Pensions and Gender

Briefing from the UK Women's Budget Group on pension gender inequality

October 2019

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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.*
- *Among 65-74 year old median private pension wealth is £164,700 for men and £17,300 for women (who have just over 10% of the private pension wealth of men). Among the population as a whole women's median pension wealth is £4,300, less than a quarter of the £19,800 held by men.*
- ***Auto-enrolled private pensions****, while including all employers, exclude low-paid employees and, like other private pensions,* ***make no allowance for periods of caring****, hence perpetuating the gender gap in pensions.*
- *New modelling has shown that a Family Carer Top-up in auto-enrolled pension schemes would substantially boost women's private pension wealth. We conclude that* ***a Voluntary Earnings-related State Pension Addition*** *(VESPA) – an auto-enrolled option that is fully portable and allows carer credits –* ***would be simpler and would better meet women's need for extra pension saving****.*

Introduction

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 half of births outside of marriage, 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 for those retiring before April 2016, because the full amount of the Basic State Pension (BSP) 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.[1] Additional State Pensions (SERPS and State Second Pension) are on average lower for women than for men. Meanwhile, private pension schemes favour those with continuous full-time employment and high lifetime earnings.

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 is

[1] See below for a discussion of the Single Tier Pension

[2] Pension Commission (2004) *Pensions: Challenges and Choices, the First Report*, London: TSO.

strongly associated with marriage and motherhood.[3] This has been a consistent finding over time, although as maternity outside marriage has increased, motherhood has become the main influence.[4]

Among those aged 60-64, nearly two thirds of women have no private pension wealth.[5] The gender differential in private pension wealth is substantial over age 65 (see Table 1 &2).

Among 65-74 year old median private pension wealth is £164,700 for men and £17,300 for women (just over 10% of the private pension wealth of men).[6]

Table 1 Private pension wealth accumulated by gender and age group:

Among those with private pension wealth

	Men	Women	W % of M
Median pension wealth all ages	£81,300	£49,800	61.3
Among 65-74 year olds	£239,100	£109,900	46

Table 2 Private pension wealth accumulated by gender and age group:

Among the whole population

	Men	Women	W % of M
Median pension wealth all ages	£19,800	£4,300	21.7
Among 65-74 year olds	£164,700	£17,300	10.5

ONS (2019) Wealth and Assets Survey Wave 5[7]

UK state pensions are among the least generous in the developed world.[8] 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 in some areas has slowed or even halted and the effects of austerity policy since 2010 have also hindered progress for women's equality.[9] Among women aged 55-59, total personal income is two-thirds the income of men in the same age bracket.

The gender gap in private pension accumulation remains stark. The most recent data on median current personal pension wealth shows that women had less than a quarter (21.7%) of the median pension wealth of men with women having £4,300 and men £19,800. Even when only those with private pension wealth are considered women's median wealth (£49,800) is 61% of men's (£81,300).[10]

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. Self-employment, zero-hour contracts and other forms of precarious employment have been increasing and these restrict the ability to pay either NI or private pension contributions.[11] Even when incomes are similar, women's pension saving is less than men's, with too many women relying on their partner's pension.[12] While 48% of men contributed to a non-state pension in 2018, only 36% of women did so.[13]

'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.

[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, 469-90; Sefton, T., Evandrou, M. and Falkingham, J. (2011), 'Family ties: Women's work and family histories and their association with incomes in later life in the UK' *Journal of Social Policy*, 40, 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): 883-896.
[4] Ginn and Arber (2002) 'Degrees of freedom: Can graduate women avoid the motherhood gap in pensions?' *Sociological Research On-line*, (https://bit.ly/2QTWCpk)

[5] Jethwa, C. (2019) Understanding the Gender Pensions Gap, London: PPI., (https://bit.ly/2JwDcFx)

[6] ONS (2019) Wealth in Great Britain Wave 5: 2014 to 2016, (https://bit.ly/2NqXrpy)
[7] ONS (2019) Wealth in Great Britain Wave 5: 2014 to 2016, (https://bit.ly/2NqXrpy)
[8] OECD (2015) *Pensions at a Glance*, (https://bit.ly/2Cqg3BX)
[9] WBG and Runnymede Trust (2017), Intersecting Inequalities: the impact of austerity on BME women, (https://bit.ly/2PFrb1N)
[10] ONS (2019) Wealth in Great Britain Wave 5: 2014 to 2016, (https://bit.ly/2NqXrpy)
[11] WBG (2018) Women, employment and earnings (https://bit.ly/2ExUEtl)
[12] Scottish Widows (2016) *Women and Retirement Report 2016,* (https://bit.ly/2j01QAi)
[13] ONS (2019) Wealth in Great Britain Wave 5: 2014 to 2016, (https://bit.ly/2NqXrpy)

These reforms meant that a husband can withdraw cash all at once or can drawdown gradually, spending his pension fund without the knowledge of his wife. The Financial Conduct Authority found that over 1.5 million DC pension pots have been accessed and over half have been withdrawn in full.[14] Almost three quarters of withdrawals have been by men and women aged under 65. In 90% of cases of full withdrawal, the fund was less than £30,000 and in 60% of cases it was less than £10,000.[15]

Pension policy developments and the gender gap

Pension 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.[16] Some of these deleterious impacts have been addressed, but will not benefit those already living on state pensions. The Basic State Pension (BSP) fell relative to average earnings, from around 25% in 1979 to 16% by 2010, due to inadequate annual uprating, while the State Earnings Related Pension was substantially cut. New Labour in 1998 announced its aim to reduce the share of the state in pension provision from 60% to 40%[17] prompting the comment: 'Women's pension disadvantage and risk of personal poverty in later life is unlikely to diminish in the foreseeable future'.[18] However, with the introduction of the State Second Pension (S2P) in 2002 and changes to the Basic Pension following the recommendations of 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 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.[19]

State Pension Age

The gains for women were offset by the Coalition government's acceleration of the 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. The government accepted the recommendation of the Cridland Review to bring forward the rise in SPA to 68 to 2037-9 instead of 2044-6.[20] This will bear hardest on the poorest women, those who have to leave employment before SPA due to caring commitments or disability.[21] The estimated 500,000 women born between October 1953 and April 1955 face a particularly rapid rise in SPA (up to 16 months extra wait for their state pension relative to expectations) with very little time to adjust to the rise in SPA.

Single Tier Pension (STP)

The STP is payable to anyone reaching SPA after 6 April 2016. In effect, it 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 £168.60 per week in 2019/20, slightly above the threshold for means-tested Pension Credit (£167.25 single rate). The new pension 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. The self-employed stand to gain from the change as they were excluded from the Additional State Pension. It brings losses for others, particularly young people, as the transitional arrangements mean

[14] Financial Conduct Authority (FCA) (2018) *Retirement outcomes review. Final report* (https://bit.ly/2m9ggQK)
[15] FCA (2017) *Retirement outcomes review. Interim report* (https://bit.ly/2uco0qZ)
[16] 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.
[17] Department of Social Security (DSS) (1998) *A New Contract for Welfare: Partnership in Pensions,* Cm 4179. London: The Stationery Office.
[18] Department of Work and Pensions (DWP) (2002) *Simplicity, Security and Choice* London: DWP, Chapter 7.
[19] Department of Work and Pensions (DWP) (2007) *The Gender Impact of Pension Reform,* London: DWP.
[20] Department of Work and Pensions (DWP) (2017) *State Pension Age Review*, London: DWP, (https://bit.ly/2ttSZ2d)
[21] Jethwa, C. (2019) Understanding the Gender Pensions Gap, London: PPI., (https://bit.ly/2JwDcFx)

that in the short term these are mitigated.[22] Existing state pension entitlements for spouses, survivors or divorcees will be protected but new entitlements will not accrue in the STP.

Inheritance of Additional State Pensions (ASP) and STP

For individuals reaching SPA from 6 April 2016, they receive a pension that is based on a mix of their entitlements under the pre-2016 ('old') and the post-2016 ('transitional') rules. The rules governing eligibility to inherit ASP from a deceased spouse or civil partner have also changed and become more complex. Yet it is important, especially for women who have been unable to build adequate state pensions of their own, to understand their rights if their husband or civil partner dies.

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 is currently uprated annually by the triple lock (the higher of average earnings, Consumer Price Index or 2.5%) – though any additional amount due to the transitional rules is uprated by the CPI. The Basic State Pension paid to pensioners under the pre-2016 rules is also uprated by the triple lock, but the Additional State Pension remains uprated only by the CPI, which is lower than the RPI. The Cridland Report, however, concluded that uprating by triple lock would be unsustainable and should be reviewed; any retreat from adequate uprating will particularly affect older women.

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 6.3 million active members[23], benefits have been reduced and the pensionable age increased. In the private sector, 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.

Defined Contribution (DC) occupational pensions

Membership of DC schemes, where the contribution is known in advance but not the benefit payable in retirement, has increased in the private sector from 1 million in 2012 to 9.9 million in 2018, largely due to the expansion of auto-enrolment.[24]

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 freedoms' withdraw some or all 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, initially for those aged over 22; the age limit has now been reduced to 18. Members may opt out, but will forfeit the employer contribution and tax relief if they do so. Employee contributions will by April 2019 be 4% of earnings up to the Upper Earnings Limit for National Insurance from employees, 3% from employers and 1% from tax relief. Total charges are up to 0.75% per annum on the fund. 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 AE earnings trigger (£10,000 in

[22] Crawford, R. et al. (2014) *A New Single Tier Pension*, IFS Report No. 82, London: IFS.

[23] ONS (2018) *Occupational Pension Schemes Survey 2018*, available at: https://bit.ly/2WrrEsw

[24] ONS (2018) *Occupational Pension Schemes Survey 2018*, available at: https://bit.ly/2WrrEsw

2018-19)[25], mainly women part-timers, have not been auto-enrolled, so that employers have not been required to contribute; employers have thus had an incentive to suppress wages of the low-paid to avoid contributing. Small pension pots from different jobs risk being lost, especially for those with a number of jobs and a patchy employment history. People earning between the Lower Earnings Limit for NICs and the auto enrolment threshold can opt in. However, 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-hour contracts or working in the 'gig economy'; in particular the status of the latter 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 2019) 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:

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

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.[26]

If an additional voluntary tier of pensions is deemed necessary to allow some wage replacement, a Family Carer Top-up into each carer's auto-enrolled DC pension scheme would help to compensate for the loss of future pension income due to family caring. However, a pension fund is subject to risk, as are annuitisation, transfer to a Self Invested Pension Plan (SIPP) or drawdown under the pension freedoms. For greater security and predictability, we believe, auto-enrolment into a Voluntary Earnings-related State Pension Addition (VESPA) would be better-adapted to women's needs than the private pension schemes.[27] 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. By extending carer credits to an auto-enrolled earnings related pension, it would reflect the social value of women's caring roles and would reduce the pension penalty they would otherwise experience.

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[25] DWP (2017) *Review of the automatic enrolment earnings trigger and qualifying earnings band for 2018/19: supporting analysis* (https://bit.ly/2OwVgUH)

[26] Davis et al. 2016). Davis A, Hill K, Hirsch D and Padley M (2016) *A Minimum income standard for the UKin 2016*. JRF: Loughborough.

[27] Ginn, J., & MacIntyre, K. (2013). UK Pension Reforms: Is Gender Still an Issue? Social Policy and Society, 12(1), 91-103.