The gender gap in pensions

*Briefing from the **UK Women's Budget Group** on the impact on women of recent policy trends in pensions*

Key points

- ***State pensions in the UK have been among the lowest in the OECD**, nearly £40 per week less than the threshold of eligibility for the means-tested Pension Credit.*
- *The new Single Tier Pension is only just above the single rate of Pension Credit if paid in full, but **women are less likely than men to have the required 35 years of contributions** or credits.*
- ***A tax-funded Citizens Pension**, payable to each pensioner at a level similar to the Minimum Income Standard, would be a better way **to ensure women have a basic independent income in retirement**.*
- ***Private pension schemes**, promoted and subsidised by UK governments, **are the main reason for the gender gap in pensions**, placing women at a disadvantage due to their domestic roles and lower pay.*
- ***Auto-enrolled private pensions**, while including all employees, exclude the low paid and, like other private pensions, **make no allowance for periods of caring**, hence perpetuating the gender gap in pensions.*
- *We conclude that **a Voluntary Earnings-related State Pension Addition** (VESPA) – an auto-enrolled option that is fully portable and allows carer credits – **would better meet women's need for extra pension saving**.*

In this briefing, we assess how far changes in pension policy and in women's lives might reduce or exacerbate the gender gap in pensions. With the rise in cohabitation, relationship breakdown and single motherhood, the need for women to be able to accumulate their own independent pensions is urgent. We suggest a series of policies that provide a more secure and gender-fair income in later life.

Gendered roles and older women's lower pensions

Both state and private pensions were designed by men to fit a 'masculine' life course. State pensions have become more inclusive for those who take family caring breaks and are also redistributive. But because the full amount of the basic pension remains nearly £40 per week below the threshold for means-tested (single rate) Pension Credit, this improvement has had a limited effect on gender inequality of income among pensioners. Meanwhile, private pension schemes favour those with continuous full-time employment and high lifetime earnings. It has been claimed that state pensions are financially unsustainable due to population ageing, using this as a justification for shifting pension provision from 60% state and 40% private to 40% state and 60% private by 2050.[1] Although population ageing also affects private pensions, the policy drive to encourage and expand private pension saving continues.

The Pensions Commission confirmed that women's domestic roles are crucial to their pension disadvantage.[2] Women's lesser chance of being in employment, especially full-time, has been their key handicap in accumulating private pensions and was strongly associated with marriage and now with motherhood.[3] In 2004, older women's median

[1] Department of Social Security (DSS) (1998) *A new contract for welfare: Partnership in pensions*
[2] Pension Commission (2004) *Pensions: Challenges and Choices, the First Report*
[3] Ginn, J. and Arber, S. (1996) 'Patterns of employment, gender and pensions: the effect of work history on older women's non-state pensions', *Work, Employment and Society*, 10(3), pp.469-90; Sefton, T., Evandrou, M. and Falkingham, J. (2011) 'Family ties: Women's work and

personal income was only 57% of men's and for the 43% of women with any private pension, the median amount was 53% of men's, including widows' pensions.[4] Previously-married women were twice as likely as similar men to be poor enough to receive a means-tested top-up.[5] By 2012-14, about three quarters of men but only half of women aged 65+ had some private pension, including survivor pensions. For those with some private pension in payment, the median amount of such wealth held was £162,400 for men and £73,900 for women.[6] Among pensioners, 17% were at risk of poverty (before housing costs) in 2015-6, with the poorest pensioners predominantly female and older.[7]

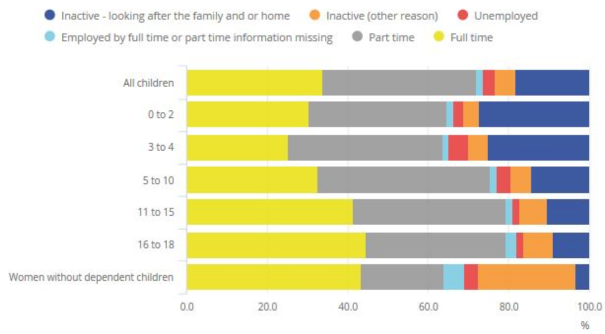
Most Anglophone countries share the UK's residual model of welfare in which state provision is minimised, although in different ways.[8] UK state pensions are among the least generous in the developed world.[9] Comparisons with EU countries indicate the latter have lower pensioner poverty rates and usually smaller gender gaps. This is most likely due to lower part-time employment rates among working women in some countries and/or more women-friendly and generous state pensions.[10] Will later cohorts of British women, with higher employment rates, be able to close or reduce the gender gap in pensions?

Working-age women

Women's increasing educational achievements, more equal employment opportunities, a slowly diminishing gender pay gap and greater access to childcare have all been welcome trends over the past several decades. Yet the pace of change in some areas has slowed and the effects of austerity policy since 2010 have also hindered progress for women's equality. Among women aged 55-59, total personal income is two-thirds the income of men in the same age bracket.

Longitudinal research confirms the persistently low rate of full-time employment among mothers of school-age children (see Figure 1).[11] The impact of motherhood on employment, hours and earnings continues to reduce women's capacity to build private pension income, an outcome that is especially severe for the growing group of lone mothers.[12] There is a close relationship between full-time employment and private pension scheme membership over the life course.[13]

Figure 1. Economic activity of women (aged 16 to 64) by age group of youngest dependent child, including the percentage who work full or part-time, April to June 2017, England



(Source: LFS 2017)

family histories and their association with incomes in later life in the UK', *Journal of Social Policy*, 40, pp.41-69; Foster, L. (2012) 'Using a Political Economy and Life Course Approach to Understand Gendered Pension Provision in the UK', *Sociology Compass*, 6(11), pp. 883-896.

[4] Arber, S. and Ginn, J. (2004) 'Ageing and gender. Diversity and change', lead article in *Social Trends 2004*, 34, pp.1-14

[5] Ibid.

[6] ONS (2015) *Private pension wealth, Wealth in Great Britain, 2012 to 2014* (http://bit.ly/2ijJTgH)

[7] House of Commons Library (2017) *Poverty in the UK: statistics* (http://bit.ly/1HjJJOJ)

[8] Ginn, J., Street, D. and Arber, S. (2001) *Women, Work and Pensions: International issues and prospects*, Buckingham: Open University Press

[9] OECD (2015) *Pensions at a Glance* (http://bit.ly/2zDxezf)

[10] Ginn, J. (2003), *Gender, Pensions and the Lifecourse. How pensions need to adapt to changing family forms*, Bristol: Policy Press.

[11] Woods et al (2003), 'The World of Paid Work', in E. Ferri, J. Bynner and M. Wadsworth (eds.), *Changing Britain, Changing Lives. Three Generations at the Turn of the Century*, London: Institute of Education, Chapter 3; Price, D. (2007) 'Closing the gender gap in retirement income: What difference will recent UK pension reforms make?' *Journal of Social Policy*, 36(4), pp.561-83

[12] Price, D. (2005) *Pension Futures: marital status and patterns of work*, paper prepared for the EOC response to the Pensions Commission Report; Price, D. (2008) 'Pension accumulation and gendered household structures: What are the implications of changes in family formation for future financial inequality?' in J. Miles and R. Probert (eds) *Money and Relationships*, Oxford: Hart Publishing, pp.257-82; Ginn, J. and MacIntyre, K. (2012) 'UK Pensions: Is gender still an issue' in D. Lain, W. Loretto and S. Vickerstaff (eds) *Social Policy and Society*, 12(1), pp.91-103; ONS (2014) *Pension Trends: Chapter 7* (http://bit.ly/2zO7v4s)

[13] Pensions Policy Institute (2017) *The Wellbeing, Health, Retirement and the Lifecourse project* (http://bit.ly/2ilmf3B)

Although the gender pay gap is narrowing, it remains substantial and the pace of change is slow. Relative to men's median hourly pay, women's median hourly pay in 2016 was 18.1% lower; if part-timers (mainly women) are excluded, women's hourly pay was 9.4% less than men's.[14] Among women aged 16-64 in 2017, 70.7% were employed compared with 79.6% of men.[15] But in terms of hours worked the gender differences are larger: 41% of women work part-time compared with only 11% of men.[16] Among mothers with a child aged under 18, only a third were in full-time employment.[17] Lone mothers were substantially less likely to be employed, especially full-time, than partnered mothers.[18]

The gender gap in private pension accumulation remains stark: median current personal pension wealth of all men in July 2012 to June 2014 was almost twice that of women, £24,000 compared with £12,400.[19] Women are becoming more likely to save in a private pension, but the gender gap in earnings, largely due to caring commitments that impact levels of full-time work, is a continuing barrier to such saving. Even when incomes are similar, women's pension saving is less than men's, with too many women relying on their partner's pension.[20]

'Pension freedoms' introduced in 2015, which gives holders of defined contribution (DC) pension pots more choice about how to access these upon reaching retirement age, may also create an extra risk for wives expecting to share their husband's private pension. These reforms mean that a husband can withdraw cash all at once or can drawdown gradually, spending his pension fund without the knowledge of their wife. The Financial Conduct Authority found that around a million DC pension pots have been accessed and over half have been withdrawn in full.[21] Almost three-quarters of withdrawals have been by men and women aged under 65. In 90% of cases the fund was less than £30,000 and in 60% of cases it was less than £10,000.

Women are, of course, diverse in their educational attainment, occupational class and type of employer; all these influence their employment pattern, earnings and pensions. Highly-qualified women in professional and managerial jobs are relatively advantaged but even this privileged segment of women had less accumulated pension wealth than equivalent men.[22] Self-employment, zero hours contracts and other forms of precarious employment have been increasing and these restrict the ability to pay either NI or private pension contributions.

Pension policy developments and the gender gap

Neoliberal policies in the 1980s reversed progress made in the 1970s towards more women-friendly state pensions, bringing retrenchment of state pensions and tax-subsidised promotion of private pensions.[23] Some of these deleterious impacts have been addressed, but will not benefit the already retired. The Basic State Pension (BSP) fell relative to average earnings, from around 25% in 1980 to under 20% by 2000, due to inadequate annual uprating, while the State Earnings Related Pension was substantially cut. New Labour announced its aim to reduce the share of the state in pension provision from 60% to 40%[24] prompting the comment: 'Women's pension disadvantage and risk of personal poverty in later life is unlikely to diminish in the foreseeable future'.[25] However, following the recommendations of

[14] ONS (2016) *Annual Survey of Hours and Earnings: 2016* (http://bit.ly/2lyEceq)
[15] ONS (2017) *UK Labour Market: October 2017* (http://bit.ly/2zhWTcP)
[16] ONS (2016) *What is the Gender Pay Gap?* (http://bit.ly/2zK25Yd)
[17] ONS (2017) *Families and the Labour Market, England: 2017* (http://bit.ly/2hBgaTo)
[18] ONS (2013) *Full report – Women in the labour market* (http://bit.ly/2mAVyfV) p.9
[19] ONS (2015) *Private pension wealth, Wealth in Great Britain, 2012 to 2014* (http://bit.ly/2z6gyAL)
[20] Scottish Widows (2017) *Women and Retirement Report 2017: Retirement Independence* (http://bit.ly/1z2nfsM)

[21] The Guardian (July 2017) *FCA warns it may intervene as millions take pension cash early* (http://bit.ly/2u8IxfZ)
[22] Warren, T. (2003) 'A Privileged Pole? Diversity in Women's Pay, Pensions and Wealth in Britain' *Gender, Work & Organization*, 10(5), pp.605-628
[23] Ginn, J. (2003), *Gender, Pensions and the Lifecourse. How pensions need to adapt to changing family forms*, Bristol: Policy Press: chapter 1; Foster, L. (2014) 'Towards a fairer pension system for women? Assessing the impact of recent pension changes on women', in Irving, Z., Ramia, G. and Farnsworth, K. (eds) *Social Policy Review* 26, Bristol: The Policy Press, pp. 29-46.
[24] Department of Social Security (DSS) (1998) *A New Contract for Welfare: Partnership in Pensions,* Cm 4179. London: The Stationery Office.
[25] Department of Work and Pensions (DWP) (2002) *Simplicity, Security and Choice* London: DWP, Chapter 7.

the Pensions Commission in 2005, state pensions were improved, benefitting women.

State pensions

Care credits

Reforms to state pensions, especially changes in care credits for time spent on childcare and eldercare, as well as (briefly) a reduction of qualifying NI years for the Basic State Pension (BSP) to 30, lessened the impact of women's caring roles on their state pensions. A DWP report estimated that, for those women with a full work history, receipt of the full BSP would rise from 35% to 95% by 2025, although a 20% gender gap in amount would remain in private pensions.[26]

State Pension Age

The gains for women were offset by the Coalition government's raising of the State Pension Age (SPA), set to reach 66 by October 2020 – nearly six years earlier than planned in 2007 –and 67 by 2028. The rise in SPA was particularly rapid for women, leaving them insufficient time to adjust retirement plans. A recent government review proposes the SPA rise to 68 should be brought forward to 2037-9 instead of 2044-6.[27]

Single Tier Pension (STP)

This combines the BSP with the Additional State Pension (State Earnings Related Pension and State Second Pension). For those individuals with 35 qualifying NI contributions or credits it is payable in full at just under £160 per week in 2017-18, slightly above the threshold for means-tested Pension Credit. The change is estimated to benefit two-thirds of women and one third of men who reach SPA before 2020, although some of these would have been eligible for Pension Credit. It brings losses for others, more so after 2020, as the transitional arrangements mean that in the short-term these are mitigated.[28] Existing state pension entitlements for spouses, survivors or divorcees will be protected but new entitlements will not accrue in the STP. Self-employed stand to gain from this move as they were excluded from the Additional Pension.

Uprating of state pensions

Adequate annual uprating of pensions avoids the erosion of value as individuals age. It is particularly important for women, since on average they live longer than men and often alone, as widows. The STP will be uprated annually by the triple lock (the higher of average earnings, Consumer Price Index or 2.5%), at least until 2020. The Basic State Pension paid to pensioners under the pre-2016 rules will also be uprated by the triple lock, but the Additional State Pension remains uprated only by the CPI, which is lower than the RPI.

Private (non-state) pensions

Defined Benefit (DB) occupational pensions

These pensions, where the benefit to be paid on retirement is specified in advance, are in decline, with many funds facing deficits. In the public sector, with about 5.6 million members,[29] benefits have been reduced and the pensionable age increased. In the private sector, with 5.5 million members, employers seeking to avoid investment and longevity risk, as well as increasingly costly regulatory requirements, have closed schemes, modified them or converted them to Defined Contribution (DC) schemes. Here, membership of DB schemes fell from 2.6 million in 2008 to 1.6 million in 2015,[30] with only 0.6 million remaining in schemes that are still open to new members.

Defined Contribution (DC) occupational pensions

Membership of these schemes, where the contribution is known in advance but not the benefit that will be paid on retirement, increased from 1 million in 2008 to 3.9 million in 2015.[31] Funds are invested in the stock market on behalf of employees, who bear the risk of low returns and also pay charges for setting up and investment management. DC pensions have no built-in survivor benefits. Although members may take out a joint life annuity, this option is rarely used, so that widows can be left without an expected share of their deceased husband's pension. Moreover, a member may, under the new 'pension

[26] Department of Work and Pensions (DWP) (2007) *The Gender Impact of Pension Reform,* London: DWP.
[27] Department of Work and Pensions (DWP) (2017) *State Pension Age Review* (http://bit.ly/2ttSZ2d)
[28] Crawford, R. et al. (2014) *A New Single Tier Pension*, IFS Report No. 82, London: IFS.

[29] ONS (2015) *Occupational Pension Schemes Survey 2015* (http://bit.ly/2yLpwzc)
[30] Ibid.
[31] Ibid.

freedoms', withdraw some of their capital from age 55, without the knowledge of their spouse. Cohabitees have no legal right to a share of their partner's pension (state or private) nor to a survivor pension (by contrast, in many DB pensions, cohabitees have the same rights as spouses).

Auto-enrolled DC pensions

A major reason for the increase in DC pension membership has been the introduction of auto-enrolled workplace pensions since 2012 for those aged over 22. Members may opt out, but will forfeit the employer contribution and tax relief if they do so. Contributions, in addition to NI, will by April 2019 be 4% of band earnings (between the Lower and Upper Earnings Limits for National Insurance) from employees, 3% from employers and 1% from tax relief. Charges are up to 0.75% per annum on the fund and a levy is payable on initial set-up costs. The programme has been rolled out gradually, with large companies first and smallest companies last.

Drawbacks for women – besides the charges, risks of poor returns and of fraudulent or insolvent schemes that affect all employees - are many: Those with earnings below the NI Lower Earnings Limit, mainly women part-timers, will not be auto-enrolled. Employers have an incentive to suppress wages to avoid contributing and could illegally persuade employees to opt out, for the same reason. Small pension pots from different jobs risk being lost, especially for those with a number of jobs and a patchy employment history. Many low paid employees will struggle with the additional 4% contribution and repaying debts or saving in other ways may be more worthwhile financially. The scheme is of little use to those on zero hours contracts or working in the 'gig economy'; their status as employees with associated rights is not clear and even if treated as employees their weekly income is in constant flux.

Analysts have warned that the level of contributions required (in total 8% of earnings by 2018) will not provide a sufficient pension in retirement, even if no funds are withdrawn before retirement. There are no care credits, placing women at a disadvantage (as in all private pensions) and the unpredictability of women's caring commitments and future relationship status make it particularly difficult to calculate whether investing money in these pensions is worthwhile. As noted above, DC pensions have no automatic provision for survivor benefits and there are no plans for affordable individual advice to be available.

Policy alternatives fairer to women

Policy measures to reduce the gender gap in pensions are clear:

1. Support for full-time employment of mothers through affordable and accessible care services, to allow them genuine choice in balancing paid and unpaid work across the lifecourse.

2. Higher NI pensions, at least at the EU average amount, fully uprated by the triple lock; or a Citizens Pension, based on the Dutch tax-funded model, payable at state pension age to each long-term resident and set at the Minimum Income Standard (the amount judged by the public to provide a minimum acceptable standard of living). In 2016 this was £267 per week for a pensioner couple or £187 for a single pensioner after housing costs.[32]

3. If an additional voluntary tier of pensions is deemed necessary to allow some wage replacement, auto-enrolment into a Voluntary Earnings-related State Pension Addition (VESPA) would be better adapted to women's needs than the private pension schemes.[33] A VESPA would be a fully portable pay-as-you-go (PAYG) scheme, allowing workers to save without the investment and longevity risks of DC schemes. Contributions could be similar to the minimum for auto-enrolment but with allowance for carer credits (as in other state pensions) thus avoiding the motherhood penalty incurred in private pensions. Carer credits would require either an intra-VESPA cross-subsidy, as in NI, or a grant from the Exchequer in lieu of tax relief. This proposal is contrary to the neoliberal preference for increased privatisation and risk transferral.[34] By extending carer credits to an auto-enrolled earnings related pension, it would reflect the

[32] Joseph Rowntree Foundation (2016) *A Minimum income standard for the UK in 2016* (http://bit.ly/2zLXPYk)
[33] Ginn, J. and Macintyre, K. (2013) 'UK Pension Reforms: Is Gender Still an Issue?' *Social Policy and Society*, 12(1), pp.91-103
[34] Grady, J. (2015) 'Gendering pensions: Making women visible' *Gender, Work and Organization*, 22(5), pp.445–458

social value of women's caring roles and would reduce the pension penalty they would otherwise experience.

Conclusions

One expert claims it is 'irresponsible, in the light of recent experience, to entrust [social insurance] to private arrangements' and the government motives for preferring private pensions appear to be purely ideological: to 'encourage personal responsibility' and to 'overcome myopia'.[35] This, as some pension analysts have argued, is unconvincing.[36] It is precisely women's sense of personal responsibility and their active participation in caring - as mothers, grandmothers, daughters and wives - that restricts their employment and pension-building. Nor are private pensions more sustainable than state pensions as populations age. Some suggest the lucrative profits from managing pension funds, as well as the tax relief advantage for the rich, explain policymakers' promotion of private pensions.[37] A government that recognised and fully valued women's unpaid contributions to society would choose fairer pension policies.

Written by

Jay Ginn (Associate, University of Surrey Centre for Research on Ageing and Gender [CRAG])

UK Women's Budget Group, November 2017.

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See www.wbg.org.uk

Contact: Mary-Ann Stephenson (WBG Co-Director):

maryann.stephenson@wbg.org.uk

wbg WOMEN'S BUDGET GROUP

[35] Rys, V. (2010), *Reinventing Social Security Worldwide*, Bristol: Policy Press, p.2.
[36] Mann, K. (2007), 'Activation, retirement policy, and restoring the Third Age', *Social Policy and Society*, 6(3), pp.279-92
[37] Minns, R. et al. (2010) *Funded Pensions; What are they for? An enquiry into their lesser known functions* (http://bit.ly/2zITgjC); Long, S. (2010) *Demolishing the entire superannuation system* (http://ab.co/2hvucSH)