Pensions Policy Institute

PPI

The Underpensioned Index

2022 EDITION

About the Pensions Policy Institute

We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation. **We are devoted to improving retirement outcomes.** We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later-life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with **INDEPENDENCE** to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

Our Vision:

Better informed policies and decisions that improve later life outcomes.

We believe that better information and understanding will help lead to a better policy framework and a better provision of retirement income for all.

Our Mission:

To promote, evidence-based policies and decisions for financial provision in later life through independent research and analysis.

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.

By supporting the PPI, you are aligning yourself with our vision to **drive better-informed policies and decisions that improve later-life outcomes** and strengthening your commitment to better outcomes for all.

As we look forward now to the next 20 years, we will continue to be the trusted source of information, analysis, and impartial feedback to those with an interest in later-life issues. The scale and scope of policy change creates even more need for objective and evidence-based analysis. There is still much to do, and we look forward to meeting the challenge head on.

For further information on supporting the PPI please visit our website: www.pensionspolicyinstitute.org.uk or contact Danielle Baker, Head of Membership & External Engagement, at danielle@pensionspolicyinstitute.org.uk

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Lauren joined the Pensions Policy Institute (PPI) in September 2016 as a Policy Researcher, before being promoted to Senior Policy Researcher in January 2019. She is passionate about innovation in the pensions industry, especially where it can lead to improved outcomes for individuals and a fairer/more equal system.

During her career at the PPI Lauren has produced research on a range of topics, including Defined Benefit, consumer engagement, pension freedoms and Collective Defined Contribution. Since 2020 Lauren has led research on the annual DC Future Book and the Underpensioned Index.

Lauren also regularly writes columns in many trade publications and can often be heard providing comments or content for radio programmes always from the PPI's independent perspective. She has presented at many external events on a plethora of subjects relating to financial aspects of funding later life.

In her free time, she enjoys music, playing guitar & piano and is also part of a pop choir.

Prior to joining the PPI, Lauren achieved an undergraduate Masters in Politics and Philosophy at the University of Glasgow, followed by a Masters in Public Administration and Public Policy at the University of York.

John Adams, Senior Policy Analyst

John has been with the Pensions Policy Institute (PPI) since 2008 and has worked in a lead role in the modelling of a wide range of projects including public sector pensions and pension related tax-relief.

John is also responsible for the PPI's Pension Facts and oversees the annual publication of the PPI's Pensions Primer: a guide to the UK pensions system. He has authored Briefing Notes and reports on subjects such as how housing wealth can support retirement, tax policy on pension schemes, harnessing pension savings for debt alleviation and public sector pension reforms.

Before working for the PPI, John worked for Hewitt Associates where he worked primarily on modelling of standard and non-standard Defined Benefit pension scheme calculations for the consultants to present to the clients.

Prior to joining Hewitt, John worked for the Government Actuary's Department for 8 years in the Occupational Pensions directorate, during which time he calculated public sector pension scheme valuations, bulk transfer values, and designed models for the use of other Government departments.

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This report has been kindly sponsored by NOW: Pensions. Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

A Pensions Policy Institute report

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A Research Report by **Lauren Wilkinson, John Adams** and **Joel Redgewell**

Published by the Pensions Policy Institute

ISBN 978-1-914468-10-0

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The Underpensioned Index

Executive Summary

This report explores longitudinal analysis of the way that the underpensioned challenge has developed, including updating the Underpensioned Index using 2022 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
- People in non-traditional employment, e.g., multiple jobholders and the self-employed

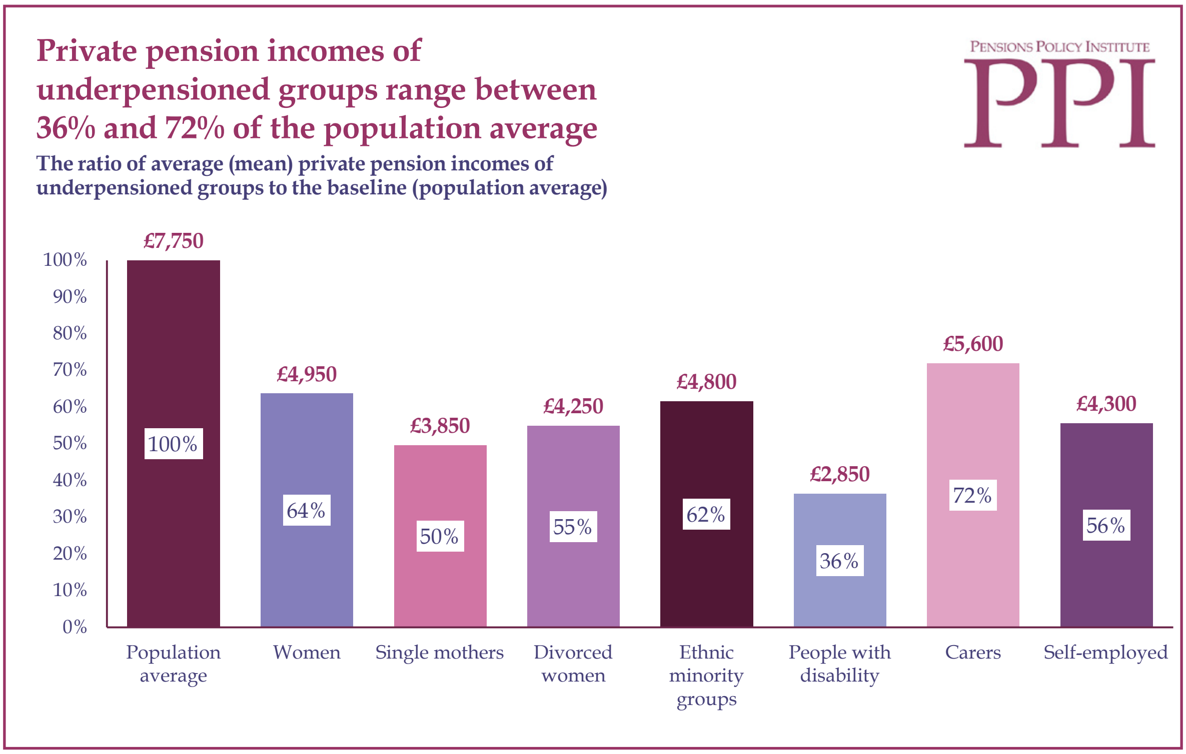
Underpensioned Index 2022: Comparative retirement incomes

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 underpensioned groups remain below three-quarters of average population private pension incomes, with some groups experiencing significant declines compared to the 2020 Index

Private pension incomes of some underpensioned groups have remained relatively stable since the 2020 Index, including single mothers, carers and divorced women (although the former experienced a small decline of 3%). Other groups have, however, experienced significant declines comparative to the population average. Private pension incomes of people from ethnic minority backgrounds decreased by almost 10% compared to the population average, while incomes of people with disabilities declined by almost 8%.

Chart Ex.1[1]

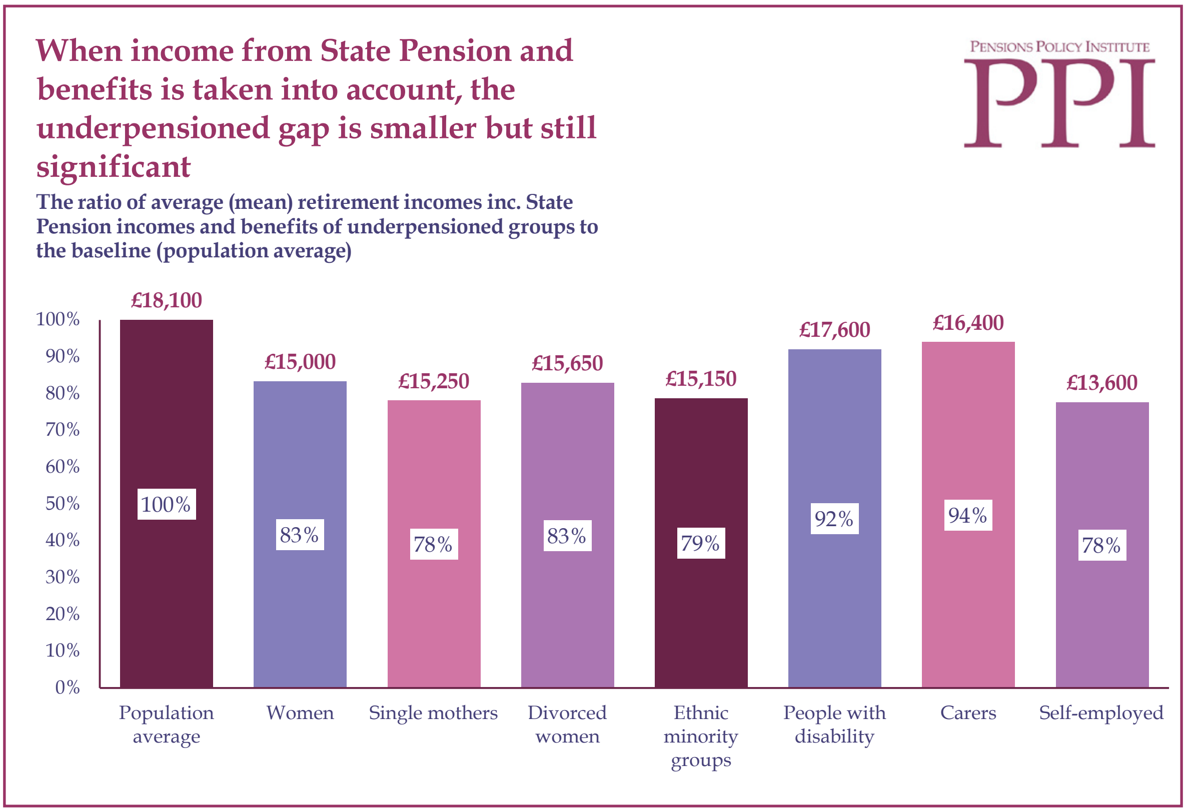


When income from State Pension and benefits is taken into account, the underpensioned gap is smaller, but still significant

Whereas underpensioned groups' private pension incomes are all below three-quarters 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 78% to 94%.

1 PPI analysis of Understanding Society

Chart Ex.2[2]



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

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

Many underpensioned groups' employment rates have increased, but these changes have broadly followed the same trend for the population as a whole. Across the population, employment rates have increased, suggesting this growth is related to broader changes in the economic landscape rather than substantial progress on improving underpensioned labour market experiences. It is likely that employment rates have increased partially out of necessity to meet the challenges of the current cost-of-living crisis, rather than because of improved labour market attachment. Although underpensioned groups' employment rates have increased, they remain well below the population average, though the extent varies across different groups:

- Women's employment rates have increased by 2% since 2018, while men's have increased at the same rate, maintaining a gap of 9% between the two.
- In 2018, some ethnic minority groups had employment rates around the population average, but all now have lower than average employment rates.
- Employment rates of people with a disability have increased broadly in line with increases across the population, while rates of full-time work have increased more substantially.
- Carers' employment rates have increased by around 20% since 2018, while rates of full-time work have also increased to a lesser degree.

2 PPI analysis of Understanding Society

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 has increased from 12% in 2018 to 20% in 2022
- 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
- Average incomes of people with a disability or caring responsibilities have grown since 2018, but remain substantially lower than average (19% and 10% lower 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 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.

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, some substantially, since the first Underpensioned Index report in 2020:

- 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
- 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 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 12% (128,000) multiple jobholders would become eligible for automatic enrolment, including 108,000 women and 20,000 men. If the £10,000 lower earnings trigger was removed, an additional 16% (171,000) multiple jobholders would become eligible, including 147,000 women and 24,000 men. If the earnings trigger was removed, assuming minimum required contributions were made, lower earners could make up to around £273m in contributions during one year (based on 2021). 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 the current cost-of-living crisis, but their greater reliance on the State Pension means they may have more inflation protection than those who are more reliant on private pensions

The current cost-of-living crisis 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 does mean that they are more vulnerable to any changes that may be made to the uprating of the State Pension in the future.

The current economic climate could exacerbate the underpensioned gap, making 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

Unexpected and significant increases in inflation are likely to have far-reaching effects for people during both their working-life/saving phase and during retirement. 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.

The current crisis could further exacerbate the underpensioned challenge, as well as making it more complicated to introduce further policies aimed at closing the gap in the short term, at a time when individuals, employers and Government are facing significant financial difficulty. However, the underpensioned challenge is long term in nature. 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.

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 experiencing inadequate retirement outcomes in later life among underpensioned groups.

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.

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 first Index. Recognising that the current economic landscape is challenging, some of these changes may reflect current circumstances rather than long-term trends, and some of the policies that may be suggested as potential remedies to the underpensioned challenge may not be appropriate to enact during the current cost-of-living crisis. However, as

3 Wilkinson & Jethwa (PPI) (2020) The Underpensioned Index

4 Wilkinson & Adams (PPI) (2021) What impact has the COVID-19 pandemic had on underpensioned groups?

the Underpensioned Index research series concerns long-term inequalities, it is important that its longitudinal analysis continues to be updated even in challenging economic circumstances. This report takes a long-term view, looking back ten years, 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 2022.

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.

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 (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 2022 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, physical and mental health, and reveals 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.

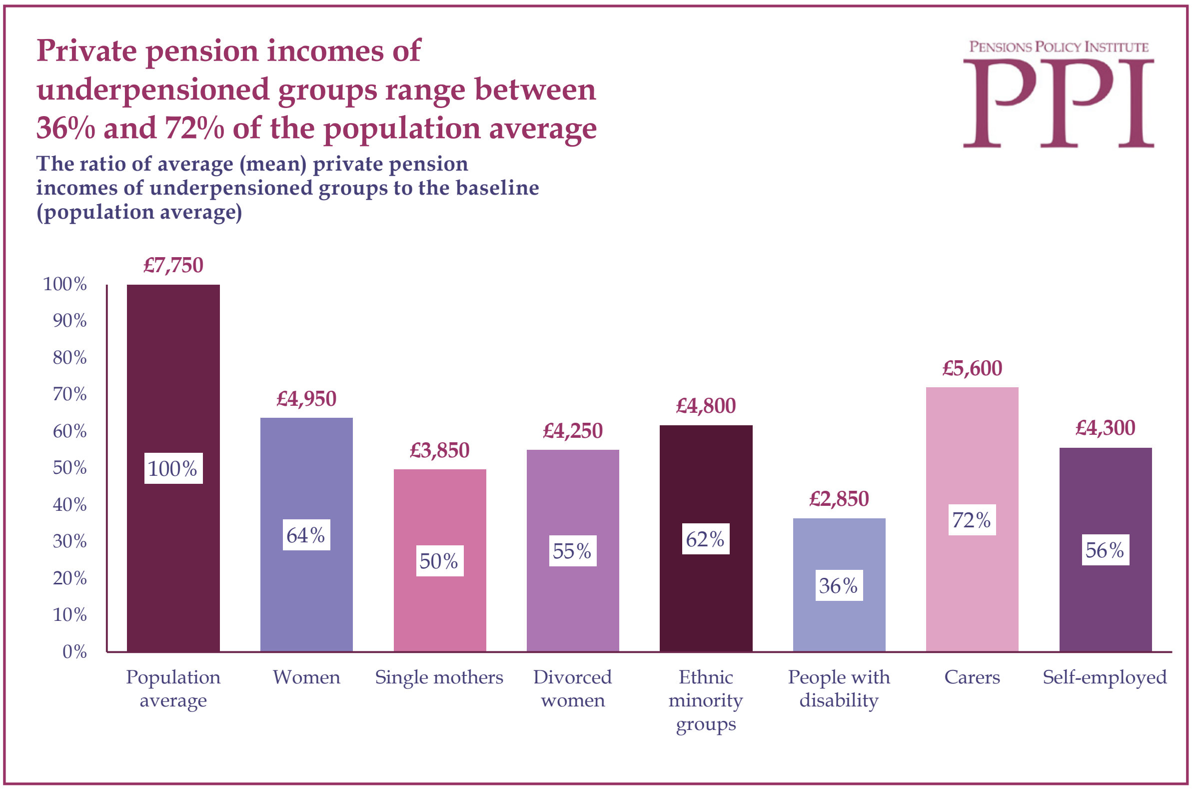
Private pension incomes of underpensioned groups remain below three-quarters of average population private pension incomes, with some groups experiencing significant declines compared to the 2020 Index

Private pension incomes of some underpensioned groups have remained relatively stable since the 2020 Index, including single mothers, carers and divorced women (although the former experienced a small decline of 3%). Other groups have, however, experienced significant declines

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

comparative to the population average. Private pension incomes of people from ethnic minority backgrounds decreased by almost 10% compared to the population average, while incomes of people with disabilities declined by almost 8% (Chart 1.1). Because the Underpensioned Index explores comparative income, these figures do not represent an absolute reduction of 10% and 8% respectively, 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]



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 below three-quarters 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 78% to 94% (Chart 1.2).

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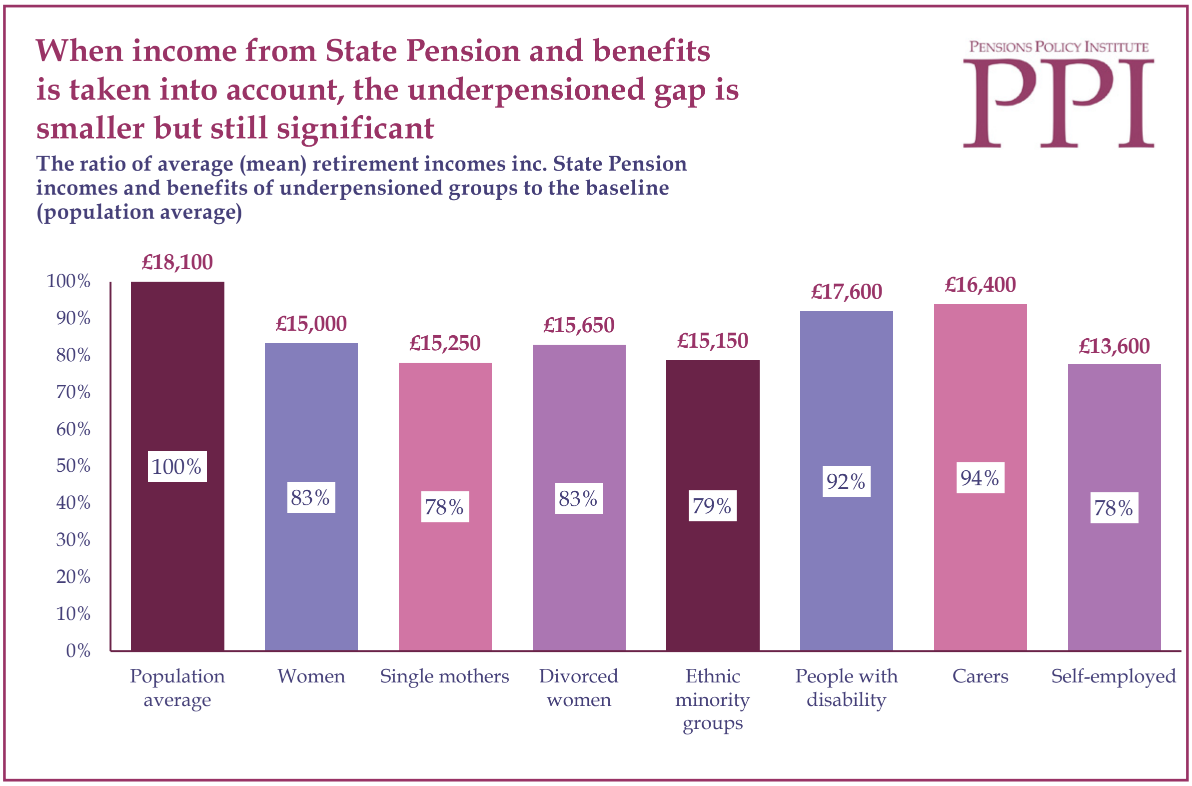
Chart 1.2[7]



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 carers' comparative retirement incomes have increased compared to the 2020 Index, with an increase of 8%. Women's retirement incomes have remained stable compared to the population average. All other underpensioned groups have experienced a comparative decline in total retirement income, most notably people from ethnic minority backgrounds and people with a disability, both of whom experienced an 8% decline.

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 report highlighted that 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". The 2022 Index exhibits a decline in the comparative incomes of retirees with a disability.

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

The current economic landscape is challenging and members of underpensioned groups may be at a greater risk of experiencing the negative effects, as they were during the peak of the pandemic (explored in the 2021 Underpensioned Index report: What impact has the COVID-19 pandemic had on underpensioned groups?). Between the ongoing effects of the COVID-19 pandemic, the war in Ukraine and additional supply constraints, inflation has reached its highest level in 40 years. The Consumer Prices Index including owner occupiers' housing costs (CPIH), which is currently the

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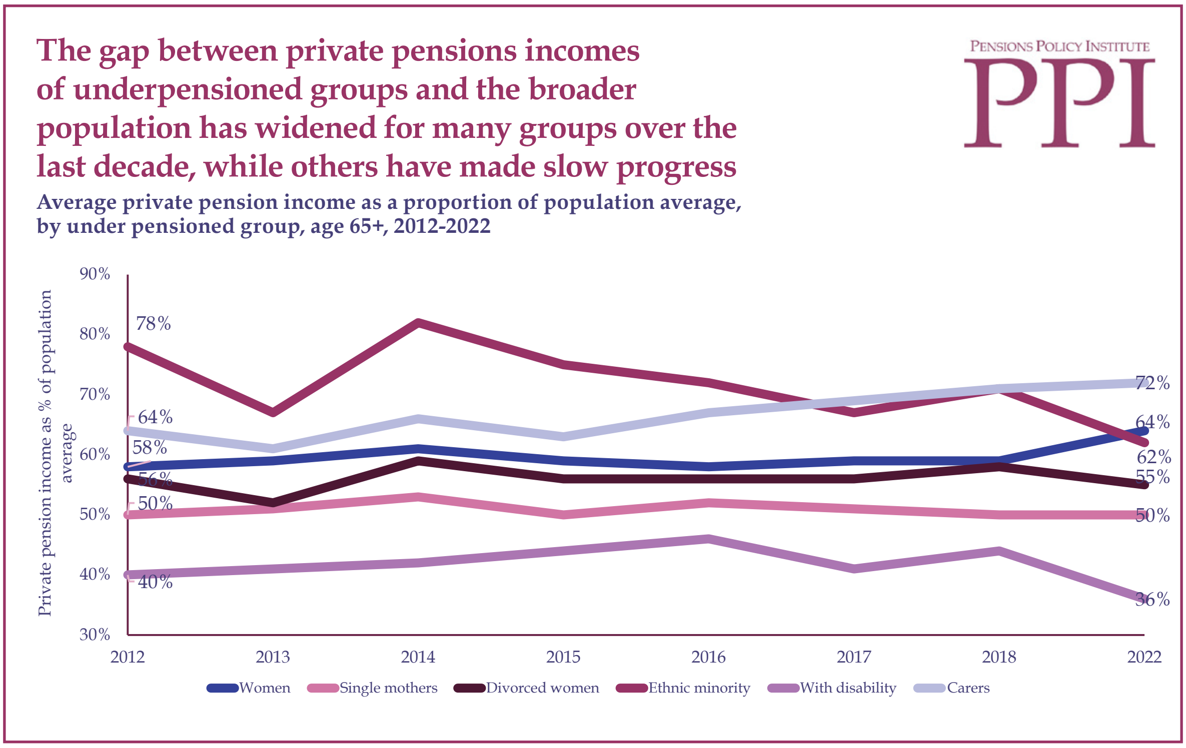
leading measure used to track the rate of household inflation in the UK, showed an annual increase of 8.8% as of September 2022, compared to just 1.6% in the year to April 2021, with inflation accelerating from mid-2021. Unexpected and significant increases in inflation are likely to have far reaching effects for people during both their working-life/saving phase and during retirement.

The current crisis 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. The PPI conducted its first research on underpensioned groups[8] almost twenty years ago, in 2003, and yet progress on reducing inequalities has been slow. The introduction of automatic enrolment in 2012 has drastically increased pension saving across the 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.

Over the last decade, many underpensioned groups have experienced a decline in comparative incomes. Private pension incomes of divorced women, people from ethnic minority backgrounds and people with disabilities have all declined comparative to the population average since 2012. Single mothers' private pension incomes have remained stable at 50% of the population average, while for women in general and carers the gap has narrowed, but not greatly (Chart 1.3).

Chart 1.3[9]



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

8 Curry (PPI) (2003) The Under-pensioned

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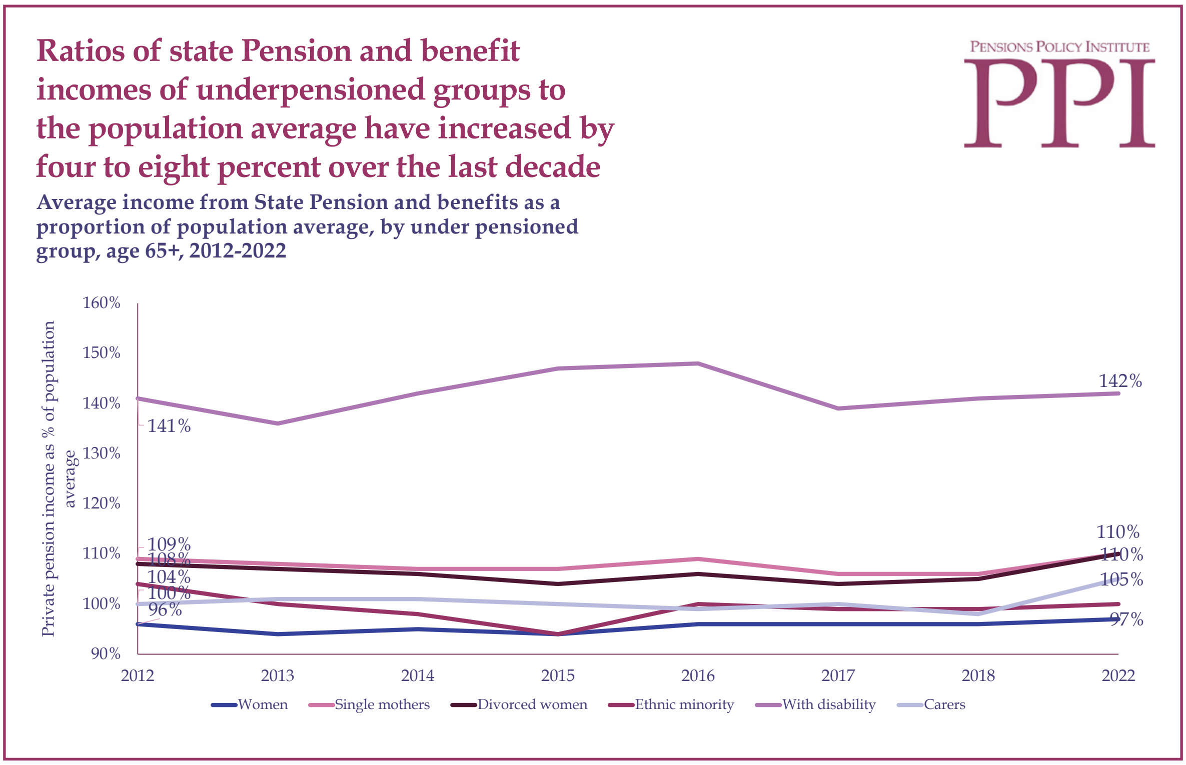
Chart 1.4[10]



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, so it is 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 could be exacerbated, so a balance will need to be found between cost and protection of vulnerable groups.

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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 2020 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.

The current crisis 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 2018 analysis, that was set out in the first Underpensioned Index report (2020):

- 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

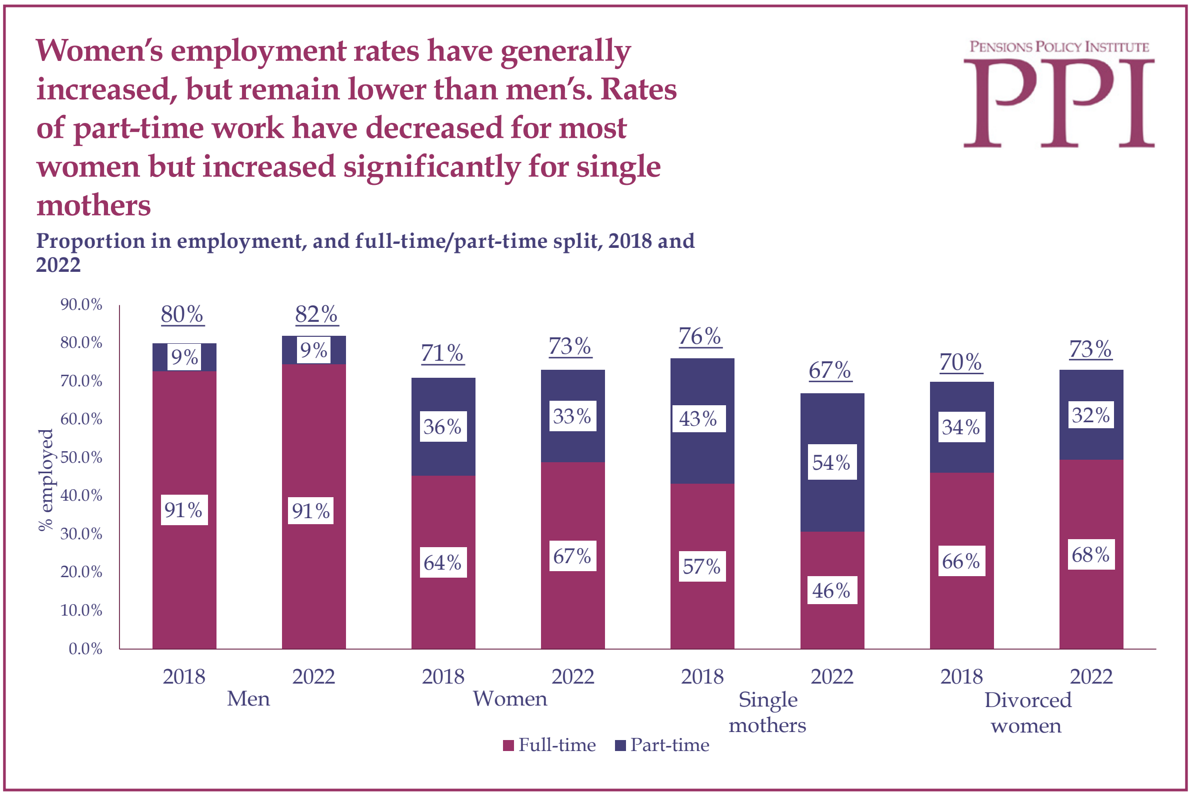
Compared to the population average, underpensioned groups have lower employment rates and higher levels of part-time work. Time out of full-time employment can reduce private pension savings and income. Time spent out of work or working part time lowers the level of potential pension contributions and 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 about labour market engagement (especially among women with children), as well as systemic factors, including discrimination.

Many underpensioned groups' employment rates have increased, but these changes have broadly followed the same trend for the population as a whole. Across the population, employment rates have increased, suggesting this growth is related to broader changes in the economic landscape, rather than substantial progress on improving underpensioned labour market experiences. Employment rates have, in many cases, likely increased out of necessity to meet the challenges of the current cost-of-living crisis, rather than because of improved labour market attachment. Although underpensioned groups' employment rates have increased, they remain well below the population average, though the extent varies across different groups.

Women's employment rates have increased by 2% since 2018, while men's have increased at the same rate, maintaining a gap of 9% between the two

Women tend to have poorer labour market experiences than men, on average, reflected in employment rates significantly lower than men's and rates of part-time work significantly higher. Women's employment rates have increased since 2018, from 71% to 73%. However, men's employment rates have increased at around the same rate, maintaining a gap of 9% between men and women's employment rates. Women's levels of part-time work have decreased since 2018, from 36% to 33%, while men's have remained stable at 9% (Chart 2.1). As with higher employment rates, increases in full-time work are likely to be at least partially attributable to growing pressure on incomes and expenditure within the current economic landscape. There could also be the beginning of a longer-term trend towards higher levels of full-time work among women. Increased flexibility in remote work precipitated by the pandemic could help to alleviate the challenges faced by women who have additional domestic responsibilities, especially those who are primary care givers for children or other family members. However, it remains to be seen what the longer-term effects of this trend will be on women's labour market experiences.

Chart 2.1[11]



Being a single mother or divorcing during working life can exacerbate the labour market inequalities experienced by women. While women in general and divorced women's employment rates have increased, single mothers' employment rates have declined substantially. At the same time, the proportion of employed single mothers in part-time work has increased, though it is unclear whether this is due to previously full-time workers being more likely to transition into part-time work or due to full-time workers leaving the labour market, making existing part-time workers in this group a higher proportion of the remaining workforce.

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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 potential to close the gap.[12]**

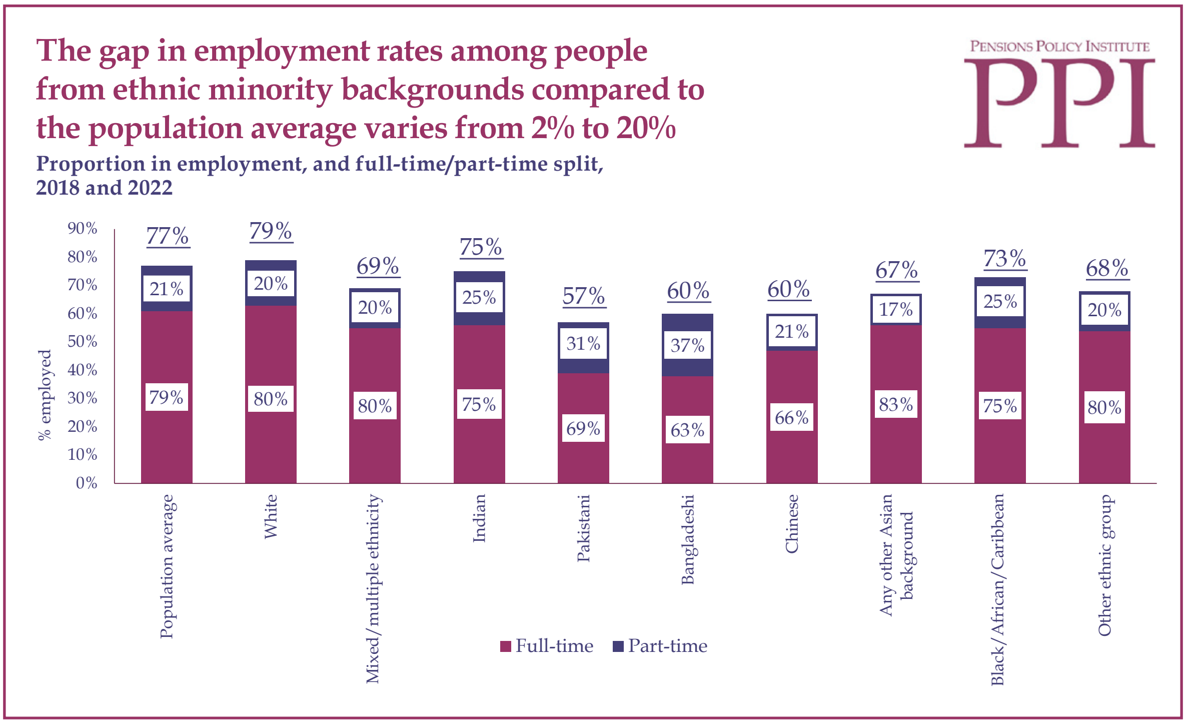
In 2018, some ethnic minority groups had employment rates around the population average, but all now have lower than average employment rates

Underpensioned ethnic minority groups have lower levels of employment in comparison to the population average, although the impact varies substantially across different ethnic groups. 68% of people from ethnic minority backgrounds are in employment, compared to 79% of people from white backgrounds. Where previously some ethnic groups had average or around average employment rates, the latest data shows employment rates to be lower across all ethnic minority groups. This reflects the increase in employment rates across the baseline population, as well as a decrease in employment rates among people from some ethnic minority backgrounds, including Indian, Chinese and mixed or multiple ethnicities.

Employment rates of some ethnic minority groups have increased substantially since 2018, with employment among people from Bangladeshi backgrounds increasing by 5%, and among people from Black/African/Caribbean backgrounds by 7%. While these groups' employment rates have increased more rapidly than the baseline population, there is still a significant gap of 17% and 4% respectively. There is also a significant gap in employment rates among people from Pakistani and Chinese backgrounds (Chart 2.2).

12 BIT (2020)

Chart 2.2[13]



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 continue 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.

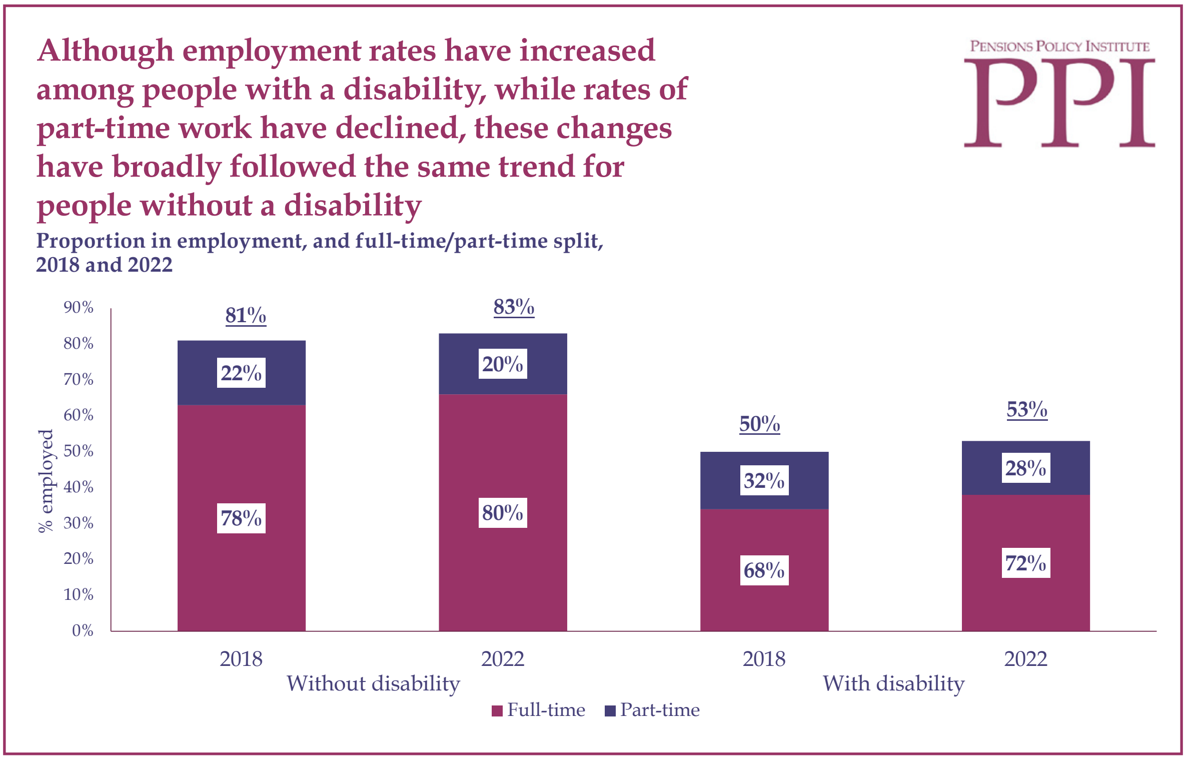
Some employers have begun to adopt initiatives that combat discrimination in recruitment. For example, one recruitment programme focused on increasing diversity in the workplace is RARE's Contextual Recruitment Scheme (CRS). The CRS combines candidates' application responses with publicly available data, 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]

13 PPI analysis of LFS
14 Commission on Race and Ethnic Disparities (2021)
15 PWC (2021)
16 RARE (2022)
17 Commission on Race and Ethnic Disparities (2021)

Employment rates of people with a disability have increased broadly in line with increases across the population, while rates of full-time work have increased more substantially

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, but only slightly more than employment rates among people without a disability have increased (Chart 2.3). This suggests that, as with other underpensioned groups, the increase in employment rates that has been experienced is part of a broader trend associated with changes in the economic landscape.

Chart 2.3[18]



Levels of full-time work have increased more rapidly among people with a disability who are in employment, compared to those without a disability (Chart 2.3). As with increasing full-time work among women, this could reflect a shift towards more accessible home working, which can make it more feasible for some people with a disability to work full time. However, it could also reflect increasingly stretched incomes and pressure to work as much as possible in order to mitigate increasing expenditure. For some people, working full-time hours could exacerbate disabilities and long-term health conditions, so it is important that increases in employment rates and full-time employment rates are assessed in a nuanced way that takes into consideration the potential for negative health impacts.

18 PPI analysis of LFS

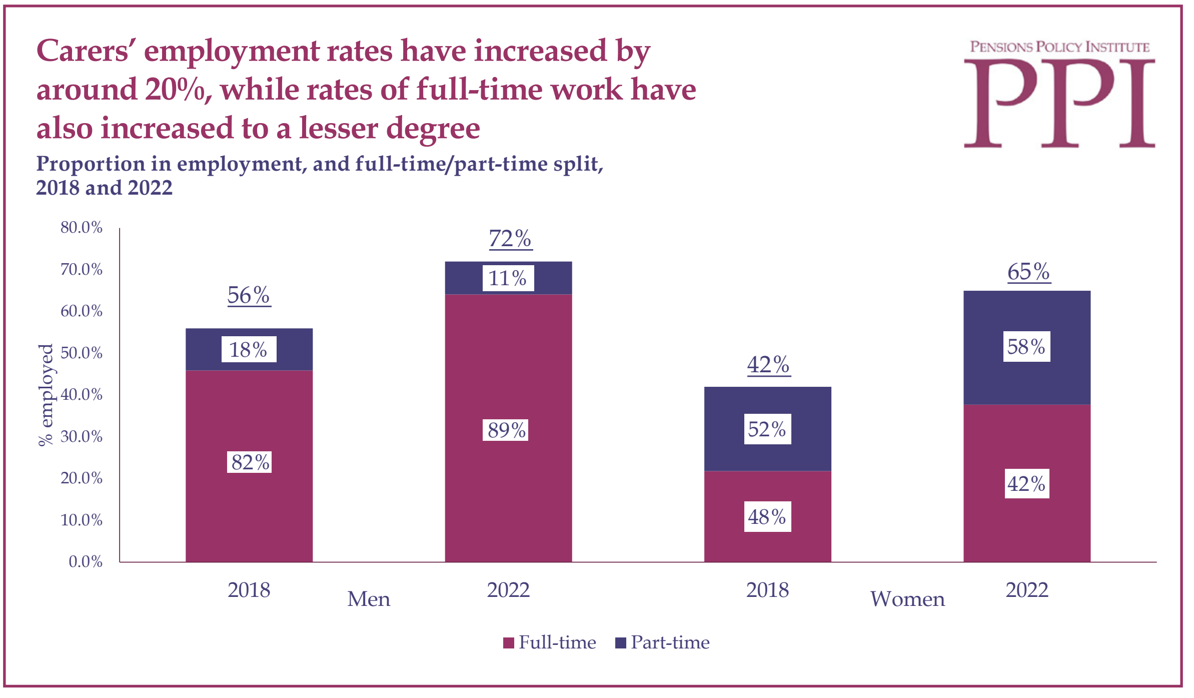
Box 2.3: Policies aiming to narrow the gap for people with a disability

There are several employment programmes currently in place to support people with a disability. Employ Me London, run by Mencap, offers skills training, employment workshops, work experience and other activities to support young people with disabilities.[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 offers 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 increased by around 20% since 2018, while rates of full-time work have also increased to a lesser degree

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 increased substantially, among both men and women. Carers 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 for male carers, while increasing for female carers (Chart 2.4).

Chart 2.4[21]



19 Mencap (2022)

20 Department for Education (2022)

21 PPI analysis of LFS

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

The Carers Leave Bill, which has now passed its second reading in UK parliament, 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 Bill could:

- **give rights to at least 2.3 million employees who are carers; and**
- **mean that some employers might 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. Half (48%) of multiple jobholders work part-time, increasing to 60% among women. Although lower at 32% part time for men working multiple jobs, this is still 21% 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, considered as a whole, average annual earnings are around a third lower than the population average. In terms of pension participation, only 15% of self-employed workers currently participate in a pension, compared to over half of employees and three quarters of those eligible for automatic enrolment.

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 the 2018, the gap between average underpensioned incomes and the population average has grown.

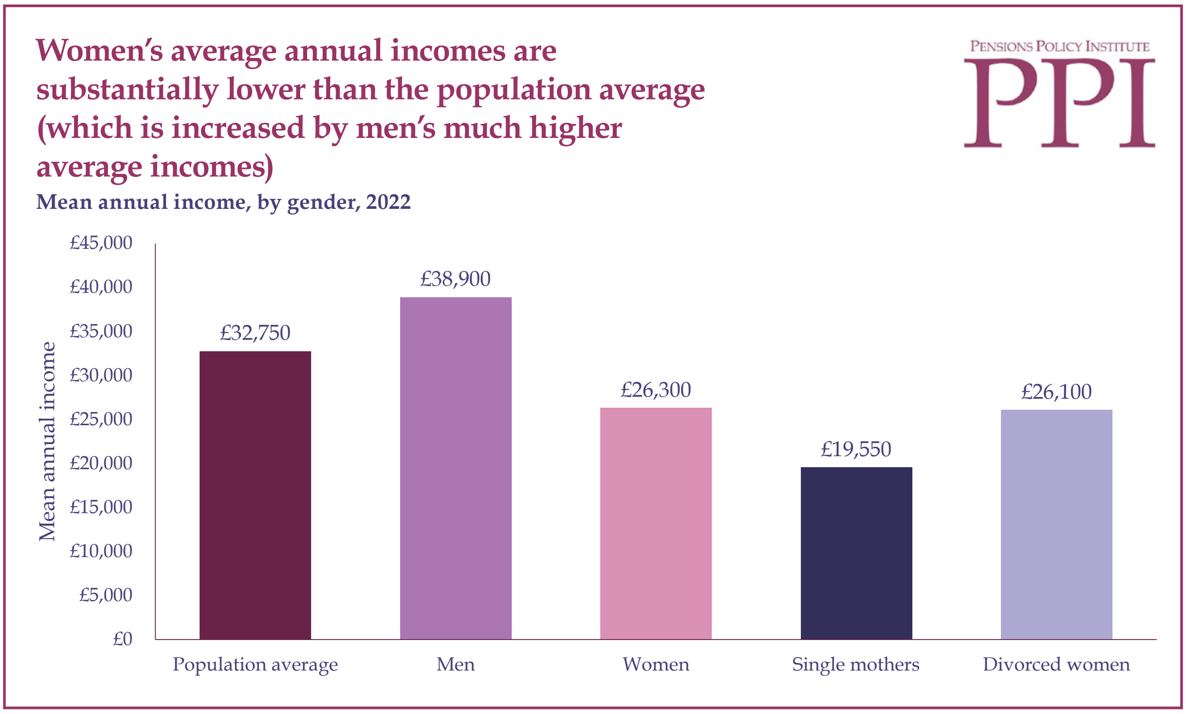
The gap between women's average incomes and the population average has increased since 2018

Women's average annual incomes are 80% of the population average and two-thirds (67%) 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 60% of the population average (Chart 2.5). In 2018, the gap between women's average incomes and the population average was 12%; in 2022, the gap has increased to 20%.

22 Department for Business, Energy and Industry (2022)

23 Carers UK (2022)

Chart 2.5[24]

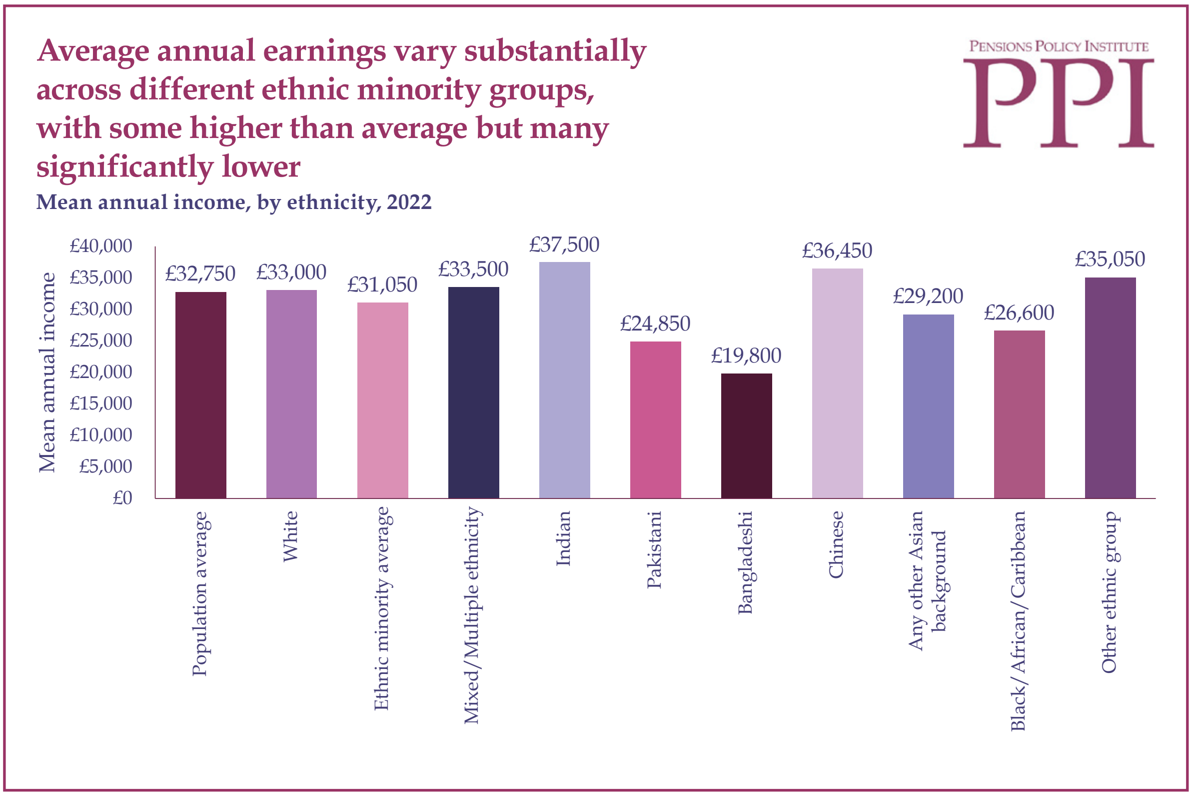


While there continues to be variation in incomes across ethnic minority groups, some groups' average incomes have declined substantially since 2018 and others have effectively stagnated

There is substantial variation in average incomes across ethnic minority groups, but most are lower than average (Chart 2.6). Some ethnic groups have higher than average annual earnings, including Indian, Chinese, Mixed/Multiple ethnicities and 'Other ethnicity' groups. Others have significantly lower average annual incomes, in particular Pakistani, Bangladeshi, 'Any other Asian background' and Black/African Caribbean, whose comparative incomes are 76%, 60%, 89% and 81% of the population average, respectively.

24 PPI Analysis of LFS

Chart 2.6[25]



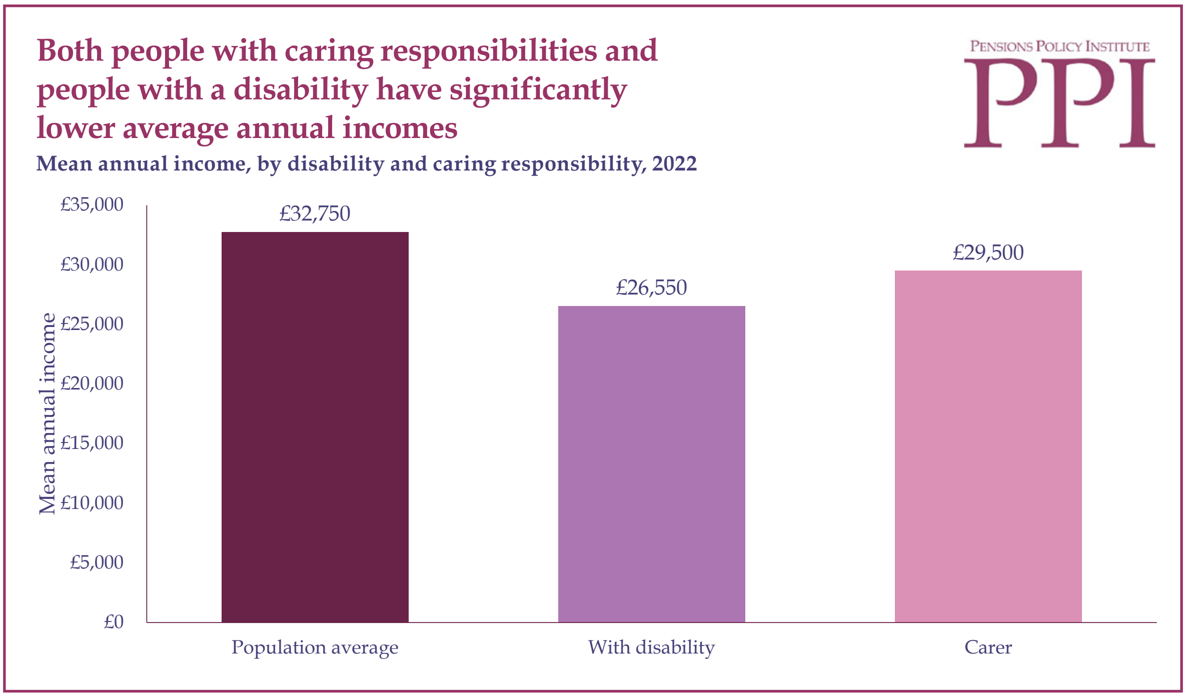
Average annual incomes of Indian and Pakistani groups have increased alongside the population average since 2018, but other groups have effectively stagnated, while average incomes of the Bangladeshi group have declined substantially.

Average incomes of people with a disability or caring responsibilities have grown since 2018, but remain substantially lower than average

People with caring responsibilities have average incomes worth around 90% of the population average, while people with a disability have average incomes worth around 81% (Chart 2.7).

25 PPI Analysis of LFS

Chart 2.7[26]



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 cost-of-living crisis 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.

26 PPI Analysis of LFS

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 have been increasing above the rate of inflation for several years.[27] 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. 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.

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.

27 Women's Budget Group (2022)

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 14.6 million employed women in the UK, around 2.5 million (17%) do not meet the qualifying criteria for automatic enrolment, compared to 8% of male employees. 1.9 million women earn below the earnings threshold of £10,000, making up 79% 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 (Chart 3.1).

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 108,000 women and 20,000 men 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 13% (1.9 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 earners could make up to around £273m in contribution over a one-year period (based on 2021), with £102m from employer contributions and £171m from employee contributions, assuming everyone eligible was automatically enrolled and remained in.

Chart 3.1[28]

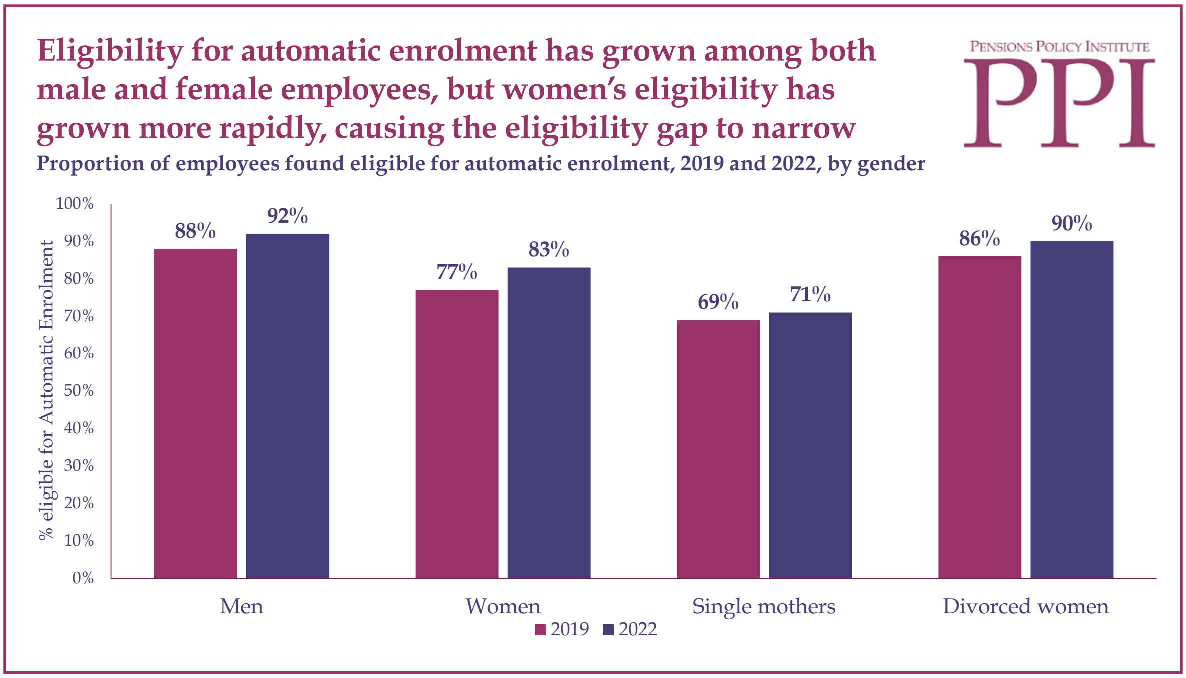
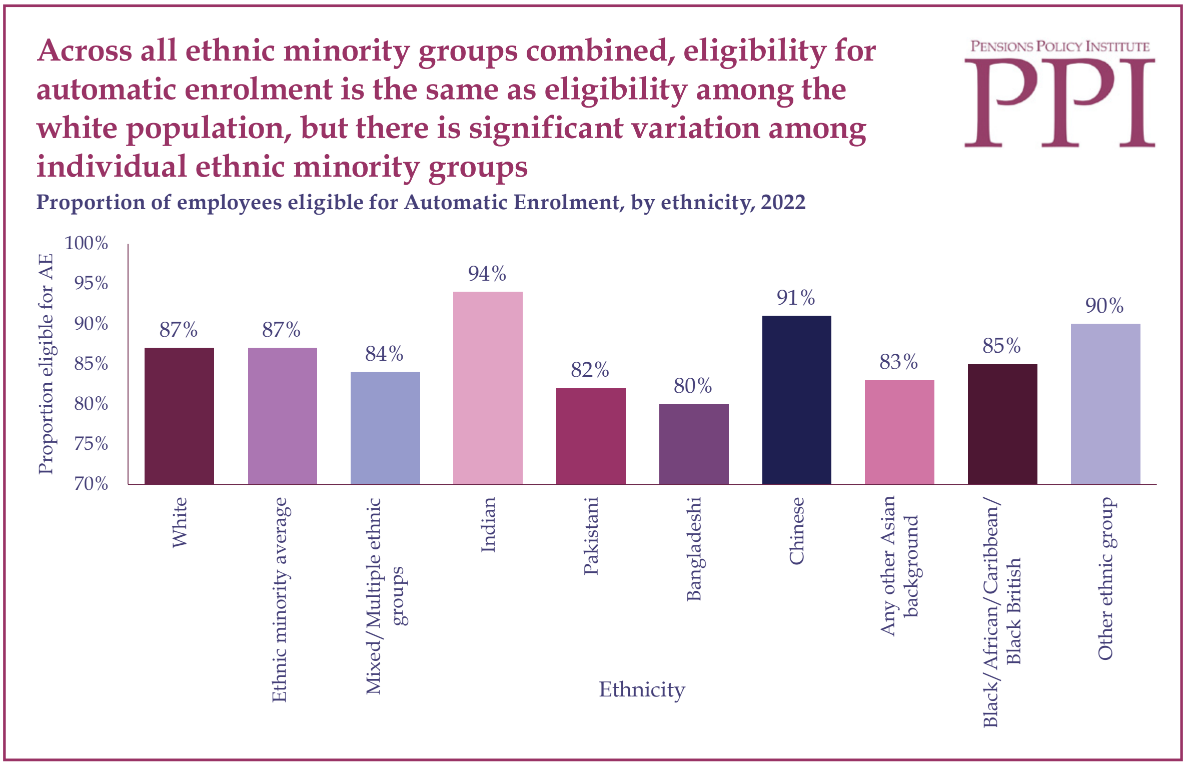


Chart 3.2[29]



28 PPI analysis of LFS
29 PPI analysis of LFS

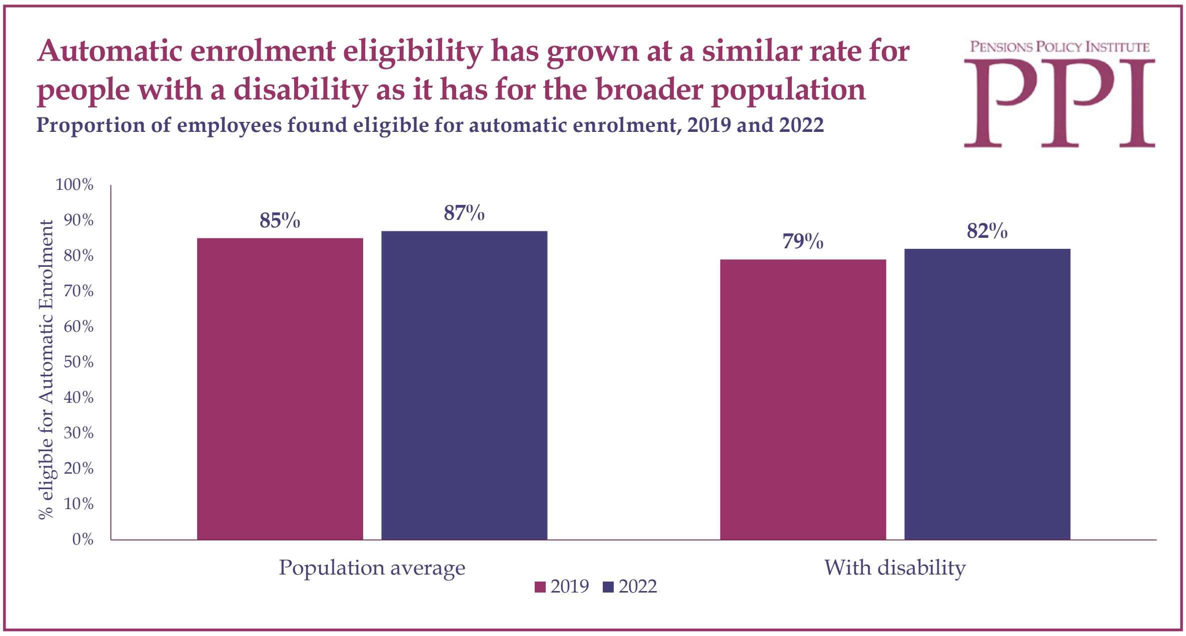
Although eligibility for automatic enrolment is at the same level as the population average when ethnic minority groups are considered in combination, there is significant variation in eligibility across different groups

Automatic enrolment has increased pension participation rates among ethnic minority groups, but some ethnic groups are less likely to meet the qualifying criteria. 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 of eligibility (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.

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 is much lower overall

While automatic enrolment has been particularly successful at encouraging disabled people who are eligible to save into a pension, as a group they are at a greater risk of being ineligible. 18% of employees with a disability are ineligible for automatic enrolment, compared to 13% of the broader population (Chart 3.3).

Chart 3.3[30]



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 43% of people with a disability are being automatically enrolled into a pension, compared to 67% of the broader population.

30 PPI analysis of LFS

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

People with multiple jobs are disproportionately likely to be ineligible for automatic enrolment, as eligibility is assessed on a "per job" basis. 79% of multiple jobholders are eligible for automatic enrolment, compared to 87% of the full population of employees. If income from all jobs was assessed as a whole, an additional 12% (128,000) 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 17% (108,000) compared to 4% (20,000) of men with multiple jobs.

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% (171,000) multiple jobholders into eligibility (including 147,000 women and 24,000 men).

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 contributions from the first £1 of earnings, which the Government has committed to enact by the mid-2020s. This would 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 is reliant on 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.[31]

31 NEST (2019)

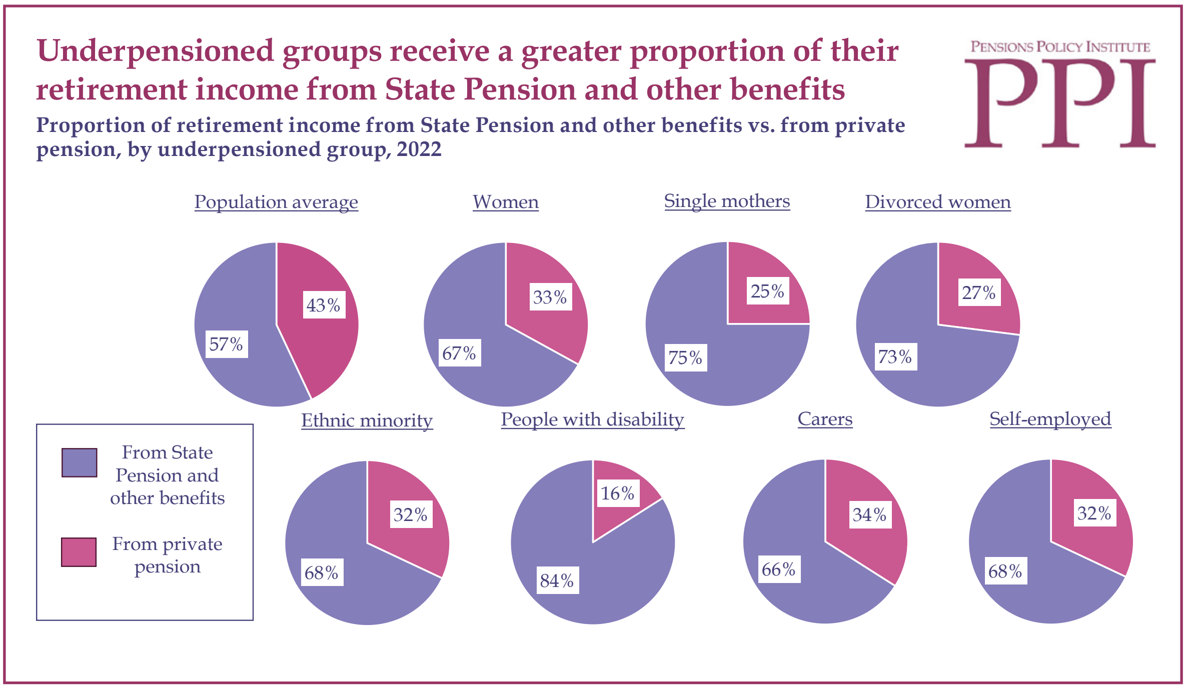
The current cost-of-living crisis could have a significant and immediate impact on later-life experiences of people in underpensioned groups

For people in underpensioned groups who are already in retirement, the impact of current economic challenges could be experienced immediately. With 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. [32]

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, 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 Government is currently committed to maintaining the Triple Lock, it is not guaranteed. 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 Job Retention (furlough) Scheme. 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[33]



32 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?

33 PPI analysis of Understanding Society

Conclusions

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, some substantially, since the first Underpensioned Index report in 2020.

The current cost-of-living crisis 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 does mean 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 and the Labour Force Survey (LFS).

All figures are presented in 2022 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.

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:

- An individual has been defined as self-employed by identifying the number of years of self-employment during their working lives
- Disablement has been identified using International Labour Organization definitions for economic activity to identify where it has had an impact upon employment. Pensioners who have been identified as disabled 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 years old

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, CPI or 2.5%.

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Acknowledgment & Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Adam Sewell	Danielle Baker	Maritha Lightbourne
Chris Curry	Gavin Lewis	Samantha Gould
Daniela Silcock	Janine Harrison	Sarah Luheshi

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

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ISBN: 978-1-914468-10-0