Submission for The Pension Commission

Pensions for the Self Employed

Submission from David Fairs and Dr Arun Muralidhar I September 2025

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Arun has managed global pension assets for 30+ years and written extensively on pension reform, asset allocation, and portfolio/currency management. He designed and helped Brazil issue their retirement and education bonds in 2023. His books include *A SMART Approach to Portfolio Management* (2011), *Innovations in Pension Fund Management* (2001), *Rethinking Pension Reform* (2004), co-authored with Franco Modigliani (Nobel Prize winner), and "*Fifty States of Grey: An Innovative Approach to the DC Retirement Crisis*," (2018). He has recently completed three books – *"Investment Theory and Practice – It's All 'Realative'" (2024); "A Nobel Retirement: 3 Nobels, 3 Pillars and 3 Facets of Investments." (2024),* and "*GBI: Goals-based Investing or Gimme Better Instruments?" (2025),* available on Georgetown OpenAccess.

He has managed the World Bank's pension fund, served as an asset manager for over 20 years, and served on the Advisory Boards of the Virginia Retirement System (for their DC plan) and the Dutch PGGM Pension (DB plan that is transitioning to DC). He has a PhD from the MIT Sloan School of Management, and a BA from Wabash College. These are his personal views and not that of any of his past or current employers.

David Fairs

David is a Partner at LCP. He was previously Executive Director of Regulatory Policy, Analysis and Advice at The Pensions Regulator during which time he covered policy issues around Brexit, the pandemic, the conflict in Ukraine and the LDI crisis in September 2022. He oversaw the introduction of the Pensions Act 2022 and subsequent regulations as well as introducing the interim superfund regime.

He is currently Chair of the Pension Administration Standards Association, a former Chair of the Association of Consulting Actuaries, former Council member of the International Actuarial Association and inaugural Chair of the Joint Industry Forum for Workplace Pensions.

He is an advisory Board member of Guide and an honorary Professor at Durham University Business School.

He has provided advice on pensions policy to the UK and Spanish Governments.

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Executive Summary

Automatic Enrolment has been extremely effective in ensuring those previously not saving for retirement did so. Whilst 55% of the working population are now saving for retirement, 45% are not. A significant proportion of those not saving are the self-employed. The irregular earnings of the self-employed, and lack of an entity corresponding to the employer, means that it is difficult to integrate the self-employed into Automatic Enrolment.

This paper sets out an arrangement that could encourage the self-employed to target a desired retirement income and to commence funding for a target level of pension, while accounting for their irregular income and the nature of their work. As well as building a predictable (real) retirement income, it also provides a mechanism for Government to meet its target for debt issuance – a potential win-win-win for self-employed, the Government and the financial services industry.

Background

Automatic Enrolment has been extremely successful in increasing the number of employees saving into a workplace pension. The DWP Policy Paper – *Finishing the job: Launching the Pensions Commission* set out that in 2023, 88% of the eligible population of employees were saving into a workplace pension arrangement, compared to 55% prior to the introduction of Automatic Enrolment. However, a significant proportion of the working age population are not covered by Automatic Enrolment and as such, only 55% of the working age population are saving into a pension arrangement. Those not covered by Automatic Enrolment are those not in paid employment, low earners, those in multiple jobs where pay does not exceed the Automatic Enrolment threshold, and the self-employed. The DWP policy paper states that over 3 million self-employed are not saving into a pension.

The construct of Automatic Enrolment has been to place duties on employers to automatically enrol eligible employees into a qualifying pension arrangement, to contribute into that pension on behalf of the employee, as well as deducting contributions from the employee, and paying those contributions into the arrangement to which tax relief is also added. Adapting this framework for the self-employed is complex. In many cases, there is no equivalent entity to the employer, and self-employed earnings are often irregular. This means that trying to include the self-employed into Automatic Enrolment is complex and difficult for The Pensions Regulator to drive compliance.

In December 2018, the DWP published a paper - *Enabling retirement savings for the self-employed: pensions and long-term savings trials December 2018* which set out various trials to encourage the self-employed to contribute to pensions. A satisfactory solution to support the self-employed to save into a pension has, so far, not been implemented.

This paper sets out one potential solution that could support and encourage the self-employed and others to save into a pension.

SeLFIES

SeLFIES" (Standard-of-Living, Forward-starting, Income-only Securities) were first proposed in 2015 by Dr Arun Muralidhar, and subsequently with Nobel Laureate Professor Robert C. Merton in 2016-2023. SeLFIES is a single, liquid, low-cost, low-risk (government-issued) instrument, potentially purchased in slices as small as £1 at a time off either the web or an app (thereby ensuring financial inclusion), and easy-to-understand for even the most financially unsophisticated individual, because it embeds accumulation, decumulation, compounding and inflation-adjustments.

The simple idea is for a government to issue a bond, that pays nothing until an individual reaches retirement age, say 65. But after retirement age, SeLFIeS pay an amount, say £10pa in real terms, for a fixed period. The fixed period would be set around average life expectancy at retirement, say 20 years. The exact details for the UK would be established by DMO.

If an individual needed £20,000pa in real terms, to supplement their state pension, then they just need to purchase 2,000 units of these bonds before they retire (i.e., £.20,000 target divided by £10 per bond). Essentially, buying the bond is buying units of pension (and can be potentially deemed "an individual DB"). Individuals can track where they are relative to this goal using an app into which they input their target retirement date and target level of income (thereby requiring no additional financial literacy training). The app tracks progress towards these targets and also shows the current price of the bond should the member wish to buy more or indeed sell some of the bonds purchased (if they have a need for liquidity). Allowing citizens to buy SeLFIES in slices of £1/time is clearly advantageous for low-wage earners, expanding the appeal of such an instrument.

This is the foundation of the RendA+ system launched in Brazil in January 2023, using their Treasury Direct platform, allowing individuals to purchase these bonds off either the internet or an app on their phone, and in slices as small as ₤1/time (fractional bonds). They issued 8 different series – starting in 2030 (for a 60-year-old today), 2035, …, 2065 (for a 25-year-old). Purchases are voluntary, but because prices are quoted three times a day, they are liquid, and individuals can reverse or change their date of retirement or target supplemental income at will. They are also inheritable and just require answers to the two questions mentioned above. Moreover, the Brazilian Treasury went further and allowed individuals to purchase these bonds via gift cards, so benevolent employers (individuals) can gift employees (friends) guaranteed real retirement income. As of June 2025, 318,218 individuals bought these bonds for a value exceeding R$5.8 billion. This innovation received the runner-up award for innovation at the Global Pension Summit in the Netherlands in 2023. In addition, this innovation has led to a complementary innovation, Educa+, an education financing bond with over 159,000 investors and raising approximately R$1.5 bn.

Introducing SeLFIES to the UK for the self-employed

Outline concept

The Government offers to sell units of pension. Units of pension could be £5pa or £10pa of pension, payable monthly (ideally on the date on which they receive their state pension as is the case in Brazil). The pension is indexed to retirement by an appropriate inflation index and is paid for a fixed period of time. So £10pa of pension bought today still has the same real term value at retirement and gives citizens an ability to maintain their pre-retirement lifestyle. These units of pension are purchased from a government agency, for example NS&I or DMO, based on an age-related price which is updated in real time. However, unlike Nest, in this arrangement, as there is no administrative overhead - 100% of one's contributions goes towards their pensions. The arrangement is not funded but is no different from any other government-issued debt. As such, the positive cash flow from selling these pensions boosts the cash flow of the Government until such time as the arrangement reaches maturity. The selling of these units of pension is therefore equivalent to standard debt issuance and so should be accounted for in a consistent manner.

In order to facilitate the sale of these units of pension, an app is launched which allows individuals to input their intended retirement age and the target level of pension they are hoping to achieve in today's sterling terms. They could be guided to an appropriate level of pension through use of Pension UK's Retirement Living Standards, thereby facilitating adequacy of pension, through "nudges" or "informed choice". Given the intended retirement date and target level of retirement income the app then works out how many units of pension/SeLFIES they need to buy each year and provides the current price of those units. Additionally, it also allows DWP or other relevant Government agencies to more closely track where individuals are relative to their targets, and plan/react accordingly to encourage additional savings.

The app tracks progress towards the target level of retirement income and congratulates them when they are ahead of plan and encourages them to catch up when they fall behind.

Example: A 27-year-old looking to retire at age 67 on a target income of £20,000pa (on top of their State pension) would need to buy 50 units of £10pa pension each year to achieve their target income. The target income indexed to an appropriate standard-of-living measure, would be payable from age 67 to 87 (i.e., a fixed period of 20 years), indexed each year in line with inflation.

The units of pension are bought and sold at the market price. Individuals who find that they have excess cash flow can choose to divert some of that towards buying additional units of pension. If in a year's time they find themselves in a difficult financial situation, they can choose to sell units, but the app will remind them that they are then further away from achieving their target income. An experiment conducted in South Africa, informing participants of their retirement income as opposed to wealth, showed promising signs of encouraging additional savings, especially among women and those close to retirement.

Why are the pensions paid for a fixed period?

Paying pensions for a fixed period significantly simplifies the pricing of the pension. When pricing annuities, insurance companies have to make allowance for the small probability that an individual will live to a very advanced age and as such, pay the pension for a significantly longer period than anticipated. Underwriting this tail risk significantly increases the price and complexity of an annuity relative to a fixed term annuity. Moreover, individuals feel that they could be worse off if they die young (thereby preventing bequests), whereas SeLFIES are inheritable and heirs can either collect the residual cash flows or sell units of pension.

The suggested period over which pension is paid is broadly the average life expectancy of a male / female in the UK. Currently this is around 20 years for a 65/67-year-old.

Generally, those in higher socio-economic groups tend to live longer than average and those in lower socio-economic groups tend to live for a shorter period than average. For the target market, namely the lower paid, the pension would therefore expect to be paid for a period longer than the length of expected retirement. If someone dies before the 20-year period, the pension continues to be paid to a beneficiary for the remainder of the 20-year period (or the heir can sell the bond and collect the proceeds).

Members and their beneficiaries therefore do not feel that they have not received fair value if the member dies shortly after retiring (or even during the accumulation period).

What happens if the member dies before reaching retirement?

The accumulated fund is paid to the member’s beneficiary as a lump sum, or the heirs could choose to receive the periodic cash flows.

Are there any tax incentives?

It is not envisaged that there would be tax incentives as this complicates the core assumption that units can be freely sold as well as bought. Any tax incentives given to contributions received would need to be reversed if the member subsequently sold units of pension. This would likely not be well understood by members.

However, the Government could provide some targeted incentives, for example, if an individual had not sold any units for a minimum period of time, say 10 or 20 years, the Government could provide a loyalty bonus. Brazil has implemented a variation of this idea whereby a (sliding-scale) custody fee is imposed for sales prior to one’s retirement date. Once the payments start, the custody fee for any sales is zero. Italy similarly has such loyalty bonuses in their retail bond offerings.

Given that purchases are from post-tax income, it is envisaged the pensions would not be taxed in payment. The member’s target pension is therefore the pension that they will actually receive, without any deductions based on their marginal tax rate.

Why is it important to allow sales as well as purchases?

The self-employed have irregular earnings both within a year and across different years. This can lead to a tendency to not lock money away in case it is needed at some future point. The idea behind this arrangement is to encourage the self-employed to buy units of pension whenever they have spare or excess cash but recognise that at some points they might need access to these savings. The experience in Brazil is that individuals tend to buy units when they have surplus cash but don't tend to sell them at future points, even when they go through a less favourable financial patch. Paradoxically, the ability to sell acts as an incentive to buy.

How are the units of pension priced?

Units of pension would be priced off an appropriate yield curve defined by the Government. Daily prices would reflect the underlying yield based on market conditions. As such, the price of units could fall as well as rise. The Government might regard the sale of units of pension as debt issuance and price accordingly.

Could there be a secondary market for pension units?

It might be that some individuals would prefer to buy pension for a fixed period other than 20 years or ensure that they have a pension that is paid for the whole of their lives. Insurance companies should be permitted to provide alternative payment periods. So, in exchange for receipt of payments over a 20-year period, an insurer might offer a (lower) pension paid for whole of life. However, SeLFIES prices would serve as a benchmark and reduce the current opacity in annuity pricing. Additionally, such instruments could ensure the continued provision of standard-of-living indexed annuities (as they allow insurance companies to better their balance sheet risks).

Interaction with Social Care

Currently individuals who have savings in excess of £23,700 have to meet the entirety of their care costs. Pensions received are put towards the cost of care. However, someone with an early diagnosis of dementia or Alzheimer's is very likely to need care at some future point. The behavioural response to such a diagnosis will need to be thought through. Some might feel it appropriate to sell all their accumulated units on receipt of such a diagnosis and distribute the proceeds to beneficiaries to ensure they get maximum support from the State.

Financial analysis

As noted above, the sale of pensions could be regarded as debt issuance and accounted for as such.

There are currently around 4.3 million individuals who are self-employed. If 50% of those could be encouraged to save through this arrangement to save sufficient to meet the Pensions UK Retirement Living Standards, then the total debt issuance could be between £31 billion and £713 billion depending on the target level of retirement income.

Living Standard	Target Income	Top up over state pension	Total Debt Issuance
Minimum	£3,400	£ 1,400	£31 billion
Moderate	£31,700	£19,700	£440 billion
Comfortable	£43,900	£31,900	£713 billion

It is likely of course that this level of debt issuance would be spread relatively evenly over the working lives of the self-employed.

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