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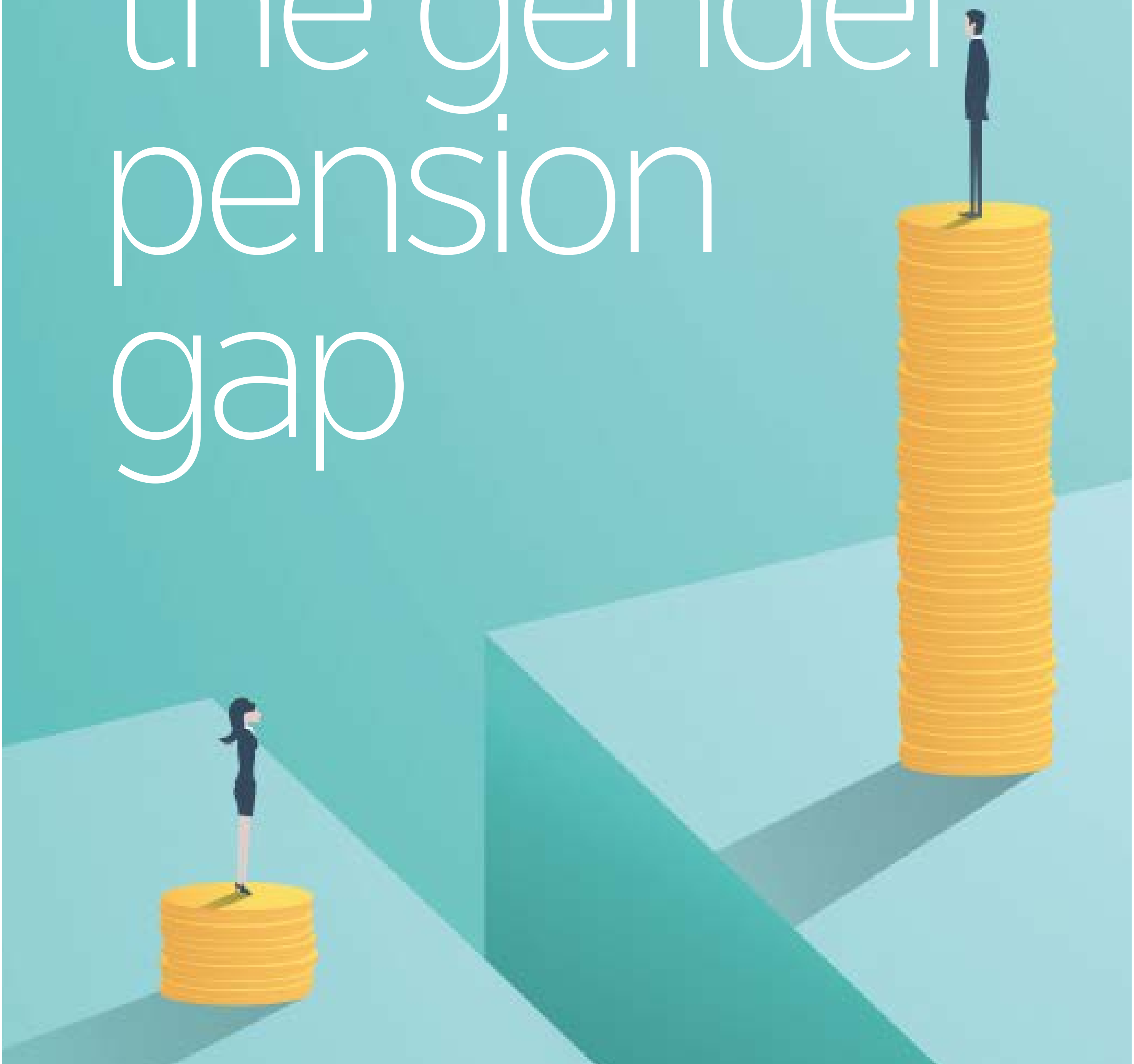
tackling the gender pension gap



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Tackling the Gender Pension Gap

Nearly 50 years after the Equal Pay Act, the issues of equal pay and the gender pay gap are still a long way from being fully resolved.

The introduction of gender pay gap reporting has at least revealed the scale of the problem and this will prompt further action to address it.

Prospect has produced new research that shows that the gender pension gap is even bigger than the gender pay gap.

Unfortunately, awareness of the gender pension gap is much lower and we are therefore much further away from recognising its causes and starting to deal with them.

It is unacceptable that women have to put up with lower pension income and hence less comfortable retirements and greater anxiety about finances.

Unless we start to take action to address this issue now, the problem will persist and affect women retiring for many decades in the future.

This report brings together Prospect's estimate of the size of the gender pension gap as well as other sources of data on its size and causes.

We show that lower pay, lower participation in the workforce and lower membership of occupational pension schemes, results in significantly lower pension income for women.

Far from addressing the gender pension gap, government policy actually exacerbates these problems in a number of different ways.

At Prospect's 2018 biennial national conference, delegates backed a national executive committee motion requiring Prospect to raise awareness of the gender pension gap among members and to produce guidance to help branches tackle it.

This report follows on from that motion, it:

- includes Prospect's estimate of the gender pension gap
- examines other data sources on the gender pension gap
- explains how the gender pension gap has arisen
- covers the policy changes needed to tackle the problem, and
- has practical advice for Prospect branches on steps they can take to deal with it.

Prospect’s estimate of the gender pension gap

The lack of an official estimate of the gender pension gap is a significant barrier to promoting awareness of this issue and creating the conditions necessary to resolve it.

In the absence of an official estimate from the UK government, we have produced our own estimate of the gender pension gap using official data sources.

Our estimate is not definitive, nor is it an adequate alternative to an official government analysis.

However it is, in our view, the most definitive estimate of the level of the gender pension gap in the UK currently available.

Our estimate is based on an analysis of the dataset of responses to the Family Resources Survey (FRS).

The FRS is a continuous household survey that collects information on a representative sample of private households in the UK.

For the latest year that survey responses are available (2016-17) we have estimated the gender pension gap to be 39.5%.

The table below gives estimates of the gender pension gap for the three most recent years that data is available.

	2014-15	2015-16	2016-17
Gender pension gap	41.6%	40.7%	39.5%

We have defined the gender pension gap as the percentage difference in average gross pension income for women receiving the state pension compared to the average gross pension income for men in receipt of state pension.

It is possible to define the gender pension gap in a number of different ways. The above definition can be criticised for conflating a gender effect and an age effect (because there will be more older women in the sample and pension income tends to decline with age). However there will be issues with the estimate whatever the definition used but the overall picture would still be very similar to that shown above.

Our estimate is also subject to the limitations of the FRS, including:

- sampling error
- under reporting of income from some sources
- coverage excludes individuals in nursing or retirement homes
- estimates weighted to population totals to correct for differential response rates.

Other data about the size of the gender pension gap

There is no official estimate of the gender pension gap but there are other data sources to compare to the estimate we have produced.

European Commission data

The European Commission publishes comparative pension statistics for all member states. Its Pension Adequacy Report 2018 has a section on gender differences and pension entitlement. Based on analysis of the EU Statistics on Income and Living Conditions (SILC) data, it estimates that the gender gap in pension income for pensioners aged 65 to 79 was 34.8% in 2016 (the latest date figures were available for). For 2016 EU SILC, UK data was collected from the FRS.

	2016
Gender pension gap, pensioners aged 65 to 79	34.8%

- Source: European Commission – Pension Adequacy Report 2018.
- Figures are for the UK for 2016.

The European Commission's estimate of the gender pension gap is based on the same dataset as Prospect's so it is not surprising that the results are similar. Prospect's estimate is for all people receiving state pension and not just those aged 65 to 79.

HMRC data on taxpayers

Every year HMRC publishes income statistics based on its Survey of Personal Incomes. This survey is based on information held by HMRC on people who could be liable to UK income tax.

	2013-14	2014-15	2015-16
Gender pension gap, taxable pension income	27.3%	27.0%	24.5%

- Source: Table 3.12 of HMRC's Personal Income Statistics.
- Gender pension gap calculated using data on pension income only.
- Figures quoted are for UK.

HMRC's data is for taxpayers only. It includes many more men over pension age in receipt of pension income than women; this suggests that women are disproportionately excluded from this data source and this could result in the gender pension gap being underestimated.

Department for Work and Pensions data on pensioner incomes

DWP publishes the pensioners' incomes series statistics. These are also based on the Family Resources Survey.

This series shows pensioner income by household with the only data by gender for single pensioner households. Consequently this is not an accurate estimate of the size of the gender pension gap.

	2014-15	2015-16	2016-17
Gender pension gap, single pensioner households	8.1%	17.6%	21.2%

- Source: Table 2.8 from DWP's pensioner income series.
- Figures based on data on total gross income (including income other than pensions).
- Figures quoted are for UK.

Office for National Statistics data on pension wealth

ONS conducts a biennial longitudinal survey of wealth and assets called the Wealth and Assets Survey. This measures households' assets, savings and debts (including private pension wealth) and is based on interviews with a large sample of households.

	41-46	47-52	53-58	59-64	65+
Gender pension gap, private pension wealth	25.4%	23.8%	36.7%	44.0%	58.0%

- Source: ONS data on private pension wealth.
- Figures are for Great Britain from July 2014 to June 2016.

This is a survey of pension wealth and not pension income and only includes private pensions. The results are useful in confirming that the gender gap in pension income translates into a gap in pension wealth and in showing the gender gap in pension wealth by age group.

Private sector data

Many private sector companies publish data about differences in pension provision between men and women. These are not national statistics but add to the overall picture about the gender pension gap and complement official government statistics.

The Prudential has tracked the finances of people planning to retire in the year ahead for a number of years. This research is based on an independent online survey of nearly 10,000 UK adults planning to retire in each year.

	2016	2017	2018
Expected gender pension gap, for people retiring in each year	26.8%	30.9%	22.7%

The Prudential's estimates of the gender pension gap are lower than those Prospect has derived based on responses to the FRS. However, the Prudential's estimate is for people retiring in each year and we would expect the gap for the most recent retirees to be lower than the overall gender pension gap.

Recent research by Aegon, a major pension provider, shows that average pension fund varies significantly by gender and that the difference grows with age:

	30	40	50
Gender pension gap, size of pension fund	24.1%	31.8%	50.2%

The data from Aegon is consistent with the ONS data on pension wealth.

Conclusion

There is no official estimate of the gender pension gap but a number of different data sources support the estimate Prospect has produced.

These different data sources all show that women build up fewer pension assets and have lower incomes in retirement.

While each data source will have issues that need to be taken into account, the overall picture leaves no doubt about the existence of the gender pension gap.

To understand what policies are most appropriate for dealing with the problem, it is important to know how it arose in the first place.

Causes of the gender pension gap

There are many reasons why women build up lower pension pots than men, and have less income in retirement. Some are obvious but others are less so.

Women tend to take more breaks from the workforce and they tend to work part-time more than men. There are a number of reasons for this but taking on a greater share of caring responsibilities for children and others is the major factor.

The gender pay gap for full-time employees will also automatically feed through into lower pension pots because occupational schemes provide pensions that are proportionate to income.

Structural issues relating to the state pension and the occupational pension framework also affect women differently to men and exacerbate the gender pension gap.

State pension gap

Recent analysis of DWP data by the consumer group 'Which?' showed that the average state pension received by a man is £153.86 a week compared to £125.98 a week for an average woman.

It is shocking that the state pension system actually aggravates the gender pension gap rather than incorporating features to alleviate it.

However, the state pension system has changed significantly over the years and the disparity reported by Which? has partly arisen due to old features of the system that no longer exist.

In the past, many women only qualified for state pension due to their husband's National Insurance record. Over time, governments started to recognise caring responsibilities in the state pension system.

This, and a significant reduction in the number of qualifying years required for a full Basic State Pension, gradually began to address the average state pension award for women reaching State Pension Age being lower than the average for a man.

There was a radical reform of the state pension system for people reaching State Pension Age after April 2016. The Basic State Pension and State Second Pension were combined into a new, single-tier state pension at a full rate of £164.35 per week (2018/19).

An assessment by the DWP in January 2016 stated that the new state pension would bring forward, by over a decade, the point at which women get equivalent state pension outcomes to men.

Median female gross state pension income as a proportion of median male gross state pension income, for those currently reaching State Pension Age is about 80%. This proportion is projected to climb to 100% by about 2041.

While it is welcome that the most recent state pension reforms bring forward the date that the gender gap in state pensions is eliminated for people reaching State Pension Age in 2041, the overall gap in state pension income by gender will persist for many decades after that.

There is also a more fundamental question of whether the state pension system should do more to recognise caring responsibilities.

Although the state pension system recognises caring responsibilities through credits that protect entitlement to state pension (up to the full rate of the new state pension), it should go further. It should make up for gaps in occupational pension income caused by caring responsibilities through an additional payment on top of the full rate of the new state pension.

Labour market activity

Occupational pension schemes are a major source of income in retirement. Membership of these schemes is obviously linked to participation in the labour force.

Assuming a disproportionate share of the responsibility for caring and other family-related duties outside work has a significant impact on the participation of women in the workforce and consequently reduces their pension income. This is particularly the case whenever these duties are unpaid.

The latest available labour market statistics from ONS show that 1.8 million women were economically inactive due to looking after family or home in January to March 2018 compared to 0.2 million men.

The data also show that 5.4 million female employees and 1.7 million male employees worked part-time in that same period.

While there are many reasons for employees to choose to work part-time, caring and other family-related duties cause at least some women to work part-time and consequently build up less occupational pension than otherwise.

Gender pay gap

Occupational pension schemes provide salary-related benefits. Any differences in pay between two groups will inevitably feed through into differences in pension benefits as well.

The Annual Survey of Hours and Earnings (ASHE) from the ONS is the definitive source of earnings data for the overall economy.

The latest ASHE data shows that the overall gender pay gap in 2017 was 18.4%. A significant part of the gender pay gap is related to the higher proportion of female employees in part-time work.

For full-time employees, the difference in hourly pay for median earnings was 9.1%.

Barriers to occupational pension scheme membership

The UK has seen an explosion in membership of occupational pension schemes in recent years due to automatic enrolment.

Automatic enrolment is a form of soft compulsion where many employees are automatically enrolled into an occupational pension scheme but have the option to opt out.

Data from the Occupational Pension Scheme Survey shows that total occupational pension scheme membership increased from 8.3 million in 2010 to 13.4 million in 2016.

The increase was mainly driven by increases in membership of private sector schemes which more than doubled over that period. Further increases are expected as automatic enrolment is extended.

However not all employees are automatically enrolled into occupational pension schemes.

The legislation allows for an earnings trigger of £10,000 a year and there is no requirement for employers to automatically enrol anyone earning less than this.

Research from the Pension Policy Institute showed that 32% of female employees did not qualify for automatic enrolment compared to 16% of men.

Disproportionately excluding women from occupational pension scheme membership clearly exacerbates the gender pension gap problem.

Conclusion

The gender pension gap arises largely because of structural features of the labour market, the pension system and the unequal distribution of caring and other family-related responsibilities.

These issues must be addressed so that women can have an equal chance of a comfortable retirement.

Action by branches

Trade unions must play a key role in tackling the gender pension gap and this section sets out suggested actions for Prospect branches to take.

Any actions that address the gender pay gap will also indirectly address the gender pension gap, but the focus here is on actions that specifically relate to pensions.

1. **Get information from the employer's own gender pension gap**

The first step to tackling an issue is to get an idea of the scale of the problem. Employers with more than 250 employees must report on their gender pay gap. It would be very useful to get information on the gender pension gap for people retiring from the organisation in recent years.

It is equally important to break down the overall gender pension gap into its main components (eg how much was caused by differences in pay, how much by differences in length of service, how much of a role did caring responsibilities play etc.).

Prospect officers can help branches to specify the information they would like employers to provide. Once the information on the employer's gender pension gap is available, it should be discussed in the branch and with the employer.

This will hopefully be the start of a dialogue that results in concrete steps to reduce the gender pension gap over time.

2. **Maximise pension scheme membership**

The policy of automatic enrolment disproportionately excludes women from pension scheme membership because it only applies to people earning over a minimum level. Where employers only meet the minimum requirements of automatic enrolment, branches can counteract the impact of this earnings trigger by making members aware that they can choose to opt in to an automatic enrolment pension scheme. Data from the DWP's Automatic Enrolment Review 2017 suggests that opt-in rates range from just 3 to 7 per cent so there is a lot of scope for increasing participation. Prospect officers can support branches in producing relevant communications about this for members.

3. **Provide information to people taking breaks from employment because of caring responsibilities**

Branches should highlight to members embarking on maternity, paternity or parental leave the potential impact on pension entitlement. This should cover the impact of taking paid leave, unpaid leave and returning to work part-time. It should emphasise the importance of ensuring that any National Insurance credits are allocated to a partner whose earnings are too low to count as a qualifying year.

Prospect will develop materials on this for branches so that couples can discuss the impact of caring responsibilities on pension contributions and how they can share the impact of reduced contributions.

4. **Negotiate for partners to be able to make contributions to occupational scheme on behalf of members on parental leave**

Greater understanding of the impact of caring responsibilities on pension income should mean that more families will realise the importance of maintaining a more equal share of pension contributions.

The person taking on the primary caring responsibilities should not disproportionately bear the impact of reduced contributions.

One way to balance pension entitlement more fairly is to allow a partner who continues to work full-time to contribute to the other partner's occupational pension scheme.

Branches should discuss with employers whether that is technically feasible within the pension schemes they offer.

5. Negotiate additional pension contributions for employees on unpaid parental leave

Many employers see the advantage of family friendly policies and go beyond the statutory minimum requirements for maternity / paternity pay and leave.

Branches may want to discuss including additional employer pension contributions for employees on unpaid maternity, paternity or parental leave in their bargaining agenda.

Even nominal additional amounts would keep employees with caring responsibilities engaged with pension accumulation and help tackle the gender pension gap.

6. Find out whether your employer's occupational pension schemes operate on a net pay basis and seek redress for low earners losing out on tax benefits

Branches should find out how the employer's scheme operates tax relief. If it is on a net pay basis, they should consider asking the employer or the pension provider to make good the tax benefits lost by lower earners. This issue disproportionately affects women.

Action by government

This section proposes a number of policies that government could pursue to deal with the gender pension gap.

Any action to deal with the gender pay gap is also likely to narrow the gender pension gap too but the focus here is on policies related to pensions specifically.

1. Statutory requirement for DWP to report annually on the gender pension gap

There is no official estimate of the gender pension gap. Prospect's estimate is not an adequate alternative to a detailed analysis by government.

Parliament should receive an annual report from the Department for Work and Pensions on the size of the gender pension gap and its main causes.

This will illustrate the scale of the problem and help build a consensus for action. There will be no significant progress until this issue receives the attention it deserves.

2. Positive recognition of caring responsibilities in the state pension system

Government would argue that the state pension system recognises caring responsibilities through credits (though see point 5 below).

If someone is looking after a child under 12 and is not working, then credits ensure there is no gap in their National Insurance record and those years count toward state pension entitlement.

This is a form of negative protection, it simply ensures that people with childcare responsibilities can build up as much state pension as others.

There is a case for positive recognition of childcare responsibilities in the state pension system to help offset the impact childcare responsibilities have on occupational pension entitlement.

This would allow people with childcare responsibilities to build up an additional rate of pension on top of the single-tier state pension for every year they are not working. There is a precedent for this.

Under the State Second Pension, people with childcare responsibilities were given State Second Pension credits that built up additional pension on top of the Basic State Pension at a rate equivalent to someone working and earning at the Lower Earnings Threshold (around £16,000 a year in today's prices).

3. A new pension commission

A new Commission should be set up to consider the level of income required for a decent standard of living in retirement and to make recommendations about the minimum level of contributions required for low and median earners to achieve this.

This would operate on a non-partisan basis like the Low Pay Commission. Whereas the Low Pay Commission provides advice about the wage necessary to maintain a minimum quality of life while working, the proposed Commission would advise about the level of pension contributions necessary to maintain a minimum quality of life in retirement.

Like the Low Pay Commission, it would conduct research, engage stakeholders, and hopefully gain a reputation for expertise and impartiality leading to its recommendations gaining widespread acceptance.

This would help build a broad consensus for increasing statutory minimum levels of pension contributions under automatic enrolment.

It could also take data on pension accrued by gender into account and could make recommendations about policy changes necessary to ensure women in particular are able to enjoy comfortable retirements from reasonable ages.

4. Abolish the automatic enrolment earnings trigger

The earnings trigger indirectly discriminates against women by disproportionately excluding them from access to occupational pension schemes.

It is scandalous that this discrimination is embedded into the structure of the occupational pension system.

It was a great disappointment that the government did not take the opportunity to abolish the earnings trigger in the recent automatic enrolment review despite the report acknowledging that lowering the earnings trigger to align with the LEL would bring in an additional 1.5 million savers in 2018/19 of which 73 per cent would be women.

Previous arguments that the earnings trigger is needed in order to tackle large numbers of trivial pots being built up will no longer apply once contributions start to be paid from the first pound.

5. Credits for people who opt out of receiving child benefit

Child benefit has effectively been withdrawn for high earners. Households affected by the change can either opt out of receiving child benefit or continue to receive it and pay a tax charge through self-assessment.

The approach taken can impact on whether state pension credits are granted or not and hence could result in people potentially missing out on state pension entitlement. Credits should be granted to people who have opted out of receiving child benefit so that they do not lose out on the protection they are entitled to. In the interim government should do more to highlight the impact of this issue.

6. Tax relief for low earners in net pay pension schemes

People who earn less than the personal allowance for income tax (£11,850 in 2018/19), and who are members of occupational pension schemes that operate on a net pay basis, are not able to claim any tax benefit.

This unfair anomaly disproportionately affects women. Government has known about this issue for many years and failed to resolve it. There should be no more excuses for this situation persisting any longer; government must prioritise resolving it. The Low Incomes Tax Reform Group has provided a methodology for fixing this problem in a written pre Budget 2018 submission to Treasury.