of England and Wales' self-employed workforce are based in London, the South West, and the South East. London has the highest level of self-employment in England and Wales whilst the North East has the lowest rate of self-employment and highest rate of zero-hours contracts.

FIGURE 4.

AGE OF LIQUID WORKERS

Sources: Aviva 2017; Labour Force Survey, 2017; RSA, 2017.

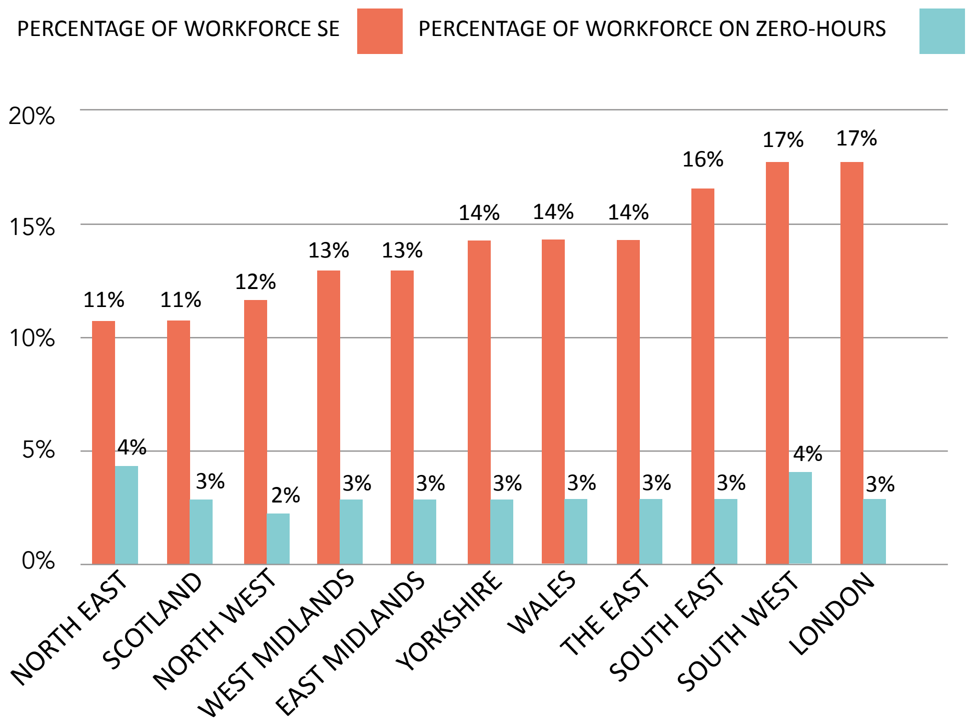
Employment Type	Average Age
Self-Employed	46
Employed	29
Gig Economy Workers	25-29
Agency and Temporary Workers	20-24
Zero-Hour Contract Workers	20-24

29 CIPD, 2017; IPSE, 2016; New Policy Institute, 2016.
30 Aviva (2017) UK: A blueprint for getting the self-employed into pensions. Available at :https://www.aviva.com/newsroom/news-releases/2017/07/uk-a-blueprint-for-getting-the-self-employed-into-pensions-17789/ (accessed 6 November 2019)
31 Office of National Statistics (2018), Trends in self employment in the UK, Available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07 (accessed 6 November 2019)

FIGURE 5.

REGIONAL VARIATION IN LIQUID WORKFORCE DISTRIBUTION (ENGLAND AND WALES ONLY)

Sources: ONS, 2018; Labour Force Survey, 2017; RSA, 2017.



What do we already know about the financial lives of the liquid workforce?

This section provides an overview of the existing data and literature relating to the financial experience of the liquid workforce. The next chapter builds on this evidence base with the findings from our own qualitative and quantitative research.

Income level

It is important to note that there is a significant range of incomes across the liquid workforce (see a further breakdown in Figure 6). As a result, some have described this workforce as an 'hourglass' split into two groups: the privileged and the precarious or, in the words of the Resolution Foundation, a 'tale of two tribes'.[32] This is somewhat consistent with Figure 7, which illustrates how different subsets of liquid workers have significantly different median salaries - with the full time self-employed earning significantly more (£16,796) than those on zero hour contracts (£12,272).

Income Fluctuation

Evidence suggests that liquid workers are likely to be concerned about fluctuating income. A poll of 1000 self-employed workers in previous Demos research found half of self-employed people are concerned about the irregularity of their income or unpredictable finances.[33] This issue is often exacerbated by late payments from clients, causing significant issues for liquid workers. According to IPSE almost half of self-employed people have not received payment for a piece of completed work and 63% have experienced late payments.[34]

Savings

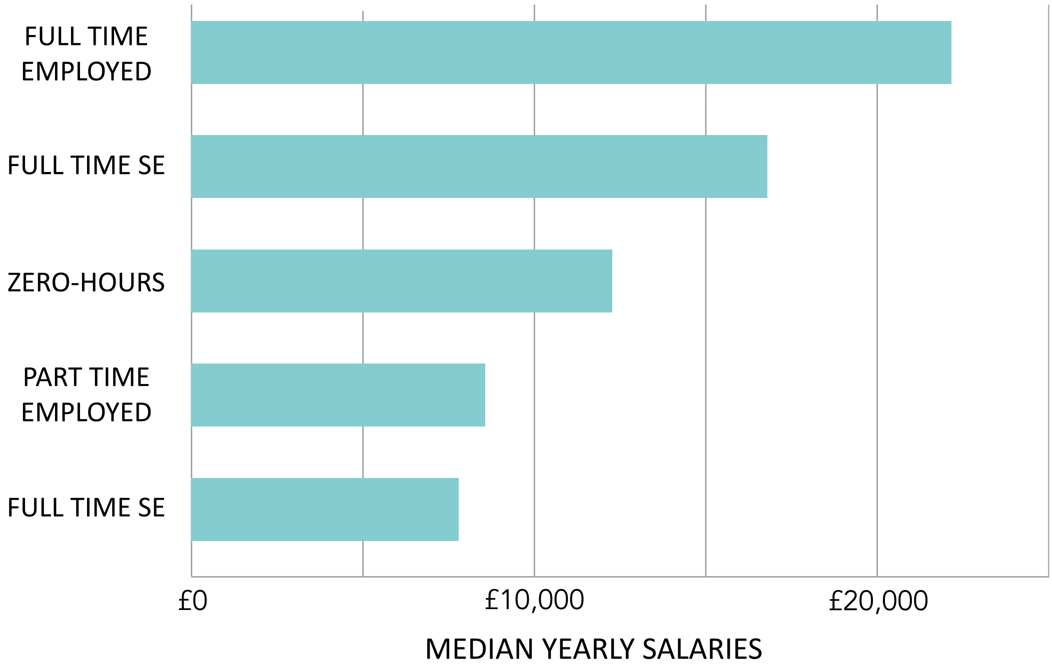
A survey by IPSE found that the overwhelming majority (90%) of self-employed people worry about their financial situation, with 36% not feeling secure about their financial future.[35] This is likely to be partly driven by how difficult this group finds saving - research has shown that nearly half of self-employed people cannot afford to save anything each month.[36] Gig workers are also likely to face real difficulties saving - a survey of 150 gig economy workers found the majority were not able to save any money at all.[37]

32 The Resolution Foundation (2017), A tough gig? The nature of self-employment in 21st Century Britain and policy implications. Available at: https://www.resolutionfoundation.org/app/uploads/2017/02/Self-employment-presentation.pdf (accessed 6 November 2019)
33 Alan Lockey, Free Radicals, Demos, 2018
34 IPSE (2018), Exploring the rise of self-employment in the modern economy. Available at https://www.ipse.co.uk/resource/exploring-the-rise-of-self-employment-in-the-modern-economy-pdf.html (accessed 06/11/2019)
35 IPSE (2018), Exploring the rise of self-employment in the modern economy. Available at https://www.ipse.co.uk/resource/exploring-the-rise-of-self-employment-in-the-modern-economy-pdf.html (accessed 06/11/2019)
36 LV (2017) Heightened risk of financial crisis for self-employee. Available online at https://www.lv.com/adviser/news/heightened-risk-financial-crisis-self-employed (accessed 06/11/2019)
37 Department for Business, Energy and Industrial Strategy (2018), The experiences of individuals in the gig economy. Available online at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679987/171107_The_experiences_of_those_in_the_gig_economy.pdf (accessed 06/11/2019)

FIGURE 6.

MEDIAN SALARIES FOR DIFFERENT EMPLOYMENT CATEGORIES

Sources: ONS, 2018; RSA, 2017.



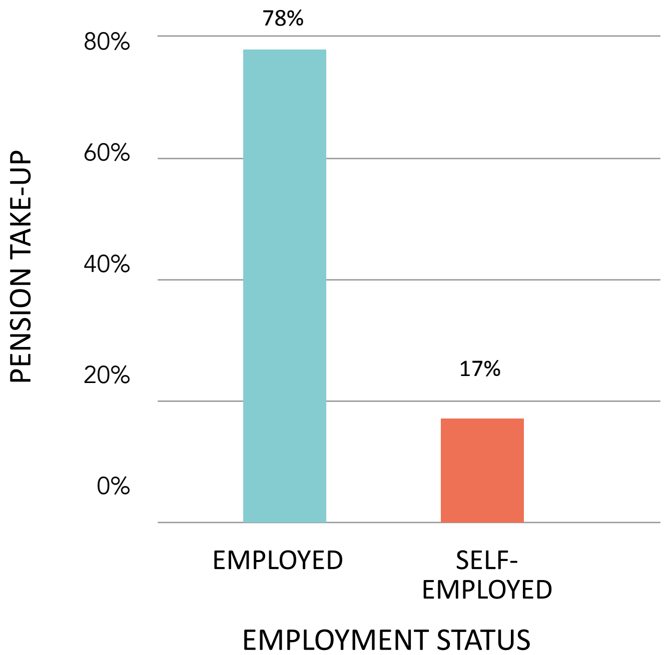
Pensions

As the chart in Figure 7 shows, take-up of pensions is considerably lower amongst the self-employed than amongst employees. It is therefore unsurprising that most self-employed people assume they will continue to work into their retirement.[38] However, it is important to note the self-employed are slightly more likely to own property and view it as a reliable alternative to a pension scheme.[39] Furthermore, 35% of gig economy workers report they are not contributing to a pension scheme or saving money for the future.[40] As a result, Citizens Advice have recommended that pension providers develop pension plans that better suit the needs of the self-employed.[41] This is a theme that we go on to explore later in this report.

FIGURE 7.

PENSION LIBRARY

Sources: Demos, 2018; Aviva, 2017



38 Citizens Advice Bureau (2016) Shy of Retiring: Addressing under-saving among self-employed people. Available at https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/shy-of-retiring.pdf (accessed 06/11/2019)
39 Citizens Advice Bureau (2016) Shy of Retiring: Addressing under-saving among self-employed people. Available at https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/shy-of-retiring.pdf (accessed 06/11/2019)
40 CIPD (March 2017), To Gig or Not to Gig? Stories from the Modern Economy. Available at: https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf (accessed 6 November 2019)
41 Resolution Foundation, 2019

Income protection insurance

Income protection insurance provides financial support to policyholders in the event that they are injured or too sick to work.[42] Given the self-employed cannot access sick pay, one might expect this group to make extensive use of such products. However, the evidence suggests that just 4% of self-employed people hold income protection insurance.[43] Reasons why will be explored later in this report.

42 Money Advice Service, Do you need income protection insurance? (Webpage). Availble online at https://www.moneyadviceservice.org.uk/en/articles/do-you-need-income-protection-insurance (accessed 06/11/2019)
43 LV (2017) Heightened risk of financial crisis for self-employee. Available online at https://www.lv.com/adviser/news/heightened-risk-financial-crisis-self-employed (accessed 06/11/2019)

CHAPTER 2
THE FINANCIAL LIVES OF LIQUID WORKERS - QUALITATIVE FINDINGS

"I haven't thought about getting injured, about like breaking myself or something, and now I'm thinking about that. That would be a real spanner in the works, which I've properly not thought of."

We conducted two focus groups, each with ten liquid workers in Sheffield and London respectively. Participants in the London focus group were drawn from the full spectrum of the liquid workforce - relatively comfortable freelancers late in their career to zero-hours workers in precarious financial situations. Participants in the Sheffield focus group were drawn from lower income households (total household income below £30,000 p/a) and self-identified as having experienced financial difficulties as a result of their employment type.

We also conducted a series of semi-structured telephone interviews with liquid workers from across England. Participants were drawn from the full spectrum of liquid workers.

In summary, we found that:

- Liquid workers value flexibility but are often happy to sacrifice some flexibility for greater financial security - although this is less the case for higher earners, or liquid workers with financial assets.
- Lack of employment benefits - such as holiday pay and sick pay - are a recurring issue for the liquid workforce that can lead to negative consequences.
- Work availability often varies significantly for liquid workers, leading to significant income volatility and the potential for financial insecurity.
- Liquid workers are likely to feel stressed about their financial circumstances - particularly relating to their lack of savings for later life.
- The liquid workforce are likely to struggle with personal financial management, and those who can afford accountants rely heavily on them.
- The liquid workforce often struggle to access certain financial services and products, particularly loans and mortgages.

Financial experience

Income fluctuation

Income fluctuation, often relating to peaks and troughs in work, was a frequent issue across both our focus group and interviews:

> *"We've got some weeks you could be earning quite a lot of money, other weeks you might not have got any work done. It just depends."*

Male focus group participant, self-employed, Sheffield

For some participants this was of particular concern, leaving them unable to get enough work to make ends meet:

"The most challenging thing by a long way is, and I think this is a problem more specifically in Birmingham delivery than London, it's not enough money. It's not enough work."

Male interviewee, gig economy worker, London

"Some months you'll get paid and some you won't."

Female focus group participant, solo self-employed, Sheffield

We heard that some members of the liquid workforce would address this problem by taking on extra work:

"I do cleaning as well, just cash in hand £20 a week. Obviously, I don't make it last me the whole week but for like bits and bobs [...] it helps keep money in my account."

Female focus group participant, agency worker, Sheffield

"I haven't got any, I'm saving my taxes... That's pretty bad, I know, but I just don't. I know it's something that I keep meaning to get started on, but it's never quite the right month."

Female interviewee, solo self-employed, London

"I try to make things work as they come, which is not always that easy. If you get a massive tax bill, you think, 'Maybe I should have saved up.' [...]My laptop broke last week and I started panicking about how I haven't got an emergency fund for that. I thought maybe I should have been putting some away."

Female interviewee, solo self-employed, London

For some, fluctuating income meant they felt less inclined to save money from a larger pay cheque, because they wanted to enjoy spending after periods of having very little money.

"Some months you get paid and some you won't"

"I have had to occasionally temp for a month or two, even when I've done the work, but just because the money's not coming in."

Female interviewee, solo self-employed, London

These experiences highlight one potential downside of flexibility - it can sometimes result in very real financial insecurity. Nearly all those we spoke to that were in this situation had experienced high stress levels as a result of their financial situation.

Savings

Most participants were only able to save for their tax bill at the end of the financial year - their income was perceived to be too unstable for more significant saving than this. However, some participants who had spent periods of time as employees, earning a relatively high income, had been able to save before joining the liquid workforce.

"You get a job. The temptation is just to go and enjoy yourself because you've got some money coming in. It is kind of difficult to hold back when you're sort of flush."

Male focus group participant, solo self-employed and agency worker, London

However, it is important to highlight that a number of liquid workers that we spoke to were able to save successfully:

"I'm a big saver. I really love to save money, and I'm quite reluctant to spend. Never had a credit card. Never even had a student overdraft when I was at the university. For me, I felt like if it's there, it's just like temping to use it when I don't really feel that I needed to."

Male interviewee, 'bogus' self-employed, London

"I always try and make sure I've got three months' worth of money that I either know an invoice is coming in or is in the bank."

Male interviewee, solo self-employed, Liverpool

Stress

We found that liquid workers experience significant stress as a result of their financial situation. This often revolved around two issues: not getting enough work and not earning enough money even when work was available. Some participants found the lack of work could also affect their mental health.

> *"I think it would be an overstatement to say it lifts my spirits [when a "gig" is booked]. It's like I'm sat there and if an hour goes without my phone buzzing, then I feel depressed."*

Male interviewee, gig economy worker, London

For some, their stress was less connected to immediate day-to-day worries, but the uncertainty of future work in the medium to long-term:

> *"It's mostly psychological for me. It's kind of if you can make it happen, it's a lot more lucrative, I've found actually[...] it's mostly just getting over the idea that, 'Oh, God, next March I don't really know what I'm getting paid,' or even like: where are we now?"*

Male interviewee, solo self-employed, London

Financial management

Almost all the liquid workers we spoke to found managing their personal finances particularly burdensome. However, as to be expected from a group that covers a significant cross section of society, most participants had different methods of dealing with the extra burden of managing their finances. Participants who had employed accountants spoke very favourably about them, describing how difficult tax administration is without the support of an accountant.

> *"That's the other advice I'd give to any self-employed person. Get an accountant. Money well spent."*

Male interviewee, self-employed, Liverpool

Many found having an accountant relieved them from spending time administering their own personal and business finances. They also valued the advice accountants could give on managing and tracking expenses. Some participants also reported that having an accountant made it easier to apply for financial products, such as mortgages.

> *"If you use an accountant, that goes a long way in helping you get anything really. It's as good as having wage slips. Because having an accountant is a reference for a lot of other things as well. I would always advise someone self-employed to use an accountant."*

Female focus group participant, solo self-employed, Sheffield

"My laptop broke last week and I started panicking about how I haven't got an emergency fund for that. I thought maybe I should have been putting some away"

However, for some participants the cost of employing an accountant was overly prohibitive:

> *"Yes, but if you have an accountant, that's another 300 quid a year to pay for, you know?"*

Male focus group participant, solo self-employed and agency worker, London

> *"I earn so little money that for me to employ an accountant to do my accounts would represent such a loss to me."*

Male interviewee, 'bogus' self-employed, London

Many participants we spoke to reported issues dealing with HM Revenue and Customs (HMRC). These often relate to having multiple income streams, a scenario for which HMRC's systems did not appear well-suited. Participants often felt the tax system was not designed for people like them:

> *"Inland Revenue doesn't seem to have any kind of understanding of the fact that you've got two different sources of income… They don't seem to get the concept, I've touched on before, of some of your income on PAYE and some self-employed… I think to myself, 'Am I the only person in England who's got this arrangement?'"*

Male focus group participant, solo self-employed and agency worker, London

There was interest and enthusiasm for new financial products and technology to assist with accounting, although most people had not used them. Some participants had Monzo bank accounts and found it useful for tracking expenses, among other tasks:

> *"I just opened a Monzo account. They're actually very useful because if you do spend money, you could actually allocate it on your phone as to what you're spending it on. You can take a photograph of the receipt so, you don't have to hang onto all the paperwork. You can basically have it all there. That is a product that is really, really useful for me. It's sort of a record. I can put all my spending, my work and spending through that."*

Male focus group participant, solo self-employed, London

> *"I've seen these apps. I think they're probably quite good for certain people, like freelancers where things are a bit more complex."*

Male interviewee, gig economy worker, London

Holidays and ill health

We found that liquid workers struggled to take time off for holidays or sickness. We heard that some participants were contracted to work full time hours, but without the employee benefits such as sick pay and holiday leave.

> *"I'm employed to work ten to six, but to do that on a self-employed contract, I just find it quite baffling because obviously, I don't get any of the perks of being employed full-time. I don't have sick pay coverage. I don't get any pension, all that kind of good stuff."*

Male interviewee, 'bogus' self-employed, London

We heard from others that the irregularity of work and uncertainty of when the next job would come meant individuals ended up working almost constantly:

> *"I've had [...] no time to take off, because I feel like there's no structure, like annual leave or anything so it's easy just to panic about money and take everything on and then not actually book proper time off."*

Female interviewee, solo self-employed, London

People running their own businesses found it particularly difficult to take time off, often because of the potential lost income and the fear of losing a client to a competitor. During the first few years of setting up a business people were wary of turning down any contracts as they sought to establish themselves in their respective fields.

> *"Even just taking holidays. The worry is there if you book a holiday and then something comes in then you can't because you have to take it. It's too good to turn down, and don't get sick."*

Male focus group participant, solo self-employed, London

> *"It's not like going into an office and working, it's different, it's what I want to do, so that is really different. The idea of giving myself 20, between 20 and 30 paid holiday days a year, it's like, no."*

Female interviewee, solo self-employed, London

Participants found themselves carrying the full weight of responsibility to provide a contracted service, making it incredibly challenging for self-employed people to take time off for ill health.

> *"I could hardly stand up. I felt like I was going to faint the whole time. There was only me. I was the only designer there and we were opening that night, so it was really hard to go home…"*

Female interviewee, solo self-employed, London

Taking time off when unwell presents other challenges for agency workers and those on zero-hours contracts. For example, people relying entirely on zero-hours contracts often felt under pressure to compete for shifts because of an oversupply of staff to their particular employers. They were therefore reluctant to take time off for a holiday or illness in fear of losing out on future work.

"I know people that have worked in my company that have had time off and they find it hard getting shifts. Anything could go against you as it's a temporary sort of work. You've got to be kind of careful."

Female focus group participant, agency worker, London

The precarious nature of no guaranteed hours, combined with competition for individual shifts can create a sense of reduced agency amongst the workforce. Moreover, some agency workers face being charged a 'late cancellation fee' in the event of sickness.

"I don't know when that sort of thinking starts to happen. Some time in the future. A bit vague. I don't know if that's a helpful attitude. I think for so long I was trying to make it work, trying to make self-employed work, trying to pay my rent. "

Female interviewee, solo self-employed, London

"I've pushed that to the side for the moment. I'm in my 30s. I have 30 odd years left, but I've pushed that to the side just for now."

Male focus group participant, employee and zero-hours worker, London

"I'm employed to work ten to six, but to do that on a self-employed contract... I don't get any of the perks of being employed full-time. I don't have sick pay coverage. I don't get any pension, all that kind of good stuff."

"With zero hour jobs sometimes if you're sick and supposed start in an hour, if you don't get there on time you get charged again."

Male focus group participant, zero-hours worker, Sheffield

Pensions and retirement

We found members of the liquid workforce often struggle to plan for their long-term needs, in particular for their retirement. The majority of people we spoke to had not taken out a private pension plan, often due to their prohibitively high cost. Those with pensions often had these from previous employment outside the liquid workforce and we heard there was significant interest in greater flexibility from pension providers.

"Private pensions, It's quite difficult to put a regular amount in… There's very few pension packages that allow you to pay in on an irregular basis."

Male focus group participant, solo self-employed and agency worker, London

Younger participants struggled to save money for something perceived to be so far away. Many were simply not in the financial position to be able to save:

Many over the age of 65 expected to continue to work into old age as a result of insufficient pension provision. However, it is important to note that for some this was a result of the personal satisfaction they gained from working.

"I also know that my parents have also no pension and they're 63 and 66. It's a bit of a mess really because they are going to need help because they are self- employed. They have been doing the same. I don't know if it's good or bad. They've been doing the same. If you got it then spend it rather than save it...I don't have any cash to put aside."

Female interviewee, solo self-employed, London

"Well, what has come into focus more recently is not having a pension. […] How do you decide when you don't feel like you got much to spare? What do you do? It's much easier when it just came out of my salary and I didn't think about it."

Female interviewee, solo self-employed, London

Borrowing

We found members of the liquid workforce often borrow money from a range of sources to smooth their income - unsurprising given this report has shown that income fluctuation is common for this group. We found many rely on bank overdrafts, helping them to bridge income gaps.

> *"Especially if you're in your overdraft anyway, as like a normal, which is not ideal, but a lot of the times it is. If I got like a two grand invoice, if I put money aside, I'm still paying overdraft fees so I don't put it aside, I use it for the overdraft. I feel like when I'm out of the overdraft, I'll start saving. Yes. It's a fee, isn't it, that you just sort of put up with."*
>
> **Female interviewee, solo self-employed, London**

> *"I rely on an overdraft, while you wait for more money to come in."*
>
> **Male focus group participant, self-employed, Sheffield**

Participants were very sceptical about payday loans which generally had a bad reputation. They tended to be aware of the very high interest rates often charged by payday lenders.

> *"It's [payday loans] completely different to what they tell you it's going to be, so I would never go down that road."*
>
> **Female focus group participant, self-employed, Sheffield**

> *"Personally I think a card is better than one of them payday loans things. Definitely, because you could easily be savvy with your cards, transfers and do stuff."*
>
> **Female focus group participant, agency worker, London**

We also found that participants often relied upon sources of funding beyond traditional financial institutions. This included friends and family:

> *"Asked my parents for some money….I borrowed money from a girlfriend yesterday."*
>
> **Male interviewee, gig economy worker, London**

> *"I borrow it off my family. We just go round in circles borrowing off of each other."*
>
> **Female focus group participant, agency worker, Sheffield**

Other alternatives to typical financial institutions included credit unions, which some participants spoke positively about:

> *"I think Sheffield Union help, the credit union. If you get help from someone you can contact them and they're actually better than getting a loan out. Because they don't put as much on top of you. They pay for five bills and you pay £10 a month but that is helping you out a bit more."*
>
> **Female focus group participant, agency worker, Sheffield**

"I borrow it off my family. We just go round in circles borrowing off each other."

Mortgages and renting

Participants regularly reported difficulties renting and buying property as a result of their employment type. For example, many participants found that they did not have enough relevant information to be considered for a mortgage. The mortgage application process often requires three years of accounts if you are self-employed and the bank's decision is likely to be based on average earnings over those three years.

> *"My partner's self-employed and we had to wait so long before we could apply for the mortgage. They needed so much proof of regular work."*
>
> **Male interviewee, gig economy worker, London**

> *"I found myself speaking to a mortgage advisor because my sister and I… wanted to club together to buy a house in Bristol. I spoke to a mortgage advisor, and they were like, 'We can't give you a mortgage'. With the 'you' they meant me, because I am self-employed and I haven't had my first year of taxes yet, so they wouldn't be able to give me a mortgage."*
>
> **Male interviewee, 'bogus' self-employed, London**

Homeowners in the liquid workforce tended to have purchased their properties during periods of employment. One participant had made use of an online broker (Habito) specifically aimed at self-employed people, and spoke very favourably about it because it recommends the best value mortgage the person applying is eligible for.

> *"Habito, I saw them on the Tube actually and they are like mortgage advisors who went through all the paperwork with me and went through on a webchat. I saw it on the Tube. It's all done through a web chat."*

Female interviewee, solo self-employed, London

Participants also found securing rental accommodation could be more challenging in the liquid workforce:

> *"The other actual thing I really struggled with is renting in London, it can be very hard if you're freelance. Because a lot of landlords or agencies they want, either for you to prove you make a certain amount, which is hard if you're a freelancer... For them the idea of you being freelance is so unstable, that it's not enough, so again, have to get accounted."*

Female interviewee, solo self-employed, London

"My partner's self-employed and we had to wait so long before we could apply for the mortgage. They needed so much proof of regular work."

Insurance

Many participants were aware of income protection insurance, however no liquid workers we spoke to had made use of these products. This was often due to simply not having had enough time to research these products.

> *"I keep seeing ads on Twitter for Income Protection Insurance. It's still something I haven't taken out but it's actually the top of my admin to-do list."*

Male interviewee, solo self-employed, Liverpool

Some participants were also not aware of the benefits of such schemes and whether they would be a worthwhile investment:

> *"I don't actually know what an income protection scheme for a Deliveroo rider would look like. I haven't looked at it at all, it's probably not very good. I know that there were like, I've seen like they were income smoothing services available, but again, I'm not really interested… I haven't thought about getting injured, about like breaking myself or something, and now I'm thinking about that. That would be a real spanner in the works, which I've properly not thought of. "*

Male interviewee, gig economy worker, London

> *"I'd rather take my chances and pay any extra money into my pension."*

Male interviewee, solo self-employed, Buxton

Institutional perceptions

The inability of banks and Government to properly understand the relatively complex financial lives of liquid workers was a common theme throughout our interviews and focus groups. For example, there was a strong feeling amongst much of the liquid workforce that HMRC's tax returns process is overly arduous and complex:

> *"It's a lot of admin, and then doing the self-assessment via HMRC is just… It's a classic bureaucratic process that takes ages to get anywhere… Having to pay your own tax is awful."*

Male interviewee, 'bogus' self-employed, London

There was also a strong sense that banks were not set up for dealing with or effectively catering for "people like them":

> *"The banks don't seem to understand irregular amounts of money going in. The tax man as well. It's difficult for them to understand that you don't have a regular income, particularly once you're self-employed. A lot of the online forms that are produced don't allow for that."*

Male focus group participant, agency worker and self-employed, Sheffield

Balancing security and flexibility

The trade-off between flexibility and security is a recurring theme throughout this report. Participants in our focus groups and interviews described how much they value the flexibility of the liquid workforce:

> *"What I quite like is that it can be really piecemeal so you can just do an hour, then do something else in your day, then do another hour. You don't do a big block of time, I hardly ever do a big block of time."*

Male interviewee, gig economy worker, London

> *"That's the beauty of it. If it's going well, I can take more time off. If it's not I can't. It's really that straightforward. I quite like that, to be honest with you. I like the fact that at the end of the day, it's entirely up to me what I do or I don't do…"*

Male interviewee, solo self-employed, Liverpool

> *"There's a real sense of standing by your own efforts to a large extent and that's really quite liberating."*

Male interviewee, solo self-employed, Buxton

However, not all workers were able to enjoy the fruits of this flexibility. Even when they weren't technically working, they had to be available to work - making it very difficult to do anything else:

> *"It was bleak. It was really bleak. In those times when you're not getting the jobs, you can't really be doing other stuff. You can't have your laptop out getting into something worthwhile because when the job comes in, you've got to take it in 30 seconds."*

Male interviewee, gig economy worker, London

CHAPTER 3
FINANCIAL LIVES OF LIQUID WORKERS - QUANTITATIVE FINDINGS

"Liquid workers are significantly more likely than employees to have gone without something essential in the past year..."

To complement our qualitative research we commissioned a survey to better understand how the financial lives of the liquid workforce differ to those of employees.

This chapter outlines the findings from a nationally representative poll of 2,000 UK adults (over the age of 18), conducted by Opinium between 14th-18th June 2019. Roughly 200 respondents (10%) were members of the liquid workforce.

In summary, we found that:

- The liquid workforce are more likely to earn very low incomes than non-liquid workers, with 22% of liquid workers earning under £10,000 per year compared to just 7% of employees. However, they are also slightly more likely than employees to fall in a number of higher income brackets (£40,001-£50,000 and £70,001-£80,000).
- Liquid workers are significantly more likely than employees to have gone without something essential in the past year; a third of liquid workers (33%) report going without something essential, such as food, rent or transport, compared to just a quarter of employees (25%). This figure rises to 40% amongst liquid workers that are not self-employed.
- Liquid workers are more likely to have no debt at all: 44% have no debt compared to just 34% of employees. However, liquid workers that do have debt hold higher amounts than other employees.
- Zero-hours workers are more than twice as likely to feel very stressed and anxious about their finances than employees in the last year (31% vs 15% of employees).
- The liquid workforce are significantly more likely to be turned down for financial products - almost four in ten (39%) liquid workers have been turned down for a financial product in the last five years, compared to just a third of employees.
- Liquid workers are almost twice as likely (28% vs 15%) to be turned down for financial products due to their employment history. This suggests the group are regularly excluded from financial products on the basis of their employment type.
- Liquid workers are nearly twice as likely (28% vs 16%) to turn to a payday lender to meet their credit needs than employees.
- Almost half of liquid workers (48%) would be prepared to sacrifice some of the flexibility in the way they work for more income security. This figure rises to 55% among those liquid workers that are not self-employed.

Financial experience

In line with our qualitative research findings, our survey found that the financial experience of liquid workers often differs to that of employees.

FIGURE 8.

LIQUID WORKERS INCOME (£) VS NON-LIQUID WORKERS

Sources: Opinium for Demos

Figure 8 illustrates how income levels differ between liquid workers and employees. We see that liquid workers are more likely to earn very low incomes, with 22% of liquid workers earning under £10,000 compared to just 7% of employees. However, liquid workers are also slightly more likely than employees to fall in a number of higher income brackets (£40,001-£50,000 and £70,001-£80,000). This fits with previous interpretations of the liquid workforce as resembling an 'hourglass', with liquid workers more likely to fall into lower and higher income bands than the non-liquid workforce.

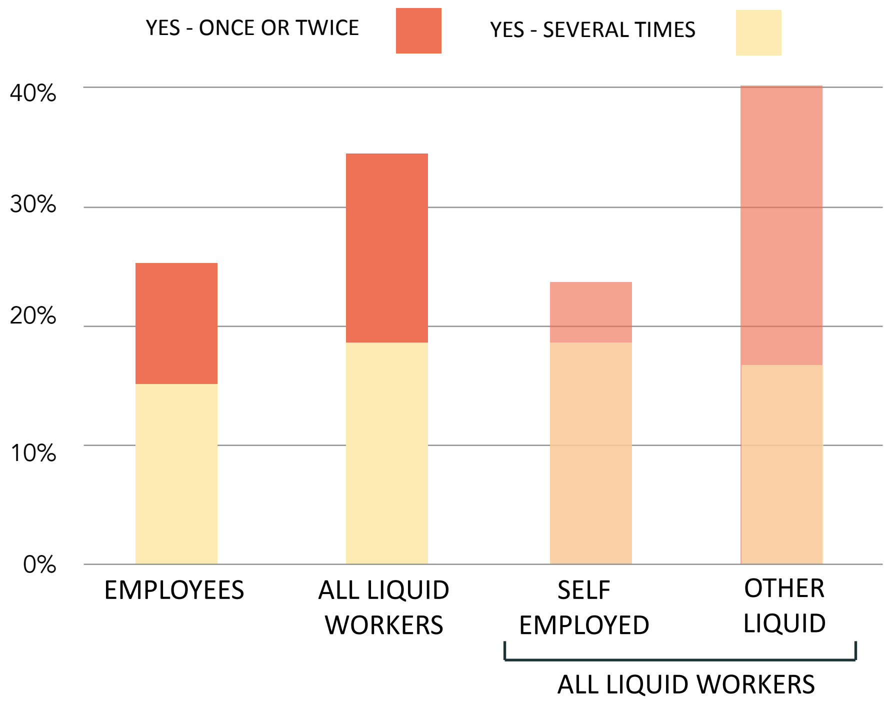
More significant differences appear between liquid workers and employees when we consider the likelihood of them having to go without something essential (e.g. food, rent, mortgage repayments or transport). A third (33%) of liquid workers in our survey reported going without something essential in the past year due to changes in income, compared to just a quarter of employees (25%).

Taking a closer look at the liquid workforce reveals significant differences within this group. As Figure 9 demonstrates, the self-employed are about as likely as employees to have gone without something essential in the past 12 months (24% vs 25%). However, non-self-employed liquid workers are significantly more likely to have gone without something essential, with 40% reporting having done

FIGURE 9.

LIQUID WORKERS VS EMPLOYEES WHO HAVE GONE WITHOUT SOMETHING ESSENTIAL AND NON-ESSENTIAL IN THE PAST 12 MONTHS

Sources: Opinium for Demos



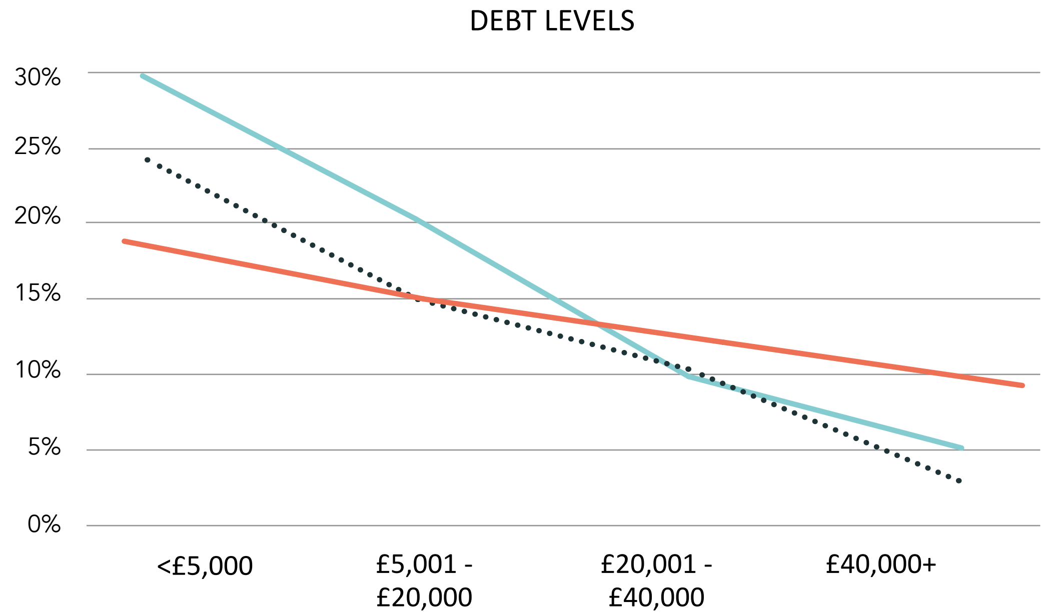


FIGURE 10.

PERCENTAGE OF WORKERS WITH DIFFERENT LEVELS OF DEBT

Sources: Opinium for Demos

EMPLOYEES

ALL LIQUID WORKERS

SELF-EMPLOYED

so in the past 12 months. This suggests that self-employed people - although a broad category - may have less financially precarious lives than other liquid workers.

Our survey found that, though employees are more likely to have any level of debt than liquid workers, liquid workers are more likely to hold higher levels of debt, as illustrated by the Figure 10. Again, we see that the self-employed have a debt profile more similar to employees than the average liquid worker, suggesting non-self-employed liquid workers may be facing particular challenges relating to higher levels of debt.

Our survey found that liquid workers are slightly less likely to save than employees: 23% of the liquid workforce save nothing each month, compared to 20% of employees. However, as detailed Figure 11 the liquid workforce save larger sums of money per month than employees: 17% of liquid workers save between £500 and £1000 per month compared to just 10% of employees.

In line with the literature review and qualitative research in the previous chapter, we found that liquid workers were more likely to feel stressed or anxious about their finances – 17% of liquid workers vs 15% of employees strongly agreed with the statement, "In the last year I have felt very stressed and anxious about my finances". A much more significant gap opened up, however, when we examined specific groups within the liquid workforce. We found that zero-hour workers and gig economy workers were much more likely to have felt very stressed and anxious about their finances (31% and 22% respectively) (See Figure 12).

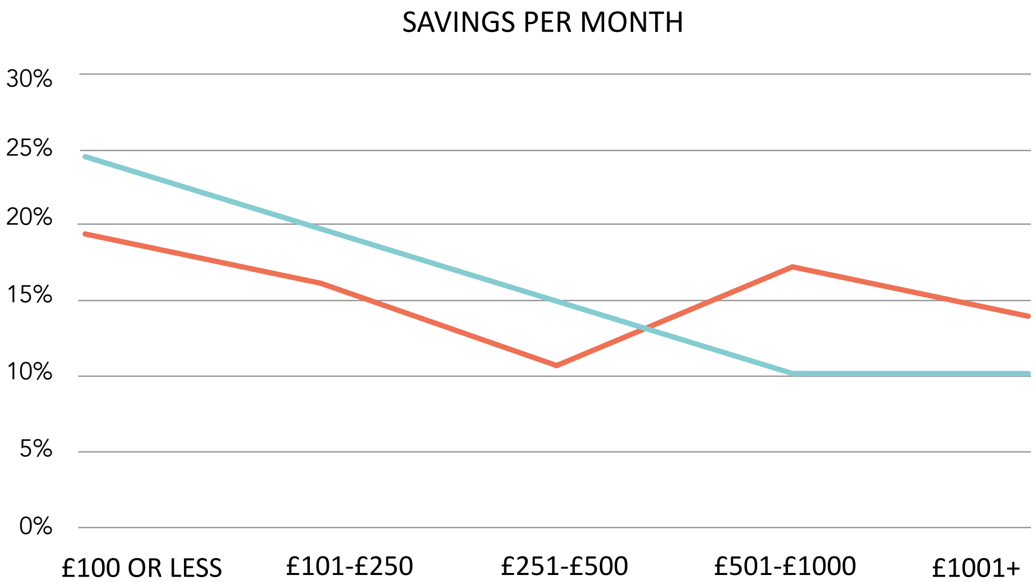


FIGURE 11.

MONTHLY SAVINGS BY EMPLOYMENT TYPE

Sources: Opinium for Demos

EMPLOYEES

LIQUID WORKERS

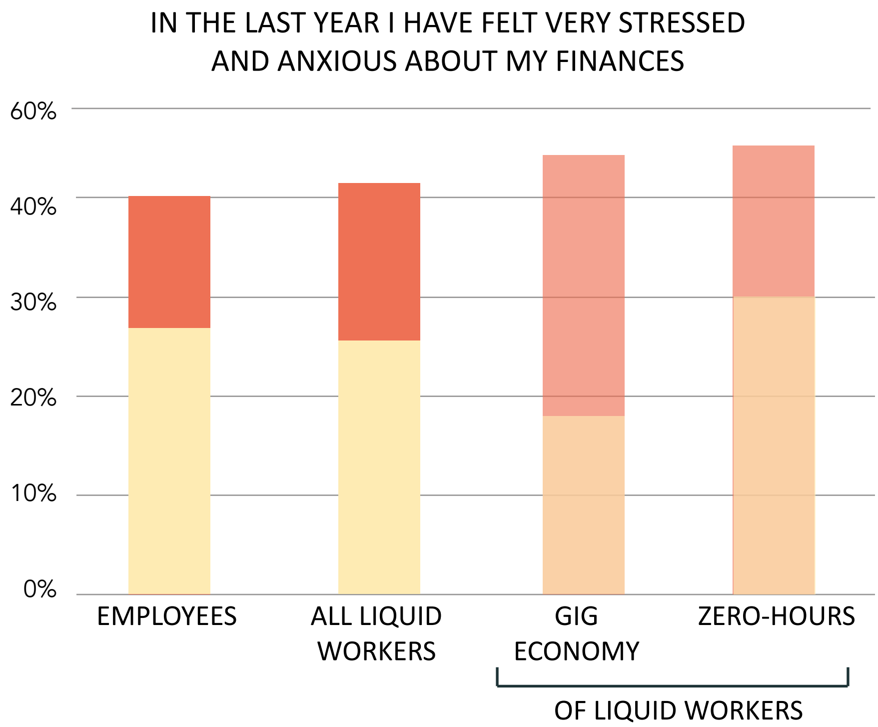


FIGURE 12.

FINANCAIL STRESS AND ANXIETY - LIQUID WORKERS VS NON-LIQUID WORKERS

Sources: Opinium for Demos. Please note in some cases sample size is smaller than 50 respondents.

STRONGLY AGREE

AGREE

FIGURES 13 & 14.

LIQUID WORKERS VS EMPLOYEES INTERACTION WITH BANKS

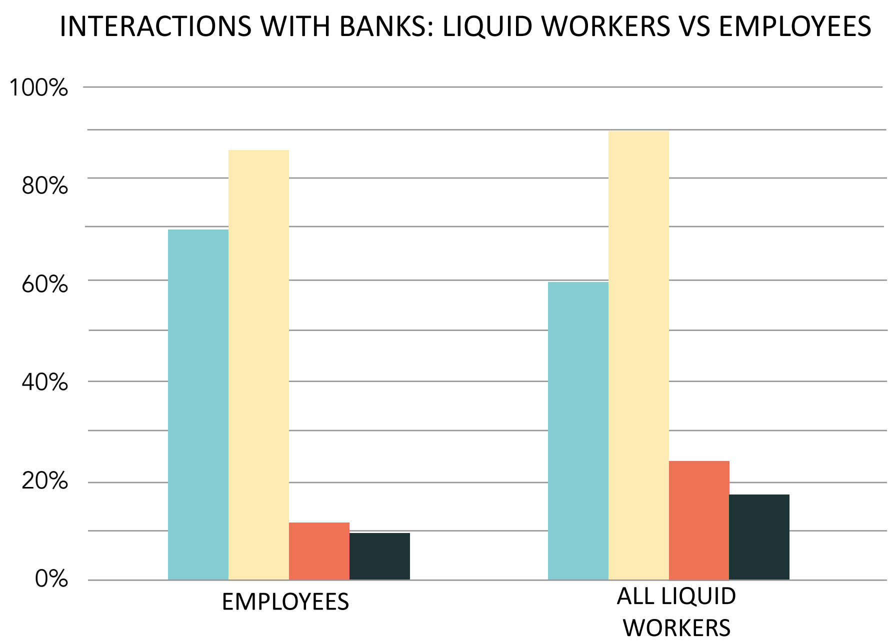
Sources: Opinium for Demos. Please note in some cases sample size is smaller than 50 respondents.

MOBILE BANKING

ONLINE BANKING

TELEPHONE BANKING

OUT OF BRANCH BANKING



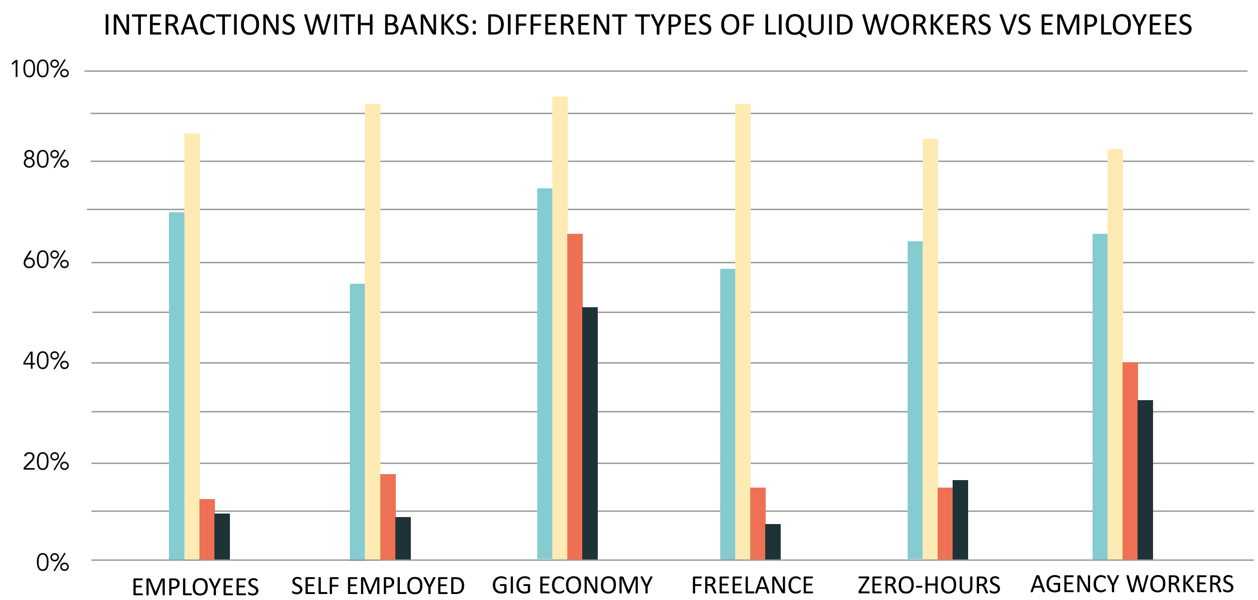


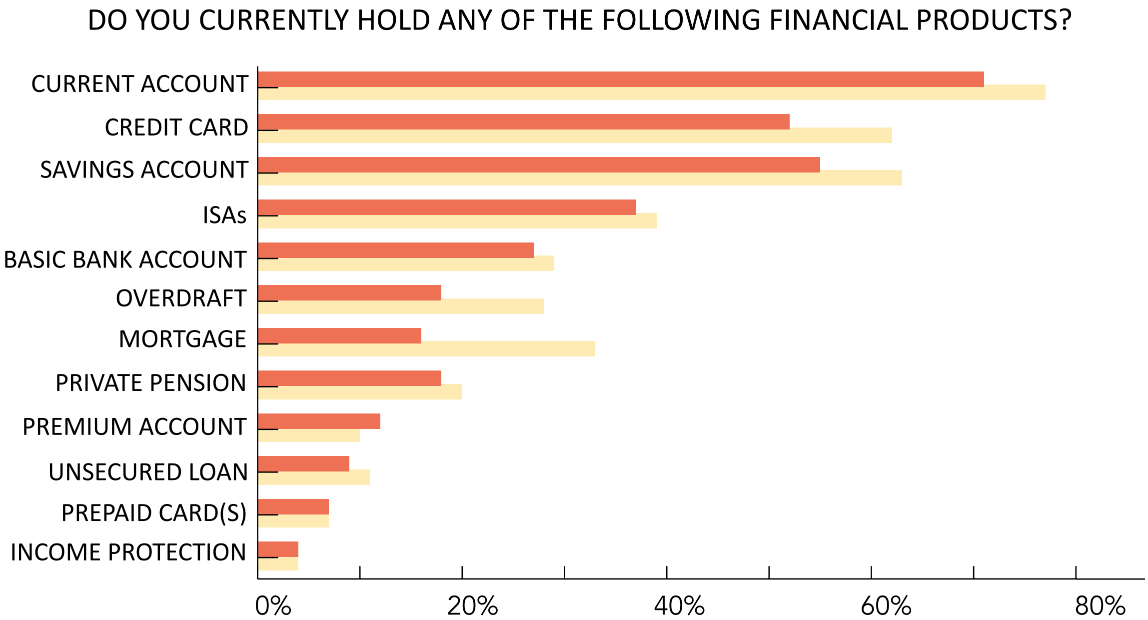
FIGURE 15.

LIQUID WORKFORCE VS EMPLOYEES - USE OF FINANCIAL PRODUCTS AND SERVICES

Sources: Opinium for Demos.

EMPLOYEES

LIQUID WORKERS



Our survey also showed that liquid workers have different banking habits to employees. Generally the liquid workforce tends to interact more with banking than employees, except when it comes to online banking where employees outstrip the average liquid worker (see Figures 13 & 14).

Access to financial products

We found liquid workers were in general less likely to use financial products than employees, as illustrated by Figure 15. In particular, employees are more than twice as likely to hold a mortgage than liquid workers (33% vs 16% respectively).

This is likely to be explained by the fact that liquid workers are significantly more likely to have been turned down for a financial product services. As illustrated by Figure 16, 39% of liquid workers have been turned down for a financial product in the last five years, compared to just 31% of employees and 23% of the general population. In particular, we found that liquid workers are more than twice as likely to have been turned down for a current account (13% vs 6%) and are 50% more likely to have been turned down for a mortgage than employees (6% vs 4%).

Our survey found that liquid workers are often turned down for credit for different reasons to employees. The most common reason that employees are turned down is due to a bad credit record (33%), however just 24% of liquid workers are turned down for this reason. Instead, liquid workers are almost twice as likely (28% vs 15%) to be turned down for their employment history and significantly more likely to be turned down for having an insufficient credit record (20% vs 13%) (See Figure 17). This is consistent with our qualitative research, which found that irregular and multiple types of employment often counts against liquid workers when trying to access financial products and services.

FIGURE 16.

ACCESS TO FINANCIAL PRODUCTS - LIQUID WORKERS VS EMPLOYES

Sources: Opinium for Demos.

LIQUID WORKFORCE

EMPLOYEES

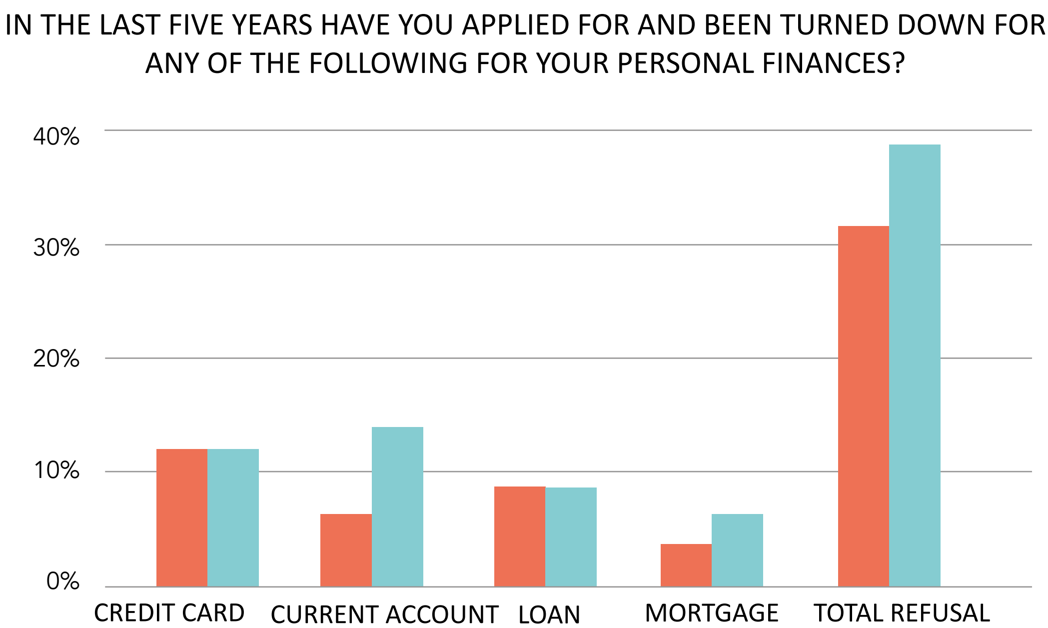
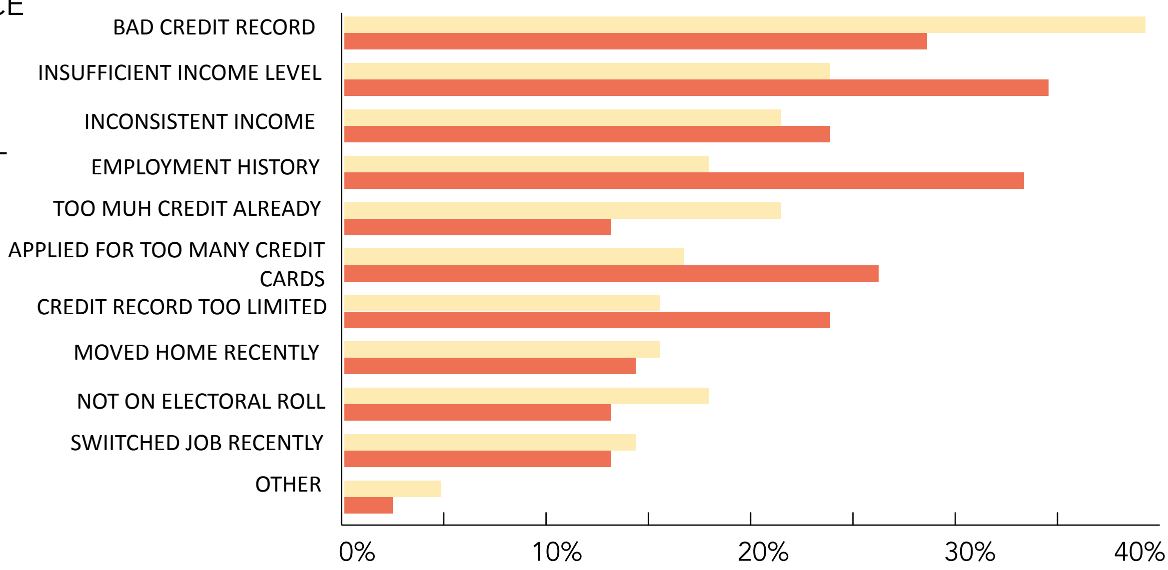


FIGURE 17.

LIQUID WORKFORCE VS EMPLOYEES - REASONS FOR BEING TURNED DOWN FOR CREDIT

Sources: Opinium for Demos.

WHICH OF THE FOLLOWING REASONS WERE GIVEN FOR YOUR CREDIT APPLICATIONS BEING TURNED DOWN?



Liquid workers who have been turned down for credit are most likely to turn to their friends or relatives for finance (see Figure 18). This finding was consistent with our qualitative research, which found participants often expressed distrust in other financial institutions, regularly borrowing and lending to their family and friends.

Liquid workers are also nearly twice as likely to turn to a payday lender to meet their credit needs than employees (28% vs 16%). Given that payday lenders often offer extremely high interest rates, this is of significant concern, demonstrating the need for greater affordable credit provision for this group.

FIGURE 18.

ALTERNATIVE SOURCES OF CREDIT

Sources: Opinium for Demos.

Balancing flexibility and security

Balancing flexibility and security is a key theme throughout this report. We have seen that flexibility brings a number of benefits that liquid workers value highly, but that it often results in financial insecurity. As a result, when asked whether they would sacrifice some flexibility in the way they worked for more financial security, we found that almost half (48%) of liquid workers agreed with just a fifth (21%) disagreeing (See Figure 19).

However, there are important differences in attitude within the liquid workforce cohort. Self-employed people are less likely to wish to sacrifice their flexibility (42%), though other liquid workers - which includes freelancers, gig economy workers and agency workers - are much more likely to wish to sacrifice their flexibility for greater security (55%).

HOW DID YOU MEET YOUR NEED FOR CREDIT IN THESE SITUATIONS?

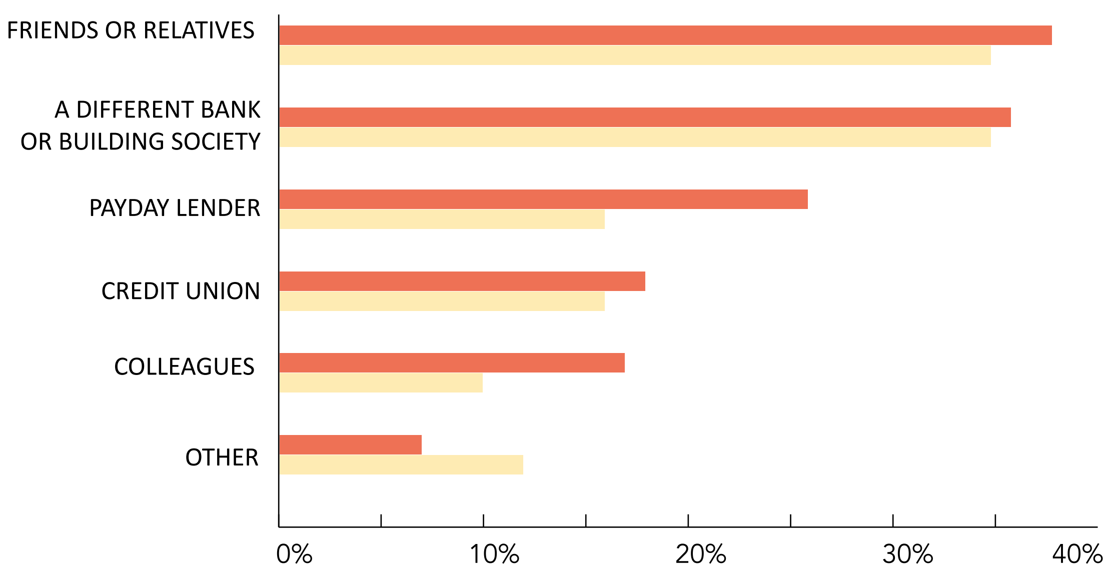
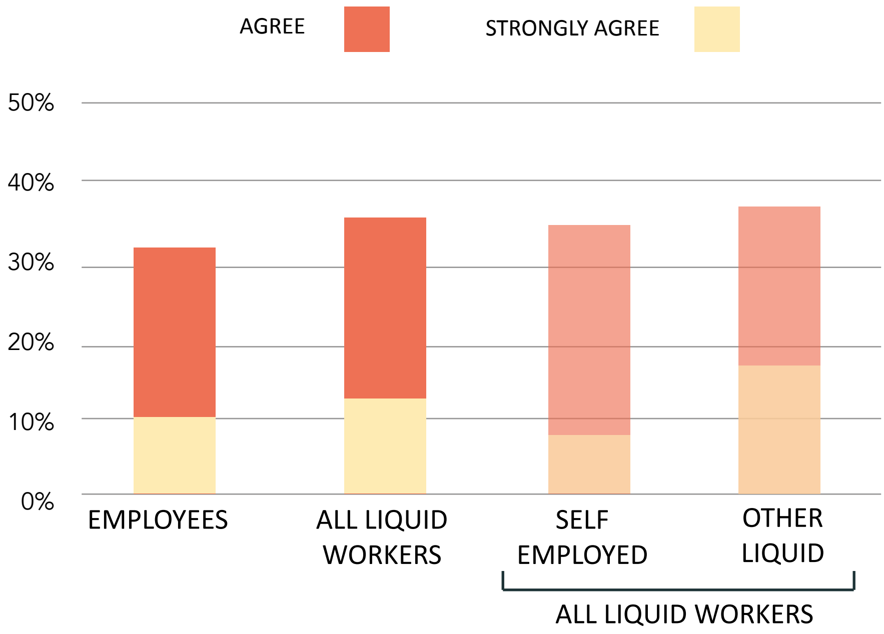


FIGURE 19.

LIQUID WORKERS VS EMPLOYEES - I WOULD BE PREPARED TO SACRIFICE SOME OF THE FLEXIBILITY IN THE WAY I WORK FOR GREATER INCOME SECURITY

Sources: Opinium for Demos.



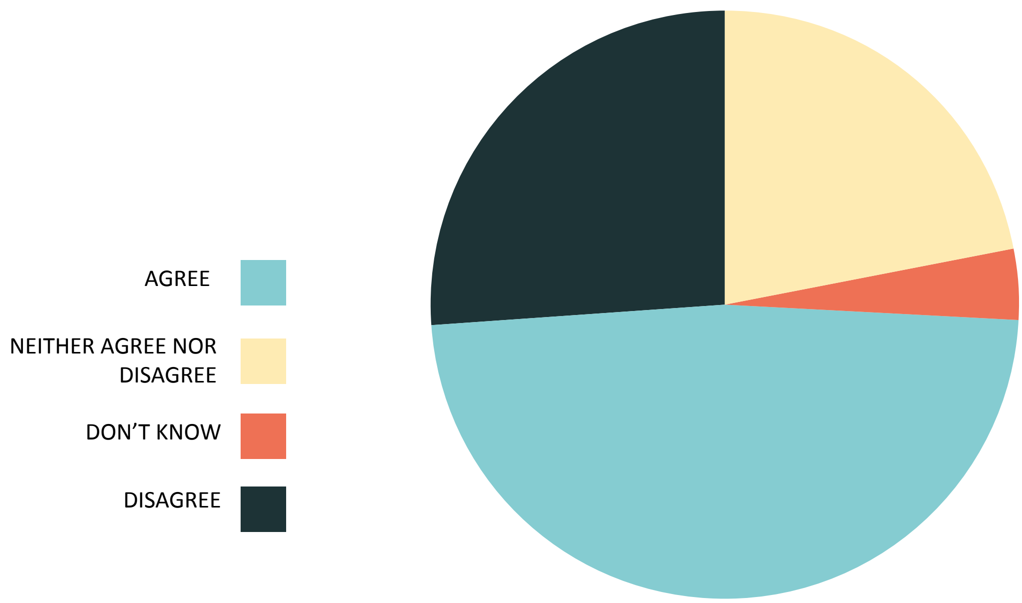
Employment benefits

We found that almost half (48%) of self-employed people believe that not having access to holiday pay, as a result of being self-employed, affects their ability to take holidays, with just 26% disagreeing (See Figure 20). This demonstrates that being self-employed is unlikely to result in the ability to take more holidays.

FIGURE 20.

IMPACT OF SELF EMPLOYMENT ON ABILITY TO TAKE HOLIDAYS

Sources: Opinium for Demos.



CHAPTER 4
SECURING THE FINANCIAL LIVES OF THE LIQUID WORKFORCE

This report has so far focused on better understanding the financial lives of the liquid workforce. As we have seen, financial insecurity can be a particular problem for this group. Many value the flexibility the liquid workforce offers, but there is also a significant desire for more financial security, particularly among low income liquid workers. Furthermore, our research found many liquid workers face significant financial exclusion, hampering their ability to effectively manage their finances.

It is important to acknowledge, however, that there is no 'one-size-fits-all' for the liquid workforce. This chapter sets out a mixture of recommendations designed to strike a better balance between security and flexibility, for different types of liquid workers across the spectrum, across two main themes:

1. Improving financial security
    - A welfare state fit for the liquid workforce
    - Boosting pensions take-up
    - Minimum wages
    - Financial management

2. Boosting financial inclusion
    - Increasing access to financial products
    - Boosting take-up of financial products

Improving financial security

A welfare state fit for the liquid workforce

We have seen throughout this report that the way we work has changed considerably in recent years, with flexible and liquid work increasingly common. However, it is clear that the welfare state has not kept pace with these changes. Our benefits and pension systems are still largely based on a model of people working in one job for a number of years, a vision that no longer holds for millions of Britons today.

Given the scale of change seen in the labour market, now is the time for a radical rethink of our welfare state. As Hanauer and Rolf argue, "an economy based on micro-employment requires the accrual of micro-benefits".[44] Their proposed model - a 'Shared Social Security Account' - provides all of the employment benefits traditionally provided by a full-time salaried job. The model is universal: any worker, including the self-employed, are eligible. It is also portable - benefits follow the worker from job-to-job instead of being tied to a particular employer. Given these characteristics, this model is of particular relevance to the liquid workforce.

The Ghent System of unemployment insurance, administered in many Nordic countries, appears to satisfy the principles of universality and portability.[45] Workers in these countries voluntarily join unemployment schemes and, after having contributed to these schemes for a certain amount of time, are able to enjoy fairly generous unemployment insurance, amongst other benefits. Importantly, these schemes can be open to self-employed workers, as they are in Denmark.

44 Nick Hanauer and David Rolf (2015), 'Shared Security, Shared Growth', Democracy.
45 Tim Van Rie, Ive Marx and Jeroen Horemans (2011), 'Ghent revisited: Unemployment insurance and union membership in Belgium and the Nordic countries', European Journal of Industrial Relations.

Furthermore, benefits are portable because they are not tied to a particular job but are instead related to a particular sector or group.

Actors beyond Government could play a key role in delivering these schemes in the UK. The Department for Work and Pensions has acknowledged the work of trade bodies and associations in providing pensions for the self-employed.[46] The Federation of Small Businesses, for example, currently offer access to an auto-enrolment pension scheme for their members.[47] Similarly, Equity, the union for performers and creatives, provides a pension for its members that encourages employers to contribute to the scheme. To build on these successes and expand these schemes, we recommend that:

Recommendation 1: The Government should work with organisations beyond the public sector - trade unions or financial institutions seem viable candidates - to help them establish universal portable benefit schemes for liquid workers, modelled on the Ghent System. These schemes should offer liquid workers those benefits typically reserved for employees, including sick pay and holiday pay.

Boosting pensions take-up

Recent policy changes have made the State Pension almost universally available to the self-employed. But despite this, liquid workers remain worried that they will not be able to enjoy a comfortable retirement with a good pension. This is with good reason: research has shown that as few as 17% of self-employed people hold private pensions, compared to a national average of 50%. This is likely to be explained in part by the fact that employees are now automatically enrolled into a pension scheme by their employer. Without extending auto-enrolment to the self-employed, this gap will only widen.

That is why the Conservative Party's 2017 manifesto committed to extend auto-enrolment to the self employed.[48] The Department for Work and Pensions are now trialling various interventions aimed at 'improving retirement savings for the self employed'.

The Department has focused on three areas thus far: interventions aimed at people who have already been automatically enrolled whilst employed - this makes up over half of the self-employed (55%); marketing interventions using 'trusted third parties' such as trade bodies/unions; and behavioural prompts testing messages and prompts to encourage people to regularly save.

The worry is that these approaches do not ensure self-employed are enrolled into a pension scheme by default, meaning that the impact of these interventions is likely to be limited. Therefore, in line with our previous recommendations for the self-employed, we recommend again that:

Recommendation 2: The Government should introduce an auto-enrolment scheme for the solo self-employed by acting as their 'de facto' employer. This could be collected during the self-assessment process with the default being to opt-in.

There are a number of ways to pay for the increase in public expenditure associated with this recommendation. One option is to mandate employers of self-employed labour to pay an additional tax to cover the cost of that individual's pension. This would be collected in the same manner as VAT.

Furthermore, because a significant proportion of the liquid workforce have been employed previously - and therefore likely auto-enrolled into a pension scheme - it is useful to consider how we can ensure liquid workers remain part of that pension scheme. We therefore recommend that:

Recommendation 3: Employees leaving their place of work for self-employment should continue to participate in their previous employer's pension scheme on an 'opt out' basis.

46 Department for Work and Pensions (2018), Enabling retirement savings for the self-employed: pensions and long term savings trials. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789480/enabling-retirement-savings-for-the-self-employed-pensions-and-long-term-savings-trials.pdf (accessed 12 November 2019)
47 https://www.fsb.org.uk/benefits/finance/pension-service
48 The Conservative Party (2017), 'Forward, Together'. Available at: https://s3.eu-west-2.amazonaws.com/conservative-party-manifestos/Forward+Together+-+Our+Plan+for+a+Stronger+Britain+and+a+More+Prosperous....pdf (12 November 2019)

Minimum wages

Our research has shown that many liquid workers struggle on low incomes. This finding is supported by the TUC, which estimate as many as half of self-employed workers are stuck on poverty pay.[49] Self-employed people have less access to rights and benefits, including sick pay, holiday pay and maternity cover. This bargain only seems fair if self-employed people earn enough to cover the additional financial risk they are bearing as a result of their employment type. That this may not be happening today is of deep concern. To address this, we recommend that:

Recommendation 4: The Low Pay Commission should estimate the financial cost to self-employed people of not receiving important employee benefits, such as sick pay and maternity cover. This calculation should inform the creation of a 'Self-Employed National Living Wage' and a 'Self-Employed National Minimum Wage'.

Similarly, the Taylor Review argued for a higher minimum wage for uncontracted hours to ensure that zero hours workers are adequately compensated for a lack of guaranteed hours.[50] It is worth noting that this should be legislated in a way that protects those who are self-employed and technically pay their own wages from being at risk of criminal charges for not paying themselves enough - in effect making them both perpetrator and victim. This would primarily be a legal framework for sole traders, independent contractors and other types of self-employed people to demand higher wages from clients or agencies - who might be underpaying them or failing to reflect the financial risks they are taking on in their pay packet.

Financial management

Throughout this report we have seen that liquid workers often find managing their personal finances challenging. This is particularly the case when an individual is new to the liquid workforce and facing a range of new responsibilities, from keeping track of invoices to filing tax returns. This can often be extremely overwhelming, causing stress and anxiety.

It is useful to consider what Government and financial institutions could do to alleviate these pressures. We know from speaking to liquid workers that an accountant can be extremely valuable in helping them to manage their finances. However, lower income liquid workers - such as gig economy or agency workers - are unlikely to be able to afford to use an accountant and may suffer as a result. We therefore recommend that:

Recommendation 5: The Government should consider offering means-tested 'accountancy aid' to help liquid workers manage their finances.

Furthermore, financial institutions such as banks are in a good position to help those that have recently entered the liquid workforce. Free advice sessions could be useful in helping them manage the transition:

Recommendation 6: Banks should offer free advice sessions to their customers that have recently entered the liquid workforce.

Whilst they may not know which of their customers have become self-employed, though they may be able to estimate it through data they hold, banks should do all they can to make their customers aware that such advice sessions exist.

Throughout this report we have seen that liquid workers often have highly fluctuating income levels and that they find this difficult to manage. We agree with the Money and Mental Health Policy Institute that new financial products and making use of new financial technology ('fintech'), could help ease this burden.[51]

Our research found that the liquid workforce interact more frequently with their banks, indicating likely latent demand for extra services and applications within their accounts. There is also evidence that online banking can reduce the stress of financial management.[52]

In this section we consider a number of tools and services banks should increasingly offer their services. More detail is provided about these in the box on the following page.

49 Anjum Klair (2019), Almost half the self-employed are on poverty pay, Trades Union Congress. Available at: https://www.tuc.org.uk/blogs/almost-half-self-employed-are-poverty-pay (accessed 12 November 2019)
50 Department for Business, Energy and Industrial Strategy. Matthew Taylor (July 2017) Good Work: The Taylor Review of Modern Working Practices. Available at: https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices (accessed at 6 November 2019)
51 Katie Evans and Rose Acton (2017), Fin-tech for good, Money and Mental Health Policy Institute.
52 Katie Evans and Rose Acton (2017), Fin-tech for good, Money and Mental Health Policy Institute.

FINTECH SOLUTIONS

Jam-jar budgeting allows customers to split their bank account balance into different areas of spending, such as 'food' or 'rent'. In practice, users split their bank account into different 'jam jars' that would have different functions – some for savings and others for more immediate bills that are either monthly or weekly.

This can help people manage their finances better. Social Finance have previously recommended bank accounts have a minimum of two jam jars, one for day-to-day spending and one for bill payments.[53] For liquid workers, a third jam jar could be used for saving up for their tax returns.

We have seen throughout this report that liquid workers find it difficult to save. This may affect their ability to afford big ticket items, such as a deposit on a house, or their ability to build up a 'rainy day' fund in case of financial emergency. Automated saving schemes, in which a certain amount is saved each month, may also help to address this.

This automation is not necessarily an automatic bank transfer - it could be an automated notification that nudges the user to save when large sums of money (e.g. an invoice) are deposited into their account.

The Money and Mental Health Policy Institute has found that better data visualisation in bank accounts can help people with mental health problems better manage their finances.[54] Similarly, graphics of different income streams and spending outputs over time could help the liquid workforce to more easily manage their complicated personal finances.

53 Social Finance (2011), A New Approach to Banking Extending the use of Jam Jar Accounts in the UK
54 Katie Evans and Rose Acton (2017), Fin-tech for good, Money and Mental Health Policy Institute, p.13

Improving the way the liquid workforce manage their bank accounts could also be achieved through better data capture and manipulation. The RSA for example have argued that financial forecasting methods could be used in personal bank accounts for people who are self-employed to estimate how much they need to live per month, and thereby how much they would need to save to live when ill for a certain amount of days.[55]

Recommendation 7: **Financial institutions should continue to expand the range of financial management tools offered by their bank accounts. This could include jam jar budgeting, automated saving schemes, data visualisation and financial forecasting.**

Late payments

We have heard throughout this report that late payments are a key issue for liquid workers. This can make managing an already extremely complex financial situation even more challenging. It is therefore vital to consider what steps can be taken to reduce late payments for this group.

In 2017 the Government ceated the role of the Small Business Commissioner. This allows businesses with fewer than 50 employees to lodge complaints about late payments from clients with over 50 employees, which the Commissioner then may investigate. However it is currently unclear whether the self-employed and others in the liquid workforce fall under the Small Business Commissioner's remit. To further incentivise businesses to pay liquid workers on time, we recommend that:

Recommendation 8: **The Small Business Commissioner's remit must explicitly include liquid workers (many of whom are not or do not see themselves as a business) and the Commissioner should produce targeted materials and support for liquid workers to tackle late payments.**

Boosting financial inclusion

Increasing access to financial products

Liquid workers are often unable to access a range of financial products due to their employment status. Financial products, such as loans and mortgages, are too often designed on the presumption that people receive a monthly payslip. But as we have seen in this report, this is increasingly not the case for people in the liquid workforce and banks have not kept pace with this change. Financial institutions could do a lot more in helping to address the financial exclusion experienced by too many liquid workers today. We therefore recommend that, in line with previous recommendations made in Demos' Good Credit Index:[56]

Recommendation 9: **Financial institutions should develop new criteria for financial product eligibility that are more suited to the income of the modern, liquid workforce. UK Finance should lead an industry taskforce in a regulatory sandbox to pioneer new ways of doing so.**

Recommendation 10: **Financial institutions should offer more flexible services and products to reflect the increasing fluctuation of consumers' income, e.g. 'pay what you can' loans, so users can pay a proportion of what they earn, rather than a set monthly rate.**

Recommendation 11: **Financial services should seek to develop fintech-powered income verification to help people on variable incomes, especially the self-employed, demonstrate their creditworthiness.**

These steps would likely go some way in addressing the financial exclusion faced by many members of the liquid workforce. However, there remains a risk that liquid workers would still continue to be denied access to financial products simply because they do not fit in an often 20th century vision of what a 'typical' financial experience should look like.

Therefore, there is a strong case to be made that members of the liquid workforce - particularly the self-employed - are being treated unfairly and potentially discriminated against when trying to access financial services and products. Policy makers may wish to consider what steps can be done to reduce this. We therefore recommend that:

Recommendation 12: **The Government should work with the Financial Conduct Authority (FCA) and other key financial institutions to consider how to protect liquid workers from potential discrimination when accessing financial products. This could include consideration of whether**

55 Benedict Dellot and Howard Reed (2015), Boosting the living standards of the self-employed, RSA.
56 Sacha Hilhorst and Elliot Jones (2019), The Good Credit Index, Demos.

a second list of protected characteristics should be created specifically for accessing financial products and services that includes employment type - e.g. self-employment.

We recognise that this change would likely have wide ramifications. However, such a change would make it much more difficult for financial institutions to refuse access to financial products based on factors - such as varying month-to-month income - that relate to an individual's employment type. This should boost financial inclusion for liquid workers.

Boosting take-up of financial products

Consumers are increasingly responsible for understanding and accessing the financial products and services they receive.[57] This in turn can make them more vulnerable to exploitation. Furthermore, as we found from our research, people are often sceptical of financial products due to a lack of trust. We therefore believe the FCA should do more to fill this gap between consumers and products:

Recommendation 13: The Financial Conduct Authority (FCA) should create a list of approved providers that offer products of high impact for the liquid workforce (e.g. income protection insurance and private pensions).

The RSA hold an annual 'future of work' awards that showcase some of the most innovative technologies and methods employed by fin-techs, trade unions, worker cooperatives and social enterprises to improve people's opportunities for good work.[58] The FCA could follow a similar model that reviews providers - including those outside of the private sector - who offer specific financial services for liquid workers, as well as specific awards for particularly outstanding products.

57 The Financial Conduct Authority and HM Treasury (2016), Financial Advice Market Review: Final report

58 The RSA (2019), The Future Work Awards, Webpage, Available at: https://www.thersa.org/action-and-research/rsa-projects/economy-enterprise-manufacturing-folder/future-work-awards/winners (accessed 30 August 2019)

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