Protecting pension savers – five years on from the pension freedoms: Saving for later life

Submission by Prospect to the Work & Pensions Select Committee

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Introduction

1. Prospect is an independent trade union representing over 150,000 professional, managerial, technical, and scientific staff in the private and public sectors. We welcome the committee's focus on improving outcomes for pension savers.

2. This third and final part of the Committee's inquiry, into what more needs to be done to help people plan and save for retirement, covers a number of important aspects of pension policy.

3. Our submission focuses on three topics: Automatic enrolment reform (question 2), support for self-employed people saving for retirement (question 7) and the gender pension gap (question 9).

4. Since 2018 Prospect has published original research highlighting the size of the gender pension gap and campaigned for reforms to tackle the issue. Prospect would welcome the opportunity to discuss any of the issues raised by our research or otherwise engage with the Committee and its staff about our work on the gender pension gap and how it can be reduced.

2) Are changes needed to auto-enrolment to provide an adequate level of pension savings for retirement?

Executive Summary

Auto-enrolment has succeeded in reversing the decline in pension participation and has established saving for retirement as a norm for employees. However, there remains a looming crisis of pensioner poverty with future generations not saving adequately for retirement.

Prospect believes that changes are needed to ensure that the minimum level of pension savings can provide an adequate retirement income alongside the state pension.

We've identified five reforms we believe need to be included in the Government's expected reform of automatic enrolment in the mid-2020s:

- Reduce the qualifying age for automatic enrolment from 22 to 18
- Lower the starting threshold for qualifying earnings
- Reduce the £10,000 earnings trigger to the lower earnings limit
- Reform the postponement period for applying automatic enrolment
- Phase in increased minimum employee and employer contribution on a matched basis

Automatic enrolment review

5. The "Automatic Enrolment Review: Maintaining the momentum" committed the government to building upon the success of auto-enrolment by announcing its intention to lower the age criteria for auto enrolment from 22 to 18 and to change the framework for automatic enrolment so that pension contributions are calculated from the first pound earned, rather than from a lower earnings limit.

6. To achieve adequate incomes in retirement the government needs to encourage greater saving for retirement. Reducing the qualifying age helps to achieve this aim by extending the number of years future generations will save for retirement.

7. Think tank Onward[1], have urged the Government to press ahead with this reform by phasing in the reform over 4 years. Prospect supports this proposal and believes the committee should urge the government to introduce legislation urgently.

8. In January 2022 the Pension Minister, Guy Opperman informed a Westminster Hall debate that legislating for these changes is still a matter of ongoing debate within Government. However, there was an indication that these measures could be included within a 2023 Queens speech[2].

9. These measures alone are not sufficient to ensure that future generations are saving adequately for retirement. To achieve this, we are in favour of reform of the postponement period and phasing in increases to employer and total contributions required for automatic enrolment.

[1] https://www.ukonward.com/wp-content/uploads/2022/01/Levelling-Up-Pensions.pdf

[2] https://www.parallelparliament.co.uk/debate/2022-01-26/commons/westminster-hall/automatic-pension-enrolment

Postponement Period

10. Currently automatic enrolment provisions allow employers to postpone automatic enrolment and to delay re-enrolment for up to three months. In the upcoming review Prospect will be pressing for these rules to be amended so that the postponement period is reduced to one month or abolished altogether. This reform will benefit those in the gig economy who are categorised as a 'worker' under the 2008 Pensions Act.

11. Prospect's represents many freelance workers in broadcasting, entertainment, heritage and IT sectors. Many of these workers are on short term contracts with insecure employment conditions. The current legal framework is detrimental to these types of workers. Whilst they can opt-in from the first day of their contract this is burdensome for those with multiple employment engagements in a year.

12. We've heard from our members concerns that opting-in may affect their future chances of getting further work from the engager.

13. The benefit of amending the enrolment provisions is best illustrated by a practical example. An Archaeologist earning £20,500 per annum would accumulate pension savings of £856.20 if the engager applied the three-month deferral period. If the same worker was auto enrolled from the first day of their employment they would accrue £1,141.60 pension savings, a difference of £285.40.

14. The actual experience of freelance workers is that they will have more than one engagement in a year, which compounds the problem. If this same Archaeologist had three engagers over a two-year period with a three-month deferral applied in each case the pension accrual would be £1,427 instead of £2,283.20 if they were auto-enrolled on day one, a difference of £856.20, which averages out as £428.10 per year.

15. It is already recognised that the minimum levels of pension savings are inadequate to provide a good standard of living in retirement. The current rules are barrier to maximising the savings potential of freelance workers. Amending the rules on the Postponement Period would encourage increased saving by this vulnerable group of workers.

Phase in increases to total and employer contributions on a matching basis between employees and employers.

16. A successful element of automatic enrolment has been the phased introduction of a minimum required level of contributions by employees and employers. This has been achieved with a very low level of opt-outs. The minimum contribution rates have established a savings habit amongst a broad section of the population. But there is risk that pension savers will have an expectation that the minimum levels will provide a reasonable standard of living in retirement. The government must now build upon this success by legislating for further increases to minimum contributions.

17. Tables 1 and 2 shows the distribution of employees in the private sector by employer contribution rate bands in 2005 and 2018. This highlights the increase in the number of people saving for retirement as a result of automatic enrolment. While the increase in the number of savers is to be welcomed a majority of savers are at the lowest rates of employer contribution into their pension, this is unlikely to be sufficient to secure an adequate retirement income.

Table 1 - 2005 ONS – All Private sector – Employer contribution rates[3]

Employer contributions	0-4%	4-8%	8-10%	10%-12%	12%-15%	15%+

3 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/datasets/annualsurveyofhoursandearningspensiontablesemployercontributionbandsbyindustryandbypensiontypep10

Defined Contribution	285,000	466,000	130,000	118,000	75,000	168,000
Group Personal Pension	388,000	482,000	89,000	66,000	42,000	68,000
Stakeholder	308,000	183,000	29,000	16,000	10,000	20,000
Total	**981,000**	**1,131,000**	**248,000**	**200,000**	**127,000**	**256,000**

Table 2 - 2018 ONS – All Private sector – Employer contribution rates

Employer contributions	0-4%	4-8%	8-10%	10%-12%	12%-15%	15%+
Defined Contribution	4,015,000	914,000	296,000	225,000	186,000	180,000
Group Personal Pension	1,991,000	1,048,000	209,000	144,000	81,000	81,000
Stakeholder	569,000	236,000	54,000	34,000	19,000	22,000
Total	**6,575,000**	**2,198,000**	**559,000**	**403,000**	**286,000**	**283,000**

18. The Pension Policy Institute has calculated the total pension contributions required to achieve a replacement rate of earnings before retirement for different income groups, as shown in Table 3.[4] This research shows that those with the highest earnings require a 15% contribution rate, the lowest proportion of total contributions by income group, whilst an average worker would require 20% and those on the lowest earnings would need a total contribution rate of 24%. This shows that the current statutory minimum contribution rates are not sufficient to provide a decent retirement income for the lowest paid workers.

Table 3 – Pension contributions required to achieve a replacement rate

Replacement rate threshold	**Pre-retirement gross earnings (2021)**	**Total contribution rate**
80%	Under £14,100	24%
70%	£14,100 - £26,000	21%
67%	£26,000 - £37,199	20%
60%	£37,200 - £59,599	18%
50%	£59,600 or more	15%

19. An important principle of auto enrolment is the shared responsibility for building up pension savings by both employers and employees. However as PPI's research shows, there is too big a gap between statutory contribution rates and the savings

[4] https://www.pensionspolicyinstitute.org.uk/media/3927/20210609-adequate-retirement-income-final.pdf

that workers will need for retirement. A voluntary approach, which relies on progressive increases by employers and employees, will not reduce this gap.

20. The Pensions and Lifetime Savings Association (PLSA) has proposed a phased increase of the minimum required total contribution rate rising from 8% to 12% of qualifying earnings by 2030, with employer contributions increasing from 3% to 6%. This is a pragmatic proposal that will reduce the savings gap while maintaining a shared commitment of contributions by both employers and employees. Prospect urges the committee to support a phased increase in the minimum contribution rates for both employers and employees.

Pension Commission

21. The Pension Commission from 2002 to 2006 provided a comprehensive analysis of the UK pensions system and how the system can be positively shaped for the future. The findings and recommendations were key to the developmental of automatic enrolment.

22. In a Westminster Hall debate in January 2022, Conservative MP Gareth Davies proposed the establishment for a new Pension Commission to be established in 2024 to consider the future of UK Pensions policy[5].

23. Prospect supports the establishment of a new Pension Commission to help to build a consensus on measures such as those we've discussed above to achieve a UK pension system that delivers adequate incomes in retirement.

[5] https://www.parallelparliament.co.uk/debate/2022-01-26/commons/westminster-hall/automatic-pension-enrolment

7) What should the Government be doing to support self-employed people to save for retirement?

Executive Summary

Automatic enrolment has reversed declining participation in pension schemes by employees, however there has been a trend in the opposite direction for the self-employed.

The Institute for Fiscal Studies research on retirement saving by the self-employed found that in *"1998, 48% of the self-employed contributed to a private pension, and by 2018 this had declined to just 16%"*[6].

The Department for Work and Pensions own statistics show that only 16% of the self-employed are actively saving into a workplace or personal pension, compared to 88% of the working population eligible for auto-enrolment.[7]

Nest Insight are undertaking important research into solutions that encourage pension participation by the self-employed. Prospect believes that the Department for Work and Pensions must adopt a bolder and more radical approach that goes beyond simply urging the self-employed to save for retirement.

We urge the committee to endorse the research undertaken by Nest Insight and to press for the adoption of these schemes if the trials are successful.

Challenges for the self-employed

24. The success of auto enrolment for employees has not been matched by a similar take up of pension saving by the self-employed. As research by the Institute for Fiscal Studies shows just 16% are contributing into a pension scheme and overall the proportion of individuals saving into either a pension, savings account, ISA or shares has been declining more rapidly for the self-employed than for employees over the past 20 years.[8] IFS were unable to explain the reason for the decline, but there are some clear factors that may be helping to shape the different saving habits of the self-employed.

25. Employees have greater security of employment, a regular and reliable stream of income, and tax and pension arrangements that are managed by their employer. Self-employed earnings are more volatile and low income earners may be unable to save during periods of engagement, the self-employed are responsible for their own tax affairs and would have to make their own arrangements to join a pension scheme.

26. As a result of these differences IFS are cautious about proposing policy initiatives which are applied to the whole self-employed population without having a better understanding of the factors which might be influencing behaviours.

27. Although auto enrolment has been a big success for employees, the differences between the employment relationships explain why it may not have the same uptake amongst the self-employed. The three factors that have driven auto enrolment for employees have been:

- The power of defaults / Inertia
- Requirement for employer contributions
- The tax benefits of saving for retirement

[6] https://ifs.org.uk/publications/15103
[7] https://www.nestinsight.org.uk/self-employed-flexible-savings-pilots/
[8] https://ifs.org.uk/publications/15103

28. Nest Insight research believes that *"inertia – people's tendency to keep doing what they're already doing – is a strong barrier to participation*"[9] for the self-employed. An employee is signed up to a pension scheme through auto enrolment by their employer. However, for a self-employed person inertia drives in the opposite direction, joining a pension scheme will require a positive choice rather than passive inaction. This choice may be shaped by other behaviours. As a note to the Parliamentary Office of Science and Technology concludes, people may be biased towards short term rewards at the expense of longer term benefits.[10] The bias towards immediate gratification may discourage the self-employed from saving for retirement.

29. Secondly, the employee benefits from a regular employer contribution into their pension scheme. This contribution is made on a pay as you go basis, which accumulates over the period of employment. A self-employed person will not receive an equivalent contribution from their engager, so any decision to use income from a contract for pension savings will be deducted from self-employed income.

30. The advantages of pension tax relief are different for self-employed people and so may encourage different behaviours.

31. There are some interesting schemes developed by NEST Insight, with the support of the Department for Work and Pensions, which may suggest a way forward.

32. Research by Nest Insight found that *"control and flexibility to changing circumstances were important factors for self-employed people when it comes to saving"*.[11] The sidecar savings trial aims to tackle concerns about liquidity that may be discouraging the self-employed from saving into a pension. This type of pension has a small sidecar which is assessed before minimum pension age. Initially the scheme members' regular contributions build up in the main pension pot and a 'sidecar' savings pot. The sidecar builds up an optimal level of liquid emergency savings, while also increasing long-term savings. Once the sidecar is full, all the regular contributions are made into the main pension pot.

33. The experience of the pandemic has highlighted the insecurity of self-employed income. This is likely to mean that the flexibilities offered by liquid savings will become a more important concern for freelance workers.

34. Prospect supports the sidecar savings trial as a solution that could benefit the self-employed. However, we note that Nest have reported that take up has been low, in common with many voluntary savings schemes.[12]

35. In December 2021 Nest insight announced new trials, in partnership with Penfold and MoneyHub, to pilot flexible saving that are designed for self-employed workers with variable and uncertain incomes. The initiative uses technology already used by self-employed people and so should make participation easier for the freelance community.

36. The making tax digital innovation[13] may provide new opportunities to automate the saving for retirement for the self-employed.

37. Whilst helpful, these innovations require the active engagement of the self-employed. A step change will require more than a 'nudge' to reverse the decline in participation rates.

[9] https://www.nestinsight.org.uk/research-projects/workplace-emergency-savings/opt-out-payroll-savings-trial/

[10] https://www.parliament.uk/globalassets/documents/post/postpn328.pdf

[11] https://www.nestinsight.org.uk/self-employed-flexible-savings-pilots/

[12] https://www.nestinsight.org.uk/research-projects/workplace-emergency-savings/opt-out-payroll-savings-trial/

[13] https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

Field Code Changed

9) Are there measures which the Government should consider to close the gender pension gap?

Executive Summary

Income inequality is one of the most basic indicators of gender inequality. It impacts women and wider society in a variety of negative ways. The gender pension gap is the manifestation of income inequality for women in retirement. It is significantly larger than the gender pay gap and applies to a large (and growing) proportion of the female population.

Despite its importance, the gender pension gap is a low priority for government and there is no effective plan for tackling it. It is vital that the Committee makes recommendations that raise the profile of the gender pension gap.

Prospect has been campaigning on the gender pension gap for a number of years. This submission draws on our research and recommendations from previous reports.

We make the following proposals for consideration by the committee:

1) The DWP should consult on an appropriate definition of the gender pension gap and commit to producing official statistics about its level on an annual basis.

2) The DWP should address the gender pension gap as one of its equality objectives.

3) The Government Equalities Office should require the DWP to produce official statistics about the size of the gender pension gap and adopt this measure for monitoring progress. Once better indicators are available, the Government Equalities Office should reassess the scale of actions necessary to achieve gender equality in retirement incomes.

4) Government should report the level of the gender pension gap to Parliament and outline its plans for tackling it on an annual basis. Ideally this recommendation should be put on a statutory basis.

5) The EHRC should consider investigating whether the Secretary of State for Work and Pensions is complying with their duty to have due regard to the elimination of discrimination in relation to inequalities in retirement income by sex.

6) The DWP should reduce the level of the earnings trigger under automatic enrolment to the National Insurance Contributions Lower Earnings Limit at the same time that contributions are required to be paid from the first pound earned.

It would be very useful for the Committee to dedicate an oral evidence session to the issue of the gender pension gap and to invite relevant office holders (or their representatives), such as the Secretary of State for Work and Pensions, the Minister for Pensions and Financial Inclusions, the Minister for Women and Equalities and the Chief Executive of the EHRC.

Defining and Measuring the Gender Pension Gap

38. The first step in addressing inequality in retirement income by gender is to understand the scale of the problem. However, no government department or agency produces official statistics on the size of the gender pension gap. This lack of basic official information about such an important equality issue is unacceptable.

39. The lack of official statistics is a particular problem because it greatly reduces the profile of this issue. The lower profile in turn results in less pressure being brought to bear on policymakers and others to address it. The absence of an official estimate of the gender pension gap also means that it is not possible to properly track progress towards equality.

40. To try to address the lack of official statistics, and to highlight the scale of the problem, Prospect has published an annual report on the size of the gender pension gap in the UK since 2018. Prospect's estimate of the gender pension gap is derived using data from the Family Resources Survey (FRS) which is a continuous household survey that collects information on a representative sample of private households in the United Kingdom.

41. In our reports, 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 receiving the state pension. It is possible to define the gender pension gap differently and this would obviously affect the resulting estimates, but we believe our definition is reasonable and produces results that are consistent with other sources of data on gender inequality in pensions.

42. **Suggested recommendation 1:** The Committee should recommend that DWP consult on an appropriate definition of the gender pension gap and commit to producing official statistics about its level on an annual basis.

Size and Impact of the Gender Pension Gap

Prospect's estimates of the gender pension gap for the years 2014-15 to 2019-20 (the latest year that FRS data is currently available for) are provided in the table below.

Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Gender Pension Gap	41.6%	40.7%	39.5%	39.9%	40.3%	37.9%

43. The estimates in the table above highlight the scale of gender inequality in retirement incomes in the UK. The gender pension gap in 2019-20 was over twice the level of the gender pay gap that year (15.5%). There has been little sustained progress in tackling this problem over the period that we have reported.

44. The size of the gender pension gap is exacerbated by the fact that it affects women at a time when they are less able to do anything about it. There is not a high level of pension awareness in general, so any shortfalls in retirement income can be a surprise to many. There is relatively little that women can do about a shortfall in retirement income once they reach retirement age, at this point there is much less scope to increase earnings or savings.

45. It is also important to note that the gender pension gap is a product of many factors that are historic in nature. An unacceptably high level of inequality is essentially engrained in the system for decades to come due to past and current labour market conditions and pension policies. This makes action to address the gender pension gap now even more urgent.

Duties of Government, Parliament and Others in Relation to the Gender Pension Gap

46. Under the Equality Act 2010, public authorities are subject to the public sector equality duty. This imposes a requirement on departments to have due regard to the need to eliminate discrimination when shaping policy. The DWP has not taken even the most basic steps to address the gender pension gap and is therefore failing in its duty under the Equality Act 2010.

47. Previous versions of the DWP's published equality objectives included an aim to address gender equality in state pensions[14]. However, inequality in state pension income is only one component of the overall gender pension gap. None of the DWP's equality objectives for 2021 to 2022[15] directly address any of the underlying causes of the gender pension gap, despite the detriment it causes and the role that pension policy has to play in rectifying it.

48. **Suggested recommendation 2**: The Committee should recommend that DWP includes addressing the gender pension gap as one of its equality objectives.

49. The Government Equalities Office in the Cabinet Office has the lead responsibility for gender equality in the UK government. In July 2019 this unit published a report on gender equality: 'Gender equality at every stage: a roadmap for change'[16]. While this report identifies issues such as gender inequality in pension wealth and private pension participation, it fails to define or measure the overall gender pension gap and therefore fails to put this issue in its proper context. Presumably as a consequence of this failure, the report outlines only a small number of actions that are totally inadequate to address the scale of the problem.

50. The above issues feed directly into weaknesses with the Government Equalities Office's monitoring of progress on tackling gender inequality in retirement income. The main problem lies in the inadequacy of the key indicator being tracked – the gap in weekly pension income of single male and female pensioners[17]. This indicator only covers an unrepresentative minority of the pensioner population and is therefore highly misleading in assessing the true size of the gender pension gap.

51. **Suggested recommendation 3:** The Committee should recommend that the Government Equalities Office require the DWP to produce official statistics about the size of the gender pension gap and adopt this measure for monitoring progress. Once better indicators are available, the Government Equalities Office should reassess the scale of actions necessary to achieve gender equality in retirement incomes.

52. Parliament imposed the public sector equality duty on public authorities and Parliament is responsible for holding the DWP to account for its progress in eliminating discrimination. The size and impact of the gender pension gap means that this should be one of the DWP's key equality objectives. The Committee's inquiry covering measures the government should consider to close the gender pension gap is welcome. There are other recent examples of Parliament holding the government to account on this issue (such as an adjournment debate secured by Patricia Gibson MP on 19 April 2021[18]). However, this is such a fundamental issue of equality that it demands much more than ad hoc parliamentary scrutiny. There needs to be regular scrutiny of the government's progress in tackling gender inequality in retirement income in order to ensure this issue is given the appropriate attention and ministers are properly accountable for tackling it.

53. **Suggested recommendation 4:** The Committee should recommend that government report to Parliament on the level of the gender pension gap and its plans for tackling it, on an annual basis. Ideally this recommendation should be put on a statutory basis.

[14] See objective 2 in DWP's equality objectives for 2012 to 2016: Department for Work and Pensions Equality Objectives (publishing.service.gov.uk)

[15] See Section E: Department for Work and Pensions Outcome Delivery Plan: 2021 to 2022 - GOV.UK (www.gov.uk)

[16] See: HM Government, Gender Equality Roadmap (publishing.service.gov.uk)

[17] See page 2 of the latest Gender Equality Monitor: HM Government, Gender Equality Monitor (publishing.service.gov.uk)

[18] Hansard: Gender Pension Gap - Hansard - UK Parliament

54. The Equality and Human Rights Commission (EHRC) is the statutory body established to help eliminate discrimination and reduce inequality. Given its scale and impact, reducing the gender pension gap, and ensuring that public authorities are meeting their duties in this regard, should be one of the Commission's main priorities.

55. However, the gender pension gap does not seem to be on the EHRC's agenda. A wide-ranging report about women's rights and gender equality submitted to the UN Committee on the Elimination of All Forms of Discrimination Against Women by the EHRC in February 2019[19] did not mention the gender pension gap.

56. Prospect has previously written to the Chief Executive of the EHRC to highlight this issue and to suggest that the Commission consider investigating whether the Secretary of State was complying with the duties imposed by the Equality Act 2010[20].

57. **Suggested recommendation 5:** The Committee should recommend that the EHRC consider investigating whether the Secretary of State for Work and Pensions is complying with her duty to have due regard to the need to eliminate discrimination in relation to inequality in retirement income by gender.

58. The suggested recommendations in this section relate to the duties of the Secretary of State for Work and Pensions, the Minister for Pensions and Financial Inclusions, the Minister for Women and Equalities and the Chief Executive of the EHRC, it would be extremely useful for the Committee to invite some or all of these office holders (or suitable representatives) to give oral evidence about the gender pension gap in order to understand their views on this issue and their role in tackling it.

Main Causes of the Gender Pension Gap

59. In order to understand the causes of the gender pension gap, it is important to understand differences in labour market activity by gender. Recent research from the Institute for Fiscal Studies (IFS)[21] provides a comprehensive analysis of differences between men and women in all forms of 'work'. The report shows that, among those aged 20 to 55 not in education, long-term sick or retired:

- Women are 9.5 percentage points less likely to be in paid work (83.5% of women, 93% of men).
- Women do 8 fewer hours of paid work per week than men if they are employed (34 hours per week on average for women, 42 for men).
- Women in paid work earn 19% less per hour (£13.20 per hour on average for women, £16.30 for men).
- Women do more than 50 hours a month more unpaid work (including childcare and housework) than men.

60. The impact of having children is the biggest factor driving the above outcomes. When men become fathers, their average income is largely unaffected. When women become mothers their labour market participation and working hours reduce significantly. There is a further, longer-term impact on women's hourly earnings (due to missing out on promotions, moving to lower paid jobs and the 'part time penalty').

61. The labour market effects outlined by the IFS feed into the wider pension system and together these drive the gender pension gap. Prospect's reports on the gender pension

[19] womens-rights-and-gender-equality-in-2018-summary-update_report-long-version.pdf (equalityhumanrights.com)

[20] Letter to EHRC re gender pension gap (prospect.org.uk) [Note – need to ensure access is public]

[21] See 'Women and men at work': Women and men at work - Institute For Fiscal Studies - IFS

gap[22] describe the main features of the pension system that contribute to the gender pension gap and these are summarised in the following paragraphs.

62. There is a gap in state pension income by gender. However, this gap is lower than the overall gender pension gap and there have been major reforms affecting people reaching State Pension Age from April 2016. It is projected that these reforms will result in equality in state pension income by gender for people reaching State Pension Age from about 2040.

63. The differences in labour market activity by gender outlined above have a particular impact on occupational pension income in retirement. Far more women than men are economically inactive because of caring responsibilities. While credits can protect state pension entitlement to take account of caring responsibilities, it is likely that people in this position are missing out on accruing benefits in an occupational pension scheme with significant consequences for their income in retirement. Similarly, far more women than men work part-time as a result of caring responsibilities which also has a significant impact on the occupational pension income they build up.

64. Occupational pension schemes provide salary related benefits, so the gender pay gap is a further cause of the gender pension gap. The gender pay gap is obviously a key issue in its own right and one that is being addressed through a number of different policies. This submission focusses on additional interventions in the pension system that build on the actions in place to tackle the gender pay gap.

65. Indirect gender discrimination in the pension system also contributes to the gender pension gap. This indirect discrimination is largely due to the higher proportion of women who work part-time and hence have earnings below certain thresholds that are relevant to the pension system. This takes a number of forms – women are more likely to miss out on a qualifying year in the state pension system due to having earnings below the Lower Earnings Limit or because they have multiple jobs, women are also more likely to be impacted by the 'net pay' issue due to having earnings below the personal allowance for income tax. The earnings trigger under automatic enrolment also disproportionately excludes women from the benefits of this policy.

Policies to Close the Gender Pension Gap

66. Prospect's reports on the gender pension gap include a number of proposals to address indirect gender discrimination arising from various features of the pension system. This submission focusses on the key measures that would have most impact in closing the gender pension gap over time.

Better recognition of caring responsibilities in the pension system

67. As noted above, a main driver of the gender pension gap is the disproportionate share of caring responsibilities undertaken by women. This results in millions more women either being economically inactive or working reduced hours.

68. Broader policies, such as more widely available affordable childcare and greater shared parental leave, would make it easier for women to return to work and encourage a more equal sharing of these responsibilities between parents.

69. However, it is probable that women will continue to undertake a greater share of childcare responsibilities than men for the foreseeable future. In any case, taking time out of employment to undertake childcare should not have a seriously detrimental impact on future pension income whether it is done by women or men.

[22] See, for example, the 2021 report: Achieving gender equality in pensions – Prospect's 2021 report on the gender pension gap

70. The two main components of pension income in the UK are the state pension and occupational pensions. Parents and others who take time out of paid employment to undertake childcare can receive credits that protect their state pension entitlement. However, occupational pension income is not generally protected in the same way. Consequently, childcare responsibilities can have a significant detrimental impact on retirement income. This is particularly relevant in the UK context because the state pension here is generally lower than in other developed countries with pensioners generally placing more reliance on occupational pension income. It is also the case that low awareness of pension issues often means that this impact is often not appreciated until those affected are retired when there is little they can to about it.

71. There are a number of potential ways of addressing this problem. There could be additional recognition of caring responsibilities in the state pension system or there could be a requirement for occupational pension schemes to provide minimum benefits for members who are taking unpaid leave to look after young children. On balance, the arguments for tackling this issue through the state pension system are more compelling. This would restore the position that existed before the 2016 state pension reforms, when childcare responsibilities provided protection in respect of both the Basic State Pension and the additional state pension (ie the State Second Pension).

Tackling indirect gender discrimination in the pension system

72. As noted above, women are more likely to work part-time and consequently they are disproportionately impacted by certain earnings thresholds in the pension system. This phenomenon has resulted in the introduction of automatic enrolment having a markedly different impact by gender. While automatic enrolment has succeeded in increasing participation in occupational pension schemes, it is absolutely crucial to address the ways in which it is exacerbating the gender pension gap.

73. In 2017 DWP undertook a review of automatic enrolment[23] to set out the medium-term direction for this policy into the 2020s. The main proposals were to lower the age criteria for automatic enrolment from 22 to 18 and to require contributions from the first pound earned rather than from the lower earnings limit. The earnings trigger, the level of earnings required for someone to be eligible to be automatically enrolled into a workplace pension scheme by their employer, was retained at the same level in nominal terms (£10,000).

74. There is a statutory requirement for an annual review of the earnings trigger. The equality impact analysis for the 2021/22 review[24] showed that reducing the earnings trigger to the level of the LEL (£6,240) would result in more than 250,000 additional pension savers and 71% would be women.

75. The arguments for and against setting the earnings trigger at different levels are explored in detail in the 2017 report and in the annual reviews that the government is required to undertake. In the context of the wider gender pension gap, it is imperative that greater weight is put on addressing the disproportionate exclusion of women from the pension system.

76. **Suggested recommendation 6:** The Committee should recommend that DWP reduce the level of the earnings trigger under automatic enrolment to the National Insurance Contributions Lower Earnings Limit at the same time that contributions are required to be paid from the first pound earned.

Other issues in the pension system

[23] See: Automatic Enrolment Review 2017: Maintaining the Momentum (publishing.service.gov.uk)

[24] See: Review of the automatic enrolment earnings trigger and qualifying earnings band for 2021/22: supporting analysis - GOV.UK (www.gov.uk)

77. Better recognition of caring responsibilities and addressing the disproportionate exclusion of women from pension saving under automatic enrolment are the proposals that would have the most impact in tackling the gender pension gap. Prospect's previous reports provide further detail on other measures that the Committee should consider making recommendations about. These include addressing the impact of having multiple jobs on state pension entitlement, resolving the 'net pay anomaly' that prevents many lower earners from benefiting from tax relief on their pension contributions and encouraging higher take-up of various credits that can boost pension income.