Tackling the gender pension gap

Prospect's 2022 report

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March 2023

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Introduction

This is Prospect's fifth annual report on the gender pension gap. We have been campaigning for gender equality in pensions for many years and these annual reports are an important part of this work.

The main purpose of the report is to highlight the size of the gender pension gap. We do this by publishing our estimate of the gender pension gap in the UK for the latest year that data is available for (2020-21 in this report).

This is important because the very size of the gender pension gap, and the level of gender inequality in retirement income that it represents, is the strongest argument in favour of policies to address it.

We believe that the gender pension gap has only been able to persist at such high levels, and for so long, because of widespread ignorance about its existence and its impact on women in retirement.

Our estimate of the size of the gender pension gap is a call to action for politicians, policymakers and anyone who is interested in bringing about a more equal society.

In this report we show that the level of the gender pension gap in 2020-21 was 40.5%. The table below shows our estimate of the gender pension gap for the last 5 years.

	2016-17	2017-18	2018-19	2019-20	2020-21
Gender Pension Gap	39.5%	39.9%	40.3%	37.9%	40.5%

This is the highest estimated gender pension gap since 2015-16 (when it was 40.7%). It represents £7,100 less pension income in 2020-21 for an average retired woman compared to an average retired man.

This is equivalent to an average retired woman only starting to receive her pension income on May 29, if it was paid at the same rate as for an average retired man.

COVID-19 has affected the data that our estimate of the gender pension gap in 2020-21 is based on. This makes it difficult to draw comparisons with earlier years and makes certain other analyses based on subsamples less reliable.

These data issues, as well as the usual limitations and uncertainties of our analysis, are discussed in more detail in the relevant sections of this report.

The estimate of the gender pension gap in 2020-21 may be subject to more uncertainty than estimates for earlier years, but there is no doubt about our main findings: the gender pension gap is unacceptably high and there has been no real progress in addressing it.

The gender pension gap has remained very close to 40% throughout the period that we have produced estimates for. For context, this is over twice the size of the gender pay gap over the same period.

This is an unacceptable level of inequality. It affects retired women's quality of life in countless ways. It is worse for being largely unanticipated due to a lack of awareness about pensions. It affects women at a time when there is little they can do about it, as they will generally be on fixed incomes with few opportunities to earn more.

The lack of progress in closing the gender pension gap is unsurprising. This is because incomes today are mostly the product of a combination of different factors that applied over previous decades. Most policy interventions that could be implemented now would be unlikely to have a material impact on the gender pension gap for many years.

In any case, the government has not yet made a proper analysis of the main causes of the gender pension gap and has no real plan for addressing them. There is little reason to expect the gender pension gap to narrow significantly in the future, if little is being done to reduce it now.

While there has been no real progress in addressing the main causes of the gender pension gap, there has been a lot more attention on this issue than in previous years. It is important for everyone who is concerned about equality to turn this into pressure on ministers to tackle the main drivers of gender inequality in retirement incomes.

This report outlines the main developments in relation to the gender pension gap over the last year. There has been progress on some issues but, while these are welcome, there is much more to do.

One potential bright spot on the horizon is an apparent change in the government's attitude to reporting on the gender pension gap.

Previously, ministers stuck to a line that existing measures of the gender pension gap were sufficient, even though they were clearly inadequate.

More recently, the new Pensions Minister told the Work and Pensions committee that she is working with officials to agree a suitable definition of the gender pension gap and to report on this.

The report also covers the research and initiatives that have been undertaken by other organisations over the last year. It is heartening the see the increasing range of organisations calling for more action to fix this problem.

Tackling the gender pension gap is one of Prospect's campaigning priorities. This issue directly affects our members' living standards and is fundamentally a question of equality, which is a key trade union value.

It is not enough for us to just produce an estimate of the size of the gender pension gap and publish a report about it every year. Having identified the main causes of this problem, we will also campaign for effective policies that address them.

There is also action that employers can take that will help mitigate the impact on women in their workforces. We will produce guidance for our officers and representatives to help them put these on the negotiating agenda.

We will step up our efforts to inform our members about the gender pension gap and its main causes, to give them the best chance of taking actions at key stages of their lives that mitigate the impact on them.

One particularly startling result that we have found, is that women are less likely than men to avail of higher employer contribution rates in pension schemes that have matching contribution structures.

Employers and trade unions need to work together to under why this is and to ensure women are making the most of the pension provision available to them.

We hope that this report makes a useful contribution to developing policy on gender inequality in retirement incomes. We will build on it in a number of ways over the next year and we look forward to working with others who are also interested in tackling this problem.

Sue Ferns
Senior Deputy General Secretary
March 2023

Executive Summary

Our analysis shows that the UK's gender pension gap – the percentage difference in pension income for female pensioners compared to male pensioners – was 40.5% in 2020-21.

This is more than twice the gender pay gap of 15.4% in 2021 and represents an average difference in pension income by gender of about £7,100 a year.

The estimate of the gender pension gap for 2020-21 is subject to greater uncertainty than usual due to the impact of COVID-19 on responses to the Family Resources Survey for this year.

However, there is no doubt that the gender pension gap is unacceptably high and has a significant detrimental impact on women's quality of life in retirement. This conclusion is supported by research from a range of other organisations.

The main causes of the gender pension gap have been well known for some time; they have been outlined in each of our previous reports:

- Women undertake a disproportionate share of caring responsibilities, which results in them being more likely to take breaks from paid employment or work part-time.
- When women do work full-time, they are paid less, on average, than men (ie the gender pay gap).
- Women receive less state pension, on average, than men.

There are other features of the pension system that have a disproportionate impact on women (eg women are more likely to be excluded from automatic enrolment, women are more likely to be impacted by the 'net pay anomaly').

Our assessment is that the government's record on addressing the gender pension gap is disappointing.

While certain policies should slowly reduce the gender pension gap over time, ministers have not demonstrated an appreciation of the scale of the problem or a full understanding of all its causes.

Simply put, current government policy will allow the gender pension gap to persist at an unacceptably high level in perpetuity.

That said, recent indications that ministers appreciate the need for a suitable measure of the gender pension gap, and the benefit of reporting this, are very welcome and could lead to a step change in attention for the issue.

If we want a more equal society, by eliminating gender inequality in retirement incomes, we must change government policy.

In this year's report, we have focussed specifically on the issue of caring responsibilities. This is because this is the single biggest cause of the gender pension gap and also the issue that government has paid least attention to addressing.

There have also been a number of developments over the last year relating to pensions and divorce, and there is a section of the report covering these and the implications they could have for women.

As in previous reports, we have set out a number of policies that will help tackle the gender pension gap and / or reduce indirect gender discrimination in the pension system.

Some of these proposals go beyond the narrow bounds of pension policy (eg re caring) but this is necessary because the gender pension gap is the result of wider societal issues and not just the pension system.

Prospect is calling for:

- A statutory requirement for the government to report to Parliament on the size of the gender pension gap and its plans for tackling it.
- The DWP to include addressing the gender pension gap as one of its statutory equality objectives.
- An additional state pension credit for those who are not working because they are looking after children under 12.
- Measures to encourage more equal sharing of caring responsibilities by gender and to make affordable childcare more widely available.
- Allowing those who did not claim child benefit to receive national insurance credits to which they would have been eligible if they had claimed.
- Government to commit to completing its administrative review of underpaid state pension, affecting tens of thousands of women, before the end of 2024.
- Early implementation of the recommendations of the 2017 automatic enrolment review and lowering the earnings trigger to the level of the Lower Earnings Limit.
- An independent Commission to consider the appropriate level of contributions under automatic enrolment.
- Measures to improve appropriate sharing of pension assets on the ending of long-term relationships.
- Better collection and monitoring of data on the proportion of divorces involving pension sharing orders.
- More campaigning to encourage higher take-up of credits that can boost women's pension income.
- Implementation of proposals to change the tax system to resolve the 'net pay anomaly' whereby low earners do not benefit from tax relief on their contributions.

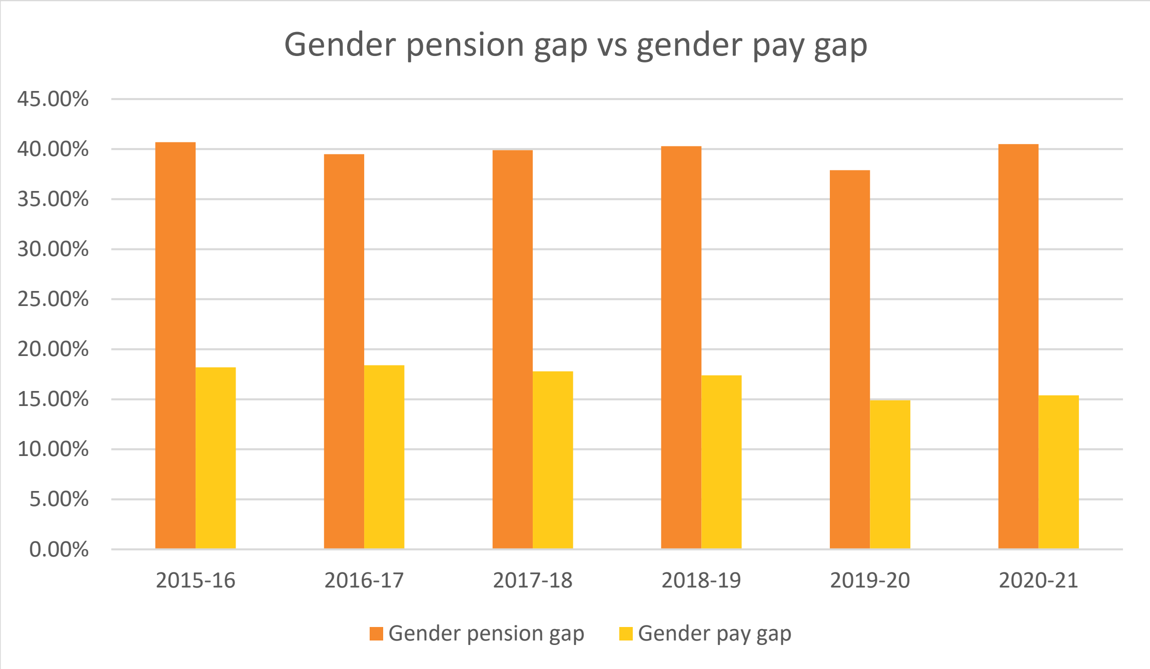
Even if all the above measure were adopted immediately, it would still take many decades for the impact to show up in estimates of retirement income and for the gender pension gap to be eliminated. And the reality is that it is unlikely that many of these measures will be implemented soon.

Consequently, it is important to take action directly at employer level and to increase individual awareness of the main causes of the gender pension gap. We have summarised the actions that Prospect will be taking in the final section of this report.

The size of the gender pension gap

We estimate that the gender pension gap in the UK for 2020-21 was 40.5%. This represents a shortfall in pension income of about £7,100 for an average retired woman.

The chart below gives our estimate of the gender pension gap in the UK for the most recent years that data is available. The level of the gender pay gap is also included for comparison.



This level of inequality in retirement income by gender is unacceptable. It affects the quality of life of millions of women in countess ways. It is astonishing that it can persist at these levels for so long.

The rest of this report discusses the current policy environment in relation to the gender pension gap and the actions that Prospect believes are necessary to tackle it. In this section we will go into more detail about our estimate of the gender pension gap.

Reason for publishing an estimate of the gender pension gap

Prospect started to publish an annual estimate of the size of the UK's gender pension gap because no authoritative measure of inequality in retirement income by gender in the UK was available at that time.

It is surely the lack of official statistics on the size of the gender pension gap, and hence the lack of profile of this issue amongst policymakers and the public, that allows this problem to persist at this level for so long.

The government's failure to publish its own estimate of the gender pension gap, or to have a target to reduce it, demonstrates the low priority given to this issue. But this is not a technical pension problem or a matter of tick-box compliance, this is a serious problem affecting the quality of life of millions of women throughout many decades of retirement.

Ideally, a government department or agency would consult on an appropriate definition of the gender pension gap and produce an official estimate of its size. This has been the first recommendation in each of Prospect's annual reports on the gender pension gap. This would be a very simple and low cost action which could also be very effective.

Once there was an official estimate of the size of the gender pension gap, Parliament could more effectively hold government to account for its actions to tackle it.

For this reason, we have been greatly encouraged by recent correspondence between the new Pensions Minister (Laura Trott MP) and the Work and Pensions Committee[1]. The following section is worth quoting in full:

“Together with stakeholders across government, we are working to better understand the scale and challenge of the gender pension gap. Our aim is to find a suitable definition of the gender pension gap, which enables the development of a metric for measuring progress on reducing the gap. I am working with officials within the Department and across government to settle on an agreed definition. I am also looking at the possibility of regular reporting on the gender pension gap by DWP in order to better highlight the issue publicly.”

This is discussed in more detail in the section on government policy and developments.

Definition of the gender pension gap

In the absence of an official, or generally agreed, definition of the gender pension gap, we have based the estimates in this report on the definition that we believe is most appropriate and relevant.

We warmly welcome the new Pension Minister’s comments to the Work and Pensions Committee about finding a suitable definition of the gender pension gap. An official definition will greatly enhance the credibility and awareness of estimates.

For now, we continue to define 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 state pension.

It is obviously possible to define the gender pension gap differently, and this would produce a different estimate. For example, the estimate could be adjusted to allow for the different age profiles of men and women over state pension age.

An alternative approach would be to use a measure of the gender gap in private pension wealth.

This would show the impact of policies and societal changes sooner, and would not be impacted by differences affecting the eldest groups of pensioners that were caused by historic circumstances and policies.

On the other hand, such a measure would not cover gaps in state pension entitlement. It would also be difficult to know what the most appropriate comparison to use is (the gender gap generally grows over working lives, so a comparison at the point of retirement is probably most appropriate, but there is no obvious definition of this).

Prospect has published an estimate of the gender pension gap using the definition outlined above for a number of years, and we have not received any feedback saying that this was inappropriate, or that another definition would be more suitable.

There has been commentary that an analysis of individuals’ incomes is not the most relevant as couples will rely on household incomes.

But this is a study of income equality and not living standards. No-one would seriously argue that the gender pay gap is not a relevant issue because women can often rely on their partners’ earnings.

It is also the case that not all women have partners, and those women that do cannot always rely on an equitable share of a couple’s pension savings when relationships end. This issue is examined in more detail later in the report.

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[1] Correspondence with the Minister for Pensions relating to the saving for later life inquiry (parliament.uk)

Research suggests that women in opposite-sex couple families consume less than their male partners (see IFS data on the differences between men and women at work, discussed below). It would be useful to have more information on this phenomenon, and the extent to which it applies to pensioner couples, but it seems plausible that it is at least partly driven by women having less income of their own on average.

For these and other reasons, the general consensus reported in the final report[2] of the 2017 Independent Review of State Pension Age, was that pensions should be considered on an individual rather than a household basis.

Data source

Our estimate is derived from an analysis of the datasets of responses to the Family Resources Survey (FRS). This is a continuous household survey that collects information on a representative sample of private households in the United Kingdom.

The FRS data are designated by the UK Statistics Authority as National Statistics and are primarily used to provide the Department for Work and Pensions (DWP) with information to inform the development, monitoring and evaluation of social welfare policy.

We do not claim that our estimate is definitive but, in the absence of alternatives, we believe it is the best indicator of gender inequality in retirement incomes currently available.

It is important to note the limitations of our estimate, which is subject to:

- sampling error
- under-reporting of pension income
- exclusion of people in nursing or retirement homes from the sample
- weighting of responses to correct for differential response rates.

Impact of COVID-19 on our estimate

In addition to the usual uncertainties affecting any estimate based on responses to the FRS, our estimate of the gender pension gap in 2020-21 is subject to even greater uncertainty due to the impact of COVID-19.

The pandemic affected the data collection method, the response rate achieved and the distribution of characteristics among respondents to the FRS.

For the whole of this survey year, FRS processes were changed to allow data collection by telephone rather than the usual face-to-face interviews. This change was made at short notice due to Government restrictions in response to COVID-19.

Due to the limited time available, this change was made without thorough testing to examine the impact on data collection. As a result, it is difficult to quantify how far results have changed due to this change in mode of collection as distinct from real-world changes.

The FRS is a survey of factual information rather than attitudinal information so, where data has been collected, it is not expected to be materially different due to the change in method of collection.

However, the sample size for this year was much smaller than usual (about 10,000 households in 2020-21 compared to about 20,000 in a normal year). The smaller sample size will obviously affect confidence levels for estimates such as the gender pension gap.

The composition of respondents has also changed significantly. For example, respondents were more likely to be degree-educated and outright property owners. While differences can be mitigated by changing the survey grossing regime, this also increases uncertainty.

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[2] Independent Review of the State Pension Age, Smoothing the Transition, Final Report (publishing.service.gov.uk)

For the above reasons, the confidence interval for estimates based on FRS data will be wider than in a normal year. This will impact the ability to draw conclusions about trends in the gender pension gap over time.

However, these issues do not prevent us from concluding that, at 40.5%, the estimated gender pension gap in the UK for 2020-21 reflects an unacceptably high level of gender inequality in retirement incomes.

It is also the case that most official statistics and other sources of data were similarly affected by COVID-19, so we believe that our estimate of the gender pension gap based on responses to the FRS remains the most robust measure currently available.

Further analyses

In previous reports we have provided more detailed analysis of the gender pension gap (eg by nation / region of the UK and by age-group of pensioners). The smaller sample for the FRS means there is too much uncertainty to reproduce these analyses for 2020-21.

We hope to be able to produce further analyses of the gender pension gap, that give additional insight into its causes and the effectiveness of potential solutions, in future reports.

One specific area that we intended to produce further research on this year, was in relation to the gender pension gap for different ethnic minority groups. Unfortunately, the sample sizes are too small to produce credible statistics this year.

Those interested in further research on pension gaps by ethnicity can read 'Measuring the ethnicity pensions gap'[3] which was published by The People's Pension in 2020. This showed that the gap in annual pension income between a female pensioner from an ethnic minority and a white male pensioner was 51.4%.

There is very poor financial data on people from ethnic minorities and this affects our ability to understand the factors affecting their pension outcomes. Better evidence about these groups could result in more targeted policymaking that improves outcomes. The Pensions Policy Institute recently published a briefing note[4] outlining how to fill evidence gaps.

Other estimates of gender inequality in pensions and other relevant research

Our previous reports contained a comparison of our estimate of the gender pension gap with other published measures of gender inequality in pensions. This analysis was produced primarily to demonstrate that our estimate of the gender pension gap was within a reasonable range that was consistent with other research.

Our estimate of the gender pension gap has generally been accepted as robust and it has been consistent with related measures published by other organisations. Consequently, we will no longer publish other estimates of gender inequality in pensions as part of a benchmarking process.

However, it is useful to update some important measures of gender inequality in pensions and to summarise new research that has been published since our last report came out. The increase in the amount of research in this area since our first report suggests a very welcome rise in the level of interest and concern.

Some relevant measures and other recent research are outlined below:

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[3] Measuring-the-ethnicity-pensions-gap.pdf (thepeoplespension.co.uk)

[4] 20220818 PPI BN132 data from ethnic minority groups.pub (pensionspolicyinstitute.org.uk)

- HMRC data on taxpayers

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 pay UK income tax. The table below gives estimates of the gender gap based on taxable pension income in the UK for the most recent years that data is available.

	2015-16	2016-17	2017-18	2018-19	2019-20
Gender Pension Gap[5]	24.5%	22.7%	21.4%	20.8%	20.2%

These estimates are much lower than our estimate of the gender pension gap based on FRS data. As explained in previous reports, this is likely to be because HMRC data only covers taxpayers and so is likely to disproportionately exclude women as they are more likely to have earnings below the relevant threshold. This results in a lower estimate. The significant reduction in the gender pension gap in taxable income over time is likely to mainly be a result of the large increase in the personal tax allowance over this period.

- DWP data on pensioner incomes

DWP publishes the pensioners' income series based on the FRS. This shows pensioner income by household. Therefore, the only gender analysis that is available from this source is for single pensioner households. As reported in the next section, this is the government's main measure of gender inequality in retirement income.

The table below gives estimates of the gender pension gap for single pensioner households in the UK for the most recent years that data is available.

	2016-17	2017-18	2018-19	2019-20	2020-21
Gender income gap for single pensioners[6]	19.1%	20.8%	20.2%	13.0%	14.3%

(The above estimates are based on mean total net income after housing costs.)

This is a poor measure of gender inequality in retirement incomes as it is heavily influenced by changes in the characteristics of single male and female populations, rather than changes in male and female pension incomes.

- The TUC

In May 2022, the TUC published an analysis of private pension wealth by industry and region[7]. The analysis was based on data from the ONS's Wealth and Assets Survey. This is a biennial longitudinal survey that measures the well-being of households and individuals in Great Britain in terms of their assets, savings, debt, and planning for retirement. The TUC analysis was based on the 7th wave of this survey, carried out from April 2018 to March 2020. The analysis by industry[8] shows that, in 10 out of the 15 industries for which we have reliable figures, median private pension wealth for women aged 45 to 64 is less

[5] Estimates based on data from Table 3.12 of HMRC's personal income statistics (eg 2019-20)

[6] Estimates based on data from Table 2.8 of DWP's pensioners incomes series (data)

[7] Gender pensions gap means retired women go the equivalent of four and a half months each year without a pension – TUC | TUC

[8] Private pension wealth quartiles by age, sex and Standard Industrial Classification (SIC), Great Britain; April 2018 to March 2020 - Office for National Statistics (ons.gov.uk)

than half that of men. The analysis by region[9] shows that the gender gap in private pension wealth is highest in London, the south-east and east of England.

Overall, this data source shows that the gender gap in private pension wealth for women in Great Britain aged 45 to 64 is 56%. This is much higher than our estimate of the gender pension gap. This analysis only covers private pension wealth, whereas our estimate covers all sources of pension income (including state pension).

- Now Pensions

In June 2022, Now: Pensions published 'The Gender Pension Gap Report 2022 … and how to close it'[10]. This followed up research published in 2019 in, 'Facing an unequal future – closing the gender pensions gap'.

This reported a gender gap in pension savings wealth in the UK at age 65 of 66.5% in 2021. This was equivalent to a shortfall in pension savings of £136,800. It was estimated that this meant women would have to work an additional 18 years in full-time employment to save the same amount of money into their pension as a working man.

This is a higher reported gender gap than implied by the TUC's analysis of the Wealth and Assets Survey. The estimated gap is highly correlated with age, so the difference is likely to be largely due to the average age of the TUC's sample (55) compared to the sample underpinning the data in this report (65).

- Gender pension gaps for certain occupational pension schemes

The overall gender pension gap is composed of a number of different inputs. One of these is the difference in the average amount of pension paid to men and women by occupational pension schemes.

The following table shows the gender gap in pension paid by some large occupational pension schemes covering Prospect members. This information is mainly provided for illustrative purposes only, we have not drawn any particular conclusions about the size of the gap in any scheme (as this will be the result of many different factors and we have not analysed these in detail).

This information is generally taken from the latest available actuarial valuation or annual accounts of each scheme and hence will relate to different time periods.

Scheme	Gender Gap
Civil Service	**44.5%**
NHS (England and Wales)	**61.9%**
Teacher's (England)	**27.8%**
BBC	**39.4%**

- Gender pension gap for certain pension providers

There are also differences by gender in the amount of pension savings built up with the main pension providers. The following table shows the gender gap in pensions savings reported by a number of pension providers.

[9] Private pension wealth quartiles by age, sex and region, Great Britain; April 2018 to March 2020 - Office for National Statistics (ons.gov.uk)

[10] NOW-Pensions-–-The-Gender-Pensions-Gap-Report-080622.pdf (fairpensionsforall.com)

As with the information on the gender gap in pension paid by occupational pension scheme, we have not analysed this data in any detail, and it is provided mainly for illustrative purposes. Again, we have provided the latest data available, and this may relate to different time periods.

Pension Provider	Gender Gap
Legal and General	55%
Scottish Widows	50%
Pension Bee	40%
Aviva	43%

- Institute for Fiscal Studies

Research published by the Institute for Fiscal Studies[11] in December 2021 provides a comprehensive analysis of the differences between men and women in all forms of work.

This provides very valuable insights into the labour market effects that contribute to the gender pension gap. This, in turn, helps inform policies that could tackle this problem over the longer term.

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.

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').

The IFS estimates that the vast majority of convergence in earnings that there has been in the last 25 years can be explained by the closing of the gender gap in education. This suggests that changes in policy, the economy and society have not had a significant impact on gender inequality in earnings.

[11] Andrew, A., Bandiera, O., Costa-Dias, M. and Landais, C. (2021), 'Women and men at work', IFS Deaton Review of Inequalities, https://ifs.org.uk/inequality/women-and-men-at-work

Causes of the gender pension gap

It is important to understand the main causes of the gender pension gap in order to develop effective policies to address it.

The gender pension gap is a backward-looking measure, its current level is the result of past policies and circumstances. Previous policy interventions will continue to affect the size of the gender pension gap over future decades. There will be a significant lag before it picks up the impact of any new policies to address gender inequality in pensions.

It is important to gauge the likely impact of past and current policies, and the extent to which they are expected to tackle this problem, to establish whether we are on track to close the gender pension gap and, if not, what more needs to be done and what the most effective policy levers would be.

The Pensions Policy Institute published a comprehensive study of the causes of the gender pension gap[12] in 2019. The institute for Fiscal Studies published research on this topic in 2021[13]. The analysis underpinning both these reports heavily influences the conclusions in this section.

Based on the available research, and our own analysis, we have determined that the main causes of the current gender pension gap are: lower state pension entitlement for women and lower earnings for women.

Women's lower earnings are a result of them being more likely to do unpaid work and receiving less pay per hour on average when they do paid work. It is important to separate out these factors when analysing the causes of the gender pension gap.

There are certain features of the labour market and pension system that cause the gender pension gap to be lower than it would otherwise be, and these are also discussed below as they are important to understanding the issue fully.

It is particularly important to understand whether future trends in these factors will cause the gender pension gap to widen or narrow.

There are aspects of the pension system that potentially drive different outcomes, or are even indirectly discriminatory by gender, but that are not a significant cause of the gender pension gap.

In this section we analyse the different causes of the gender pension gap. This analysis is the basis for our recommendations for tackling the gender pension gap.

Lower state pension income

DWP statistics[14] show that women received about £1,300 less state pension than men in 2020-21 on average. This represents approximately 18% of the overall shortfall in pension income.

State pension ages for men and women were equalised from November 2018, but average amounts of state pension for men and women will remain unequal for many more decades to come.

The current difference in state pension entitlement largely reflects the rules that applied over previous decades. There have been several significant reforms over that time

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[12] 2019-07-11 Understanding the gender Pensions Gap | Pensions Policy Institute

[13] Understanding the gender pension gap | Institute for Fiscal Studies (ifs.org.uk)

[14] DWP benefits statistics: August 2022 - GOV.UK (www.gov.uk)

(including better recognition of caring responsibilities and the introduction of the new state pension) that will reduce this gap.

This is illustrated by the following chart showing the gender gap for pre-April 2016 state pension, the new state pension and overall state pension (figures are for February 2021).

It is important to note that the difference in the gender gap for the pre-2016 state pension and the new state pension is the result of a number of different factors (particularly the different age profile of these groups) and not an indication that the new state pension itself has radically reduced the gender gap for state pensions (though the new state pension has had a positive impact in this respect).

In January 2016, the DWP published a revised impact assessment[15] of the introduction of the new state pension for people reaching state pension age after April 2016. This showed that this reform brought forward by over a decade, to the early 2040s, the point at which women get equivalent state pension outcomes to men.

But this is a forecast of when women will reach state pension age with equivalent outcomes to men. The average state pension for women will continue to be less than the average state pension for men for many decades afterwards.

However, the forecast does show that the gender gap in state pension income is expected to eventually close because of policies that have already been implemented. This will also bring the overall gender pension gap down over time.

Lower earnings

As noted above, women have lower earnings on average because they are more likely to either not be in paid employment or to work fewer hours in paid employment because of unpaid work commitments and because they earn less per hour on average when they are in paid employment.

It is important to separate out these issues because they will have different causes and different solutions may be appropriate.

- Less paid work (due to more unpaid work)

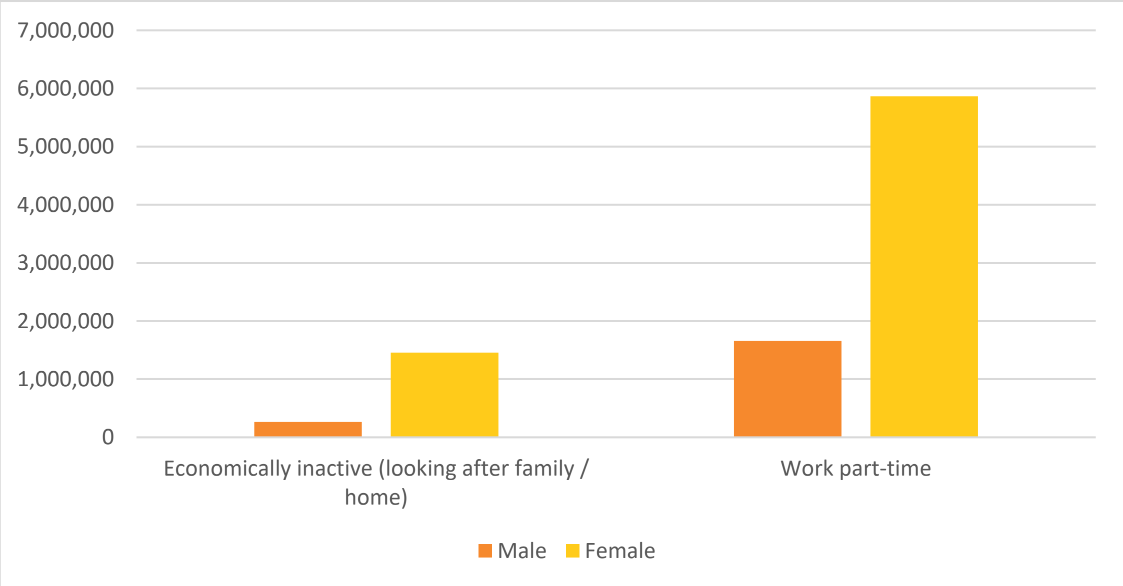
The IFS data showed that women were less likely to be in paid employment and worked fewer hours when they were in paid employment. This is not because women do less work

[15] New State Pension: impact on an individual's pension entitlement – longer term effects - GOV.UK (www.gov.uk)

overall. On average, considering both paid and unpaid work, the same IFS data showed that women do more work.

So, women do less paid work because they do a disproportionate share of unpaid work. This is largely a result of caring responsibilities.

The following chart shows the latest labour market statistics from the ONS (figures are from the Labour Force Survey for the period from May to July 2022) on the number of people who are economically inactive because they are looking after family or home and the number of people who work part-time (caring responsibilities are a major driver of part-time working).



In the past, the above pattern of labour market activity had significant impacts on both state and occupational pension income. While credits for caring responsibilities and the introduction of the new state pension is expected to eventually result in equal state pensions by gender, the impact on occupational pensions remains.

Occupational pension schemes provide an important, and generally growing, part of pensioners' overall retirement income.

As occupational pension income is directly related to hours worked, the fact that women are more likely to either not be in paid employment or to work fewer hours in paid employment because of caring responsibilities, has a major impact on the amount of occupational pension income they build up and, hence, on their total retirement income.

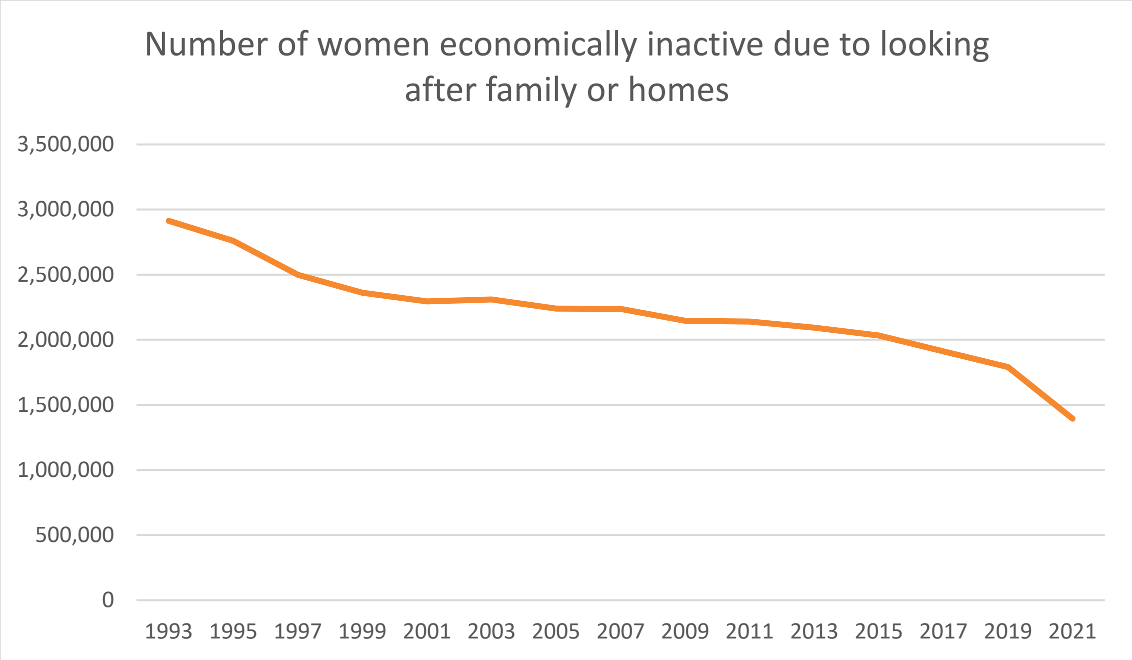
There is no equivalent of the credits for the state pension for women who are not in paid employment and losing out on building up occupational pension.

However, there has been a marked decline in the number of women who are economically active because they are looking after family or home. This was largely a result of interventions in the labour market to force or facilitate more paid work by mothers of young children. It was largely not due to much greater numbers of men taking on caring roles.

An element of the most recent decline appears to be due to the impact of COVID-19 on the labour market.

This significant decline over a long period of time should slightly reduce the gender pension gap over many decades to come.

The chart below shows the number of women who were economically inactive due to caring for family or homes, for selected years that this data is available for, from the Labour Force Survey[16] (for the period March to May in each year).



Similarly, working part-time due to unpaid caring responsibilities has a direct impact on the amount of occupational pension that can be built up.

Working part-time can also have an impact on whether someone is eligible to be enrolled in an occupational pension scheme because of the earnings trigger of £10,000 a year. This is discussed in more detail later in this section.

Some people will consider making additional pension contributions while working-part time to make up for the occupational pension that they are missing out on. However, not everyone will have the resources to do this, and the tax system often incentivises couples to make any additional pension on behalf of a partner working full-time rather than part-time.

There has been a slight upward trend in the number of women working part-time in recent decades. But because there has been a larger increase in the number of men working part-time the relative share of women working part-time has fallen.

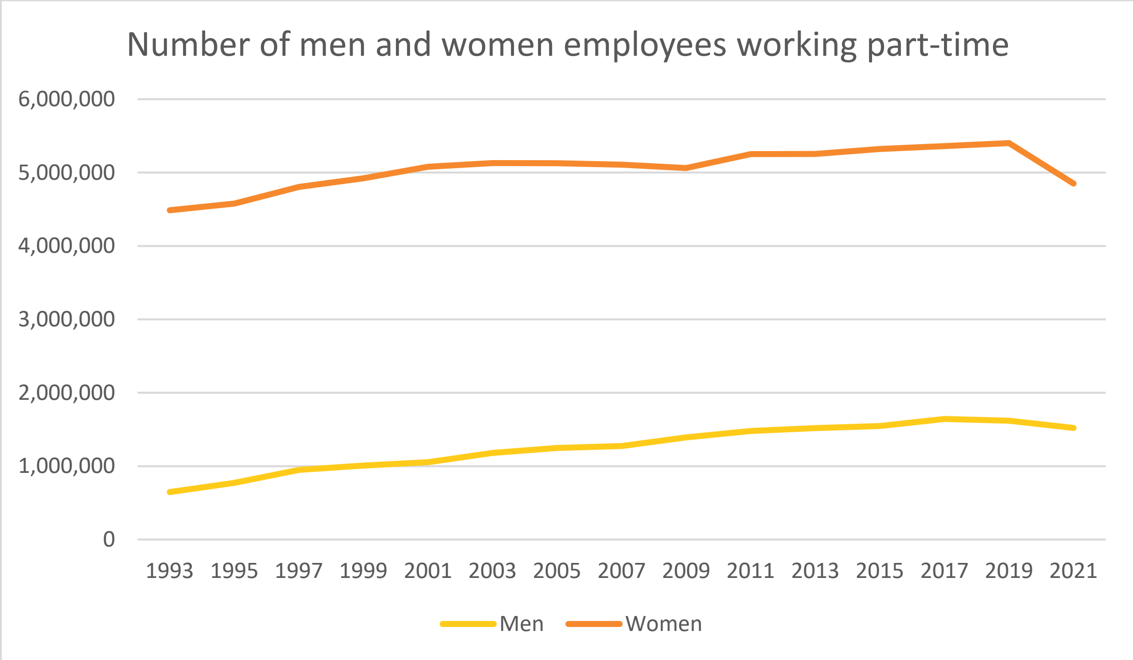
(We have not analysed the reasons for these trends, they are likely to be due several reasons and not necessarily indicative of a significantly greater number of men undertaking caring roles.)

These trends in part-time working for men and women are likely to result in a relative decline in the gender pension gap over time.

The chart below shows the number of men and women employees working part-time, for selected years that this data is available for, from the Labour Force Survey[17] (for the period March to May in each year).

[16] LFS: Econ. inactivity reasons: Looking after family/home: UK: 16-64: 000s: SA - Office for National Statistics

[17] EMP01 SA: Full-time, part-time and temporary workers (seasonally adjusted) - Office for National Statistics (ons.gov.uk)



- Lower earnings

ONS data from the Annual Survey of Hours and Earnings (ASHE) shows that the gender pay gap in average hourly earnings in 2021 was 15.4%.

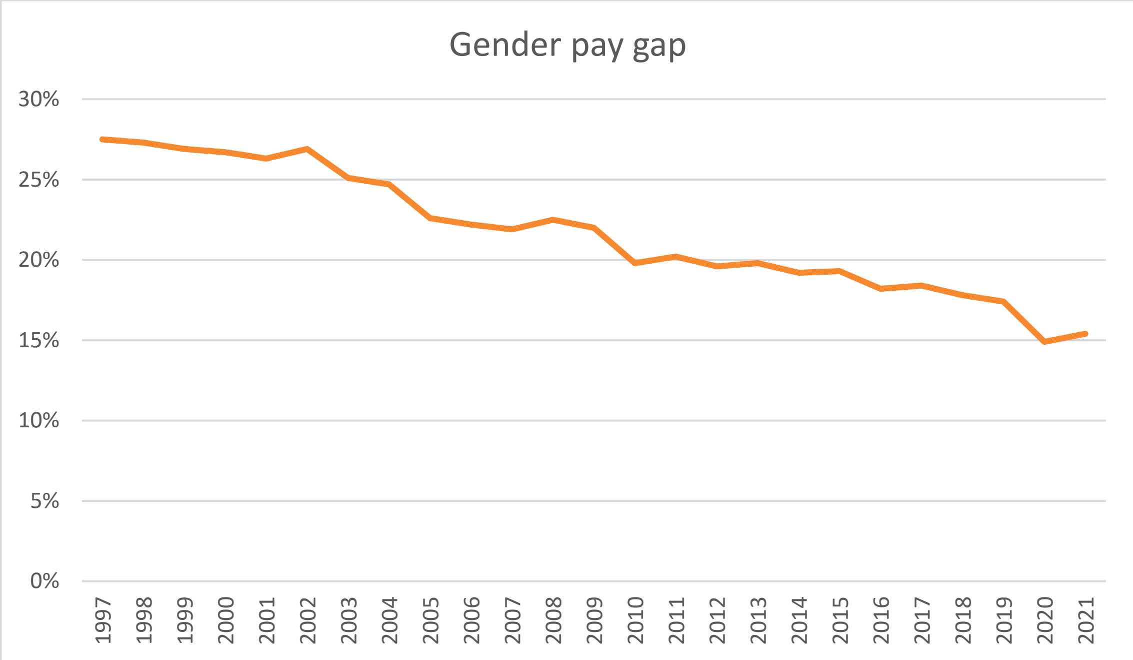
As occupational pension income is directly related to earnings, this will have an impact on retirement income.

The current gender pension gap is the product of the past gender pay gaps rather than the current gender pay gap. The gender pay gap has been reducing in recent years, this should result in a lower gender pension gap and mean that the gender pay gap becomes a less important cause of the gender pension gap over time.

However, the gender pay gap will persist for many years to come and, due to the lagging effect, it will remain a major cause of the gender pension gap for many more decades.

The chart below shows the gender pay gap for median gross hourly earnings (excluding overtime) from ASHE[18] for selected years (please note that there have been some discontinuities in this data series over time).

[18] Gender pay gap in the UK - Office for National Statistics (ons.gov.uk)



Self-employment

The self-employed are not a homogenous group but, overall, they are likely to have lower pension incomes in retirement[19]. They are less likely to qualify for a full state pension and much less likely to contribute to a private pension.

A detailed analysis of the main groups of self-employed workers and the drivers of their pension outcomes is beyond the scope of this report. This section just notes the impact of trends in self-employment on the current and expected future level of the gender pension gap.

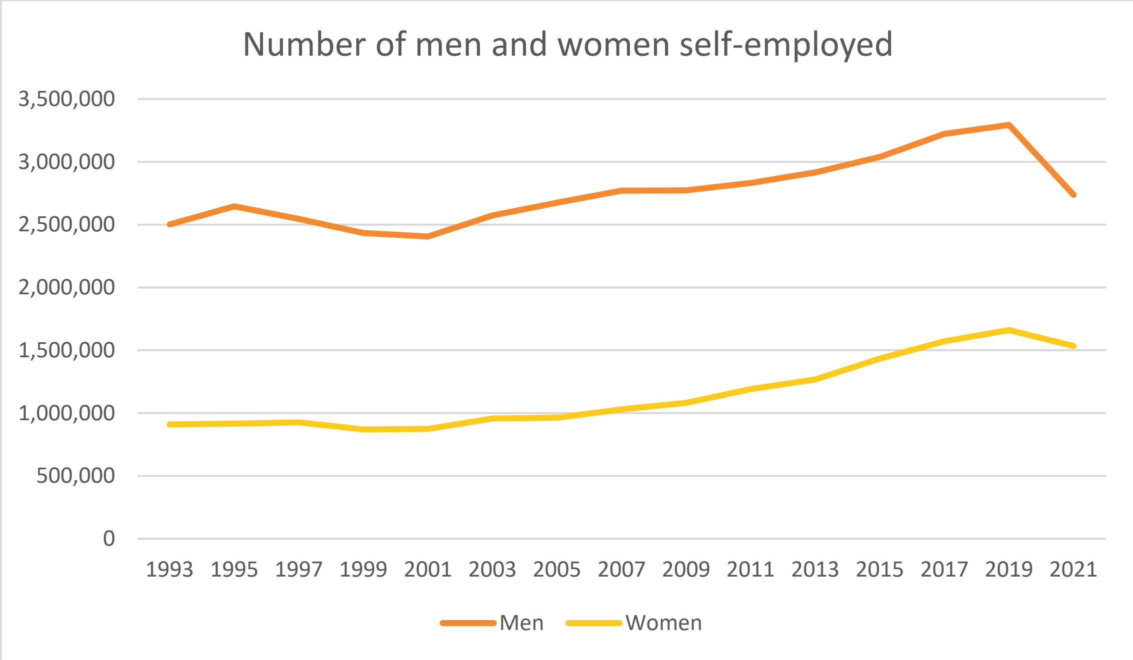
There are significantly more self-employed men than women. As the self-employed have lower pension incomes, this has reduced the current level of the gender pension gap. However, there has been a greater increase in self-employed women over the past few decades than men. This will tend to unwind the impact of self-employment on the gender pension gap and, all else being equal, cause it to increase over time.

The recent trend in self-employment, particularly for women, has been quite dramatic. It is worth investigating the nature of this trend, particularly on the type of self-employment involved, and the potential impact it could have on future retirement incomes in more detail.

The chart below shows the number of men and women self-employed, for selected years that this data is available for, from the Labour Force Survey[20] (for the period March to May in each year).

[19] U04061(1) PPI Underpensioned Report.indb (pensionspolicyinstitute.org.uk)

[20] EMP01 SA: Full-time, part-time and temporary workers (seasonally adjusted) - Office for National Statistics (ons.gov.uk)


Number of men and women self-employed
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
2021
Men
Women

Government policy and recent developments

We do not believe that the gender pension gap has had the level of attention it justifies, but it has been the subject of more discussion and commentary in the last year than we have seen before.

In particular, it has been raised on several occasions in Parliament, and increased parliamentary scrutiny is vital to making progress. We have summarised these developments in Parliament, and the government's response, below.

We have also summarised the actions that government has taken to address the gender pension gap, as well as those areas where it has failed to take action.

Finally, we have highlighted significant initiatives from other organisations who have been working on this issue.

Parliamentary scrutiny

The gender pension gap was discussed in Parliament on a number of occasions since our previous report was published.

- Work and Pensions Committee inquiry

The most detailed parliamentary scrutiny of the gender pension gap came out of the 'Protecting pension savers – five years on from the pension freedoms: Saving for later life inquiry'[21] by the Work and Pensions Committee.

The committee specifically called for evidence about "What the Government could be doing to close the gender pension gap" as part of the inquiry.

Prospect provided written and oral evidence that was in line with the research published in our previous reports.

The section of the committee's final report[22] about the gender pension gap is a comprehensive and authoritative analysis of the key policies issues.

We will cover these issues and the subsequent correspondence between the committee and the government later in this section.

- Debates in Parliament

The gender pension gap was the subject of an adjournment debate in the House of Commons on 19 April 2021 led by Patricia Gibson MP[23].

It was also raised at 'Women and Equalities' questions on 13 July 2022 by David Linden MP[24] and on 25 January 2023 by Patricia Gibson MP[25].

There was also an in-depth debate on this issue at House of Lords oral questions on 27 June 2022 initiated by Lord Davies of Brixton[26].

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[21] Protecting pension savers – five years on from the pension freedoms: Saving for later life - Committees - UK Parliament

[22] Protecting pension savers – five years on from the pension freedoms: Saving for later life (parliament.uk)

[23] Gender Pension Gap - Hansard - UK Parliament

[24] Gender Pension Gap - Hansard - UK Parliament

[25] Gender Pension Gap - Hansard - UK Parliament

[26] Gender Pensions Gap - Hansard - UK Parliament

The government's responses to these debates are covered below.

Government action

The government's plans for tackling the gender pension gap have been laid out in responses to parliamentary scrutiny of its actions and in its wider strategy for promoting gender equality.

This section covers these plans but also the specific policy actions that the government has undertaken since our last report.

The details in this section show that, despite welcome recent developments, government has a relatively disappointing overall record when it comes to addressing gender inequality in retirement income.

Government has no official target to reduce the gender pension gap or adequate method of monitoring progress in this area, though more recent developments in relation to measuring and reporting on the gender pension gap are outlined below.

Prospect believes that it is important that government has an official target to reduce the gender pension gap. We are calling for the DWP to include addressing the gender pension gap as one of its statutory equality objectives.

- Gender equality at every stage: a roadmap for change

In a previous report we noted the government's strategy for promoting gender equality: "Gender equality at every stage: a roadmap for change"[27].

We criticised the choice of indicators for monitoring progress. The gap in average weekly income of single male and female pensioners and the workplace pension participation rates for eligible employees by gender.

The gap in average weekly income of single pensioners will vary as the composition of these populations changes over time and so does not actually track progress in tackling gender inequality in retirement income.

Workplace participation rates are also a poor measure of gender inequality in pension income because they do not capture the impact of people not being in paid employment or working part-time due to caring responsibilities.

We also criticised the unambitious measures that the strategy committed the government to, such as updating the online divorce process to include a nudge and improved guidance to ensure that couples are aware of and consider the benefits of pensions sharing.

Despite these criticisms, it was welcome that the government had at least chosen some indicators to monitor progress on achieving gender equality in pensions and proposed some measures to improve outcomes.

Government has since failed to provide any of the annual progress reports to Parliament that is committed to. We submitted a Freedom of Information request for any internal reporting against the Gender Equality Monitor or in relation to the actions set out in the strategy.

The Cabinet Office's response[28] stated that in December 2020, the then newly appointed Minister for Women and Equalities (Liz Truss MP) set out a new approach to tackling inequality[29].

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[27] Gender equality at every stage: a roadmap for change - GOV.UK (www.gov.uk)

[28] https://library.prospect.org.uk/download/2023/00240

[29] Fight For Fairness - GOV.UK (www.gov.uk)

While the speech did not explicitly say so, the Cabinet Office Freedom of Information response makes it clear that the new approach replaced the previous strategy, ending its reporting and monitoring requirements. No progress report has ever been made to Parliament.

We also sent freedom of information requests to both the Ministry of Justice[30] and the Department for Work and Pensions[31] and neither department held any information about updating the online divorce process to include a behavioural nudge and improved guidance to ensure that couples are aware, and can consider the benefits, of pensions sharing.

The only conclusion that can be drawn from these responses is that this action has not been implemented and there are no current plans to do so. It would be extremely disappointing if the government has not implemented even these unambitious actions for improving gender equality in pensions.

- Responses to parliamentary scrutiny

Until very recently, government ministers have responded to parliamentary scrutiny on the issue of the gender pension gap in a fairly consistent way.

They have pointed to automatic enrolment and the new state pension system introduced in 2016 as policy measures that will tackle the gender pension gap.

As stated previously, it is misleading to suggest that automatic enrolment, by itself, will rectify the gender pension gap. Automatic enrolment cannot do anything about the issue of people, disproportionately women, not being in paid work or working part-time because of caring responsibilities, and this is the main cause.

It is also the case that women are disproportionately excluded from automatic enrolment because they are more likely to work part-time and hence be affected by the earnings trigger.

The 2016 reforms to the state pension have brought forward the year in which men and women are expected to reach state pension age with the same average entitlement to state pension. This is welcome.

However, inequality in state pension entitlement will persist for many decades to come. State pension is also a lower proportion of retirement incomes in the UK than in many other countries, and state pension reform cannot do anything about gender inequality in the other forms of pension provision.

The 2016 reforms also removed an element of positive recognition of caring responsibilities in the pension system (through an additional flat-rate state second pension credit, as well as the credit towards the main state pension).

When the Work and Pensions Committee wrote to the then Pensions Minister asking about the government's estimate of the gender pension gap, his response[32] cited three statistics:

(1) The automatic enrolment eligible employee workplace participation rate.
(2) Employee participation rate.
(3) Pension pot size for employees aged 16 to state pension age.

We have previously explained why the first two statistics are not useful measures of gender inequality in retirement incomes.

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[30] https://library.prospect.org.uk/download/2023/00241

[31] https://library.prospect.org.uk/download/2023/00242

[32] https://committees.parliament.uk/publications/28648/documents/172590/default/

Statistics on pension pot size by gender (based on the Wealth and Assets Survey undertaken by ONS) is a potentially useful measure. However, quoting the difference for employees aged 16 to state pension age greatly understates the problem. This is because the gender disparities emerge and grow throughout people's careers, and it is the difference at the point of retirement which is most relevant (and this will be far higher).

More recently, there has been a significant, and welcome, change in the government's approach to the issue of measuring and reporting on the gender pension gap.

- Measuring and reporting on the gender pension gap

As noted previously, the new Pensions Minister wrote to the committee about this issue in February 2023. In it, she said:

"Together with stakeholders across government, we are working to better understand the scale and challenge of the gender pension gap. Our aim is to find a suitable definition of the gender pension gap, which enables the development of a metric for measuring progress on reducing the gap. I am working with officials within the Department and across government to settle on an agreed definition. I am also looking at the possibility of regular reporting on the gender pension gap by DWP in order to better highlight the issue publicly."

This is very much in line with the primary action that Prospect has been calling for in each of our previous reports.

We welcome this development, and the new minister's approach to this issue in general. This would significantly increase the profile of the gender pension gap, which we believe is necessary to create the environment for the policies that will improve pension outcomes for women.

We wrote to the minister[33] to express our support. In her response[34] she said she has "asked my department to develop our understanding of the scale and nature of the challenge of the gender pension gap. We are currently working across government to find a suitable definition of the gender pension gap, which will support the development of a metric. This will enable us to begin regularly reporting on the issue and monitor progress towards closing the gap."

Prospect also wrote to the National Statistician[35] about the potential to produce official statistics on the size of the gender pension gap and had a very useful follow-up meeting with ONS officials.

- Review of automatic enrolment

Government ministers often cite the introduction and extension of automatic enrolment as actions they have taken to address gender inequality in retirement incomes.

For the reasons previously stated, automatic enrolment cannot fully address the gender pension gap because the main cause is the impact of caring responsibilities.

However, in the context of the UK's pension system, it is important that automatic enrolment is expanded further, starting with the implementation of the 2017 review[36], as well as future increases in the required employer contribution rate.

[33] https://library.prospect.org.uk/download/2023/00161

[34] https://library.prospect.org.uk/download/2023/00190

[35] https://library.prospect.org.uk/download/2022/00993

[36] Automatic enrolment review 2017: Maintaining the momentum - GOV.UK (www.gov.uk)

While the recent announcement[37] that the government will support legislation to facilitate implementation of the recommendations of the 2017 review of automatic enrolment is welcome, further regulations will be needed. There is still no timetable for publication of draft regulations or final implementation of the recommendations to extend automatic enrolment to 18-21 year olds and to require contributions from the first pound of earnings.

One element of the automatic enrolment system that was not subject to recommendations for reform in the 2017 review was the earnings trigger. This determines who is eligible to be automatically enrolled into a workplace pension scheme by their employer.

The earnings trigger has been set at £10,000 since 2014-15. It only excludes part-time employees and workers from automatic enrolment because anyone working full-time will earn over the threshold. Women are more likely to work part-time and are, therefore, disproportionately excluded from automatic enrolment.

Often the argument is made that it is important to keep the earnings trigger at this level because people who earn less do not particularly need additional savings on top of the state pension, which can replace over 100% of their income in retirement by itself.

This misunderstands the nature of the population that are excluded from automatic enrolment, they are part-time workers and not necessarily low earners.

People who are working part-time while, for example, juggling work and caring for young children, may well return to full-time work after a period and will be looking to replace those full-time earnings in retirement. It does not make sense to deliberately exclude this group from the benefits of automatic enrolment.

In the equalities impact assessment for the latest annual review of the earnings trigger[38], the DWP reported that aligning the earnings trigger with the Lower Earnings Limit (currently £6,396) would bring over 200,000 workers into automatic enrolment and that 69% of them would be women.

Prospect believes that the balance of arguments favours reducing the earnings trigger to the level of the Lower Earnings Limit, particularly after contributions become payable from the first pound of earnings, and government should implement this as soon as possible.

- 2016 reforms to state pension

Government ministers also often cite the impact of the 2016 reforms to the state pension when responding to questions about their actions to address the gender pension gap.

The introduction of the new state pension was expected to bring forward the year that men and women reach state pension age with equal average state pension entitlement by over a decade to the early 2040s.

However, this assessment[39] dates from January 2016 and it would be useful to see more up to date projections of future state pension entitlement by gender that allow for events since then.

It is also important to note that the 2016 reforms removed an element of positive recognition of caring responsibilities from the pension system. People who were not in paid employment because they were caring for young children were entitled to build up flat-rate state second pension (as well as credits for the main state pension).

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[37] Government backs bill to expand pension saving to young and low earners - GOV.UK (www.gov.uk)

[38] Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2023/24: Supporting Analysis - GOV.UK (www.gov.uk)

[39] Impact of New State Pension (nSP) on an Individual’s Pension Entitlement – Longer Term Effects of nSP (publishing.service.gov.uk)

As has been repeatedly shown, caring responsibilities are one of the main drivers of the gender pension gap and retirement outcomes for carers are inadequate. Consequently, Prospect has been calling for greater recognition of caring responsibilities in the pension system for many years.

We believe that the reintroduction of an additional state pension credit along the lines that applied in the previous system would be the most practical and efficient way of delivering this.

- Campaign to increase take-up of Pension Credit

Our previous reports called for a concerted campaign to encourage higher take-up of benefits that can boost women's pension income.

This was in response to evidence of low take-up of Pension Credit and that women pensioners were disproportionately losing out.

The latest evidence on take-up of Pension Credit published by the DWP[40] (for 2019-20) shows that it has improved slightly but is still only 70% (by caseload).

Single female pensioner households left an estimated £1.0 billion unclaimed compared to £0.3 billion for single male pensioner households. The average weekly amounts unclaimed by single female pensioner households was £19 (median) / £39 (mean). While these are significant sums, they reflect an improvement over earlier years.

The importance of Pension Credit is not just in the additional payment it provides to the most vulnerable households. It also gives access to other benefits such as help with housing costs, council tax, heating bills and free TV licences.

Prospect greatly welcomed the government's campaign to increase take-up of the Pension Credit that was launched last year[41]. This initiative has the potential to transform the lives of many of the poorest pensioners in the country, particularly women.

This campaign was co-ordinated with voluntary sector organisations and the wider pensions industry and featured innovative social media advertising. A particularly useful tool was the online Pension Credit calculator[42].

If anything, recent reports suggest that the campaign was so successful that it has led to a backlog of cases for people waiting to have their Pension Credit claim assessed. Any such backlog is, of course, disappointing and adequate resources should be deployed to resolve it, but there are significant long-term benefits if Pension Credit take-up increases.

- Tax relief for non-taxpayers contributing to pension schemes operating on a net pay basis

Each of our previous reports complained about the unfair treatment of low earners who were members of pension schemes that operate tax relief on a net pay basis.

The issue affects those who earn less than the personal allowance for income tax (currently £12,570). They are all part-time workers and, therefore, disproportionately female.

[40] Income-related benefits: estimates of take-up: financial year 2019 to 2020 - GOV.UK (www.gov.uk)

[41] Eligible pensioners urged to apply for Pension Credit in new campaign - GOV.UK (www.gov.uk)

[42] Pension Credit calculator - GOV.UK (www.gov.uk)

After many years of government failing to solve this problem, we welcomed the commitment in the 2019 Conservative Party manifesto[43] to "conduct a comprehensive review to look at how to fix this issue".

In July 2022, the government published a plan to address this issue[44]. From tax year 2024-25 a proposed amendment to the Finance Act 2004 will place a duty on HMRC to make arrangements, so far as reasonably practicable, to pay to eligible individuals the appropriate amount of tax relief in relation to their pension contribution.

HMRC estimates that from April 2024, an estimated 1.32 million people, will be eligible for this top-up. Women are estimated to make up 75% of those earning below the personal allowance and contributing to a pension scheme that uses net pay arrangements and hence eligible to benefit.

- High Income Child Benefit Charge

People accumulate State Pension entitlement through 'qualifying years' of National Insurance contributions or credits. Carers' credits are available to help protect entitlement. Eligibility criteria include being registered for Child Benefit for a child under 12, even if you do not receive it.

The Coalition Government introduced a High Income Child Benefit Charge, which provided for Child Benefit to be clawed back through the tax system from families where the highest earner has an income in excess of £50,000 and withdrawn completely at incomes of £60,000 or more.

Families with one partner earning £60,000 or more can opt not to claim Child Benefit or to claim but not receive it. The advantage of the latter is that they are then covered by NI credits.

HMRC figures show that 456,085 people (84% of them women) opted out of receiving Child Benefit between the time the High Income Tax Charge was introduced in 2013 and 2018[45].

In its 2019 report, "Taxation and Life Events"[46] the Office of Tax Simplification said, "it is unreasonable that the way the linkages in the system work mean that people can easily disadvantage themselves, especially if they cannot correct this later."

It called on HMRC to "review the administrative arrangements linked to the operation of Child Benefit, making clear the consequences of not claiming the benefit, with a view to ensuring that people cannot lose out on national insurance entitlements."

It also said that government, "should consider the potential for enabling national insurance credits to be restored to those people who have lost out through not claiming Child Benefit."

In March 2022, the Office of Tax Simplification published an evaluation update paper on the High Income Child Benefit Charge[47]. This noted that HMRC had made limited progress on the recommendations in its 2019 review.

As well as recommending improvements to the language used in related guidance and to the processes for administering the charge, the Office of Tax Simplification also recommended, "allowing those who didn't claim child benefit to receive national insurance credits to which they would have been eligible if they had claimed."

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[43] Conservative Party Manifesto 2019 (conservatives.com)

[44] Pensions relief relating to net pay arrangements - GOV.UK (www.gov.uk)

[45] Written questions and answers - Written questions, answers and statements - UK Parliament

[46] OTS Life Events review: Simplifying tax for individuals - GOV.UK (www.gov.uk)

[47] OTS HICBC evaluation note (publishing.service.gov.uk)

Prospect strongly endorses this recommendation. It is an injustice for parents (disproportionately mothers) to potentially lose out on state pension entitlement due to the complexity of administration of child benefit.

It would not be difficult to allow parents who discover they are affected by this problem to claim credits for past years.

In his correspondence with the Work and Pensions Committee, the then Pensions Minister suggested that this is not a significant problem because many of those opting not to receive Child Benefit will otherwise have a qualifying year through employment or self-employment, and, even if not, they may otherwise have the 35 qualifying years required for a full state pension.

These are not adequate excuses for failing to fix the problem. Losing state pension entitlement for this reason is unacceptable no matter how many people are affected (and the government has provided no evidence that the number involved is minimal).

There is also the possibility that the minimum number of qualifying years for a full state pension could be increased in the future, and women not currently expected to be affected by this issue could start to be.

- State pension errors affecting women

In recent years several errors in the calculation and payment of state pension have been uncovered as a result of investigations by Lane Clark and Peacock (led by former pensions minister and LCP partner, Sir Steve Webb).

These errors have been caused by a combination of complex rules around state pension entitlement and computer problems.

While many errors have been highlighted, the most significant disproportionately affect women. Many tens of thousands of women have been affected, with some losing out by tens of thousands of pounds.

The first main error was uncovered some years ago. It related to the rules for calculating state pension entitlement for people who reached state pension age under the previous system.

One issue was that married women could be entitled to a basic state pension of 60% of the rate their husband got. As many married women will historically have gaps in the national insurance records for caring and other reasons, this rate could be higher than the entitlement based on their own contributions.

The DWP's computer system should have automatically boosted married women's pensions to the 60% level (if this was higher) in the case of men reaching state pension age after March 2008. But it failed to do this in many cases.

Women whose husband reached state pension age before March 2008 were required to make a claim for the enhanced pension rate. DWP claimed to have written to these women to alert them of the option, but many did not receive these letters.

Women who were widowed or divorced (particularly if they were divorced later in life) could also be entitled to an enhanced rate of basic state pension because their entitlement could be based on their former husband's national insurance record. These enhancements were not always paid either.

Hence widowed, divorced or older women who had poor national insurance records in their own right (because of caring responsibilities, from paying the special reduced national insurance contribution rate for married women or otherwise) were most likely to be affected.

LCP produced a calculator to help people check if they are affected by these issues. It is available from:

Is your state pension being underpaid? | Lane Clark & Peacock LLP (lcp.uk.com)

A second issue affects the calculation of state pension under the new system for women who paid the special reduced national insurance contribution rate. These women may qualify for a enhanced rate if they are married, divorced or widowed and would otherwise get a low pension in their own right. Individual cases have highlighted that some women are not being paid the correct rate.

On 11 January 2021, DWP began an administrative exercise to identify and correct cases where women have been underpaid state pension. Initially the process was expected to be completed by the end of 2023.

This was based on initial estimates that 134,000 women were underpaid by over £1 billion, or an average of £8,900 each (see NAO report[48]). However, it was noted that the true losses would only become clear once a review of all possible cases had been completed.

The DWP's annual report[49] for 2021-22 said that it, "now estimates that it has underpaid 237,000 state pensioners a total of £1.46 billion, with underpayments dating as far back as 1985". Again, this is only an estimate based on the latest available information and will be revised as cases are reviewed.

The Department aims to complete its review of the married and over-80 groups by the end of 2023. It is reassessing its deliver plan for the widowed pensioner group because the number identified has increased significantly but it admits that processing speed will have to increase significantly to complete the exercise by the end of 2024.

Prospect is calling on the government to complete this exercise before the end of 2024 and to ensure the necessary resources are committed to achieve this.

Research by pension providers and other organisations

Many other organisations have undertaken research on the gender pension gap and proposed measures to address it. Organisations that provide large pension schemes for employers to use to meet their automatic enrolment obligations have been particularly active in this area.

In the past we have highlighted research from the People's Pension about the impact of the "motherhood penalty" and also the interaction between the gender and ethnicity pension gaps.

Scottish Widows has produced a long series of reports ("Women and Retirement") about the size of the gender pension gap in the pension pots of its customers and the main causes.

NOW: Pensions has produced a lot of research on the gender pension gap (often in association with the Pensions Policy Institute). Since our last report, NOW: Pensions has published, "The Gender Pension Gap Report 2022 … and how to close it"[50].

As well as highlighting the size of the gender pension gap, this report gave information about how women could mitigate the impact of the gender pension gap on their income in retirement and quantified the amount of additional savings that would be required in certain circumstances to make up for gaps in contributions caused by caring responsibilities.

Another highly relevant report, "Caregiving Dads, Breadwinning Mums"[51]" by researchers from the University of Lincoln (funded by the Nuffield Foundation) gave very important

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[48] Investigation into underpayment of State Pension - National Audit Office (NAO) report

[49] Annual Report and Accounts 2021-22 (publishing.service.gov.uk)

[50] gender-pensions-gap-report-2022-080622.pdf (nowpensions.com)

[51] Caregiving-Dads-Breadwinning-Mums-Full-Report-September-2022.pdf (nuffieldfoundation.org)

insights into issues around caring and these are discussed in the next section about caring and the gender pension gap.

Pensions and divorce

The treatment of pensions on divorce is a very important issue. This is considered in more detail in the relevant section of this report.

In July 2019, the Pension Advisory Group, a multidisciplinary group of professionals specialising in the field of pensions on divorce, published “A guide to the treatment of pensions on divorce”.

This made an important contribution to the technical understanding of relevant professionals of issues around the treatment of pensions and divorce.

Following feedback on that guide, the chairs of the Pension Advisory Group decided to reconvene its working groups with a newly constituted committee. They aim to update and review their guide with a target to complete their work by the end of October 2023.

Caring responsibilities

The main cause of the gender pension gap is the impact of caring responsibilities. We could just as productively focus our research and recommendations on the carers pension gap.

For as long as women are more likely to be out of paid work, or working part-time, due to looking after young children or others, then the carers pension gap will have a gender dimension.

More equal sharing of caring responsibilities and more access to affordable childcare will begin to address this issue and bring the gender pension gap down.

However, it is important to ensure that caring responsibilities are properly valued and that carers did not suffer financial detriment due to carrying out this vital role.

Even if caring was always shared equally by gender, so that it did not cause any gender inequality in retirement incomes, it would still be important to ensure that caring responsibilities were properly recognised in the pension system.

For these reasons, policies to tackle the impact of caring on the gender pension gap need to look both at the issue of who is doing the caring and the impact of caring on retirement incomes.

- Who cares for young children

This section draws heavily from the conclusions of the report, “Caregiving Dads, Breadwinning Mums”, by researchers from the University of Lincoln (funded by the Nuffield Foundation) mentioned previously.

Their findings showed that both fathers and mothers want to spend time with their young children and be closely involved in their lives. However, couples often feel forced to identify a main carer with reduced involvement in paid work and a main breadwinner with reduced involvement in childcare.

Opportunities to enable both parents to be equally involved in work and care are constrained by gendered parenting leave entitlements, long work hours cultures, limited options for flexible and part-time working and expensive inaccessible childcare.

The most common arrangements are mothers as the primary carers who arrange their paid work to accommodate childcare, with fathers as the main breadwinners who share childcare in the evenings and weekends only.

Where couples could organise more equal sharing of paid work and caregiving, they reported the highest levels of satisfaction with their arrangements.

The reports main recommendations were:

(1) Equal parenting leave, including non-transferable ‘use-it-or-lose-it’ Parental Leave for fathers.
(2) Policies to support shorter and more flexible work hours for both fathers and mothers.
(3) Clearer, more visible workplace policies underpinning family-friendly cultures.
(4) High quality affordable childcare provision to enable both parents to return to work after parenting leave.

- Recognition of caring responsibilities in the pension system

There is some recognition of caring responsibilities in the current system. Someone not working because they are looking after a child under 12 qualifies for credits that count towards state pension entitlement.

However, protecting entitlement to state pension will not, by itself, adequately recognise caring responsibilities in the pension system.

This is because people who work less in order to care for family will generally lose out on building up occupational pension, as well as state pension, and the current credits only protect the former.

There is a strong case for additional provision to recognise the loss of occupational pension resulting from caring responsibilities.

We have previously argued for a return to a form of credit under the previous state pension system (for people who reached State Pension Age before April 2016), where there was additional recognition for people with childcare responsibilities.

Under that system, people looking after children under 12 and claiming child benefit were entitled to a flat-rate state second pension credit in addition to their a credit towards the basic state pension.

At the time it was removed this credit was worth an additional £1.80 per week (in 2015-16 terms).

Our preferred approach would be for a new credit of £2 per week to be introduced in the new state pension system for people who are not in paid employment because they are caring for young children.

We believe this approach would be the most efficient way of recognising caring responsibilities in the pension system because it could be delivered entirely within the current state pension architecture. It would not require new processes for interactions between employees, employers, pension providers and government. There would be no deductions for management or other charges.

From government's point of view there would be no immediate upfront cost to be met as the new credits would be funded on a PAYGO basis, like the rest of the state pension system.

Alternative approaches have been suggested by other organisations. Ultimately, we think it is most important to improve the recognition of caring in the pensions system, and we would be supportive of any measure likely to achieve this.

Sharing Pensions

The issue of sharing pensions between couples, particularly parents, is crucial. The impact of caring responsibilities on the gender pension gap has been covered extensively in this report.

Often parents pool financial and other resources and share the cost of raising children (including the opportunity cost of income foregone).

But the long-term impact of caring responsibilities on income in retirement can be overlooked. The main care giver in a couple (disproportionately women) may find themselves relying on their partner to make up shortfalls in pension income.

However, circumstances may be different at that time and their partner may be unable or unwilling to provide support.

For this reason, it is important to understand how pension rights can be shared between couples and to ensure that carers' rights are appropriately protected.

Couples who are not married or in a civil partnership

Figures from the 2021 Census[52] show that the proportion of adults in England and Wales who have never married or been in a civil partnership has grown from 26.3% in 1991 to 37.9% in 2021.

It is reasonable to conclude from these statistics that an increasing proportion of parents who are raising children together are doing so without getting married or entering a civil partnership.

Couples who are not married or in a civil partnership are subject to a different legal framework when their relationships end, and this can have a significant impact the rights of carers.

Many do not realise that there is no automatic right to financial support, even if the couple has been together for many years and one partner has scaled back their career to look after children.

It is also the case that some (particularly older) defined benefit pension schemes do not pay dependent's pensions to surviving cohabiting partners. This can come as a very unwelcome shock that can have dire financial consequences.

Even where defined benefit pension schemes do cover surviving cohabiting partners, it can be more difficult and stressful for beneficiaries to prove their eligibility than it is for married partners or those in civil partnerships.

The Women and Equalities Committee published a report[53] on the rights of cohabiting partners in August 2022. This recommended better legal protection for cohabiting couples in England and Wales.

In its response[54], the government rejected this recommendation. It said it would complete existing reforms around marriage and divorce, including reviewing the law on financial provision around divorce, before considering new legal changes for cohabitants.

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52 Marriage and civil partnership status in England and Wales - Office for National Statistics (ons.gov.uk)

53 The rights of cohabiting partners (parliament.uk)

54 The rights of cohabiting partners: Government response to the Committee's Second Report (parliament.uk)

Prospect is calling on the government to strengthen the legal protection for cohabiting couples.

Couples who are married and in civil partnerships

Couples who are married or in civil partnerships are subject to a different legal framework when legally ending their relationship (for simplicity, technical differences between the treatment on divorce and dissolution of civil partnership are ignored in the rest of this section).

However, there are a number of issues that can mean that rights are not always fully upheld.

Whether for this reason, or otherwise, divorce is highly correlated with negative outcomes for women's retirement income.

PPI research[55] showed that, amongst those aged between 60 and 64 years old, divorced men have 33% less pension wealth and divorced women have 50% less pension wealth on average.

Findings from a Manchester Institute for Collaborative Research (MICRA) seedcorn project[56], supported by the PPI, showed that divorced women not cohabiting in their late 60s have less than 30 per cent of the pension of equivalent men.

The financial protection that the legal framework around divorce and dissolution of civil partnership is supposed to provide does not seem to be fully protecting divorced women. It is important to understand why this is.

- Lack of reliable statistics on pension sharing orders

When pension sharing was first introduced in 2001, the Government committed to reporting on the use of pension sharing orders to monitor the effectiveness of the policy.

Until November 2020, monitoring was principally achieved through the Ministry of Justice's Quarterly Family Court Statistics, but these figures were withdrawn due to not being of sufficient quality for official statistics.

It is known that, at most, only 40% of divorces will end with any financial order. Due to the data problems in this area, it is not possible to know what proportion include a pension sharing order but it could be as low as 5%.

Written evidence[57] from Professor Debora Price to the Work and Pensions Committee inquiry stated that a new digital system for court statistics could produce more reliable data. However, there would be some difficult technical issues to overcome, and she suggested that methodological research verify what is captured.

The Committee recommended that, "As a first step towards a strategy to improve take-up of pension sharing on divorce, we recommend that DWP work with the Ministry of Justice and experts in the area to produce regular and reliable statistics on pension sharing orders."

In her letter to the Committee on 7 February 2023, the new Pensions Minister stated that, "On pension sharing on divorce, my department have already begun to engage with the Ministry of Justice and His Majesty's Courts and Tribunal Service, who are responsible for pension sharing order statistics. I am seeking to understand the barriers to producing regular statistics on this issue and raising awareness of what can be a complex process."

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[55] 241304(1) PPI Understanding the Gender.indb (pensionspolicyinstitute.org.uk)

[56] Pensions and Divorce: Exploratory Analysis of Quantitative Data (manchester.ac.uk)

[57] https://committees.parliament.uk/writtenevidence/109766/pdf/

Prospect endorses the call for better statistics on the incidence of pension sharing orders on divorce.

- Impact of new divorce rules

Under previous law in England and Wales, a divorce could only be granted on the basis of the 'irretrievable breakdown' of a marriage. A period of separation of at least two years was regarded as sufficient evidence, provided both parties agreed. But to divorce more quickly required one spouse to demonstrate 'fault' on the part of the other spouse – for example, because of alleged adultery.

From April 2022 there has been a new system which removes the requirement to prove 'fault'. This system is online by default. A party that does not want the divorce to go ahead can generally do little to stop it. Financial matters are dealt with by a separate and parallel process which can sometimes continue after the final order has been granted.

Many aspects of the new system, such as the removal of the need to find 'fault' and its streamlined nature, have been welcomed. However, there are concerns that it could further undermine the effective sharing of pension wealth on divorce.

A paper[58] by Sir Steve Webb, partner at LCP, and Rhys Taylor, barrister with The 36 Group, outlined their fears about how the new system might lead to greater unfairness in the sharing of assets at divorce, particularly with regard to sharing of pensions.

Their particular concern was that the focus on speed and 'moving on' may be to the detriment of fairness when it comes to pensions because anything seen as complicated, emotionally-charged or time-consuming would not get the attention that it deserves.

They recommended that the Ministry of Justice:

(1) Monitor the number of divorces involving financial settlements and any trends in this since the new system came in.
(2) Keep in mind the need for effective prompts or 'nudges' to the parties to give due weight to pensions.
(3) Evaluate the outcomes achieved by those handling their own divorce, whether through the court process ('litigants in person') or without using the court system at all (in which case there can have been no pension sharing) and the fairness of the financial outcomes achieved. If there is evidence of seriously poor outcomes, it should review the case for the wider provision of legal aid in certain circumstances.

Prospect endorses these recommendations.

- Actions about divorce process in 'Gender equality at every stage: a roadmap for change'

We previously reported about the apparent lack of progress in meeting the objective included in the government's previous strategy for achieving gender equality, to update the online divorce process to include a behavioural nudge and improved guidance.

Clearly this should be a priority for the Ministry of Justice.

- Assistance with allowing for the impact of pensions in divorce cases

We previously mentioned the Pension Advisory Group's 2019 report, "A guide to the treatment of pensions on divorce". This made an important contribution to improving understanding of how pension wealth can and should be shared on divorce.

We welcome the Pension Advisory Group's review of this report and look forward to the publication of an updated version later in the year.

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[58] "You've got mail" – the new divorce law and its potential impact on the sharing of pensions in England and Wales (lcp.uk.com)

The organisation, Law for Life, has also published a guide[59] for use by litigants in person called, “A survival guide to pensions on divorce”. This provides welcome support to people who cannot afford legal representation and cannot access legal aid.

Couples who stay together

The previous sections focussed on the risks affecting women when relationships end, and pension wealth is not shared fairly.

However, there are increasing issues affecting women who remain in relationships (whether as cohabiting partners, spouses or civil partners).

Historically, occupational pension provision was more likely to be on a defined benefit basis. These types of schemes generally automatically offered a generous ongoing pension to surviving spouses (and civil partners when the relevant legislation came in and was strengthened by case law). Cohabiting partners were less likely to qualify for survivors’ pensions but often did.

Increasingly occupational pension provision, particularly in the private sector, is on a defined contribution basis. It is up to savers to decide how to use their accumulated pension pot to secure income throughout their retirement.

There is no requirement for savers to use their pension pots to secure income for a surviving partner. This can leave partners who have less pension savings, due to taking on caring responsibilities, exposed to greatly financial risk.

It is possible that the removal of the requirement for most defined contribution scheme members to annuitise (under ‘Freedom and Choice’) will have exacerbated this trend, with fewer people considering buying joint life annuities.

‘Freedom and Choice’ is also likely to have resulted in many defined benefit pension scheme members giving up rights in their schemes (including to survivors’ pensions) in return for cash equivalent transfer values. Partners’ benefits may suffer as a result.

It is important for the government to monitor trends in providing for partners’ pensions from occupational pension schemes.

[59] A survival guide to pensions on divorce | Advicenow

What Prospect will do

Prospect will continue our campaign to tackle the gender pension gap and secure better outcomes for women in retirement.

We believe that our annual report and associated lobbying play an important role in highlighting this problem, and we hope this will eventually lead to concrete policies that address it.

While these efforts are worthwhile, it is also important that we ensure that our representatives and members are given the information they need to help mitigate the impact of the causes of the gender pension gap that we have outlined earlier in the report.

Action for branches

We want to further embed our campaign to tackle the gender pension gap in the negotiating agendas of Prospect branches.

The National Executive Committee will be rolling out guidance on how this can be done, and we will promote that to negotiating officials and lay representatives.

This guidance will cover issues such as:

(1) Knowing more about the gender pension gap in your organisation

Mandatory reporting of the gender pay gap has highlighted organisations that have a particular problem in this area and spurred action to address gender inequality in pay.

It is not possible to report on an organisation's gender pension gap in the same way (some employers participate in multi-employer schemes and will not have information specific to their organisation, often the figures for the gender pension gap for pensioners will not be relevant to the current workforce who may not have access to the same scheme, in many cases employers will not know anything about the size of their employees' pension pots).

However, it will usually be possible to produce some useful information (such as about opt out rates or level of contributions by gender) and this can help make the case for changes that might be necessary.

(2) Negotiating to go beyond the minimum legal requirement on employers

There are features of the automatic enrolment system that employers or engagers can take advantage of to restrict eligibility for automatic enrolment.

These include not automatically enrolling people earning less than the earnings trigger (currently £10,000) and postponing assessment for automatic enrolment by up to three months.

These measures disproportionately exclude women from the benefits of automatic enrolment.

While it is possible for workers to opt in if they are otherwise excluded by these measures, this is unlikely to happen very often in practice.

Prospect is lobbying to remove or reduce these exclusions, but so long as they apply it is possible for branches to seek agreement from employers and engagers to voluntarily stop applying them.

A similar approach could be made in relation the issues of automatically enrolling 18 to 21 year olds and paying contributions from the first pound of earnings (until regulations to formalise both these changes come in to force).

(3) Improved parental leave and childcare support

The bargaining that branches already do around improving parental leave, childcare support, flexible working and other family-friendly workplace policies will directly reduce the impact of caring on women's pensions.

It is important that branches go beyond just negotiating the best possible policies, but also promote understanding of these in the workplace.

Often parents experiences are highly individualised and depend on factors such as a supportive (or unsupportive) managers and being aware of the relevant policies and confident enough to assert their entitlement to them.

Prospect branches can be a resource for members to turn to in order to understand what the policies are and help ensure they are applied fairly and consistently to all.

(4) Ability to make contributions on behalf of an employee on parental leave

Employers face certain legal requirements in relation to paying pension contributions on behalf of employees on parental leave.

However, they are not generally required to make contributions on behalf of employees who move on to unpaid leave.

This impact of caring responsibilities is one of the main causes of the gender pension gap. Prospect is campaigning for changes to better recognise caring in the pension system but, until this happens, members have to work within the parameters of the existing rules.

Branches will be encouraged to see whether arrangements that facilitate the payment of contributions on behalf of employees on unpaid leave or improved employer contributions for employees on parental leave could be negotiated.

(5) Information for members

The information about the gender pension gap that we provide to Prospect members will be refreshed. We hope this will give members the tools to mitigate the impact of the current system on their retirement income.

It will be specifically tailored to the most appropriate information that members will need at certain stages of their lives or careers (eg starting a job, starting a relationship, having children, retiring).

We will distribute this information centrally and in different forms. But we will mainly look to branches to have one-to-one conversations with members in the workplace about the things they need to be aware of and how the information we provide can potentially help them.

Contribution structures in defined contribution pension schemes

As part of our research for this report, we asked a number of large employers that operate defined contribution pension schemes with a matching contribution structure for a breakdown of numbers paying at different contribution rates by gender.

There is no single matching contribution structure so we asked for the breakdown of the numbers paying at the minimum, maximum and an intermediate level of contributions in order to aggregate the data.

The results are set out in the table below. There are some caveats to be aware of:

(1) The employers that provided figures are not representative of the overall UK labour market. They come from the pool of large organisations where Prospect has recognition agreements. These include employers in broadcasting, heritage, defence, energy and nuclear.

(2) We only looked at aggregate data by gender and did not control for the potential effect of age or earnings or other factors.

However, the figures are fairly stark and strongly suggest that women are less likely than men to avail of higher matching employer contributions.

	Minimum Level	Intermediate Level	Maximum Level
Male	15%	27%	58%
Female	22%	31%	47%

This poses a challenge to Prospect branches. Matching employer contributions have traditionally been viewed as an effective tool for allowing people who valued pension savings to get valuable contributions from their employers.

But if this structure produces worse outcomes for some groups with protected characteristics, then can it be justified?

This question is particularly pertinent at a time when a cost of living crisis is making pension saving feel less affordable for many.

It is incumbent on branches to understand the impact of any relevant contribution structure and to consider whether alternative approaches might be more appropriate.