

Autumn Budget 2021 Pre-Budget Briefings

Pensions and gender

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Pensions and Gender

A pre-budget briefing from the UK Women's Budget Group – October 2021

Key points:

- *Public expenditure on state pensions in the UK is among the lowest in the OECD; this reflects the fact that the main **state pension for current pensioners is nearly £40 per week less than the government's own poverty threshold** (the means-tested minimum guarantee Pension Credit).*
- *The new Single Tier Pension is just above the single rate of Pension Credit but due to transitional rules, it will be **decades before women generally receive as much state pension as men**.*
- *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-olds median **private pension wealth is £182,400 for men and £25,000 for women** (meaning these women have just one-seventh of the private pension wealth of men). Among the population as a whole **women's median pension wealth is £6,000, barely a quarter of the £22,600 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.*
- *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 there is a sharp divide between the

experience of existing and future pensioners.

For those who retired before April 2016, the full amount of the Basic State Pension (BSP) remains nearly £40 per week below the level of means-tested (single rate) Pension Credit. Older retired women, in particular, are less likely than men to receive the full amount because of legacy rules that treated married women as dependent on their husbands. The BSP may be topped up by Additional State Pensions (SERPS and State Second Pension, both of which were earnings-related) but this is on average lower for women than for men, reflecting women's lower earnings. The result is that existing female pensioners receive on average 16% less state pension than men (£141.69 a week of State Pension under the pre-April-2016 rules, compared to £169.21 for men).¹ However, this understates the degree of inequality, because of the integration of state and private pensions created by 'contracting out', meaning that part of a person's National Insurance (NI) contributions could be diverted away from the State Pension and used instead to build up a replacement private pension. Women were less likely than men to be

contracted out and thus to have these replacement pensions. Moreover, where they do have replacement pensions, the amount is generally much lower for women.

Private pensions, whether built up through contracting out or separately, 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 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 among those aged over age 65 (see Tables 1 and 2). Among 65-74-year-olds median private pension wealth is £182,400 for men and £25,000 for women (just one-seventh 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	£79,200	£47,200	60.0

¹ ONS (2021) DWP benefit statistics February 2021, <https://bit.ly/2Z47UjX>

² Pension Commission (2004) Pensions: challenges and choices, the first report, London, TSO

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?', <https://bit.ly/2Q7WCpk>

⁵ Jethwa, C. (2019) Understanding the gender pensions gap, <https://bit.ly/2JwDcFx>

⁶ ONS (2019) Pension wealth: wealth in Great Britain, Table 6.10, data for 2016-18, <https://bit.ly/3lUp6BH>

Among 65–74-year-olds	£261,000	£131,000	50.2
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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	£22,600	£6,000	26.5
Among 65–74-year-olds	£182,400	£25,000	13.7

ONS (2019) *Wealth and assets survey*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 is gradually falling but remains stark. The most recent data on median current personal pension wealth (Tables 1 and 2) shows that women had little more than a quarter (26.5%) of the median pension wealth of men with

women having £6,000 and men £22,600. Even when only those with private pension wealth are considered women’s median wealth (£47,200) is 60% of men’s (£79,200).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-hours 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. While 45% of men contributed to a non-state pension in 2018, only 39% of women did so.¹²

Too many women plan to rely on their partner’s pension.¹³ The risks for women of doing this have been increased by the ‘pension freedoms’ introduced in 2015, which give holders of defined contribution

⁷ ONS (2019) Pension wealth: wealth in Great Britain, Table 6.10, data for 2016-18, <https://bit.ly/3lUp6BH>

⁸ OECD (2019) *Pensions at a Glance*, <https://bit.ly/3CazhrD>

⁹ WBG and Runnymede Trust (2017), *Intersecting inequalities: the impact of austerity on BME women*, <https://bit.ly/2PFrb1N>

¹⁰ ONS (2019) Pension wealth: wealth in Great Britain, Table 6.10, data for 2016-18, <https://bit.ly/3lUp6BH>

¹¹ WBG (2018) *Women, employment and earnings*, <https://bit.ly/2ExUeTl>

¹² ONS (2019) Pension wealth: wealth in Great Britain, Table 6.10, data for 2016-18, <https://bit.ly/3lUp6BH>

¹³ Scottish Widows (2020) *Women and Retirement Report 2020*, <https://bit.ly/30wgusA>

(DC) pension pots more choice about how to access these both before and on reaching retirement age.

These reforms meant that their male partner may withdraw cash all at once or over a period of time, spending his pension fund without the knowledge of his female partner. Data from the Financial Conduct Authority show that, of the 3.2 million DC pension pots accessed for the first time since the reforms, 55% have been withdrawn in full.¹⁴ Almost three quarters of withdrawals in the first three years were by men and women aged under 65.

State 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.¹⁵ Some of these deleterious impacts have subsequently been addressed, but not always to the benefit of those already living on state pensions.

State pension uprating

The Basic State Pension (BSP) fell relative to average earnings, from around 25% in 1979 to 16% by 2001¹⁶, due to inadequate annual uprating, while the State Earnings Related Pension was substantially cut. This was particularly damaging for women already in retirement since they typically derive a higher proportion of their income than men from the State Pension and

other state benefits – as remains the case today (61% for women and 51% for men).¹⁷

The Basic Pension remained around 16% to 17% of average earnings until the ‘triple lock’ was introduced in 2010, by which the annual increase in the Basic Pension is now usually the higher of price inflation, earnings inflation and 2.5%. The same cash increase feeds through to the annual uprating for Pension Credit. By 2020, the Basic pension as a percentage of average earnings had climbed back to 19%, an improvement but well short of its 1979 level, with an estimated 13% of pensioners still living in poverty.¹⁸ The poverty rate is higher at 20% for single female pensioners.¹⁹

For 2022/23, the triple lock has been suspended due to an artificially high rate of earnings inflation (8%) caused by COVID-19 and the Basic Pension and Pension Credit will increase in line with price inflation (4%).²⁰ Given the low level of the pension relative to earnings, it is disappointing that the triple-lock is not being applied to Pension Credit to help the poorest pensioners continue to recover more of the ground lost since the 1970s.

The triple lock also applies to the standard amount of STP (see below), but not the old Additional Pension or STP ‘protected payments’, which are increased only in line with price inflation.

Care credits

¹⁴ Financial Conduct Authority (FCA) (2020) Retirement income market data 2019/20, <https://bit.ly/3ATxkOM>

¹⁵ Ginn, J. (2003), Gender, pensions and the lifecycle: 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, 29-46.

¹⁶ Thurley, D. and McInnes, R. (2021) State pensions triple lock, <https://bit.ly/3vr6eNB>

¹⁷ Department for Work and Pensions (DWP) (2021) Pensioners’ incomes series: financial year 2019 to 2020, Table 2.8,

<https://bit.ly/3nauL5Q>

¹⁸ Thurley, D. and McInnes, R. (2021) State pensions triple lock, <https://bit.ly/3vr6eNB>

¹⁹ Joseph Rowntree Foundation (2021) Pensioner poverty, <https://bit.ly/3pfTFUp>

²⁰ Thérèse Coffey, Hansard, 7 September 2021, <https://bit.ly/3GbzeHF>

State pension protection for carers was first introduced from 1978. Further improvements, 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) initially to 30 (but now 35), lessened the impact of women's caring roles on their state pensions. A DWP report estimated that newly retiring women in receipt of the full BSP would rise from 30% in 2005 to over 90% by 2025.²¹

State pension age

The gains for women were offset by the Coalition government's acceleration of the raising of the State Pension Age (SPA), reaching 66 in October 2020 – nearly six years earlier than originally planned – and set to reach 67 by 2028. The rise in SPA was particularly rapid for women born in the 1950s, leaving them insufficient time to adjust their 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 2044-6.²² This will bear hardest on the poorest women, those who have to leave employment before SPA due to caring commitments or disability.²³

Single tier pension (STP)

The STP is payable to anyone reaching SPA after 6 April 2016. In effect, it combines the BSP with the average amount of Additional State Pension (State Earnings Related Pension and State Second Pension). For those individuals with 35 qualifying NI contributions or credits (including care credits) it is payable in full

at £179.60 per week in 2021/22, slightly above the guaranteed minimum income from means-tested Pension Credit (£177.10 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 gain from the change as they were excluded from the Additional State Pension. It brings losses for others, particularly young people, because overall the STP is less generous than the combined BSP and Additional Pension under the pre-2016 system.²⁴

More mature people are protected by transitional arrangements. For anyone who had already accumulated an entitlement to State Pension under the pre-2016 rules that was greater than the STP, the excess is a 'protected payment' that they will get in addition to the standard rate of STP. This benefits people who had built up a higher-than-average amount of the Additional State Pension. It tends to favour men, given the earnings-related nature of the pension – for example in early 2021, only 15% of women receiving STP were getting a protected payment compared with 32% of men.²⁵ The transitional rules also benefit people who were contracted out (as discussed above, more men than women) because they are able to keep their replacement private pension while also being able to build up a full amount of STP.²⁶

Marriage, divorce, bereavement and DWP errors

²¹ Department of Work and Pensions (DWP) (2007) The gender impact of pension reform, London, DWP

²² Department of Work and Pensions (DWP) (2017) State Pension Age Review, <https://bit.ly/2ttSZ2d>

²³ Jethwa, C. (2019) Understanding the gender pensions gap, <https://bit.ly/2JwDcFx>

²⁴ Crawford, R. et al (2014) A new single tier pension, IFS Report No. 82, London, IFS

²⁵ DWP (2021) State pension statistics from November 2020 to February 2021, <https://bit.ly/3pikRSj>

²⁶ Author's modelling, unpublished

Women (in more recent times extended to men) who reached State Pension age before 6 April 2016 can benefit from often complex rules derived from the 1948 origins of the system when women were assumed to be dependent on their husbands. Hence a married woman, who would otherwise get a lower State Pension, can claim a pension based on her husband's NI record of around 60% of the amount the husband gets; and divorced and widowed women can use their former husband's NI record if required to enhance their own BSP. In addition, individuals who are widowed can inherit up to half of their deceased partner's Additional State Pension.

For those reaching State Pension age from 6 April 2016 onwards, the STP is based on the principle that each person builds up their own individual entitlement and so these complicated marriage, divorce and bereavement rules no longer apply. An exception is that, under the transitional rules, the survivor can inherit up to half of the deceased partner's protected payment.

It is important for individuals to understand their entitlements, particularly women since they are more likely to outlive their male partners. However, in practice, the legacy pre-2016 system is so complex that people have little choice but to trust that the DWP holds accurate data and makes timely and sound calculations based on it. That trust has been shown to be misplaced on more than one occasion, mainly to the detriment of women.

The most recent DWP errors came to light in 2020 and only after third-party

intervention.²⁷ At least 134,000 people, 90% of whom are thought to be women, who retired under the pre-2016 State Pension system have been underpaid over £1 billion (average £8,900 per person). The underpayments have arisen because: pensioners have not received higher amounts they were due based on their partner's NI record (53,000 cases); widows and widowers have not received the Additional State Pension they should have inherited from their deceased partners (44,000 cases); and a failure to pay a non-contributory, non-means-tested pension to people over 80 getting little or no State Pension (37,000 cases).²⁸ The error is attributed to issues with legacy computer systems. This has echoes of the 2009 DWP exercise to correct errors when 36,000 women had incorrectly not been credited with the State Pension protection, they were due during periods of caring for children.²⁹ While the shift to the simpler STP should reduce the risk of future error, the government needs to be proactive in ensuring that pre-2016 pensions are correctly paid.

Private pension policy developments and the gender gap

Government private pension policy is damagingly 'gender blind', assuming incorrectly that if the same rules apply to everyone, the system is equally fair for women and men. This is clearly nonsense given the reduced opportunity women face in building adequate pensions stemming largely from their caring roles.

Defined Benefit (DB) occupational pensions

These pensions, where the benefit to be paid on retirement is specified in advance,

²⁷ Lane Peacock (2021) Government announces mind-numbing £3 billion repayment to underpaid women on state pensions, <https://bit.ly/3G0AyDD>

²⁸ National Audit Office (2021) Investigation into the underpayment of State Pension, <https://bit.ly/3voHFRE>

²⁹ DWP (2011) Home Responsibilities Protection correction exercise latest outcomes, <https://bit.ly/3pdeOyF>

are in decline, with many funds facing deficits. In the public sector, with about 6.6 million active members,³⁰ benefits have been reduced and the pensionable age increased. In the private sector (0.9 million active 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.

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 10.6 million in 2019, largely due to the expansion of auto-enrolment.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 freedoms' withdraw some or all of their capital from age 55 onwards, 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. Minimum contributions are 8% of earnings (between a lower and upper limit), of which employers must pay at least 3%, leaving employees paying 4% and a 1% from tax relief. Total charges are up to 0.75% per annum of the pension pot.

Drawbacks for women – besides the charges, risks of poor returns and of scams and frauds – are many: those with earnings below the AE earnings trigger (£10,000 in 2020-21),³² 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-hours 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.

³⁰ ONS (2019) Occupational pension schemes survey 2018, <https://bit.ly/3pgITx7>

³¹ ONS (2019) Occupational pension schemes survey 2018, <https://bit.ly/3pgITx7>

³² DWP (2021) Review of the automatic enrolment earnings trigger and qualifying earnings band for 2021/22: supporting analysis, <https://bit.ly/3ATvJ80>

Analysts have warned that the level of contributions required (in total 8% of earnings) 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 tailored, individual advice to be available (as opposed to generic guidance).

Pension tax reliefs

Gendered pension inequality is compounded by the system of pension tax reliefs, on which the state spent £35.4 billion in 2017-18.³³ They are highly regressive flowing disproportionately to higher earners, with the result that 71% of the relief on DC pensions goes to men.³⁴ The freezing of the pension savings lifetime allowance for five years until 2025/6 is a welcome but very minor cut back to the reliefs.

Moreover the 'net-pay' system of giving tax relief on pension contributions is detrimental to low earners, particularly women who are more likely than men to be in low-paid work in the public sector, where the net-pay system is common. Under the net-pay system, non-taxpayers receive no tax relief on their pension contributions; by contrast, under the alternative 'at-source' arrangement, non-taxpayers receive 20% relief.

The money spent on pension tax reliefs would be better used on alternative policies that would be fairer to women.

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 lifecycle.
- 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 2021, this was £298 per week for a pensioner couple after housing costs.³⁵

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.³⁶ 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

³³ HMRC (2019) Cost of pension tax and NICs relief (2012 to 13 to 2017 to 2018), Table 6, <https://bit.ly/3FZtR4Q>

³⁴ Pensions Policy Institute (2020) Tax relief on defined contribution pension contributions, <https://bit.ly/3vorJ1y>

³⁵ Davis A, Hill K, Hirsch D, Padley M and Shepherd, C (2021) A minimum income standard for the UK in 2021, <https://bit.ly/3G07soc>

³⁶ Ginn, J. and MacIntyre, K. (2013) UK pension reforms: is gender still an issue? *Social Policy and Society*, 12, 1, 91-103

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

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