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Understanding the Gender Pensions Gap

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Chetan Jethwa joined the PPI modelling team in April 2018 as a Policy Modeller. He is responsible for maintaining and developing PPI models as well as producing modelling results and undertaking analysis to feed into the PPI's research.

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The Pensions Policy Institute (PPI)

The PPI is an educational, independent research organisation with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI's aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue or reform solution but works to make the pensions and retirement policy debate better informed.

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The PPI has specific objectives to:
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- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage research and debate on policy on pensions and retirement provision
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

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- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies

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NOW: Pensions

A research report by Chetan Jethwa, Policy Modeller

Published by the Pensions Policy Institute

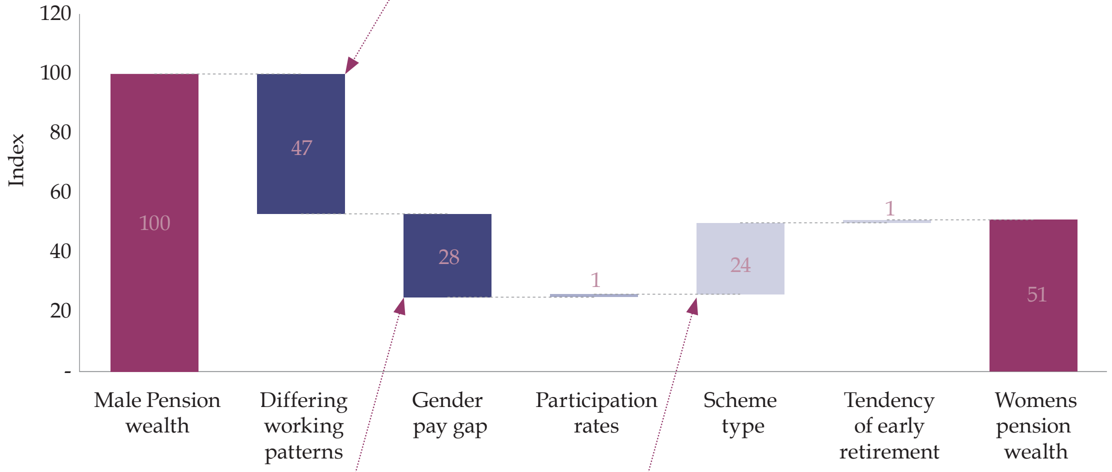
ISBN 978-1-906284-82-4
www.pensionspolicyinstitute.org.uk

Executive Summary

This report focuses on the pension savings gap between men and women; the major contributing factors to this difference, an analysis of the reasons why such factors cause differences in the amount contributed into a pension and explores the impact a range of potential policies have on bridging the gap.

Women taking time away from work, generally to look after family, is the biggest factor in the women's pension gap. Women are more likely to take breaks in their career paths to raise children or care for relatives.

The different factors contributing to the difference in pension wealth (by their late 50s) and their magnitudes



Source: WAS Wave 5 and PPI modelling

Women currently on average earn approximately 18% less compared to their male counterparts.[1] Over an individual's working life, the pay differential could contribute to a reduction of pension wealth of 28% of those approaching retirement.

Women with pensions are more likely than men to have saved in a Defined Benefit (DB) pension arrangement. A higher proportion of women are in current workplace DB schemes. This is due to a larger proportion of females working in the public sector, which generally provides a DB pension arrangement.

1. ONS (2018a)

Working women in their 30s are more likely than men to participate in workplace pensions. Between ages of 30 to 40, participation rates are higher for women than men. At later ages, men's participation rates exceed those of women. Over a working life, differences in participation rates have a small impact on pension wealth by retirement.

Currently, there are 50% more women than men heading towards retirement without any private pension savings. 1.2 million women in their 50s have no private pension wealth and hence will rely on the State Pension system and their partner to provide a retirement income. This represents approximately 5% of all women.

In their early 60s the median private pension wealth of women is one third of men's private pension wealth. By retirement, women would have approximately accrued £51,000, whilst men would have about £157,000 of pension wealth. This is a result of all of the contributing factors discussed in this report.

The State Pension gap has been cut by over 70% with the new State Pension. Women's weekly State Pension income has increased from £126.37 to £143.76. The reduction in the pensions gap is partially due to women having paid the 'married woman's stamp' under the pre-2016 State Pension system (if they chose to before 1978). Less women also had enough additional State Pension (aSP) to bring their total State Pension income above the new State Pension (nSP) level.

To draw the same pension income throughout their retirement, women would need to have saved around 5% - 7% more than men by retirement age to allow for living longer. Women generally live on average 3.7 years longer than men meaning their pension pots would need to last longer (unless they buy an annuity as gender differences in annuity rates are banned by EU regulation). Hence in order to draw the same pension income as men, women would need more pension wealth by retirement.

A policy targeted at people not in paid work could reduce the gender pension gap. This is because a greater proportion of women take time out compared to men. Policies such as the family carer top-up could therefore reduce the pensions gap.

For men and women, contributing from the first pound rather than on a band of earnings can result in more pension savings. Since this policy equates to a fixed amount of additional wealth per annum and women's pension wealth is generally lower, the policy would have a greater proportional impact on women than men. However, men are more likely to work full-time without a career break and so the policy would have a greater absolute impact on men than women.

1.2 million women (in relationships) with dependent children are currently looking after their family and are missing out on automatic enrolment pension contributions. This proportion of women are therefore not in paid employment and hence are not receiving contributions to their pensions under automatic enrolment. An additional 1.4 million mothers with dependent children who are employed do not earn above the £10000 threshold to qualify for automatic enrolment contributions.

A family carer top-up could make up half the pension saving missed by taking time away from paid work to care (e.g. children or elderly parents). Based on the policy explored in the report, it is not sufficient enough to match those who do not take time out. However, it does reduce the gender pensions gap by as much as 28% since more women qualify to receive this benefit compared to men (1.5 million women compared to 150,000 men).

The alternative policies explored may also help reduce a gap opening in younger generations rather than close an existing gap for older generations. This is particularly apparent in the family carer top-up policy where the same policy would provide a 20% increase in pension wealth to older generations as opposed to a 50% increase to younger generations. Older individuals have already taken time out before these proposed policies would have come into effect and so partially miss out on the benefits.