Pensions Policy Institute

PPI

The Underpensioned Index

2024 Edition

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Contents: The Underpensioned Index

Executive Summary

This report provides longitudinal analysis of the way in which the underpensioned challenge has developed, including updating the Underpensioned Index, using 2024 data.

Certain groups are at risk of experiencing poorer retirement outcomes, including the following:

- Women, particularly divorced women and single mothers,
- People from ethnic minority backgrounds,
- People with disabilities,
- People with caring responsibilities, and
- People in non-traditional employment, e.g., multiple jobholders and the self-employed.

Underpensioned Index 2024: Comparative retirement incomes

The Underpensioned Index compares average retirement incomes of underpensioned groups to those of the broader population in order to identify the magnitude of the gap, and to understand how this is changing over time.

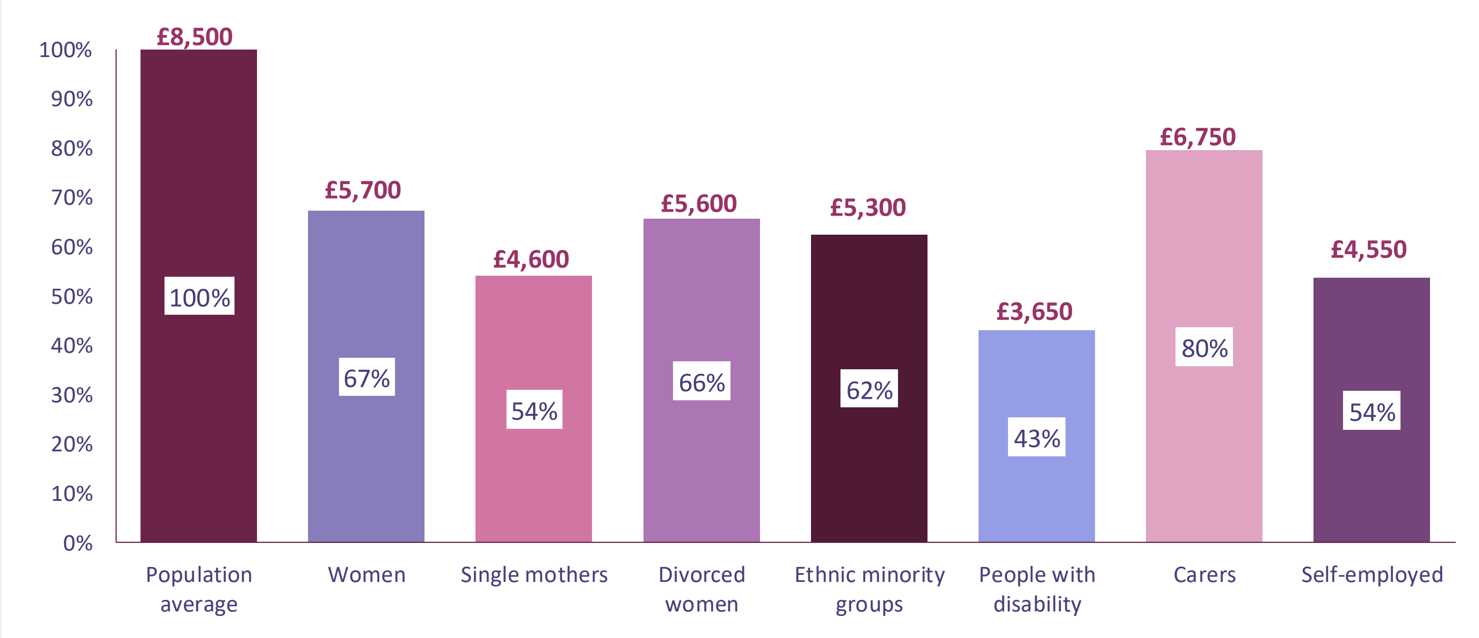
Private pension incomes of most underpensioned groups remain significantly below that of the average population's private pension incomes, although underpensioned groups tend to have experienced increases relative to the general population, compared to the 2022 Index.

Private pension incomes of some underpensioned groups have increased since the 2022 Index, including single mothers, carers and divorced women. In the 2022 report, private pension incomes of people from ethnic minority backgrounds, as a proportion of the population average, had fallen by almost 10% compared to equivalent measures in the 2020 report, while incomes of people with disabilities declined by almost 8% over the same period. The 2024 report shows people from ethnic minority backgrounds' private pension incomes, as a proportion of those of the population average, remain at the 2022 levels, however people with disabilities have made back most of the fall noted in the 2022 report. They are still the group with the lowest private pension income as a proportion of the population average, however.

Chart Ex.1[1]

Private pension incomes of underpensioned groups range between 43% and 80% of the population average

The ratio of average (mean) private pension incomes of underpensioned groups to the baseline (population average) (2024 earnings terms)



When income from State Pension and benefits is taken into account, the underpensioned gap is smaller, but still significant

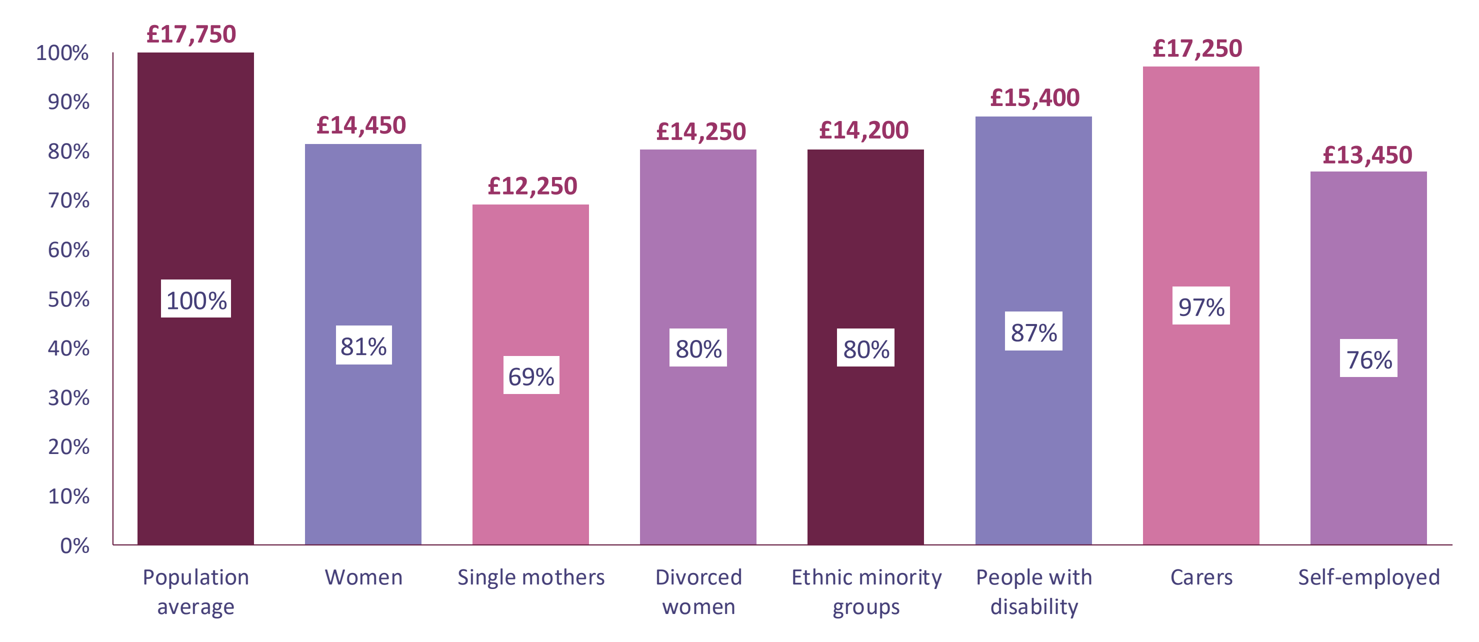
Whereas underpensioned groups' private pension incomes are all substantially less than that of the population average, with most groups lower than two thirds of the population average, when income from State Pension and other benefits is combined with private pension income, comparative incomes of underpensioned groups range from 69% to 97%.

[1] PPI analysis of Understanding Society Wave 13

Chart Ex.2[2]

When income from State Pension and benefits is taken into account, the underpensioned gap is smaller but still significant

The ratio of average (mean) retirement incomes inc. State Pension incomes and benefits of underpensioned groups to the baseline (population average) (2024 earnings terms)



Many people in underpensioned groups experience lower standards of living in retirement as a result of labour market inequalities during working life

Employment rates overall have decreased. Underpensioned groups continue to have lower rates of employment and higher rates of part-time employment, compared to the population average

Across the population, employment rates have decreased slightly from 77% to 76%, but many underpensioned groups' employment rates have decreased by a larger amount. The decrease has particularly affected part-time workers, suggesting that those underpensioned groups for whom part-time work is particularly prevalent, such as single mothers and divorced women, are particularly affected. Further findings include:

- Women's employment rates have decreased by 1% point since the 2022 report, while men's have decreased by 2% points, slightly narrowing the gap between the two from 9% to 8%.
- Some ethnic minority groups have seen an increase in employment rates, such as people of Chinese background, whose employment rate has increased from 60% to 64%. However, like most other ethnic minority groups, they are still below population average employment rates.
- Employment rates of people with a disability have increased slightly to 54% but are still around 28% points lower than people without a disability at 82%.
- Carers' employment rates have decreased by around 6% points to 61% since the 2022 report.

In addition to lower levels of labour market participation, underpensioned groups have lower than average incomes:

- The gap between women's average incomes and the population average is 18% in the current report, however this has fallen slightly from 20% in the 2022 report.
- While there continues to be variation in incomes across ethnic minority groups, some groups' average incomes have increased substantially since the 2022 report, such as people from Chinese and people from Bangladeshi backgrounds. Meanwhile, others have effectively stagnated compared to the population average.
- The gap between average incomes of people with a disability or caring responsibilities, and those of the population as a whole, has widened since the 2022 report, at 18% and 19% lower than the population average respectively.

Inequalities in housing also contribute to the underpensioned gap

Poor labour market experiences can trigger housing inequalities, which are correlated with poor standards of living in retirement. Levels of homeownership are lower among underpensioned groups, and many will still be renting throughout later life. This will result in higher housing costs, which will further erode their already low retirement incomes, as well as an increased risk of housing insecurity. Inequalities in housing have an ongoing impact on inequalities in retirement, as higher housing costs can further erode already lower pension incomes.

As well as labour market inequalities, people in underpensioned groups face inequalities specifically related to pension provision and entitlement

Automatic enrolment has brought many more in underpensioned groups into pension saving, but they remain disproportionately ineligible.

While underpensioned groups remain less likely to meet automatic enrolment qualifying criteria compared to the population average, the gap has narrowed, as most groups' eligibility has increased since the previous Underpensioned Index report in 2022:

- Women's eligibility for automatic enrolment has increased by 6%, narrowing the gap between women's and men's eligibility.
- Although eligibility for automatic enrolment is at the same level as the population average when ethnic minority groups are considered in combination, there is significant variation in eligibility across different groups. For example, 96% of employees from an Indian background are eligible for automatic enrolment, whereas only 65% of Bangladeshi employees are eligible.
- When in employment, people with a disability are 5% less likely to be eligible for automatic enrolment than the population average, and, given significantly lower employment rates, pension participation is much lower overall.

Changes to automatic enrolment eligibility criteria could bring a greater number of people from underpensioned groups into saving. If income from multiple jobs was assessed on a total rather than 'per job' basis, an additional 8% (80,000) of multiple jobholders would become eligible for automatic enrolment. This change in eligibility criteria would affect more women with multiple jobs than men with multiple jobs, bringing in an additional 14% of women with multiple jobs into pension saving. If the £10,000 earnings trigger was removed, lower earning women could make up to around £112m in contributions over a one-year period, with £70m from employer contributions and £42m from employee contributions, assuming minimum required contributions on band earnings were made. However, it is important that such changes are considered holistically, especially in the midst of the current cost-of-living crisis.

Lower average retirement incomes among underpensioned groups could mean they experience more substantial negative effects in difficult economic circumstances, but their greater reliance on the State Pension means they may have more inflation protection than those who are more reliant on private pensions

Economic circumstances such as the recent cost-of-living crisis can have a significant and immediate impact on later-life experiences of people in underpensioned groups, who are typically on lower incomes and therefore spend a greater proportion of their expenditure on basic needs. The Triple Lock currently provides some level of inflation protection for underpensioned groups, who are more heavily reliant on the State Pension, but this does mean that they are more vulnerable to any changes that may be made to the uprating of the State Pension in the future.

[2] PPI analysis of Understanding Society Wave 13

Introduction

Analysis of retirement income and experiences suggests that certain groups in society are at greater risk of experiencing poorer retirement outcomes.

Underpensioned groups include:

- Women, especially single mothers and divorced women
- People from ethnic minority backgrounds
- People with disabilities
- People with caring responsibilities
- People in non-traditional employment, including the self-employed and multiple jobholders

The first report in this longitudinal research series, **The Underpensioned Index (2020)**[3], explored the retirement incomes of these groups and compared their financial position to that of the population average, in order to create income indices by which inequalities can be measured over time. The report identified that inequalities during working life, especially in the labour market but also in housing, contribute to increased risk of underpensioned groups experiencing inadequate retirement outcomes in later life.

The second report in this series[4] explored the impact of the COVID-19 pandemic on underpensioned groups in two parts: the short-term impacts that were experienced by underpensioned groups over 2020-21, and the longer-term impacts which may affect their retirement outcomes over years to come.

The third report in 2022 provided an updated version of the Index, alongside data illustrating changes, particularly in the labour market and pension saving, that have been experienced by underpensioned groups since the first Index.

The fourth report in 2024 explored the gender pensions gap.

This report provides an updated version of the Index, alongside recent data illustrating changes, particularly in the labour market and pension saving, that have been experienced by underpensioned groups since the 2022 report. This report takes a long-term view, looking back to the introduction of automatic enrolment, and looking forward to what the next ten years may hold for underpensioned groups.

Chapter One – How has the underpensioned challenge changed?

Sets out the background to the underpensioned challenge and includes the latest Underpensioned Index, updated for 2024.

Chapter Two – How are inequalities in working life affecting the underpensioned challenge?

Examines the ways in which inequalities in employment, income, and housing contribute to the underpensioned challenge, including changes that have occurred since the last Underpensioned Index.

Chapter Three – How are pension-specific inequalities affecting the underpensioned challenge?

Explores the pension-specific inequalities and differences experienced by underpensioned groups in terms of workplace provision, saving behaviour, and entitlements.

[3] Wilkinson & Jethwa (PPI) (2020) The Underpensioned Index
[4] Wilkinson & Adams (PPI) (2021) What impact has the COVID-19 pandemic had on underpensioned groups?

CHAPTER ONE:

HOW HAS THE UNDERPENSIONED CHALLENGE CHANGED?

This chapter sets out the background to the underpensioned challenge and includes the updated Underpensioned Index.

Certain groups are at risk of experiencing poorer retirement outcomes, including:

- women, particularly divorced women and single mothers;
- people from ethnic minority backgrounds (see Box 1.1);
- people with disabilities;
- people with caring responsibilities; and
- people in non-traditional employment, e.g., multiple jobholders and the self-employed.

Box 1.1

This report recognises that people from ethnic minority backgrounds are not a homogenous group, and includes data broken down into individual ethnic groups where it is available. While there is some overarching data across ethnic groups as a whole in national surveys, sample sizes are typically inadequate to allow understanding of the many different factors which affect the outcomes of particular ethnic groups. For the main Underpensioned Index, sample sizes across individual ethnic groups are not large enough to support a more detailed breakdown of this analysis at present.[5]

The 2024 Underpensioned Index

The Underpensioned Index compares average retirement incomes of underpensioned groups to those of the broader population in order to identify the magnitude of the gap and to understand how this is changing over time. The Index considers private pension incomes, as well as incomes from State Pension and other benefits. This split enables a more detailed exploration of which aspects within the pension system are most affected by inequality and where additional support may be needed.

Comparative income is important because it tells us about relative standards of living, which affect opportunities, as well as physical and mental health, and reveal inequalities in society. When considering issues of inequality between population groups, it is important to consider not just how individuals' retirement living standards compare to those they experienced during working life, but also how they compare to other retirees.

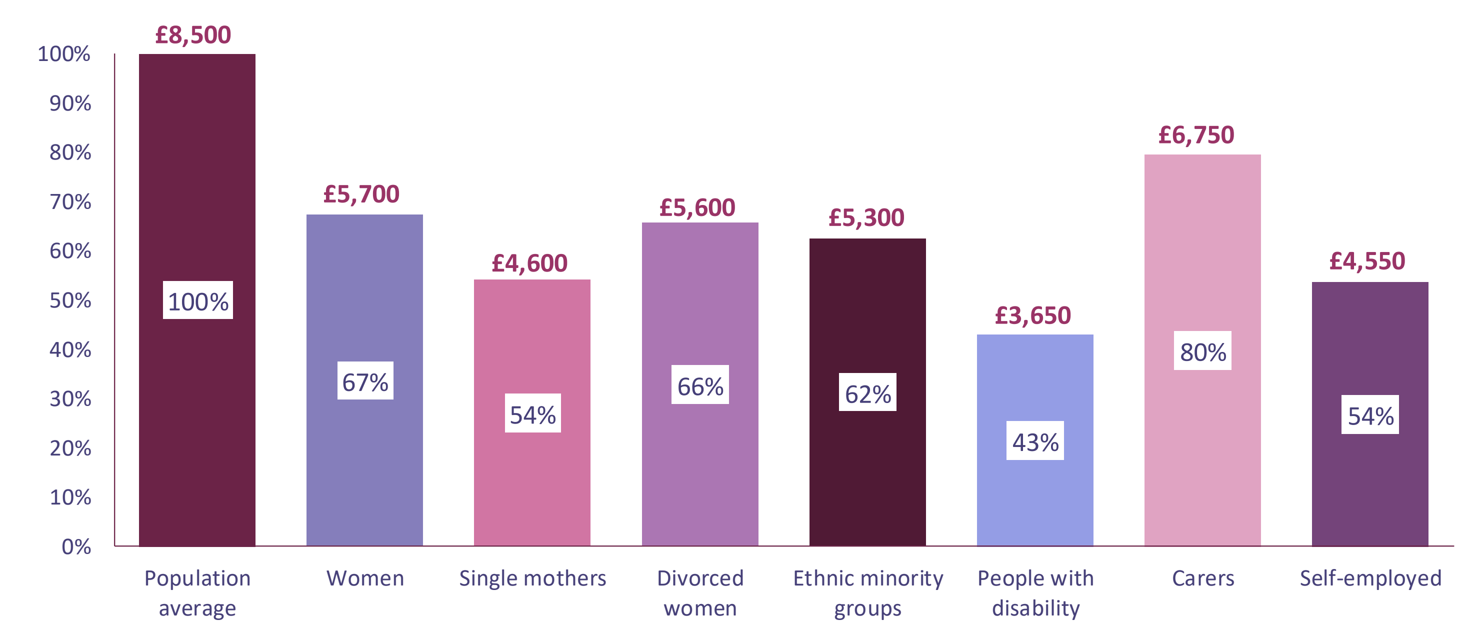
Private pension incomes of most underpensioned groups remain significantly below those of the average population's private pension incomes, although underpensioned groups tend to have experienced increases compared to the 2022 Index

Relative private pension incomes of some underpensioned groups have increased since the 2022 Index, including single mothers, carers and divorced women. In the 2022 report, private pension incomes of people from ethnic minority backgrounds, as a proportion of those of the population average, had fallen by almost 10% compared to equivalent measures in the 2020 report, while incomes of people with disabilities declined by almost 8% over the same period. The 2024 report shows the figures for those people from ethnic minority backgrounds private pension incomes, as a proportion of those of the population average, remain at the 2022 report levels, however people with disabilities have made back most of the fall noted in the 2022 report, but are still the group with the lowest private pension income as a proportion of the population average. (Chart 1.1). As the Underpensioned Index explores comparative income, these figures do not represent a fall or rise in the cash level of income, but rather a decline in the ratio of these groups' incomes compared to the population average. Some of this change may be caused by increases in population average private pension incomes.

Chart 1.1[6]

Private pension incomes of underpensioned groups range between 43% and 80% of the population average

The ratio of average (mean) private pension incomes of underpensioned groups to the baseline (population average) (2024 earnings terms)



When income from State Pension and benefits is taken into account, the underpensioned gap is smaller but still significant

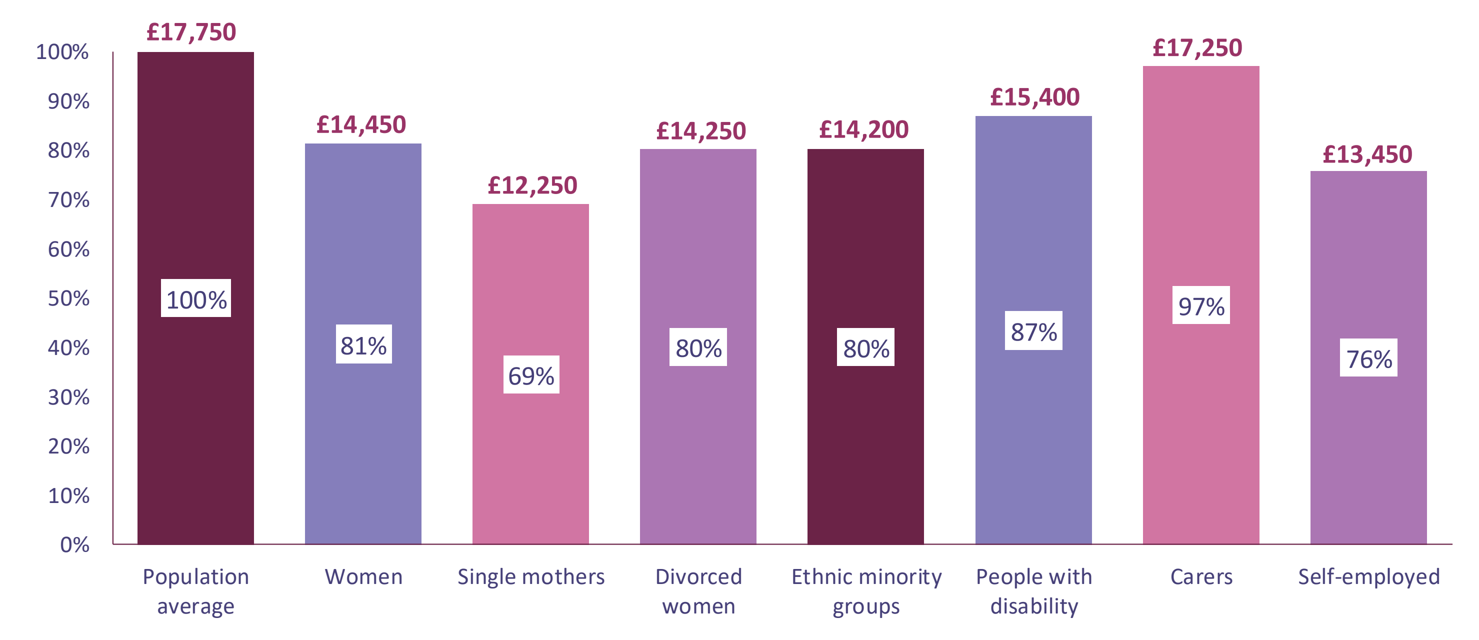
Whereas underpensioned groups' private pension incomes are all substantially less than that of the population average, with most groups lower than two thirds of the population average, when income from State Pension and other benefits is combined with private pension income, the gap tends to become smaller. In taking State Pension and benefits into account, comparative incomes of underpensioned groups range from 69% to 97% (Chart 1.2). This is because the State Pension level is more consistent across the population and forms a large part of the total average income, so it dilutes the distribution.

[5] For more information on the limited availability of disaggregated ethnic minority data, see Silcock (2022) PPI Briefing Note 132: The pensions policy impact of poor personal finance data on people from ethnic minority groups
[6] PPI analysis of Understanding Society Wave 13

Chart 1.2[7]

When income from State Pension and benefits is taken into account, the underpensioned gap is smaller but still significant

The ratio of average (mean) retirement incomes inc. State Pension incomes and benefits of underpensioned groups to the baseline (population average) (2024 earnings terms)



Comparative retirement incomes of most underpensioned groups, inclusive of private pensions, State Pension and other benefits, have declined in relation to retirement incomes of the broader population. Only ethnic minority groups and carers' comparative retirement incomes have increased compared to the 2022 Index, with an increase of 1.5% and 3.3% points respectively. All other underpensioned groups have experienced a comparative decline in total retirement income, with the most being single mothers who experienced a decline of 9% points.

In the 2020 Underpensioned Index, people with a disability were the sole underpensioned group for whom average income from State Pension and benefits topped up private pension savings to achieve an overall income level equal to the population average. The 2022 Index exhibited a decline in the comparative incomes of retirees with a disability, a trend which continues with the 2024 Index where the incomes of people with a disability have fallen to 87% of the population average. Some of these benefits that top up their retirement income are means tested, which can introduce additional complications. There is also the issue that some or all of this additional top up may be eroded by additional needs individuals with a disability may have. Additional benefit payments to meet the needs of disabilities are often spent on essential needs associated with disability and therefore cannot be considered as truly "disposable income".

[7] PPI analysis of Understanding Society
[8] Curry (PPI) (2003) The Under-pensioned
[9] PPI analysis of Understanding Society Wave 13 (2023)

The change in Government may lead to changes in priorities in pensions provision, however, it is unclear how much of the Pensions Review will focus on the underpensioned challenge

The Government won the 2024 general election with a manifesto promising to conduct a Pensions Review. Following their election, they published a 'Terms of Reference' for the first phase of a two-phase process. The first phase focuses on investment and consolidation of workplace pension schemes, along with value for money, to drive outcomes. The second phase is set to "consider further steps to improve pensions outcomes, including assessing retirement adequacy". The first phase may not tackle underpensioned aspects unless tangentially, whereas the adequacy focus of the second phase may have greater applicability in improving outcomes for underpensioned groups. However, in December 2024, the Chancellor announced that phase two has been put on hold for the time being.

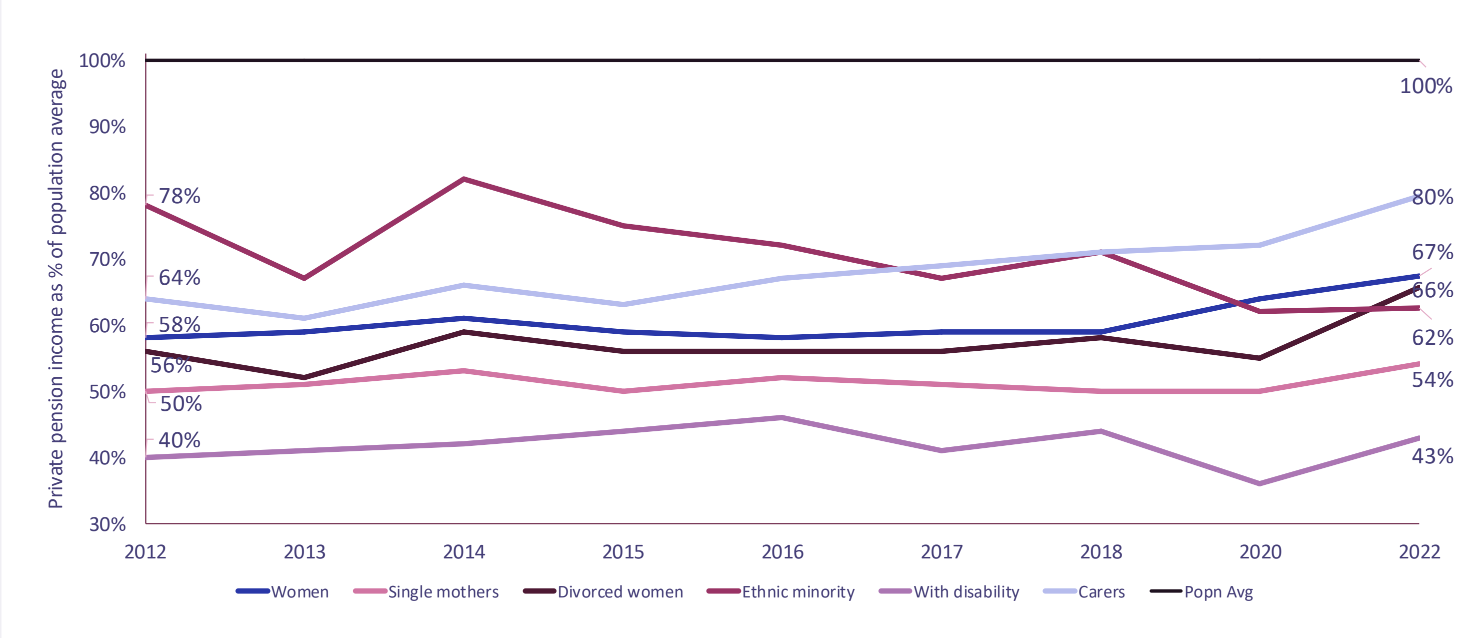
The current economic circumstances could make it more complicated to introduce further policies aimed at improving outcomes for underpensioned groups, at a time when individuals, employers and Government are facing significant financial difficulty. However, the underpensioned challenge is long-term in nature. The PPI conducted its first research on underpensioned groups[8] over twenty years ago, in 2003, yet progress on reducing inequalities has been slow. The introduction of automatic enrolment in 2012 has drastically increased pension saving across the overall population and narrowed the gap in participation among underpensioned groups. However, progress on gaps in retirement wealth and income has been slower. It will take time for automatic enrolment to fully embed, and for those who were newly brought into saving to build larger pot sizes.

From 2012 to 2022, many underpensioned groups experienced a decline in comparative incomes. The gap has reduced between 2022 and 2024 with all groups, except people from ethnic minority backgrounds, seeing an improvement in relative private pension income compared to the population mean (Chart 1.3). However, being better than in 2012 does not mean that the underpensioned challenge is close to being resolved. Underpensioned groups still have substantially lower private pension incomes than the population average.

Chart 1.3[9]

The gap between private pensions incomes of underpensioned groups and the broader population has widened for some groups over the last decade, while others have made slow progress

Average private pension income as a proportion of population average, by underpensioned group, age 65+, 2012 - 2022

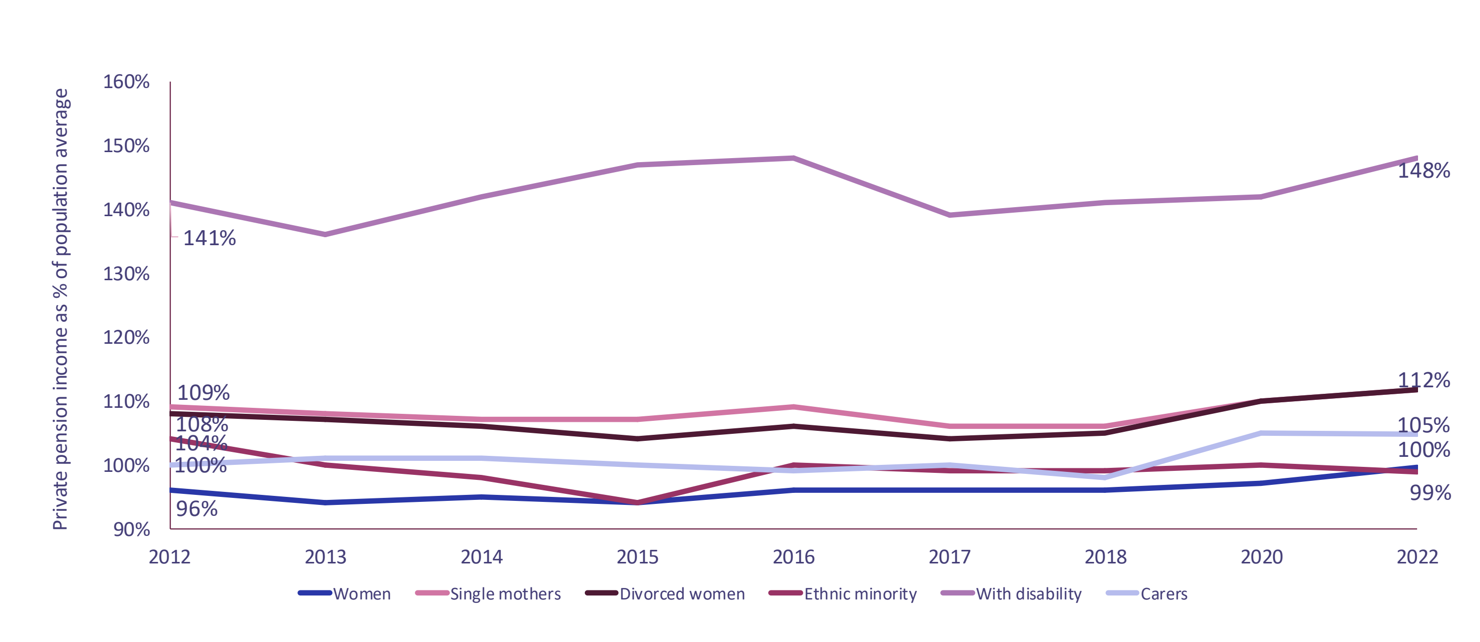


State Pension and benefit incomes of underpensioned groups have increased comparative to the population average since 2012 (Chart 1.4).

Chart 1.4[10]

State Pension and benefit incomes of people with disabilities as a proportion of the population average has increased by 7 percent since 2012

Average income from State Pension and benefits as a proportion of population average, by underpensioned group, age 65+, 2012 - 2022



While some of the potential policy levers discussed in relation to underpensioned groups may not be appropriate to be actioned during the current crisis, inequalities may increase during this period. It is, therefore, more important than ever that plans are made for improving inequalities over the long term, even if they may not be actioned until the economy has stabilised. Slow progress on narrowing gaps in retirement wealth and income, despite the success of automatic enrolment, emphasises the importance of taking a long-term perspective on the underpensioned challenge and continuing to monitor the gap through this longitudinal analysis. While policies providing greater support to underpensioned groups may be expensive to introduce in the current economic climate, they are also likely to be more desperately needed as inequalities have increased, so a balance will need to be found between cost and protection of vulnerable groups.

[10] PPI analysis of Understanding Society Wave 13 (2023)

Conclusions

Private pension incomes of underpensioned groups remain below three quarters of average population private pension incomes, with some groups experiencing significant declines compared to the 2022 Index. When income from State Pension and benefits is taken into account, the underpensioned gap is smaller but still significant.

The current economic climate could make it more challenging to implement further policies to narrow the gap in the short term, but it is important that the underpensioned challenge is approached with a long-term view.

Recent high inflation could further exacerbate the underpensioned challenge, as well as making it more complicated to introduce further policies aimed at closing the gap, at a time when individuals, employers and Government are facing significant financial difficulty. However, the underpensioned challenge is long-term in nature, so it is essential that longitudinal analysis and discussion of potential policy solutions continues even in challenging times.

CHAPTER TWO:

HOW ARE INEQUALITIES IN WORKING LIFE AFFECTING THE UNDERPENSIONED CHALLENGE?

This chapter examines the ways in which inequalities in employment, income, and housing contribute to the underpensioned challenge, including changes that have occurred since the last Underpensioned Index.

This chapter sets out the changes that have been observed in working-life inequalities experienced by underpensioned groups since the analysis presented in the 2022 Underpensioned Index report, namely:

- Although employment rates have increased, underpensioned groups continue to have lower rates of employment and higher rates of part-time employment, compared to the population average.
- The gap between average underpensioned incomes and the population average has grown.
- Inequalities in housing also contribute to the underpensioned gap.
- The current cost-of-living crisis has the potential to negatively impact underpensioned groups.

Although employment rates have increased, underpensioned groups continue to have lower rates of employment and higher rates of part-time employment, compared to the population average

Compared to the population average, underpensioned groups have lower employment rates and higher levels of part-time work. Time spent out of paid work or working part-time lowers the level of potential private pension contributions and affects the final fund size and income level. Poor labour market experiences among underpensioned groups can be caused by a variety of factors, including: lower levels of educational attainment, labour supply constraints (especially among people with disability or caring responsibilities), personal choices and societal expectations about labour market engagement (especially among women with children), as well as systemic factors, including discrimination.

Across the population, employment rates have decreased slightly, but many underpensioned groups' employment rates have decreased by a larger amount. The decrease has particularly affected part-time workers, suggesting that those underpensioned groups where part-time work is particularly prevalent, such as single mothers or divorced women, are particularly affected.

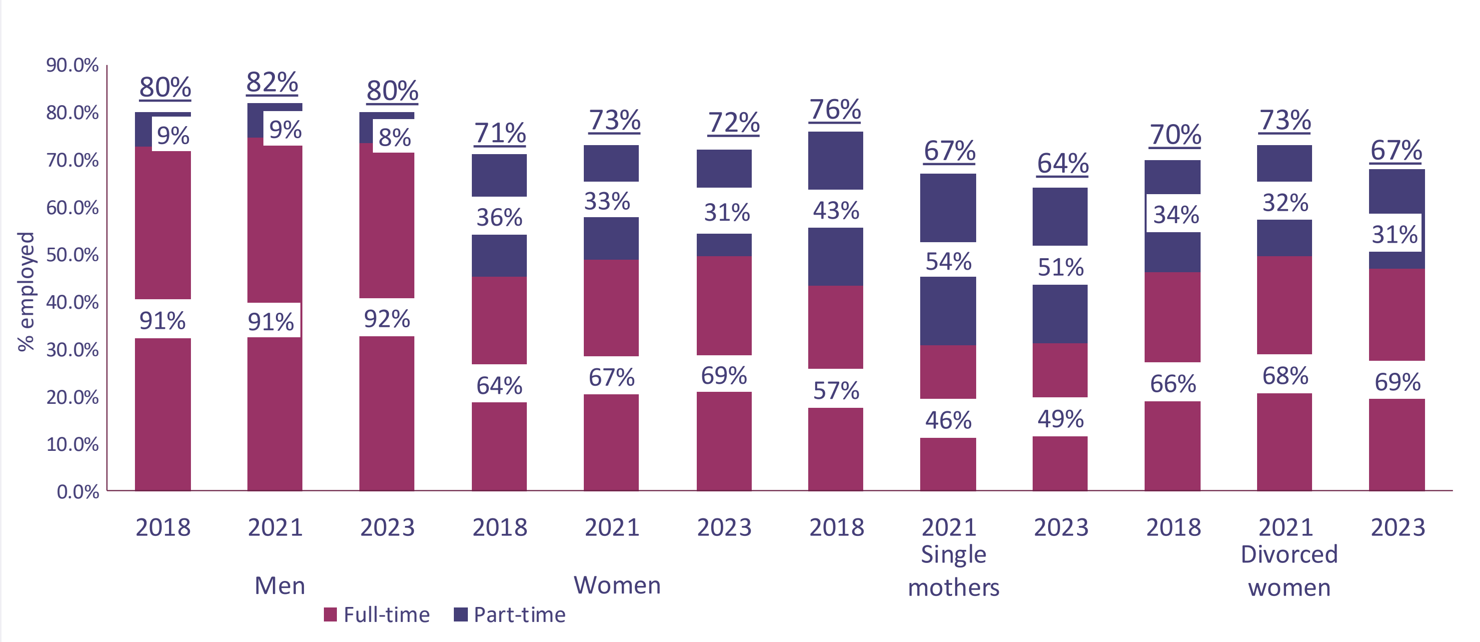
Women's employment rates have decreased by 1% point since 2022, while men's have decreased by 2% points, slightly narrowing the gap between the two from 9% to 8%

Women tend to have poorer labour market experiences than men, on average, reflected in employment rates that are significantly lower than men's and rates of part-time work significantly higher. Women's employment rates have decreased since 2022, from 73% to 72%, and men's employment rates decreased from 82% to 80% over the same period, slightly closing the gap from 9% to 8% between men and women's employment rates. Women's levels of part-time work have decreased since 2018, from 33% to 31%, while men's have decreased from 9% to 8% (Chart 2.1).

Chart 2.1[11]

Women's employment rates are decreasing slightly, and remain lower than men's. Rates of part-time work have decreased for most groups of women

Proportion in employment, and full-time/part-time split, 2018, 2021 and 2023



Being a single mother or divorcing during working life can exacerbate the labour market inequalities experienced by women. Employment rates for women in general have decreased, but those for single mothers' employment rates have declined more significantly, and by more still for divorced women. In all cases, the proportion of people in part-time work has decreased, though it is unclear whether this is due to previously part-time workers transitioning into full-time work or due to part-time workers leaving the labour market. Both scenarios would make the remaining part-time workers in this group a lower proportion of the remaining workforce.

Box 2.1: Policies aiming to narrow the gap for women

Since 2017, employers of more than 250 employees have been subject to mandatory reporting requirements on their gender pay gap. As a result, organisations across both public and private sectors have been publicising gendered income disparities across their workforces. While pay gap reporting helps to identify inequalities, employers are not currently required to publish a supporting action plan to address any reported gender inequalities. There are also challenges associated with ensuring the accuracy of pay gap reporting and extending this to other underpensioned groups.

Alongside the introduction of mandatory gender pay gap reporting, the Government Equalities Office has partnered with the Behavioural Insights Team (BIT) to establish the Gender and Behavioural Insights Programme (GABI). The programme has successfully generated:

- an accessible, evidence-based guide for employers on the steps they can take to improve gender equality in their organisations; and
- partnerships with 12 public and private stakeholders to co-design and test new interventions that have the potential to close the gap.[12]

[12] PPI analysis LFS
[13] BIT (2020)

Some ethnic minority groups have seen an increase in employment rates but most are still below population average employment rates

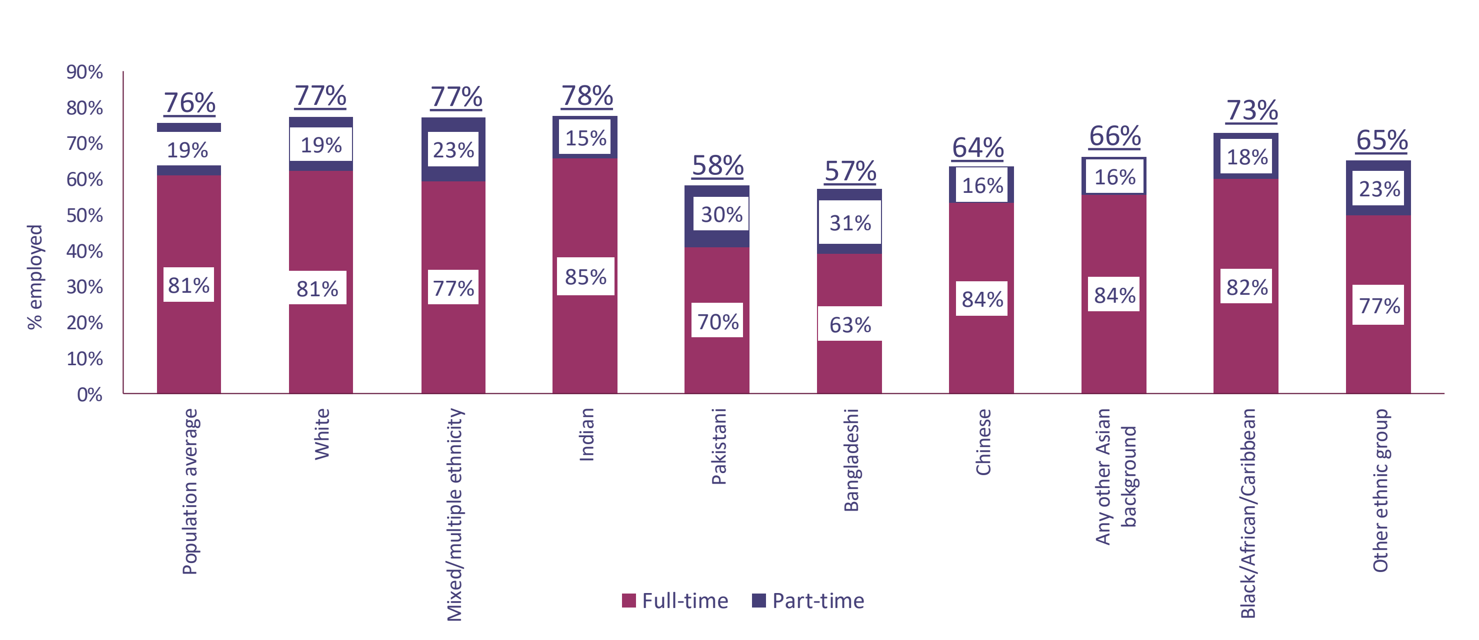
Ethnic minority groups are, as a whole, the only underpensioned group where employment rates have increased since 2022. However, the increase from 68% in the 2022 report to 69% in 2024 is still below the 2024 population average employment rate of 76%.

Breaking down the employment rate into different ethnic groups demonstrates how ethnic minorities are not all affected equally. The employment rate of people of Indian ethnic background has increased from 75% to 78%, taking the employment rate above that of the population average. People from black, African or Caribbean backgrounds have employment rates slightly lower than the population average at 73%, which is the same as in 2022. Meanwhile, employment rates of people from other ethnic minority backgrounds are significantly lower than the population average. For example, people from Pakistani backgrounds have an employment rate of 58% in 2024, up 1% point from 57% in 2022, and people from Bangladeshi backgrounds have an employment rate of 57% in 2024, a drop of 3% points from 60% in 2022. (Chart 2.2).

Chart 2.2[13]

The gap in employment rates among people from ethnic minority backgrounds compared to the population average varies from 2% higher to 18% lower

Proportion in employment, and full-time/part-time split, 2023



Box 2.2: Policies aiming to narrow the gap for people from ethnic minority backgrounds

After advice from the Government, some organisations in the public and private sector have begun to voluntarily publish ethnicity pay gaps. In 2018, the NHS became one of the first public sector organisations to publish breakdowns of pay for all staff.[14] However, a large proportion of employers in both the public and private sector still do not to report their ethnicity pay gaps. A 2020 survey of more than 100 UK businesses, representing a combined one million employees, found that only one in ten had reported their ethnicity pay gap.[15] Increasing participation among employers may require the introduction of mandatory ethnicity pay gap reporting. Making this mandatory could help more employers to identify notable disparities within their workforce and encourage them to implement action plans to improve diversity and inclusion across their organisation.

Some employers have begun to adopt initiatives that combat discrimination in recruitment. For example, one recruitment programme focused on increasing diversity in the workplace is RARE's Contextual Recruitment Scheme (CRS). The CRS combines candidates' application responses with publicly available data, resulting in the hiring of 61% more candidates from disadvantaged backgrounds compared to standard recruitment practices.[16] The Cultural Inclusion Maturity Model is another initiative that supports employers to establish more diverse and inclusive workplaces. The model measures inclusion by assessing the behaviours of managers, teams and employees, and auditing the organisation's performance on these areas.[17]

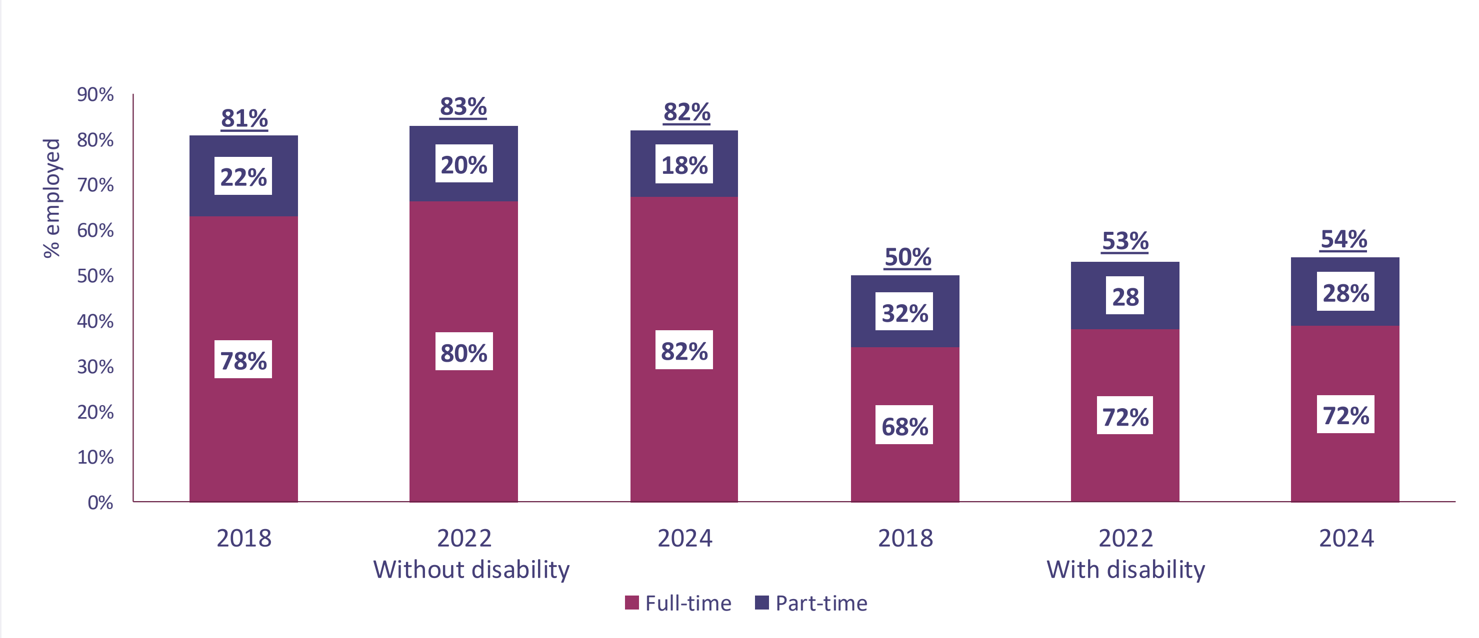
Employment rates of people with a disability have increased slightly but are still around 28% lower than those of people without a disability

Due in large part to labour supply constraints, people with disabilities are particularly at risk of experiencing labour market inequalities associated with lower retirement incomes. Disabilities and long-term sickness can limit the amount and type of work people are able to do, causing people with disabilities to be less likely to be in paid employment compared to the rest of the population, and, among those who are, more likely to work part-time. Employment rates among people with a disability have increased very slightly, while employment rates among people without a disability have slightly decreased (Chart 2.3).

Chart 2.3[18]

Employment rates have increased slightly among people with a disability, but rates of part-time work have remained constant, whereas people without a disability have seen a slight reduction in employment and part-time work

Proportion in employment, and full-time/part-time split, 2018, 2021 and 2023



[13] PPI analysis of Family Resources Survey 2022-23 (2024)
[14] Commission on Race and Ethnic Disparities (2021)
[15] PWC (2021)
[16] RARE (2022)
[17] Commission on Race and Ethnic Disparities (2021)
[18] PPI analysis of Family Resources Survey (various editions)

Levels of part-time work have stayed constant among people with a disability who are in employment, compared to those without a disability (Chart 2.3). This could reflect that the shift toward home working has made paid work more accessible for people with a disability. For some people, working full-time hours could exacerbate disabilities and long-term health conditions, so it is important that increases in full-time employment rates are assessed in a nuanced way that takes into consideration the potential for negative health impacts.

Box 2.3: Policies aiming to narrow the gap for people with a disability

There are several employment programmes currently in place to support people with a disability. Employ Me, run by Mencap, offers skills training, employment workshops, work experience and other activities to support young people with disabilities, though these are focused in specific areas in and around London.[19] Another example is Work Choice, a voluntary specialist programme that helps people with a disability to join the labour market by providing training and mentoring initiatives. It is operated by different providers across the country. Many of these types of initiative are sponsored or endorsed by the Department for Work & Pensions (DWP). Additionally, the Government encourages supported internships for young people with special needs or disabilities to improve their chances of achieving paid employment in the future.[20]

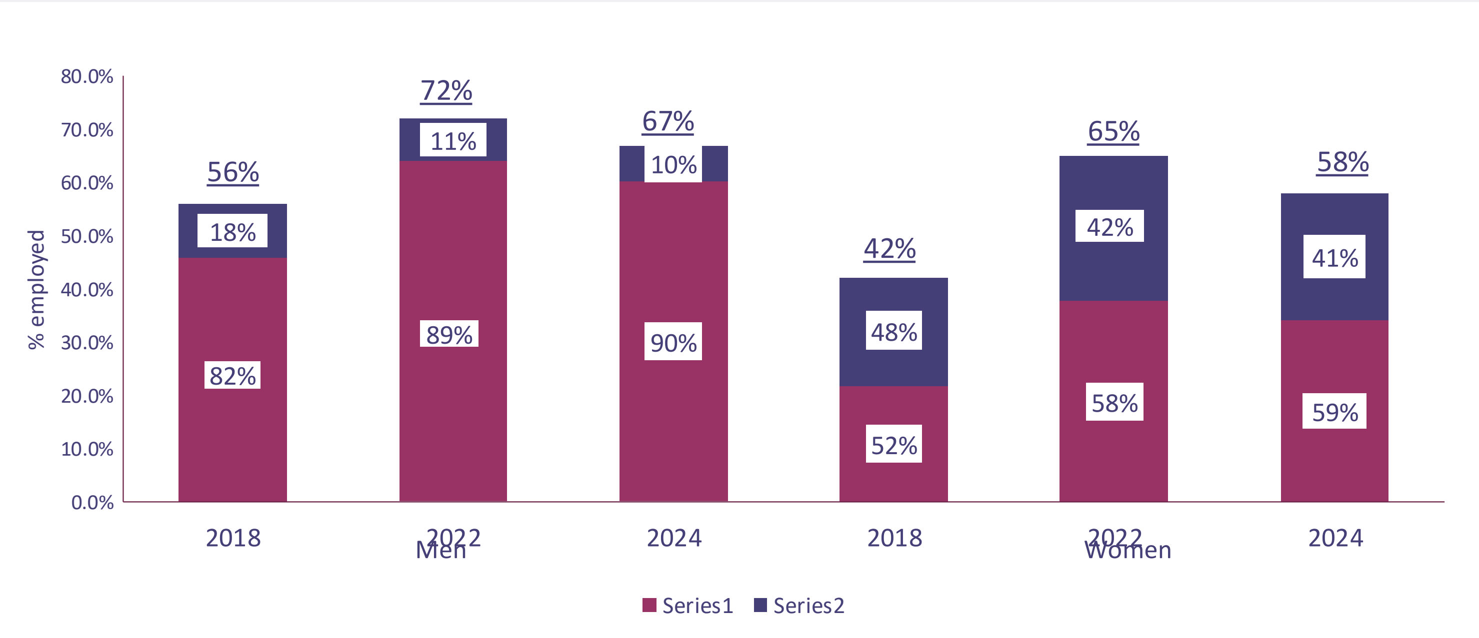
Carers' employment rates have decreased by around 6% points since 2022 to 61%

For many people with caring responsibilities, labour supply constraints mean that they have poorer labour market experiences, including being less likely to be in paid employment and, if they are employed, more likely to be working part-time and receiving a lower income. Carers' employment rates have decreased significantly among both men and women. Carers, particularly carers who are women, also remain more likely to work part-time, as this can allow them the extra time needed to accommodate their caring responsibilities, although rates of part-time work have reduced slightly for both male and female carers (Chart 2.4).

Chart 2.4[21]

Carers' employment rates have fallen from 2021 levels, while proportion of full-time workers has increased suggesting the main fall is in part-timers employment

Proportion in employment, and full-time/part-time split, 2018, 2021 and 2023



Box 2.4: Policies aiming to narrow the gap for people with caring responsibilities

The Carers Leave Act 2023 includes new laws entitling unpaid carers to one week of unpaid leave a year, with eligible employees able to take carer's leave regardless of how long they have worked for their employer.[22]

The Act:

- gives rights to at least 2.3 million employees who are carers; and
- might mean that some employers go even further than the legislation requires and introduce paid carer's leave.[23]

While multiple jobholders and the self-employed are all in employment, they still experience labour market inequalities associated with lower retirement incomes

Among other underpensioned groups, low employment rates are a significant contributor to pension inequalities, but this is not the case for multiple jobholders and the self-employed, groups which have 100% employment rates as a result of their defining characteristics. However, pension inequalities among these groups are correlated with other aspects of labour market inequality, such as higher rates of part-time work and lower average incomes. Just under half (45%) of multiple jobholders work part-time, increasing to 54% among women. Although lower at 28% part-time for men working multiple jobs, this is still 20% points higher than the average for all employed men.

The self-employed are impacted by lower-than-average earnings and extremely low levels of pension participation. While the self-employed are not a homogenous group, when considered as a whole, average annual earnings are around a 20% lower than the population average. In terms of pension participation, only 20% of self-employed workers currently participate in a pension, compared to over three quarters of employees.[24]

The gap between average underpensioned incomes and the population average has grown

In addition to lower levels of labour market participation, underpensioned groups have lower than average incomes. Low earnings are highly correlated with low pension income in later life. Lower than average incomes among underpensioned groups reflect both lower hourly rates of pay and lower numbers of hours worked, due to the higher prevalence of part-time work among underpensioned groups. Since 2018, the gap between average underpensioned incomes and the population average has grown.

The gap between women's average incomes and the population average has increased since 2022

Women's average annual incomes are 82% of the population average and 70% of men's average annual incomes. Average incomes of women who have been divorced are a similar level, but those of single mothers are substantially lower at just 62% of the population average (Chart 2.5). In 2018, the gap between women's average incomes and the population average was 20%; in 2022, the gap has decreased to 18% but is still wider than it was in 2018 at 12%. It should be noted that when comparing women against the population the figure is being compared against an average of men's incomes and their own incomes. This dilutes the difference between men and women's income levels.

[19] Mencap (2024)
[20] Department for Education (2025)
[21] PPI analysis of Family Resources Survey (various editions)
[22] Carers Leave Act 2023
[23] Carers UK (2022)
[24] Family Resources Survey 2022-23 (2024)

Chart 2.5[25]

Women's average annual incomes are substantially lower than the population average (which is increased by men's much higher average incomes)

Mean annual income, by gender, 2023 (2024 earnings terms)

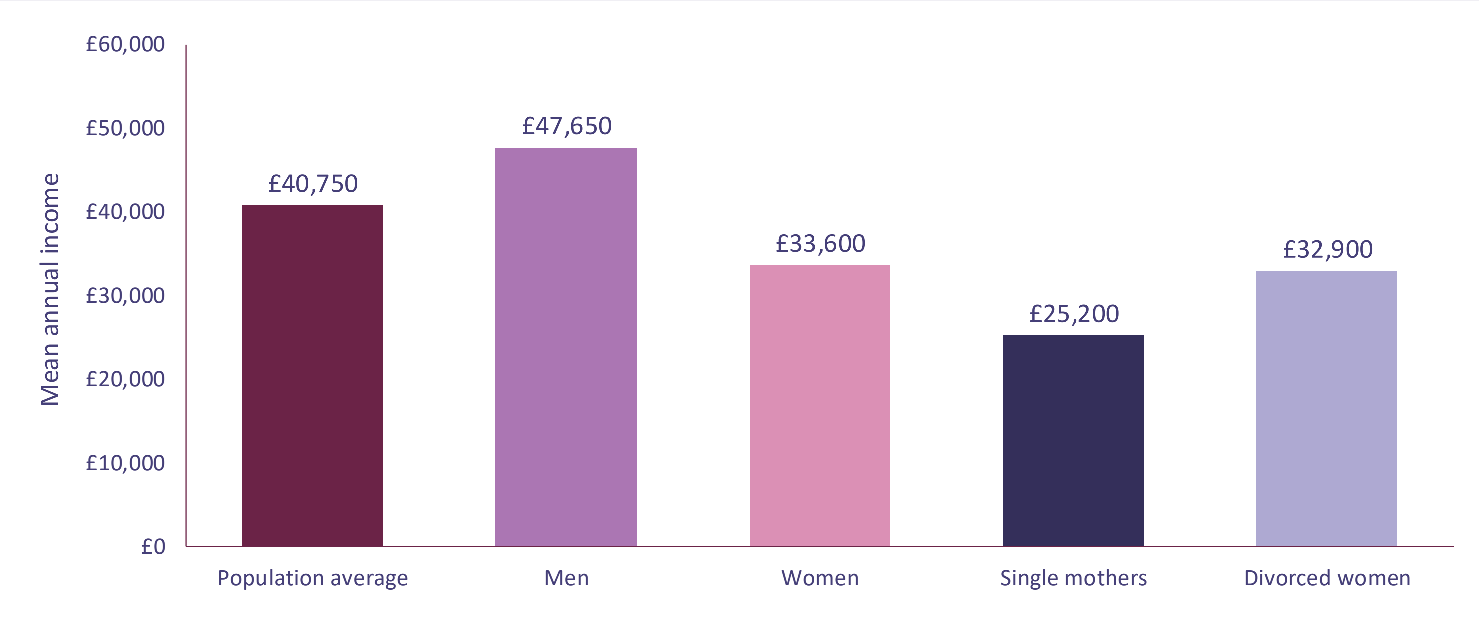
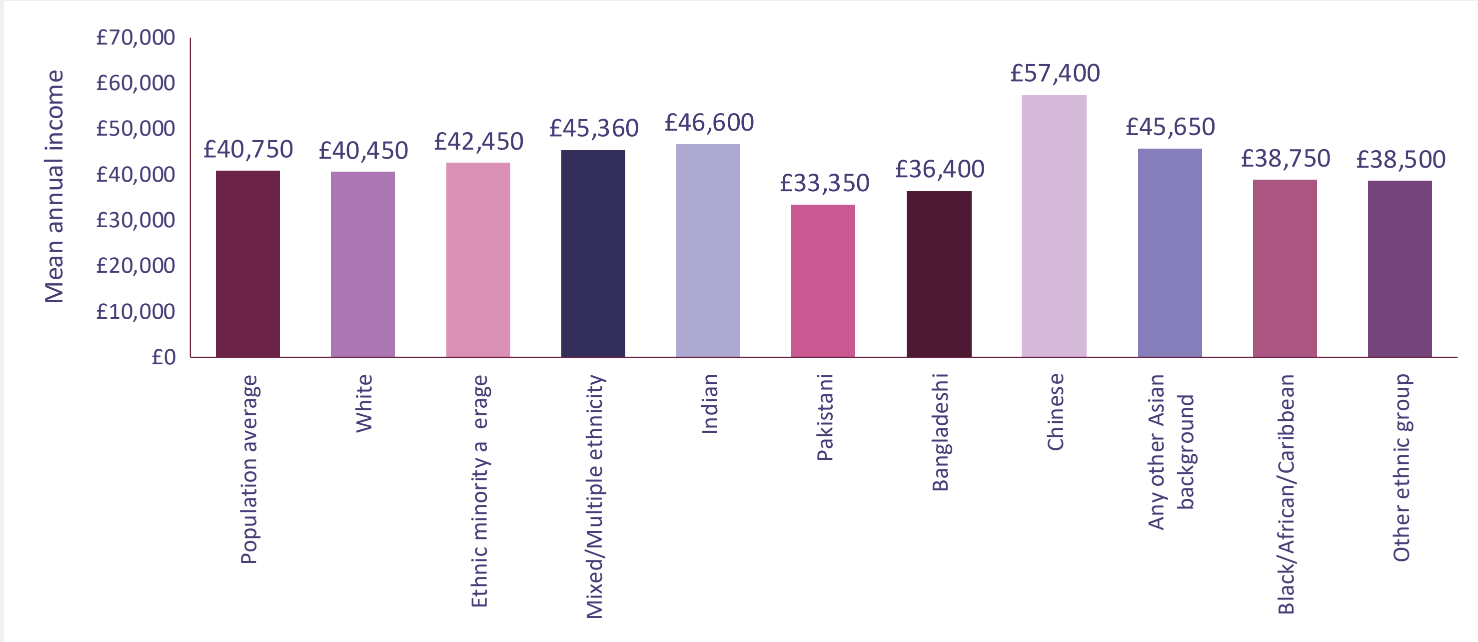


Chart 2.6[26]

Average annual earnings vary substantially across different ethnic minority groups, with some higher than average but many significantly lower

Mean annual income, by ethnicity, 2023 (2024 earnings terms)



While there continues to be variation in incomes across ethnic minority groups, some groups' average incomes have declined substantially since 2018 and others have effectively stagnated

There is substantial variation in average incomes across ethnic minority groups. Some have substantially higher incomes than the population average, while others are significantly lower than the population average, highlighting that it is inappropriate to group ethnic groups together too much (Chart 2.6). Some of the ethnic groups that have higher than average annual earnings include Indian, Chinese, Mixed/Multiple ethnicities and 'Other Asian background' groups. Others that have significantly lower average annual incomes include Pakistani, Bangladeshi, and Black/African/Caribbean, whose comparative incomes are 82%, 89% and 95% of the population average respectively.

Average annual incomes of people from Indian backgrounds have increased alongside the population average since 2022, maintaining the same proportional level, but other groups have increased faster than the population average, while average incomes of the Bangladeshi and Black/African/Caribbean group have reduced the gap compared to the population average.

[25] PPI Analysis of LFS
[26] PPI analysis of Family Resources Survey 2022-23 (2024)

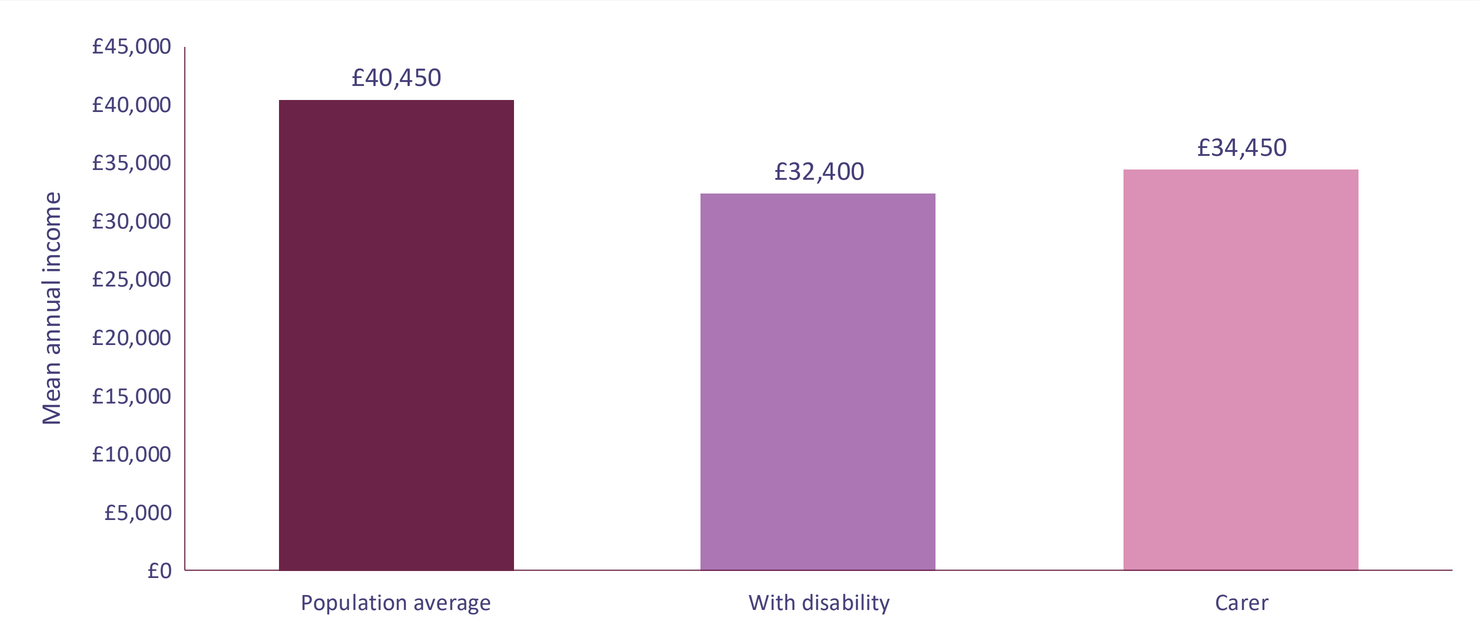
Average incomes of people with caring responsibilities have grown since 2022, but have fallen further behind the population average

People with caring responsibilities have average incomes worth around 84% of the population average, compared to 90% of the population average in the 2022 report, while people with a disability have average incomes worth around 80% of the population average, a slight reduction compared to 81% in 2022 (Chart 2.7).

Chart 2.7[27]

Both people with caring responsibilities and people with a disability have significantly lower average annual incomes

Mean annual income, by disability and caring responsibility, 2023 (2024 earnings terms)



Inequalities in housing also contribute to the underpensioned gap

Poor labour market experiences can trigger housing inequalities, which are also correlated with poor standards of living in retirement. Levels of homeownership are lower among underpensioned groups, and many will still be renting throughout later life. This will mean higher housing costs, which will further erode their already low retirement incomes, as well as increasing the potential risk of housing insecurity.

Inequalities in housing contribute less significantly to inequalities in the amount of pension income than labour market inequalities do, but they also have an ongoing impact on inequalities in retirement, as higher housing costs can further erode already lower pension incomes. This is likely to have a greater impact on some groups than others. For example, people with a disability have higher than average housing costs in retirement, with additional needs related to their disability that must be accommodated.

The current economic climate has the potential to negatively impact underpensioned groups

The current economic climate may exacerbate the underpensioned gap. High levels of price inflation, particularly on specific types of goods and utilities (inflation has been especially high on necessities such as home energy costs, food and petrol), can impact people's ability to cover their needs. This impact can be particularly detrimental to those on low incomes, who have lower than average disposable income which can be used to mitigate the potential risk, spending a greater proportion of expenditure on basic needs.

As people in underpensioned groups have lower average incomes and are therefore likely to spend a greater proportion of their expenditure on basic needs, they have lower levels of disposable income that could be used to protect against the negative effects of high inflation. If underpensioned groups are spending an increasing proportion of their incomes on basic needs, their ability to save adequately for retirement could decrease, potentially leading to a greater underpensioned gap over the longer term.

There are also ways in which specific underpensioned groups may be differentially impacted. Women with children and others with caring responsibilities find it more challenging to increase their hours of paid work, especially as childcare costs are increasing faster than inflation.[28] This challenge can be particularly difficult for single mothers and divorced women. People with a disability are also likely to face more significant challenges. Decisions about efficient use of household energy can be especially challenging for people with disabilities, who may need to keep their homes warmer all day or use specialist medical equipment that can often have high running costs. Also, as carers are generally providing support for family members or others close to them who have a disability or long-term illness, the cost-of-living crisis may impact their finances in ways similar to the impact on people with a disability. The current cost-of-living crisis may also place additional pressures on the self-employed. As increases in inflation and supply chain issues impact both individuals and businesses, small business owners who are self-employed may be more severely affected.

[27] PPI analysis of LFS
[28] Women's Budget Group (2024)

Conclusions

Many people in underpensioned groups will experience lower standards of living in retirement as a result of labour market inequalities during working life. Compared to the population average, underpensioned groups have lower employment rates and higher levels of part-time work, lower average incomes, and lower pension contributions.

While employment rates have increased, underpensioned groups continue to have lower rates of employment and higher rates of part-time employment, compared to the population average. They also have lower than average incomes, reflecting both lower hourly rates of pay and lower numbers of hours worked, due to the higher prevalence of part-time work among underpensioned groups.

Although inequalities in housing contribute less significantly to pension inequalities than labour market inequalities do, they also have an ongoing impact on inequalities in retirement, as higher housing costs can further erode already lower pension incomes.

CHAPTER THREE:

HOW ARE PENSION-SPECIFIC INEQUALITIES AFFECTING THE UNDERPENSIONED CHALLENGE?

This chapter explores the pension-specific inequalities and differences experienced by underpensioned groups in terms of workplace provision, saving behaviour, and entitlements.

As well as labour market inequalities, people in underpensioned groups face inequalities specifically related to pension provision and entitlement:

- Automatic enrolment has brought many more in underpensioned groups into pension saving, with eligibility growing since 2018, but they remain disproportionately ineligible.
- The current cost-of-living crisis could have a significant and immediate impact on underpensioned retirees.
- Underpensioned groups remain more heavily dependent on the State Pension, which means they have some degree of inflation protection, but are vulnerable to potential future changes.

Automatic enrolment has brought many more in underpensioned groups into pension saving, with eligibility growing since 2018, but they remain disproportionately ineligible

While underpensioned groups remain less likely to meet automatic enrolment qualifying criteria compared to the population average, the gap has narrowed as most groups' eligibility has increased, some substantially, since the first Underpensioned Index report in 2020. Changes to automatic enrolment eligibility criteria could bring a greater number of people from underpensioned groups into saving. However, it is important that such changes are considered holistically, especially in the midst of the current cost-of-living crisis.

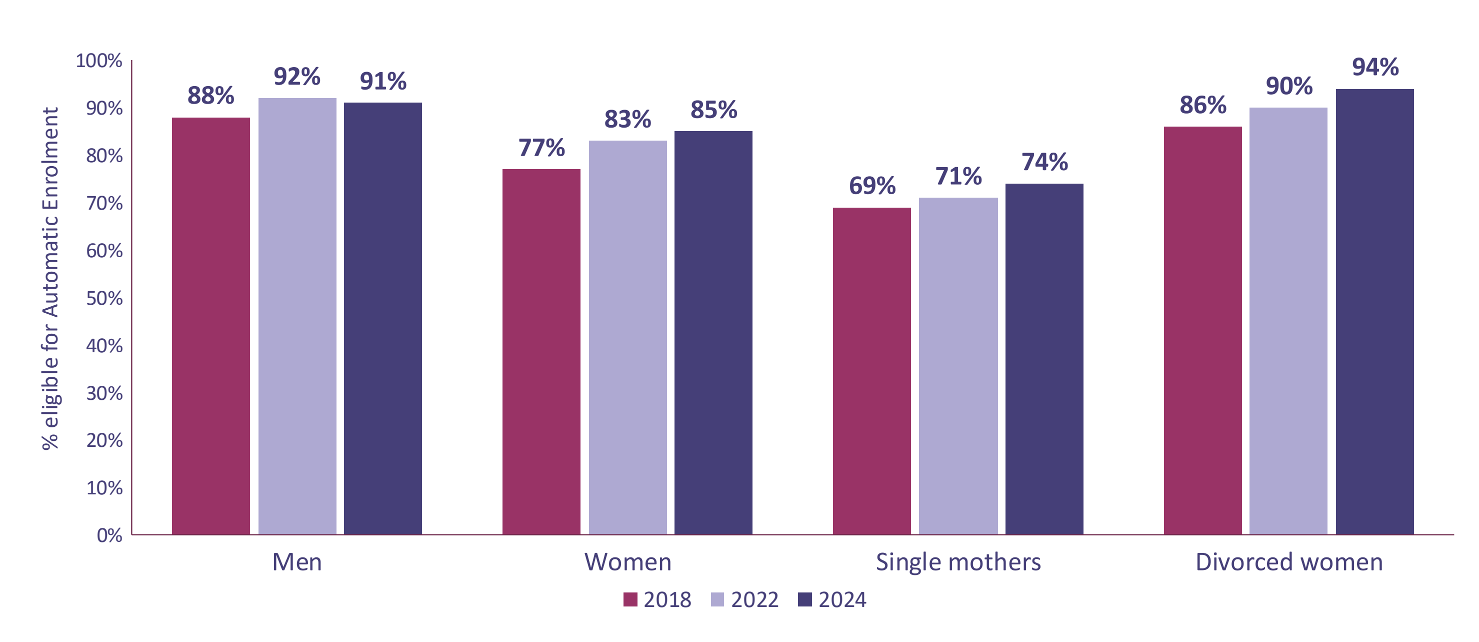
Women's eligibility for automatic enrolment has increased by 6%, narrowing the gap between women and men's eligibility

Of the 13 million women employees in the UK, around 2 million (15%) do not meet the qualifying criteria for automatic enrolment, compared to 9% of male employees. Around 1.2 million women earn below the earnings threshold of £10,000, making up 58% of the workers who do not meet this qualifying criterion. However, women's eligibility for automatic enrolment has increased substantially since the first Underpensioned Index report in 2020, when 23% of employed women were ineligible, and has improved slightly since the 2022 report when 17% of women employees were ineligible (Chart 3.1).

Chart 3.1[29]

Eligibility for automatic enrolment has grown slightly for female employees, while it is relatively stable for men, causing the eligibility gap to narrow

Proportion of employees found eligible for automatic enrolment, 2018, 2022 and 2024, by gender



With automatic enrolment eligibility currently assessed on a "per job" basis, more women would qualify if second jobs were included in the assessment. If income from both first and second jobs were taken into account when assessing eligibility for automatic enrolment, then a further 33,000 women would earn enough to meet the qualifying criteria. Removal of the £10,000 lower earnings trigger altogether would bring an even more substantial number of women into eligibility for automatic enrolment. If the lower earnings trigger was removed, an additional 9% (1.2 million) of employed women would be eligible for automatic enrolment. If the earnings trigger was removed, assuming minimum required contributions on band earnings were made, lower earning women could make up to around £112m in contributions over a one-year period, with £70m from employer contributions and £42m from employee contributions, assuming everyone eligible was automatically enrolled and remained in. If the earnings trigger was removed and contributions were made from the first £1 of income, this would increase the potential level of contributions to around £607m for this group of women currently not eligible for automatic enrolment.

Although eligibility for automatic enrolment is at the same level as the population average when ethnic minority groups are considered in combination, there is significant variation in eligibility across different groups

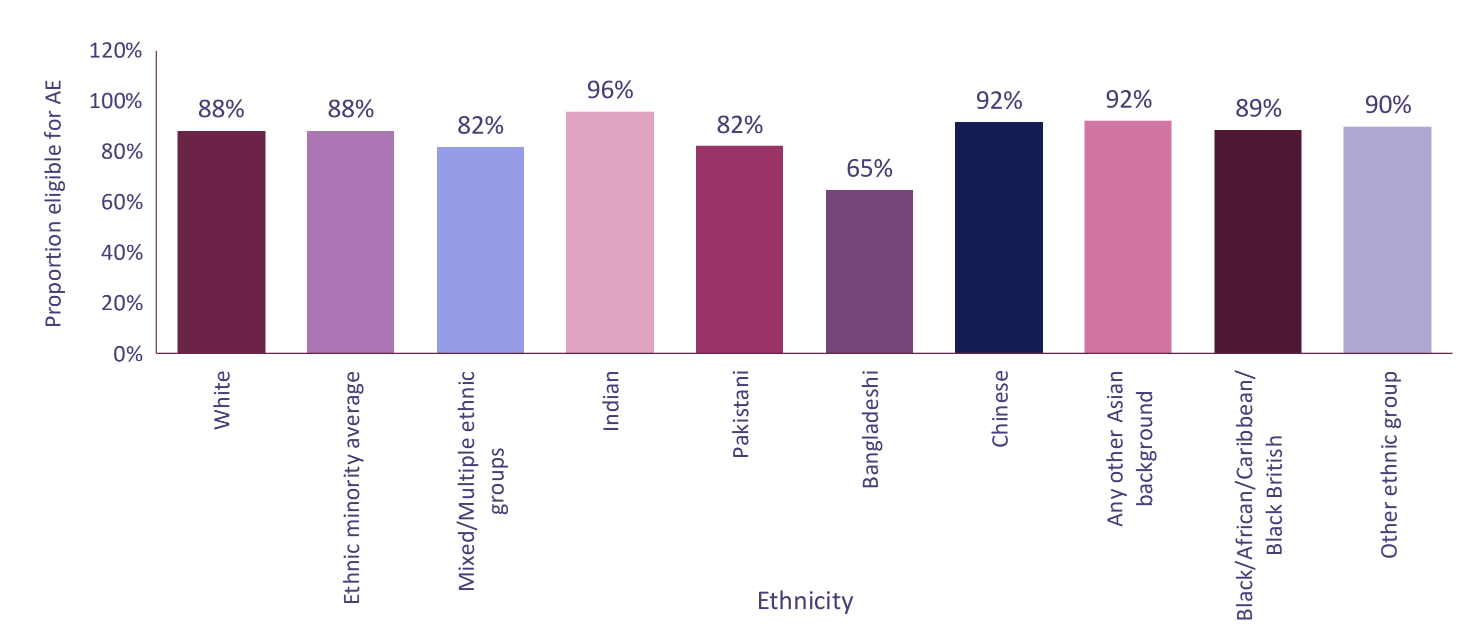
Automatic enrolment has increased pension participation rates among ethnic minority groups, but some ethnic groups are less likely to meet the qualifying criteria than others. Across all ethnic minority groups combined, eligibility for automatic enrolment is at the same level as eligibility among the white population. However, the experience of ethnic minority groups is not homogenous and there is significant variation in eligibility for automatic enrolment between employees of different ethnicities. Some ethnic groups have higher than average rates of eligibility, while others have much lower rates (Chart 3.2). Differences in rates of eligibility may be attributed to differences in employment rates, prevalence of part-time work, and earnings levels. Some differences may also be attributed to variations in women's participation in the labour market across different ethnic groups.

[29] PPI analysis of Labour Force Survey (2024)

Chart 3.2[30]

Across all ethnic minority groups combined, eligibility for automatic enrolment is the same as eligibility among the white population, but there is significant variation among individual ethnic minority groups

Proportion of employees eligible for Automatic Enrolment, by ethnicity, 2024



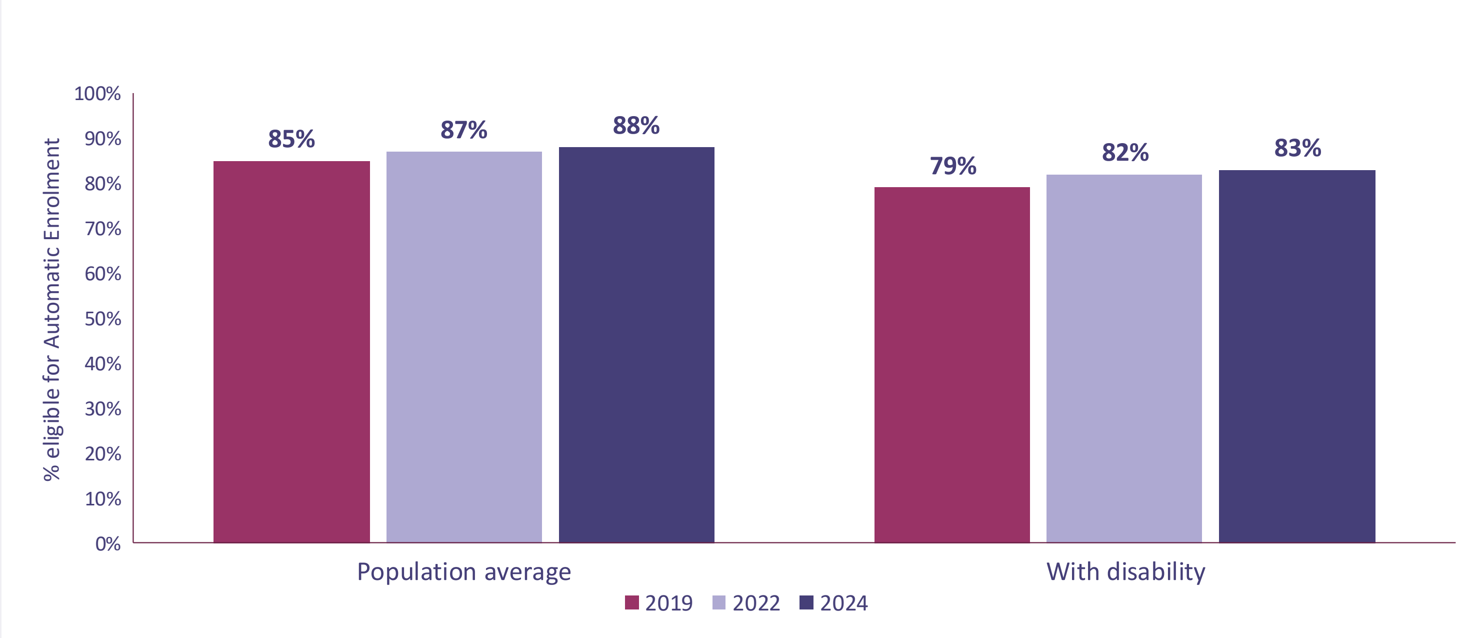
When in employment, people with a disability are 5% less likely to be eligible for automatic enrolment, but, given significantly lower employment rates, pension participation overall is much lower

While automatic enrolment has been particularly successful at encouraging people with a disability who are eligible to save into a pension, as a group they are at a greater risk of being ineligible. 17% of employees with a disability are ineligible for automatic enrolment, compared to 12% of the broader population (Chart 3.3).

Chart 3.3[31]

Automatic enrolment eligibility has grown at a similar rate for people with a disability as it has for the broader population

Proportion of employees found eligible for automatic enrolment, 2019, 2022 and 2024



Although eligibility is only 5% lower among employees with a disability compared to the population average, considering their much lower employment rates, the proportion of people with a disability not being automatically enrolled into a pension is much higher when considered as a proportion of the full population of people with a disability. When the full population, including those not in employment, is taken into account, just 39% of people with a disability are being automatically enrolled into a pension, compared to 59% of the broader population.

[30] PPI analysis of Labour Force Survey (2024)
[31] PPI analysis of Labour Force Survey (various years)

Multiple jobholders in particular could benefit from changes to automatic enrolment eligibility criteria

People with multiple jobs are more likely to be ineligible for automatic enrolment, as eligibility is assessed on a "per job" basis. 83% of multiple jobholders are eligible for automatic enrolment, compared to 88% of the full population of employees. If income from all jobs was assessed as a whole, an additional 8% (80,000) of multiple jobholders would become eligible for automatic enrolment. This change in eligibility criteria would affect women with multiple jobs more substantially than men, bringing in an additional 14% of women with multiple jobs into pension saving. The number of men would be relatively unaffected, as men with multiple jobs are more likely to be ineligible as a result of age rather than income.

A greater number of multiple jobholders could be brought into pension saving through removal of the £10,000 earnings trigger. This change would bring an additional 16% (115,000) multiple jobholders into eligibility, again affecting mainly women, as men with multiple jobs tend to be ineligible on age grounds rather than income.

The propriety and effectiveness of these policy options should be considered within the broader economic context. For those who earn over £10,000 but are not currently eligible due to the single job assessment process, bringing them into eligibility by considering overall income could be beneficial. To be most effective, this would be combined with the change to abolishing the lower threshold of band earnings, so that contributions were made from the first £1 of earnings (the previous Government had committed to enact this change by the mid-2020s, but this has not yet been made under the current Government). Removing the lower threshold would also ensure they are not disadvantaged by not receiving contributions on amounts below band earnings in each individual job, effectively losing out on contributions on twice as much below band earnings as someone with only one job. However, for those who are earning under £10,000 overall, diverting income into retirement savings may not be feasible or appropriate, especially with current cost-of-living pressures.

Increasing pension participation among the self-employed is more complicated as they cannot be automatically enrolled

Reducing pension inequalities among the self-employed is a more complex challenge. The self-employed are excluded from automatic enrolment eligibility as they are their own employer, so there is effectively no one who can automatically enrol them. Given that much of the success of automatic enrolment reflects savers' inertia, introducing a legal requirement that the self-employed enrol themselves into a workplace pension scheme would not have the same positive impact on their saving behaviour. Options are currently being explored for effective ways to increase pension participation and saving rates among the self-employed. Some of the options that have been found to be most appealing to the self-employed are:

- 'Set and forget' mechanisms: 'These captured the idea of saving little and often, but with greater flexibility to irregular and unpredictable incomes than is currently possible in retirement saving for most self-employed people. The fact that contributions would only be made in proportion to money coming in, rather than at a fixed, regular amount, had high appeal.'
- Saving at the point when income was known for the year: 'The group liked the simplicity of only having to consider retirement saving once a year. However, a number questioned whether they would be likely to actually get around to contributing in this context or have the funds available at that point when they were also completing their annual tax return.'
- Combining short-term, more liquid savings with retirement saving: 'This was positively received, although it was perceived as potentially complex. Care would have to be taken presenting this approach to self-employed people.'[32]

Economic circumstances, such as high inflation, could have a significant and immediate impact on later-life experiences of people in underpensioned groups

For people in underpensioned groups who are already in retirement, the impact of economic challenges could be experienced immediately. With recent high inflation posing a greater risk to people on low incomes, retirees in underpensioned groups, who have lower incomes on average, could experience a more substantial negative impact compared to the general population. Pensioners can be distinctly affected by inflation, as they tend to spend income on specific goods and services in different proportions than the general population.[33]

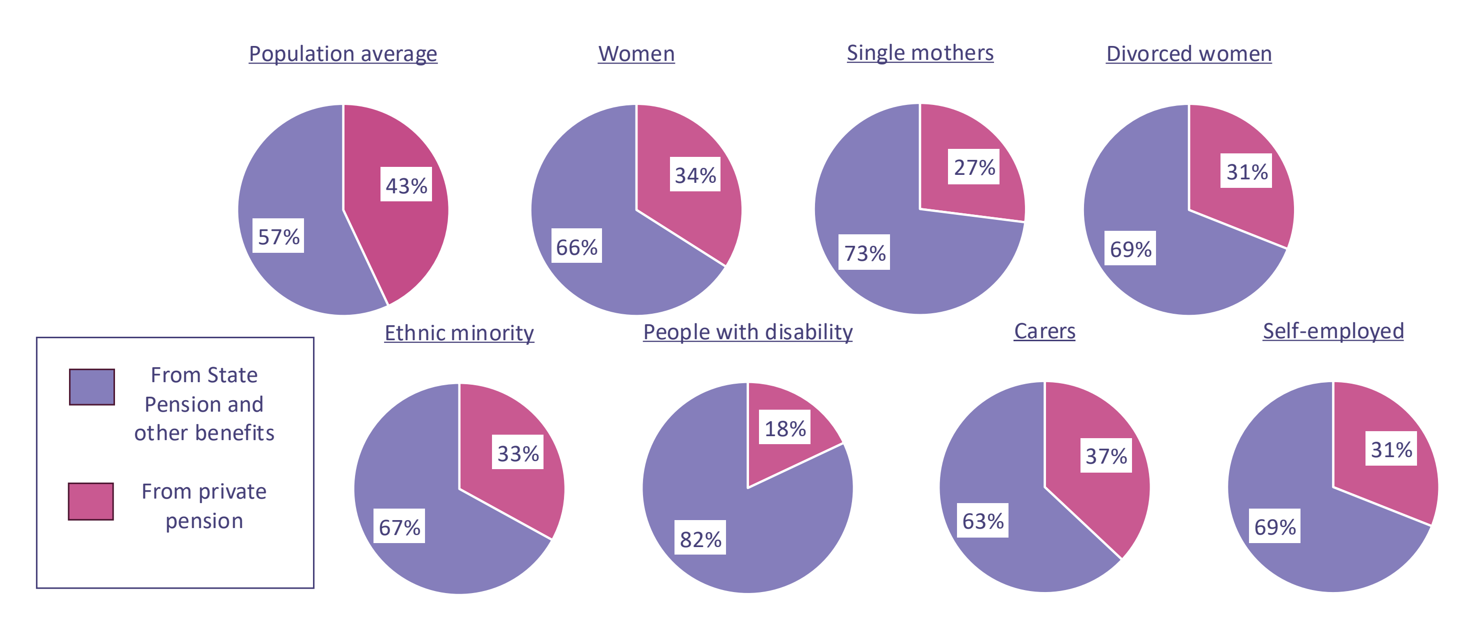
The Triple Lock currently provides some level of inflation protection for underpensioned groups, who are more heavily reliant on the State Pension

The fact that underpensioned groups receive a high proportion of their retirement income from the State Pension and other benefits (Chart 3.4) means their incomes may have a higher degree of inflation protection, when compared to those who are more reliant on private savings. This is because the State Pension is protected by the Triple Lock, which means it is uprated by the higher of inflation (measured by the Consumer Prices Index (CPI)), earnings increases, or 2.5%. Although the current Government committed to maintaining the Triple Lock during the general election, it is not guaranteed in law. The Triple Lock was suspended for 2022/23, temporarily replaced by a double lock (the higher of inflation or 2.5%) and ultimately uprated by 3.1%, in line with CPI. This was a temporary suspension in response to wage inflation resulting from the end of the Government's Coronavirus Job Retention Scheme, or furlough. However, there are concerns that this could lead to more permanent changes in future, as there have been debates about the sustainability of the Triple Lock for some time. Any permanent changes to the way that the State Pension is uprated would have a disproportionate impact on members of underpensioned groups, who are likely to be more heavily dependent on the State Pension for income in retirement. Longer-term changes to the Triple Lock would need to take account of equality issues which may arise as a result, given the increased level of reliance underpensioned groups have on these benefits.

Chart 3.4[34]

Underpensioned groups receive a greater proportion of their retirement income from State Pension and other benefits

Proportion of retirement income from State Pension and other benefits vs. from private pension, by underpensioned group, 2022



[32] NEST (2019)
[33] For more information on the impact of inflation on retirees, see Silcock (PPI) (2022) Briefing Note 129: How do cost of living increases affect pensioners?
[34] PPI analysis of Understanding Society Wave 13 (2023)

Conclusions

Automatic enrolment has brought many more from underpensioned groups into pension saving, but they remain disproportionately ineligible. While still less likely to meet automatic enrolment qualifying criteria compared to the population average, the gap has narrowed, as most groups' eligibility has increased, some substantially, since the first Underpensioned Index report in 2020.

Economic circumstances, such as high inflation, could have a significant and immediate impact on later-life experiences of people in underpensioned groups, who are typically on lower incomes, and therefore spend a greater proportion of their expenditure on basic needs.

The Triple Lock currently provides some level of inflation protection for underpensioned groups, who are more heavily reliant on the State Pension, but this means that they are more vulnerable to any changes that may be made to the uprating of the State Pension in the future.

Technical Appendix

Data sources

The report draws from data from Understanding Society Wave 13 (2023), the Family Resources Survey 1022-23 (2024), and the Labour Force Survey (2024).

All figures are presented in 2024 earnings terms.

Understanding Society

Understanding Society is a longitudinal study led by the Institute for Social and Economic Research (ISER) at the University of Essex. The survey covers a wide range of themes including family life, education, employment, finance, health, and wellbeing. The dataset notably contains an ethnic minority booster, integrated within their weighting variables, which allows the experiences of specific ethnic minority groups to be investigated. This dataset was used to access the effect on different types of income of certain characteristics, such as:

- Gender
- Marital status
- Employment status
- Ethnicity
- Carers
- Self-employed

An individual's housing cost has been distributed proportionately to the members of the household based on their total income. The dataset was also used to compare housing tenure statistics between the different characteristics. The data in the dataset relates to 2022.

The Family Resources Survey

The Family Resources Survey (FRS) is a large dataset covering just over 25,000. The survey is conducted annually by the Department for Work and Pensions (DWP), it provides detailed insights into individual and household incomes, employment status, and economic activity. Unlike the Labour Force Survey (LFS), which focuses on employment trends, the FRS allows for a deeper examination of earnings distribution across different workforce segments.

In this analysis, the FRS is used to illustrate patterns in employment and annual earnings, highlighting variations by employment participation, working hours, and wage disparities across demographic groups. This report uses the most recent dataset from the Family Resources Survey at the date of analysis, which relates to 2022/23.

Labour Force Survey

The Labour Force Survey (LFS) is a quarterly survey managed by the Social Surveys division of the Office for National Statistics (ONS) in Great Britain. It provides information on employment income, together with a wide-ranging set of characteristics, such as personal characteristics, occupation and household dynamics, using international definitions of employment and unemployment.

The dataset was used to look at how each individual meets (or does not meet) the automatic enrolment eligibility criteria. Analysis on different ethnic groups was used for the last four quarters of this survey.

The Underpensioned Index

By combining relationship and employment histories for individuals from Understanding Society with current financial circumstances in retirement working age, historical circumstances have been linked to the level of pension income at retirement.

For example:

- A carer is someone who provides unpaid support to a family member, partner, or friend who cannot manage on their own due to illness, disability, frailty, mental health challenges, or addiction.
- An individual has been defined as self-employed by identifying the number of years of self-employment during their working lives.
- Disablement has been classified using International Labour Organization definitions for economic activity to identify where it has had an impact upon employment. Pensioners who have been identified as having a disability during their working lives have been selected.
- Divorce has been restricted to divorces under the age of 45, which would be a pivotal time for saving into a pension.
- Single motherhood is identified by a mother becoming single, divorced, or otherwise separated before their child attains the age of 16.

The Index was constructed based upon means of private pension income within the groups. A large proportion have no pension income, so small variations in either coverage or income levels of those with the lowest private pension incomes can heavily skew the impact upon distributional statistics, such as medians.

Glossary

Adequacy: Either to what extent retirement income allows individuals to fulfil their basic needs; or, to what extent it allows individuals to replicate the standards of living they had while in working life. If the first definition is preferred, poverty thresholds and minimum income standards are more appropriate to assess adequacy. If the second definition is preferred, replacement rates may be more useful to assess adequacy.

Automatic Enrolment: Under automatic enrolment in the UK, eligible employees (earning £10,000 pa or above and aged between 22 and State Pension age) are enrolled into a qualifying workplace pension scheme upon entering a new job and, with their employer, will contribute a minimum of 8% of band earnings (including tax relief). Employees have one calendar month in which to "opt out", and receive back any contributions that they have made, with employer contributions returning to the employer.

Contributions: Money, often a percentage of salary, which is put into a pension scheme by members and/or their employer.

Inflation: A measure of the change in the general level of prices of goods and services.

Replacement Rate: The ratio of retirement income compared to working life income. The Pensions Commission outlined target replacement rates between 50% and 80% depending on level of working life income. Target replacement rates are always less than 100%.

State Pension: The public pension provided by the UK Government to people from State Pension age with sufficient years of National Insurance entitlement.

Triple Lock: Inflationary mechanism by which the value of the State Pension is increased each year by the greater of the increase in earnings, the Consumer Prices Index (CPI), or 2.5%.

To download the PPI's Pension Glossary please click here.

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- Cardano Group (including now:pensions)
- Dept. for Work and Pensions
- Hymans Robertson LLP
- Legal & General
- Money and Pensions Service (MaPS)
- MFS
- Nest
- People's Partnership
- Railpen
- Scottish Widows

Silver Supporters

- Aon
- Barnett Waddingham
- Exxon Mobil
- The Chartered Insurance Institute
- LCP
- Pensions and Lifetime Savings Association
- Royal London
- Shell
- USS

Pensions Policy Institute

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