Facing an unequal future

Closing the gender pensions gap

NOW: Pensions

The future is now

Contents

1. Foreword

Gender pay gap reporting has helped expose the ongoing disparity between men and women's pay. However, the gender pensions gap is often overlooked – and means that half of the UK's population face an unequal future in retirement.

Just looking at the trends amongst NOW: Pensions' 1.7 million members shows a significant variance. While 57% of NOW: Pensions' members are male, they 'own' 63% of the total fund in pounds terms. As one of the largest auto enrolment providers, this makes for worrying reading as it highlights that while auto enrolment is bringing both men and women into saving, it isn't doing anything to close the gap.

The problem is that policy and regulation around saving for retirement have not kept pace with changes in the workplace and society. Pension saving is difficult, especially for women. Not only are they typically paid less than men, but they are much more likely to work part-time or take time out of the workforce to care for children or elderly relatives.

All of this affects their ability to save for their own future, but how wide is the gender pensions gap and how should it be addressed?

To better understand the factors that contribute to the growing gulf in saving for retirement, NOW: Pensions commissioned the Pensions Policy Institute to deconstruct the gender pensions gap and consider a range of potential policies that could be introduced to help improve retirement outcomes for women.

Unless action is taken in order to provide an adequate retirement income for both men and women, a sizeable proportion of the population will not just continue to miss out on the pensions that they deserve, but they are unlikely to have the funds they need to plan for a comfortable retirement.

Joanne Segars
Chair of Trustees, NOW: Pensions

2. Summary

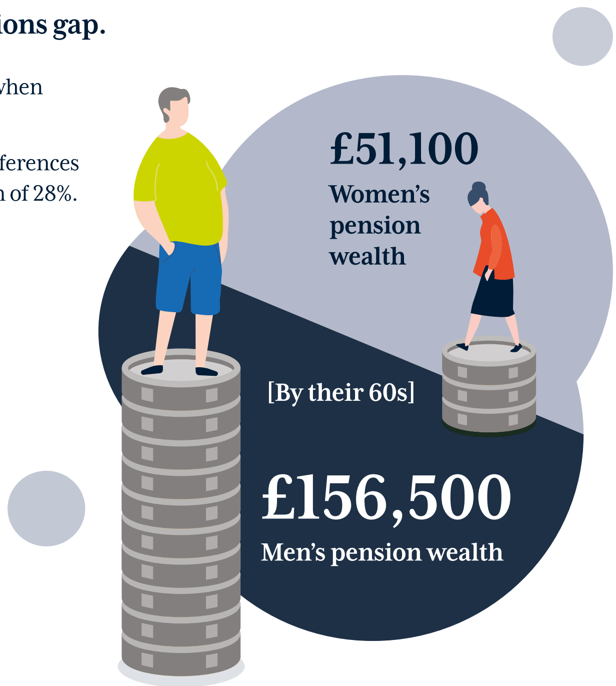
The bad news:

Women taking time away from work, generally to look after family, is the biggest driver in the gender pensions gap.

- The result is a 47% reduction in women's pension wealth when compared to men's pension wealth by their late 50s.
- This has a greater impact on the pensions gap than the differences in salaries, which equates to a reduction of pension wealth of 28%.

At all ages, women have accrued less pension savings than men.

- The median pension wealth for women is around 30% lower than men's, by their late 40s. This gap amounts to £10,000, which is set to grow to around £67,000 for those aged in their late 50s.
- The rate of pension accumulation is lower for women which is linked to existing pension wealth and active membership rates of contribution and accrual.
- By their 60s, the median women's pension wealth is £51,100, whilst men's pension wealth is near £156,500.



Currently, there are 50% more women than men heading towards retirement without any private pension savings at all.

1.2 million

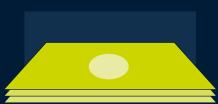
Women in their 50s have no private pension wealth and hence will rely on the State Pension system and their partner to provide a retirement income.

Women generally live on average

3.7 more years

than men meaning their pension pots would need to last longer.

To draw the same pension income throughout their retired lifetime, women would need to have saved around



5% - 7% more

than men by retirement age to allow for living longer.

To draw the

same pension income as men,

women need to accumulate more pension wealth by the time they reach retirement.

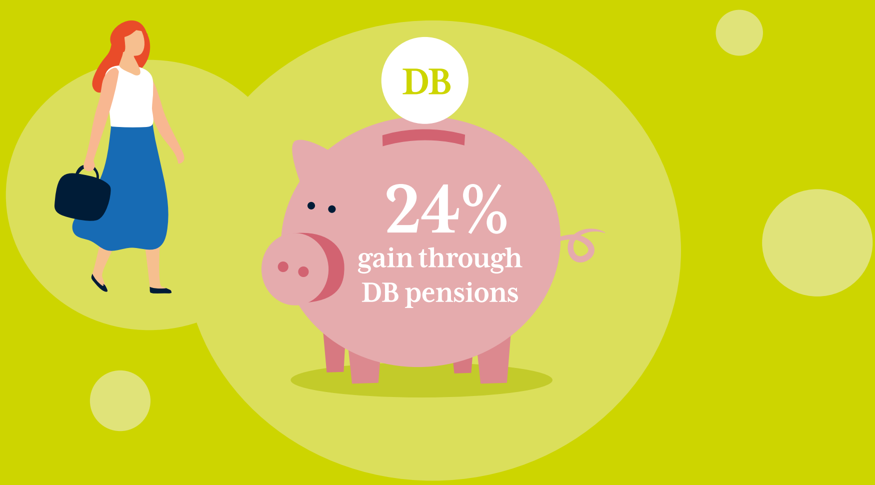
The good news:

Women with pensions are currently more likely than men to have saved in a Defined Benefit (DB) pension arrangement.

- This is due to a larger proportion of females working in public sector organisations, which tend to provide DB pensions
- This results in a 24% gain - almost compensating for the gender pay gap - in pension wealth compared to men's pension wealth by their late 50s.

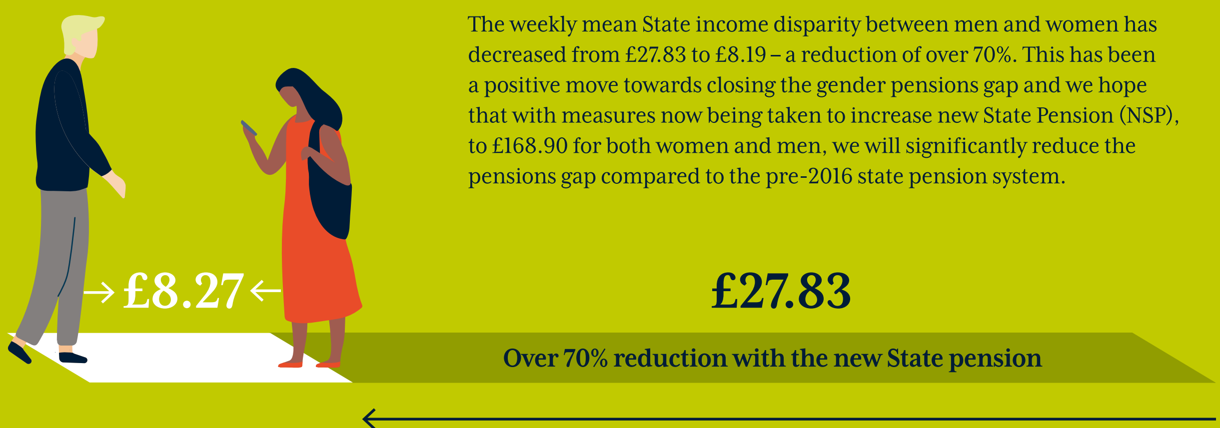
Working women in their 30s are more likely than men to participate in workplace pensions.

- Between the ages of 30 to 40, participation rates are higher for women than men. At later ages, men's participation rates exceed those of women.
- Over a working life, differences in participation rates have a small impact on pension wealth by retirement (approximately 1% gain on pension wealth for women).



The State Pension gap has been cut by over 70% with the new State Pension.

The weekly mean State income disparity between men and women has decreased from £27.83 to £8.19 – a reduction of over 70%. This has been a positive move towards closing the gender pensions gap and we hope that with measures now being taken to increase new State Pension (NSP), to £168.90 for both women and men, we will significantly reduce the pensions gap compared to the pre-2016 state pension system.



3. The scale of the gender pensions gap

The past decade has seen some of the biggest shake-ups in the UK pension tax and regulatory regime, including the introduction of auto enrolment in October 2012; pensions freedom in 2015; and the new State Pension rules in 2016. So what impact have these changes had on the gender pensions gap?

The introduction of **auto enrolment** has served to increase the number of employees who participate in private sector workplace pensions to 87% in 2018, compared to 84% in 2017, according to the Department for Work and Pensions[1]. An even higher proportion (93%) of public sector workers participate in a pension scheme.

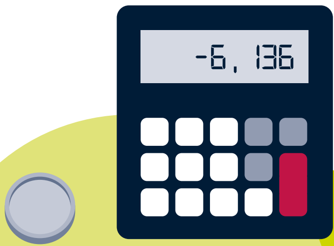
Yet auto enrolment has done little to address inequality so far.

1.2 million women with dependent children are currently looking after their family and are missing out on auto enrolment pension contributions. Less than two-thirds of employed women in any age group from their early 30s work full-time. Reduced hours result in reduced pay and many who are employed earn less than the £10,000 auto enrolment trigger.

The fact that auto enrolment minimum contributions remove the first £6,136 of earnings from the auto enrolment calculation also hits the savings the financially weakest, who are more likely to be women than men.

Approximately 70% of annuities bought under the pension freedom rules are single life annuities, which offer no benefit for a surviving partner. Men and women are therefore increasingly likely to need to rely on their individual pension savings to provide a sustainable post-retirement income.

At an initial drawdown rate of 3.5% of the pension pot, increasing with the Consumer Price Index (CPI), a woman has nearly a third higher chance of exhausting their pension pot within their future lifetime (5.6% vs 4.3%). To account for this a woman would need a pension pot around 5% higher than a man to sustain the same amount of income.



1.2m

Women with dependent children are currently looking after their family and are missing out on auto enrolment pension contributions.

Auto enrolment minimum contributions remove the first £6,136 of earnings – hitting the financially weakest, who are more likely to be women than men.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806513/workplace-pension-participation-and-saving-trends-2008-2018.pdf

The damage to women's pension wealth is done whilst in their 30s.

The damage to women's pension wealth is done whilst in their 30s. This is the general age where women are likely to take time off caring for children/families and therefore, do not accrue as much pension wealth compared to men. The proportion of women's pension wealth to men's pension wealth does increase in their 40s due to those returning to work and hence, once again, contributing to their pension pot.

The state pension gap has been cut by over 70% with the new State Pension. Women's weekly State Pension income has increased from £126.37 to £143.76. The reduction in the pensions gap is partially due to women having paid the 'married woman's stamp' under the pre-2016 state pension system (if they chose to do so before 1978). Fewer women also had enough additional state pension to bring their total state pension income above the new State Pension level.

So, of the three recent policy measures with the biggest impact on the pensions regime, bringing women's State Pension payments further in line has arguably been the most effective. Of course, this is despite claims from campaign group Backto60[2] that millions of women born in the 1950s were not given adequate warning that their retirement age would advance from 60 to 66 or even 67.

More needs to be done to ensure fairness and equality for women, in particular, with acknowledging the greater contribution women make via non-paid work such as childcare, home-making and looking after older relatives.

[2] https://www.backto60.com/

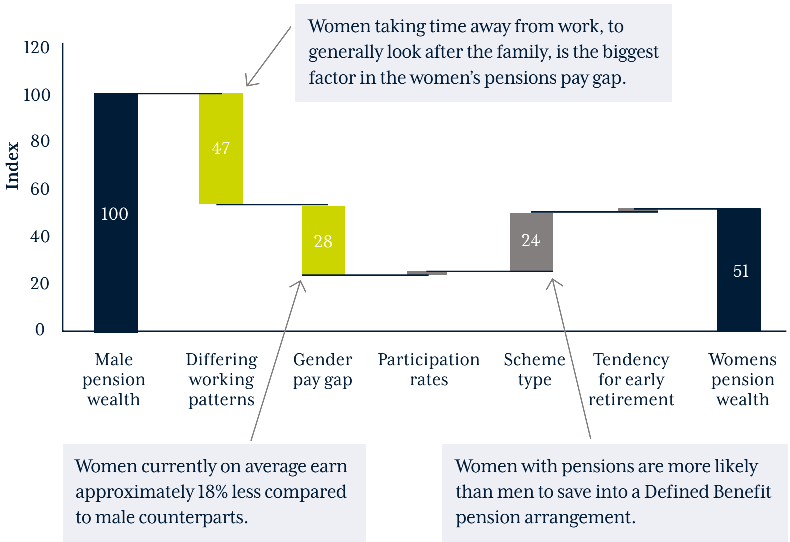
4. Understanding the key drivers

The social structures of our families, workplaces, benefits systems and communities have an interdependent and negative impact on women's abilities to save enough for retirement.

As a result of the gender pay gap, for the vast majority of cases it is women who earn less than men. Therefore, when decisions are made about who should stay at home to look after children it usually makes sense that the lower earner takes a career break. The fact that this is seen as the norm has an impact on women's career prospects, despite their potential - and despite equal opportunities legislation.

Overall, differing working patterns of men and women accounts for the largest part of the gender pension gap. This is because women are more likely to take time off work or reduce their hours to be able to take on caring responsibilities, which will reduce their pension wealth by around 47%. For those women who do not have access to DB pension schemes, this gap increases to 73%.

The different factors contributing to the difference in pension wealth (by their late 50s) and their magnitudes



Source: WAS Waves 5 and PPI modelling

Work patterns

The proportion of women working is now 71.4%, the highest female employment rate since comparable records began in 1971[3]. Yet 41% of women in employment were working part-time in the last quarter of 2018, compared to 13% of men. Not only do women earn less, but they are more likely to work part-time in roles. Such roles tend to pay less but also provide fewer opportunities to progress to more senior roles - which in turn provide higher employer pension contributions as part of more generous remuneration packages.

Analysis of historical labour market participation has shown only one in five women worked mostly full-time between the ages 16 to 54. Women were more likely to be mostly out of the labour market or a family carer (30%) or to have a work history characterised by combinations of paid employment and family care (34%).

Family first

Although women are more likely to be in employment today than previous generations, they still tend to be the main care-givers of children and older relatives. Since the majority of workplaces are not set up with the flexibility needed to take time out or work remotely, many women have no choice but to seek out part-time work they can fit around family obligations.

Research undertaken for NOW: Pensions by Opinium found that the most common reason (34%) for women taking part-time jobs is to allow them to balance work with looking after their children. The proportion who cite this reason is higher among younger females (55% among 18-34-year olds and 46% among 35-54-year olds). Absences from full or part-time employment significantly impact the pension contributions women make and those that employers make on their behalf.

[3] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06838

Divorce disparity

Married couples with young families tend to share responsibilities on the understanding that one works part-time or in a less demanding role in order to focus their time on childcare, while the other is free to continue building their career, seniority and salary/benefits package. While society is changing, and more men are choosing the former, it is still more common for women to put the career brakes on during their 20s and 30s. This means that if the marriage unfortunately fails further down the line, women face the double whammy of missing out on the shared increase in financial rewards achieved by their partner as well as their own career progression.

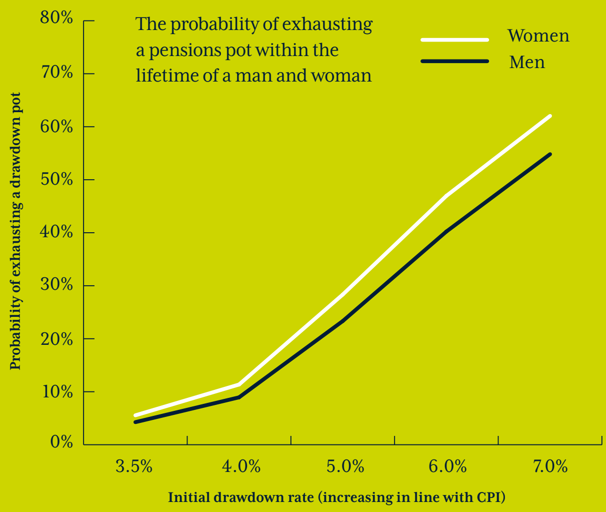
Approximately 10% of men and 14% of women in their early 60's are divorced. The median pension wealth of divorced men and women by retirement is £103,500 and £26,100 respectively. These figures compared to the population indicate a pension wealth reduction of a third for men but a half for women, signifying a greater impact of divorce for women than men.

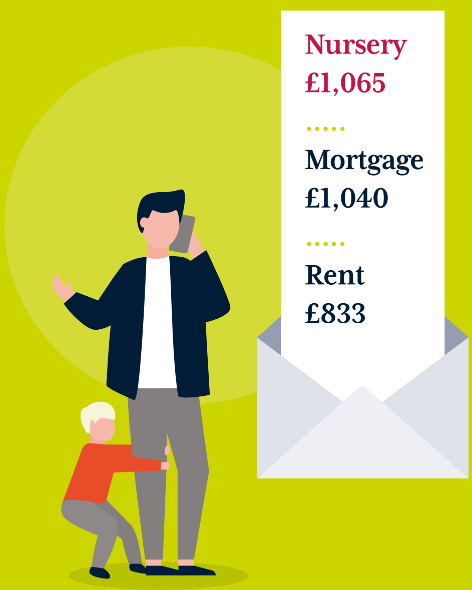
Although pension pots can often be the second most valuable asset when people are going through a divorce, they are often overlooked, with people paying more attention to property assets. In 2018 there were 118,142 divorces but only 4,632 pension attachment orders were made by the family courts[4] .

Longer lives

Although both men and women are living for longer, there is still a gap in life expectancy with women living on average 3.7 years longer than men. At state pension age in 2018 (65 years old for both men and women) women had a life expectancy around 2 years and 2 months longer than men. On average, women need to ensure that they can sustain their retirement income for a greater length of time. This means that for a given rate of drawdown, the chance of exhausting pension funds is higher for women than men.

1.1 The longevity risk gender gap





Cost of childcare

Despite tax changes that help families with childcare costs, prices continue to rise. The Family and Childcare Trust reported in 2018 that childcare prices for children under three had risen above both inflation and wages in the previous year. Costs grew by 7% to £122 for 25 hours per week, equating to £6,300 per year. Analysis of Freedom of Information request data by insurer Royal London shows the high cost of childcare means working parents with toddlers pay more for childcare than their mortgage. A full-time nursery place for a child under two typically costs £1,065 a month, for example, while the average monthly mortgage repayment is £1,040 and the equivalent figure for renters is £833.

As the Family and Childcare Trusts report states: **"The time from the end of paid parental leave to a child turning three and being eligible for free childcare is a particular pressure point, as this group has seen the steepest price rises this year, making it very hard for parents to work."** [5]

[4] https://www.ftadviser.com/pensions/2019/05/24/rise-in-older-divorcees-fuels-disputes-over-pension-pots/
[5] https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Survey%20 2018_Family%20and%20Childcare%20Trust.pdf

5. Potential policy remedies

Pensions savings are generally low for both men and women, especially since we are living longer, our pots need to last many more years than in previous generations. There are four potential policy remedies that could increase the level of pension saving for both men and women, but specifically target the savers with the lowest income, the majority of whom are women.

Alternative policies	Description
Family carer top-up	While on maternity pay: employer contributions remain on pensionable salary before; employee contribution is based upon the National Living Wage (NLW); While out of work and caring: benefit paid as pension contributions based upon automatic enrolment minimums upon NLW, payable alongside National Insurance (NI) credits towards the State Pension; While in part-time work to accommodate caring: a top-up benefit paid to ensure a minimum contribution equal with being out of work and receiving the benefit above
Higher contributions	An increase to the current automatic enrolment minimum contributions from 8% to 12% from 2025 (8% employee contribution, 4% employer contribution)
Contributions from the first pound	Removal of the lower band earnings on automatic enrolment contributions from 2025
Flat rate of tax relief (30%)	An increase to the flat rate of tax relief from 20% to 30%

A family carer top-up would boost the pension wealth of people who take time away from work to care, boosting women's pension outcomes by over 20%. However, these contributions would need to be paid alongside Child Benefit and credit towards State Pension qualifying years at a cost of £1.2 billion - £1.6 billion per year to the government, depending on take-up.

Higher contributions would raise amounts proportionately across the board, ultimately benefiting men more in absolute terms.

Contributions from the first pound would result in an increase in pension wealth at retirement of 140%. Again, men gain a greater absolute impact as they are more likely to be employed as well as more highly paid. However, the benefit to women represents a higher proportion of their projected pension wealth.

Flat rate of tax relief the impact is proportional to the amount of contributions, and so men benefit by a greater absolute amount by being paid more.

6. The five-point plan for fairer pensions

> **The gender pension gap is not women's problem alone, it is society's problem. It is created long before retirement and cannot be remedied by tax changes alone.**

While the pension system itself is gender neutral, the gender gap arises from choices that individuals make during their working years. These choices are driven by social and economic factors, which means different generations face different problems.

For younger generations, we need good policies in place for the active years in order to provide an adequate retirement income for both men and women, as well as reducing the gender pay gap. Implicitly forcing women to take career breaks to raise children is not in the interests of them as individuals. Nor is it in the interest of society, which misses out on the potential economic contribution they could make.

Furthermore, in an ageing society, we will face a lack of labour, and therefore we cannot afford to have child care policy that implicitly nudges women to stay at home and/or work part-time.

Nevertheless, a young family makes the decisions that are rational for them as a unit. With high costs for childcare, there is limited fiscal incentive for both parents to continue working. Given the pay gap between men and women, it is mostly women who choose to stay at home and look after young children.

To reduce the gender pensions gap, the government should therefore reduce the implicit marginal effects that makes it attractive for lower income earners to take a career break. For older generations of women who have already returned to work after having their families, solutions need to be designed as part of the wider system. In detail, we are urging the Government to consider the following measures:

1. Removal of the £10,000 auto enrolment trigger to get more women into auto enrolment

2. Removal of the lower earnings limit so contributions are on every pound of earnings

3. The introduction of a family carer's top up

4. Ensuring that pension funds are always considered in divorce settlements

5. Greater action on the availability and cost of childcare to enable those that want to return to work to do.

Taking each alternative policy strategy in turn, it's clear that they will help address the gap arising for younger generations, rather than close the existing gap for older generations. Questions also remain about how these strategies would be funded.

Unless such actions are taken, a sizeable proportion of the population will not just continue to miss out on the pensions that they deserve, but they are unlikely to have the funds they need to plan for a comfortable retirement - putting more pressure on healthcare and social services.

It's time for change: there can never be true equality in our society if the current iniquitous situation continues to prevail.

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