prospect

Report

Tackling the gender pension gap, 2019

Tackling the gender pension gap – 2019

Prospect has been campaigning on the gender pension gap – the percentage difference in pension income for female pensioners compared to male pensioners – for many years.

Our first report on this in 2018 included:

- research showing that the UK's gender pension gap in 2016-17 was 39.5%
- an analysis of the causes of the gender pension gap and
- policies to tackle it.

The report exposed the scale of the problem and the true level of gender inequality in retirement income for the first time. We believe this helped to raise the profile of the issue – which is vital in making the case for action.

This report builds on our previous work and includes an estimate of the UK's gender pension gap in 2017-18, further relevant analyses and a summary of the main developments in the past year.

Our latest research shows that the UK's gender pension gap in 2017-18 actually increased to 39.9%. This increase in gender inequality should be a call to action for policymakers and others.

While disappointing, it should not be hugely surprising that the gender pension gap increased between 2016-17 and 2017-18. After all, the government had no plan to reduce it over that period.

It is possible that the increase in the estimate of the gender pension gap is down to sampling variation or another factor that is temporarily masking an otherwise downward trend. However, the general lack of progress is clear and very worrying.

The gender pension gap has to be tackled because it results in women having less comfortable retirements than men and being more likely to suffer anxiety about their finances. By the time women realise they are affected, it is usually too late for them to do anything.

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Summary

Our latest research shows that the UK's gender pension gap – the percentage difference in pension income for female pensioners compared to male pensioners – was 39.9% in 2017-18.

This is more than twice the gender pay gap of 17.9% in 2018 and represents an average difference in pension income by gender of about £7,000 a year.

While it is only a small increase over the estimate of 39.5% for 2016-17, it is hugely disappointing that the recent gradual improvement in this benchmark for pension inequality has gone into reverse.

Other data sources, including HMRC, the Department for Work and Pensions, the Office for National Statistics and the European Commission, all support Prospect's estimate of the gender pension gap and demonstrate an unacceptably high level of gender inequality in pensions.

The main causes of the gender pension gap are:

- inequality in the average level of state pension awarded to men and women. This is not projected to be fully addressed until about 2041 (but only for people reaching State Pension Age from that year)
- the impact of women taking breaks from paid employment or reducing hours worked to look after family
- the cumulative impact over time of women earning less on average than men (the gender pay gap).

Numerous instances of indirect gender discrimination are also built into the pension system itself.

Prospect is calling for:

- a statutory requirement for the government to report to Parliament on the gender pension gap and its plans for tackling it
- an additional state pension credit worth £2 a week for each year that someone is not working because they are looking after children under 12
- measures that make affordable childcare more widely available so that people who want to return to work can do so
- reform of automatic enrolment from the earliest possible date so pension contributions are paid from the first pound and the earnings trigger is scrapped
- an independent Commission to consider the appropriate level of contributions under automatic enrolment
- a concerted campaign to encourage higher take-up of credits that can boost women's pension income
- changes to the tax system to resolve the problem whereby low earners in 'net pay' pension schemes do not benefit from tax relief on their contributions.

Prospect's estimate of the gender pension gap

In our previous report we highlighted the difficulties caused by the lack of an official government estimate of the gender pension gap.

Awareness of this problem is significantly impaired by the lack of an official estimate and must surely contribute to the relatively low priority that has been given to resolving it.

So Prospect produced its own estimate of the gender pension gap in the UK in order to highlight the fact that the problem exists and to track progress on dealing with it.

It was very important to us that our estimate of the gender pension gap was generally accepted as robust, so we based it on an analysis of responses to a survey run for the Department for Work and Pensions (DWP) – the Family Resources Survey (FRS).

The FRS is a household survey that collects information on a representative sample of private households in the UK. The sample size is very large – more than 40,000 addresses for 2017-18. The FRS is used extensively within and outside the DWP to, for example, estimate living standards and benefit take-up rates.

FRS data are designated by the UK Statistics Authority as national statistics (though this does not imply that our use of FRS data to estimate the gender pension gap has any official designation).

We do not claim that our estimate is definitive, and we would welcome our estimate being superseded by an official estimate from the government. But in the absence of alternatives we believe that our estimate is the best indicator of gender inequality in pensions currently available.

The table below gives our estimate of the gender pension gap in the UK for the most recent years that data is available.

	2014-15	2015-16	2016-17	2017-18
Gender pension gap	41.6%	40.7%	39.5%	39.9%

As previously, we have defined the gender pension gap as the percentage difference in average gross pension income for women receiving the state pension compared to the average gross pension income for men receiving state pension.

As noted in our last report, it is possible to define the gender pension gap differently and derive a different estimate of it from the FRS datasets. However the definition we have adopted is reasonable and our results are consistent with related estimates about gender inequality in pensions from other sources.

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.

Other sources of data and benchmarking gender inequality in pensions

We are confident that our estimate of the UK's gender pension gap based on FRS data is robust and an accurate reflection of the level of gender inequality in pension income.

However it is useful to analyse other data sources on gender inequality in pensions to see if these support our analysis and to assess the most appropriate benchmark for assessing this issue.

European Commission data

The European Commission publishes comparative pension statistics for all member states every three years. The latest publication, the Pension Adequacy Report 2018, has a section on gender differences and pension entitlement.

Based on analysis of the EU Statistics on Income and Living Conditions (SILC) data, the Commission estimated that the gender pension gap in pension income for pensioners aged 65 to 79 was 34.8% in 2016 (the latest date figures were available for). SILC data for the UK was collected from the FRS.

	2016
Gender pension gap (ages 65 to 79)	34.6%

Source: European Commission – Pension Adequacy Report 2018. Figure quoted is for the UK for 2016.

The European Commission's estimate of the gender pension gap in the UK in 2016 is derived from the same data source as Prospect's, so it is not surprising that the results are similar. Our estimate is for all people receiving state pension and not just those aged 65 to 79.

That our estimate of the gender pension gap is higher than the European Commission's could be consistent with a scenario where (1) there are more women than men aged 80+ and (2) older pensioners have lower incomes than younger pensioners. These seem to be a satisfactory way of reconciling these estimates.

It is unfortunate that one of the best indicators of gender inequality in pensions in the UK is produced by the European Commission rather than the UK government – particularly as the Commission analysed UK government data to produce it.

This suggests that the UK government is less committed to tackling gender inequality in pensions in the UK than the European Commission.

Clearly there is significant doubt about whether the UK will be covered in the next planned publication from the European Commission, so it is important that the UK government takes on this important analysis if the UK leaves the EU.

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

	2013-14	2014-15	2015-16	2016-17
Gender gap in taxable pension income	27.3%	27.0%	24.5%	22.7%

Source: Table 3.12 of HMRC's Personal Income Statistics. Estimate based on data on pension income only. Figures quoted are for the UK.

The gender gap in taxable pension income is much lower than our estimate of the overall gender pension gap and shows a greater rate of decline over time.

However HMRC's data only covers taxpayers and therefore excludes, for example, anyone earning under £11,000 in 2016-17 (a year when an average woman over State Pension Age only received about £6,500 in state pension).

If there are more women pensioners with low pension income than men, then women will be disproportionately excluded from this data source. This might explain why the gender gap in taxable pension income is lower than the overall gender pension gap.

The relatively steep decline in the level of the gender gap in taxable pension income is also possibly (at least partly) explained by the large increases personal tax allowance over this period.

Department for Work and Pensions 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.

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.

	2014-15	2015-16	2016-17	2017-18
Gender pension gap for single pensioners	7.9%	17.6%	21.2%	22.4%

Source: Table 2.8 from DWP's pensioner income series. Figures based on data for total gross income (ie not just pension income). Figures quoted are for UK.

The gender pension gap for single pensioners is very different to the overall gender pension gap (and it can vary significantly depending on whether gross or net income, before or after housing costs and mean or median is shown).

It is difficult to provide even a high-level reconciliation between this data and the overall gender pension gap because of the various factors driving differences between the two.

The gender pension gap for single pensioners is an important metric. But addressing the gender inequality in pensions that is highlighted by the overall gender pension gap will benefit single pensioners as well as those in couples.

Office for National Statistics (ONS) data on pension wealth

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

The table below gives estimates of the gender gap in private pension wealth for households in Great Britain by certain age groups for the latest period that data is available.

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

Source: ONS data on private pension wealth. Figures are for Great Britain from July 2014 to June 2016. Same figures as reported last year because no additional data has been released.

This is a survey of pension wealth, not pension income, and only includes private pension wealth. Hence the data is not directly comparable to our estimate of the gender pension gap. However this data source clearly confirms that there is a problem with gender equality in pensions.

Private sector data

Many private sector companies publish data about differences in pension provision between men and women. These are not national statistics and they are not generally based on representative samples (indeed, in some cases, they are seriously flawed due to being based on a highly selective sample of customers of the company in question).

However some of these data sources are relatively rigorous and, in aggregate, data from private sector companies can add to the overall picture on gender inequality in pensions and complement estimates based on government surveys.

One of the most rigorous private sector sources of information on pension incomes comes from the Prudential. The Prudential has been tracking the finances, future plans and aspirations of people planning to retire in the year ahead in its "Class of …." research.

These estimates are based on an independent online sample of nearly 10,000 non-retired adults in the UK. The research found an income gap for people expecting to retire in the following year and that women were more likely than men to retire with an income below the minimum income standard (as assessed by the Joseph Rowntree Foundation).

The table below gives estimates of the gender pension gap for people retiring in the UK that year for the latest years that data is available (no additional data has been published since last year).

	2016	2017	2018
Gender pension gap	26.8%	30.9%	22.7%

for people retiring			

It is not surprising that these estimates are lower than Prospect's estimate of the overall gender pension gap. They are taken from very different data sources and they measure different things (the gender pension gap for all pensioners versus the gender pension gap for people expected to retire in the next year).

As the general trend is for the gender pension gap to decline over time, it should follow that the gap for people retiring in a year will be lower than the overall gender pension gap.

Last year Aegon, a major pension provider, published research on the gender gap in private pension funds. The table gives Aegon's estimates of the gender gap in private pension funds in 2018.

Age	30	40	50
Gender gap in private pension funds	24.1%	31.8%	50.2%

The figures are most comparable to the ONS data on private pension wealth and are relatively consistent with them; they support a finding of significant levels of gender inequality in pensions.

Conclusion

We analysed other sources of data on gender inequality in pensions to answer two important questions: do they support Prospect's estimate of the gender pension gap and are there more appropriate benchmarks of gender inequality in pensions?

Do other sources of data support Prospect's estimate of the gender pension gap?

Prospect's first report on tackling the gender pension gap was prompted by our concern at the lack of profile for this problem and the lack of a plan to resolve it.

In particular, we felt that not having a definitive estimate of the gender pension gap was a significant impediment to making a case for action on gender inequality in pensions.

We believe that the gender pension gap – expressed as the percentage difference in pension income for female pensioners compared to male pensioners – remains a powerful illustration of the level of gender inequality in pensions in the UK and a useful benchmark against which to assess progress.

We also believe that our estimate for the gender pension gap, based on an analysis of responses to the FRS, is robust.

None of the other data sources are an exact match for our estimate of the gender pension gap (if they were, there would have been no need for us to produce it in the first place). However we believe they are broadly consistent with our estimate and support the conclusion that gender inequality in pensions is a significant problem.

The closest estimate of the gender pension gap to the one we have produced is the European Commission's estimate of the gender pension gap for people aged 65 to 79 in 2018.

While this is useful in making consistent comparisons across EU member states, it has only been produced on a triennial basis so far and there is significant doubt about whether European Commission reports will cover the UK in the future.

We also believe that it is important to have a measure that covers all female pensioners and not just a subset.

The other official data sources – HMRC, DWP and ONS – show different estimates of different aspects of gender inequality in pensions but are consistent with Prospect's estimate of the gender pension gap.

By excluding non-taxpayers, the HMRC data is more restricted in its coverage and hence less useful than our estimate.

The published DWP data is also limited in coverage because it only includes single householders. This greatly affects the result because coupled individuals will have very different characteristics.

The ONS data on private pension wealth is another clear indicator of gender inequality in pensions. This data only covers private pension wealth and not differences in levels of state pension. It is also only published biennially and some time in arrears. However, it is clearly a useful benchmark for assessing levels of gender inequality in pensions.

Are there more appropriate benchmarks of gender inequality in pensions?

Our estimate of the gender pension gap has a number of strengths:

- it is relatively clear and simple
- in many ways it is comparable to the well-understood gender pay gap
- it covers the whole population of pensioners (defined as people in receipt of state pension), and
- it is based on FRS data (which is designated as a national statistic).

Criticisms can be made of our estimate of the gender pension gap as a benchmark of gender equality in pensions.

By definition, our measure of the gender pension gap is weighted towards inequality in pension income for people who have already retired.

As there is less that government can do about the pension income of people who have already retired, there will be a significant lag before this measure picks up the impact of new policies to address gender inequality in pensions.

After Prospect's first report on the gender pension gap was published, there was some comment about whether a measure that focused on individuals was appropriate when, in practice, finances are often managed on a household basis.

There are numerous published measures of pensioners' finances on a household basis; it is only possible to show gender differences on an individual basis.

Gender equality is also a perfectly legitimate aim in its own right, no-one would argue that a large gender pay gap would be acceptable if women can rely on higher earning men in their household to support them.

In its interim report, the Independent Review of the State Pension Age consulted about whether household income should be taken into account when assessing women's pension income.

The general consensus reported in its final report was that pensions should be considered on an individual basis.[1] Encouraging household retirement provision leaves people vulnerable to inadequate retirement income due to bereavement, divorce or separation.

A principle underpinning recent state pension reforms is that people should be able to build up sufficient retirement income in their own right. Relying on household income, especially under informal agreements and understandings, for an adequate retirement income could lead to people, particularly women, ending up disadvantaged in retirement.

We believe that our estimate of the gender pension gap is a good indicator of gender inequality in pensions. However it can be usefully supplemented by other information.

The ONS data on private pension wealth draws out different aspects of gender inequality in pensions and is also very useful.

A breakdown of the gender pension gap by age group and ethnicity would also be useful. We will consider extending our analysis in these ways in a future report.

[1] Independent Review of the State Pension Age (2017) (Section 3.9)

Main causes of the gender pension gap

Last year's report analysed the main causes of the gender pension gap and we have updated that data where possible.

A report by the Pensions Policy Institute, sponsored by Now: Pensions, was a major development in understanding the gender pension gap. The main conclusions of this important report, 'Understanding the Gender Pensions Gap'[2], are summarised below.

Main causes of the gender pension gap

The gender pension gap is driven by a number of factors including: a state pension income gap, differences in labour market activity, the gender pay gap and barriers to occupational pension scheme membership.

State pension gap

Male and female State Pension Ages were equalised in November 2018 by legislation enacted in 1995 (and amended in 2011).

However, research published by the consumer group Which? showed that there was still a gender gap in state pension income of nearly 20%.

Government legislated to equalise State Pension Age nearly 25 years ago, but has not equalised the amount of state pension awarded by gender since then.

This shows a lack of commitment to gender equality in pensions. Successive governments have been happy to take steps towards equality that are cost free or save money but have balked at taking action that has costs.

Reforms to the state pension system from April 2016 will bring forward the date by which the amount of state pension awarded to people reaching State Pension Age is projected to be equal by gender by over a decade, but it is still not expected to happen until 2041[3].

The reforms also had a significant effect on the way that caring responsibilities are recognised in the state pension system. This is explored in a later section.

With State Pension Age currently increasing to 66 and with increases to 67 and 68 already legislated for, there are important lessons to learn from the process of equalising State Pension Age.

One issue is around awareness of changes. In 2006-07, most women were aware of the forthcoming changes to State Pension Age but levels of awareness varied greatly. Only 80% of women with low levels of education knew, compared to 92% of women with high levels of education[4]. Those out of the labour market, ethnic minorities and unmarried women were also less likely to be aware.

Not being aware of changes to the age you can draw state pension can have devastating consequences. The House of Commons Work and Pensions Committee highlighted the importance of communicating changes to State Pension Age and called for changes to improve the clarity of state pension statements.[5]

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[2] Pensions Policy Institute (2019)
[3] DWP (2016) (Figure 3)
[4] LSE Blog (2018)
[5] Work and Pensions Committee (2016)

It is even more important to have a good understanding of the impact of changes to State Pension Age on the people affected.

An analysis of increases in the State Pension Age in the UK concluded it had unanticipated, negative consequences for the mental health of older women[6]. Women in routine and manual occupations in particular faced a substantial loss of pension income and an increased risk of physical and mental illness because of the reforms.

A report from the International Longevity Centre highlighted international research that showed that increasing State Pension Age threatens to create new gender inequalities as women struggle to reconcile longer working lives with caring responsibilities[7].

Appropriate policies must be put in place to mitigate these impacts on women and other groups when future State Pension Age increases are implemented.

Labour market activity

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

Assuming a disproportionate share of the responsibility for caring and other family-related duties outside work has a significant impact on the participation of women in the workforce and consequently reduces their pension income.

The latest available labour market statistics from ONS show that 1.8 million women were economically inactive because they were looking after family or home in February to March 2019 compared to 0.2 million men.

The data also show that 5.4 million female employees and 1.6 million male employees worked part-time in that same period.

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

Gender pay gap

Occupational pension schemes provide salary-related benefits. This means that the gender pay gap for women in work also directly contributes to the gender pension gap for women in retirement.

The ONS reported that the overall gender pay gap in 2018 was 17.9%. A significant part of the gender pay gap is related to the higher proportion of female employees in part-time work.

For full-time employees, the difference in hourly pay for median earnings was 8.6%.

Barriers to occupational pension scheme membership

Membership of occupational pension schemes has grown strongly in recent years due to automatic enrolment.

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[6] Carrino, Ludovico and Glaser, Karen and Avendano, Mauricio (2018) (Registration required)
[7] International Longevity Centre (2019)

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

Data from the Occupational Pension Scheme Survey shows that total occupational pension scheme active membership increased from 8.3 million in 2010 to 17.3 million in 2018.

The increase was mainly driven by increases in membership of private sector schemes (from 3.0 million to 11.0 million).

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

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

Women are more likely to earn less than £10,000 a year and hence be excluded from automatic enrolment. Research from the Pensions Policy Institute in 2015 showed that 32% of female employees did not qualify for automatic enrolment compared to 16% of men[8].

Modelling by the Department for Work and Pensions showed that if the earnings trigger was reduced to the level of the Lower Earnings Limit for National Insurance in 2020-21, an extra 1.2 million employees would be brought into the scope of automatic enrolment and 78% would be women[9].

It is extremely disappointing that women are disproportionately excluded from the increase in pension scheme membership driven by automatic enrolment. It is galling that the DWP has produced an analysis that identified how reducing the earnings trigger would address this but the government has refused to adopt this policy.

Sector differences

There are different levels of representation for men and women in different sectors and industries. Differences in levels of pay and pensions between these sectors are therefore a factor in gender differences in pay and pensions.

There is no definitive source of data on pension provision by industry so it is not easy to estimate the impact of this on the gender pension gap.

One of the biggest differences in pension provision is between the public sector (where employees generally have access to a good defined benefit provision) and the private sector (where there is a wide range of pension provision from very good to the minimum under automatic enrolment). On average, pension provision is better in the public sector.

ONS data shows that in 2018, women made up 65% of the public sector workforce (compared to 47% of the workforce overall). This will lower the gender pension gap and mitigate the causes outlined elsewhere in this section.

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[8] Pensions Policy Institute (2015)
[9] DWP (2017a) (Table 5.3)

Pensions Policy Institute – Understanding the gender pensions gap

As noted above, the publication of this Pensions Policy Institute report has made a significant contribution to our understanding of the causes of the UK's gender pension gap (it also analyses a number of policy proposals for addressing it).

Applying PPI modelling to data on pension wealth from the Wealth and Assets Survey, the report set out the three main factors contributing to an overall gender gap of 49% in pension wealth for people in their late 50s:

- differing working patterns: most of the gap was caused by women being more likely to take time off work or reduce their hours to take on caring responsibilities
- gender pay gap: the impact of the gender pay gap also greatly reduces the average amount of pension wealth that women can build up in their careers
- scheme type: one significant mitigating factor is that women are more likely to work in the public sector and therefore have access to a defined benefit pension scheme.

Developments since 2018

There have been a number of significant developments since our first report on tackling the gender pension gap was published in 2018.

These include actions by Prospect and other organisations as well as some tentative initial steps from the government.

Action by Prospect

We have tried to keep the focus on the gender pension gap and prompt action to tackle it. Since last year we have followed up our initial report in a number of ways.

Women's TUC 2019

Prospect's motion to the Women's TUC this year on the gender pension gap was passed unanimously. It said:

"*Conference notes recent research by Prospect that estimated the Gender Pension Gap in the UK in 2017 to be 39.5%; over twice the level of the gender pay gap that year.*

Conference further notes that the Gender Pension Gap has a number of causes including: lower State Pension entitlement for women, less labour market participation due to assuming a disproportionate share of the responsibility for caring and other family-related duties, the gender pay gap, and structural issues in the occupational pension framework.

Conference deplores the size of the Gender Pension Gap and the lack of progress in tackling it.

Conference calls on the Women's Committee:

i) to raise awareness of the Gender Pension Gap with the public and with policymakers;

ii) to encourage affiliates to produce guidance for representatives and members on practical steps for tackling the Gender Pension Gap in workplaces;

iii) to lobby Government to produce its own estimate of the Gender Pension Gap and a regular report on the steps it is taking to tackle it;

iv) to campaign to remove discrimination against women from the occupational pension framework."

Letter to the EHRC

We also felt that the government's total inaction represented a breach of its duty under the Equality Act to promote gender equality. In April we wrote to the Equality and Human Rights Commission to ask them to carry out a formal assessment of whether the government has complied with its statutory duty in relation to gender inequality in pensions.[10] We said that we believe there are good grounds for undertaking such an assessment because:

"*There is no evidence that the Secretary of State is even aware of the level of the gender*

[10] Prospect (2019)

pension gap. Her department does not publish any estimate of its size or analysis of its causes. Without this most basic level of information, it is impossible to begin to tackle the gender pension gap and the disadvantages it causes to women in retirement.

The Secretary of State has not taken even the most basic of steps to minimise the gender pension gap."

We await a response from the EHRC with interest.

TUC Congress 2019

We also plan to make the gender pension gap the subject of one of Prospect's two allotted motions to the TUC Congress 2019 in Brighton. This will be supplemented by a fringe meeting to further highlight its importance and to explain why trade unions need to take a leading role in tackling it.

Action by other organisations

Prospect's first report on tackling the gender pension gap was far from the first ever report on this – many organisations have been drawing attention to it and publishing information about it for some time.

This section is intended to draw together some of the main actions that other organisations have undertaken since our first report was published (this list is not exhaustive).

Insuring Women's Futures

The Chartered Insurance Institute, in collaboration with insurance professionals, businesses and third sector organisations, established a programme called Insuring Women's Futures. This programme aims to evolve the insurance and personal finance profession's approach to women and risk, working with all those with a shared interest in improving financial security for women and society as a whole.

Last year the programme published a report called: "Solving women's pension deficit to improve retirement outcomes for all."[11]

This report found that women face a pension deficit that leaves them ill-prepared for retirement and dependent on partners. It called for interventions at specific moments in a woman's life to improve pension outcomes and help ensure they are financially prepared for later life.

It is very welcome that the insurance industry is also highlighting the disadvantages women experience in retirement as a result of the gender pay gap, the motherhood and caring penalty and the flexible working sacrifice.

The People's Pension

The People's Pension is a not-for-profit master trust delivering workplace pensions to more than four million workers. In May 2019 it published a report called: "The Gender Pension Gap – tackling the motherhood penalty."[12]

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[11] Insuring Women's Futures (2018)
[12] The People's Pension (2019)

As the title suggests, the report focuses on the impact of motherhood on the gender pension gap.

It acknowledges that many women will want to stop working or reduce their hours after having children but they may not always know what the potential consequences for their future earnings will be. It concludes that it is important to understand how to promote pay and job progression for people in part-time work.

It also found that many women with children who want to work more are prevented from doing so by the exorbitant cost of childcare in the UK and it recommended specific policies for dealing with this.

NOW: Pensions

NOW: Pensions is another large master trust delivering workforce pensions to employees in a wide variety of companies. It sponsored the PPI research on the causes of the gender pension gap covered in the previous section and released its own report based on that research, called: "Facing an unequal future – closing the gender pension gap."[13]

This report included a five-point plan for fairer pensions:

- remove the earnings trigger of £10,000 a year so more women are automatically enrolled into pension schemes
- a requirement for employee and employer contributions on every pound of earnings under automatic enrolment
- a family carer top-up pension contribution for people who are out of work or working part-time because of caring responsibilities
- ensure that pension funds are always considered in divorce settlements
- action to make childcare more affordable to better support those who want to return to work.

NOW: Pensions has also been at the forefront of taking action around the fact that tax relief on pension contributions for low earners disproportionately affects women. We will cover this later in the report.

Which?

In June 2019 Which? published a report, based on analysis conducted with the PPI, on the adequacy of retirement outcomes under automatic enrolment, called: "Top up the pots – achieving adequate retirement incomes with automatic enrolment."[14]

While primarily examining how automatic enrolment can be improved, the report also acknowledges the impact of caring responsibilities on retirement incomes.

It recommends that the government makes a lump sum "New Parent" pension contribution of £2,000 to a nominated defined contribution pension scheme for a mother on the birth of her first child.

Royal London

Royal London is the largest mutual pension company in the UK. It has produced a lot of research on different pension issues.

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[13] NOW: Pensions (2019a)
[14] Which? (2019)

One Royal London policy paper that is particularly relevant to the gender pension gap is, "The mothers missing out on millions"[15]. This showed that new mothers may have lost out on more than half a billion pounds in state pension rights in the past three years because of changes to the rules around Child Benefit. It called for HMRC to take action to deal with the problem.

Royal London has also highlighted the potential benefit of the "specified adult childcare credit" to grandparents and family members (disproportionately women) who are looking after a child.

Under this scheme, a child benefit recipient can sign to indicate that she (or he) no longer wishes to benefit from the NI credit that comes with the child benefit. This might be because they are working and paying NICs in any case, so do not benefit from the credit.

They can sign this over to the family member who is looking after their child, at no cost to themselves. Royal London has pointed out that only a small fraction of those who might benefit from this scheme are doing so.

The Pension Advisory Group

The Pension Advisory Group is a multi-disciplinary group of professionals specialising in pensions on divorce. It was set up in June 2017 in recognition of the urgent need for interdisciplinary discussion between lawyers, actuaries, financial advisors and academics to achieve fairer outcomes in cases involving pensions on divorce. In July 2019 it published its report, "A guide to the treatment of pensions on divorce."[16]

This report is technical and aimed at experts rather than a lay audience. However the contribution it makes to understanding the issues around the treatment of pensions on divorce is very welcome.

It is an important report because PPI research shows that, among those aged between 60 and 64, divorced men have 33% less pension wealth and divorced women have 50% less pension wealth on average.

Divorce seems to have a negative impact on pension provision, especially for women.

Professor Deborah Price of the University of Manchester says part of the reason may well be that five out of six divorces do not feature a pension share. Even when divorces do result in a pension share, complex issues have to be overcome to ensure that the outcome properly reflects the value of the underlying pension wealth.

The Pension Advisory Group's work, and its contribution to ensuring that pensions are dealt with fairly on divorce, will hopefully improve pension outcomes in divorce cases. The report also highlights a number of issues that require changes to legislation to improve practices in relation to pensions on divorce.

Action by the government

Our first report about the gender pension gap criticised the government's complete lack of action on the issue.

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15 Royal London (2019)
16 The Pension Advisory Group (2019)

As mentioned previously, we became sufficiently concerned about the lack of action to ask the Equality and Human Rights Commission to investigate whether it amounted to a failure of the government's statutory duty to promote equality.

In this context, any action on promoting gender equality in retirement must be welcomed.

In July 2019 the Government Equalities Office published, "Gender equality at every stage: a roadmap for change".[17] The report sets out key challenges to tackle gender inequality, including in retirement.

Alongside the roadmap, the Government Equalities Office also published, "The case for change: how economic gender inequalities take hold across the life course".[18] This examines the factors causing gender inequality in greater depth.

A third report called, "The gender equality monitor: tracking progress on gender equality"[19] contains a set of indicators to monitor progress on gender equality.

Establishing a framework for reporting on gender equality from childhood to retirement and monitoring progress over time should be applauded. Unfortunately the delivery, at least in relation to gender equality in retirement, is lacking in a number of ways.

The roadmap sets out some of the key drivers of the gender pension gap, such as caring responsibilities and the gender pay gap; but it ignores other issues that government itself has direct responsibility for, such as the gender gap in state pension income and the disproportionate exclusion of women from automatic enrolment.

Even worse than the incomplete analysis of the causes of gender inequality in retirement, the choice of indicators for monitoring progress is extremely poor (if not actively misleading).

The main indicators are the gap in average weekly income of single male and female pensioners and the workplace pension participation rates for eligible employees by gender.

As noted previously, the gap in average weekly income of single male and female pensioners is an important metric, but it is not a good indicator of overall gender inequality in retirement income.

The workplace pension participation rates for eligible employees is a potentially misleading indicator because it omits the participation rates of employees who, for example, earn less than the earnings trigger and are not automatically enrolled in a pension scheme (as noted earlier, this group is disproportionately female).

It also fails to capture the impact of caring responsibilities on participation rates.

Given its access to the resources of the Government Statistical Service and the wealth of official datasets managed by government departments, it is disappointing that the Government Equalities Office did not come up with a better set of indicators of gender equality in relation to pensions.

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[17] Government Equalities Office (2019a)
[18] Government Equalities Office (2019b)
[19] Government Equalities Office (2019c)

It is not surprising that the recommendations for action in the report are completely inadequate given that the analysis of the causes of the problem is incomplete and the indicators of the scale of the problem are poor.

There is no commitment to any policies that would require new funding. There is nothing about better recognition of caring responsibilities in the pension system or practical measures to promote greater access to affordable childcare.

Instead, there is a reliance on costless, soft measures that nudge employees and employers in a number of ways. For example:

- a shared parental leave digital tool to help parents understand options
- a consultation on increasing the transparency of organisations' parental leave and pay policies
- 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
- work with providers and others to use better communications to support women to save for retirement.

With the publication of these reports, government has taken a first step in acknowledging gender inequality in pensions and committing to policies to address it.

However this first step is completely inadequate and will make hardly any difference to the level of the gender pension gap in the long run.

Much more fundamental changes, requiring real funding commitments, will be required to tackle the gender pension gap.

Policies to address the gender pension gap

Gender inequality in pensions is the cause of huge financial disadvantage for women in retirement and must be addressed as a priority.

Different organisations have analysed a variety of policy options and proposed actions that they believe will be effective in tackling this problem.

Unfortunately the government has been far less ambitious in proposing policies that will promote gender equality in retirement as it is required to do under the Equality Act 2010.

Prospect has been campaigning on this for some time and the policies that we believe will have the most impact are set out below.

In addition to these policies, any actions that address the gender pay gap will also indirectly affect the gender pension gap but the focus of this report is pensions.

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

Gender inequality in pensions is a political problem and it will take political action to resolve it.

The first step must be to require the government to make a proper assessment of the scale of the issue and analyse its causes.

A statutory duty on the government to lay an annual report on the gender pension gap before Parliament will force it to acknowledge the problem and explain how its policies will address it.

This will serve a number of different purposes, from giving this issue the attention it deserves to starting a proper debate on whether the government is doing enough about it.

The primary aim has to be to create the political conditions necessary to prompt action to tackle gender inequality in pensions. This will lay the ground for the practical policies that Prospect and others have suggested in the past.

This is why Prospect has asked the Equality and Human Rights Commission to investigate whether the government is meeting its legal duties to promote gender equality in retirement.

Prospect has also started a petition calling for a statutory requirement for DWP to report annually on the gender pension gap. The petition will close on 30 January 2020. Please sign it and encourage others to do so as well.

https://petition.parliament.uk/petitions/267907

Better recognition of caring responsibilities in the pension system.

The Pensions Policy Institute has shown beyond doubt how time away from work, generally to look after family, is the single biggest factor driving the gender pension gap.

Clearly any plan for addressing the gender pension gap must deal with recognising caring responsibilities in the pension system.

There are two distinct issues here:

- ensuring that people who want to take unpaid breaks from work or to work fewer hours to look after family can still build up an adequate level of pension and
- ensuring that people who want to work more are not prevented from doing so by the cost of childcare.

This section sets out policies to provide better recognition of caring responsibilities in the pension system for people on unpaid breaks or working fewer hours.

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 credits system only partially protects the former.

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

Under the previous state pension system, for people who reached State Pension Age before April 2016, there was additional recognition for those with childcare responsibilities as well as credits for the Basic State Pension.

That system also credited people looking after children under 12 and claiming child benefit with additional state pension (State Second Pension) equivalent to that built up by an employee earning £15,300pa (in 2015-16 terms).

This was worth an additional £1.80 a week (£93.60 a year – both amounts in 2015-16 terms) in State Second Pension for every year these credits were earned.

NOW: Pensions has proposed a family carer top-up policy that applies a floor of £820 per year (in current earnings terms) to pension contributions. It is envisaged that either the full amount (for someone taking a complete break from work to look after family) or part of the amount (for someone working part-time because of caring responsibilities) would be paid to an automatic enrolment pension pot on behalf of the carer.

Which? proposed that the government should make a lump-sum ‘New Parent’ pension contribution of £2,000 to a nominated defined contribution pension scheme for a mother on the birth of her first child (with the ability to make the payment to the pension scheme of another nominated parent or guardian instead).

The principle of better recognition of caring responsibilities in the pension system is surely correct. Otherwise lower pension income for carers will be embedded in the system and this will be a persistent cause of gender inequality in pensions as long as women undertake a disproportionate share of caring.

Prospect’s preferred approach differs from that proposed by NOW: Pensions and Which? We think a return to a system of additional credits in the state pension system for people with caring responsibilities is more politically achievable than a system of payments to private sector pension schemes that would have upfront costs of about £1.5 billion or £0.5 billion a year respectively.

Credits towards the state pension will also be targeted at income in retirement and is likely to be less costly than a system of relatively small payments to automatic enrolment pension schemes.

The appropriate level of credits is obviously a key question and would be a matter for debate but something of the level of the credits granted under the State Second Pension (about £2 a week for each year of caring) seems reasonable.

More affordable childcare

The research by the People's Pension referred to previously, shows that many women with children who want to work more are prevented from doing so by the exorbitant cost of childcare.

This goes beyond usual pension policy considerations but is a significant contributor to the gender pension gap. It is necessary to tackle the cost and availability of childcare in order to address the gender pension gap.

People's Pension makes specific recommendations to deal with this:

- a single, specific ear-marked grant to local authorities to cover the real cost of the guaranteed 30-hours a week childcare for all three and four-year olds
- bring nurseries back to high street locations and exempt them from business rates
- increase the maximum amount of childcare costs paid for under Universal Credit and switch to up-front payments for childcare
- flat rate tax relief on childcare costs.

Reform automatic enrolment

Automatic enrolment is a good example of long-term, consensus-based policy making in pensions and is rightly judged to have been a success.

The latest commentary and analysis on automatic enrolment by The Pension Regulator[20] shows that 1.1 million employers had completed declarations of compliance and 9.5 million workers had been automatically enrolled in a workplace pension at the end of March 2018.

In December 2016 the government announced a review of automatic enrolment to explore how the policy could be further developed. The review was published in December 2017.[21]

Recommendations of this review included:

- lowering the age criteria for automatic enrolment from 22 to 18
- require pension contributions from the first pound earned rather than from a lower earnings limit
- maintain the earnings trigger at £10,000
- continue to monitor and evaluate the impact of increasing contribution rates and carry out further analysis to inform the debate.

Unfortunately, the government's ambition was limited to aiming to implement these changes "in the mid-2020s".

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[20] The Pensions Regulator (2018)
[21] DWP (2017b)

The proposal to require pension contributions from the first pound under automatic enrolment is very welcome. Women generally earn less than men, so they will receive proportionately higher contributions.

However, because women are disproportionately excluded from automatic enrolment, PPI analysis shows that this policy has a greater absolute impact on men's pensions.

This highlights the problem with the decision to maintain the earnings trigger for automatic enrolment.

As noted previously, if the earnings trigger was reduced to the Lower Earnings Limit for National Insurance in 2020-21, an extra 1.2 million employees would be brought into the scope of automatic enrolment and 78% would be women.

Current policy is exacerbating the gender pension gap and is indefensible considering the government's statutory duty to promote equality.

The limited scope of the review's recommendations and lack of ambition on their implementation highlights a more fundamental problem.

Political considerations clearly prevented the government from adopting a more radical approach that the analysis of the situation clearly demanded.

This suggests that there would be benefit to returning to the independent, consensus-based policy making that resulted in the introduction of automatic enrolment in the first place.

Certain statutory reviews of aspects of automatic enrolment are required under legislation. There is a strong case for a new standing Commission to consider the level of income required for a decent standard of living in retirement and to make recommendations about the minimum level of contributions required to achieve this.

Such a Commission could operate on a non-partisan basis like the Low Pay Commission which provides advice about the wage necessary to maintain a reasonable quality of life while working. The proposed Commission would advise about the level of pension contributions necessary to maintain a reasonable quality of life in retirement.

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

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

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

Increase take-up of credits

The Royal London research mentioned previously highlighted the impact of changes to the rules relating to Child Benefit.

In January 2013, a new rule was introduced which reduced entitlement to Child Benefit for those whose income (or whose partner's income) was more than £50,000 a year. In particular, those with income over £60,000 faced a ‘High Income Child Benefit Tax Charge’ which wiped out the cash value of any Child Benefit in payment.

This has led to large numbers of existing Child Benefit recipients renouncing their Child Benefit; by Summer 2015 this figure had risen to just under half a million. Growing numbers of mothers just starting a family are choosing not to claim Child Benefit in the first instance.

If this causes people looking after children (disproportionately mothers) to be one qualifying year short of the number required for a full state pension (currently 35 but there is no guarantee this will not change), Royal London estimates this could cost nearly £5,000 through the course of retirement.

Royal London estimates that around 125,000 mothers missed out on credits in 2015-16.

Government has to make a concerted effort to identify people eligible for these credits and encourage them to claim them.

Similarly government should do more to promote the “specified adult childcare credit” as this is likely to be of particular benefit to women. It may also help boost the state pension entitlement of grandmothers who provide care to children and who would not otherwise qualify for the full rate of the new state pension.

The take-up of benefits for pensioners is also an issue. Take-up of Pension Credit, the means-tested benefit that provides a minimum level of income for pensioners, was estimated to be 60% (by number of cases) in 2016-17 by DWP.[22]

Single female pensioner households left an estimated £1.4 billion unclaimed compared to £0.6 billion for single male pensioner households.

The average weekly amounts unclaimed by single female pensioner households was £22 (median)/£45 (mean).

A concerted campaign to increase take-up of Pension Credit would directly address the worst instances of pensioner poverty and partially remedy some of the past drivers of current gender inequality in pensions.

Resolve tax relief issues in ‘net pay’ pension schemes

Low earners who are members of pension schemes that operate on a ‘net pay’ basis do not receive the benefit of tax relief that higher earners in the same schemes and all members of pension schemes that operate on a ‘relief at source’ basis do.

The problem affects members of ‘net pay’ schemes who earn less than the personal allowance for income tax (£12,500 in 2019-20). Many of the biggest pension schemes in the country operate tax relief on a ‘net pay’ basis.

HMRC estimates that 1.3 million members of ‘net pay’ schemes did not receive any tax relief on pension contributions in 2016-17 and 1 million of them were women.[23]

NOW: Pensions estimates that with the increase in the personal allowance since then, as many as 1.75 million people might be losing out as much as £111 million in tax relief in 2019-20.[24]

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[22] DWP (2018)
[23] House of Lords (2019)

Prospect first wrote to the government about this in December 2015. The response from ministers then was that this issue might be dealt with as part of a wider review of pension tax relief then underway.

In the end, that review did not propose any practical action on this so Prospect wrote to the government again in May 2016. The response on this occasion was that there might be an opportunity to address this as part of the 2017 review of automatic enrolment.

The report on the automatic enrolment review, published in December 2017, stated: "To date, it has not been possible to identify any straightforward or proportionate means to align the effects of the net pay and relief at source mechanisms more closely for this population."

It went on to say, "the government will examine the processes for payment of pensions tax relief for individuals to explore the current difference in treatment and ensure that we can make the most of any new opportunities, balancing simplicity, fairness, and practicality".

Again Prospect followed up this disappointing outcome by writing to the government in February 2018. The response received in March 2018[25] contained only vague promises to look at ways to deal with this and an equally vague commitment that "[The government] will engage with industry on this and, when [it does] so, would welcome your input". There has been no formal consultation on this issue since then.

The Low Incomes Tax Reform Group made a pre-Budget submission to the Treasury in September 2018.[26]

This proposed a solution, "which would see HMRC using Pay As You Earn (PAYE) Real Time Information (RTI) data to identify those making pension contributions under net pay arrangements. They could then provide tax relief (where appropriate) through an annual reconciliation process – whether that is through self-assessment or – as is more likely – the informal P800 process".

Unfortunately, no practical solutions were announced by the government in its 2018 Budget.

In evidence to the Work and Pensions Select Committee in April 2019[27] the Financial Secretary to the Treasury stated: "The dilemma we have is that if you look at the total amount of money we are talking about here, which is about £100 million, it would cost about £10 million to administer that."

He added: "I have not yet seen a proposal from anyone who is raising this issue of how to do this in a way that would be efficient in terms of the cost of delivering it. That is the rub of it. I would love to be able to do something about it. I do not know how to do it in a way that is cost effective."

So, government has moved from not being able to identify a technical solution to not being able to identify a solution that costs substantially less than £10 million.

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[24] NOW: Pensions (2019b)
[25] Prospect (2018)
[26] LITRG (2018)
[27] Work and Pensions Committee (2019)

Withholding more than £100 million from the lowest earning employees in the country because the cost of giving them the correct amount of tax relief is too high is disgraceful.

The government has had more than enough time to come up with alternative solutions and must fix this now.

This is a terrible example of the government's inaction on resolving gender inequality in pensions.

NOW: Pensions has started a petition on this and Prospect encourages members to sign it before it closes on 14 December 2019:

https://petition.parliament.uk/petitions/261267

What Prospect will do

Tackling inequality is a trade union's core purpose. Negotiating and campaigning for improvements to members' pensions is also central to our role.

Prospect has been highlighting gender inequality in pensions, as well as specific contributory factors to it, for many years.

This report will hopefully generate further coverage of the problem and increase the pressure on government and others to implement solutions.

We will continue to hold government to account for its lack of action on gender inequality in pensions.

We hope our petition on the Parliament website will eventually be debated by MPs in Westminster.

The gender pension gap will also be one of Prospect's two motions to the TUC Congress in September 2019.

It is not enough for us to call on others to take action – we also have to ensure we are doing everything we practically can as well.

We will publish a guide to help women members consider the specific challenges that contribute to the gender pension gap and what they can do to mitigate them.

We are not saying that these issues do not affect men or that the onus should be on women to tackle gender inequality. It is just an attempt to help women understand the causes of the gender pension gap and what they can do about it.

We will also produce materials to help branches explain these issues to members and promote action in the workplace.

We are building a network of members and representatives who will be champions for addressing the gender inequality in pensions. We hope they will:

- find information about the gender pension gap in their own workplace as an important step in starting a dialogue with employers
- speak to members who are excluded from automatic enrolment about the advantages of opting in and potentially benefiting from employer contributions
- negotiate for additional pension contributions for employees on unpaid parental leave and for the facility for partners to make contributions on members' behalf
- provide information about what members can do to mitigate the gender pension gap at key stages in their working lives
- campaign for compensation for low earning members if the pension scheme operates pension tax relief on a 'net pay' basis.

Campaigning on the gender pay gap should also have a direct impact on the gender pension gap over time.

Prospect is open to working with any other group on this and on practical solutions that will resolve it.