

# Under-pensioned 2016

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Venue: Trades Union Congress, Congress House

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

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The sponsors of the Under-pensioned report:



# Under-pensioned 2016

- Previous PPI research on differences in pension income
- How has policy changed?
- What are the current differences?
- What might the differences be in future?
- How could policy affect differences?
- What causes differences?

# Under-pensioned are more likely to have “alarm bell” characteristics

- Previous PPI under-pensioned projects (2003 and 2008) concluded that:

“Women, disabled people and people from ethnic minority groups are more likely to have many of the “alarm bell” characteristics that are associated with lower pension incomes.”

# What do “alarm bell” characteristics look like?

Characteristics associated with lower pension incomes:

**Low-pay**  
**Part-time working**  
**Caring**  
**Self-employment**  
**Unemployment/ inactivity**  
**Time out of work**

# This report includes carers and the self-employed

- The previous reports identified and measured current and likely future pension income differences for:
  - **women,**
  - **disabled people, and**
  - **people from ethnic minority groups.**
- This report examines whether and by how much differences have narrowed since the previous reports and explores how differences may change in future – widening the focus to include:
  - **carers, and**
  - **the self-employed.**

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# State pension reforms have reduced differences

- Since the 2008 research, state pension reforms have been implemented which are likely to reduce differences by increasing state pension incomes for lower earners and those with non-traditional work patterns:

Reduced the number of qualifying years needed for a full Basic State Pension

Restored Basic State Pension earnings link and introduced triple-lock

Introduced positive weekly credits for caring, replacing Home Responsibilities Protection

Scheduled for State Second Pension to become flat-rate by 2030

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# Reforms will affect pension incomes

- Current and future policy changes will also affect pension incomes in future:

## STATE PENSION:

**New State Pension  
(superseding flat-rating of S2P)**

**Rises to State Pension Age**

## PRIVATE PENSION:

**Automatic enrolment**

## LABOUR MARKET:

**Introduction of National Living Wage**

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# Under-pensioned groups receive lower than average state pensions

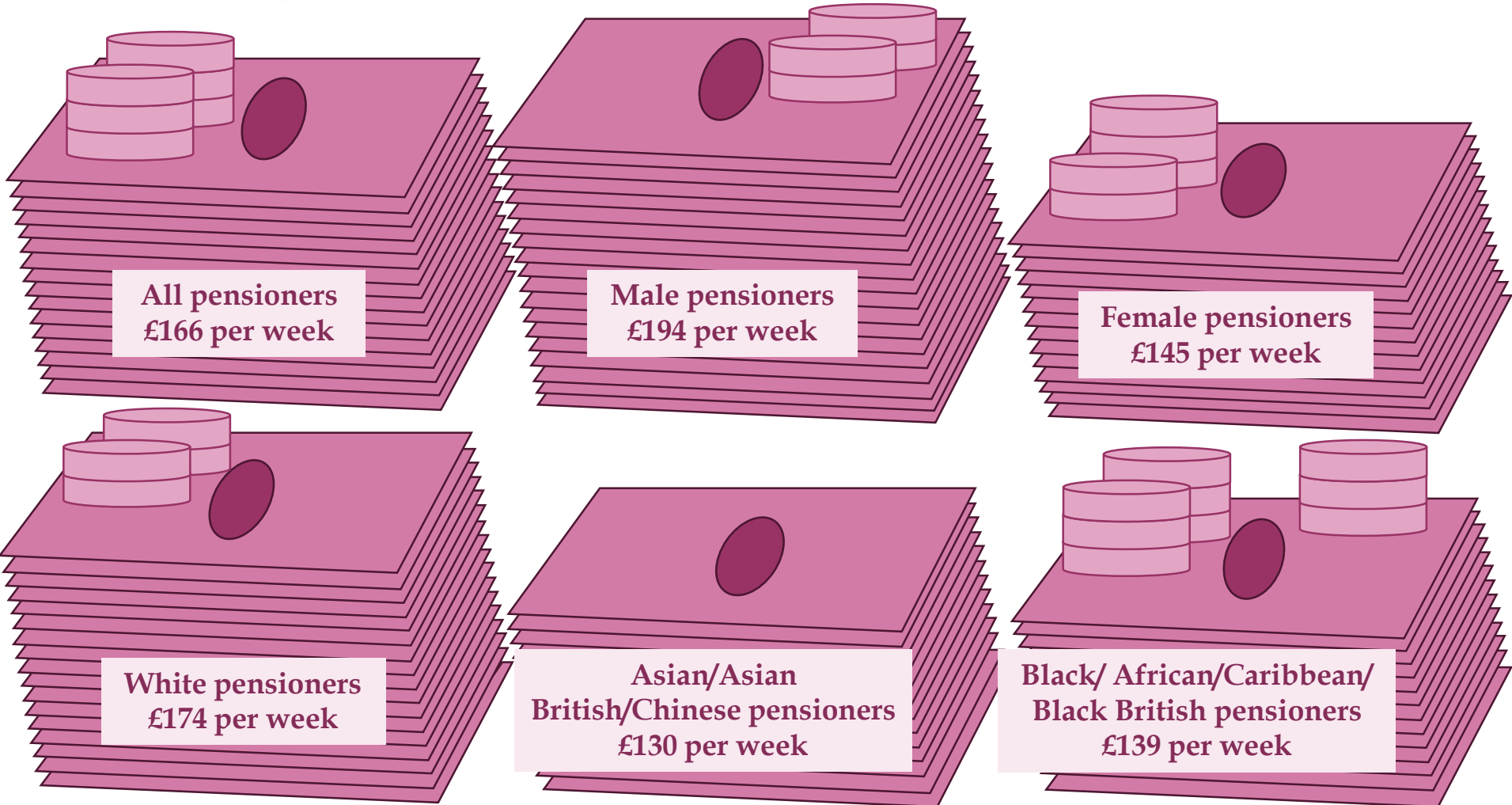


- People from under-pensioned groups receive less from state pensions than the overall average.
- Differences in state pension income have narrowed for people from some under-pensioned groups.
- People from under-pensioned groups are more likely to be eligible for means-tested benefits.

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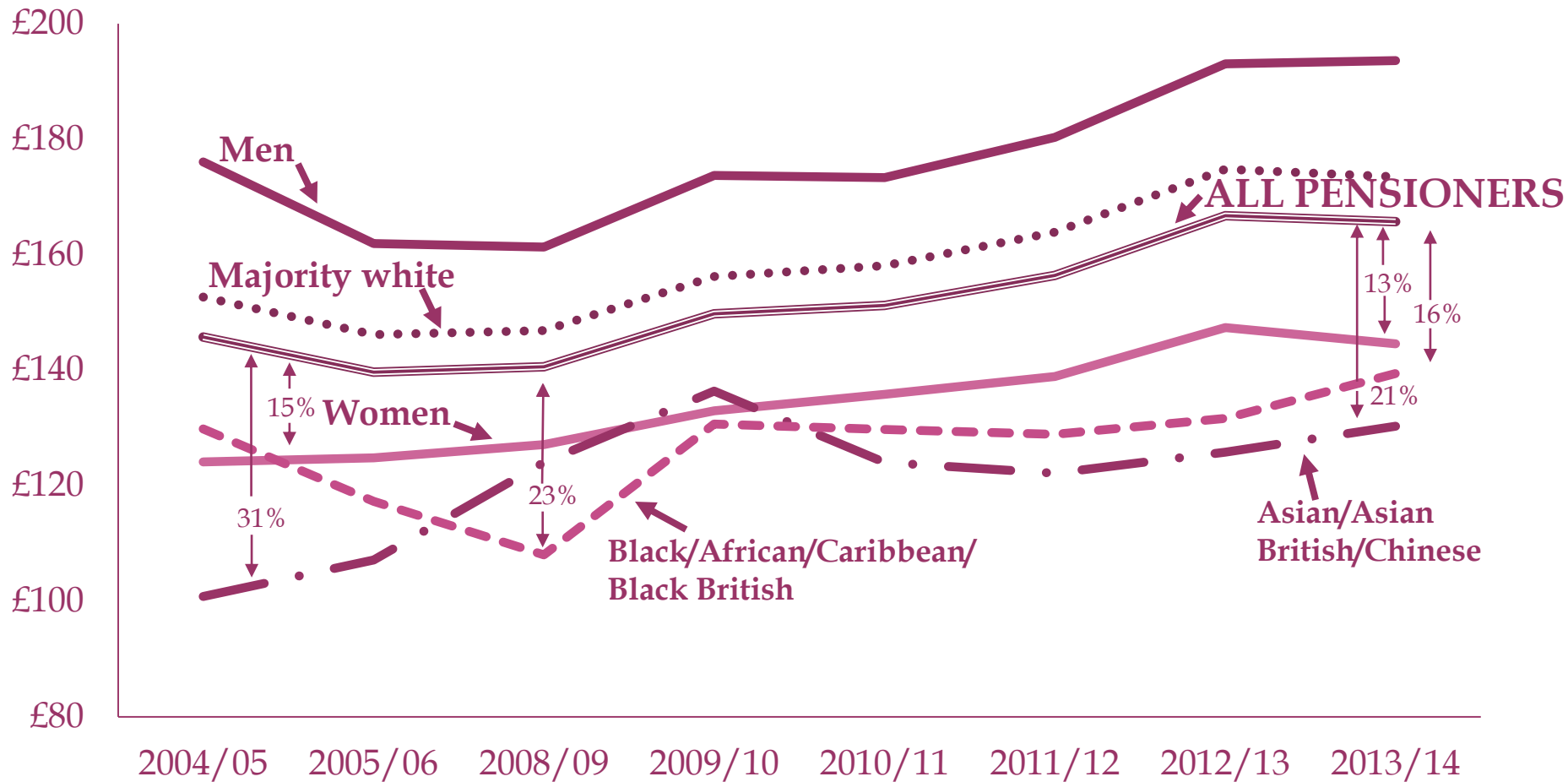
# People from some under-pensioned groups receive up to £60 less from state pensions on average

Current mean average weekly household income from state pensions by ethnicity and gender, 2013-2014 (2015 earnings terms)



# Differences in state pension income have narrowed for people from under-pensioned groups

Average weekly household income from state pensions, 2004-2014 (in 2016 earnings terms)

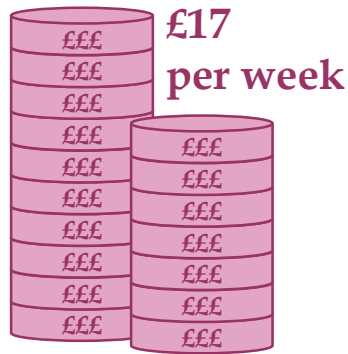


# People from under-pensioned groups are more likely to be eligible for means-tested benefits

## Current mean average weekly household income from income-related benefits by ethnicity and gender, 2013-2014 (2016 earnings terms)



All pensioners



Male pensioners



Female pensioners



White pensioners



Asian/Asian British/Chinese pensioners



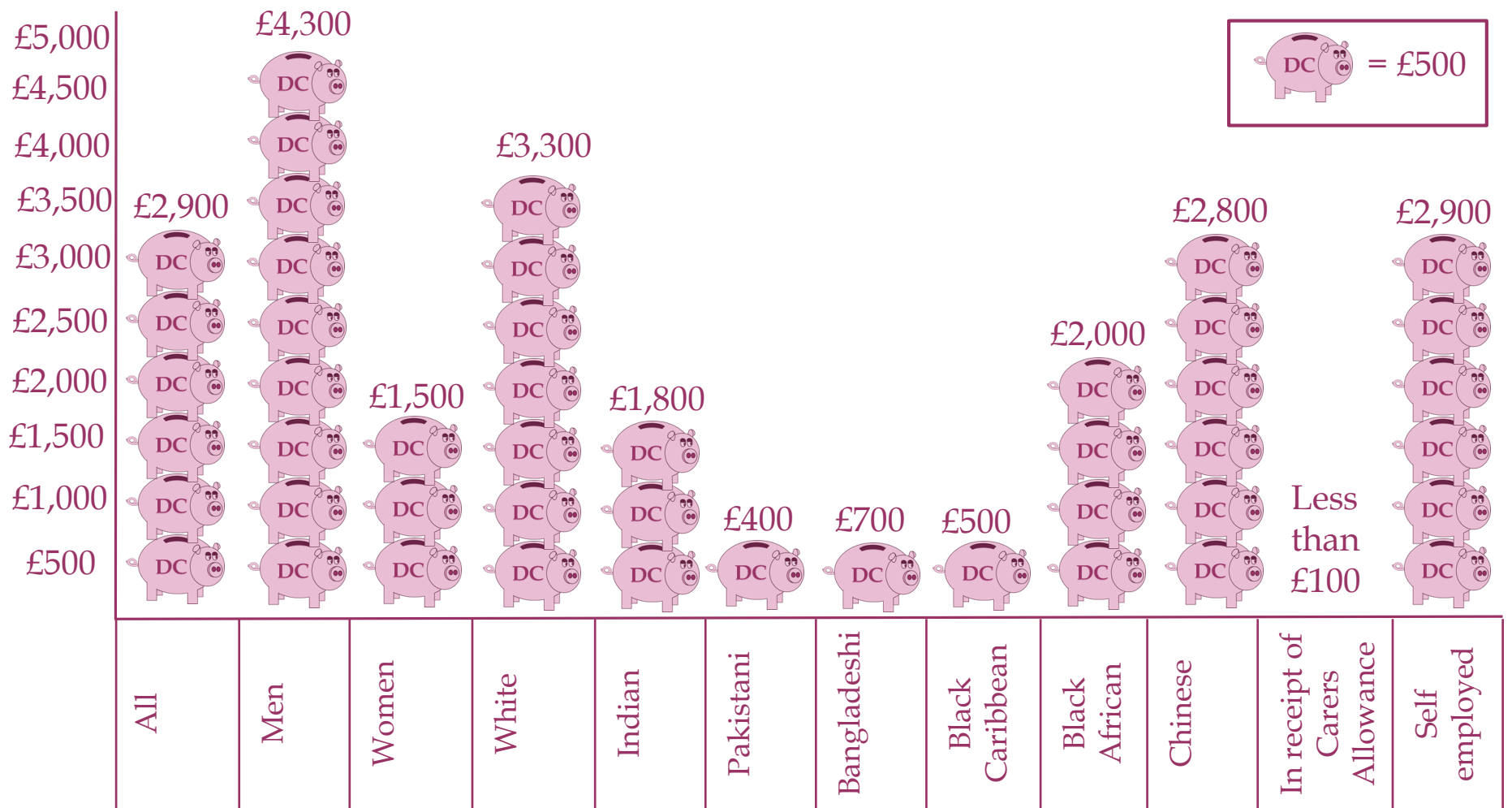
Black/ African/Caribbean/ Black British pensioners

# Under-pensioned groups receive lower than average private pension income

- Differences in private pension savings are more pronounced than differences in state pension income
- Ethnic minorities, carers and women have the lowest levels of DC savings
- The self-employed have the lowest levels of DB savings while women and carers have (relatively) higher levels of DB savings

# People from under-pensioned groups have lower levels of DC pension savings

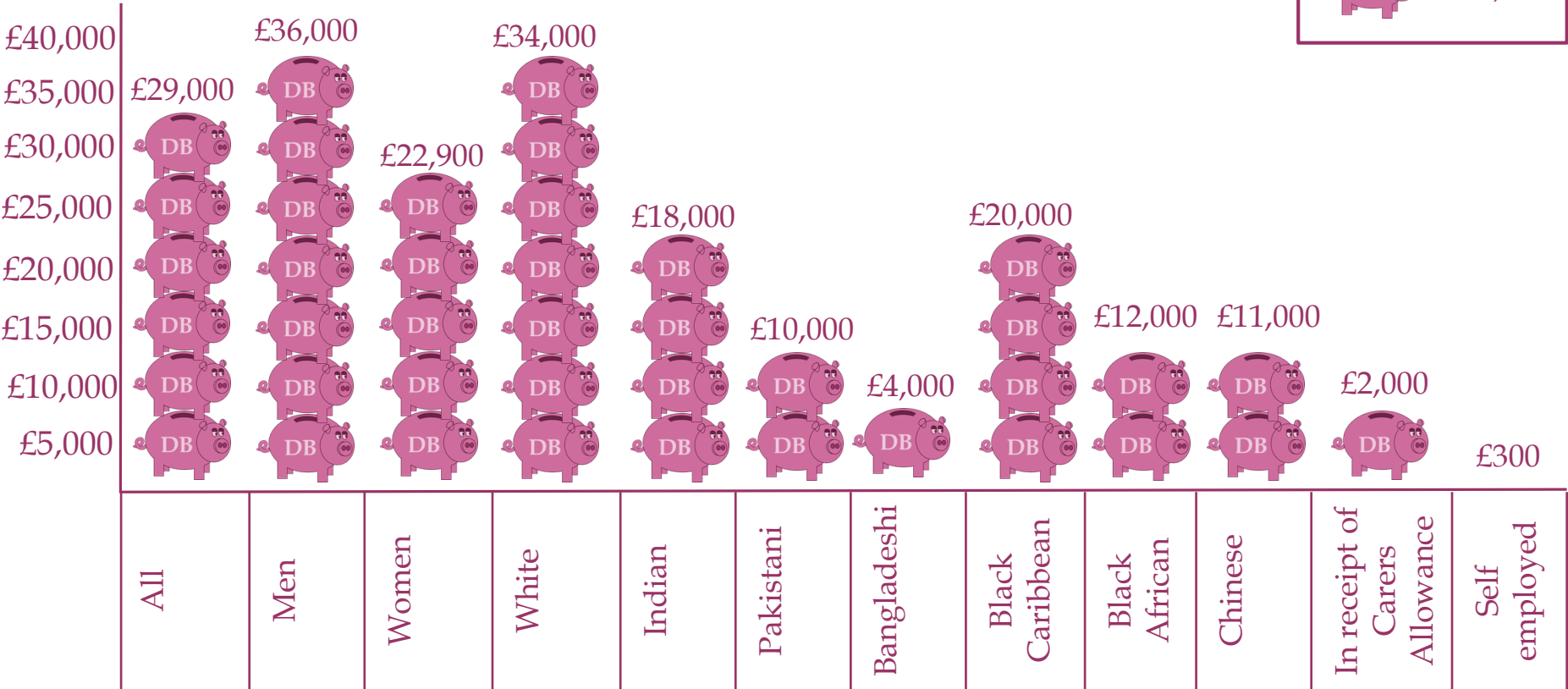
Mean total DC pension savings of people aged 16-64 in 2010/2012, by ethnicity, gender, caring and self-employment





# People from under-pensioned groups have lower levels of DB pension savings

Mean total DB pension savings of people aged 16-64 in 2010/2012, by ethnicity, gender, caring and self-employment



# Low participation rates affect private pension income

- Low participation rates among under-pensioned groups affect average saving levels.
- Groups with very high unemployment, e.g., disabled people, have very low levels of participation.
- People from under-pensioned groups already saving, save at relatively higher levels, though still generally lower than the average.

# Members of under-pensioned groups have lower participation rates

Proportion of adults and employed adults saving in a private pension by ethnic group, gender, disability and self-employed status (2012/13 and 2013/14)

	Proportion of adults saving in a private pension	Proportion of employed adults saving in a private pension
All	27%	49%
Men	30%	45%
Women	27%	49%
White	28%	50%
Indian	27%	44%
Pakistani	9%	22%
Bangladeshi	13%	28%
Chinese	23%	33%
Black/African/Caribbean/Black British	24%	43%
Disabled	12%	42%
Self-employed	17%	17%

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# Peter is a median-earning traditionally employed worker

- Individuals compared to a median-earning man, Peter:
  - Full-time work from age 22 (2020).
  - Earns at the 55<sup>th</sup> percentile of the earnings distribution (median earnings for white men).
  - Automatically enrolled (age 22) and contributes 8% of band earnings into a DC pension scheme.
  - Leaves work at SPA of 68 in 2066, takes state pension, uses private pension savings to purchase a single-life, level annuity.

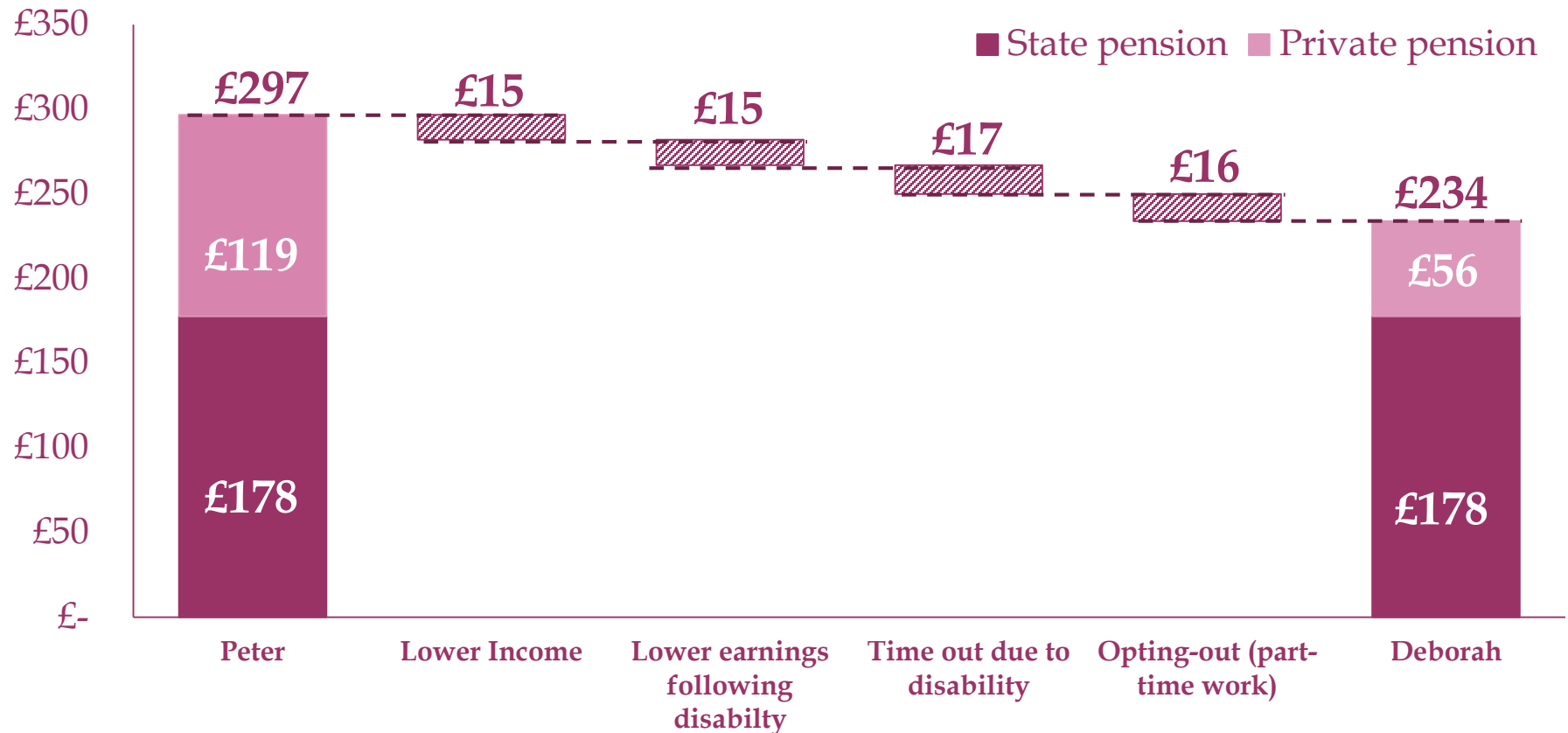
# Peter is compared to hypothetical individuals

- Estimations of future differences have reduced since 2008 mainly due state pension reforms:

Name/characteristics	Difference from Peter 2008	Difference from Peter 2016
Robert – low earning man with late onset disability	-22%	-15%
Deborah – median earning woman with early onset disability and part-time work	-28%	-21%
Ayesha – low earning woman who spends time out for caring and then works part-time	-50%	-47%
Sayeed – a low earning man who is self-employed after the age of 40	-44%	-30%

# Under current policies Deborah receives 21% less from pension income than Peter

Weekly income from state and private pensions for a woman with career breaks, part-time and full-time working, earning at both 50<sup>th</sup> and 30<sup>th</sup> percentiles and contributing to a DC pension at 8% of band earnings for 36 years (2016 earnings terms)



# Differences may remain level in future

- Significant differences in state pension income will decline over the next few decades
- Differences in private pension income may stay level without intervention from Government, employers and community support organisations.
- Pensions policy could also have an impact on reducing differences in future or increasing levels of income for people from all groups.



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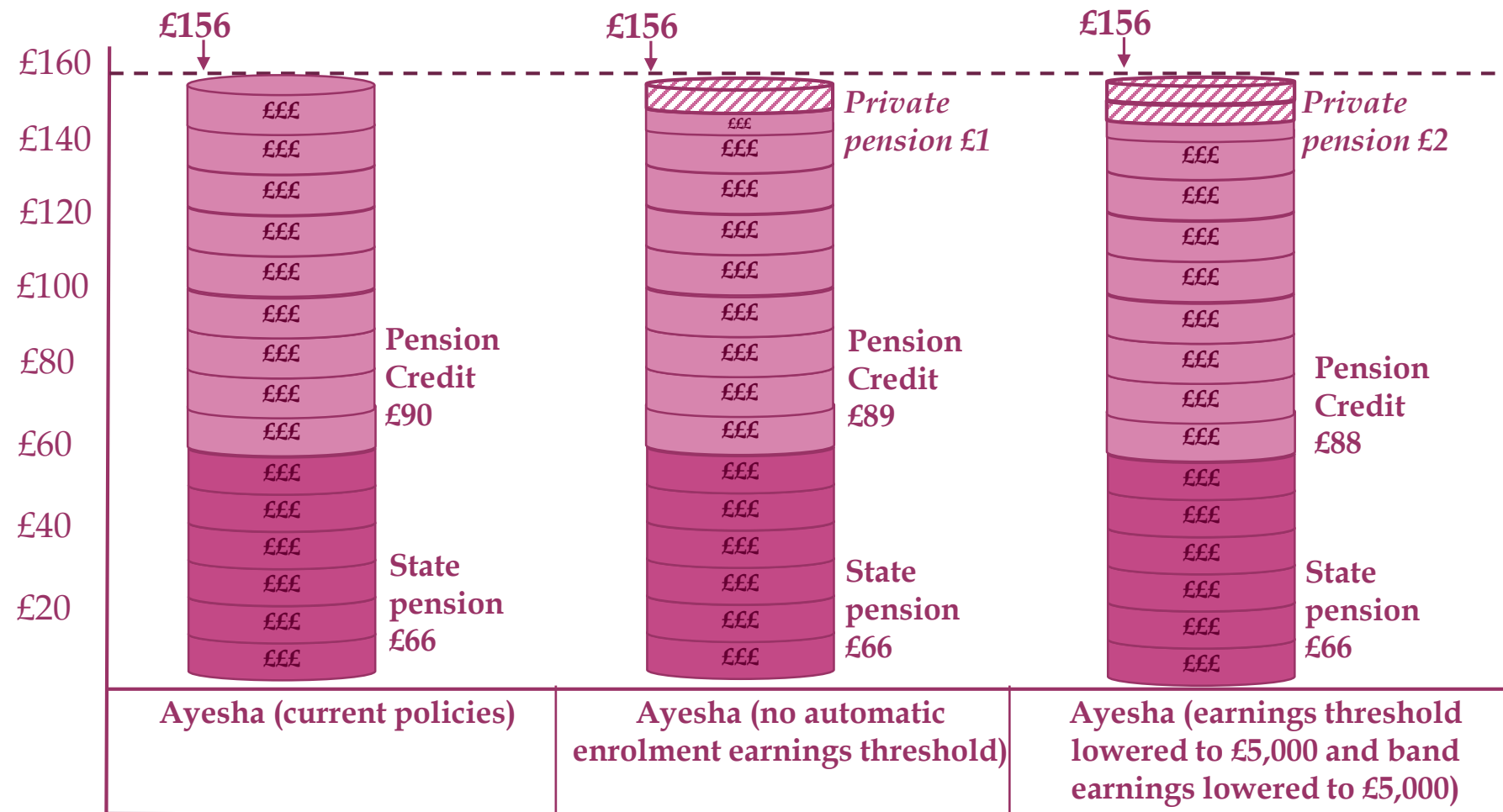
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# Policy intervention could increase income levels

- Automatic enrolment policy changes could increase incomes in the future. The report explores:
  - Lowering the eligibility earnings threshold to £5,000,
  - Removing the eligibility earnings threshold altogether,
  - Increasing the level of minimum contributions to 10% of band/qualifying earnings,
  - Removing band/qualifying earnings entirely and requiring 8% minimum contributions on total salary.

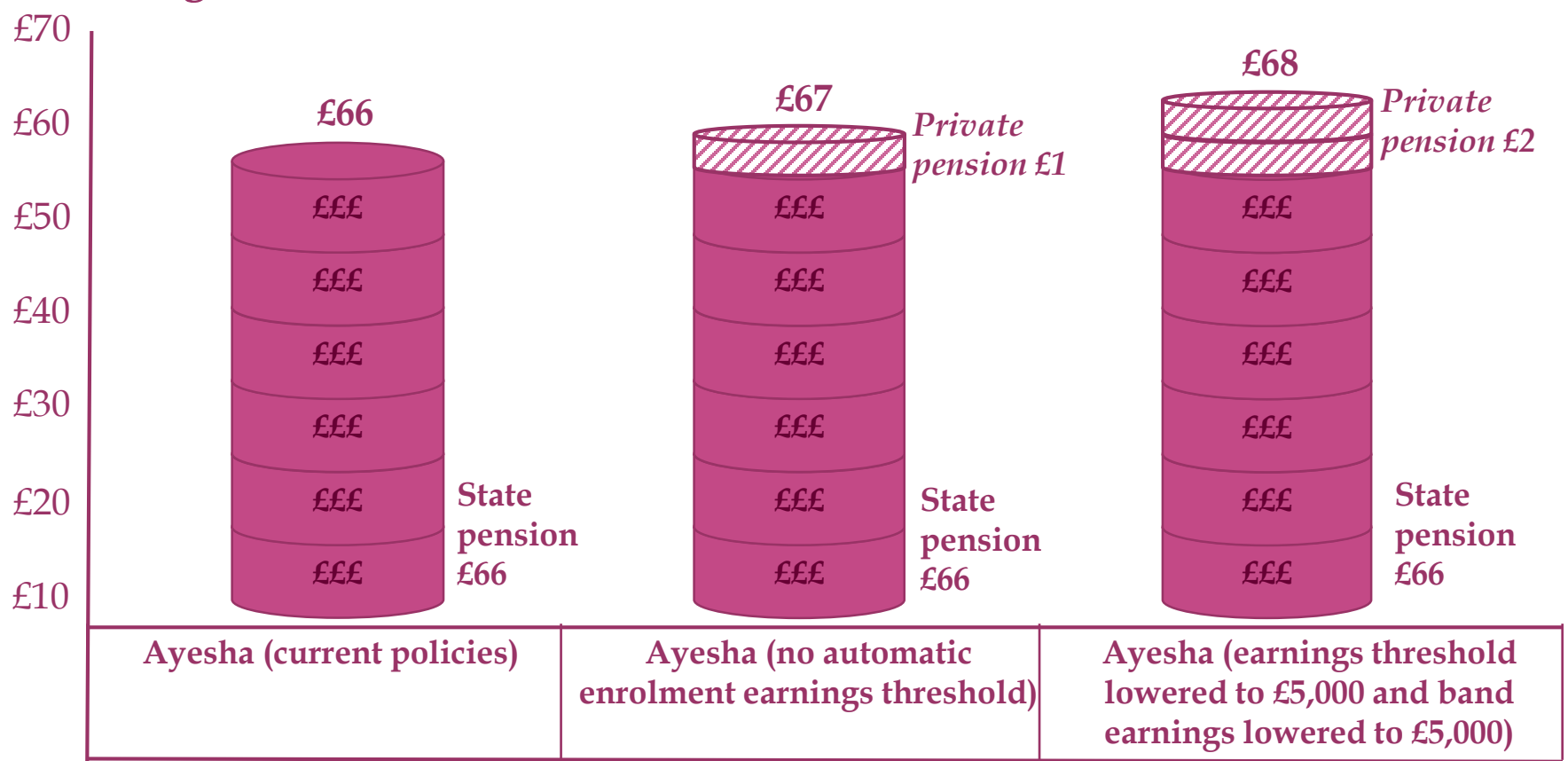
# Ayesha could lose means-tested benefits if the earnings threshold is lowered

Weekly pension income for a woman with part-time work and caring, under current policies; removal of the automatic enrolment earnings threshold; and lowering the threshold and earnings band to £5,000 (2016 earnings terms)



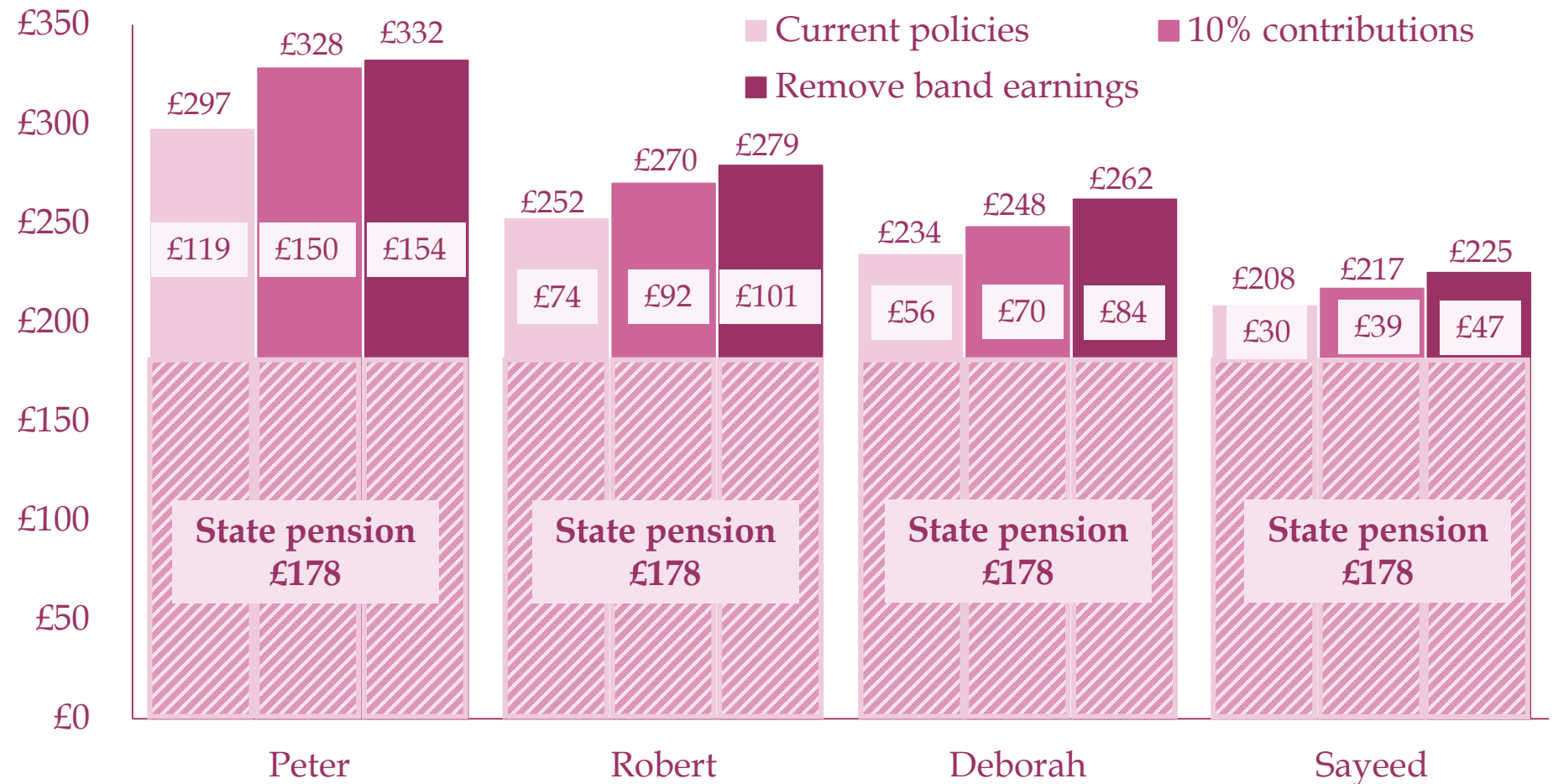
# If Ayesha was not eligible for means-tested benefits her pension income could be increased through saving in a private pension

Weekly pension income for a woman with part-time work and caring, under current policies; removal of the automatic enrolment earnings threshold; and lowering the threshold and earnings band to £5,000 (2016 earnings terms) assuming no entitlement to means-tested benefits



# Removing band earnings benefits the lower earners

State and private pension income under current policies and scenarios of 10% minimum contributions on band earnings; and, removing the earnings band altogether and requiring 8% contributions on total earnings (2016 earnings terms)



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# Differences are caused by many different factors

- Differences and inequalities in state and private pension income and savings are caused by different working characteristics and policy, social and demographic factors:

## **WORKING CHARACTERISTICS:**

**Unemployment**

**Part-time work**

**Self-employment**

**Time out of work for caring**

**Low pay**

## **POLICY:**

**State pension accrual (pre-April 2016)**

**Automatic enrolment**

**National Living Wage**

## **SOCIAL FACTORS:**

**Demographics**

**Division of labour within the home**

**Immigration**

# Underlying causes are social and labour-market issues

- Differences in working characteristics are caused by wider social and labour-market problems:

## UNDERLYING CAUSES:

**The lack of flexibility**

**Barriers to work**

**Discrimination**

**Job segregation**

**Illegal low pay**



# Conclusions

- Over the next few decades, significant differences in state pension income will decline as the New State Pension is phased in.
- However, lower private pension saving and income levels among the under-pensioned are projected to continue. These mainly arise from particular labour-market characteristics found more prevalently among these groups.

# Conclusions

- The underlying causes of retirement income disparity cannot be tackled solely through pensions policy.
- These involve labour-market, social and regulatory issues related to inequalities experienced during working-life.
- Addressing ongoing differences in private pension income would involve a joint effort from government departments, employers, social services, regulatory bodies and community support groups.

# Q&A

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