

PENSIONS POLICY INSTITUTE

PPI

THE UNDER-PENSIONED:  
WOMEN

## The Under-pensioned: Women

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## Women: Introduction

*The Under-pensioned*<sup>1</sup> identified a range of factors that are likely to lead to low pension income. It concluded that

- For most people pension income is likely to be lower than that of the 'stereotype' person typically used in policy planning
- Low earnings is the most important cause of low pension income
- Any time not spent in full-time work reduces pension income
- Low or irregular private pension contributions reduce pension income
- Retiring later can improve pension incomes
- Living to older ages reduces pension income
- Disadvantage is cumulative
- The current pension system will not resolve the under-pensioned problem

This report is one in a series of four looking at the particular characteristics of under-pensioned groups, linked to the factors identified in *The Under-pensioned*. The other reports cover non-standard workers, ethnic minorities and disabled people.

Chapter 1 of this report outlines the numbers and demographic characteristics of women.

Chapter 2 identifies the specific characteristics of women linked to the causes of low pension income identified in *The Under-pensioned*, and looks at the cumulative impact.

Chapter 3 examines how recent changes in the UK pension system will change the relative risk of low pension income for women.

<sup>1</sup> Curry (2003)

## Summary of conclusions

**More than half of the population are women, and there are significantly more older women than older men.** Half of all women are currently married, and nearly all women aged 65 or older have been married. By the time women who are currently married reach state pension age, many will be divorced or be married to a different partner. Most married women will be divorced or widowed at some point in their life. The majority of women aged between 25 and 50 have dependent children

**Low earnings and time not spent in full-time work reduce pension income.** Women are less likely to work than men. Women who do work are more likely to work part-time. Women working full-time have lower earnings than men working full-time, and average part-time earnings are less than half average full-time earnings. Women are more likely to be 'economically inactive', often caring for children or the disabled. Caring is often combined with work.

**Low or irregular private pension contributions reduces pension income.** Women are less likely to be making current private pension provision, and to have contributed regularly in the past.

**Living to older ages reduce pension income.** Though many women appear to be relying on a partner to provide retirement income, this has its risks. Women live longer than men, on average. More women will reach state pension age, and women then live longer after state pension age. Almost half of women over age 65 are widows, and some are divorced. Higher life expectancy for women increases the costs of pension provision, and increases the chances of needing to claim means-tested benefits in old age.

**Disadvantage is cumulative.** Many women will face lower levels of individual pension income in retirement than the stereotype individual normally used to illustrate the outcomes of the pension system. The direct impact of low earnings is important, but will reduce in future as S2P and PC become more important. Larger reductions in pension income arise from caring and part-time work. Fewer, and lower, pension contributions also contribute to low pension income in retirement.

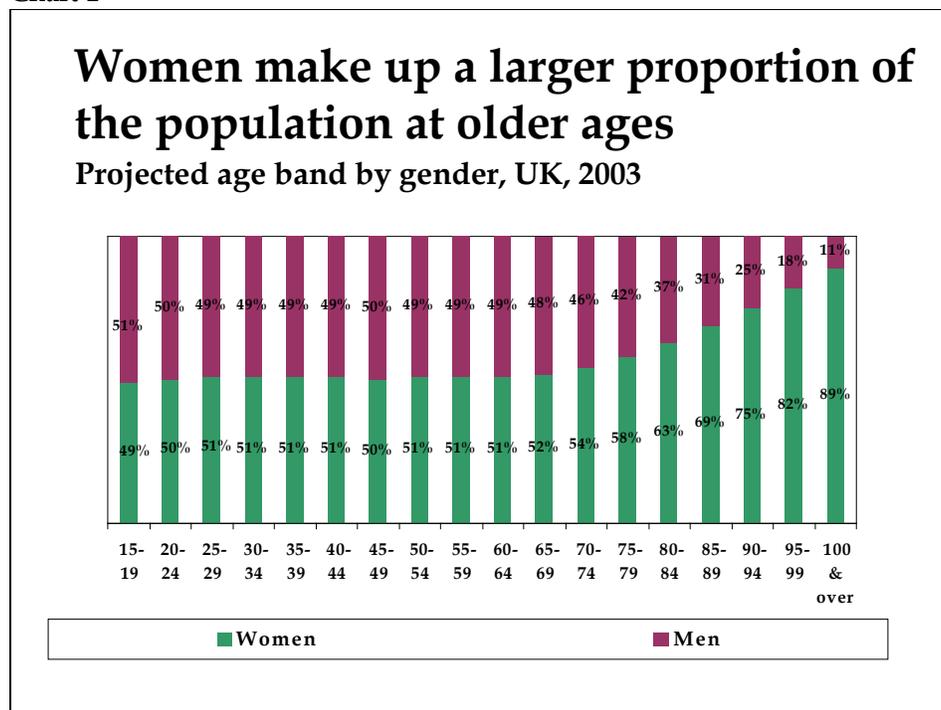
**Recent reforms to the current system will not resolve these problems.** Although marginally smaller, the gap in pension incomes will continue to exist in the future. S2P offset the direct and indirect impact of lower earnings. PC partially offsets fewer private pension contributions, and time not spent in work. **The close link to labour market participation in the current pension system means that many women will receive low pension incomes in the future.**

## Chapter 1: Women in the UK

More than half of the population are women, and there are significantly more older women than older men. Half of all women are currently married, and nearly all women aged 65 or older have been married. By the time women who are currently married reach state pension age, many will be divorced or be married to a different partner. Most married women will be divorced or widowed at some point in their life. The majority of women aged between 25 and 50 have dependent children.

There are 25 million women aged 15 or over in England and Wales, representing 52% of the adult population. There are more women than men at all ages over 20. The proportion of women increases with age, from 52% of those aged 65 to 69 to two-thirds of people aged 80 to 84, three-quarters of those aged 90 to 94, and almost 90% of those aged 100 or older (Chart 1).

Chart 1<sup>2</sup>



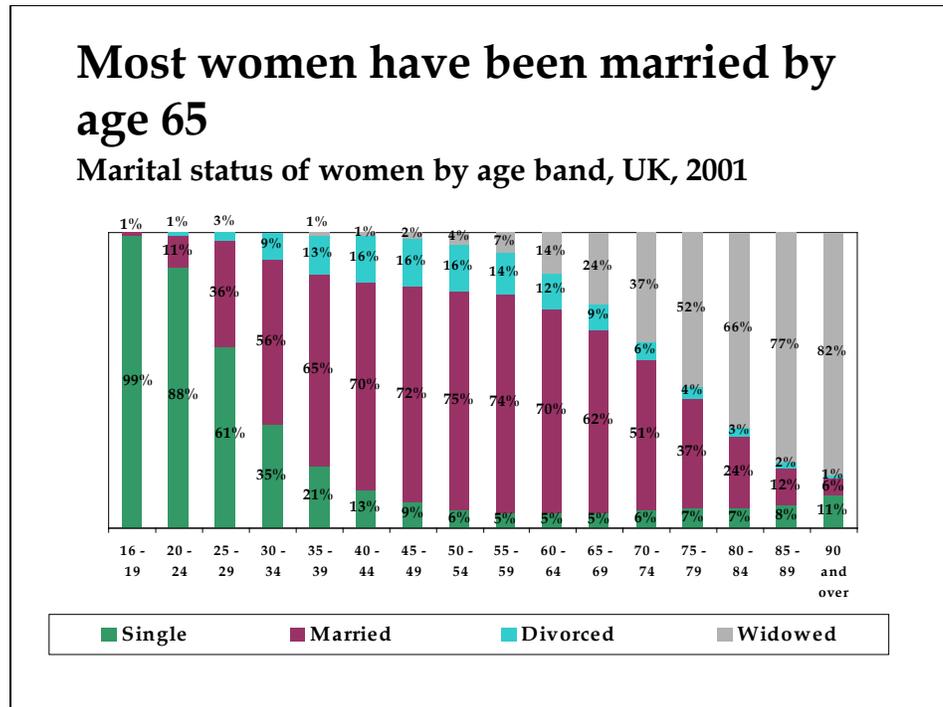
Taking into account the lower state pension age for women (60 compared to 65 for men), there are almost twice as many women pensioners than men in the UK: 6.9 million women and 3.9 million men<sup>3</sup>.

<sup>2</sup> GAD interim 2001-based population projections database – [www.gad.gov.uk](http://www.gad.gov.uk)

<sup>3</sup> Curry and O’Connell (2003)

Half of all women in England and Wales are married, and a further one-quarter are single (having never been married). Almost 10% are divorced, and the remainder are widowed. The proportion of women who are married, or who have ever been married, increases with age. Of women aged 65 or older, less than one in ten have never previously been married (Chart 2).

Chart 2<sup>4</sup>



However, the number of marriages each year has been falling steadily. In 1976, there were over 400,000 marriages, compared to 286,000 in 2001. Over the same time period, the number of divorces each year has risen from 135,000 to 160,000, having reached a peak of 174,000 in 1991<sup>5</sup>.

By the time women who are currently married reach state pension age, many will be divorced or be married to a different partner. The proportion of women who are currently divorced increases with age, peaking at 15% in the 45 to 64 age group. A larger number than this will have been divorced at some point in their life, but many divorced women will re-marry. In 2001, 13 women out of every 1,000 married women divorced, while 33 out of every 1,000 divorced women re-married in 2001<sup>6</sup>. Over one-quarter of all couples who married in the late 1970's and early 1980s had divorced by the end of 1994<sup>7</sup>. Approximately one in two marriages end in divorce or separation<sup>8</sup>.

<sup>4</sup> ONS (2003 Census)

<sup>5</sup> ONS (2003 HSQ)

<sup>6</sup> ONS (2003 PT)

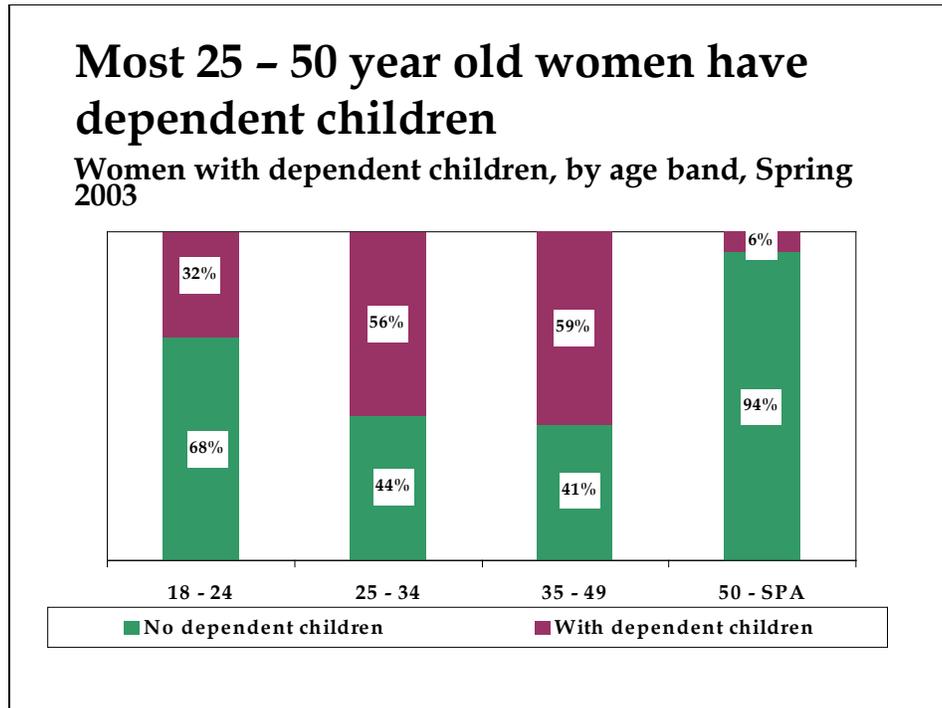
<sup>7</sup> Haskey (1996)

<sup>8</sup> DWP (2002 GP)

Over age 65 more women are widowed than married, and nearly half of all women are widowed or divorced. At older ages, even fewer women remain married. Most women who remain married into retirement will be widowed in later life.

The majority of women aged between 25 and 50 have dependent children (Chart 3). The average age of a woman giving birth is 29, up from a low point of 26 in 1971. Women are having fewer children than previous generations, and at older ages.

Chart 3<sup>9</sup>



<sup>9</sup> PPI analysis of the Labour Force Survey, Spring 2003. State Pension Age (SPA) is currently 60 for women and 65 for men, equalising at age 65 between 2010 and 2020. Dependent children are children aged under 16.

## Chapter 2: The causes of low pension income

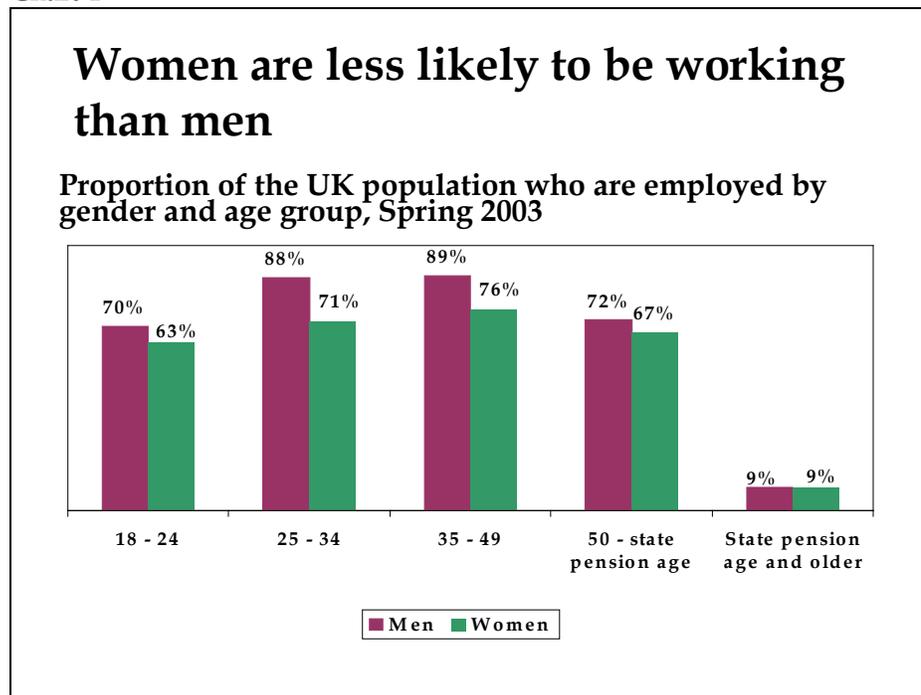
### Low earnings and time not spent in full-time work reduce pension income

Women are less likely to work than men. Women who do work are more likely to work part time. Women working full-time have lower earnings than men working full-time. Women are more likely to be 'economically inactive', often caring for children or the disabled. Caring is often combined with work.

#### Women are less likely to work than men

The employment rate (proportion of people of each age in work) for women is lower than for men. Almost 80% of men of working age are in work, compared to just under 70% of women of working age, and this difference can be seen in all age bands up to state pension age (Chart 4).

Chart 4<sup>10</sup>



The similarity in employment rates for those of state pension age (SPA) and older masks some important differences in the five years immediately after reaching SPA. 25% of women continue to work between ages 60 and 64, compared to only 13% of men aged between 65 and 69. This reflects the younger age of women, and the likelihood that their partners continue to work until they reach the higher SPA for men<sup>11</sup>.

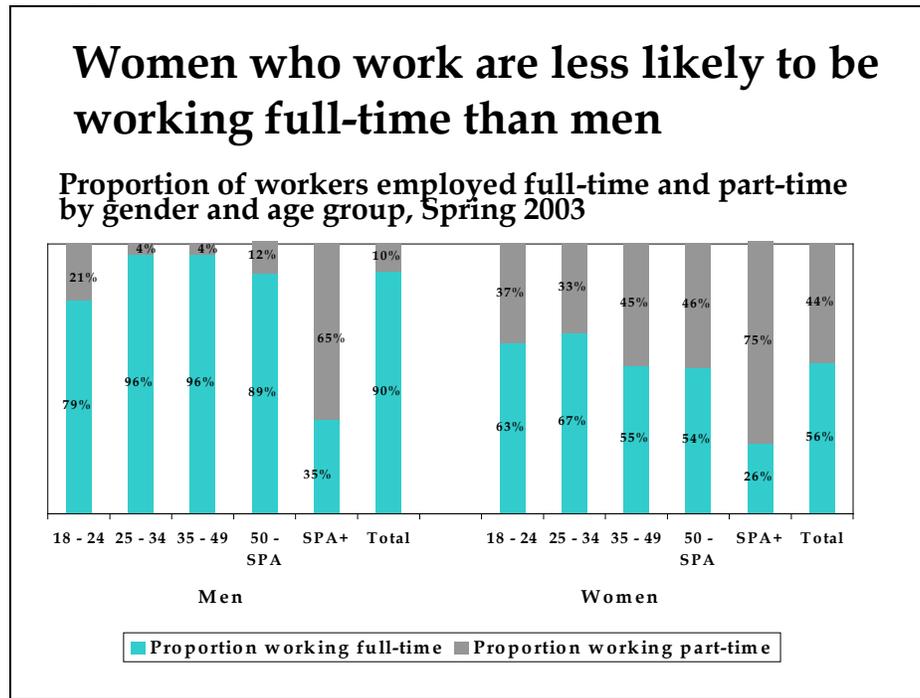
<sup>10</sup> ONS (2003 LMT)

<sup>11</sup> Smeaton and McKay (2003)

**Women who do work are more likely to work part-time**

23% of the working population in the UK work part-time. However, only 10% of men who work do so part-time, compared to 44% of working women. Women are more likely than men to work part-time in every age group, including above age 65 (Chart 5). Over 80% of part-time workers are women.

Chart 5<sup>12</sup>



There are also differences in the types of industry that men and women work in, and their level of seniority in the workplace. Women are much less likely to work in manufacturing, transport and construction (Chart 6). The manufacturing and construction industries have the largest proportion of companies providing support for private pension arrangements (occupational pensions, group personal pensions or contributions to personal pensions)<sup>13</sup>. Two-thirds of women work in just two industries - over 40% in public administration (including health and education), which is above average in terms of employers pension provision, and almost one-quarter in distribution, hotels and restaurants, which is below average.

Almost one-quarter of working women work in administrative and secretarial positions. Women are less likely than men to be managers, or in professional occupations. People in these occupations are the most likely to have private pension provision. Women are more likely to be in a personal service job, or sales and customer service (Chart 7).

<sup>12</sup> PPI analysis of the Labour Force Survey, Spring 2003. Part-time work is defined on the basis of self-assessment.

<sup>13</sup> Smith and McKay (2002)

Chart 6<sup>14</sup>

## Women are less likely to work in industries with pension provision

Industry sector, in order of those most likely to have private pension provision, of workers by gender, Spring 2003

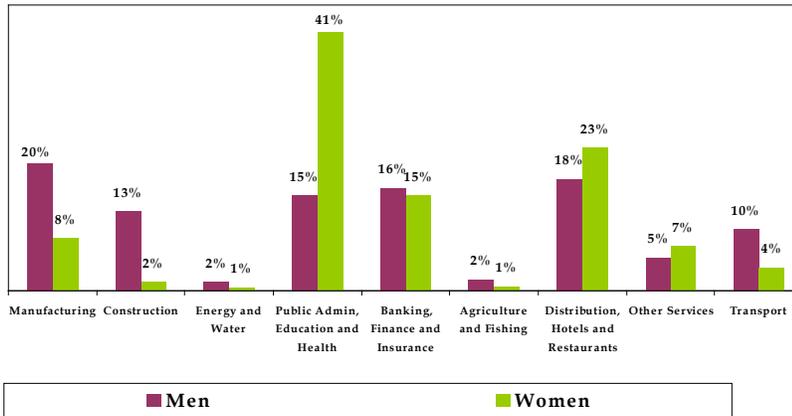
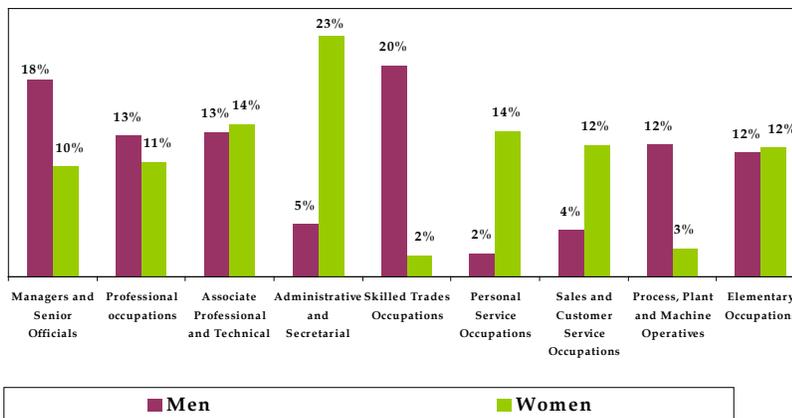


Chart 7<sup>15</sup>

## Women are less likely to be in managerial and professional groups

Occupational type of workers, Spring 2003



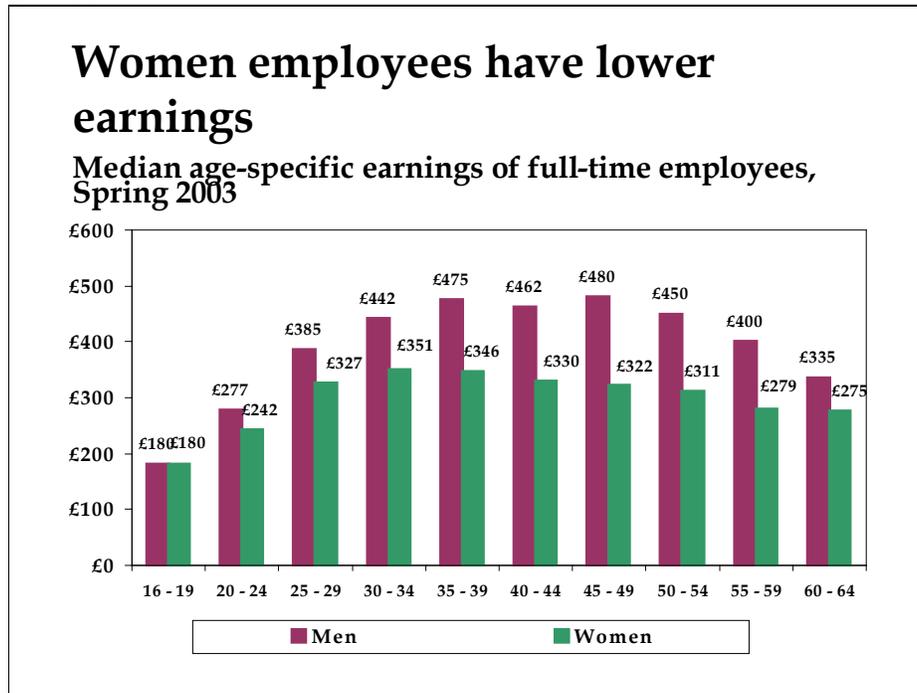
<sup>14</sup> ONS (2003 LFSQS)

<sup>15</sup> ONS (2003 LFSQS)

**Women employees have lower earnings than men**

Women working full-time have lower levels of earnings than men employed full-time, at all ages (Chart 8). Part, but not all, of this can be explained by the different occupational types and industries that women work in. Also important are levels of qualifications, discrimination, and the impact of spending time out of the labour market. On average, a woman’s pay drops by 16% after one year out of the labour market<sup>16</sup>. Mothers working full-time also have lower earnings, on average, than childless women<sup>17</sup>.

**Chart 8<sup>18</sup>**



Many women work part-time, and their hourly earnings are even lower than those of full-time women employees. The average weekly earnings of part-time women are less than 40% of female full-time earnings (Table 1).

**Table 1<sup>19</sup>: Hourly and weekly earnings by full-time / part-time and gender, 2003**

	Hourly earnings	Weekly earnings
Men - full-time	£12.88	£525
Women - full-time	£10.56	£396
Women - part-time	£7.78	£150

<sup>16</sup> Gregg (1998)

<sup>17</sup> Ginn (2003)

<sup>18</sup> PPI analysis of the Labour Force Survey, Spring 2003

<sup>19</sup> ONS (2003 NES). Part-time work is defined as less than 30 hours (25 for teachers and academics).

1.5 million, or one in eight, working women currently earn less than the lower earnings limit<sup>20</sup>. This means that they will not be earning enough to accrue entitlement to the Basic State Pension (BSP), or S2P. 80,000 women are currently paying the reduced rate, or married women's National Insurance stamp<sup>21</sup>, though up to 1.5 million women currently of working age have paid the reduced rate at some point in their working lives<sup>22</sup>. These women will not have qualified for BSP or SERPS/S2P in some years even while earning above the lower earnings limit.

Although low earnings may be supplemented by in-work benefits and tax credits, this does not increase entitlements to state pensions. It may increase the level of disposable income available for private pension contributions, but total incomes are still likely to be relatively low.

<sup>20</sup> WEU (2003). See PPI (2003PP) for further information on the lower earnings limit and the reduced rate 'married women's' stamp.

<sup>21</sup> Baroness Hollis of Heigham, House of Lords, Hansard, 15 October 2002: Column 691

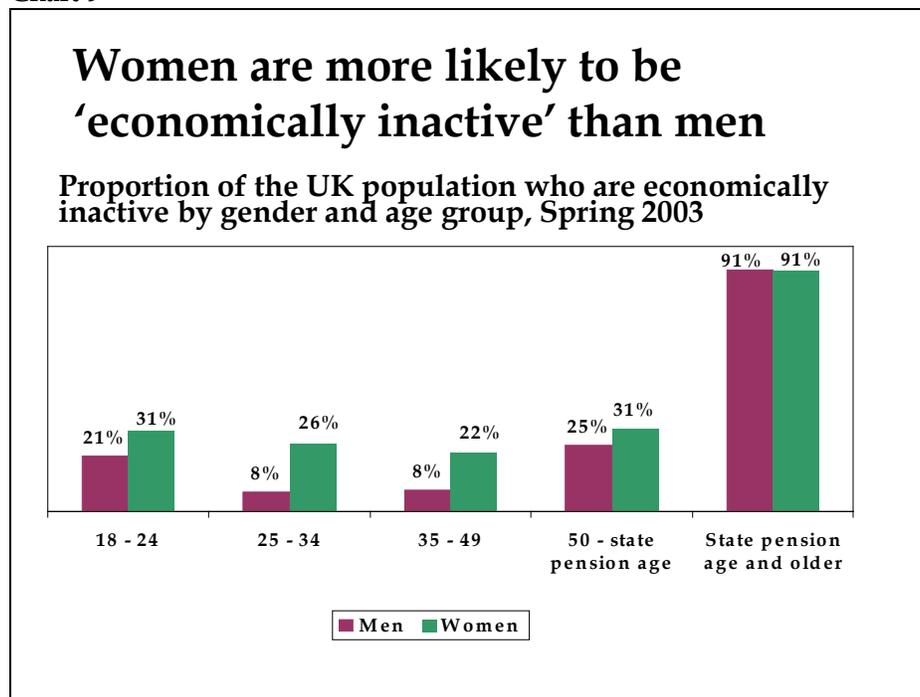
<sup>22</sup> House of Commons Library

**Women are more likely to be ‘economically inactive’ than men, often due to caring responsibilities**

Although a lower proportion of women than men are employed, the unemployment rate (the proportion of people who are looking and available for work who are unemployed) is lower for women (4.5%) than it is for men (5.7%)<sup>23</sup>. However, women are more likely to be ‘economically inactive’<sup>24</sup> than men.

The economic inactivity rate is higher for women than men until state pension age (Chart 9). At working ages (aged between 16 and state pension age) over one-quarter of women are ‘inactive’, compared to less than one in six men<sup>25</sup>.

Chart 9<sup>26</sup>



One of the most common reasons women give for economic inactivity is looking after family or the home. The vast majority of women who are not working or seeking work aged between 25 and 49 are looking after family or the home<sup>27</sup>.

<sup>23</sup> ONS (2003 LFSQS)

<sup>24</sup> This is based on the economic definition of inactivity, based on paid work, which includes people who are not available for, or actively seeking, paid employment. Many women contribute to the economic well-being of the country while not being paid, for example through caring and voluntary work.

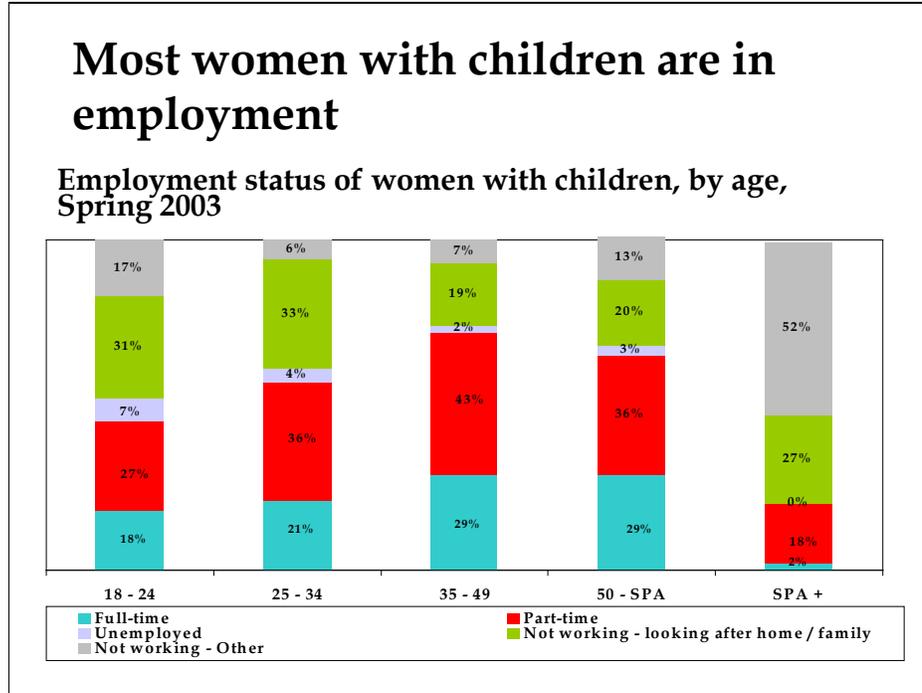
<sup>25</sup> ONS (2003 LFSQS)

<sup>26</sup> ONS (2003 LFSQS)

<sup>27</sup> PPI analysis of the Labour Force Survey, Spring 2003

Having a family is often combined with work, and in particular part-time work (Chart 10).

Chart 10<sup>28</sup>



In all age groups between 25 and state pension age, over half of mothers are in work, with between one-third and half of all mothers in part-time work.

As well as being related to the age of the mother, economic activity of women with children is also related to the age of the youngest child. Mothers of young children are more likely to be inactive than those with older children<sup>29</sup>.

Rates of economic activity also vary according to marital status. Lone mothers are more likely than married mothers to be economically inactive<sup>30</sup>.

<sup>28</sup> PPI analysis of the Labour Force Survey, Spring 2003. Women are classified according to their employment status, and then if not working, by the reason given for not working.

<sup>29</sup> Ginn (2003)

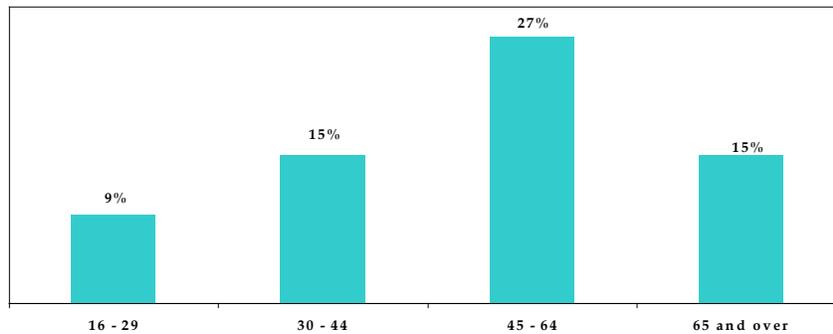
<sup>30</sup> ONS (2003 ST)

Not all caring is looking after children. A significant minority of women also care for elderly or disabled people – often relatives. More than one-quarter of women aged between 45 and 64 are carers (Chart 11). Married or cohabiting women are more likely to be carers than single women.

Chart 11<sup>31</sup>

### More than one quarter of women aged 45 to 64 provide unpaid care for elderly and disabled people

Proportion of women who have caring responsibilities, by age, 2000



Caring can be a time-consuming and long-term commitment. One in four carers spent at least 20 hours a week caring, while one in ten spent 50 hours or more. 45% of carers had been caring for more than 5 years, and 20% for more than 10 years.

Of those caring more than 20 hours a week, less than half were also in paid employment<sup>32</sup>. Caring can mean a reduction in hours worked, or stopping altogether. Almost one-third of women reduce their labour market activity as a direct result of caring<sup>33</sup>.

<sup>31</sup> Maher and Green (2002)

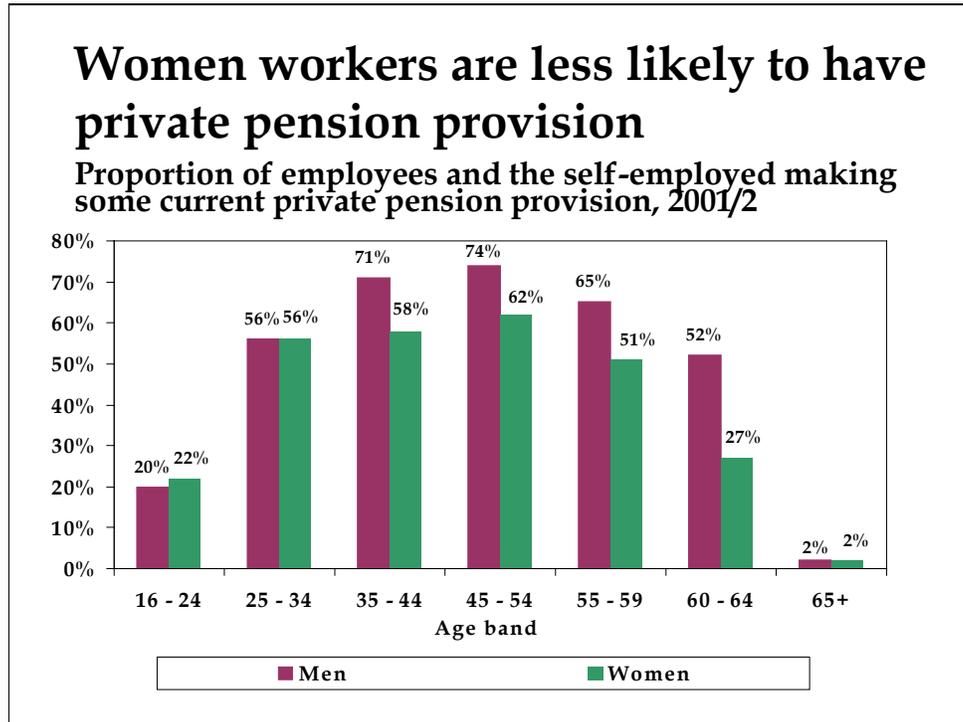
<sup>32</sup> Maher and Green (2002)

<sup>33</sup> Evandrou and Glaser (2003)

## Low or irregular private pension contributions reduces pension income

Women are less likely than men to be accruing some current private pension provision, especially at older ages (Chart 12). Women aged under 35 are just as likely to have a current private pension as men of the same age, but there are significant differences between ages 35 and 64. At these ages provision among men is significantly higher compared to women of the same age as well as men in younger age groups. The pattern of provision for women shows much smaller increases above age 34.

Chart 12<sup>34</sup>



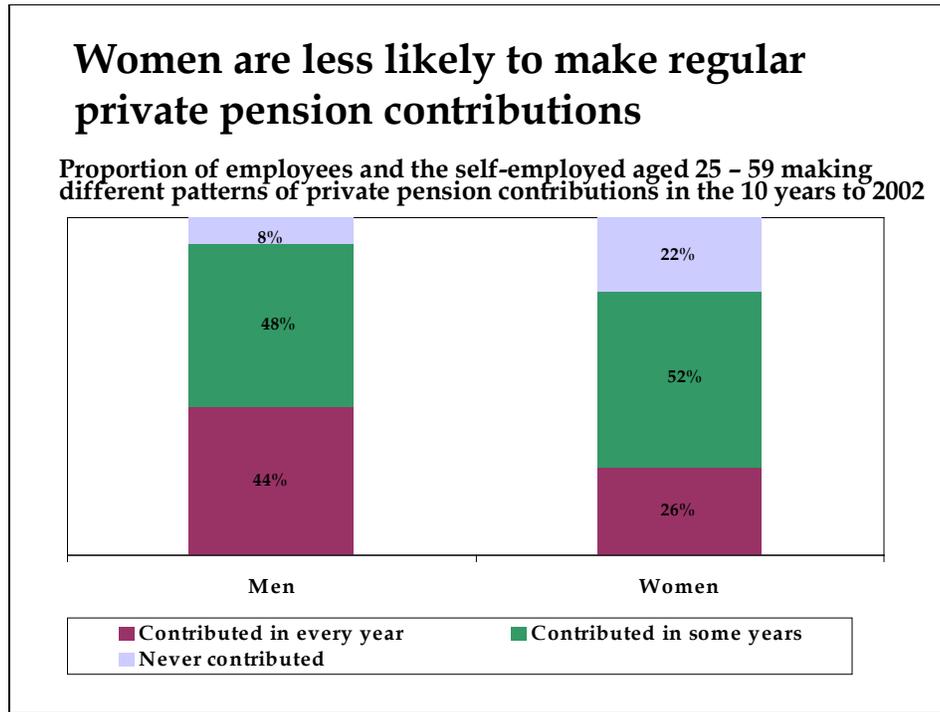
Coverage is similar for both men and women for occupational pensions, but women are much less likely to have a personal pension<sup>35</sup>.

As well as being less likely to have a current private pension arrangement, women are less likely to make regular contributions to a pension. 44% of men aged 25 to 59 and in work in 2001/2 had made contributions to a private pension in each of the last 10 years (Chart 13). Only 26% of women had made pension contributions in every year. 22% of women had made no private pension contributions in the last 10 years, compared to 6% of men.

<sup>34</sup> PPI analysis of 2001/2 Family Resources Survey. Including employer contributions.

<sup>35</sup> Curry and O'Connell (2003) Charts 22, 25 and 26

Chart 13<sup>36</sup>



Occupational pension coverage is more common at higher earning levels<sup>37</sup>, and women employees have, on average, lower earnings than men. Low levels of coverage of personal pensions are also likely to be at least partly explained by lower earnings levels – personal pensions are more prevalent at higher earnings levels<sup>38</sup>. Patterns of private pension provision for men and women with the same levels of earnings are similar<sup>39</sup>. Private pension coverage is also linked to parental status. Mothers are less likely to have private pensions<sup>40</sup>.

Many women working part-time do not have an occupational pension even though they have access to them. More than one-third of women working part-time do not join an employer’s occupational pension scheme, even though they are eligible (Chart 14). Women working full-time are just as likely as working men to join an occupational pension scheme if they are eligible. This difference may be due to a lack of disposable income, different spending and saving priorities, or a conscious household decision based on the pension provision of a partner.

<sup>36</sup> Based on analysis of the British Household Panel Survey waves 2 - 11, carried out for the PPI by the Gerontology Data Service of the Institute of Gerontology, Kings College London

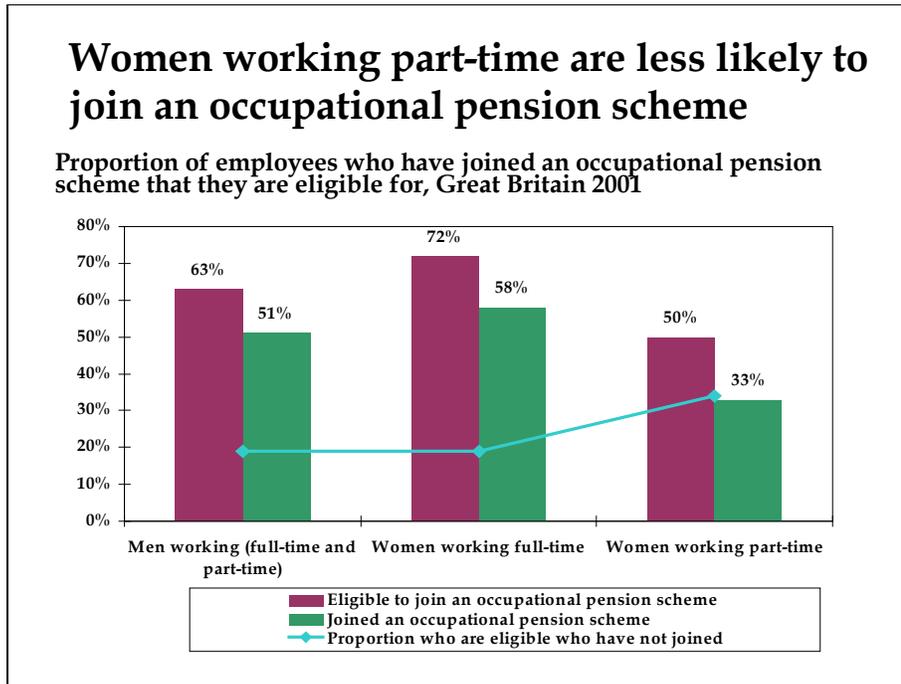
<sup>37</sup> Curry and O’Connell (2003) p 33

<sup>38</sup> Curry and O’Connell (2002) pp 38 - 39

<sup>39</sup> PPI analysis of 2001/2 Family Resources Survey

<sup>40</sup> Ginn (2003)

Chart 14<sup>41</sup>



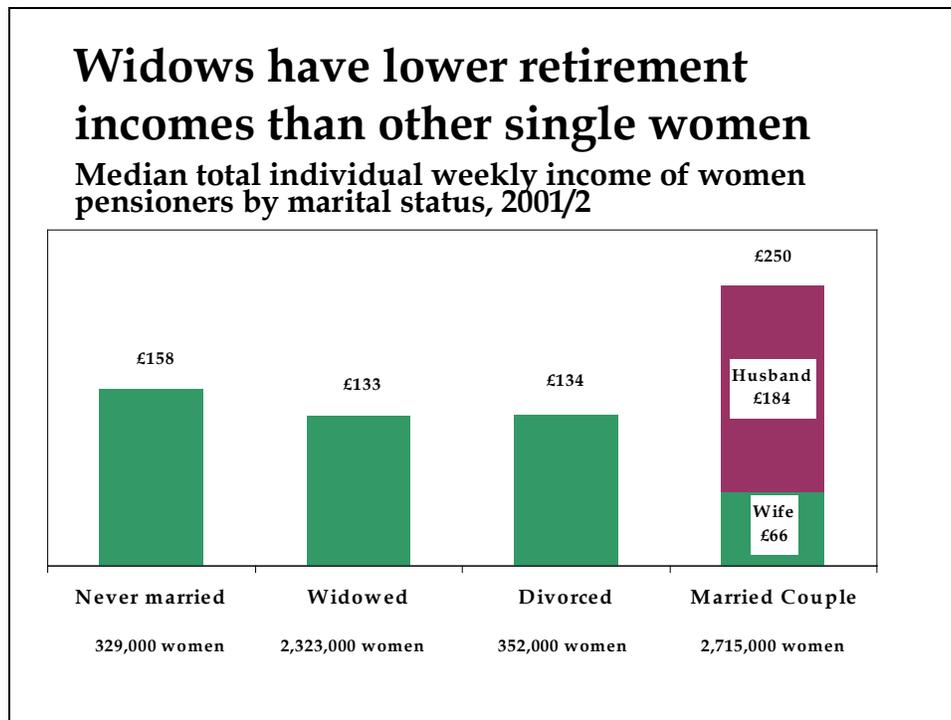
<sup>41</sup> PPI analysis based on ONS (2003 LB)

### Living to older ages reduces pension income

Though many women appear to be relying on a partner to provide retirement income, women live longer than men, on average. More women will reach state pension age, and women then live longer after state pension age. Almost half of women over age 65 are widows, with lower average incomes than other pensioners. Higher life expectancy increases the costs of pension provision, and reduces the value of pension income at older ages. This increases the chances of claiming means-tested benefits in old age.

Lower levels of private pension provision suggest that many women may be relying on income from a partner to help provide for their retirement. Although the individual income for married women pensioners is very low, at only £66 a week, this is supplemented by an individual income for married men pensioners of £184 a week (Chart 15). The resulting combined income for the couple of £250 is likely to give a similar standard of living to that of a single (never married) woman pensioner, even though it is shared between the partners<sup>42</sup>.

Chart 15<sup>43</sup>



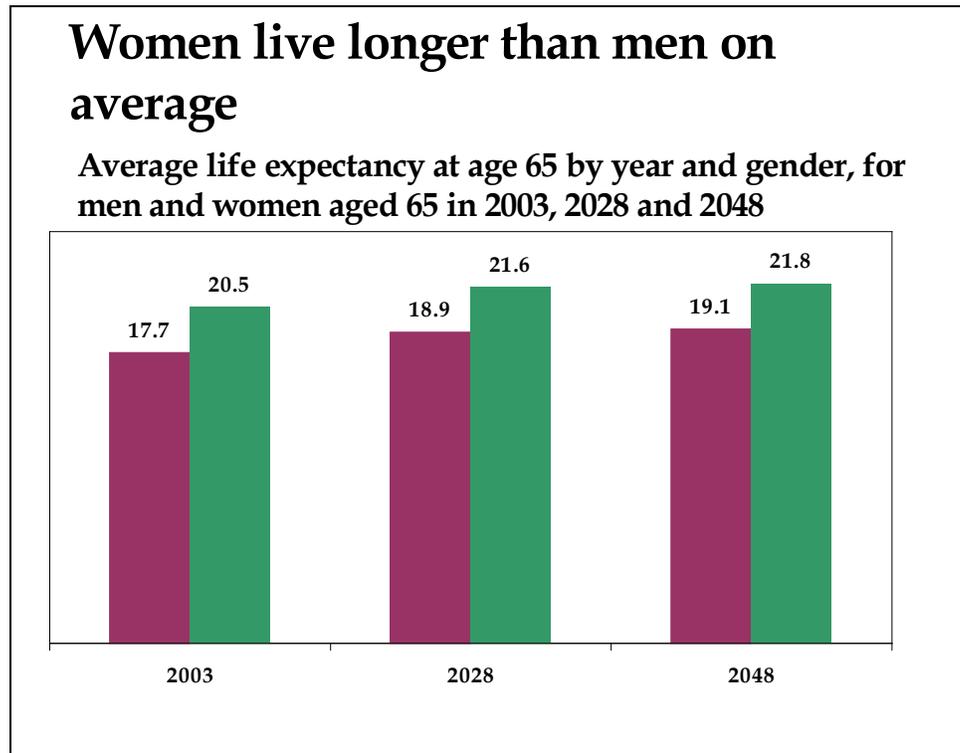
<sup>42</sup> Income analysis often assumes that a couple would need an income 1.6 times higher than a single person to get an equivalent standard of living (e.g., DWP 2003 (HBAI)). On this basis the income of a never married woman pensioner of £158 can be compared with  $£158 \times 1.6 = £252.80$ , which is broadly similar to the £250 for a married couple. However, the income may be actually shared out between the partners in different ways.

<sup>43</sup> Women and Equality Unit (2003)

There are a number of risks with a strategy of 'relying' on husbands to provide pension income. Women have longer lives than men. They are more likely to reach state pension age, and then, on average, are expected to live longer afterwards. 89% of women who were 25 in 1965 are expected to reach age 65 in 2005, compared to 83% of men. Of people aged 25 today, 93% of women are expected to reach age 65, compared to 88% of men<sup>44</sup>.

Women aged 65 today are expected to live on average almost 3 years longer than a 65 year-old man (Chart 16). One-quarter of women are expected to live to age 93<sup>45</sup>.

Chart 16<sup>46</sup>



Higher life expectancy for women means a high proportion of women outlive their husbands. Over 40% of women aged 65 or older are widows. More than two-thirds of all women aged 80 or older are widowed. Widowhood can have a significant impact on income in retirement. Although widows make up the largest single group of women over 65, they have lower incomes than other single pensioners (Chart 15). This is likely to be in part due to widows being older than other single pensioners, but this does not lessen the impact on the individual who becomes widowed.

<sup>44</sup> O'Connell (2002)

<sup>45</sup> O'Connell (2002)

<sup>46</sup> Based on the GAD 2001-based population projections

In future years, changes to both state and private pension provision are likely to reduce the income received by widows. Although BSP rights will still be inherited in full, the value of BSP is declining relative to earnings. Until 2000, the full SERPS entitlement passed from husband to wife on the death of the husband. This is currently being phased out, and from 2008 widows will receive 50% of their husbands SERPS entitlement. Defined Contribution pension schemes are becoming increasingly important, both in occupational and personal pension provision. The resulting pensions are converted into retirement incomes through purchasing an annuity. However, given the choice between an annuity that will continue to make payments (at a reduced level) after the husband dies, and one that pays a higher income straight away but makes no provision for a widow, many people may choose the latter. Most annuities purchased do not have any provision for widows<sup>47</sup>.

As well as the likelihood of being widowed at some point during retirement, many women will be divorced before state pension age. Divorced women also have lower retirement incomes than never-married women pensioners. And even if a woman remains married to the same person throughout her life, there is a significant risk that her husband will not be able to provide a significant retirement income for them both based solely on his own earnings<sup>48</sup>. In any event, widowhood and divorce seem to reduce income to below that of never-married pensioners.

The increased life expectancy of women increases the personal cost of private pension provision, through reducing the amount received from an annuity for a given pension fund. For example, a pension fund of £20,000 would purchase a man aged 65 in good health an income for life of £107 a month. For a woman aged 65 in good health, the income for life would be £100 a month<sup>49</sup>. Combined with the lower levels of pension provision made by women, this can lead to relatively small levels of private pension income in retirement.

Differences in life expectancy do not change the payments received from Defined Benefit occupational pension schemes. DB schemes usually give the same pension benefit for men and women who have the same earnings and number of years contributed. As most women have lower earnings, and fewer years worked, DB pensions still tend to be lower for women than for men.

Living to a very old age increases the risk of having low income<sup>50</sup>. Older pensioners are less likely to be able to work to supplement pension incomes. They are also more likely to have lived longer than expected, and so to have run down any assets they may have saved for retirement. Pensions in payment – both from the state and private pensions – normally increase each year in line

<sup>47</sup> Stark (2002)

<sup>48</sup> See, for example, the working paper and other under-pensioned papers

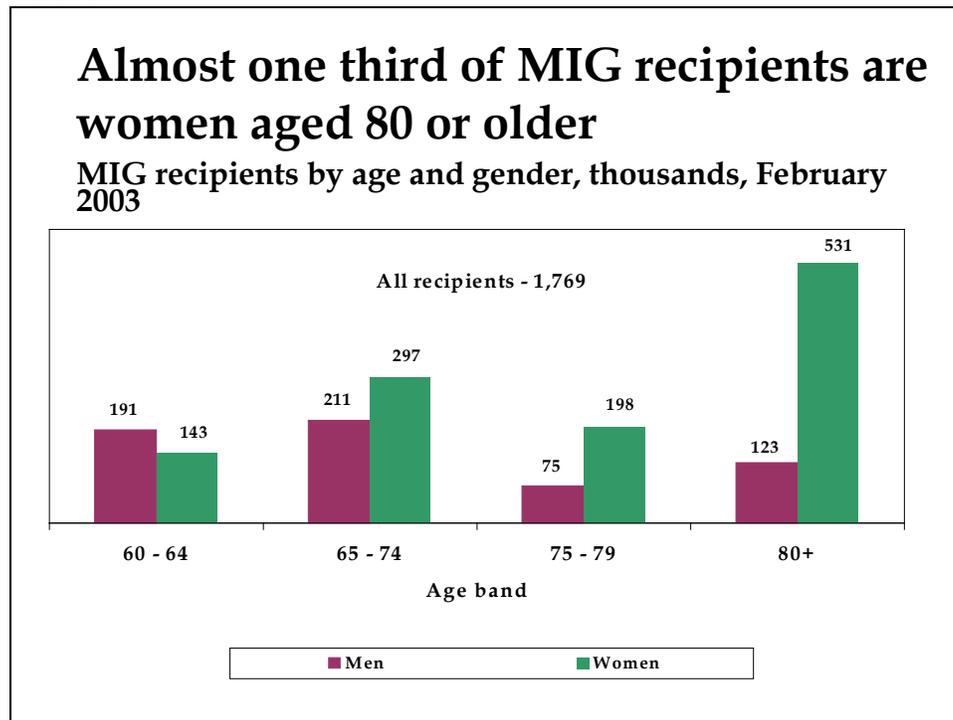
<sup>49</sup> Based on information from the FSA comparative tables as at 4 September 2003 – [www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables), ©The Financial Services Authority. Best generally available rate for a single life level annuity with no guarantee period.

<sup>50</sup> See PPI Briefing Note 6 *Why are Older Pensioners Poorer?*

with price increases (at best), and over a long period of time can decline substantially relative to 'adequate' levels of income – for example the Guarantee Credit component of the Pension Credit will be increased in line with changes in average earnings.

As a result of the higher cost of private pensions, the link between pension income and prices, and the impact of widowhood, many women face low incomes in retirement, and many are eligible for help through the Minimum Income Guarantee (MIG)<sup>51</sup>. Almost one-third of recipients are women aged 80 or older (Chart 17).

Chart 17<sup>52</sup>



Not all those people entitled to the MIG claim their benefits. Between 20% and 30% of single female pensioners who are entitled to the MIG do not claim, foregoing an average weekly benefit of just over £20.

<sup>51</sup> This was replaced by the Pension Credit in October 2003

<sup>52</sup> DWP (2003 ISQSE)

## Disadvantage is cumulative

An illustrative woman reaching state pension age in 2003 would receive a total pension income around one-fifth lower than the policy stereotype. The higher life expectancy of women in itself reduces the income received from a DC private pension. The direct impact of lower earnings is to reduce entitlement to SERPS/ S2P and private pension income substantially. Time spent not in full-time work reduces both SERPS and private pension income, which is partially offset by higher state and private pension income from continuing to work up to and beyond SPA.

### An illustrative woman

For reference, the PPI is using a policy stereotype individual<sup>53</sup> who:

- starts work at age 21
- works 44 years in continuous full-time employment
- at median age-specific earnings
- makes private pension contributions of 8% per year and
- retires at state pension age (65).

The analysis in this paper suggests that an 'illustrative' woman is likely to have very different characteristics. Women:

- live longer
- have lower earnings on average
- are more likely to take time out of the labour market to care for children
- are more likely to work part-time
- are more likely to care for elderly or disabled relatives
- are less likely to make regular private pension contributions
- are more likely to work in the 5 years after state pension age

Therefore the pension prospects for an illustrative woman might be represented by the following assumptions:

- Longer life and retirement: using women's rather than men's life expectancy and state pension age
- Lower earnings: the median age-specific full-time earnings of all women
- A career break: say at age 29, lasting 7 years, to have two children and ending when the youngest reaches age 5
- Working part-time for 5 years: say, on her return to work age 36 to age 40, with no private pension contributions, and 40% of full-time earnings
- Working part-time while caring: say, from age 56 for 5 years, with private pension contributions and 40% of full-time earnings
- Continuing work past SPA: say, staying in part-time work until age 62

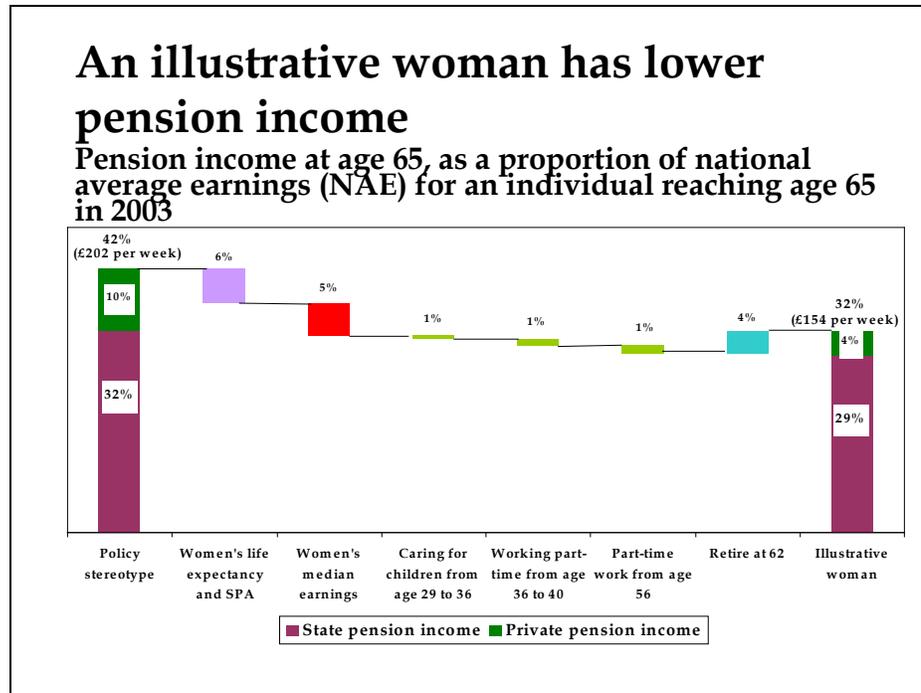
No one individual is likely to have these exact characteristics – any more than anyone will have the same characteristics as the policy stereotype. Some women will have high earnings and spend more time in full-time work, accruing larger pension entitlements. Others, particularly women from ethnic

<sup>53</sup> See Curry (2003 TP) for further details

minority groups, may spend less time in work and more time bringing up a family, and have lower earnings. The illustrative characteristics are not the 'average' of all women, but an indication of the type of characteristics that some of them may have, used to illustrate the impact on pension income.

The cumulative impact of these particular characteristics is to reduce pension income significantly, compared to the policy stereotype. An illustrative woman reaching state pension age in 2003 would receive a total pension income of 32% of national average earnings (NAE) (Chart 18). This is around one-quarter lower than the policy stereotype. The illustrative woman would be entitled to the Pension Credit (PC) from age 68, compared to the policy stereotype who is entitled from age 76.

Chart 18<sup>54</sup>



The higher life expectancy and shorter working life of women in itself reduces the income received by 6% of NAE. The direct impact of lower earnings is to reduce entitlement to SERPS/ S2P and private pension income substantially. Time spent not in full-time work, either caring full-time or working part-time, reduces both SERPS and private pension income. This is partially offset by higher state and private pension income if she continues to work beyond SPA.

<sup>54</sup> PPI IM model calculations. Although SPA for women is 60 in 2003, this chart compares the incomes of the illustrative woman and policy stereotype at age 65, to allow a consistent comparison to be made. Totals may not sum due to rounding.

## Chapter 3: The future under-pensioned

### Recent reforms to the current pension system will not resolve the under-pensioned problem

Although the reduction in pension income from female characteristics is less for future generations, the final pension income is only marginally higher relative to NAE than it is for those retiring today. The close link between eventual pension income and standard labour market participation in the current pension system means that many women will continue to receive low individual pension incomes.

#### Future women

A similar pattern to those retiring today is also seen for the illustrative woman's daughter (who has the same characteristics) reaching state pension age (age 65) in 2028 (Chart 19), and her granddaughter reaching state pension age in 2048 (Chart 20)<sup>55</sup>.

Although the reduction in pension income from female characteristics is less for future generations, the final pension income is only marginally higher relative to NAE than it is for those retiring today, and is in fact lower for the illustrative woman's daughter. This is partly because the policy stereotype is projected to receive a lower income in future. Increases in S2P offset lower earnings, and PC partially offsets fewer private pension contributions, but there are still significant reductions in state and private pension income through time spent out of paid work, and part-time work.

#### Prospects for the future

Over half of the population are women. Most are (or have been) married by the time they reach state pension age, and will have had children. However, they cannot rely on their partners to provide retirement income for them. Most will be single (though widowhood or divorce) for at least some of their retirement, and women are much more likely to live to very old ages, and to be entitled to means-tested support.

The figures shown here are an illustration of the type of impact that different characteristics, normally associated with women, can have, and do not represent an 'average' woman. The current pension system allows a wide range of possible outcomes. The close link between eventual pension income and standard labour market participation in the current pension system means that many women will continue to receive low individual pension incomes.

<sup>55</sup> Charts 19 and 20 assume exactly the same characteristics as Chart 18, apart from not assuming working past state pension age, assuming that the increased likelihood of women working in the first five years after reaching state pension age is removed by the equalisation of state pension ages. The remaining difference in results is purely down to the way in which the pension system changes over time.

Chart 19<sup>56</sup>

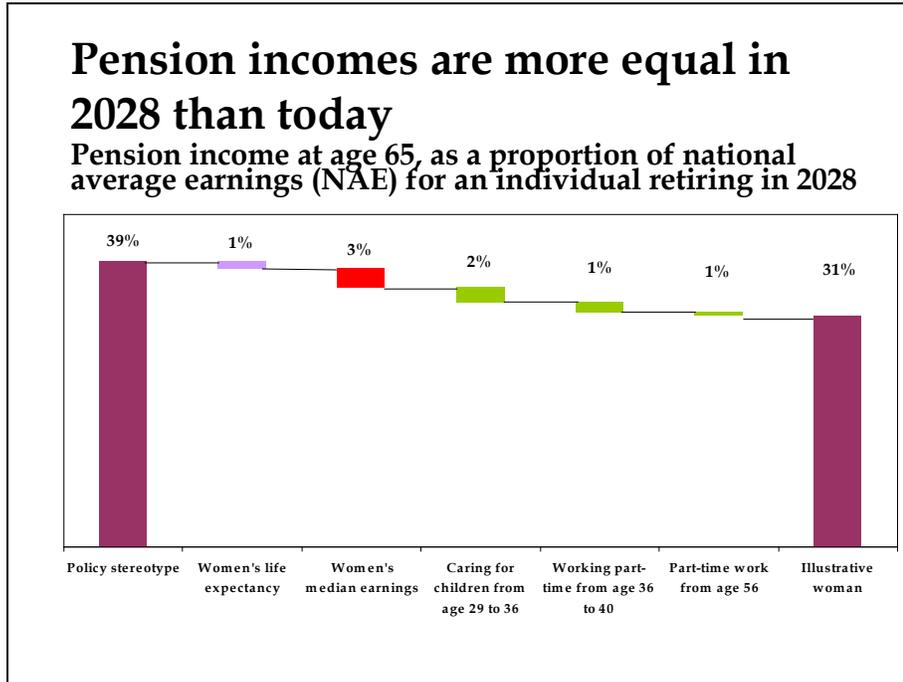
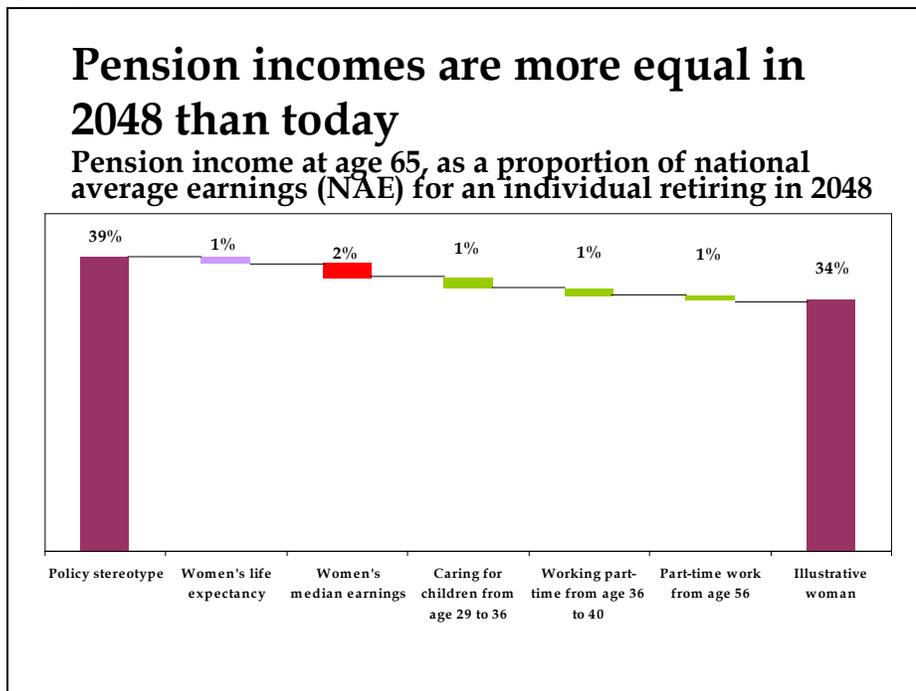


Chart 20<sup>57</sup>



<sup>56</sup> PPI IM model calculations

<sup>57</sup> PPI IM model calculations

## Acknowledgements and contact details

The author is grateful for input from many people in support of this paper, in particular:

Christina Barnes  
Adrien Cervera-Jackson  
Federico Di Pace  
David Hart  
Patricia Hollis  
Helen Lindars  
Alison O'Connell  
Sian Owen  
Debra Price  
Charlotte Reeks  
Rachel Stuchbury  
Lucy Vause  
Lawrence Wakeham  
Sue Ward  
Sally West

Data from the British Household Panel Survey, the Labour Force Survey and the Family Resources Survey are supplied by the UK Data Archive and the Department for Work and Pensions. Neither the Archive or the originators (Institute for Social and Economic Research at the University of Essex for the BHPS and the Office for National Statistics for the LFS) bear any responsibility for analysis presented in this paper.

The author takes responsibility for any remaining errors and omissions.  
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