prospect

Achieving gender equality in pensions

Prospect's 2020 report on the gender pension gap

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September 2020

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Introduction

Welcome to our third annual report on the gender pension gap. Prospect has been campaigning on the gender pension gap, which is the percentage difference in pension income for female pensioners compared to male pensioners, for many years and our annual reports have highlighted the extent of the gender pension gap and the immediate need for action to be taken to remedy this.

Our previous reports have covered:

- Research showing the level of the gender pension gap over the past four years
- Analysis of the causes of the gender pension gap
- Suggested policies to tackle it
- The main developments over the past two years

In this year's report we will build on the first two reports by detailing the current level of the gender pension gap, why it is at the level it is, analyse the current pensions system and propose tangible solutions that can be taken forward to reduce the gender pension gap.

Our latest report shows that the level of the gender pension gap is 40.3%, an increase on last year's figure of 39.9%. The table below shows our estimate of the gender pension gap for the last 5 years.

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

This finding is disappointing but given that there is no government estimate of the gender pension gap and solutions have not been proposed, it is not surprising.

Whilst small differences in the percentage figure can occur through sampling variation, for the second year in a row our estimate of the gender pension gap has increased and this is a worrying trend which should make it clear to policy makers that change needs to happen to tackle this issue.

It is not acceptable that women have a less comfortable retirement than men. As our report shows, the level of pension saving in the UK is at a level that is not going to provide the vast majority of the population, both men and women, with a pension that will provide them with a decent level of retirement income. Unless the causes of the gender pension gap are addressed, women will continue to have disproportionality lower retirement incomes than men and this is unacceptable.

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 40.3% in 2018-19.

This is more than twice the gender pay gap of 17.3% in 2019 and represents an average difference in pension income by gender of about £7,500 a year.

While it is only a small increase over the estimate of 39.9% for 2017-18, it is hugely disappointing that for a second year running the gender pension gap has widened and the past trend of the gradual improvement in this benchmark for pension inequality has ceased.

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:

- An imbalance in the level of occupational and private pension saving between men and women. This has occurred and continues to be the case for many reasons including:
  - 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).
- The indirect gender discrimination that is built into the pension system itself, including the disproportionate exclusion of women from being automatically enrolled into a pension scheme.
- 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)

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
- Reform of automatic enrolment from the earliest possible date
- An inquiry by the Work and Pensions Committee on the gender pension gap
- An additional state pension credit for those who are 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
- 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 'net pay anomaly' whereby low earners do not benefit from tax relief on their contributions.

Prospect’s estimate of the gender pension gap

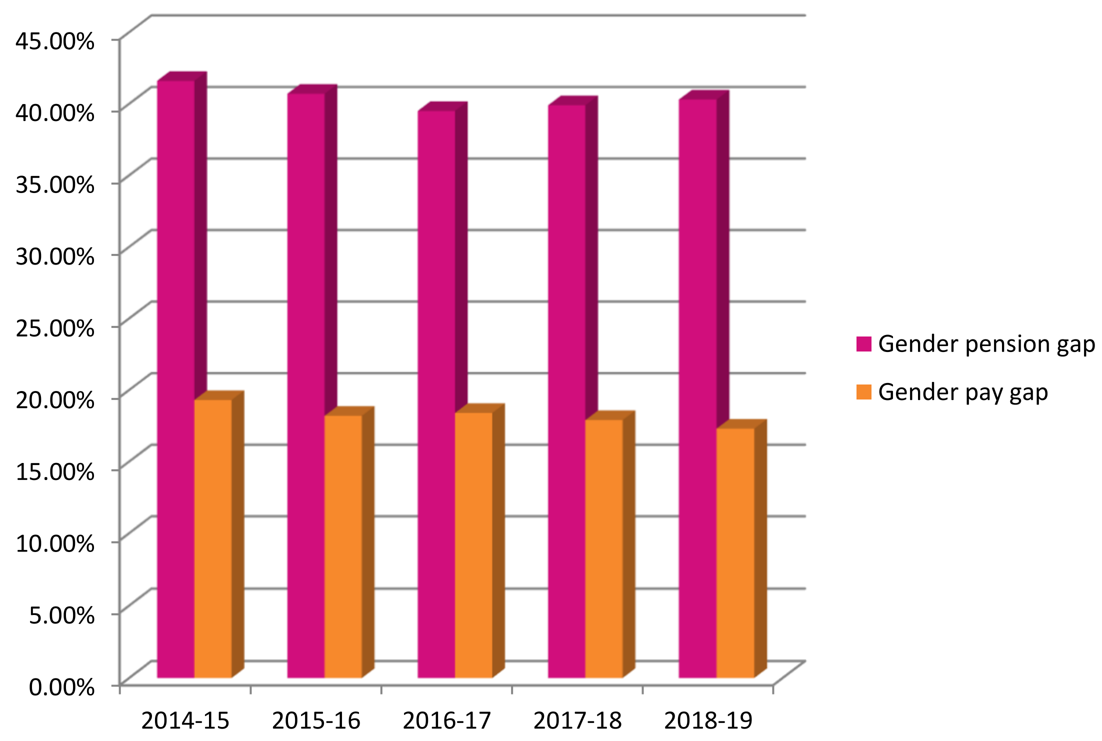
The lack of a government estimate of the gender pension gap means that the issue is less visible and is a barrier to action being taken to tackle it. It also demonstrates that this is a low priority for the government.

In absence of a government figure, Prospect have been producing an estimate of the gender pension gap for the past few years and have been campaigning on this issue with the aim of pressuring the government to adopt policies which have the aim of reducing the gender pension gap.

Our estimate is derived by using data from the Family Resources Survey (FRS) which is a continuous household survey that collects information on a representative sample of private households in the United Kingdom. Over 19,000 households were surveyed for the latest release therefore we believe that our findings are statistically robust. The FRS data are designated by the UK Statistics Authority as National Statistics and is 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, 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. For comparison purposes, the level of the gender pay gap is also included as this is one of the main causes of the gender pension gap and is referenced several times in this report.



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 previous reports, 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 which is discussed in the next section of this report.

It is important though 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 estimates and data on the level of the gender pension gap and gender pensions inequality

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

Eurostat, which is the statistical office of the European Union, produces European statistics in partnership with National Statistics Institutes for its member states.

One of the statistics produced is the level of the gender pension gap overall in the EU as well as in each of the member states. Eurostat's definition of the gender pension gap is, 'the percentage by which women's average pension income is higher or lower compared with men. Pension income includes old age benefits, survivors' benefits as well as regular pensions from individual private plans.'

The Eurostat figures are also based on data from the FRS but importantly, the data used to derive the figure for the gender pension gap includes anyone over the age of 65 whereas our estimate is for all people receiving the state pension. This therefore accounts for the difference between their estimate and ours.

The data from 2018, which is the latest version available, shows that the gender pension gap across the EU (including the UK) was 30.1% but this figure differs wildly between member states. For example, the smallest gap was identified in Estonia where it was estimated to be 1% and the largest difference was observed in Luxembourg where women aged over 65 received 43% less pension than men.

Overall the gender pension gap across the EU is decreasing and is now 4% lower than in 2010.

The Eurostat research gives the gender pension gap in the UK as 34.2% in 2017/18 and the below table shows figures for the past 5 years.

	2013/14	2014/15	2015/16	2016/17	2017/18
Gender Pension Gap	39.1%	38.0%	34.4%	35.7%	34.2%

Eurostat also report on the proportion of pensioners aged over 65 at risk of poverty in the European Union (EU). In 2018 this figure stood at 15%. Unlike the gender pension gap, the at-risk-of-poverty rate for pensioners in the EU has been rising gradually since 2013.

This suggests that for one reason or another pension provision has been reduced in the member states. Later on in this report the pension system in the UK is analysed and this supports the findings here as although automatic enrolment means that millions more people are now paying into a pension scheme, the level of saving is at a very low level.

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	35-44	45-54	55-64	65-74	75+
Gender gap in private pension wealth	25.56%	33.62%	41.32%	49.81%	48.56%

Source: ONS data on private pension wealth, period April 2016 to March 2018

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.

There is a substantial gap even for the youngest age groups which means that past reforms have not been sufficient to remove the gender pension gap and the current pension system within the UK needs urgent changes to reduce this.

The report also highlights other areas of gender inequality within pensions such as:

- Men below State Pension age were more likely to have active private pensions than equivalent women (56%, compared with 51%)
- For those aged 65 years and over, median pension wealth for pensions in payment for men are double that for women.
- There remains a gender gap in active private pension participation. The proportion of men (aged 16 years to State Pension age) with active private pensions was 56% and the equivalent for women was 51%.
- Median wealth in all active pension types (for all ages) is lower for women (£20,000) than men (£25,300), with the difference being largest in occupational defined benefit schemes.
- The gender gap for individuals above age 65 is fairly consistent, with men being around one and a half times more likely to have a private pension in payment. As highlighted already, there remains a gap in private pension participation so the trend of men being more likely than women to have a private pension in payment, is likely to continue

All of these findings are in respect of the latest data available which is for the period April 2016 to March 2018.

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 based on taxable pension income in the UK for the most recent years that data is available.

	2013-14	2014-15	2015-16	2016-17	2017-18
Gender gap in taxable pension income	27.3%	27.0%	24.5%	22.7%	21.4%

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 who earned under £11,500 in 2017-18. This data would therefore not include anyone who relies on the state pension as their only income as the full rate of the state pension in 2017-18 was less than £8,500 per annum.

Our research[1] shows that there are more women pensioners with low pension income than men. Of all pensioners who qualify for the state pension and are heads of their household, the percentage of men whose pension income[2] is lower than £11,500 pa is 34.6%; whereas the percentage of women is 55.1%.

In single pensioner households, the figures are closer, but the gap is still evident: the percentage of single male pensioner households with an income lower than £11,500 pa is 46.2%, whereas the percentage of single female pensioner households in this situation is 54.6%.

Both of these measures demonstrate that there are greater numbers of women pensioners receiving a low level of income than men and they have therefore been disproportionately excluded from this data source. This explains why the gender gap in taxable pension income is lower than our estimate of the overall gender pension gap.

The relatively steep decline in the level of the gender gap in taxable pension income is also possibly explained by the large increases in the 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	2018-19
Gender pension gap for single pensioners	7.9%	17.5%	21.1%	22.2%	25.7%

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 figures are used.

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.

What is very concerning with this data is that over the past 5 years the gap has widened significantly and is continuing to do so, with an increase of 3.5% from 2017-18 to 2018-19. This is yet another demonstration of the extent of the gender pension gap and that action needs taking to reverse the current trajectory and start reducing the gender pension gap.

1 Data from the Family Resources Survey is used for these findings

2 Pension income includes the state pension as well as private and occupational pensions

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.

Chartered Insurance Institute

Insuring Women's Futures is part of a wider Insuring Futures programme established by the Chartered Insurance Institute to improve public trust in insurance and personal finance. They have produced a report on "Solving the women's pension deficit[3]" which looks at all of the factors that have contributed to the gender pension gap.

Although the report does not track the gender pension gap in the same way as we do, some of the relevant findings that contribute to the gender pension gap are as follows:

- The average pension pot for a 65 year old woman in the U.K. is £35,800, just 1/5th of the average 65 year old man's.
- Women receive £29,000 less state pension than men over 20 years.
- Women's occupational pension income rose from £58 to £81 per week over the decade compared with £83 to £125 per week for men

Pensions Policy Institute

A report[4] published by the Pensions Policy Institute, Understanding the Gender Pensions Gap, focuses on the pension savings gap between men and women and shows that the median pension wealth of people aged 60-64 is as follows:

- Women: £51,100
- Men: £156,500

Their research suggests that the gap in pension saving stems from a number of factors acting throughout a person's working life including:

- working patterns
- salary
- participation rates
- scheme type
- tendency for early retirement (timing of withdrawal).

Conclusion

Although the gender pension gap is defined in different ways, all of the findings and data that are shown in this section clearly demonstrate that there is a significant inequality within pensions between men and women.

The reason why we include this section in the report is to look into whether other research and data support Prospect's estimate of the gender pension gap. We also want to see how other institutions are defining the gender pension gap to ascertain if there is a more appropriate benchmark that demonstrates the level of gender inequality within pensions.

[3] Solving Women's pension deficit to improve retirement outcomes for all (https://www.insuringwomensfutures.co.uk/wp-content/uploads/2017/03/COH_J012646-IWF-Pension-Life-Journey-Report-Update-P2.pdf)

[4] Understanding the Gender Pensions Gap, Pensions Policy Institute https://www.pensionspolicyinstitute.org.uk/media/3227/20190711-understanding-the-gender-pensions-gap.pdf

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.

The success of gender pay gap reporting has in part been down to a similar methodology – a simple percentage figure published annually that shows how progress has been made, or not, in tackling gender inequality. We therefore believe that our estimate of the gender pension gap and how we present this is a useful benchmark against which to assess progress.

Other strengths of how we estimate the gender pension gap are:

- That it is hopefully clear and simple
- It covers the whole population of pensioners, which we define as those in receipt of the state pension, and
- It is based on data from the Family Resources Survey, which is designated as a national statistic. We therefore believe that our findings are robust.

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 our measure of the gender pension gap picks up the impact of new policies which have been introduced to address gender inequality in pensions.

This is why in this year's report we will also be focussing on gender inequalities for those currently contributing to a pension scheme. As you will see, these inequalities exist and without action being taken; the level of the gender pension gap will not reduce significantly.

After our previous reports were published, there was feedback 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. The same logic therefore applies to the gender pension gap.

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, some of which has been included in this section.

None of the other data sources are an exact match for our estimate of the gender pension gap however we believe they are broadly consistent with our estimate and support the conclusion that gender inequality in pensions is a significant problem.

As a trade union we will continue to campaign on this issue and apply pressure to government to report on the level of the gender pension gap and adopt policies to tackle it. The data is available for the government to make this assessment and their lack of action shows that this is not a priority for them.

Main causes of the gender pension gap

Our previous reports have analysed the main causes of the gender pension gap. Although the main causes have not changed, we decided to keep this section in the report to reiterate the source of the gender pension gap and have updated the data where possible.

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
- 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, there is still a gender gap in state pension income. The following table is a comparison of average weekly amounts of state pension paid by scheme and gender as at February 2020[5].

Government legislated to equalise state pension age 25 years ago, but has not equalised the amount of state pension awarded by gender since then. The gender gap for state pension income therefore stands at 4.5% for the new state pension and 16.9% for the pre-2016 state pension.

The overall gender pension gap in state pension is 16%. For the same period last year, the state pension gender gap stood at 16.9%, so there has been progress.

It is clear from this research that the state pension gender gap will reduce over time as more pensioners start receiving the new state pension; however this will take a significant amount of time.

5 DWP benefit statistics (August 2020)

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[6].

The reforms also had a significant effect on the way that caring responsibilities are recognised in the state pension system. This will help to reduce the state pension gender gap.

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[7]. 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[8].

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[9]. 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[10].

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 1.5 million women were economically inactive because they were looking after family or home in April to June 2020 compared to 0.2 million men.

6 DWP (2016) - Figure 3

7 LSE Blog (2018)

8 Work and Pensions Committee (2016)

9 Later retirement, job strain and health: evidence from the new State Pension age in the UK, King's College London

10 International Longevity Centre (2019)

We discuss this in more detail later, but another factor that impacts on the level of pension saving is whether an individual works full or part time. The latest data shows that in 2019, 770,000 men worked part-time, as did some 3.2m women.

While there can be many reasons for employees to work part-time, caring and other family-related duties is a reason why at least some women 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 2019 was 17.3%. 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 8.9%.

Barriers to occupational pension scheme membership

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

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

Data from the Occupational Pension Scheme Survey shows that total occupational pension scheme 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[11].

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[12].

It is extremely disappointing that proportionately more women are excluded from auto enrolment due to the earnings trigger. It would be a simple change to remove the earnings trigger and such a change could have a large impact by increasing the number of women paying into a pension scheme. 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.

11 Pension Policy Institute (2015)

12 DWP (2017a) (Table 5.3)

Pensions Policy Institute – Understanding the gender pensions gap[13]

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.

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.

13 https://www.pensionspolicyinstitute.org.uk/research/research-reports/2019/2019-07-11-understanding-the-gender-pensions-gap/

Our research and findings

Introduction

Prospect have and will continue to report on the level of the gender pension gap but in this year's report we are also going to focus on research that we have undertaken when looking at participation within pension schemes and the level of contributions being paid by and on behalf of an individual.

The reason for doing this is that whilst changes have been made by government which will impact on the gender pension gap, such as the changes to the state pension in 2016, these changes will take many years to filter through to our gender pension gap reporting. For example, the changes made to the state pension are not projected to address the inequality in the level of state pension payable to men and women until 2041, and this is for individuals reaching state pension age from this date.

Due to this, as well as the apparent lack of appetite from the government to make policy changes which will make immediate inroads into reducing the gender pension gap, we are looking this year into active members of pension schemes to see if there is gender inequality here as if there is, the gender pension gap will continue to exist.

Inequality for active members needs to be addressed immediately so that in the future, the gender pension gap will not exist or at the very least, be reduced by a significant level.

A lot of our findings have come from the Department for Work and Pensions who publish annual data on workplace pension participation and savings trends, covering the period 2009-2019[14]. This time period covers major policy change in pensions since it spans the introduction and progressive roll-out of automatic enrolment.

The data on which this publication is based is drawn largely from ASHE – the Annual Survey on Hours and Earnings – although this is also supplemented with figures from the Family Resources Survey.

The main findings from our research are:

- The pension that individual's receive on average has resumed its upwards path for both men and women. There was a decrease in this figure in 2017/18.
- The gender pension gap stands at just over 40% which is an increase on last year's figure of 39.9%. The progress of the earlier years, where the gender pension gap was declining, has been lost. The gender pension gap in 2018/19 stands at 40.3% and the following table outlines how this compares to previous years.

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

14 Available at: https://www.gov.uk/government/statistics/workplace-pensions-participation-and-savings-trends-2009-to-2019.

- The level of the gender pension gap within the UK nations continues to differ by some margin. The level of the gender pension gap per each nation within the UK is outlined in the table below.

Gender pension gap by nation (2018-19)	
UK	40.3%
England	42.2%
Wales	43.8%
Scotland	33.0%
Northern Ireland	34.2%

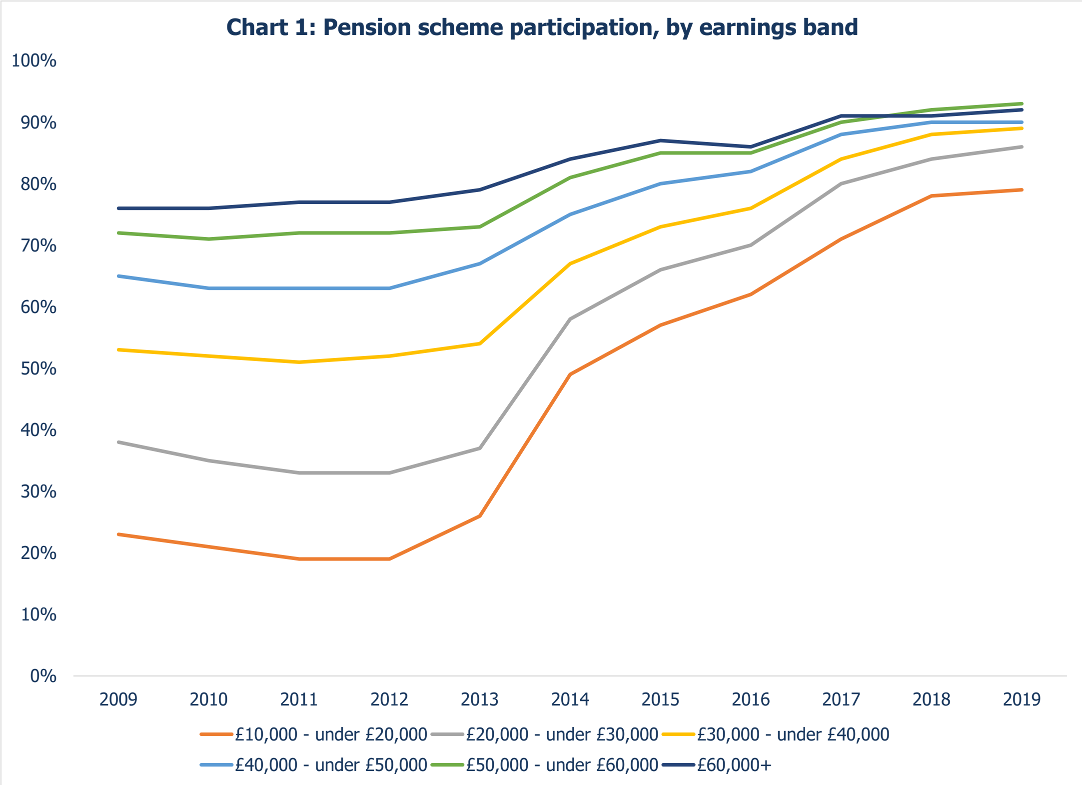
- Pensioners in England have the highest average income while those in Northern Ireland have the lowest.

Average weekly pension income by nation (2018-19)	Men	Women
UK	£355.16	£212.06
England	£367.60	£212.62
Wales	£337.94	£189.96
Scotland	£334.52	£224.03
Northern Ireland	£304.79	£200.58

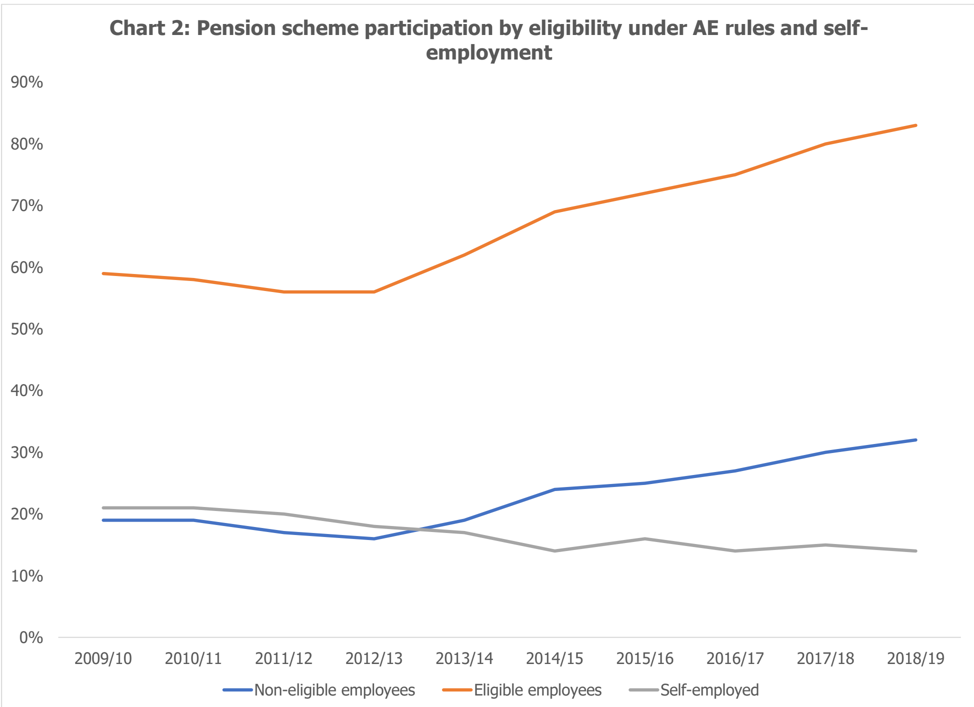
Participation rates

The major policy takeaways from our research are as follows:

- 86% of private sector workers are now participating in a pension scheme, up from 42% in 2012 at the start of auto-enrolment. This pattern of growth is common across all sectors and occupations; and varies little by nation or region. Nevertheless, there has recently been a tailing-off of the rate of pension participation which suggests that we have now reaching some sort of saturation point for auto-enrolment. Given that the phased implementation of auto-enrolment has now been completed and the concept thus now fully introduced, this is, therefore, a good time to begin to take stock of what has been achieved and what still remains to be done.
- Higher earners are more likely to participate in a pension scheme (see Chart 1), although the gap has narrowed and the participation rate of those with gross annual earnings of between £10,000 and £20,000 stands at 80 per cent. All earnings bands, however, are marked by the same, very recent, plateauing



- Amongst full-time staff, women are now slightly more likely to be participating in a pension scheme than men. This is pleasing progress since there was a gap of five percentage points, with women lagging, in 2009. Equal participation in pension schemes is clearly pleasing to see although equality of outcomes in retirement is also heavily dependent on contributions rates, to which we turn to in the next section.
- There has been an increase in participation even among employees who are non-eligible under the auto enrolment rules (i.e. those who do not meet the existing age and earnings criteria). However, participation amongst the self-employed has continued to fall to the point where just 14% of the self-employed are participating in a pension scheme – a fall from 21% in 2009 (see Chart 2).



Amongst the self-employed, it is partly to be expected that auto-enrolment would have had no impact other than in, perhaps, doing something to arrest the decline; auto-enrolment does, after all, cover specifically those who are employees. However, it is disappointing not least in terms of the numbers of freelance workers who may form part of the self-employed group. The question here is really of the extent to which self-employment is 'genuine' or whether it has been used potentially to side-step auto-enrolment rules or, alternatively, whether the number of regular clients that freelancers actually have in practice really ought to class them as employees.

Contribution rates

There are several factors that can have an impact on the level of pension that a member can expect to receive in retirement. However, in defined contribution schemes, which the majority of employees are a member of, arguably the main issues that will impact the level of their income in retirement are:

- Level of contributions paid into the pension scheme
- Level of charges incurred
- Scheme governance and investments
- At retirement decision making

During the period where a member is actively contributing to a scheme, the level of contributions paid is the item that an individual will have the most control over. This is therefore going to be the focus of this part of the report.

Our research, which is based upon the most recent Workplace Pension Participation and Savings Trend report, highlights several major issues as regards the changing trends in contributions over the period since 2009.

In this section of the report we study the contributions rates of those employees who are actively participating in a pension scheme. We will show throughout this section that there is a time bomb in UK pensions. With declining numbers in defined benefit pension schemes, more and more people are paying insufficient amounts into their defined contribution pension scheme.

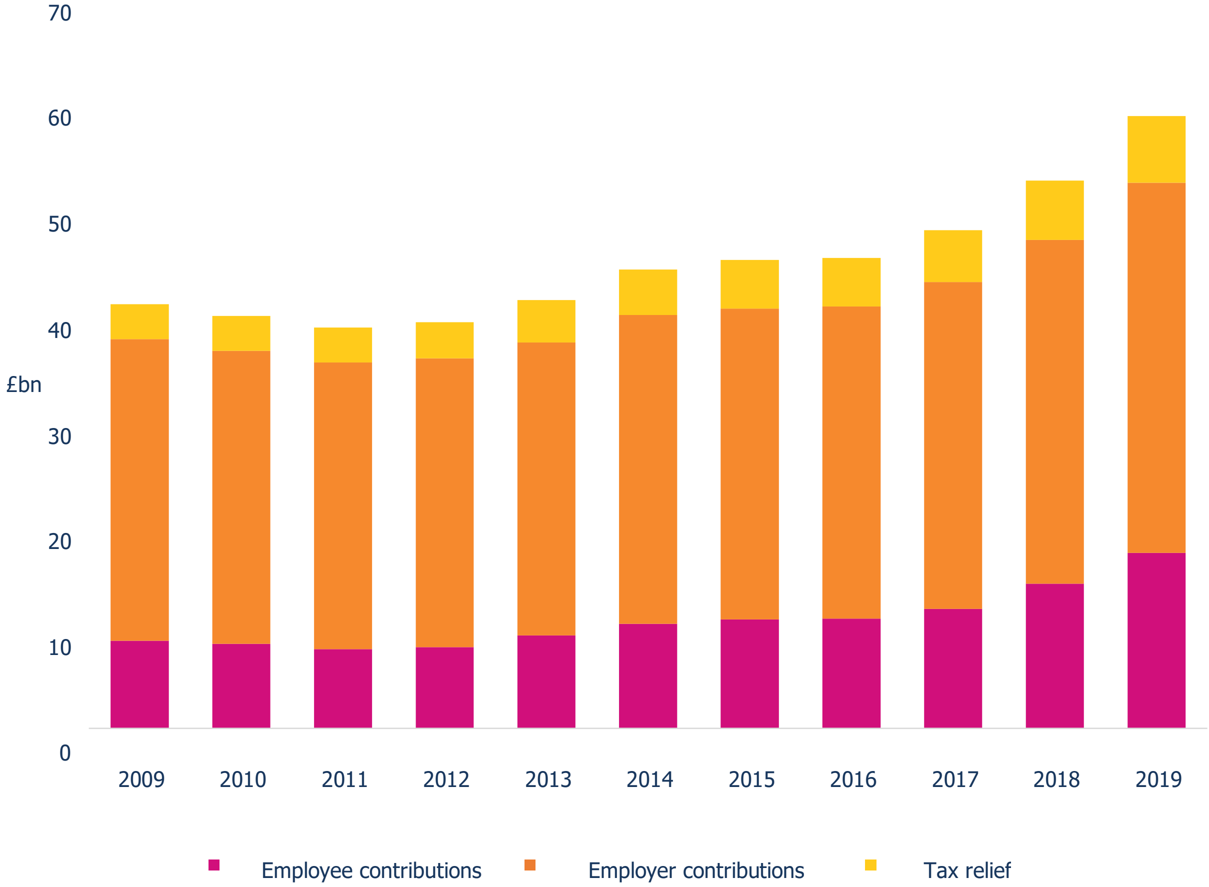
Various studies have highlighted that a contribution level of between 15% and 20% (including employee and employer contributions) over the course of a career is required to build up a pension fund large enough to provide a sufficient income in retirement.

Our research shows that the vast majority of individuals are not saving at this level. If more is not done to increase the level of contributions being paid into pension funds, a point will be reached whereby a significant proportion of the population will be reaching an age at which they will want to retire, but will be unable to do so due to having insufficient pension provision.

General level

The total amount being saved in the private sector reduced between 2009 and 2012 to a low of £38.5bn but has since grown strongly (see Chart 3). In 2019 alone, the total grew by £6.2bn on the 2018 figure to a total of £57.9bn.

Chart 3: Total contributions into private sector pension schemes, by source



29% of these contributions came from individuals, 11% from tax relief, with employers contributing 60%. By comparison, in 2009 the share of the total amount saved which came from employee contributions was 21%, while that from employers was 71%. Over the whole period since 2009, the total amount contributed by employees into their pensions has doubled, to a total of £16.6bn; while that in terms of tax relief has grown by proportionately nearly as much (91%; to £6.3bn). Disappointingly, the employer contribution, while being comparatively the largest at £35bn, has however grown the least (up 23% from £28.5bn in 2009).

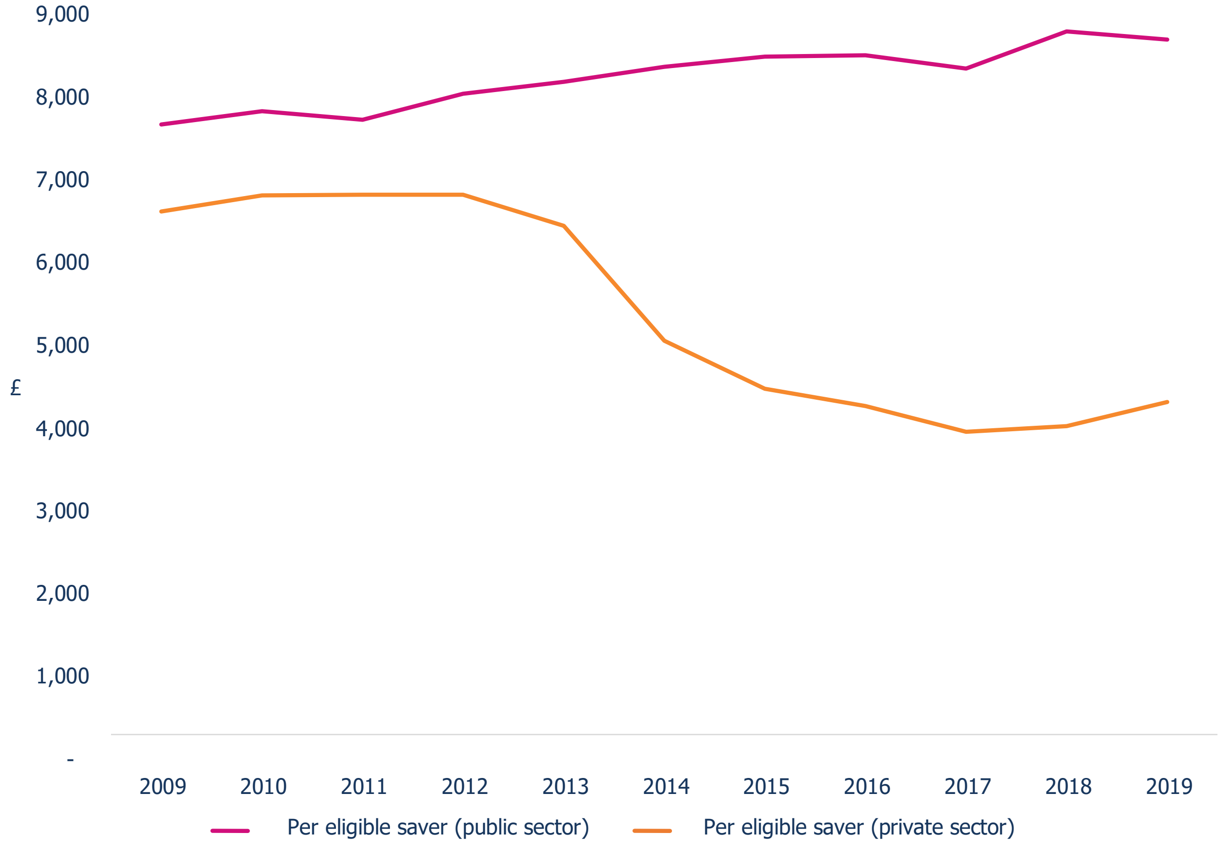
At the aggregate level, therefore, auto enrolment has seen a swing in the balance of contributions which has led employees, collectively, to be contributing relatively more into their pensions than employers. This is almost certainly due to the way that the auto enrolment rules have been written. Unfortunately, the balance of contributions is in the favour of the employer who is only required to pay 3% on qualifying earnings with the employee having to pay 5%.

This is in stark contrast to previous trends whereby pension saving in an occupational scheme worked on the basis of a much higher employer contribution, towards or even beyond a 2:1 balance. Some longer established schemes do still work on such a basis, not least where there is continued trade union involvement in negotiating pensions.

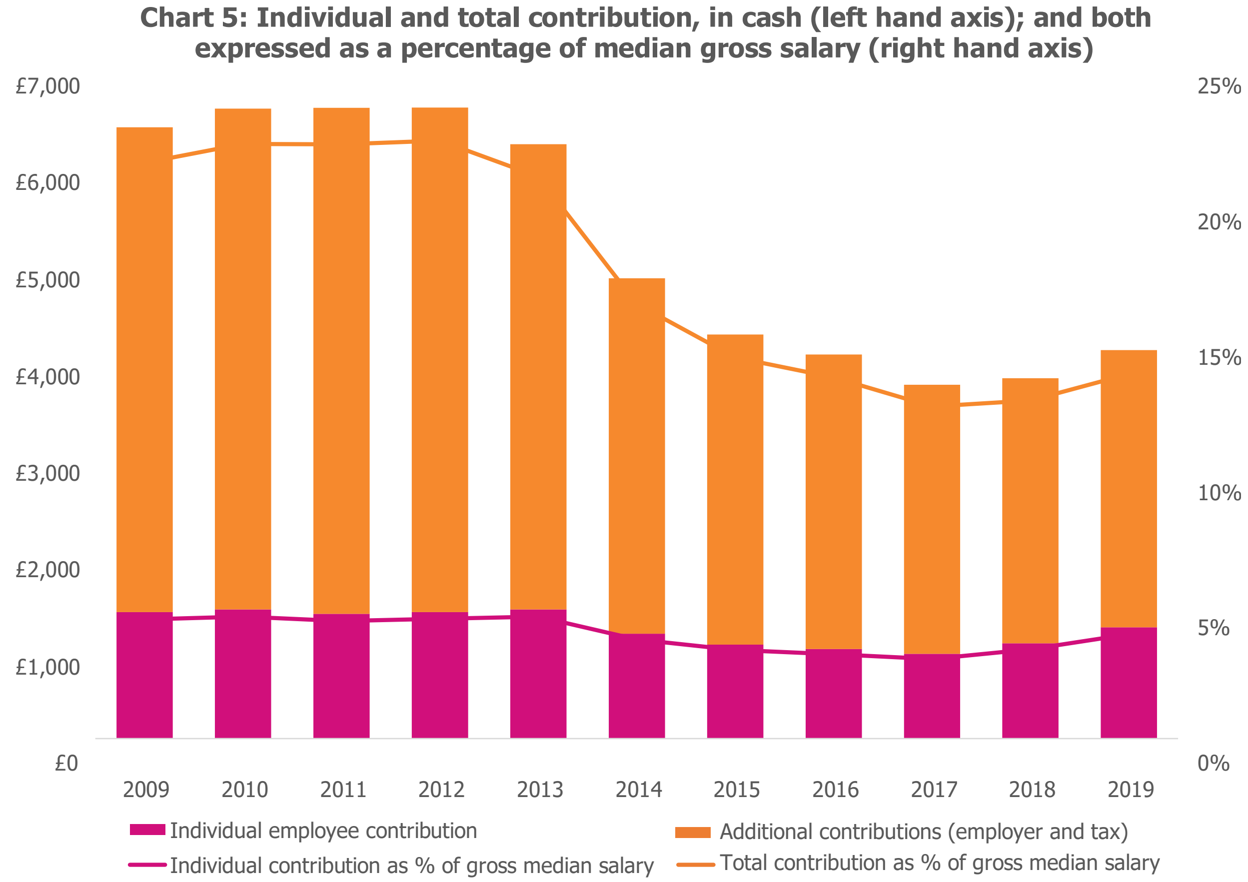
One concerning statistic is that the average amount being saved in a private sector scheme by individual savers plummeted after 2012. This is in contrast to the public sector, where the trend is one of continued growth (see Chart 4). This is likely to be as a result of the introduction of automatic enrolment where people opted to save at the minimum level as well as employers only providing the bare minimum legally required contribution.

Our research highlights that the average saving, for those individuals who are actively contributing to a pension scheme and are eligible employees as classified under automatic enrolment legislation; fell from £6,321 in 2009 to a low of £3,658 in 2017. This figure has increased slightly since then to an average of £4,018. The main factor in this increase is likely to be the staged increases in the minimum auto-enrolment contribution rate. In contrast, the level of saving in the public sector stands at £8,396, more than twice as much.

Chart 4: Average amount saved, by public and private sector



Using the data available we have been able to calculate an average employee contribution rate as a percentage of gross salary. Producing this calculation back to 2009 is complicated because the two datasets used, differ in their approach. The contribution levels are expressed in 2019 earnings terms, whereas the earnings are actual data, therefore we have uprated the earnings data from earlier years in 2019 earnings terms. Chart 5 compares individual and total (i.e. including employer and tax relief) contributions in the years from 2009; while also representing each of these as a percentage of that year's revalued earnings.



An important finding from this data is that total contributions have been lower than 20% since 2014 and individual contributions, at just less than 4%, are still substantially lower than the figures of c. 4.5% which were the case up to and including 2013. While individual contributions levels are still markedly less than in 2009 (£1,152 compared to £1,308), the figure for additional contributions, made up of contributions from the employer and tax relief, are much more significantly lower than previous years.

We are not arguing that the years up to 2014 represented a particularly 'golden era' for occupational pensions provision as contribution levels then were low, particularly for the growing numbers in defined contribution schemes.

Such a comparison is useful though in highlighting the changes that have taken place since auto-enrolment was introduced. As of 2019, auto-enrolment has not lowered the employee contribution from the level of midway through the previous decade, although it did do exactly this in the early years. However, the replacement of defined benefit schemes with defined contribution arrangements has led to a fall in the overall level at which individual scheme members are contributing to their pensions. Furthermore, such a level always did represent a level of under-saving.

Automatic enrolment has undoubtedly been a success; millions of people are now saving towards a pension who were not before. A pension saving culture has been built and this is the new normal. It is important not to rest on this though. Now is the time to review automatic enrolment and turn attention to the fact that employees are saving no more than they did fifteen years ago, when it was already recognised that this was too low.

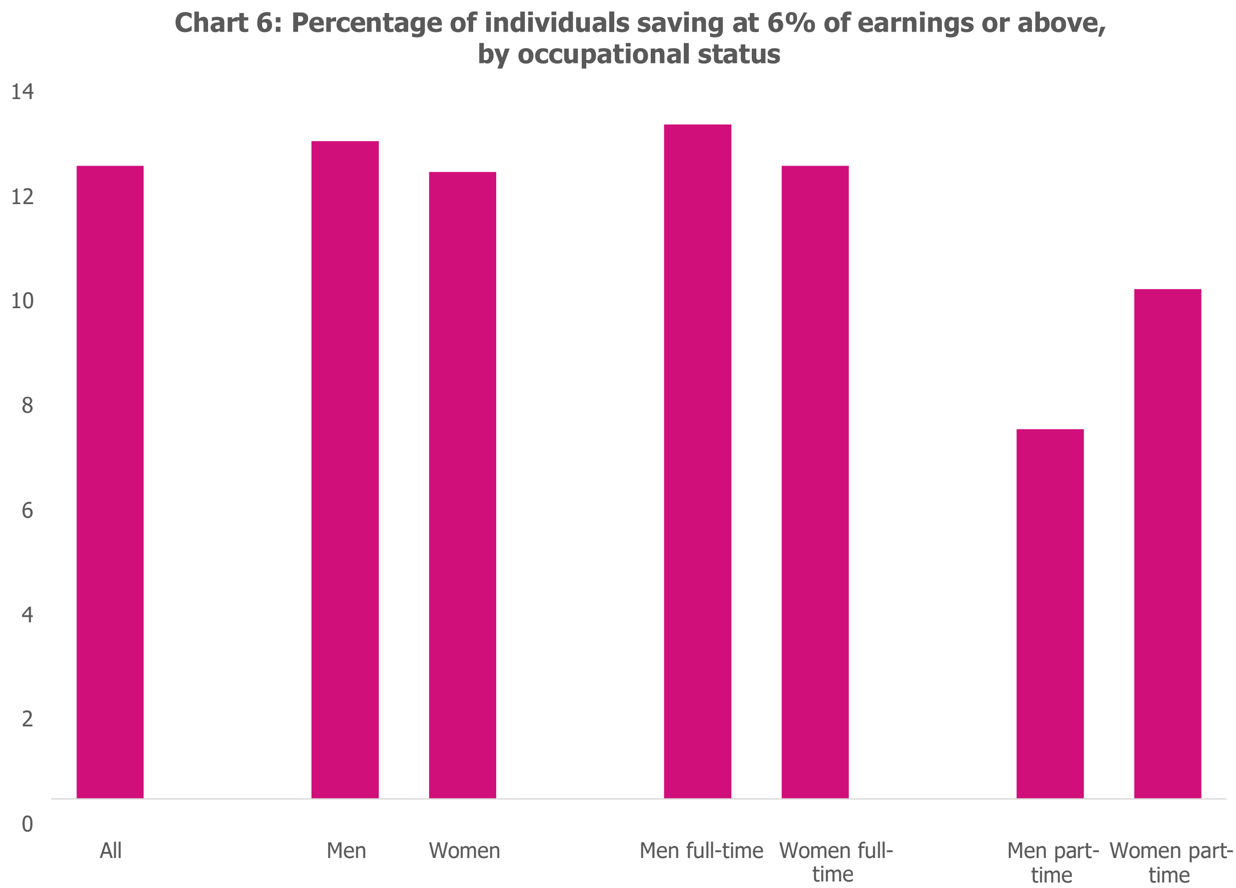
Differences in contribution rates by gender

In this section we look into the contribution levels payable by individuals broken down into gender as well as whether they work full or part time. In chart 6 we have identified the percentage of people in these groups who are saving at a level which is more likely to provide them with a reasonable prospect of have a sufficient income in retirement. For this purpose, we have defined this as individual employees who are saving at a level of at least 6% of earnings.

These figures have been chosen very deliberately: 6% represents a reasonable level of employee contribution which when coupled with a good level of employer contribution has a chance of providing the member with a reasonable level of pension provision. 6% is a level of contribution that is higher than was the case in defined contribution schemes prior to auto-enrolment and more in tune with the sort of contribution levels applying to defined benefit provision.

If members are going to have a chance of receiving a pension at a level anywhere near to what they would have likely expected from a defined benefit pension scheme, contributions of similar amounts need to be paid. We have therefore compared the level of contribution saving to this benchmark.

Charts 6 gives the percentages, of men and women, and of full-timers and part-timers, where the individual contribution is at this level in 2019.



Our findings show that just over 12% of employees are currently saving at a level of 6% or more of their earnings. The proportion is slightly higher among men than women; and among men full-timers than women full-timers.

However, a much smaller proportion of both men and women part-timers are saving at these sorts of levels, with a fall-off being particularly noticeable. Just over 7% of male part-timers are saving at 6% or more of earnings whilst this figure is just below 10% for women part-timers.

Part time employees continue to make up a sizable part of the workforce. In 2019, over 770,000 men worked part-time, as did some 3.2m women. Overall, part-time working accounts for nearly 20% of all workers (7.5% of men and 32.6% for women).

This will be a significant contributor to the gender pension gap as such a sizable number of women work part time and as our research shows, such a low proportion of part time workers are contributing at a high enough level to provide a sufficient level of pension at retirement.

It is also worth remembering that part time workers will earn less than their full-time comparator and will naturally need to be paying a higher percentage of earnings to reach the same level of pension, which is the opposite of what is happening in reality.

In all cases, this level of pension saving is simply too low. Across all employees, 54% are saving somewhere between 3% and 5%. The median female employee is saving just below 4% while the median male employee is saving just over 4%. Overall, the difference is not substantial, but it should be recognised that it is likely to be making a difference to pension outcomes in retirement that contribute to the level of the gender pension gap.

In regards to employer contributions, less than 8% of employees are seeing their employers make contributions of 12% or more which is a level which we would aspire to for our members in this scenario as it amounts to a double matching contribution structure and would address the unfair imbalance of contributions that is currently the norm.

The majority of all employees are actually receiving pension contributions of less than 4% from their employer. This is a shockingly low figure, particularly in comparison with the level at which employees themselves are saving.

Put together, and including tax relief on the top, this evidence suggests that the median employee is seeing pension contributions of barely one-half of the level required to deliver them with a decent income in retirement.

As our research has shown, the level of pension saving in the UK is very low and unfortunately auto enrolment seems to be representing a ceiling rather than a floor with the majority of employees only paying and receiving the minimum contribution level.

We believe that auto enrolment should be the start of nationwide pension reform where the end point is a system which gives people a realistic chance of having a comfortable retirement. There is a real lack of commitment from the government to do this with a vague promise to review auto enrolment in the “mid-2020’s”.

Conclusion and policy recommendations

Conclusion

The simple conclusion from our research is that, for all that they now are as likely as men to be saving for their retirement; women are even less likely to be saving at the sorts of levels which will deliver a decent income in retirement.

While it seems that auto-enrolment has contributed towards narrowing the gap between men and women in terms of access to opportunities for pensions saving in the workplace, the data points to women being even less likely to save at a level which will deliver them a decent income in retirement than men. Furthermore, the difference in salary levels, arising partly, but not only, from women being more likely to work part-time, creates a substantial difference in contributions over the course of a working life.

It is clear that there have been some successes in auto-enrolment in terms of expanding pension scheme participation as well as increasing the total amount being saved. Ultimately, auto-enrolment has meant that the practice of pension saving has become the norm and has helped to form a pension saving culture.

However, it is also true that this has been at the expense of individual contribution rates, with individuals now saving at a level which has not grown in the last fifteen years and which, for some who were previously on defined benefit provision, will have fallen. At the individual level, therefore, auto enrolment has led to a decline in the level of individual saving with, it seems, people now failing on average to save sufficiently for their retirement under auto-enrolment.

The trade-off here was always likely, but it was accepted as a means of reversing the slide in the numbers of individual employees saving for their retirement. However, the time is now right to review auto enrolment and consider the likely next steps in building on the successes and, more particularly, how best to address a position of the prevailing level of under-saving which auto-enrolment has done nothing to tackle and which, in its early years, actually dropped even lower.

Expanding the minimum rates at which individuals save has to be the way forward, alongside increasing the employer contribution. The steady increase in contributions that has happened over the past few years have been implemented without a significant number of opt outs and so it would seem sensible to continue this course of action.

Policy recommendations

In our previous reports we have made several policy recommendations including the following:

- Statutory requirement for DWP to report annually on the gender pension gap
- Better recognition of caring responsibilities in the pension system
- More affordable childcare
- Increase take-up of credits
- Resolve tax relief issues in 'net pay' pension schemes

All of these recommendations still stand as they would make a difference and contribute towards a reduction in the level of the gender pension gap.

It is pleasing to see that a call for evidence has been launched by the government into the 'net pay' issue and Prospect will be responding to this consultation.

The problem affects members of 'net pay' schemes who earn less than the personal allowance for income tax (£12,500 in 2020-21). These individuals do not receive tax relief on their pension contributions where a comparator with identical earnings but a member of a 'relief at source' scheme, would.

Many of the biggest pension schemes in the country operate tax relief on a 'net pay' basis.

The HM Treasury call for evidence estimates that approximately 1.5m individuals are affected by this as they are members of net pay schemes with taxable income below the personal allowance.

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 which was taking place.

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[15] 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".

This call for evidence is therefore welcomed but it has taken far too long. In the nearly 5 years since we first raised this issue, millions of people have lost out on tax relief on their pension contributions, the vast majority of which are women[16].

In our report this year though our focus is on the reform of automatic enrolment.

Automatic enrolment reform

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

As explored earlier in this report, auto enrolment has led to a surge in pension participation rates. However, now that auto enrolment has been fully implemented, we believe that now is the time to reform the legislation to build on previous success.

We are therefore calling on government to:

- Lower 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
- Reduce or remove the £10,000 earnings trigger
- Amend the contribution rates payable under auto enrolment and address the unfair balance between employee and employer contributions.

Unfortunately, the government's ambition in this area has been limited with the aim for making changes to auto enrolment "in the mid-2020s".

This is not good enough and change needs to be made now to address the growing level of the gender pension gap.

In the past, pension provision has been funded by the employee and employer, with the employer paying the majority. This was an integral part of the overall benefit package of an employee but over time this has been eroded and workers have effectively had a reduction to their overall remuneration.

15 Prospect (2018)

16 House of Lords (2019)

The minimum level of contribution currently required under auto enrolment is unfairly balanced against the employee. The current rules state that employees should pay 5% whereas employers only have to pay 3%. It's important to remember that this is on qualifying earnings only as well, not full pay.

Prospect work with a significant number of good employers who pay significantly over and above the minimum levels required but unfortunately, as our research shows, nationwide the amounts being paid on average are far closer to the minimum levels.

Our recommendation is therefore to phase in an increase to both employee and employer contributions so that both are contributing 6% of all earnings. As stated in this report, even contributing at this level may not be enough to fund a comfortable retirement for members; however, it is a step in the right direction and would address the current imbalance in contributions between the employee and employer.

The current auto enrolment regime excludes low earners from contributing to a workplace pension scheme and importantly, receiving a contribution from their employer. Requiring pension contributions to be deducted from the first pound under automatic enrolment would be a welcome change as women generally earn less than men, so they will receive proportionately higher contributions.

The contributions level would be the same between men and women, but if contributions were payable on all earnings, rather than just on those above the lower earnings limit, this change would benefit women more as on average women are paid less than men and a greater proportion of their earnings are within the lower earnings limit.

As we have highlighted in this report, the level of contributions being paid into pension schemes is too low. Requiring contributions to be deducted at a higher level will be another step in the right direction in regards to gradually increasing the contributions paid by individuals until a point is reached where the default position is that people are saving enough so that they will have a sufficient level of income in retirement and if they wish to, retire at an age early enough so that they can enjoy this time in their life.

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

This highlights the need for a wider reform of auto enrolment, especially in relation to the £10,000 earnings trigger.

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.

Women are more likely to earn less than £10,000 a year and hence be excluded from automatic enrolment. As mentioned earlier in this report, 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.

By making these policy changes, huge inroads will be made into reducing the gender pension gap. These will of course take some time to filter through to our reporting of the level of the gender pension gap but over time they will and the level of pension inequality will finally start to reduce.

Prospect will be writing to the Work and Pensions Committee calling for them to launch an inquiry into the gender pension gap. We believe that an inquiry into this subject would highlight nationally the shocking level of the gender pension gap and this would hopefully lead to a plan from the government to tackle the gender pension gap.

What Prospect will do

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

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 is our third annual report and we will continue to monitor the level of the gender pension gap in the future with the purpose of highlighting this issue and putting pressure on government to act.

We will be hosting a fringe event at the 2020 TUC congress. As congress is being delivered virtually this year, we feel this is a terrific opportunity to reach a wider audience.

We will continue to hold the government to account for their lack of action on the gender pension gap and will be writing to the Work and Pensions Committee urging them to open an inquiry into the level of the gender pension gap in the UK.

Campaigning on a national level is important but so is action at individual and branch level. We have previously produced a member guide[17] that aims to help women members consider the specific challenges that contribute to the gender pension gap and what they can do to mitigate them.

We would encourage members and reps in their own workplace to find out about the pension scheme at their own employer and how this may contribute to the gender pension gap. For example, key information to know would be:

- Does your scheme follow the auto enrolment eligibility criteria and therefore disproportionality exclude women from joining the pension scheme?
- Are all new joiners automatically put into the pension scheme from their first day of employment or is there a waiting period in operation?
- How does your employer treat parental leave for the purpose of pension scheme membership? Some schemes and employers top up contributions to their normal level so that full contributions are maintained. Doing this mitigates one cause of the gender pension gap as women tend to have longer periods of parental leave.

Gather information on the various policies that your employer has in terms of pensions and then campaign to improve these where necessary. Prospect officers would be happy to help with this.

If members are excluded from automatic enrolment, speak to them about the advantages of opting in and potentially benefiting from employer contributions.

Our member guide is a great reference tool that will help you to provide information about what members can do to mitigate the gender pension gap at key stages in their working lives and we would encourage you to use and advertise this in your branch.

Campaigning on the gender pay gap should also have a direct impact on the gender pension gap over time and we will continue to compare how the gender pay gap compares to the gender pension gap in future releases of this report.

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

17 https://library.prospect.org.uk/download/2019/01313