



**Women's Budget Group Response to the Department for Work and Pensions
Green Paper
*Simplicity, security and choice: Working and saving for retirement***

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.

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1. Introduction

The WBG welcomes the focus given to women in Chapter 7 of the Green Paper and the recognition that both current and future generations of women pensioners are severely disadvantaged by our present system of both public and, to an even greater extent, private pensions. However we are deeply disappointed by the lack of proposals within the Green Paper to address the problems faced by women in accruing adequate pension provision. If the Government does nothing more than the one policy proposal within Chapter 7, to *'look at how best to ensure that women are aware of their pension position and the choices they face'* (p. 125) they will do little more than make more women aware of the poverty they face in retirement, without alleviating that poverty and inequality.

Financial advice, particularly generic financial advice, is of limited use to women with their unpredictable and variable work and life patterns. More urgently and importantly the Government needs to address why the current system of both public and private pension provision does not work for women and how it can be redesigned to meet their particular needs and circumstances. The pension system should provide women with an adequate pension so that they can live a dignified and poverty free retirement.

2. The 'pensions problem' for women

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.

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 are in part-time employment in order to meet their various caring commitments thus having less access to pension schemes, or insufficient earnings to accrue pensions
- Even when they work full time, women earn less than men (over their lifetimes women will earn on average £241 000 less than men¹) and all parts of the pension system either operate an earnings requirement and/or pay out earnings related pensions.
- 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 oldest old the most.

2.1 The gendered experience of ageing

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: four fifths of women over 85 are widowed. This has implications for the living arrangements of older women who are more likely to live alone: almost 40% of 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 differences in mind and consider the impact of solo living and of transitions into widowhood on the economic circumstances of retired women.

¹ *Women's Incomes over the Lifetime*, A Report to the Women's Unit, Cabinet Office, Ed. Katherine Rake, 2000

2.2 The gendered experience of pensioner poverty

Pensioners in the UK are at a higher risk of poverty than many of their EU counterparts,² and the majority of poor pensioners are women. This has complex causes, 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 14th Households Below Average Income report indicates that just under a quarter of single female pensioners currently live in poverty. Older women today also face an extremely wide pensions gap: for every pound of income received by men in a pensioner couple, women receive less than 40 pence.³

2.3 Future cohorts of women pensioners

It is stated in the Green Paper that *'much of the improvement in the pension position of future female pensioners will come from the labour market improvements - higher employment rates and better pay'* (p.121). However gender inequalities remain entrenched and persistent. 40% of women still receive an individual income of £100 or less per week, the full time gender pay gap has stagnated at 19%⁴ and women continue to take primary responsibility for unpaid household and care work.

2.4 Particularly disadvantaged women

Some groups of women face particularly high hurdles or preventative barriers in access to pensions and in accruing adequate pension provision for retirement.

▪ Widows

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.

▪ Divorcees

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 divorce, leaving women little time and few options for individual 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. Divorcees will not qualify for derived pensions if their former spouse dies and pension sharing after divorce is a little used power, likely to be of benefit to very few women.

▪ Cohabitees

There is no mechanism for ensuring a fair financial settlement after the breakdown of cohabiting partnerships, (either homosexual or heterosexual) and cohabitees whose partners die have no derived pensions.

▪ Lone Parents

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; 11.4% of women over 16 are lone parents.⁵

² Mejer & Linden (2000), 'Persistent income poverty and social exclusion in the European Union', *Statistics in Focus: Population and Social Conditions*, European Communities

³ *Individual Income of Men and Women 1996/7 to 2000/1*, Women and Equality Unit, 2002

⁴ *New Earnings Survey 2002*, Office of National Statistics

⁵ *Key Indicators of Women's Position in Britain*, Women and Equality Unit, November 2002

- **Asylum Seekers and Immigrants**

Whilst access to both state and private pension provision remains so explicitly linked to time spent in the UK labour market, those people who only enter that labour market part way through their working lives will find it difficult to work an adequate number of years to qualify for a full BSP.

- **Black and Minority Ethnic Women**

Black and minority ethnic women face double discrimination in the UK labour market and as a result tend to be paid even less than white women, exacerbating the problems of adequate pension accrual. Some minority ethnic groups of women also have particularly poor access to pension schemes, for example just 3% of Pakistani and Bangladeshi women currently have an occupational pension.

2.5 Graduates

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; a period when saving is difficult due to time out of the labour market and the costs of raising children. Hence women graduates with children are likely to delay saving for retirement, making it difficult for them to accrue adequate pension provision.

Recommendations

- *Pensions must be tailored to the particular needs of women and 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 boost women's entitlement to state pensions.*
- *The Government must not view women in relation to pensions as an homogenous group. Research into the policy design and monitoring of pension provision should give consideration to these most disadvantaged groups of women and meeting their particular needs.*
- *The Government should review its outdated approach to modern day relationships and ensure that the pensions risks associated with cohabiting without marriage are reduced. Other forms of relationship could be recognised through registering civil partnerships or automatically if a couple has cohabited for a qualifying period of time. Occupational schemes should also recognise modern forms of relationships.*

3. State Pension Provision and Women

3.1 Adequacy

Research, for example by Sue Ward, *Personal Pensions and Women*⁶ 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 level of 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.

3.2 Eligibility

Because our current pension system was designed around a post war breadwinner/dependent model of work the eligibility requirements do not fit with women's lives, nor increasingly, men's (as people are spending more time in education and starting work later). Currently those not active in the labour 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. HRP, which works alongside the system of credits, reduces eligibility requirements rather than actively crediting caring work. It is inflexible and offers protection on a full year basis only and does not offer any provision for those people that wish to combine caring and employment within any one year.

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. 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.

3.3 Simplification

Complexity is a big disincentive to saving; if an adequate first tier of State provision could be relied upon and clearly understood, this would act as a building block and incentive to low earners saving for retirement. The Green Paper contains proposals to simplify the tax regime in relation to pensions but it does not contain proposals to simplify the system of state pension provision, an area of increasing complexity.

3.4 State Second Pension

The State Second Pension (S2P) would benefit women for it is genuinely redistributive, but, similar to the BSP, it has lethally tight contribution conditions and it pays too little. Government actuaries estimate that only two thirds of those people who would otherwise qualify and be considered in need of S2P will actually qualify

⁶ Updated for an Age Concern seminar on 'Women and Pensions', January 2003

according to contributions conditions. What we know about women's working patterns would suggest that the majority of those losing out are women. Additionally, 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.

3.5 Means-tested Benefits - Minimum Income Guarantee

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

3.6 Means-tested Benefits - Pension Credit

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

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.

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.*
- *The BSP should be increased 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.*

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

⁸ McKay, S., Heaver, C. and Walker, R. (1998) *Building Up Pension Rights*, Department of Social Security, Research Report No. 14 London: DSS

- *More women should be entitled to the BSP given the volume of work, paid and unpaid, that they contribute to the UK economy.⁹The gaps that remain in BSP coverage must be plugged by making changes to the eligibility criteria:*
 - *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 (including 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. For example grandparents who care for their grandchildren and so are unable to stay longer in paid employment as suggested by the Green Paper*
 - *The credit system should allow carers to combine caring with some participation in the labour market by relaxing the 35 hour rule for care.*
 - *It should be possible to combine part-years of HRP.*

⁹ Provisional estimates for the value of unpaid work based on the 1999 Household Satellite Account Time Use Data have been calculated – these range from 44% of GDP to 104%

4. Private Pension Provision and Women

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.

4.1 Making contributions

As described above, many women do not have sufficient disposable income to participate in additional pensions schemes. 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 household¹⁰. Where women do have paid employment, 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. 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. Additionally, 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.

4.2 Risks

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 additional risks:

- **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. A recent Age Concern consultation with women found that many women believe they will be supported by a partner in retirement and so fail to provide adequately for themselves.¹¹
- **Discontinuity of employment.** Women are less able than men to predict their employment patterns and so plan their pension contributions accordingly (if they could afford to do so). Women change jobs more frequently than men and they take caring breaks from paid employment; more predictably for their own children and less predictably for elderly relatives.

4.3 Annuities

Even when marriage survives into retirement, with the increasing reliance on direct contribution pension acquisition, there will be increasing reliance on annuities for

¹⁰ *Home Truths: An analysis of financial decision making within the home*, The Fawcett Society, Katherine Rake & Geethika Jayatilaka, 2002

¹¹ Age Concern Consultation Service, 'Women and Pensions: Consultation for the campaign 'Lets Make Pensions Work', Report on focus groups Feb-March 2003

pension income. This in turn raises three 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 substantially relative to prices.

Thirdly, due to their longevity, women purchasing their own annuities are offered a lower rate than men with the same savings. 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 men ¹², albeit out of lower earnings and with all the impeding factors set out above.

Recommendations

- *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.*
- *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*
- *Annuity rates should be equalized for the sexes; thus ensuring that individual risk of longevity is shared among all. Discrimination is not made by socio-economic group or race, factors that can also both act as predictors of longevity, and neither should gender be a discriminating factor.*
- *We support the Green Paper proposal to reform the current vesting rules as the current 2 year vesting period can be a major disadvantage to women who have less predictable or continuous employment patterns than men.*
- *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.*
- *WBG supports the Government's decision to reject Pickering's proposals to remove current requirements in occupational pension for survivors' benefits and compulsory indexation for people with pensions less than £30,000.*
- *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.*

¹² *Pension Posers*, Jane Falkingham and Katherine Rake, The Guardian, Monday April 16, 2001

5. Extending Opportunities for Older Women Workers

The Green Paper suggests that by encouraging longer time in paid employment 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.

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).

Recommendations

- *As suggested above, the Government should review the eligibility requirements for the state pensions. 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.*
- *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.*

6. Conclusion

The Government must view women's pension provision in the broader context of the gendered society and work place. They should recognise that there are a number of changes that would have to take place in the labour market and society if women are to be enabled to adequately provide for themselves within the current system in retirement. For example an end to pay discrimination; the increased provision of quality, affordable childcare and men taking on a more equal burden of unpaid work within the household. Unfortunately, despite the higher employment rates of women, these gender inequalities remain entrenched and persistent and some groups of women, for example lone parents and black and minority ethnic women continue to face barriers to adequate pension provision.

Until gender equality for all women is a reality rather than a vision, the state will continue to have a very significant role to play in their pension provision. Therefore radical steps are needed to increase the level of state pensions and to simplify the British pension system to ensure that women (and indeed all citizens) are able to live a dignified and poverty free retirement. In particular, a BSP set at a level that lifts most pensioners off means-tested benefits and with more inclusive eligibility requirements would make it much easier for working age individuals to appreciate the value of additional pension building and saving. The State must also play a role in making private pensions more suitable to the needs and circumstances of women, for example through a system of providing state credits for caring into private schemes.

The WBG urges the Government to address those issues raised in our response and neglected in the Green Paper. Immediate steps towards pensions policy change are essential considering the scale of the problem and the severe disadvantage suffered by women under the current system of both state and private pensions.