

Research report: 5

Equality and
Human Rights
Commission

equalityhumanrights.com

The under-pensioned: disabled people and people from ethnic minorities

Adam Steventon and Carlos Sanchez

Pensions Policy Institute

**The under-pensioned:
disabled people and people from ethnic
minorities**

Adam Steventon
Carlos Sanchez

Pensions Policy Institute



© Equality and Human Rights Commission 2008

First published Autumn 2008

ISBN 978 1 84206 064 3

EHRC RESEARCH REPORT SERIES

The EHRC Research Report Series publishes research carried out for the EHRC by commissioned researchers.

The views expressed in this report are those of the authors and do not necessarily represent the views of the Commission. The Commission is publishing the report as a contribution to discussion and debate.

Please contact the Research team for further information about other EHRC research reports, or visit our website:

Research Team
Equality and Human Rights Commission
Arndale House
Arndale Centre
Manchester
M4 3AQ

Email: research@equalityhumanrights.com

Telephone: 0161 829 8500

Website: www.equalityhumanrights.com

You can download a copy of this report as a PDF from our website:

<http://www.equalityhumanrights.com/en/policyresearch/pages/default.aspx>

If you require this publication in an alternative format, please contact the Communication Team to discuss your needs at:

communication@equalityhumanrights.com

Acknowledgments

The authors are grateful for support and comments from the following people:

Christina Barnes	Chris Curry	Abul Momin
Niki Cleal	Amanda Farineau	Daniela Silcock
Neil Crowther	Michelynn Lafleche	Liz Speed

The analysis, findings and presentation remain those of the authors. Editing decisions remain with the authors who take responsibility for any errors or omissions.

This report makes use of the Family Resources Survey 2005/06, which was supplied by the UK Data Archive, University of Essex, and is funded by the Department for Work and Pensions (DWP); and the Quarterly Labour Force Survey, April to June 2007, which was supplied by the UK Data Archive, University of Essex, and is sponsored by the Office for National Statistics and Northern Ireland Department of Enterprise, Trade and Investment. The UK Data Archive and the sponsors bear no responsibility for further analysis and interpretation.

The Under-pensioned is a project carried out by the Pensions Policy Institute and commissioned by the Equality and Human Rights Commission (EHRC).

Executive summary

This research has been commissioned by the Equality and Human Rights Commission (EHRC) to examine the likely future pension incomes of disabled people and people from ethnic minorities. Overall, it finds that disabled people and people from ethnic minorities have many of the ‘alarm bell’ characteristics that are associated with lower pension incomes. If current trends continue, they are likely to have lower pension incomes in future than the traditionally-employed median-earning male.

Lower pension income is still associated with gender

Female pensioners currently have lower incomes than male pensioners. Although the Government’s reforms to state and private pensions are likely to improve pension incomes for men and women, some differences in their average incomes are likely to remain. This is because reforms to state pensions, and S2P in particular, will take many decades to filter through the system. Although the link between individuals’ earnings and their state pension entitlements is reducing, private pension income is linked to paid employment. The gender pay gap is improving but women still earn less than men on average, so their private pension incomes are likely to remain lower than men’s on average for some time.

Disabled people

Using the broadest definition of disability, one-fifth of today’s working-age population is disabled. These disabled people have many of the characteristics that are associated with lower pension incomes. For example, they:

- **Are less likely to be in work:** Only 50 per cent of working-age disabled people are in work, compared to 80 per cent of working-age non-disabled people. This is of concern because the UK pension system is built upon the contributory principle, so the amount of pension received is closely linked to employment.
- **Are less likely to qualify for state pensions.** The crediting system to state pensions, which rewards certain non-work activities, helps many disabled people build up entitlement. Although almost everybody is expected to receive the full amount of Basic State Pension in future, this is not true for the State Second Pension. Thirty-three per cent of disabled people might not qualify for the Second State Pension each year, compared to 24 per cent of non-disabled people.
- **Have lower earnings when in work:** Lack of affordability is the main reason people give for not saving in a private pension. But disabled people in full-time employment earn less than non-disabled people at every age and disabled people are also more likely to work part-time.

- **Are less likely to be saving for a private pension:** Disabled workers are less likely than non-disabled workers to be saving in a private pension at every age. For example, 55 per cent of 45-54 year old disabled people in work are saving for a pension, compared to 64 per cent of comparable non-disabled people.
- **Are less likely to work after state pension age.** For example, only 9 per cent of 65-69 year old disabled people are in employment, compared to 19 per cent of equivalent non-disabled people.

Disabled people are not a homogeneous group. Some types of disability can have a more acute impact on pension incomes than other types. For example, only 21 per cent of people whose main disability is a mental health condition and 27 per cent whose main disability is a learning difficulty are in employment, compared to 65 per cent of people with diabetes.

To illustrate the potential implications of these characteristics for future pension incomes, this research uses two hypothetical case studies of disabled individuals. These are compared to a median-earning man with a full savings history. The median-earning man illustrated is likely to have an above-average pension income, receiving around £254 a week in a combination of state and private pensions when he reaches state pension age. In comparison:

- Robert is a manual worker who saves for a pension from age 25. At age 55, he becomes disabled with a back condition and stops work. His pension income is around £199 a week, which is £55 a week lower than the median-earning man.
- Deborah has a stress-related disability in her thirties. Although she returns to work after five years, her earnings on returning to work are lower than they would be if she had not become disabled. Her pension income is around £182 a week, which is £72 a week lower than the median-earning man.

Additional state help is available to some disabled people in retirement, in the form of Attendance Allowance and Pension Credit. The single pensioners who receive these state benefits have higher incomes on average than other single pensioners. However, some organisations have expressed concern that these state benefits may not fully meet the extra cost that some disabled people face, for example, for care and mobility.

People from ethnic minorities

Ten per cent of the UK population belong to an ethnic minority group. Ethnic minority groups in the UK are younger on average than the rest of the population and there are currently very few older people from this segment of society. This means that the

number of older people from ethnic minorities could increase rapidly in future. Pension provision for this group is, therefore, of particular interest to policy.

There is a great deal of diversity among ethnic minority groups. In this report, 'ethnic minority' is taken to mean non-White, rather than non-British. Of course, many people from ethnic minorities are British Citizens and some White people are not.

Taking an overall view across all of the different ethnic minority groups, we can say that people from ethnic minorities are more likely than the rest of the population to have the characteristics associated with lower pension incomes. For example, they:

- **Are less likely to be in work:** 60 per cent of working-age people from ethnic minorities are in employment, compared to 76 per cent of working-age White people.
- **Are less likely to qualify for state pensions.** The difference in employment rates means that 35 per cent of people from ethnic minority groups might not qualify for the State Second Pension each year, compared to 24 per cent of White people.
- **Have lower earnings when in work:** full-time employees from ethnic minority groups have lower earnings than White people at most ages.
- **Are less likely to be saving for a private pension.** Ethnic minority workers are less likely than White workers to be saving for a pension at every age. For example, 54 per cent of 45 to 54 year old people in work from ethnic minorities are saving for a pension, compared to 63 per cent for comparable White people.
- **Are less likely to work at older ages.** For example, 32 per cent of 60 to 64 year old people from ethnic minorities are in employment, compared to 45 per cent of corresponding White people.

People in some ethnic minority groups are more likely to work part-time or be self-employed. For example, around a third of Pakistani (31 per cent) and Bangladeshi (35 per cent) people work part-time compared to around a quarter (26 per cent) of White people and, as with the White population, women in these groups are considerably more likely than men to work part-time. Around 26 per cent of Pakistani people are self-employed, compared to 13 per cent of White people, and the self-employed do not qualify for State Second Pension.

Two hypothetical case studies of ethnic minority people illustrate some of the impacts of these characteristics:

- Ayesha is a Bangladeshi women who only begins to work at age 40, after spending time at home with her family. When she does work, she works part-time. Her pension income is around £127 a week, which is £127 a week lower than the median-earning man.
- Sayeed is a Pakistani man who is in full-time employment for the first half of his adult life. At age 40 he becomes self-employed when he takes over the family business. His pension income is £141 a week, which is £113 a week lower than the median-earning man.

The relatively few ethnic minority pensioners who are currently in the UK have incomes that are substantially lower than the rest of the population.

Policy implications

This analysis shows that disabled people and people from some ethnic minority groups are more likely than the rest of the population to have the characteristics associated with lower pension income. While there is a range of variation, this does suggest these groups are likely to have lower pension incomes in future than a traditionally-employed median-earning male.

The Government's recent state and private pension reforms are likely to benefit disabled people and people from ethnic minorities. Without these reforms, the incomes shown above for the hypothetical case studies would most likely be even lower. Ethnic minorities in particular are likely to be over-represented in the target group for the new system of personal accounts due to be launched in 2012. However, people from ethnic minorities may be more likely than the rest of the population to opt out of saving, due to higher rates of in-work poverty, lower levels of financial capability and possibly lower levels of familiarity with the English language.

Further analysis of the future distributions of incomes for these people, and how they compare to the population as a whole, would help assess the need for a policy response. A variety of policy options could be considered, including:

- Further widen the system of credits for state pensions.
- Continue to encourage private pension saving.
- Continue to encourage labour market participation, including reducing discrimination.
- Continue to address the pay gap.

There are some specific policy decisions that have yet to be made concerning the Government's private pension proposals. Some of these could have a significant impact on disabled people and people from ethnic minority groups:

- The charging structure for personal accounts.
- Policies to reduce the risk of pension saving not being suitable for those who are auto enrolled.
- The design of generic advice and information that is expected to accompany the launch of auto enrolment in 2012.
- Sharia-compliant investment choices in personal accounts.