



**A Joint Women's Budget Group & Fawcett Society Response to the House of
Lords Select Committee on Economic Affairs
Call for Evidence
Aspects of the Economics of an Ageing Population**

1 March 2003

The Women's Budget Group (WBG) is an independent UK organisation bringing together academics and people from non-governmental organisations and trades unions to form a network of experts to promote gender equality through appropriate economic policy.

The Fawcett Society is the UK's leading organisation campaigning for equality between women and men. Our vision is of a society in which women and men are equal partners at home, in work and in public life. We campaign for changes that lead to real improvements in women's lives. Fawcett is an informed and authoritative voice on a range of issues including women's representation, pay, poverty and pensions, criminal justice, work-life balance and education. Fawcett draws considerable strength from working across all the major political parties.

Founded in 1866, and with its roots in the suffrage movement, Fawcett is today a vibrant and fast growing membership organisation. Fawcett has over 2,000 individual members, a network of local campaign groups, a subscribers' network and hundreds of individual activists who contribute directly to all our campaigns.

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1. Introduction

1.1 Ageing in the UK, as elsewhere, is a progressively gendered experience. The 2001 UK Census shows that while the ratio of women and men in their late 60s is 1.07, this rises to 1.29 in their 70s, 1.91 in the 80s and 3.46 in their 90s. The experience of ageing is also very different for women and men. Marriage remains normal for men throughout the life span: nearly three-quarters of men over 65 are married and even over the age of 85, nearly half of men are married. This contrasts markedly with women, among whom only 42% of those over 65 are married, and this reduces to 10% of those over 85. There are parallel increases in widowhood for women, the proportions reaching four fifths of women over 85. This has implications for the living arrangements of older women: almost 40% women aged 65-74, and 60% of women aged over 75, live alone, whereas for men the percentages are only 19% and 33% respectively. With cohort increases in divorce, it has been projected that within 20 years, there will be almost as many divorced women aged 65-74 as widows. When looking at the pensioner population, therefore, or differentiating pensions by gender, it is important to bear these large differences in mind.

1.2 Pensioners in the UK are at a higher risk of poverty than many of their EU counterparts, and the majority of poor pensioners are women. This has complex cause, many of which are due to the policy choices of recent British governments and it is not the inevitable result of uncontrollable factors such as demographic change. The Department of Work and Pensions reported that in the year 2000, 31% of single old women risk falling into poverty compared to 25% of their male counterparts¹ and 46% of single female pensioners currently live in poverty. Women are likely to have lower pension incomes than men: retired men receive an average income of £202 per week compared to £161 for women² and more than twice as many older women as men are reliant on income support.³

1.3 The current British pension system, including state and private pensions, is grossly inadequate for most women. Designed on a post War male breadwinner and female carer model it does not meet women's needs or take account of their different life experiences. We argue therefore that the British pension system is due for a radical overhaul for as long as pension acquisition continues to depend on full-time, continuous, well paid work, it cannot meet the needs of women.

1.4 Women's disadvantage in the pension system arises from a combination of cultural and social factors and the institutional features of the pension system – all of which need to be taken into account in any policy change. Simply put, women lose out because: -

- They spend fewer years in the labour market and all parts of the pension system reward long working lives
- Many work part-time to juggle their various commitments thus having no access to pension schemes, or insufficient earnings to accrue pensions
- Even when they work full time, women earn less than men and all parts of the pension system either operate an earnings requirement and/or pay out earnings related pensions

¹ Households Below Average Income, DSS, 2000

² Pension Income Series, July 2001

³ Income Support Quarterly Statistical Inquiry, July 2001

- Due to differences in sector and type of employment women have less access to occupational schemes whilst these schemes continue to offer the best value for money second tier provision.
- To compound all these problems, women live longer than men. Sex discrimination in annuity rates, inadequate incomes for surviving spouses and inadequate inflation proofing of pensions affect the old the most.

1.5 There is a misguided assumption that these disadvantages will disappear over time as gender inequalities in the labour market are reduced with each successive cohort of working-age people. However the pattern of women's working lives is not changing that much in terms of household/care work, non-continuous work, and part-time work. Equality is still an aim and not an achievement and for many groups of women that goal is still well out of sight. 40% of women still earn an individual income of £100 or less per week; just 3% of Pakistani and Bangladeshi women currently have an occupational pension; lone parents face a particularly tough challenge in pension accrual due to their caring responsibilities and spending commitments and asylum seekers are severely disadvantaged by a system that rewards time spent in the UK labour market.

2. How might policy reverse the trend towards early retirement? Should legislation to outlaw age discrimination be introduced? Would it work? Should there be a statutory retirement age? Can the labour market absorb more older workers? To what extent do people choose when to retire?

2.1 The recent Department for Work and Pensions Green Paper *'Simplicity, security and choice: Working and saving for retirement'* suggests that by encouraging longer working the Government will enable women to build up more substantial pension provision. This assumes that women are able to work into their sixties, are able to work at well-paid jobs so as to accrue pension, and do not face the double discrimination of gendered ageism at work, whereby women are viewed as 'older' at an earlier age than men. The WBG agrees that in theory this would provide some people with the much needed opportunity to build up their entitlement to the state pension and supports the right of older women to work if they choose, but does not accept that the assumptions as set out are met. If state pension age is extended, then it is likely that those who are able to stop working earlier will be the better off who have accrued decent pensions such that they can afford to retire, more likely men than women. Working beyond current state retirement age may prove socially divisive, with the poorest forced to work on, perhaps until ill-health intervenes, simply to receive their meager state pension.

2.2 It is important to recognise that in any event this is not a realistic option for many women who have caring responsibilities - whether for their spouses, parents, in-laws or other relatives suffering the ill health associated with old age, for other disabled or ill adults, or for grandchildren who do not have access to childcare (thus enabling younger cohorts to work).

Recommendation: -

- *The Government should review the eligibility requirements for the State Pension. These should be updated to ensure that women are not forced to work later in life due to the caring responsibilities they shouldered earlier on, or miss out on provision due to the unpaid caring responsibilities they take on later in life. (See below).*

- *There should be legislation to outlaw age discrimination – this is an issue of equality before the law and not about working on beyond state pension age.*

3. Why do people not save enough for retirement? How might they be encouraged to do so? What new products could the financial services industry offer to support retirement income and to influence retirement decisions?

Insufficient saving for retirement is a result of the structuring of the state and private pension systems.

3.1 The State System

Those not working in the market, the vast majority of whom are women providing unpaid household labour or unpaid caring work, are accruing at best credits to the basic state pension (BSP), which is no longer sufficient to provide an acceptable living in retirement. Many, because of strict eligibility criteria that do not reflect the extent of women's work, do not even qualify for credits to the BSP. Those working but earning below the relevant limits (mostly women) do not acquire National Insurance pensions at all. There is evidence to suggest that in predominantly female-labour industries, part-time wages are depressed to fall below these limits specifically to avoid the payment of National Insurance contributions. These workers are unlikely to be acquiring any other kind of pension.

3.2 The Private Pension System

Many women do not have sufficient disposable income to participate in additional pension schemes; as mentioned above 40% women still earn an individual income of under £100/week. Women continue to take on the bulk of the unpaid caring work in the home and therefore their economic activity rate is lower than men; they are more likely to work part time or on a temporary contract; they are concentrated in the lowest paid occupations; they are paid less (both in total and per hour) and many women take caring breaks from paid employment. For these reasons, over their lifetimes women will earn on average £241 000 less than men.⁴

3.3 Those women who could afford to save for a pension often have other higher spending or saving priorities – most often providing for their family or household⁵. Where women do work, they are likely to pay for childcare costs from their own wages, and provision for children tends also to be paid from mother's earnings. This reduces further the amount that they might otherwise have available for pension savings.

3.4 Many people think that if they are in an employer's pension scheme that this of itself will provide them with sufficient retirement income. But if they have been low earners, or join the scheme only on returning to work when their children are independent, or have had many breaks from paid work, this reliance may well be misplaced.

3.5 Within couples, men and women tend to have an expectation of joint reliance on a man's pension in retirement. This expectation can be thwarted by separation or

⁴ *Women's Incomes over the Lifetime*, A Report to the Women's Unit, Cabinet Office, Ed. Katherine Rake, 2000

⁵ *Home Truths: An analysis of financial decision making within the home*, The Fawcett Society, Katherine Rake & Geethika Jayatilaka, 2002

divorce, leaving women little time and few options for pension provision, particularly as they are likely to then become sole carers of young children, with little or no financial support from their former partner. There is no mechanism for ensuring a fair financial settlement after the breakdown of a cohabiting partnership (now a substantial proportion of the population). Pension sharing after divorce is a little used power, likely to be of benefit to very few women.

3.6 Lone parents in single or no income households are least likely to be able to provide adequately within the current pension system for their own retirement due to their persistent poverty and time out of the labour market. A significant minority of women can now anticipate lone parenthood at some point in their life-course.

3.7 To compound the problem of making adequate provision for retirement, because of the industry practice of providing sex-unequal annuities, individual women must for some reason share the risk of greater longevity with other women, rather than with all people. This means that to ensure the same retirement income, they must save between 1/5 and 1/6 more than men⁶, albeit out of lower earnings and with all the impeding factors set out above.

3.8 For many women, because of the inevitable reliance on means-tested benefits, it may not be economically rational for them to save into private pension schemes.

Recommendations: -

- *If an adequate first tier of State provision could be relied upon, this would act as a building block and incentive to low earners saving for retirement.*
- *Pension advice and products must be tailored to the particular needs of women and need to be restructured so as not to penalise women for the unpredictability and discontinuity of many women's home and working lives. A revised caring credits system could help to remove the savings uncertainty related to women's life course.*
- *Annuity rates should be equalized for the sexes, thus ensuring that individual risk of longevity is shared among all.*

4. Why are most pensioners who live in poverty women? How might public policy provide for people (mostly women) who cannot make regular and continuous contributions to a pension scheme throughout their working life? What responsibilities do private-sector financial product providers have?

4.1 Most pensioners who live in poverty are women because most women do not have a sufficient level of income during their working lives to accrue pensions. Then, most women live alone in retirement relying heavily on their low individual income. Some widows have some small element of derived pension, but this is rarely sufficient to sustain the standard of living they enjoyed when their husbands were alive, and derived pensions are set to reduce. Cohabitees whose partners die, and divorcees, have no derived pensions. Expectations upon which our pension system is based are no longer valid.

4.2 The challenges to women's pension acquisition have been described above. Government has attempted to alleviate these challenges by encouraging women to

⁶ *Pension Posers*, Jane Falkingham and Katherine Rake, The Guardian, Monday April 16, 2001

enter paid employment - for example through the New Deal for partners or lone parents; the National Minimum Wage and the new system of tax credits. But, as welcome as these measures may be, there is no reason to assume that they will necessarily enable women to make decent pension contributions.

4.3 Currently, to avoid making a claim on the means-tested Minimum Income Guarantee would require a stakeholder pension income of at least £30/week. By 2060, this figure is likely to be about £100 (in current prices). That means a person who saves continuously from the age of 25 would need to put aside approximately £22/week to receive such an income and those people that only save for only 20 years prior to retirement will need to put aside £62/week. Many women cannot afford to set aside this amount of money every week (as described above) or have more pressing and immediate uses for that money and very few women are able to contribute continuously due to time out of the labour market.⁷

4.4 There are a number of changes that will have to take place in the labour market and broader society if women are to be enabled to adequately provide for themselves within the current system in retirement. Occupational segregation must be reduced; pay discrimination ended; men must take on more unpaid work within the household and there must be increased provision of quality, affordable childcare. Grandparents must not be expected to take on child-care roles, and those who are ill or frail need to have all their caring needs provided by the State so as to relieve women who wish to undertake paid work of these caring roles. Those employed by the State to provide care must be well-paid, and such care needs to be of sufficiently high quality to substitute for family caring. As change in this direction appears to have stagnated (for example calculations show that at the current rate of change it will take 75 years to achieve equal pay between women and men)⁸ the State still has a very significant role to play in pension provision for women.

4.5 Women face particular and greater risks in relying on private pensions. Not only do the pension provider and financial market risks impact differentially on women, but they face the additional risks associated with partnership breakdown. Women are significantly financially less well off after divorce, few participate in accumulating pensions because of poverty and child-care issues, and the new pension splitting law has had little impact. Fewer than 1300 pensions have been divided in 2 ½ years, when there are likely to have been more than 300,000 divorces. Cohabiting couples are particularly at risk, because contrary to public opinion, they are not protected as 'common law' spouses.

4.6 Even when marriage survives into retirement, with the increasing reliance on direct contribution pension acquisition, there will be increasing reliance on annuities for pension income. This in turn raises two issues. Firstly, men may choose not to purchase joint life annuities, because their pension income will be higher if they do not. This will leave widows with no derived benefits from their husband's pension. Secondly, even if they do provide for a widow, they may choose level annuities. Over their own anticipated life span this may be an economically rational choice, but it may well leave their widows living into old age on a pension decreasing in real terms. In times of high inflation this effect could be substantial. If women choose level annuities they run the 'risk' of living longer and seeing their annuity income decline

⁷ *Pension Posers*, Jane Falkingham and Katherine Rake, The Guardian, Monday April 16, 2001

⁸ *Women gain a one pence rise in pay over five years according to new Government statistics*, Fawcett Society Press Release, October 2002

substantially relative to prices. The problems with sex-unequal annuities have been outlined above.

Recommendations: -

- *The Government should view women's pension provision in the broader context of the gendered society and work place and undertake regular reviews of the pension system and how it works for women.*
- *The Government should monitor the reasons for the low use made of the pension sharing provisions on divorce so as to better inform and reform policy.*
- *The Government should review its outdated approach to modern day relationships and ensure that the risks associated with cohabiting without marriage in relation to pensions are reduced.*
- *When an annuity is purchased by a spouse, there should be a requirement to buy a joint life annuity unless the other spouse has specifically agreed that a sole life annuity can be purchased by signing a waiver of rights, as in the some states in the US and in Canada. This way at least both spouses are aware of the issues arising out of pension dependency.*

5. What is the role of the basic state pension, and does it fulfill that role? How is pension policy influenced by ideology, short-term political considerations, the need to produce consensus and the need to protect existing benefits?

5.1 Research, for example by Sue Ward, *Personal Pensions and Women*⁹ shows that the basic state pension (BSP) is currently the most suitable form of provision for most women. The BSP offers the most complete coverage of women; it offers some provision for gaps in employment (for caring responsibilities through the Home Responsibilities Protection, HRP) and it is least likely to discriminate against the low paid or part time workers. However it fails to deliver due to inadequacy and due to restrictive eligibility criteria for HRP. The commitment to raise the BSP in future years by whichever is higher, 2.4% or in line with the September Retail Price Index leaves pensioners to fall ever further behind average wage levels and living standards. The BSP is no longer providing a satisfactory base level of income in retirement.

5.2 Many women – currently 1.4 million – work but earn below the Lower Earnings Limit (LEL) so therefore are not acquiring state pensions. This overt linking of the acquisition of even state pensions to pay and work hours shows the extent of disadvantage that women face in acquiring sufficient pension.

5.3 The State Second Pension (S2P) would benefit women for it is genuinely redistributive, but it has lethally tight contribution conditions which render it inadequate. Government actuaries estimate that only two thirds of those people who would otherwise qualify and be considered in need of S2P will actually qualify according to contributions conditions. What we know about women's working patterns would suggest that the majority of those losing out are women. It should also be noted that even at its full level, alongside the full BSP, the S2P only offers a very small margin above the Minimum Income Guarantee (MIG). It will be difficult for those entitled to only BSP and S2P to escape some form of means testing at some point in retirement.

⁹ Updated for an Age Concern seminar on 'Women and Pensions', January 2003

Recommendations: -

- *Currently only the state is able to remove the unpredictability of women's working lives in relation to pension provision. It is therefore essential, if both current and future generations of women pensioners are to be lifted out of poverty, that the adequacy of the Basic State Pension be improved. For example by increasing the BSP to at least the current level of means-testing, linking the growth in the level of the BSP to earnings growth, and considering raising age-related additions.*
- *The gaps that remain in BSP coverage must be plugged by making changes to the eligibility criteria. As mentioned above the system was designed around a post war breadwinner/dependent model of work which is in need of updating because it does not fit with women's lives, nor increasingly, men's. The requirements have become unrealistic now that more people are entering higher education and starting work later:*
 - *The Lower Earnings Limit (LEL) should be reconsidered (currently there are 1.4 million women earning below the LEL in the UK)*
 - *There should be a reduction in the number of years of paid employment required for entitlement to a full BSP.*
 - *The definition of contribution year must also be relaxed to allow the aggregation of part years or part time work.*
 - *The 25% rule should be abandoned.*
- *The contribution conditions on the S2P should be relaxed to ensure that those most in need, the majority of whom are women, are not disqualified. In particular the child age threshold for claiming caring credits should be raised in line with Home Responsibilities Protection to 16 rather than current age of 6.*
- *The pension credits for caring (currently HRP) should be redesigned to better meet the needs of carers:*
 - *For example they could be provided as a positive credit which actively rewards caring rather than simply reducing the overall eligibility requirements for the BSP.*
 - *Credits should also be provided for a broader variety of carers and allow all carers to combine caring with some participation in the labour market by relaxing the 35 hour rule for care.*

8. What effects do means tested benefits for pensioners have on work and saving incentives? Are there any people for whom zero or low saving is the appropriate economic response to their circumstances?

8.1 The Pension Credit, to be introduced in October this year, modifies the structure of means-testing by tapering the withdrawal of benefits as pension income rises. Although this will increase incomes for some pensioners, we believe that a number of issues remain unresolved. The Pension Credit has particular disadvantages for women. By setting the Pension Credit threshold at the rate of the full BSP, the Credit will not enhance the incomes of those with only a partial BSP and a modest amount of additional savings or pension. Currently 51% of women do not receive a BSP in their own right, and recent research suggests that as many as 22% of women aged 55-59 and 12% of those aged 50-54 will not reach full pension entitlement even though these cohorts of women will benefit from full Home Responsibilities Protection.

8.2 The Pension Credit will operate on a family means-test so there will be no individual reward for savings and occupational pensions. Many married or cohabiting women will either be rendered ineligible for Pension Credit because of their partner's incomes or will not receive the credit directly. Hence the Pension Credit will do little to increase women's independent incomes in later life.

8.3 As explained above women's zero or low saving is explained by their relatively low economic position in relation to men (due to the gender pay gap, occupational segregation, caring responsibilities and working part time). Women will also have other more immediate spending commitments than saving for a pension. Women's incomes are more likely than men's to be spent providing for their children, especially for the childcare which allows them to work. Women without partners, particularly single parents (11.4% of women over 16 are lone parents)¹⁰, are likely to be budgeting in even tighter financial circumstances. Thus incentives to save would be very substantial and aimed specifically at the low paid to make them salient to most women's lives.

8.4 Younger generations of graduates are also likely to have debts to repay once they start work before they can consider saving for retirement, even though this is arguably an important time to start saving. In 1999/2000 over one million women were participating in higher education and they made up 55% of the higher education student population but the gender pay gap exists even for the most recent graduates, making saving more difficult for female graduates. Recent EOC research shows that the within three years of graduation the pay gap between male and female graduates already stands at 15%. The time that student debts are finally repaid is likely to be close to the time that women start their families.

9. Is the continuing trend away from public and towards private provision economically sustainable? How are we to determine the best public/private balance?

9.1 The shift from public pension provision towards private is not inevitable, whether it is economically sustainable or not. We suggest that it is only economically sustainable at the risk of consigning future cohorts of women to a lifetime of means tested benefits after state retirement age. These means tested benefits will need to be provided by the State.

9.2 It is difficult to envisage a private scheme that could take over even the current role of state schemes, with their redistributive effects, and sharing of risk among the whole population. Two thirds of women pensioners do not currently have a private pension and occupational pensions currently comprise just 18% of total income for women in pensioner couples, yet 44% for men. Only 30% of women who work part time have occupational pension coverage.

9.3 Government spending on pensions is currently about £60 billion per annum while the money foregone through tax relief on private schemes (primarily benefiting the wealthier individuals) amounts to around £20 billion per annum. The Government should assess whether this money forgone should be better spent improving the pension provision of the poorest.

Recommendations: -

¹⁰ *Key Indicators of Women's Position in Britain*, Women and Equality Unit, November 2002

- *A system for providing state credits for low earners and for periods of caring into private schemes would make the private system better suited to the needs of women.*

Conclusion

Radical steps are needed to increase the level of state pensions and to simplify the British pension system, for complexity is a big disincentive to saving. In particular, a BSP set at a level that lifts most pensioners off means-tested benefits would make it much easier for working age individuals to appreciate the value of additional pension building and saving. The growing gap between the Minimum Income Guarantee and the BSP means it is difficult, especially for the low paid and those with interrupted employment, to be sure that saving and investing will make them better off in retirement. The Pension Credit, in substituting 40% effective taxation of a band of income for the present 100% rate, does not address this issue fully.

Recommendation: -

- *A more adequate and accessible basic pension, raised at least to the level of the MIG and indexed to wages is the best way to tackle poverty among older women and ensure that all pensioners share in the general rise in economic prosperity.*