

**The Women's Budget Group response to 'Modernising Annuities'
Consultative Document
Issued by the Inland Revenue and Department for Work and
Pensions, February 2002**

The Women's Budget Group (WBG) is an independent organisation bringing together academics and people from non-governmental organisations and trades unions to promote gender equality through appropriate economic policy. If you would like more information about the group or its work please contact the Project Officer, Kate Bellamy either by email: kate@fawcettsociety.org.uk or telephone: 020 7628 4441.

The WBG asks the Inland Revenue and Department for Work and Pensions to consider the following points in relation to the Consultative Document 'Modernising Annuities':

1. The reform of annuities should be considered in the context of overall pension provision with concern given to the particular circumstances of women.

- Single female pensioners source 66% of their income from benefits and 9% from investment income (of which incomes from annuities may be a part).¹ Hence, for the vast majority of women, an adequate non means-tested basic pension, which protects carers' pension rights, has a much greater effect on their welfare than changes in annuity rules.
- The single largest issue for older women is **pensioner poverty**. In 1999/00 single women pensioners had a net income after housing costs of £96 per week; for women in couples individual incomes averaged £60 a week.² Despite recent positive changes in Government policy, much more work remains to ensure a decent income for all in later life.

2. Private pensions fail to offer income security for many women in later life.

- Women's lower earnings over the lifetime and interruptions to their working lives mean that women are less able to make adequate contributions to private pension schemes. The pooling of risk that is achieved in state pension schemes is essential in providing credit for periods of caring as well as protection against low earnings.
- Women are less likely to be members of private schemes, are more likely to experience the penalties of interrupted membership and are more at risk of making inadequate investment in private pensions. While Stakeholder pensions have some welcome features, early evidence suggests low take up among women: of the 0.75 million people to purchase a Stakeholder scheme, just 31% are women.³

¹ *Pensioner Income Series 1999/00* London: Department for Work and Pensions, 2001.

² *Individual Incomes 1996/7-1999/00* London: Women and Equality Unit, 2001.

³ *One Year On – Stakeholders Revealed* London: Association of British Insurers, 2002.

- As a result of these factors, many women retire with a pension fund that is inadequate to their needs. The size of the fund available at the point of retirement to women will depend not only on the length of any disruption to earnings due to caring responsibilities, but also its timing. Women who delay motherhood until their thirties but have started paying into a funded scheme in their twenties will end up with a larger fund than those who have children earlier, delaying setting up a pension fund.

3. The need for sex equal annuities.

- The ability for insurance companies to base annuities on sex penalises women considerably. Under current rates, a single life non-indexed annuity will give a woman an income of 94% of that of an equivalent man if purchased at age 60, 92% if purchased at age 65 and 89% if purchased at age 70. If the annuity is indexed to RPI, the penalties are higher: at age 60 a woman can expect an annuity of 91% of an equivalent male and 87% at age 65.⁴ In other words, a woman purchasing an annuity at 65 and seeking to protect her annuity income against inflation would need a fund of 115% of that of an equivalent male to ensure the same income through her retirement.
- Government should legislate now to equalise annuity rates across the sexes. It should be noted that many factors that affect life expectancy – such as class or ethnicity – cannot be taken into account when calculating annuity rates. Sex should be treated similarly.

4. The problem of people outliving their available resources (if they did not purchase an annuity) or of an annuity's value eroding to an inadequate level.

- The problems of outliving available resources are likely to be more acute for women because they (for the reasons described above) are likely to have contributed less to their pension fund tend to live longer than men.
- As women tend to live longer than men it is particularly important that they be given appropriate advice about whether to purchase an inflation-proof annuity. It is also vital that they are aware what type of indexation of annuity their partner is purchasing for them both – and the likelihood of this annuity retaining its value over time.

5. Need for partners to know whether the annuity purchaser has bought a joint or single life annuity.

- To overcome the danger of women assuming their partners have provided for them, there should be an obligation for partners to be informed of the type of annuity purchased.
- In the USA the other partner is required to sign a waiver if a single life annuity is purchased, thus they are made aware of the situation and can make alternative plans.

⁴ Rates taken from The Annuity Bureau, April 2002.

6. The policy review should consider the situation of self-employed individuals and part-time workers.

- Women are more likely to work part time than men and for a greater proportion of their lifetime, and therefore less likely to be able to save adequate funds to purchase annuities.
- During a business start-up period it is unlikely that an individual will be able to save for retirement due to the initial capital outlay, for example on training, equipment, premises.

7. Financial advice needs to be tailored to the particular needs and situation of women.

- Women may have had fewer previous opportunities for making financial choices and therefore need more comprehensive explanations of the choices available to them to enable them to make the best decision.
- Women may also be more risk averse because their pension fund is likely to be smaller and they expect to live longer than their male counterparts. They therefore need advice to ensure they receive the best possible value from their investment so as not to compound the problem of its low value.