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The under-pensioned

2016

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Introduction

In 2003 and again in 2008 the PPI explored current and future pension incomes of women, disabled people and people from ethnic minority groups. The research concluded that women, disabled people and people from ethnic minority groups are more likely to have many of the “alarm bell” characteristics that are associated with lower pension incomes. The reports identified current and future differences in pension income between these groups and a median-earning, traditionally employed, male pensioner. This report examines whether and by how much differences in state and private pension entitlement have changed since the 2003 and 2008 analysis, in light of reforms, and investigates how income differences may be reduced in future.

Chapter one introduces the under-pensioned, runs through the high-level results and methodology from the 2008 under-pensioned report, and looks at relevant policy developments since its publication.

Chapter two explores the labour market characteristics of people who belong to different groups.

Chapter three explores differences in pension savings, entitlement and income, and explores differences in eligibility for means-tested benefits, between people from the under-pensioned groups and the median earning male.

Chapter four explores the future pension incomes of the under-pensioned and how policy levers might affect differences in pension income.

Executive summary

This report explores outcomes for the “under-pensioned”, defined as people who have characteristics associated with lower than average levels of pension savings and income. This is the third in a series of Under-pensioned reports by the PPI and not only looks at current and future pension incomes, but also measures how income differences have changed over the past decade.

Differences in pension income are reducing, but some will remain

While the main groups explored in this report: women, ethnic minorities, disabled people, carers, and the self-employed, still experience differences in pension savings and income, there is evidence of a reduction in these differences, arising from past changes to state pension policy. This report shows that future policy changes, in particular the introduction of the New State Pension (NSP) and the National Living Wage, will contribute to further reductions in future.

Once the NSP has been phased in (after a lengthy transitional period) there will no longer be significant differences in state pension income between under-pensioned groups and the average for all pensioners. However, lower private pension saving and income levels among the under-pensioned are projected to continue. These mainly arise from particular labour-market characteristics found more prevalently among these groups.¹

Social and labour-market factors lie behind differences in labour market attachment

People from under-pensioned groups experience higher than average levels of low-pay, part-time working, caring, self-employment, and unemployment/inactivity,² though prevalence and contributing factors vary between groups. Underlying these characteristics are social and labour-market factors which affect employment for many people from under-pensioned groups:

- **Lack of flexibility:** many people in the UK need flexibility in order to work, including: carers, people with disabilities, and women across all ethnic groups with caring responsibilities (though women from some ethnic groups appear to experience a greater gender effect than those from the majority white group). A lack of availability of flexible work and a lack of understanding of employers about the need for flexibility leads to some people from these groups having limited employment options.³
- **Barriers to work:** people experience a range of barriers to work and often multiple barriers related to health, family and personal circumstances. Those from under-pensioned groups are more likely to face barriers than others, for example: disabled peoples’ conditions, or need for adaptations or flexibility can constitute a barrier to work;⁴ carers often find that their caring

¹ Such as high vs. low pay, full vs. part-time and employment vs. unemployment

² PPI analysis of Understanding Society Wave 5, Labour Force Survey data 2015, Wealth and Assets Survey Wave 3 (2010/2012), Annual Population Survey April 2014 - March 2015

³ Coleman et al (2013); Dr Buckner (2010); PPI analysis of Annual Population Survey April 2014 - March 2015

⁴ Coleman et al (2013)

responsibilities represent a barrier to work because of time commitments or the need to find a workplace close enough to home;⁵ people from some groups, particularly those from ethnic minority groups, might have language or literacy problems which hinder them from finding work.⁶

- **Discrimination:** people from some under-pensioned groups are more likely to experience discrimination and this can affect employment prospects in relation to hiring, promotion, pay and harassment/bullying at work.⁷
- **Job segregation:** a particular need for flexibility, barriers to work such as language barriers, and stereotyping or racial profiling can push people into particular roles (limiting choice) or out of the employed workforce altogether into self-employment. This is known as job segregation.⁸
- **Illegal low pay:** people from some under-pensioned groups, particularly some ethnic minority groups, are more likely to be paid below the minimum wage. This removes the chance of eligibility for automatic enrolment and reduces the level of entitlement which may be accrued in state and private pensions. Around 3% of white workers earn below the National Minimum Wage (currently £6.70 per hour), compared to:
 - 5% of Black African worker,
 - 5% of Indian workers,
 - 11% of Pakistani workers,
 - 11% of Chinese workers, and
 - 18% of Bangladeshi workers.⁹

Lower median ages among some ethnic groups may partly account for a higher proportion of people from these groups working in low-paid or very casual jobs. Some of the people being paid below National Minimum Wage may also be below the eligibility age for automatic enrolment, meaning they would not be enrolled even if they were paid above the National Minimum Wage.¹⁰

Differences in pension income have reduced, but difference will continue without further change

Differences in pension savings and income matter because lower than average levels of income can indicate a greater likelihood of living in poverty or financial hardship, can negatively impact quality of life, and/or cause psychological or physical detriment.¹¹ Having a relatively low income in retirement can also be the result of life-long disadvantage extending beyond working life and can therefore indicate particular vulnerabilities and the need for support and social policy intervention.

Therefore, while it is encouraging that differences in pension income have reduced over the past decade, due to state and private pension reforms, still more needs to be done if these differences are to continue to be reduced.

⁵ Dr Buckner (2010)

⁶ Catney, Sabater (2015)

⁷ Catney, Sabater (2015); Coleman et al (2013); Gough, O. Adami, R. (2013)

⁸ Catney, Sabater (2015)

⁹ Runnymede (2015)

¹⁰ Runnymede (2015)

¹¹ DWP, ONS (2015); Hirsch (2015)

Differences in labour market attachment contribute to gaps

The majority of pension income differences arise from differences in labour market characteristics between those from under-pensioned groups and overall averages (Table Ex1).

Table Ex1:¹² Labour market characteristics of different groups (2015)

Groups	Proportion Employed (age 16-64)	Proportion Unemployed/inactive (age 16-64)	Proportion of employed working Full-time	Proportion of employed working Part-time	Median earnings - full-time workers in this group
Men	78%	22%	88%	12%	£26,500
Women	68%	32%	57%	43%	£22,200
White	74%	26%	73%	27%	£24,900
Indian	71%	29%	78%	22%	£23,200
Pakistani	52%	48%	69%	31%	£18,200
Bangladeshi	52%	48%	61%	39%	£20,200
Chinese	54%	46%	75%	25%	£31,900
Black/African/Caribbean/Black British	63%	37%	69%	31%	£24,300
Disabled people	46%	54%	64%	36%	£22,200
Carers (caring for ten or more hours per week) ¹³	52%	48%	63%	37%	£21,300
Self-employed	n/a	n/a	72%	28%	£18,700
All (average)	73%	27%	73%	27%	£25,000

- Disabled people, Pakistani, Bangladeshi and Chinese people, carers, and women are more likely to be **unemployed/inactive** than people from other groups.
- Women, Bangladeshi people, disabled people and carers are far more likely to **work part-time** than other groups.
- Pakistani people, the self-employed, Bangladeshi people, carers, disabled people, and women are far more likely to **earn at lower levels** than average.
- Pakistani people are more likely to **be self-employed** than people from other groups.

¹² PPI analysis of Understanding Society Wave 5, Labour Force Survey data 2015, Wealth and Assets Survey Wave 3 (2010/2012), Annual Population Survey April 2014 - March 2015

¹³ For both men and women

Pensions policy, employment policy and social factors all affect labour market and retirement outcomes

Though pension's policy has played a strong role in reducing inequalities and will continue to support adequacy in retirement, the majority of the above factors cannot be tackled through pension's policy, as they involve labour-market, social and legal issues. Reducing inequalities in retirement therefore would involve tackling inequalities in working-age which lie behind differences in labour-market characteristics. Because of the diverse range of issues underlying these differences, tackling them would involve a joint effort from government departments, employers, social services, regulatory bodies and community support groups.

Labour-market characteristics lead to lower state and private pension savings for those from under-pensioned groups, though income differences have reduced over the past ten years

Women and people from ethnic minority groups currently receive 13% to 25% less, on average, from state pensions (Chart Ex1).

Chart Ex1¹⁴



State pension receipt is lower for women and people from particular ethnic minority groups. In particular:

- Asian/Asian British/Chinese pensioner households receive around 22% less than the average for all pensioners and around 25% less than pensioners from the majority white population.

¹⁴ PPI analysis of Family Resources Survey/Pensioner's Income Series data

- Women receive around 13% less than the average for all pensioners and around 25% less than male pensioners.

Differences between the average receipt of state pension income, and the state pension income of women and people from ethnic minority groups reduced between 2004/05 and 2013/14 mainly due to state pension reforms which made it easier for lower earners, part-time workers, disabled people and those with caring responsibilities to accrue entitlement:

- From 15% to 13% for women,
- From 31% to 21% for Asian/Asian British/Chinese pensioners, and
- From 23% (in 2008) and then to 16% for Black/African/Caribbean/Black British pensioners.¹⁵

The way that additional state pension is accrued accounts for a significant portion of differences in state pension income

Those who earn at lower levels (or are credited into the additional state pension) receive lower levels of state pension income than people who work regularly and earn at higher levels. Therefore people from under-pensioned groups who are more likely to be unemployed/inactive, work part time and receive low earnings, tend to accrue lower levels of state pension entitlement.

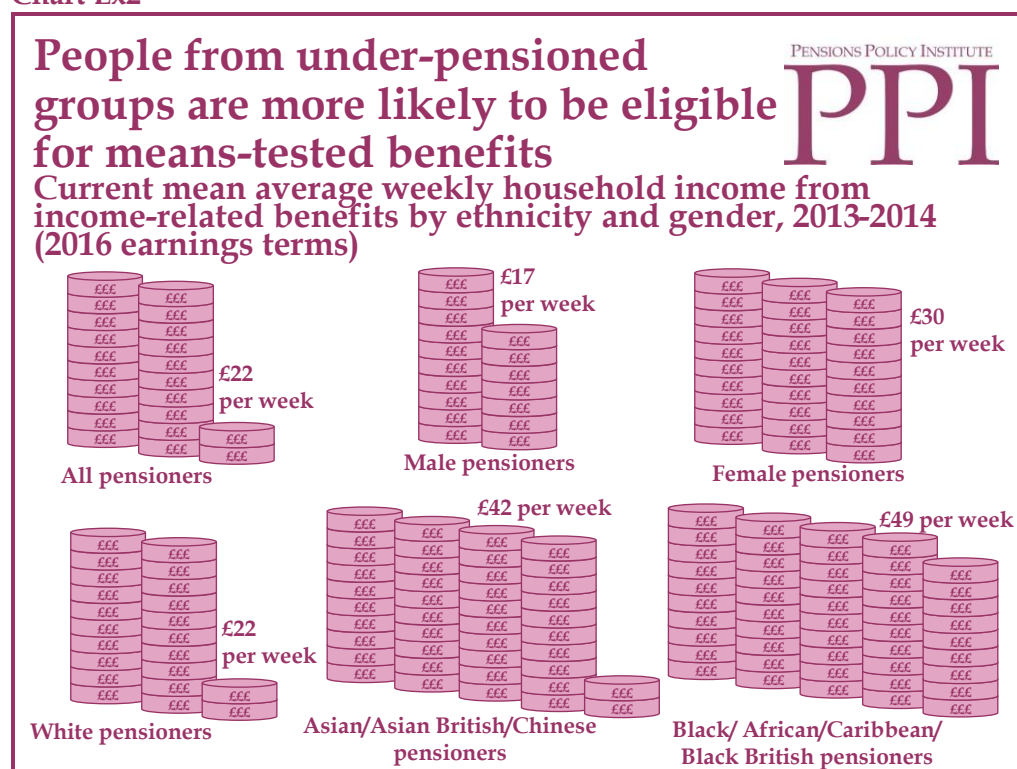
The introduction of the NSP will reduce future inequalities

After April 2016, people will no longer be able to accrue entitlement to the current additional state pension (State Second Pension). Instead the Basic State Pension and State Second Pension will be replaced by one, single-tier, flat-rate pension, the NSP. The NSP will provide a greater level of income redistribution in future as inequalities arising from the way in which additional state pension entitlement is accrued gradually reduce. However, there will be a lengthy transitional period in which some people receive higher than the full rate of the NSP based on their accrued entitlement under the two-tier system.

People from under-pensioned groups receive higher levels of means-tested benefits

Tracking eligibility for means-tested benefits is important because it indicates which groups are living on very low incomes in retirement and are more likely to be experiencing financial hardship and/or be in danger of living in poverty. Women and people from ethnic minority groups receive more income in retirement from means-tested benefits than the average for pensioners (Chart Ex2).

¹⁵ Family Resources Survey data 2004 - 2014 some ethnic groups combined due to low sample sizes, mean average

Chart Ex2¹⁶

In 2013/14:

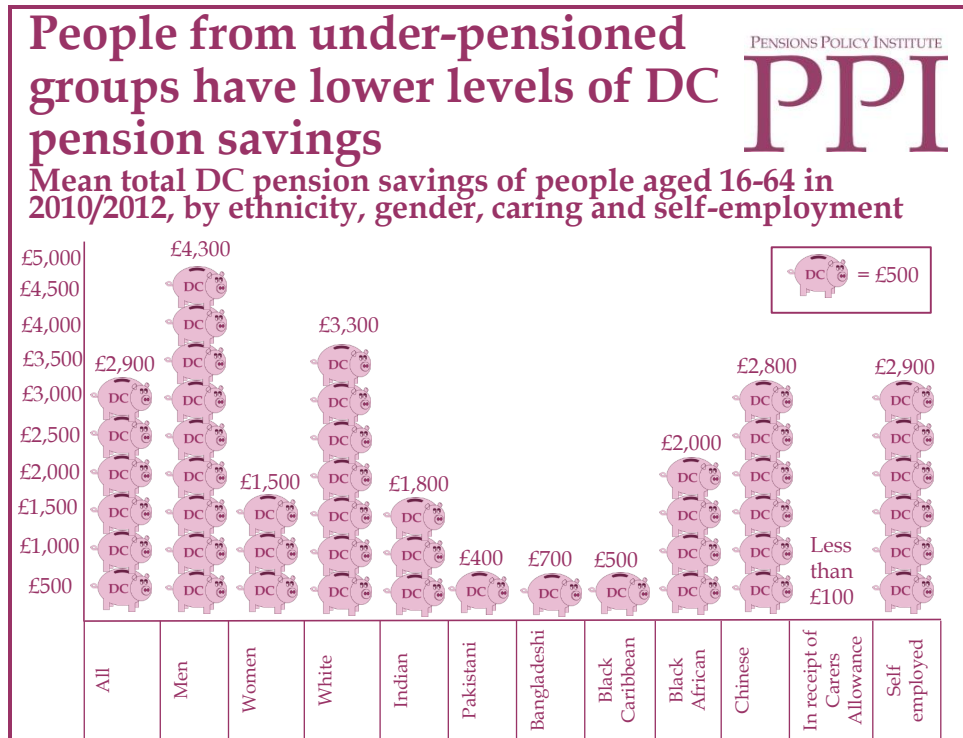
- Pensioner households received an average of £22pw from income-related benefits (2015 earnings terms),
- Male pensioner households received £17pw on average, compared to female pensioners who received £30pw on average; 76% more than men and 36% more than the average for all pensioners,
- White pensioner households received £22pw on average, compared to ethnic minority pensioners who received £42pw to £49pw on average, 90% to 123% more than white pensioners and the average for all pensioners.

Differences in private pension savings are more pronounced

Differences in private pension savings are more pronounced than those in state pension income, arising partly from low levels of participation in pension saving amongst under-pensioned groups (Chart Ex3).

¹⁶ PPI analysis of Family Resources Survey/Pensioner's Income Series data – includes Hous

Chart Ex3¹⁷



A major contributing factor for lower pension savings is lack of membership in a private pension scheme. People from under-pensioned groups are less likely to contribute to a private pension scheme (Table Ex2).

Table Ex2:¹⁸ Proportion of adults and employed adults saving in a private pension by ethnic group, gender, and disability (2012/13 and 2013/14)

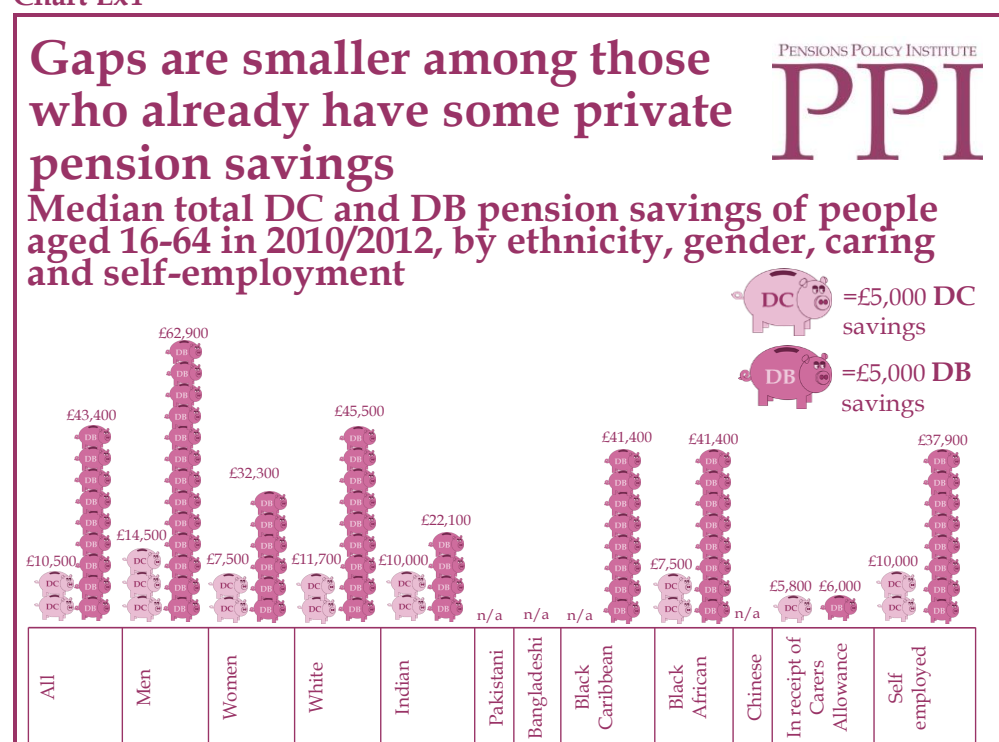
	Proportion of adults saving in a private pension	Proportion of employed adults saving in a private pension
All	27%	49%
Men	30%	45%
Women	27%	49%
White	28%	50%
Indian	27%	44%
Pakistani	9%	22%
Bangladeshi	13%	28%
Chinese	23%	33%
Black/African Caribbean/Black British	24%	43%
Disabled	12%	42%

¹⁷ Wealth and Assets Survey Wave 3 (2010/2012). Data on those aged 16-64, therefore may include some people over SPA, and some people under SPA may be excluded

¹⁸ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

People from under-pensioned groups who are saving in a pension, tend to save at levels closer to the majority group. Chart Ex4 considers the median levels of total DC and DB pension savings (excluding those not saving in a pension).

Chart Ex4¹⁹



Automatic enrolment will help increase pension participation

Automatic enrolment, which is intended to increase participation of people with under-pensioned characteristics, particularly the low paid, should go some way to increasing levels of private pension saving for those in under-pensioned groups. However, the way that automatic enrolment eligibility criteria is currently structured means that employed people from under-pensioned groups are less likely to be eligible for automatic enrolment. Previous PPI research found that, of people employed in the UK (over age 22 and under State Pension Age (SPA)):

- 32% of women do not meet the eligibility criteria, compared to 16% of men,
- 32% of Pakistani workers, 33% of Bangladeshi workers, and 29% of Black/African/Caribbean workers do not meet the eligibility criteria compared to 23% of white workers,
- 30% of disabled workers do not meet the eligibility criteria, compared to 23% of disability-free workers,
- 81% of employed carers (defined by those who receive care-related benefits) are ineligible for automatic enrolment.²⁰

¹⁹ Wealth and Assets Survey Wave 3 (2010/2012). Data on those aged 16-64, therefore may include some people over SPA, and some people under SPA may be excluded

²⁰ PPI (2015)

Some of the workers who do not meet the eligibility criteria were already saving in a pension prior to automatic enrolment. Ineligible workers who are not saving have the option of opting-in to pension saving through their employer.

The self-employed do not benefit directly from automatic enrolment

While self-employed people are allowed to join a private pension scheme the majority of self-employed people still do not save in one. The proportion of self-employed people saving in a pension has decreased over the past few decades:

- 22% of self-employed men were saving in a private pension in 2013, a drop of 40% over 16 years.²¹

Lower saving levels among the self-employed can be partly attributed to the lack of an employer prompt for saving or an employer contribution, though the self-employed are eligible for tax relief on pension contributions. Self-employed people are not eligible to be automatically enrolled into pension saving (except in the case of some personal services contracts) though they can voluntarily join some private pension schemes. People may dip in and out of self-employment during their working lives and some will be automatically enrolled while in employment.

Knowledge of tax-relief, pensions and other financial products is relatively low among self-employed people and many hold negative views about personal pensions.²² This indicates that while some of the self-employed people not currently saving in a pension scheme might benefit from joining one, they may need support and guidance in order to make that decision.

While self-employed people stand to benefit from the NSP, unless a significant proportion of self-employed people choose to join a private pension scheme, private pension saving amongst this group will remain low or even continue to decline. As the self-employed are currently saving in private pensions at particularly low levels and also most are not directly affected by automatic enrolment, the pension provision of the self-employed might be an area which would benefit from more attention by policy-makers.

Differences are likely to continue in future, though state and private pension reforms have reduced inequalities

This report uses hypothetical individuals with some of the characteristics observed among the under-pensioned to illustrate potential future incomes and to explore how incomes could be affected by policy levers. The results indicate that:

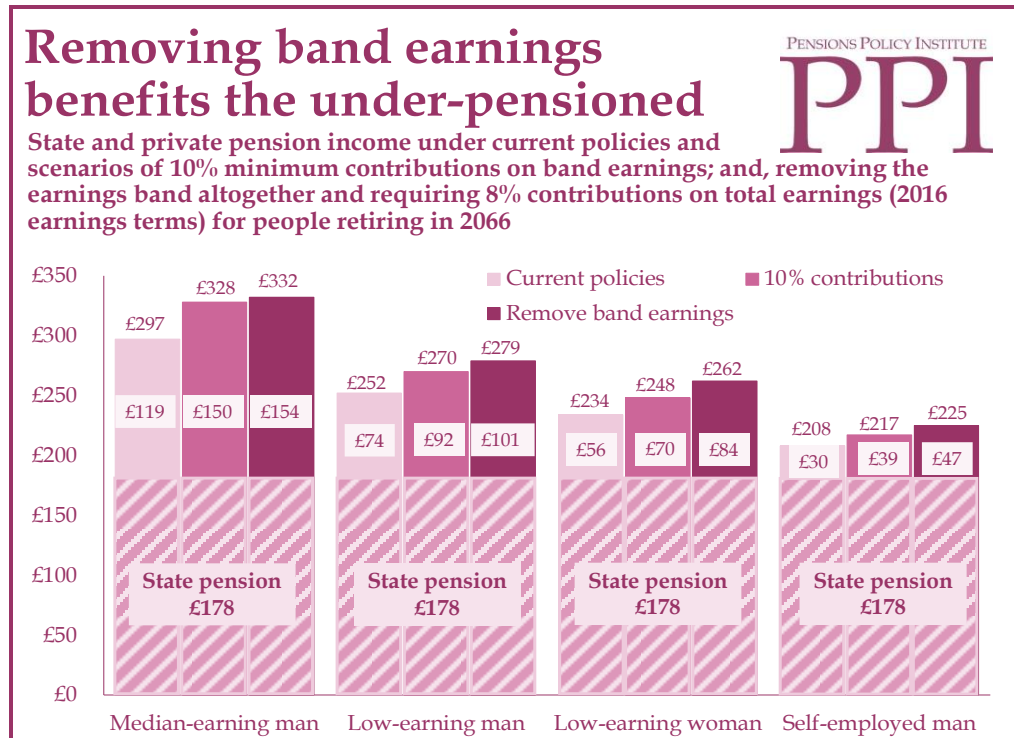
- Once the NSP has been phased in, there will no longer be significant differences in state pension savings and income between most people from under-pensioned groups and the average for pensioners.

²¹ Labour Force Survey Data JOBS01 Workforce Jobs, ONS (2014b) p. 16

²² DWP (2006a)

- The NSP system is likely to benefit people with persistent low earnings, time out of the labour market and/or part-time work as long as they generally earn above the Lower Earnings Limit, £5,824 (2016/17).
- Individuals with persistently very low earnings (£5,824 or below) will not benefit as much as others from the introduction of the NSP, in comparison with the old state pension system.
- The NSP system benefits people who are self-employed.
- Differences in private pension income are likely to continue in future as private pension income is related to working patterns and earnings.
- Some individuals might receive a higher proportion of income from private pensions in future due to the introduction of the National Living Wage.
- Lowering the automatic enrolment earnings threshold for eligibility would increase private pension saving for some people but could lead to higher opt-out rates or some people losing out on means-tested benefits in retirement.
- Removing the automatic enrolment qualifying earnings band entirely has a greater positive impact on retirement income than increasing minimum contribution levels to 10% of qualifying earnings, though both scenarios increase pension saving levels.
- Removing the qualifying earnings band entirely also has a greater proportional effect on people from under-pensioned groups than on the median earning man. This is due to those on lower earnings contributing a lower proportion of overall salary when subject to the qualifying earnings band (Chart Ex5).
- However, changing contribution levels could potentially result in an increase in opt-out rates from automatic enrolment.

Chart Ex5²³



People from under-pensioned groups tend also to have lower levels of other savings and assets

While this report focusses solely on the pension savings and incomes of people from different groups, some pensioners will use **non-pension savings and assets** to support themselves in retirement. It therefore follows that, if people in under-pensioned groups have higher than average levels of other savings and assets, this might go some way towards offsetting the disadvantages associated with lower than average pension income. However, as illustrated in Appendix Two, people from under-pensioned groups tend to have lower than average levels of non-pension savings and assets, with the exception of self-employed people, many of whom tend to hold greater wealth at any given time, partly due to business ownership and management of organisational assets and finances.

State and private pension incomes should continue to be monitored

Trends in state and private pension income should continue to be monitored and remaining differences should be measured. It would be helpful to revisit this work once automatic enrolment is fully staged and phased in.

²³ PPI Individual Model

Chapter one: who are the under-pensioned?

This chapter introduces the under-pensioned, runs through the high-level results and methodology from the 2008 under-pensioned report, and looks at relevant policy developments since its publication.

What do we mean by “under-pensioned”?

The under-pensioned are people who are particularly likely to have characteristics associated with lower than average levels of pension savings and income. The main groups explored in this report are:

- Women
- Ethnic minorities
- Disabled people
- Carers
- The self-employed

Why does being under-pensioned matter?

For the purposes of this analysis, groups with a pension income below the average are defined as being “under-pensioned”. Lower than average pension incomes are concerning for several reasons:

- They indicate a danger of living in absolute poverty (£242pw for a couple After Housing Costs (AHC) in 2015).²⁴ People at or below this level are deemed to have insufficient income to achieve an acceptable standard of living.
- However, those with incomes at or just above the poverty line may not necessarily have sufficient income to meet a personal adequacy target or achieve an acceptable standard of living which includes “having what you need in order to have the opportunities and choices necessary to participate in society”. This level is calculated to be £244 for a pensioner couple AHC in 2015.²⁵
- Having lower than average income and lower relative spending power than one’s peers is associated with health and social problems.²⁶
- Having a relatively low income in retirement can be the result of life-long disadvantage extending beyond working age and can therefore indicate particular vulnerabilities and the need for support and social policy intervention.

²⁴ DWP, ONS (2015)

²⁵ Hirsch (2015)

²⁶ Rowlingson (2011)

This report investigates relative incomes but does not look at adequacy of income

This report compares the pension income of people from different groups in order to allow exploration of who benefits more or less from the current system. This report does not make a judgement as to whether the income of any of the groups is adequate or inadequate. Some of those in under-pensioned groups may have sufficient income to meet their needs and some of those receiving the average level of income may not have sufficient income to meet their needs. Nevertheless people in groups deemed “under-pensioned” have a higher chance of receiving an inadequate retirement income.

Adequacy is a complicated issue and involves social factors, household-factors, labour-market behaviour, the economy and policy. The groups identified in this report would benefit from deeper investigation and analysis of all the factors throughout the lifecycle which affect income and quality of life.

Several labour-market factors are associated with lower pension savings and incomes

While the main characteristics associated with lower state and private pension savings are labour-market related it is important to recognise that sociological factors, economic factors, immigration and household makeup also affect income and savings. Inequalities cannot be eliminated by pensions policy alone, though it does play an important role. Labour policy and social factors such as disadvantage and discrimination need to be included in any strategy designed to reduce inequalities in state and private pension coverage.

Key labour-market factors are associated with lower levels of state and private pension savings:²⁷

- **Low earnings:** are highly correlated with low pension income. Private pension income is linked to earnings when in work, while state pension entitlement, pre April 2016, is partially linked to earnings.
- **Time out of full-time work:** 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.
- **Low or irregular private pension contributions:** arising from lack of access to pensions, low earnings or time spent out of work, can reduce pension income by reducing the final fund size or entitlement level.

Many people in under-pensioned groups will have more than one of the above characteristics. The effect of having more than one characteristic, for example working part-time **and** having low earnings, will compound the resulting reduction in pension savings.

²⁷ PPI (2003) & PPI (2008)

Previous analysis concluded that women, disabled people and people from ethnic minority groups are likely to have lower than average pension income

The 2003 and 2008 analysis concluded that women, disabled people and people from ethnic minority groups are more likely to have many of the “alarm bell” characteristics that are associated with lower pension incomes. The report highlighted that if current (at the time) trends continued then women, disabled people and people from ethnic minority groups were likely to continue experiencing lower pension incomes than the traditionally employed median-earning male.

However, the 2008 report recognised that inequalities were being reduced due to state pension reforms which made accruing entitlement easier for those in non-work activities such as caring.

In summary, the state 2007/08 state pension reforms did the following:

- Reduced, from April 2010, the number of qualifying years required for a full Basic State Pension (BSP) from 39 years for women and 44 years for men to 30 years for both.
- Replaced the existing system of Home Responsibilities Protection with a new system of weekly credits towards BSP and State Second Pension (S2P). This reform meant that some types of caring were valued as paid National Insurance contributions.
- Restored the indexation of the BSP to increases in average earnings rather than prices from 2012. In practice, from 2010, the state pension has been indexed to the greater of earnings, prices or 2.5%, a facility which is known as the triple-lock. The triple-lock is not enshrined in legislation, though the commitment to increase state pension by earnings is. Over the long-term, average earnings are expected to increase more rapidly than prices, so this change increases the relative value of the state pension.
- Scheduled for the additional state pension, S2P, to become flat-rate by around 2030, so that a person’s level of entitlement to S2P would no longer depend on their level of earnings. The reforms to S2P would have further reduced inequalities in state pension entitlement over time, but the long timetable for the flat-rating of S2P, by 2030, would have meant that people would continue to accrue different state pension entitlements until then based on their level of earnings.

The New State Pension supersedes previous plans to flat-rate S2P over the long term

Plans to flat-rate S2P by 2030 have since been superseded. From April 2016, the Basic and additional state pensions will be replaced with the New State Pension (NSP): a single-tier, flat-rate pension set above the Guarantee Credit element of Pension Credit, (£155.60 per week for a single pensioner 2016/17).

The introduction of the NSP in 2016 will result in more evenly distributed state pension income in the future because people will no longer accrue earnings-related state pension entitlement.

However there will be a lengthy transitional period as people who reach State Pension Age (SPA) prior to April 2016 will still receive their state pension under the previous system and those who retire after April 2016 with higher than full NSP entitlement (accrued under the two-tier system), will receive their full (higher) entitlement.

Other state and private pension reforms will affect future pension distribution

Automatic enrolment

Since the publication of the 2008 report, automatic enrolment into workplace pensions has been introduced and is currently part way through the staging-in process. Automatic enrolment has the potential to reduce inequalities in private pension coverage, though its aim is to increase **individual** savings levels and help people transfer consumption from and to themselves at different points during their lifetime.²⁸

Automatic enrolment regulations require employers to enrol employees, who are not already saving and who meet particular age and earnings criteria, into a qualifying pension scheme. Employees have a window of opportunity to “opt out” and receive back any contributions already made. The required level of contributions that employers and workers who do not opt out must jointly make into a pension scheme is being phased in from 2012 to reach minimum total contributions of 8% on a band of qualifying earnings (£5,824 to £43,000 in 2016/17) by 2019.

State Pension Age rises

The State Pension Age (SPA) is rising:

- Women’s SPA is rising from age 60 in 2010 to be equal to men’s SPA (age 65) by 2018.
- SPA for both men and women will rise to age 66 by 2020, and age 67 by 2028.
- A review on a rise to age 68 is anticipated shortly.

SPA rises affect how much income people receive from the state pension during their lifetime as well as the proportion of adult life spent in receipt of the state pension. SPA rises affect equality because they can negatively impact on groups with lower life expectancies, lower healthy life expectancies or those more likely to have to leave work at younger ages due to a health problem, such as people who work in some manual jobs.

Conversely, rising SPAs could encourage some people to work for longer, and save for longer, thereby increasing their retirement income and reducing income gaps.

The introduction of the NSP may result in some very low earners or self-employed workers receiving a higher state pension income than they would

²⁸ DWP (2006b)

have under the old state pension system, and this may offset losses caused for some under SPA rises. However, it cannot be assumed that all those who are particularly affected by rises to SPA will also benefit significantly from changes to the state pension.

Freedom and Choice

Since April 2015, people with Defined Contribution (DC) savings have had greater flexibility when they come to access their pension savings after the minimum pension age²⁹ (currently age 55). Prior to these changes, people with DC savings above a certain level (who were not able to demonstrate a minimum level of secure income) were required to use a secure retirement income product (an annuity or capped drawdown) to access their DC pension savings.

The new policy, named Freedom and Choice by the Government, means that people can now access retirement income in different ways and some people who would have purchased an annuity under the old system may not do so now. This could in some cases reduce pension income in retirement if, for example, people invest their money in costly or risky products or if they spend the money they would have used for an annuity early on in retirement and end up living on a lower pension income as a result.

Economic policies will also affect future pension levels

The introduction of the National Living Wage is likely to affect the amount of income people receive from private pensions in future. In April 2016, the National Living Wage will replace the National Minimum Wage (£6.70 per hour 2015/16) at a rate of £7.20ph, rising to £9ph by 2020. The National Living Wage will be mandatory minimum pay for employees over age 25, though it will still be legal to pay those under age 25 at National Minimum Wage levels.³⁰

The introduction of the National Living Wage will increase the wages of anyone earning under £7.20ph and could push up wages just above the Minimum Wage due to pressure to maintain wage differentials between these people and those earning at the statutory minimum. Increasing earnings will result in those who pay a proportion of their salary into a pension scheme contributing higher amounts.

Conclusion

The under-pensioned are people who are particularly likely to have characteristics associated with lower than average levels of pension savings and income. The main groups explored in this report are: women, ethnic minorities, disabled people, carers, and the self-employed.

Key labour-market factors associated with being under-pensioned are: low earnings, time out of full-time work, and low or irregular private pension contributions. Many people in under-pensioned groups will have one or more of the above characteristics. However:

²⁹ Subject to scheme rules

³⁰ www.gov.uk/national-minimum-wage-rates

- Recent state pension reforms have reduced the inequalities in pension income experienced by these groups.
- The NSP, which will be introduced in April 2016, will increase and accelerate equalities in state pension income in future.
- Automatic enrolment should help reduce future inequalities by improving participation in private pensions.
- The introduction of the National Living Wage is likely to affect the amount of income people receive from private pensions in future because increasing earnings for employees is likely to result in those who pay a proportion of salary into pension scheme paying higher amounts.
- SPA rises could **increase** inequality by negatively impacting those with lower life expectancies, lower healthy life expectancies or those more likely to have to leave work at younger ages due to a health problem. Conversely, SPA rises could encourage longer working lives resulting in greater savings levels for some people.

Chapter two: what are the labour market characteristics of the under-pensioned?

This chapter explores the labour market characteristics of people who belong to different groups.

Labour market characteristics are highly correlated with state and private pension entitlement

Labour market characteristics can help explain differences in state and private pension outcomes. The following table summarises the main differences in labour market characteristics between the groups discussed in this report (Table 1).

While this report compares characteristics of under-pensioned groups with those of “majority” groups: men, white people and people without disabilities or caring responsibilities, it is important to recognise that people from “majority” groups may also be under-pensioned as a result of belonging to another under-pensioned group.

Table 1:³¹ Labour market characteristics of different groups (2015)

Groups	Proportion Employed (age 16-64)	Proportion Unemployed/inactive (age 16-64)	Proportion of employed working Full-time	Proportion of employed working Part-time	Median earnings - full-time workers in this group
Men	78%	22%	88%	12%	£26,500
Women	68%	32%	57%	43%	£22,200
White	74%	26%	73%	27%	£24,900
Indian	71%	29%	78%	22%	£23,200
Pakistani	52%	48%	69%	31%	£18,200
Bangladeshi	52%	48%	61%	39%	£20,200
Chinese	54%	46%	75%	25%	£31,900
Black/African/Caribbean/Black British	63%	37%	69%	31%	£24,300
Disabled people	46%	54%	64%	36%	£22,200
Carers (caring for ten or more hours per week)	52%	48%	63%	37%	£21,300
Self-employed	n/a	n/a	72%	28%	£18,700
All (average)	73%	27%	73%	27%	£25,000

³¹ PPI analysis of Understanding Society Wave 5, Labour Force Survey data 2015, Wealth and Assets Survey Wave 3 (2010/2012), Annual Population Survey April 2014 - March 2015

The rest of this chapter explores the labour market characteristics of each group in turn:

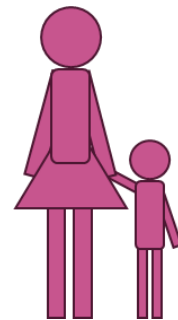
- Women
- Ethnic minorities
- Disabled people
- Carers
- The self-employed

Women

Gendered divisions in provision of care at home have historically led to fewer women working, though a greater proportion of women have entered the labour market more recently

Many of the factors which contribute to women's membership of the under-pensioned arise from gendered divisions of labour related to childbirth and caring for family members. Women bear the majority of responsibility for caring in the home and have historically had lower employment levels than men. In particular, women with children are less likely to work than childless women (compared to men with children, who are more likely to work than childless men).³² However, the proportion of women with children in work has increased:

- from 67% in 1996 to 72% in 2013 (married/cohabiting mothers) and
- from 43% in 1996 to 60% in 2013 (lone mothers)³³



The proportional increase in working mothers has increased the overall number of women working:

- In 1971, 53% of women were employed, compared to 92% of men (UK).³⁴
- In 2015, 68% of women over 16 in the UK were in work compared to 78% of men

- However, women with children are still far less likely to work than women without children. In 2010/2012:
- 76% of women, aged 21 to 30, without children were working compared to 44% of women with children
- 85% of women, aged 31 to 40, without children were working compared to 65% of women with children

Other economic and policy factors have contributed to greater representation of women in the labour market

While increases in the proportion of mothers working partly explains recent increases in women's employment rates, economic and policy factors have also played roles:

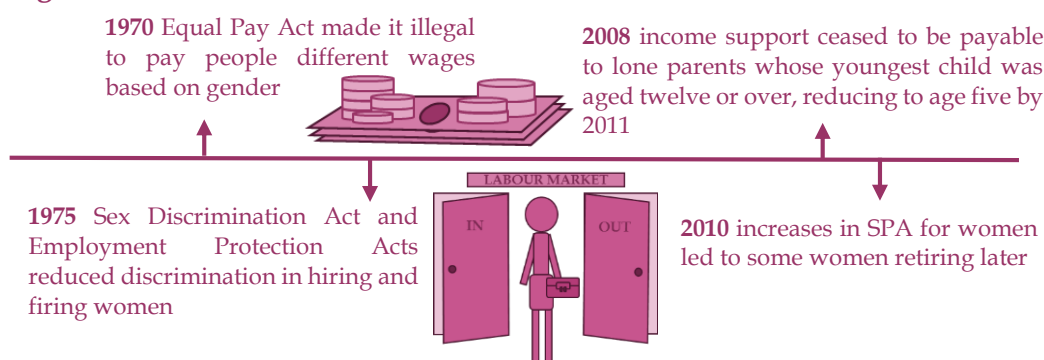
³² ONS (2013a)

³³ ONS (2013a)

³⁴ ONS (2013a)

- Since the 1960s there has been an increase in employment in the service sector, an area in which many women are employed, and a decline in manufacturing which is a traditionally male dominated industry.³⁵
- There have also been policy changes which both directly and indirectly affect women's engagement with the labour market (Figure 1):

Figure 1



These policies had the effect of increasing the attractiveness of work for women by reducing discrimination and increasing their pay levels. They also decreased the attractiveness of staying out of work through reductions to benefits and rises to State Pension Age (SPA) which mean that women will have to wait longer for their state pension income.

Men are paid more than women

However, while more women are working than previously, they continue to be paid lower wages, on average, than men. A host of factors contribute to women receiving lower pay.



Women tend to work in lower-skilled and lower-paid jobs than men. The majority of employees in the service sector, caring professions and administrative/secretarial work are women, while those in professional jobs, particularly senior management roles, are disproportionately male. Jobs in which men are over-represented tend to be more highly paid.³⁶ Discrimination also plays a role in women's lower pay by affecting remuneration decisions, excluding women from particular roles or pushing them towards particular job types.³⁷

- In 2015 the median wage for an employed woman was £22,200pa compared to £26,500pa for men (full-time).³⁸
- Women are more likely to earn less than £10,000pa (the automatic enrolment earnings threshold for eligibility). Of around 13 million employed women in the UK, 2.7 million women (of working age) earn less than £10,000pa in all of their jobs (though some of those with more than one

³⁵ ONS (2013a)

³⁶ ONS (2013a)

³⁷ www.fawcettsociety.org.uk/our-work/issues/the-gender-pay-gap/

³⁸ PPI analysis of Labour Force Survey data 2015

job earn more than £10,000pa in total) compared to around 825,000 of around 13 million employed men.³⁹

Lower wages are also associated with motherhood at younger ages (under age 40):

- Median full-time earnings for women, aged 21-30, with children is £17,000pa and for women without is £18,200pa.
- Median full-time earnings for women, aged 31-40, with children is £23,200pa and for women without is £25,700pa.
- Median full-time earnings for women, aged 41-50, with children is £24,000pa and for women without is £23,200pa.⁴⁰

Women are more likely to work part-time

Women are more likely than men to work part-time. Over the past 30 years, the proportion of women working part-time has fluctuated between 42% and 45% compared to a fairly consistent 10% of men working part-time.⁴¹

- In 2015 43% of employed women worked part-time compared to 12% of employed men.⁴²

Part-time working for women is highly correlated with having dependent children, and is particularly likely for mothers who are part of a couple. Many mothers working part-time are the primary carer for their children and report that only by working part-time can they balance the responsibilities of family and the need for income.⁴³ Women are also more likely than men to have more than one part-time job, which might allow more flexibility for those with caring responsibilities but can also lead to lower earnings, loss of some work-related benefits and can affect eligibility for automatic enrolment.

In order to be eligible for automatic enrolment people have to be earning £10,000pa or above in at least one job

Those with multiple jobs who earn above £10,000pa from combined income will not be eligible for automatic enrolment if they earn less than £10,000pa from any of their jobs individually. That is because automatic enrolment is assessed by employers on a per job basis. Those who earn above £10,000pa may, therefore, lose out from accumulating private pension saving, and benefiting from an employer contribution and tax relief.

People earning under £10,000 do have the option of opting-in to their employers chosen pension scheme. For opt-ins earning below £10,000pa but above £5,824pa, employers must make a contribution on their behalf.

The Government intends to maintain the automatic enrolment earnings threshold for eligibility at £10,000pa until April 2017.⁴⁴

³⁹ PPI (2015)

⁴⁰ PPI analysis of Understanding Society Wave 5

⁴¹ ONS (2013a)

⁴² PPI analysis of LFS Jan-Mar 2015, WAS Wave 3, FRS 2013-2014

⁴³ EHRC (2013)

⁴⁴ DWP (2015c)

Women are more likely than men to have more than one job

In 2014/15, 490,000 people held two or more jobs in the UK:

- 340,000 of those with multiple jobs were women.
- 120,000 women with multiple jobs did not earn £10,000pa in any of their individual jobs
- 50,000 women with multiple jobs, (who did not earn £10,000pa in an individual job) earned £10,000pa or more when income from all jobs was combined.⁴⁵

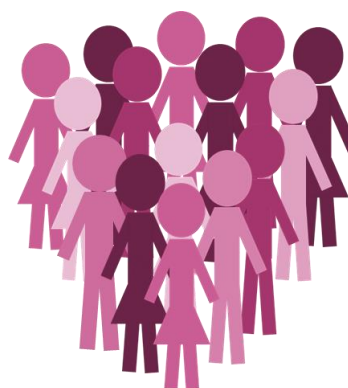
Ethnic Minorities

People from some ethnic minority groups are less likely to be employed

There is variation by ethnic group in the likelihood of being employed. The proportions listed below include both women and men. Gender differences within ethnic groups are explored in the next section.

73% of people aged 16 to 64 in the UK are in employment. In comparison:

- 52% of Bangladeshi people,
- 52% of Pakistani people,
- 54% of Chinese people,
- 63% of Black/African/Caribbean/Black British people,
- 71% of Indian people, and
- 74% of white people were employed in the UK in 2015.⁴⁶



Many factors which contribute to poor labour market outcomes for people from ethnic minority groups are inter-linked and connected to demographic, historical, migratory and discriminatory factors. It would require more than the limited space this report allows to do full justice to the experience of people from ethnic minority groups in the UK labour market (and in the UK as a whole).

Therefore, while this next section touches upon some of the ways in which job segregation, educational attainment and demographic factors affect low pay among ethnic minorities, it is with the recognition that there is a rich, varied and important detail of evidence that is not included. For those interested in exploring further, there are sources in the bibliography from the Joseph Rowntree Foundation and Runnymede Trust with further evidence and data.

Women from particular ethnic groups experience a greater gender effect than women from the majority white population

- The gender effect, whereby women are less likely to work than men, can be seen strongly within some ethnic minority groups. While, within the

⁴⁵ DWP (2015b) table 5a

⁴⁶ PPI analysis of Annual Population Survey April 2014- March 2015

majority white population, the proportion of women working is relatively close to the proportion of men working, there are significant variations within other groups. The effect is most particularly pronounced within Pakistani and Bangladeshi groups:

- 69% of Pakistani men were employed in 2015 compared to 33% of Pakistani women.
- 71% of Bangladeshi men were employed in 2015 compared to 32% of Bangladeshi women.⁴⁷

People from some ethnic minority groups face multiple barriers in employment

People from ethnic minority groups (who make up just under 20% of the adult population) can face multiple barriers in the labour market arising from lack of skills, lack of education, language barriers and discrimination. These can result in higher unemployment/inactivity levels, people having to take casual work or zero-hour contracts, reduced promotional opportunities and “segregation” into particular job types. The impact of these barriers varies between ethnic groups, with particular groups such as Bangladeshis and Pakistanis experiencing the most dramatic effects (unemployment/inactivity, low pay). Structural barriers also vary by location with people from some groups facing greater employment barriers in particular areas, for example, Cornwall for Pakistani workers and the Black Country for African workers.⁴⁸

People from ethnic minority groups are often “segregated” into particular job types

A particular need for flexibility, barriers to work such as language barriers, and stereotyping or racial profiling can push people into particular roles (limiting choice) or out of the employed workforce altogether into self-employment. This is known as job segregation.

The highest levels of job segregation are found among African, Pakistani and Bangladeshi people.⁴⁹ Segregation results in over-representation in manual/low-skilled jobs for people from some groups (Pakistani, Bangladeshi) and over-representation in professional/managerial jobs for others (Chinese, Indian).⁵⁰

However, over-representation in high-skilled jobs should not necessarily be viewed as a “success story.” Stereotypes and racial profiling can push people toward particular job roles while excluding them from others. This type of segregation limits choice and denies the level of labour market flexibility enjoyed by the majority white population (who are more evenly distributed across all job types).⁵¹

⁴⁷ PPI analysis of Annual Population Survey April 2014- March 2015

⁴⁸ Catney, Sabater (2015); Gough, O. Adami, R. (2013)

⁴⁹ Also prevalent within Gypsy/Irish traveller communities

⁵⁰ Catney, Sabater (2015)

⁵¹ Catney, Sabater (2015)

Job segregation can result in higher levels of self-employment, particularly for Pakistani workers

Job segregation can lead to higher levels of self-employment for ethnic groups who might struggle to find employment and are subsequently “pushed” into self-employment.⁵² The effect can be seen particularly for Pakistani workers, 24% of whom are self-employed, compared to 14% of the majority white population.⁵³

People from ethnic minority groups, are more likely to work in low-paid jobs

People from some ethnic minority groups have significantly lower levels of earnings than the median of £25,000pa (full-time) in the UK, 2015. In comparison:

- Pakistani workers have a median income of £18,200pa,
- Bangladeshi workers have a median income of £20,200pa,
- Indian workers have a median income of £23,200pa,
- Black/ African/ Caribbean/ Black British workers have a median income of £24,300pa,
- White workers have a median income of £24,900pa,
- Chinese workers have a median income of £31,900pa.⁵⁴

People from ethnic minority groups often have high levels of educational attainment

Despite poorer labour market outcomes on average, people from some ethnic minority groups have higher levels of educational attainment than White British people (Chart 1).

⁵² Catney, Sabater (2015)

⁵³ PPI analysis of the Annual Population Survey April 2014 - March 2015

⁵⁴ PPI analysis of Understanding Society Wave 5

Chart 1⁵⁵

Some ethnic minority groups have lower levels of educational attainment on average. In 2011, 26% of White British people had a degree level qualification or higher, compared to:

- 9% of White Gypsy/Irish Traveller people,
- 20% of Bangladeshi people, and
- 25% of Pakistani people.⁵⁶

However, other ethnic minority groups were **more** likely to have degree level qualifications or higher:

- 35% of Other Asian people,
- 40% of Black African people,
- 42% of Indian people, and
- 43% of Chinese people.⁵⁷

Immigration patterns affect labour market outcomes

People from different regions tend to emigrate at different times depending on UK policies as well as events occurring abroad, so it can't be assumed that the immigration behaviour of one ethnic group will necessarily resemble that of another. Equally, within ethnic groups, between individuals, and between generations, immigration patterns vary widely.

⁵⁵ JRF, CoDE, University of Manchester (2014)

⁵⁶ JRF, CoDE, University of Manchester (2014)

⁵⁷ JRF, CoDE, University of Manchester (2014)

Consider the case of Black African people as an example - 40% of Black Africans in the UK have a degree level qualification or higher but 54% of those in employment work in low-skilled jobs.⁵⁸ However, a large proportion of Black African migrants over the past decade have been international students. This, therefore, partly accounts for high levels of qualification among this population alongside low levels of skilled employment; as many students are likely to be unemployed and some students may either leave the country after completing education or go on to further study.⁵⁹

Immigration patterns also play a role in shaping pension outcomes for people, and this can be seen particularly for people from ethnic minority groups who share immigration patterns. **Chapter three**, which explores patterns of state and private pension entitlement, looks at immigration effects in more detail.

People from some ethnic minority groups are more likely to be paid below the National Minimum Wage

Another factor resulting in lower wages for people from some ethnic minority groups is a higher prevalence of illegal low pay. Currently, the National Minimum Wage (NMW) in the UK is £6.70ph, and it is illegal to pay most workers below this.⁶⁰ However, some employers pay below the NMW.⁶¹

People from some ethnic minority groups are more likely to be paid below the NMW. Around 3% of white workers earn below the NMW, compared to:

- 5% of Black African worker,
- 5% of Indian workers,
- 11% of Pakistani workers,
- 11% of Chinese workers, and
- 18% of Bangladeshi workers are illegally paid below the NMW.⁶²

Lower median ages among some ethnic groups may partly account for a higher proportion of people from these groups working in low-paid or very casual jobs. Some of the people being paid below Minimum Wage may also be below the eligibility age for automatic enrolment, meaning they would not be enrolled even if they were paid above the National Minimum Wage.⁶³

⁵⁸ JRF, CoDE, University of Manchester (2014)

⁵⁹ JRF, CoDE, University of Manchester (2014)

⁶⁰ www.gov.uk/national-minimum-wage/what-is-the-minimum-wage, exception are: people under school-leaving age of 16, apprentices, self-employed, company directors, volunteers, workers on a Government employment programme, family members or those treated as family members who live in and share in daily activities, students on work placement schemes, Government pre-apprenticeship schemes, some EU programmes, JobCentre Plus work trials, members of the armed forces, share fishermen, prisoners, people living and working in a religious community

⁶¹ People may accept wages below the NMW because they: do not realise they are receiving less than they are entitled to or think that they are not eligible for the NMW, are receiving valuable non-financial benefits, have a social or familial relationship with their employer, or are worried about job security or finding another job. BIS (2014)

⁶² Runnymede (2015)

⁶³ Runnymede (2015)

People from some ethnic minority groups, particularly women, are more likely than others to work part-time

Higher levels of part-time working among people from some ethnic minority groups arises from many factors including the need for flexibility, barriers to working, discrimination and job segregation. 27% of adults in the UK work part-time. In comparison:

- 27% of majority white workers,
- 31% of Pakistani workers,
- 31% of Black/African/Caribbean/Black British workers, and
- 39% of Bangladeshi workers, work part-time.⁶⁴

Women, particularly those from Pakistani and Bangladeshi groups are more likely to work part-time than men, because they bear the majority of the responsibility for caring for children and family members in the home. Therefore, some women experience both an ethnicity and gender effect in the labour market. In 2015:

- 47% of female Bangladeshi workers were part-time compared to 35% of male Bangladeshi workers.
- 45% of female Pakistani workers were part-time compared to 24% of male Pakistani workers.⁶⁵

Disabled people

Disabled people are much more likely to be unemployed/inactive than people without disabilities

This report uses the definition of disability laid out in the Equalities Act 2010: “a physical or mental impairment that has a ‘substantial’ and ‘long-term’ negative effect on your ability to do normal daily activities.”⁶⁶

As the definition suggests, disabilities can interfere with carrying out daily activities and naturally this has consequences for some people in relation to employment. Disabled people are far less likely to be in employment than non-disabled people:

- 46% of disabled people are in employment in the UK, compared to
- 79% of non-disabled people.⁶⁷



The type of disability a person has affects the likelihood that they will be employed. Those with severe learning disabilities, mental illness, nervous disorders, depression or anxiety are least likely to be employed. Those with a skin condition, diabetes, heart, circulatory or digestive problems are the most

⁶⁴ PPI analysis of Annual Population Survey April 2014 - March 2015

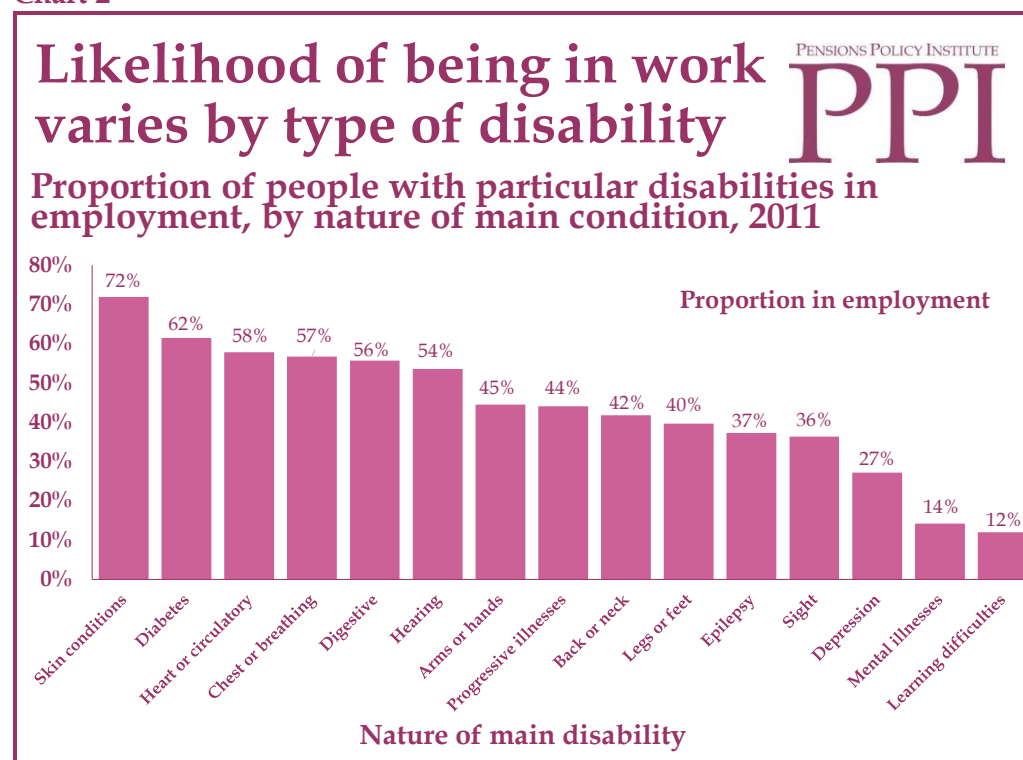
⁶⁵ PPI analysis of Annual Population Survey April 2014 - March 2015

⁶⁶ www.gov.uk/definition-of-disability-under-equality-act-2010

⁶⁷ PPI analysis of Labour Force Survey data 2015

likely to be in work.⁶⁸ Chart 2 shows the proportion of people with different types of disabilities in work in 2011.

Chart 2⁶⁹



However, not all disabilities are equally common. Only around 1.1% of people with disabilities reported having a skin condition as their main disability in 2011, compared to:

- 13% with back or neck conditions,
- 11% with leg or feet conditions,
- 11% with heart or circulation conditions, and
- 10% with chest or breathing problems.⁷⁰

Some disabled people are limited in the work that they can do or the time that they can spend working. Limitations which might affect disabled people access work include:

- Difficulty with transport to and from work,
- The need for modified or reduced hours,
- Access/ support needs,
- Anxiety/lack of confidence, and
- Attitudes of employers or colleagues.⁷¹

Because of extra requirements, some disabled people who want to work full-time may only be able to find part-time, or zero-hour/casual contracts. In some

⁶⁸ ONS (2011)

⁶⁹ ONS (2011) p.3

⁷⁰ ONS (2011)

⁷¹ Coleman et al (2013)

cases, disabled people may struggle to find any suitable employment at all, particularly in areas, such as rural communities, where the range of employment options is often limited.

Disabled people are more likely to work part-time than the average

People with a disability who are in employment are more likely to work part-time. Part-time working could arise from a need to work fewer hours to accommodate the needs of the disability or from a lack of full-time work on offer (through low availability or discrimination).

- 36% of people with a disability work part-time compared to 26% of workers without a disability.⁷²

Disabled people are more likely to work in lower-skilled jobs

Disabled people are under-represented in the higher-skilled job groups and over represented in the lower-skilled groups with:

- 24% of disabled people in high and 25% in upper-middle skilled jobs compared to 27% and 28% of non-disabled people, and
- 40% of disabled people in the lower-middle and 12% in low-skilled groups compared to 34% and 11% of non-disabled people (Table 2).

Table 2:⁷³ Proportion of disabled and non-disabled people in employment by skill level in 2011

	High Skill	Upper-middle skill	Lower-middle skill	Low skill
Disabled	24%	25%	40%	12%
Non-disabled	27%	28%	34%	11%

Disabled people experience more discrimination at work than people without disabilities

53% of disabled people report experiencing harassment or bullying at work. Of disabled workers who have experienced negative treatment, 30% attribute it to their disability or condition.⁷⁴ Discrimination at work often takes the form of disabled employees being given fewer responsibilities than they want. Other forms of discrimination manifest through:

- The type of work given,
- Being ignored,
- Nature of working hours,
- Assessment of performance/appraisal, and
- Workload.⁷⁵

Disabled people earn less than people without disabilities

Disabled people fairly consistently receive lower wages than non-disabled people, in many cases for doing very similar jobs.⁷⁶ Lower wages can result

⁷² PPI analysis of Labour Force Survey data 2015

⁷³ ONS (2011)

⁷⁴ Coleman et al (2013)

⁷⁵ Coleman et al (2013)

⁷⁶ www.poverty.org.uk/54/index.shtml Graph 1 (sourced 07.12.2015)

from a variety of factors including working in lower-skilled, part-time or casual work, but some low-pay results from either direct discrimination (there is a link between discrimination against disabled workers and the type and nature of work they are given) or hiring practices which exclude disabled workers from higher paying jobs.⁷⁷

- Median earnings for a full-time disabled worker is £22,204 per year compared to £25,220 for a non-disabled worker.⁷⁸

Carers

Carers are less likely to be employed

Carers are people who look after a partner, relative or friend who is ill or disabled.⁷⁹ Carers are less likely to be in work than those not providing care, and the more hours that people provide care, the less likely they are to work.

- In 2015, 12% of people receiving Carers Allowance were in employment and 52% of all carers (caring for 10 or more hours per week) were in employment, compared to
- 70% of people not providing care were in employment.⁸⁰



Table 3 shows working patterns for men and women in 2001, by amount of caring.

Table 3: Men and women in employment (both full and part-time) by amount of caring (2001)⁸¹

	Men	Women
No care	77%	68%
1-19 hours	79%	72%
20-49 hours	63%	53%
50+ hours	46%	34%

Carers may have difficulty finding employment

Finding employment can be challenging for carers as their caring responsibilities often mean that they can only work certain hours, might need to be able to work flexibly and/or may need to work close to home. However, not all employers are willing or able to accommodate the need for flexible working.⁸²

However, labour-market and policy changes are leading to a greater availability of flexible working, and may continue to do so in the future.⁸³

⁷⁷ Coleman et al (2013)

⁷⁸ PPI analysis of Labour Force Survey data 2015

⁷⁹ www.ageuk.org.uk/home-and-care/advice-for-carers/are-you-a-carer/

⁸⁰ PPI analysis of Understanding Society Wave 5; PPI analysis of Labour Force Survey data 2015

⁸¹ Dr Buckner (2010)

⁸² Dr Buckner (2010)

⁸³ www.gov.uk/flexible-working

Aside from needs arising from caring responsibilities, carers are also likely to have other characteristics which affect employment. The below data is based on analysis of the 2001 census.⁸⁴ Carers are more likely to:

- **Have no qualifications:** 35% of those caring between 20-49 hours per week and 43% of those caring for 50 hours per week or more have no qualifications compared to 23% of those not caring.
- **Have a limiting long-term illness:** 22% of those caring between 20-49 hours per week and 28% of those caring for 50 hours per week or more have a limiting long term illness compared to 12% of those not caring.
- **Be in poor health:** 13% of those caring between 20-49 hours per week and 18% of those caring for 50 hours per week or more are in poor health compared to 7% of those not caring.⁸⁵

Because of the nature of caring, many carers work part-time

In order to receive Government support for caring through Carer's Allowance, carers must provide at least 35 hours of care per week and earn no more than £110 per week. With this time pressure and limit on permitted earnings, it would be difficult for people receiving Carer's Allowance to work full-time.

Carers who do not receive Carers Allowance, perhaps because they earn over the threshold or provide less than 35 hours a week in care, may still find it hard to juggle full-time work and their caring responsibilities.

- Of all people who provide at least 10 hours care a week, 37% work part-time compared to 25% of people who do not provide any care.⁸⁶

Carers earn less than those who do not provide care

Carers tend to earn less than those who do not provide care:

- Median annual earnings for a carer (doing any care for 10 hours or more per week) working full-time in 2015 are £21,300, compared to £24,800 for those not providing care.

Carers might have limited employment choice if they require high levels of flexibility in order to accommodate their caring duties. This may in some way contribute to lower earnings among carers.

The self employed

The self-employed have different underlying causes for being under-pensioned than people from other groups

The self-employed are different from other under-pensioned groups in that they are all, by definition, in employment. The characteristics which put them into the "under-pensioned" category are related to: the connection between private pensions and employment provision, and the traditional link between employment and entitlement to additional state pensions. Though they are also likely to have lower earnings, on average, than employed people.

⁸⁴ Dr Buckner (2010)

⁸⁵ Dr Buckner (2010)

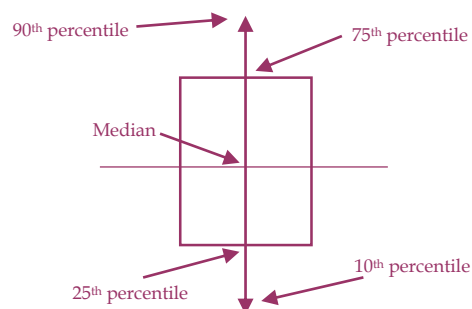
⁸⁶ PPI analysis of Understanding Society Wave 5

Self-employed people tend to have lower levels of earnings than employed people

Self-employed people are not a homogenous group. They range from independent contractors such as house painters, and corner shop owners to barristers or owners of large companies. Therefore, as a group, it is hard to identify a lot of similarities in labour market behaviour. Self-employed people do earn less, on average than those in employment, however there is greater variation at either end of the earnings distribution for the self-employed than for those in employment (Chart 3).

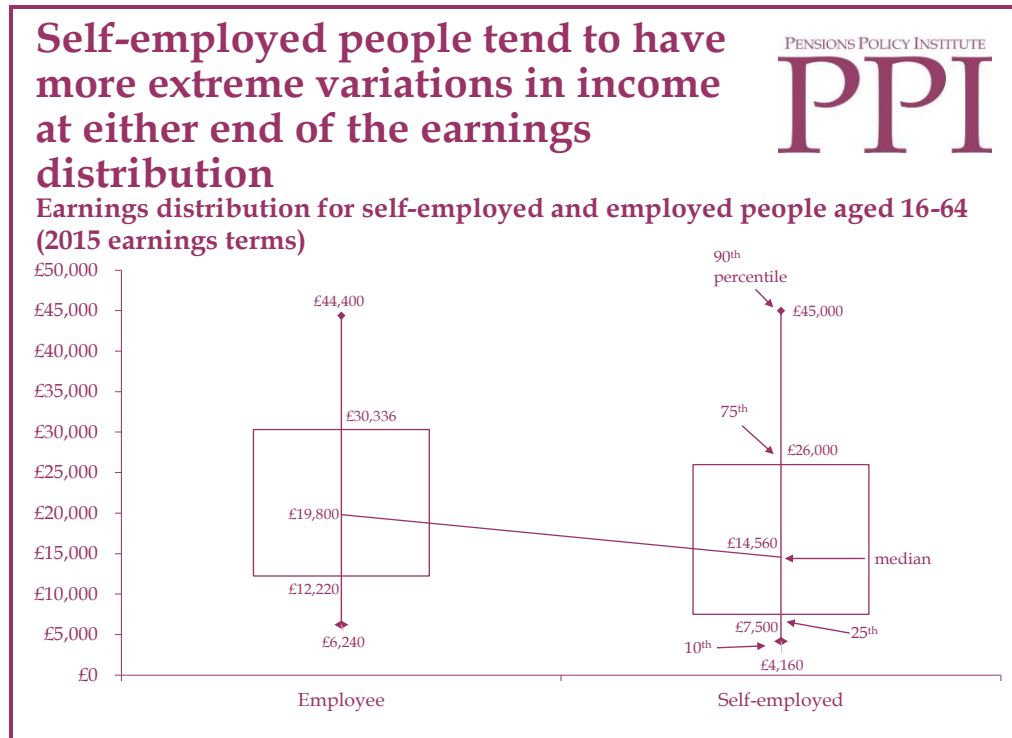
Box plots

The next chart is a **box plot**. Box plots allow graphic representation of a distribution of outcomes. The rectangle represents the 25th to 75th percentiles of the distribution while the ends of the vertical line represent the 10th and 90th percentiles. The horizontal line through the middle of the box represents the median.



It should be noted that self-employed income is self-reported and may therefore not always be completely accurate.

Chart 3⁸⁷



- The median income in 2015 for the self-employed was £14,500, compared to £19,800 for those in employment.
- However, self-employed people at the 90th percentile of the earnings distribution earn £45,000, compared to £44,400 for employed people.
- Conversely, self-employed people at the bottom of the earnings percentile (10th) earn £4,160, which is less than employed people who earn £6,240.

For some self-employed people, having lower pension savings may not be as detrimental if, for example, they have large amounts of non-pension savings and assets.

Conclusion

People from the under-pensioned groups have labour market characteristics associated with lower levels of pension income. In particular:

- Unemployment/inactivity: disabled people, Pakistani, Bangladeshi and Chinese people, carers, and Women are more likely to be unemployed/inactive than other groups. This relates to caring needs, barriers to work, discrimination and job segregation.
- Part-time work: Women, Bangladeshi people, disabled people and carers are more likely to work part-time than other groups. This is related to the need for caring (particularly for women and carers), the need for job-flexibility (particularly for disabled people and carers), discrimination and job segregation.

⁸⁷ PPI analysis of Wealth and Assets Survey Wave 3 (2010/2012), includes those self-employed but also in employed jobs

- Low earnings: Pakistani people, the self-employed, Bangladeshi people, carers, disabled people, and women are more likely to earn at lower levels than average. This relates to caring needs, barriers to work, discrimination, and job segregation.
- Self-employment: Pakistani people are more likely to be self-employed than people from other groups, partly arising from job segregation.

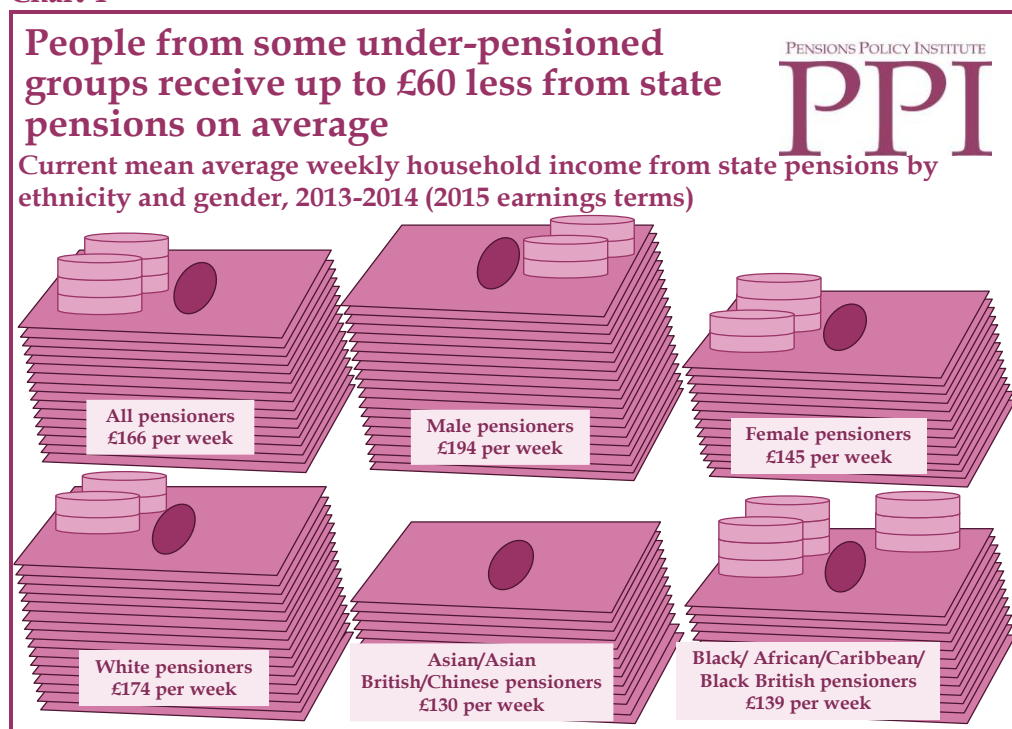
Chapter three: what pension income and savings do the under-pensioned have?

This chapter explores differences in pension savings, entitlement and income, and explores differences in eligibility for means-tested benefits, between people from the under-pensioned groups and the median earning male.

Women and people from some ethnic minority groups receive 13% to 25% less, on average, from state pensions

Chart 4 shows that women and people from some ethnic minority groups currently receive substantially less from state pensions than the overall average.

Chart 4⁸⁸

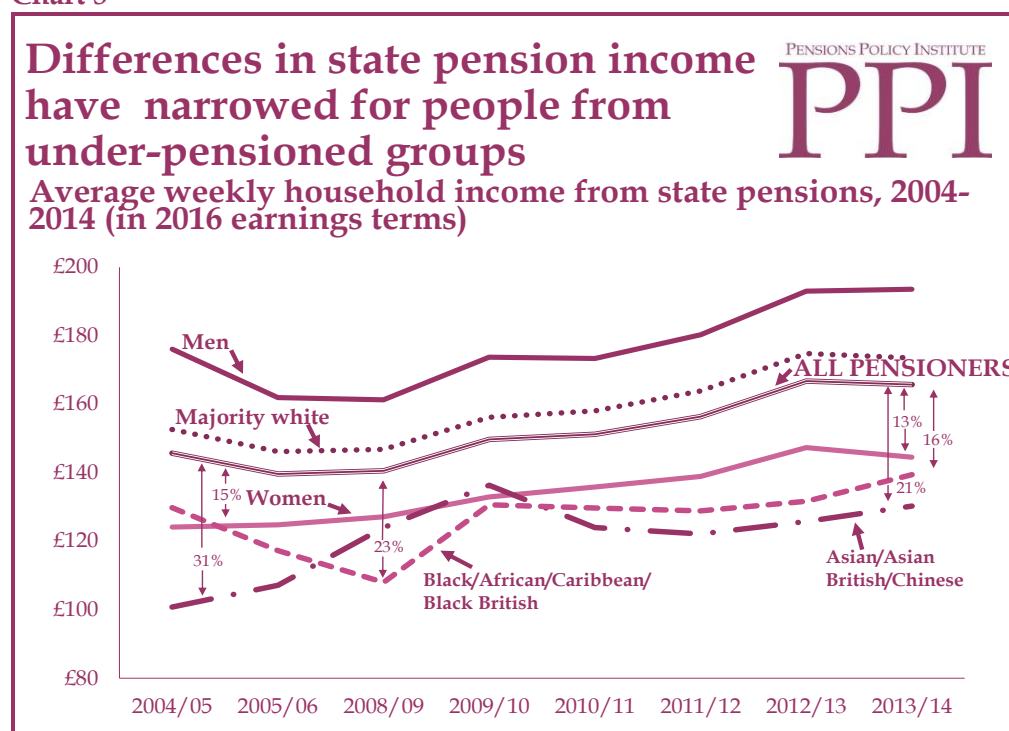


State pension receipt is lower for women and people from particular ethnic groups. In particular:

- Asian/Asian British/Chinese pensioners receive around 22% less than the average for all pensioners and around 25% less than pensioners from the majority white population.
- Women receive around 13% less than the average for all pensioners and around £25% less than male pensioners.

Differences in state pension income have reduced over the last decade, due to reforms to state pensions (Chart 5).

⁸⁸ PPI analysis of Family Resources Survey/Pensioner's Income Series data

Chart 5⁸⁹

Differences between the average receipt of state pension income, and the receipt of women and people from ethnic minority groups reduced between 2004/05 and 2013/14 mainly due to state pension reforms:

- From 15% to 13% for women,
- From 31% to 21% for Asian/Asian British/Chinese pensioners, and
- From 23% (in 2008) and then to 16% for Black/African/Caribbean/Black British pensioners

Chart 5 shows state pension income in earnings terms. All pensioners experience a drop in relative income around 2005-2008 due to earnings increasing more quickly than state pension income during that period.

In 2010, the state pension was indexed to the greater of earnings, prices or 2.5% and the number of qualifying years required for a full Basic State Pension (BSP) dropped to 30 (from 35 for women and 40 for men). This helps explain the increases for all groups from 2010.

The way that additional state pension is accrued accounts for a significant proportion of state pension income differences

The BSP pays out at a flat-rate to pensioners with a sufficient contribution record, regardless of their previous earnings level. Additional state pension was introduced in order to provide an element of state pension income related to earnings. Contributions to additional state pensions are made in proportion to earnings (in a band between minimum and maximum limits). Benefits reflect

⁸⁹ Family Resources Survey data 2004 - 2014 some ethnic groups combined due to low sample sizes

these contributions, resulting in less redistribution (from rich to poor) than from the BSP.

Additional state pensions in the UK have existed in three different guises:

- Graduated Retirement Benefit (1961 to 1975)
- State Earnings Related Pension Scheme (1978 to 2002)
- State Second Pension (S2P) (from April 2002 to April 2016)

S2P is the current form of the additional state pension. All employees contribute to S2P, and earn S2P entitlement for any periods of employment, unless they:

- Earn below the Lower Earnings Limit (£5,824pa),
- Are aged over State Pension Age (SPA),
- Are a married woman or widow paying reduced rate National Insurance contributions, or
- Are members of a contracted-out occupational pension scheme.

The pattern of accruing benefits under S2P is currently based on two earning bands and two accrual rates.⁹⁰ For low earners, a flat-rate of S2P pension is accrued. Higher earners accrue an additional earnings-related benefit alongside the flat rate accrual.

People can be credited into S2P without paying National Insurance contributions if they:

- Receive a disability related benefit,
- Care for their own child (under 12) and claim Child Benefit,
- Care for a foster child, or a sick or disabled person (for more than 20 hours a week) and claim Carer's Credit.

Those who earn at lower levels or are credited into S2P will receive less state pension income than people who work regularly and earn at higher levels. Those who accrued entitlement to additional state pensions in its previous forms (e.g. State Earnings Related Pension Scheme) will have accrued entitlement that is more closely related to earnings than under the current system of S2P.

People from the under-pensioned groups who are more likely to be unemployed/inactive, work part-time or earn at lower levels, tend to accrue lower levels of state pension entitlement.

Self-employed people who are not eligible, even voluntarily, to contribute to S2P, will receive less from the state pension system than people accruing entitlement to both Basic and additional state pensions, and therefore long periods of self-employment are likely indicators of a relatively lower state pension income. For people from ethnic minority groups who are more likely

⁹⁰ Earnings between the Lower Earnings Limit and the Upper Accrual Point. Before 6 April 2010, there were three bands accruing benefits at 40% 10% and 20%. Following provisions in the Pensions Act 2007, the former second and third bands have been merged into a single band accruing benefits at 10%.

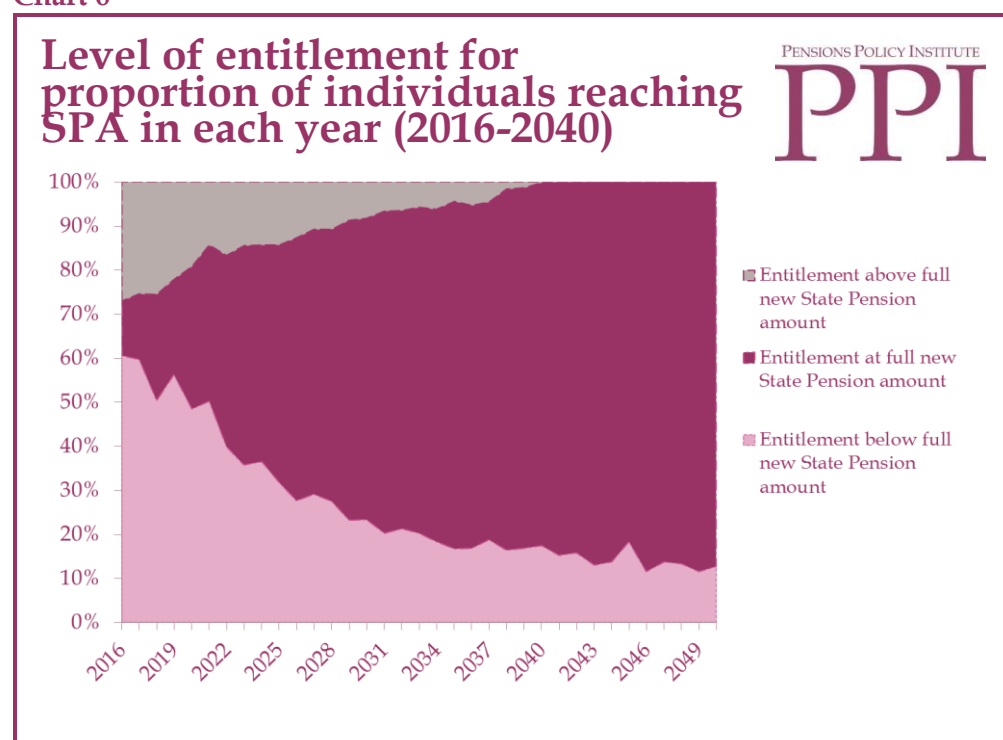
to be self-employed, such as Pakistani workers, this characteristic reinforces other characteristics (such as low-earnings and part-time working) which are associated with being under-pensioned.

State pension inequalities will reduce over time

After April 2016, people will no longer be able to accrue entitlement to additional state pensions. Instead the BSP and S2P will be replaced by one, single-tier pension (the New State Pension (NSP)) which pays a flat-rate above the level of Guarantee Credit (for those with full entitlement). However, pensioners who have accrued any additional state pension entitlement prior to April 2016 may see some of their entitlement from the previous system reflected in their state pension income.

The NSP will provide a greater level of income redistribution in future as inequalities arising from the way in which additional state pension entitlement is accrued gradually reduce. However, there will be a lengthy transitional period in which some people receive higher than the full rate of the NSP based on their accrued entitlement under the two-tier system. By 2040, around 80% of people reaching SPA will receive the full rate of the NSP without entitlement accrued under the previous system reflected in their pension benefit (Chart 6).

Chart 6⁹¹



Once the majority of pensioners are under the NSP system, inequalities in state pension income between lower earners, disabled people, carers and the self-

⁹¹ Source: DWP estimates of level of entitlement to single-tier (based on the modelling and economic assumptions in the October 2013 Pensions Bill Impact Assessment)

employed will be reduced to very low levels. Some people who do not earn enough to contribute to National Insurance and are ineligible for credits may still receive lower state pension income than average, but will often be able to top up state pension income with means-tested benefits. Chapter 4 investigates future levels of state pension income in more detail.

Eligibility for means-tested benefits

There are a number of means-tested benefits that pensioners may be eligible for depending on their financial circumstances. The main means-tested benefit for pensioners is Pension Credit:

- Pension Credit has two components: Guarantee Credit (GC), currently payable from age 62½, and Savings Credit (SC), payable from age 65. The minimum age for receiving GC increases in line with increases in women's SPA, (as introduced by the Pensions Act 1995).⁹² People retiring after April 2016 will no longer be eligible to receive Savings Credit.
- Guarantee Credit is paid to pensioners with low income and savings levels. Guarantee Credit tops up pensioner's income to £155.60pw, for single people and £237.55pw for couples (2016/17).

Other means-tested benefits which pensioners may be eligible for include:

- Housing Benefit,
- Local Council Tax Support,
- Disability-related benefits and uplifts,
- Tax allowances (for some older pensioners),
- Universal benefits: for example, Freedom Passes, free TV licences, Winter Fuel Payments.

People from under-pensioned groups are more likely to be in receipt of means-tested benefits in retirement

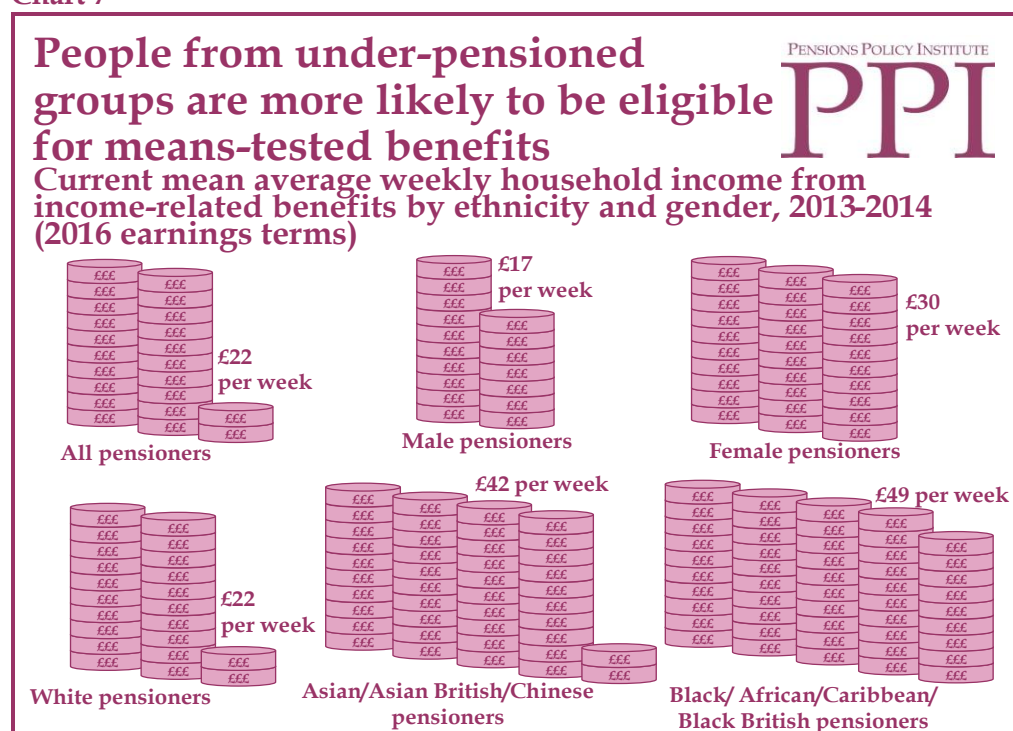
Tracking eligibility for means-tested benefits is important because it indicates which groups are living on very low incomes in retirement and are more likely to be experiencing financial hardship and/or be in danger of living in poverty.

People from under-pensioned groups are more likely to be in receipt of means-tested benefits,⁹³ and receive them at higher levels (Chart 7).⁹⁴

⁹² The State Pension Credit Act 2002 sets the qualifying age for the Guarantee Credit to be the same as the SPA for women.

⁹³ DWP (2015a)

⁹⁴ Includes Pension Credit, Housing Benefit, support for Council Tax and other income-related benefits. The analysis does not include disability benefits, the majority of which are not means-tested.

Chart 7⁹⁵

Women and people from ethnic minority groups receive more income in retirement from income-related benefits than the average for pensioners. In 2013/14:

- Pensioners received an average of £22pw from income-related benefits (2015 earnings terms),
- Male pensioners received £17pw on average, compared to female pensioners who received £30pw on average; 76% more than men and 36% more than the average for all pensioners,
- White pensioners received £22pw on average, compared to ethnic minority pensioners who received £43pw to £49pw on average, 90% to 123% more than white pensioners and the average for all pensioners.

The NSP, which will pay a full-rate above the level of Guarantee Credit, should reduce the proportion of pensioners eligible for Pension Credit over time. The Government estimates that almost one in three pensioner households are currently eligible for Pension Credit and that, due to the NSP, Pension Credit eligibility for those retiring after April 2016 will be 12%, falling to 8% by 2020 and 3% by 2060 (assuming the NSP continues to be linked to the triple-lock).⁹⁶ Without maintaining the triple-lock, reliance on means-tested benefits may not fall to the same degree.

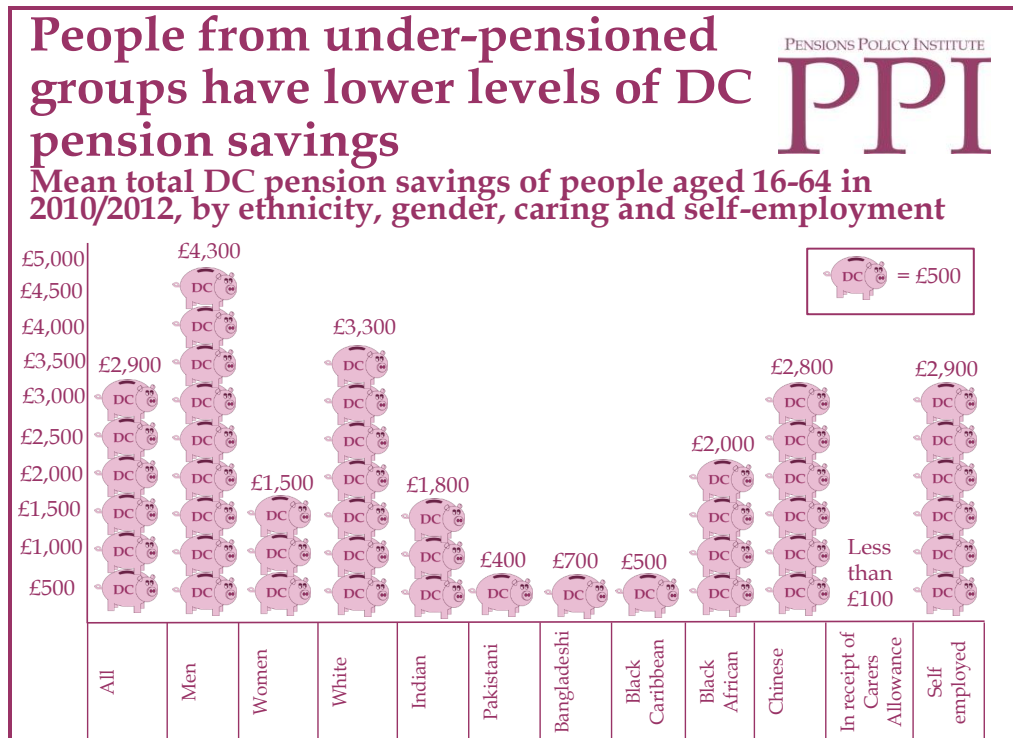
⁹⁵ PPI analysis of Family Resources Survey/Pensioner's Income Series data

⁹⁶ DWP (2016)

Private Pensions

Differences in private pension **savings** are more pronounced than those in state pension **income**. The following chart displays total Defined Contribution (DC) pension savings by mean average and includes people who have not saved anything in DC in order to better account for groups with low levels of saving (Chart 8).

Chart 8⁹⁷



The mean average level of total DC pension savings in 2010/2012 was £2,900 for all adults compared to:

- £3,300 for the majority white population (14% more),
- £2,800 for Chinese people (3% less),
- £2,000 and £1,800 for Black African and Indian people (31% and 38% less), and,
- £400 to £700 for Bangladeshi, Pakistani and Black Caribbean people (76% to 86% less).

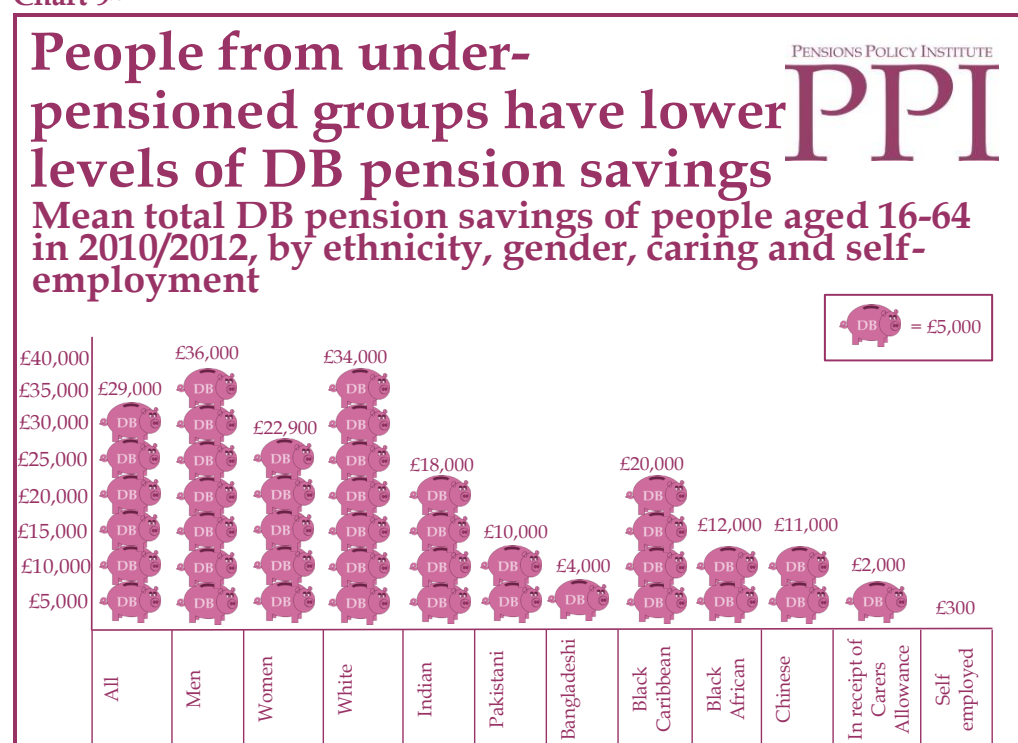
Women, those in receipt of carers allowance and the self-employed also experience significant differences in total DC pension savings, with a mean average in 2010/2012 of:

- £1,500 for women (48% less),
- Less than £100 for carers (over 96% less).

⁹⁷ Wealth and Assets Survey Wave 3 (2010/2012), data on self-employed includes those who might also have an employed job

The self-employed have, on average, a total of £2,900 in DC savings, the same as the average for all adults. This is partly due to the self-employed being more likely to save in a DC pension, if they do save, than in a Defined Benefit (DB) pension, as illustrated by the next chart (Chart 9).

Chart 9⁹⁸



The mean average level of total DB pension savings in 2010/2012 was £29,000 for all adults compared to:

- £34,000 for the majority white population (17% more),
- £22,900 for women (21% less),
- £20,000 for Black Caribbean people (31% less),
- £18,000 for Indian people (38% less),
- £12,000 for Black African people (59% less),
- £11,000 for Chinese people (62% less),
- £10,000 for Pakistani people (66% less),
- £4,000 for Bangladeshi people (86% less),
- £2,000 for carers (93% less),
- £300 for the self-employed (99% less).

While many groups have similar, if not worse, experiences under DB than DC, women and carers fare better under DB savings experiencing lower differences than under DC savings.

However, carers have relatively low DC or DB pension savings on the whole. Some carers report taking their pension savings early in order to support

⁹⁸ Wealth and Assets Survey Wave 3 (2010/2012)

themselves. This could impact saving levels and pension income in later life for some carers.⁹⁹

The self-employed have very low levels of DB savings while quite high levels of DC savings in comparison with other under-pensioned groups.

Participation in pension saving is low among under-pensioned groups

The previous charts have shown mean averages of DC and DB pension saving. Mean averages are far lower for groups that have low levels of participation in pension saving because those not saving bring the group average down. The following table illustrates that current participation in pension saving is lower for under-pensioned groups, particularly those with very low employment levels, for example, disabled people. (Table 4).

Table 4:¹⁰⁰ Proportion of all adults and employed adults actively saving in a private pension by ethnic group, gender, disability and self-employed status (2012/13 and 2013/14)

	Proportion of adults saving in a private pension	Proportion of employed adults saving in a private pension
All	27%	49%
Men	30%	45%
Women	27%	49%
White	28%	50%
Indian	27%	44%
Pakistani	9%	22%
Bangladeshi	13%	28%
Chinese	23%	33%
Black/African Caribbean/Black British	24%	43%
Disabled	12%	42%
Self-employed	17%	17%

While a low proportion of UK adults, 27% (49% of employed adults) are actively saving in a pension, even lower proportions of people from some ethnic minority groups are actively saving in a private pension, in particular:

- 9% of Pakistani people (22% of employed Pakistani people),
- 13% of Bangladeshi people (28% of employed Bangladeshi people),
- 23% of Chinese people (33% of employed Chinese people), and
- 24% of Black/ African Caribbean/Black British people (43% of employed).

⁹⁹ Results from focus groups conducted by Age UK, *forthcoming*

¹⁰⁰ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

Some non-participation is related to cultural issues. In particular, Asian families tend to rely more on extended family as support in old age than on personal pension savings. There is also evidence that some people from Asian backgrounds favour more flexible forms of saving over pension saving.¹⁰¹

Women are just as likely as the average to save in a private pension (27%) but 3% less likely than men. However, employed women are more likely than employed men to save in a private pension, 49% compared to 45%. This may be because women who do work are more likely to work in public sector jobs (around 67% of public sector employees are female)¹⁰² which generally offer DB pensions.

Very few self-employed people, 17%, are saving in a private pension. This is because the majority of private pension saving is accessed through an employer and therefore not made as easily available to the self-employed.¹⁰³

Disabled people are least likely of any of the above groups, at 12%, to be saving in a private pension.¹⁰⁴ While 42% of employed disabled people are saving in a pension, only 29% of disabled people are in employment (compared to 49% of non-disabled people),¹⁰⁵ accounting for the very low proportion of overall saving. However, the data shows that disabled people in employment are fairly likely to be in a private pension, only 7% below the average participation rate.¹⁰⁶

Employment rates have improved over the last few decades for people of all ethnicities,¹⁰⁷ and overall employment in the UK is at a record level of 74%.¹⁰⁸ If this pattern continues it may contribute to higher levels of participation in private pension saving for some under-pensioned groups.

Chart 10 shows the **median** level of private pension savings for under-pensioned groups, excluding those with no savings. This shows distribution among those with private pension (DB & DC) savings.

¹⁰¹ Gough, O. Adami, R. (2013)

¹⁰² ONS (2014c)

¹⁰³ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

¹⁰⁴ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

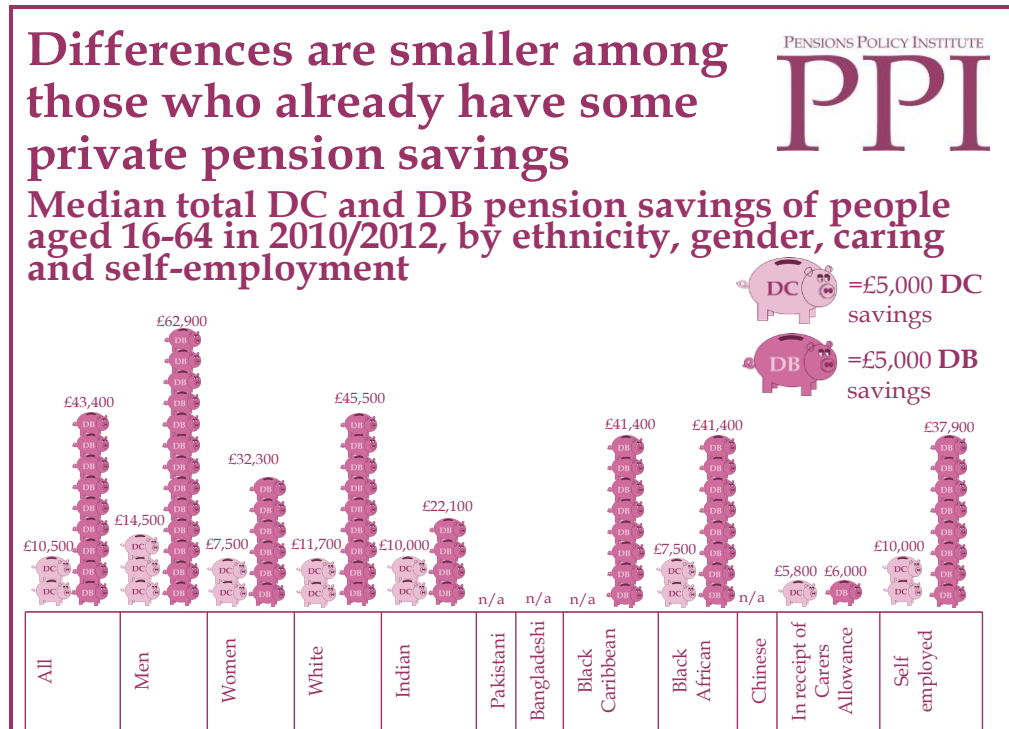
¹⁰⁵ PPI analysis of Labour Force Survey data 2015

¹⁰⁶ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

¹⁰⁷ JRF (2015)

¹⁰⁸ ONS (2016)

Chart 10¹⁰⁹



The differences in income between those in the under-pensioned groups and the majority populations are reduced when the analysis is limited to those who already have private pension savings (Chart 10). Certain groups still experience differences, in particular women, people from ethnic minority groups and carers.

The median total pension savings for all UK adults is £10,500 DC, £43,400 DB, compared to:

- £7,500 DC, £32,300, DB for women,
- £10,000 DC, £22,100 for Indian people,
- £7,500 DC, £41,400 for Black African people, and
- £5,800, DC, £6,000 for carers.

However, these are smaller differences than those found in the mean levels of DB and DC pension saving in Charts 8 and 9, indicating that people from under-pensioned groups who are in work and are saving in a pension, save at levels close to the majority group. Therefore, the major contributing factor for many under-pensioned is lack of membership in a pension scheme, at least when private pension savings are being considered.

Automatic enrolment should help increase pension participation

Automatic enrolment, which is intended to increase the pension participation of people with under-pensioned characteristics, particularly the lower paid,

¹⁰⁹ Wealth and Assets Survey Wave 3 (2010/2012)

should go some way to narrowing the differences between the average private pension saving levels and the average for those in under-pensioned groups.

However, the way that automatic enrolment eligibility criteria is currently structured means that employed people from under-pensioned groups are less likely to be eligible for automatic enrolment. Previous PPI research for this project found that, of people employed in the UK (over age 22 and under SPA):

- 32% of women do not meet the eligibility criteria, compared to 16% of men,
- 32% of Pakistani workers, 33% of Bangladeshi workers, and 29% of Black/African/Caribbean workers do not meet the eligibility criteria compared to 23% of white workers,
- 30% of disabled workers¹¹⁰ do not meet the eligibility criteria, compared to 23% of disability-free workers,
- 81% of employed carers (defined by those who receive care-related benefits) are ineligible for automatic enrolment.¹¹¹

Some ineligible workers may already be saving in a pension prior to automatic enrolment, and, those who are not saving have the option of opting-in to pension saving through their employer.

The eligibility earnings threshold of £10,000pa results in those with low earnings, and/or in part-time or multiple jobs being far less likely to be eligible. People in under-pensioned groups are more likely to have these labour market characteristics.

Self-employed people are not generally eligible for automatic enrolment, and some people from under-pensioned groups, particularly Pakistani people, are far more likely to be self-employed than the average.

Immigration patterns can affect state and private pension incomes

State and private pension incomes are affected by the length of time people spend working in the UK. People who immigrate to the UK during their working life may accrue lower levels of pension entitlement than those who have worked and contributed in the UK for all or most of their working lives.

Fewer contributing years will be reflected in the level of earnings-related, S2P, pension built up but can also be reflected in the amount of BSP people receive if, for example, they do not accrue entitlement to enough years to get the full flat-rate of BSP (30 years in 2015).

¹¹⁰ As defined by the Equalities Act

¹¹¹ PPI (2015)

Under the NSP, people will need to have 35 years of contributions or credits in order to receive the full rate and at least ten years of contributions in order to qualify for any state pension. Therefore, people emigrating late in their working life will have less opportunity to build up full entitlement, though in some cases additional qualifying years can be retrospectively purchased.

Recent immigration patterns in particular currently affect:

- People from the Caribbean, whose immigration peaked in the early 1960s,
- People from India and Pakistan, whose immigration peaked in the early 1970s, and
- People from Bangladesh, whose immigration peaked in the early 1980s.¹¹²



Therefore, people from Bangladesh, whose immigration peaked most recently, are most likely to have low levels of state and private pension entitlement due to less time spent living and working in the UK. Over time, some differences arising from migratory patterns will reduce as people from particular immigrant groups have the opportunity to work in the UK and accrue entitlement for longer periods, though migrants will continue to arrive and work in the UK. While this report would have liked to be able to show precisely how migration affects the pension position of individuals, the data do so is not currently available.

Demography affects the pension entitlement of people from ethnic minority groups

People from some minority ethnic groups have younger ages on average than the overall population. The median age of people from the majority white British group is 40. While people from Chinese, Black Caribbean, Indian and “other Asian” groups have median ages around 35.¹¹³

Lower median ages affect the levels of savings and entitlement of a group because people in a younger group will, on average, have spent less time accruing pension savings and entitlement than those belonging to groups with older median ages. Therefore, some of the differences in private pension savings and entitlement experienced by ethnic minorities can be attributed to younger ages.

Self-employment and pension provision

Pension provision within the UK has traditionally been linked to employers (especially larger ones) through their provision of Defined Benefit (DB) pension schemes. Over the past few decades, there has been a decline in provision of DB schemes in the private sector (though most public sector schemes remain DB)

¹¹² DWP (2015a) p. 68

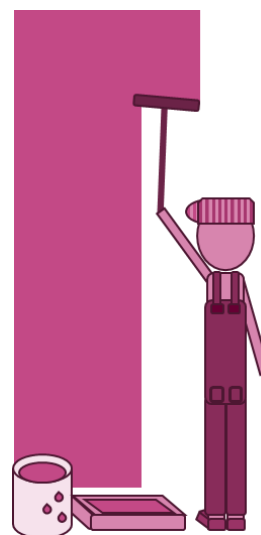
¹¹³ Lievesley, N. (2010)

and now many private sector schemes are DC schemes run by third-parties (such as insurance providers). However, private pension schemes are still generally accessed through an employee's workplace.

Self-employed people do not benefit directly from automatic enrolment

Automatic enrolment uses employer regulation to increase worker access to private pension schemes and, therefore, self-employed people do not benefit directly from automatic enrolment. While self-employed people are allowed to join a private pension scheme the majority of self-employed people still do not save in a private pension (Chart 11).¹¹⁴

Lower saving levels among the self-employed can be partly attributable to the lack of an employer prompt for saving. However in the past many self-employed made the choice to save without an employer prompt. In March 1991 there were 3.4 million self-employed men in the UK, 66% of whom were members of a personal pension scheme.¹¹⁵



In recent years the number of self-employed people saving in a pension has decreased

The proportion of the workforce that are self-employed has increased over recent years. Since 1991 the number of self-employed men in the UK has risen from 3.4 million to 4.2 million (2013).¹¹⁶ However only 22% of self-employed people were saving in a private pension in 2013, a drop of 40% over 16 years (Chart 11).¹¹⁷

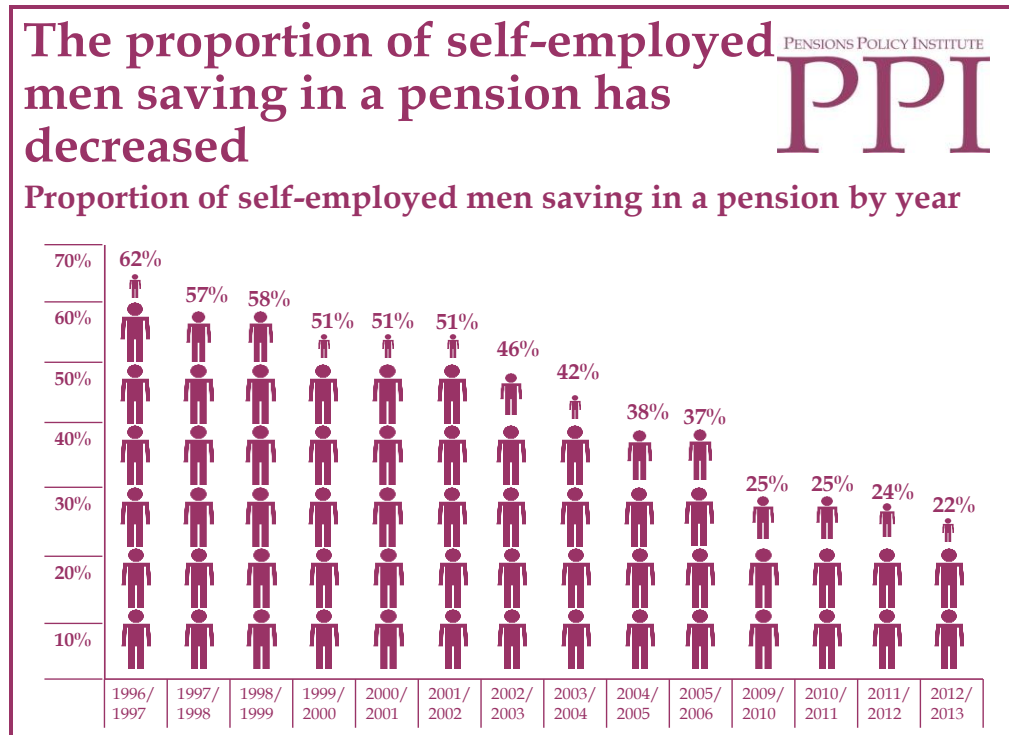
¹¹⁴ ONS (2013b) Pp. 18-19

¹¹⁵ ONS (2013b) Pp. 18-19

¹¹⁶ ONS (2013b) Pp. 18-19

¹¹⁷ Labour Force Survey Data JOBS01 Workforce Jobs, ONS (2014b) p. 16

Chart 11¹¹⁸



There are many possible explanations as to why fewer self-employed people have decided to save in a private pension over the past 16 years:

- The introduction of the tax advantaged Individual Savings Account (ISA) vehicles in 1999 may have attracted some people away from saving in a pension scheme in order to save in an ISA instead;
- The 2008 recession may have reduced the number of self-employed people choosing to join or remain in pension schemes because of affordability reasons;
- Changes in the nature of self-employment and the characteristics and income levels of people who are self-employed could impact on decisions around pension saving.¹¹⁹

Knowledge of state and private pensions and other financial products is relatively low, on average, among self-employed people. In addition, many self-employed people hold negative views about personal pensions and have little understanding about tax relief on pension savings.¹²⁰ This indicates that while some of the self-employed people not currently saving in a pension scheme might benefit from joining one, they may need support and guidance in order to make that decision.

While self-employed people stand to benefit from the NSP, unless a significant proportion of self-employed people choose to join a private pension scheme,

¹¹⁸ ONS (2014b) Figure 7.10

¹¹⁹ ONS (2013b) Pp. 18-19

¹²⁰ DWP (2006a)

private pension saving amongst this group will remain low or even continue to decline. However, people often dip in and out of self-employment throughout their lives and may therefore accrue private pension entitlement through employment for some of their working life even if they do not save in a pension while self-employed.

Fewer women are self-employed than men and women who are self-employed are more likely to work part-time

Data on self-employed women's pension membership is less widely available than it is for men. Fewer women are self-employed than men (in 2013 70% of self-employed people were men and 30% were women). Women in self-employment are also more likely to work part-time. In 2013, half of self-employed women worked part-time compared to 17% of self-employed men.¹²¹

People from under-pensioned groups tend also to have lower levels of other savings and assets

While this report focusses solely on the pension savings and incomes of people from different groups, some pensioners will use non-pension savings and assets to support themselves in retirement. It therefore follows that, if people in under-pensioned groups had higher than average levels of other savings and assets, this might go some way towards offsetting the disadvantages associated with lower than average pension income.

However, as illustrated in Appendix Two, people from under-pensioned groups tend to have far lower than average levels of non-pension savings and assets, with the exception of self-employed people, many of whom tend to hold greater wealth at any given time partly because of business asset ownership and management of organisational finances.

Conclusions

- Women and people from some ethnic minority groups receive less from state pensions than the overall average (though differences in state pension income have reduced recently).
- The way that additional state pension is accrued accounts for a significant proportion of state pension income differences.
- In the future, inequalities arising from the way in which additional state pension entitlement is accrued will gradually reduce, though there will be a transitional period in which some people receive higher than the full rate of the NSP based on their accrued entitlement under the two-tier system.
- Women and people from ethnic minority groups receive more income in retirement from means-tested benefits than the average for pensioners.
- Differences in private pension savings are more pronounced than those in state pension income for all under-pensioned groups, arising partly from low levels of participation in pension saving amongst these groups.
- Automatic enrolment, which is intended to increase participation of people with under-pensioned characteristics, particularly the low paid, should go

¹²¹ ONS (2014b) p. 16

some way to narrowing the differences between average private pension saving levels and those of under-pensioned groups. However, the way that automatic enrolment eligibility criteria is currently structured means that employed people from under-pensioned groups are less likely to be eligible for automatic enrolment.

- While self-employed people are able to join a private pension scheme the majority of self-employed people still do not save in a pension. Unless a significant proportion of self-employed people choose to join a pension scheme, pension saving may remain low among this group for the foreseeable future.

Chapter four: how might the pension income of the under-pensioned change in future?

This chapter explores the future pension incomes of the under-pensioned and how some policy levers might affect differences in pension income for members of under-pensioned groups.

Changes in policy since 2008 will affect the future pension income of members of under-pensioned groups

The previous chapters have shown that people from under-pensioned groups have many of the labour market characteristics that are associated with lower pension incomes. This chapter uses hypothetical individuals with some of the characteristics observed among the under-pensioned to illustrate potential future pension incomes and to explore how these could be affected by policy levers. The same individuals were used in the 2008 analysis and outcomes from that analysis are compared to the the results in this report.

There are distinct differences between the 2008 state pension system and the post-April 2016 system which have affected the modelling outcomes:

- All of the individuals accrue their entitlement under the NSP system, in 2008 the individuals received Basic State Pension and additional state pensions under the pre-April 2016 state pension system.
- The NSP is assumed to increase by the triple lock (the greater of: the increase in earnings, the CPI or 2.5%) while in 2008 the state pension was modelled to increase by earnings and additional state pension by prices.
- The automatic enrolment earnings threshold for eligibility is assumed to be £10,000pa (increasing every year in line with earnings), while the 2008 work assumed the (at the time) anticipated automatic enrolment threshold of £5,000.
- The individuals are automatically enrolled at the minimum age for automatic enrolment (age 22) as opposed to the assumed age 25 in the 2008 work.

The next section describes the hypothetical individuals modelled in this report

The hypothetical individuals modelled in this report have labour market characteristics typical of the groups which they represent and generally shared by under-pensioned groups: low-earnings, part-time working, time out of work, caring, disability and self-employment. They also have identical work histories to those modelled in the PPI's 2008 Under-pensioned report. This has allowed for measurement of the change in potential outcomes between the 2008 system and the post-2016 system.

Modelling caveat box**There are limitations to modelling hypothetical individuals**

Modelling hypothetical individuals is useful for exploring outcomes based on certain assumptions, for example: *What would happen if the earnings threshold for automatic enrolment eligibility was lowered?*

Future retirement incomes will be impacted by many factors including: personal circumstances, employer/employee behaviour, pension charges, investment returns, and changes in the structure of the state pension and means-tested benefits system.

While the modelling explores individuals' incomes as a basis for comparison, in practice, many people will rely on income from other family members as well as their own state and private pension income.

The modelling results are intended to illustrate the differences in experience between certain groups and should not be taken as forecasts of incomes in retirement. If a forecast were to be made of levels of income among future pensioners, it would need to allow for factors that are not included in this report.

Further details of the methodology and assumptions used in this analysis are contained in the Modelling Appendix to this report.

The modelling assumes all people purchase an annuity

The modelling assumes that all the individuals use their entire DC pot to purchase an annuity, in line with assumptions made in the 2008 report. This allows the potential incomes of different groups in retirement to be compared.

This assumption does not reflect an expectation as to how people will access their DC pension savings in the future. In all likelihood many people will take a 25% tax-free lump sum from their DC pension pot (assuming this option is still available) and will access the remaining savings in a variety of ways including: purchasing an annuity, purchasing an income drawdown product, withdrawing lump sums directly from their pension account, or using savings for alternative purchases or investment.

People receive retirement income from many different sources

This report explores people's income from state and private pensions and means-tested benefits. In reality, many pensioners receive income from other different sources including earnings, non-pension savings and assets, housing equity, other family members, inheritance and other state support (for example, non means-tested disability benefits). However, for the purposes of this analysis, only pension income is considered, in order to allow for a comparison of pension income.

The policy stereotype still provides a useful standard

In order to identify those who might be under-pensioned, it is necessary to establish a standard against which levels of pension savings and income can be compared. The 2008 analysis compared the pension saving and incomes of under-pensioned groups with that of a hypothetical 'policy stereotype'. The policy stereotype was constructed to reflect the characteristics used by the Government to model outcomes from the pension system, though the policy stereotype was not necessarily representative of the population at large, for example, a median-earner who works full-time and contributes throughout his working life does not represent the average worker.

Since 2008 there has been greater acknowledgement of the distributional impact of pension policies and more representative examples are being used. However the policy stereotype is still widely used and still provides a useful standard by which to measure the outcomes of groups with different characteristics. The policy stereotype in 2008 was:

- A hypothetical median-earning man who worked continuously until his SPA, and
- Contributed to a pension consistently from his early 20s¹²² until his SPA.

In this report, the policy stereotype is still used as the standard against which to measure the outcomes of other groups and individuals. The 2016 policy stereotype, Peter, is a median earning man who:

- Starts full-time work at age 22 (2020).
- Works from age 22, and earns around £21,476pa¹²³ at age 25, the 55th percentile of the earnings distribution (median earnings for white men).
- Is automatically enrolled at age 22 and he and his employer contribute a total of 8% of band/qualifying earnings into a DC pension scheme.¹²⁴
- Leaves work at his SPA of 68 in 2066, takes his state pension and uses his private pension savings to purchase a single-life, level annuity.

Peter's income is compared against those of four hypothetical individuals (Table 5).

Table 5: hypothetical individuals

Name/characteristics of hypothetical individuals
Robert - low earning man with late onset disability
Deborah - median earning woman with early onset disability and part-time work
Ayesha - low earning woman who spends time out for caring and works part-time
Sayed - a low earning man who is self-employed after the age of 40

¹²² 21 in the 2003 work, 25 in the 2008 work

¹²³ age-specific median earnings for men

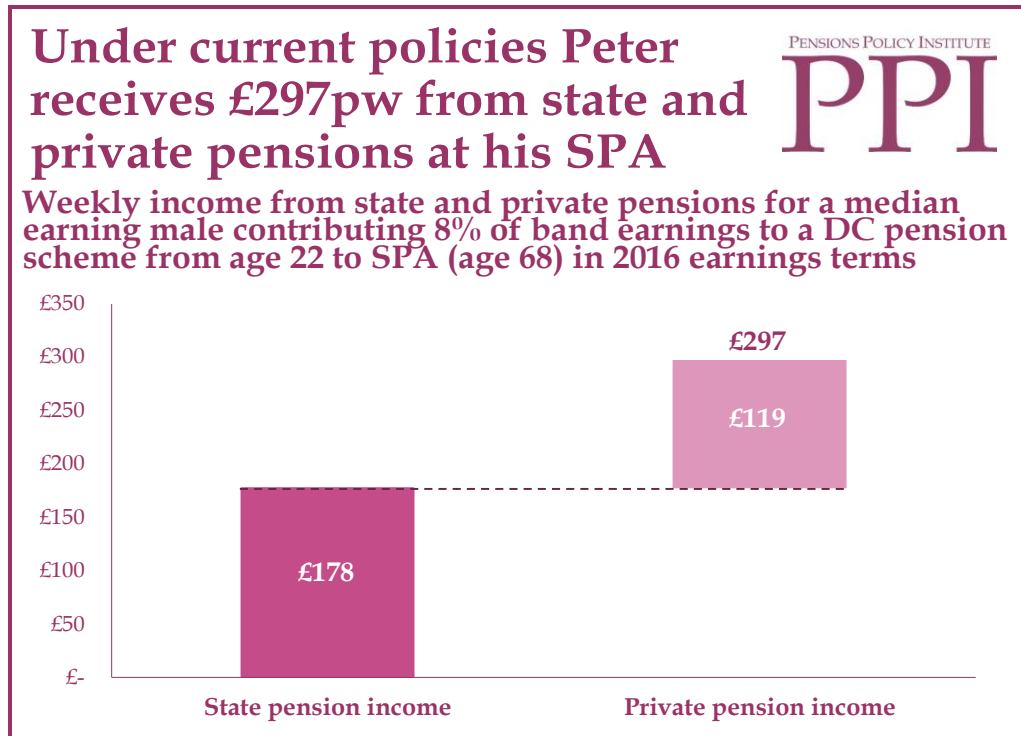
¹²⁴ Contributions of 8% should be fully phased in by this point

This report compares the individuals' incomes with Peter's income. However, it should not be assumed that Peter's income is the standard to which all pensioners should aim. People may need more or less than Peter's income in order to meet their needs in retirement, depending on their personal circumstances. Pensioners' income will vary from time to time as a result of economic and labour market trends as well as policy changes. Therefore, though differences may decrease at times when average incomes come down this could just mean that median-earners are receiving lower incomes rather than an unmixed improvement for all pensioners.

Under current policies, Peter would receive £297 per week from state and private pensions at his SPA

- If it is assumed that state and private pension policies continue in their current form Peter would receive £297pw from state and private pensions at his SPA (Chart 12).

Chart 12¹²⁵



Under current policy scenarios Peter would receive:

- £178pw from the NSP (higher than the current NSP rate of £155.65 because the state pension is assumed to increase relative to earnings as a result of the triple-lock), and
- £119pw from his private pension (2016 earnings terms) in the year he reaches his SPA.

¹²⁵ PPI Individual Model

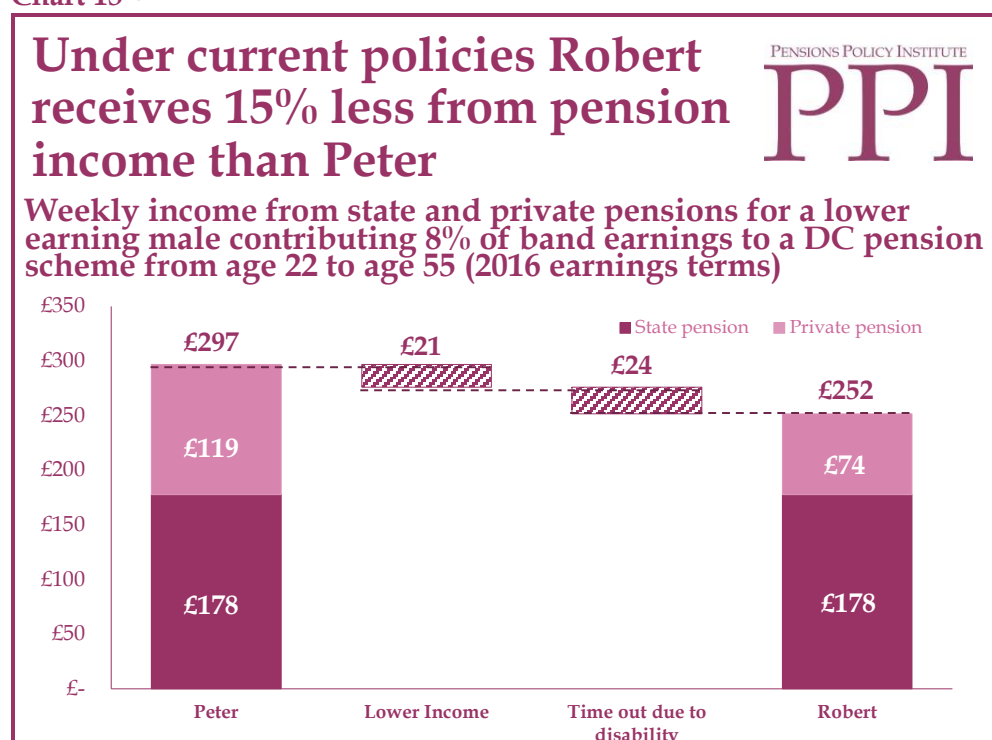
In the 2008 research, Peter received relatively more (around £2)¹²⁶ from his pension income in retirement than he does in this report. This is because Peter does not accrue any earnings-related state pension entitlement under the NSP system.

Under current policies, Robert, a low earner with a disability, would receive £252 per week from state and private pensions at his SPA, 15% less than Peter
 Robert is a low earner and a manual worker who develops a disability in later life. He:

- Starts full-time work at age 18 (2016) as a machine operator and earns around £11,911pa¹²⁷ at age 25, the 10th percentile of the earnings distribution.
- Is automatically enrolled at age 22 and he and his employer contribute a total of 8% of band/qualifying earnings into a DC pension scheme.
- Leaves work at age 55 due to a work-related disability and receives means-tested benefits.
- Takes his state pension at his SPA of 68 in 2066, and uses his private pension savings to purchase a single-life, level annuity.

If it is assumed that state and private pension policies continue in their current form, Robert would receive £252pw from state and private pensions at his SPA (Chart 13).

Chart 13¹²⁸



¹²⁶ In 2008 Peter's total pension income for Peter in 2066 was £254 (2007 earnings terms), in this report, his total pension income is £252 (2007 earnings terms)

¹²⁷ age-specific median earnings for a male manual worker

¹²⁸ PPI Individual model

Under current policy scenarios Robert would receive:

- £178pw from the NSP, and
- £74pw from his private pension (2016 earnings terms) in the year he reaches his SPA.
- Depending on the severity of his condition, Robert may be eligible for further, disability-related benefits which would boost his retirement income.

Robert accrued the minimum number of qualifying years required for the full rate of the NSP and receives same level of state pension as Peter. This is because both Peter and Robert accrue their state pension entitlement entirely under the NSP system and therefore accrue no earnings-related element. However, Robert has a lower pension income than Peter because:

- He earns at the median earnings level for manual workers, which is lower than the level of earnings assumed for Peter. Therefore, he and his employer pay lower contributions into his private pension. This reduces his private pension income by £21 a week.
- He becomes disabled at age 55 and leaves work. Although he has already accrued full entitlement to the NSP (and would have been credited into the remainder through his means-tested benefits if he fell short), he contributes less to his private pension than he would if he had worked until his SPA. His private pension income is reduced by a further £24 a week.

At Robert's SPA he receives 15% less from his pension than Peter does, however, in the 2008 work Robert received 22% less than Peter from state and private pensions. Robert receives a higher proportion of income from his private pension in the 2016 analysis due to assumptions about higher future earnings level arising from the introduction of the National Living Wage.¹²⁹

Under current policies, Deborah, a woman with a disability who works part-time, would receive £234pw from state and private pensions at her SPA, 21% less than Peter

Deborah is a median earning woman who leaves work due to a disability and then returns to work part-time, resuming full-time work five years after. She:

- Starts full-time work at age 21 (2019) and earns around £18,521¹³⁰ at age 25, the 40th percentile of the earnings distribution.
- Is automatically enrolled at age 22 and she and her employer contribute a total of 8% of band/qualifying earnings into a DC pension scheme.
- Stops full-time work at age 35, due to work-related stress, and stays out for 5 years. She does not earn credits towards state pension during this time. At age 40, she returns to work on a part-time basis, working two days a week. She qualifies for auto enrolment but chooses to opt out because she feels she cannot afford the contributions. She resumes full-time work at age 45 and is again auto-enrolled. As a result of her career break and lost work

¹²⁹ Earnings assumptions derived from OBR short and long-term assumptions, November 2015

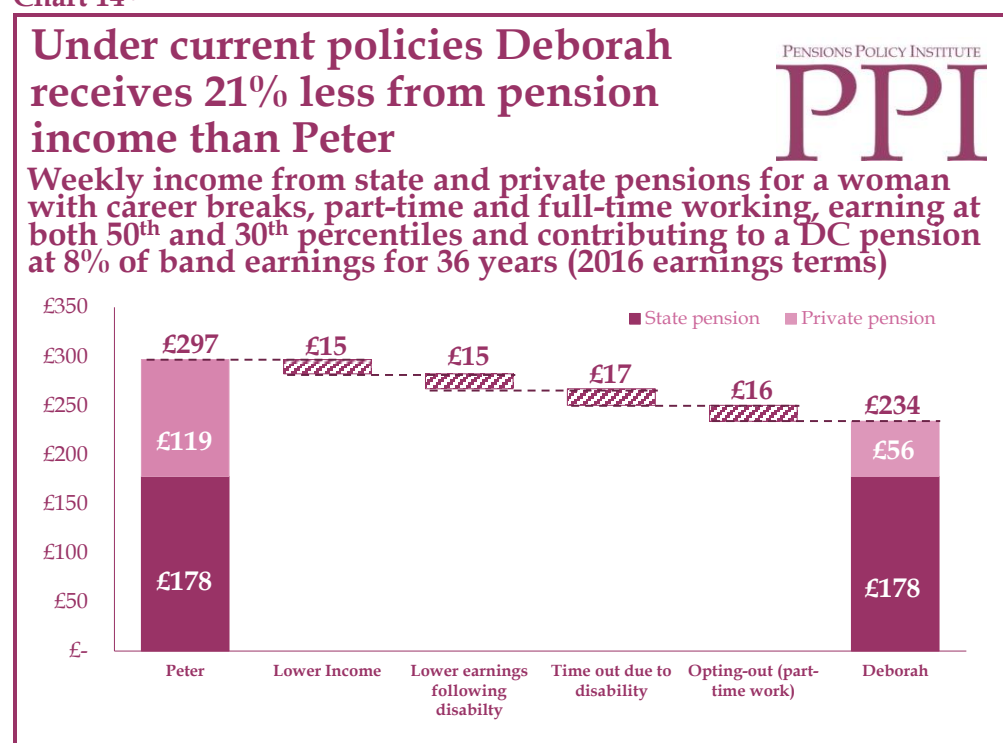
¹³⁰ age-specific median earnings for a male manual worker

experience, she earns at the 30th percentile, rather than at the median level of earnings for women, for the remainder of her working life.

- Leaves work at her SPA of 68 in 2066, takes her state pension and uses her private pension savings to purchase a single-life, level annuity.

If it is assumed that state and private pension policies continue in their current form, Deborah would receive £234pw from state and private pensions at her SPA (Chart 14).

Chart 14¹³¹



Under current policy scenarios Deborah would receive:

- £178pw from the NSP, and
- £56pw from her private pension (2016 earnings terms) in the year she reaches her SPA.

Like Robert, Deborah accrued the minimum number of required years of contribution needed to be entitled to the full rate of the NSP and receives the same level of state pension as Peter. However, Deborah has a lower pension income than Peter because:

- She initially earns at median levels for women (which is lower than median levels for men) and subsequently contributes a lower amount (with her employer) into her private pension. Lower earnings in the first stage of her career reduce her private pension income by £15 a week.
- She subsequently earns at the 30th percentile, after taking a disability-related career break reducing her private pension income by a further £15 per week.

¹³¹ PPI Individual Model

- Time out of work due to her disability reduces the amount of time she spends contributing to her private pension and reduces her private pension income by £17pw.
- When she returns to work part-time she is eligible for automatic enrolment, but opts-out, reducing her private pension income by £16pw.

At Deborah's SPA she receives 21% less from her private pension than Peter does, however, in the 2008 report Deborah received 28% less than Peter from state and private pensions.

In the 2008 analysis, Deborah's state pension income is lower than Peter's because, due to low earnings, part-time work and time out of work she contributes less to additional state pensions. In this (2016) analysis Peter and Deborah both accrue the minimum number of required qualifying years to receive the full rate of NSP. The NSP system therefore benefits people with persistent low earnings, time out of the labour market and/or part-time work.

However, if Deborah had earned below £5,824pa at any point during her time in work, she would not have made (or been treated as having made) automatic contributions to the state pension and might have reached SPA with a lower level of entitlement.¹³²

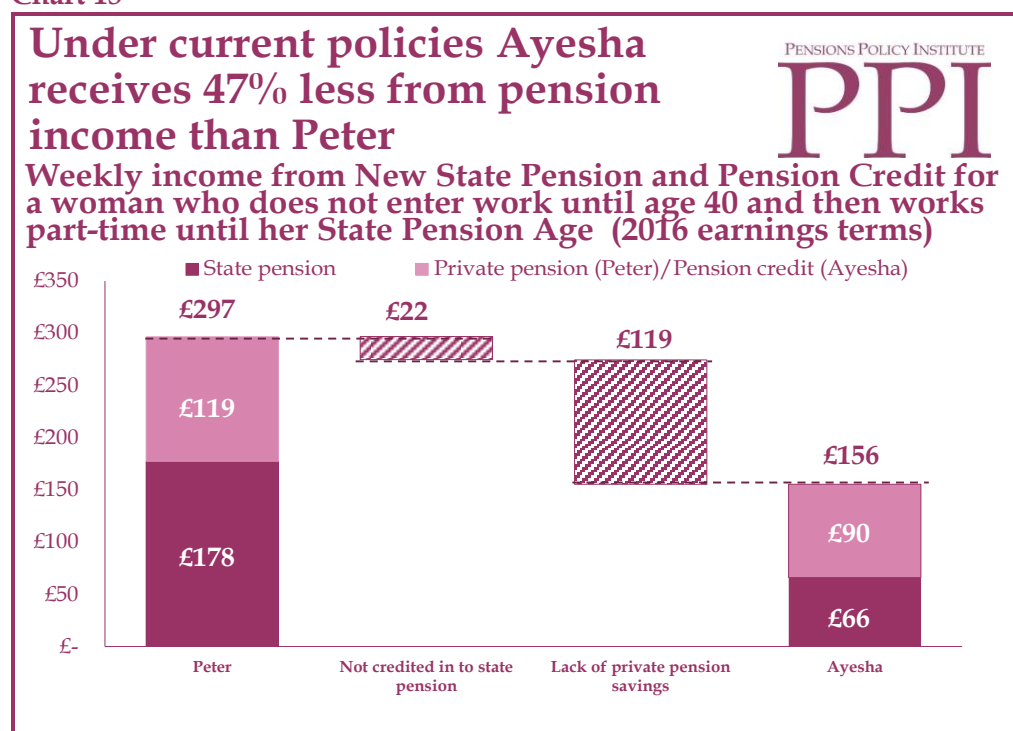
Under current policies, Ayesha, a low-earning woman with part-time work and caring, would receive £156pw from state pension and Pension Credit at her SPA, 47% lower income than Peter

Ayesha is a Bangladeshi woman who does not start work until age 40, due to caring responsibilities, and then works part-time. She:

- Remains out of work, caring for her children, from the age of 21 until the age of 40. She is credited in to the state pension (through benefits) until her youngest child reaches the age of 12 when Ayesha is 35, at which point she is no longer eligible for state pension credits.
- Enters work at age 40 and earns at the 30th percentile of the earnings distribution. She works part-time, one day a week, until age 50 and then works two days a week until her SPA, age 68. She does not qualify for automatic enrolment or to contribute to (or be credited into) the state pension while she is in work.
- Leaves work at 68 in 2066, and takes her state pension.

If it is assumed that state and private pension policies continue in their current form, Ayesha would receive £156pw from state pension and Pension Credit at her SPA (Chart 15).

¹³² Though in some cases she would be eligible to "buy back" missed years of National Insurance contributions

Chart 15¹³³

Under current policy scenarios Ayesha would receive:

- £66pw from the NSP, and
- £90pw from Pension credit (2016 earnings terms) in the year she reaches her SPA.

Ayesha's pension income is 47% lower than Peter's because:

- She is not eligible for automatic enrolment at any point while in work and does not choose to make voluntary contributions to a private pension.
- She is not able to accrue enough state pension entitlement for a full rate of NSP, because:
 - She receives credits towards the state pension until her youngest child reaches the age of 12.
 - From age 35 to 40 she continues caring but does not receive credits towards the state pension.
 - She works part-time, one day a week, from age 40 to age 50 and then works two days a week from age 50 to age 68. She does not earn enough to make contributions or be credited in to state pension during this time.

However, her income is topped up to £156pw by Pension Credit, bringing her income within £22 of the full rate of NSP.

Ayesha's pension income differences have not decreased as much as those of the other individuals

At Ayesha's SPA she receives 47% less from her private pension than Peter does. In the 2008 work Ayesha received 50% less than Peter from state and private pensions.

Ayesha receives more income from Pension Credit in the 2016 work because she receives a lower level of income from her state pension, partly due to increases in the minimum number of qualifying years required for a full-rate state pension and partly due to a slower earnings progression than previously modelled. Because of Ayesha's persistently low earnings, she does not benefit as much as the other individuals from the introduction of the NSP.

Ayesha also accumulated some private pension saving in the 2008 work (in which she retired in 2055) due to an assumption of a lower automatic enrolment earnings threshold for eligibility of £5,000pa.

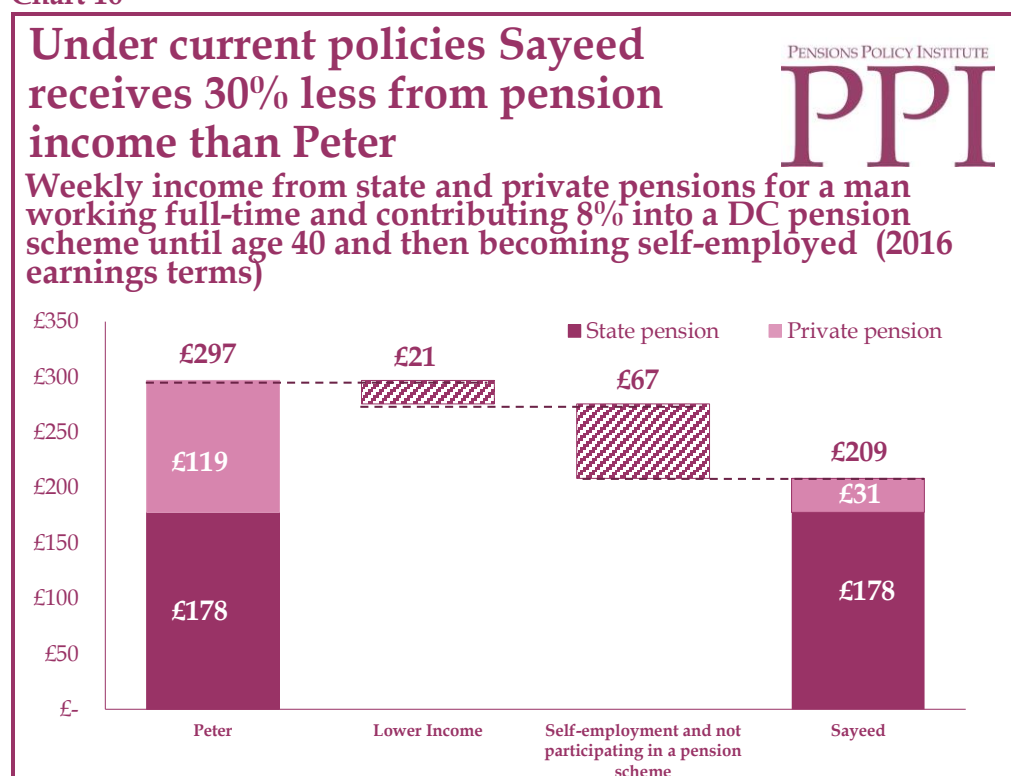
Under current policies, Sayeed, a low-earning man who spends time self-employed, would receive £209pw from state and private pensions at his SPA, 30% less than Peter

Sayeed is a Pakistani man who is employed full-time until age 40 when he becomes self-employed. He:

- Starts work at age 21 (in 2019) and earns around £14,628¹³⁴ at age 25, the 20th percentile of the earnings distribution.
- Is automatically enrolled at age 22 and he and his employer contribute a total of 8% of band earnings into a DC pension scheme.
- Takes over his family business at age 40 and becomes self-employed. He is no longer eligible for automatic enrolment and does not make any contributions into a private pension.
- Stops working at his SPA of 68 in 2066, takes his state pension and uses his private pension savings to purchase a single-life, level annuity.

If it is assumed that state and private pension policies continue in their current form, Sayeed would receive £209pw from state and private pensions at his SPA (Chart 16).

¹³⁴ age-specific median earnings for a male manual worker

Chart 16¹³⁵

Under current policy scenarios Sayeed would receive:

- £178pw from the NSP, and
- £31pw from his private pension (2016 earnings terms) in the year he reaches his SPA.

Sayeed accrued the minimum number of required years of contribution needed to be entitled to the full rate of the NSP and receives the same level of state pension as Peter. This is because both Peter and Sayeed accrue their state pension entitlement entirely under the NSP system and therefore accrue no earnings-related element. However, Sayeed has a lower private pension income than Peter because:

- He earns at the median earnings level for male Pakistani workers, which is lower than the level of earnings assumed for Peter. Therefore, he and his employer pay lower contributions into his private pension. This reduces his private pension income by £21 a week.
- He spends 28 years in self-employment during which time he is ineligible for automatic enrolment and does not independently save into a private pension, reducing his private pension income by £67 per week.

At Sayeed's SPA he receives 30% less from his private pension than Peter does, however, in the 2008 work Sayeed received 44% less than Peter from state and private pensions.

¹³⁵ PPI Individual model

In the 2008 analysis, Sayeed’s state pension is far lower than Peter’s because, due to low earnings and time self-employed, he contributes far less towards additional state pension. In this (2016) analysis Peter and Sayeed both accrue the minimum number of required qualifying years to receive the full rate of NSP. The NSP system therefore benefits people who are self-employed.

Though all of the individuals have lower pension income than Peter, the differences between their incomes have reduced from those they experienced in the 2008 analysis. Table 6 sets out the income differences experienced in the 2016 analysis and how they have changed from the 2008 analysis. Most of the increases in pension income between 2008 and 2016 arise from the introduction of the NSP and the removal of an additional, earnings-related, state pension.

Table 6¹³⁶

Name/characteristics	Difference from Peter 2008	Difference from Peter 2016
Robert - low earning man with late onset disability	22%	15%
Deborah - median earning woman with early onset disability and part-time work	28%	21%
Ayesha - low earning woman who spends time out for caring and works part-time	50%	47%
Sayeed - a low earning man who is self-employed after the age of 40	44%	30%

The next section explores how some policy levers might affect each of the individuals’ incomes in retirement and the differences between the pension incomes of people from the under-pensioned group and the median earning man, Peter.

How would lowering or removing the automatic enrolment earnings threshold for eligibility affect differences in income?

The current earnings threshold for eligibility for automatic enrolment is £10,000pa (2016/17). Employers are not required to automatically enrol employees earning below this level.

Employees earning between £10,000pa and the lower level of qualifying earnings (currently £5,824pa) can choose to opt-in to an automatic enrolment scheme and their employer must pay contributions on their behalf. Employees earning below £5,824pa are also entitled to ask their employer to enrol them into a pension scheme but are not automatically eligible to receive employer contributions.

Workers who must make an active decision to opt-in are less likely to join a pension scheme than workers who are automatically enrolled by their

¹³⁶ PPI Individual Model

employer. Of those automatically enrolled so far, only a small proportion have decided to leave their scheme, the current rate of opting-out is 10%.¹³⁷ Though it is possible that opt-out rates will increase in future as minimum contribution levels rise for employees from 1% to 4% (by 2019).

Therefore, lowering the earnings threshold for eligibility could increase the number of people being automatically enrolled into workplace pensions, particularly those from under-pensioned groups as people from these groups are more likely to be ineligible under current regulations (as discussed in Chapter three). However, lowering the automatic-enrolment earnings threshold for eligibility could lead to higher opt-out rates from very low earners, or some people losing out on means-tested benefits in retirement to the value of their private pension saving (while also experiencing a lower standard of living during working life as a result of making pension contributions).

The required level of contributions that employers and workers who do not opt out must jointly make into a pension scheme is being phased in from 2012 to reach a minimum of 8% contributions on band/qualifying earnings (£5,824pa to £43,000pa in 2016/17) by 2019. Employers and employees can choose to contribute at greater levels if they want to. Contributing to a pension at higher than the minimum required level is likely to increase income from private pension savings in retirement.

The following analysis explores the effect on pension outcomes of four alternative scenarios:

- Lowering the earnings threshold for eligibility to £5,000pa and, simultaneously, reducing the lower level of qualifying earnings to £5,000pa,¹³⁸
- Removing the earnings threshold for eligibility altogether (but keeping the lower level of qualifying earnings at £5,824pa),
- Increasing the level of minimum required contributions to 10% on band/qualifying earnings,
- Removing band/qualifying earnings entirely and requiring 8% minimum contributions on total salary.

Lowering the automatic earnings threshold for eligibility would only affect Ayesha

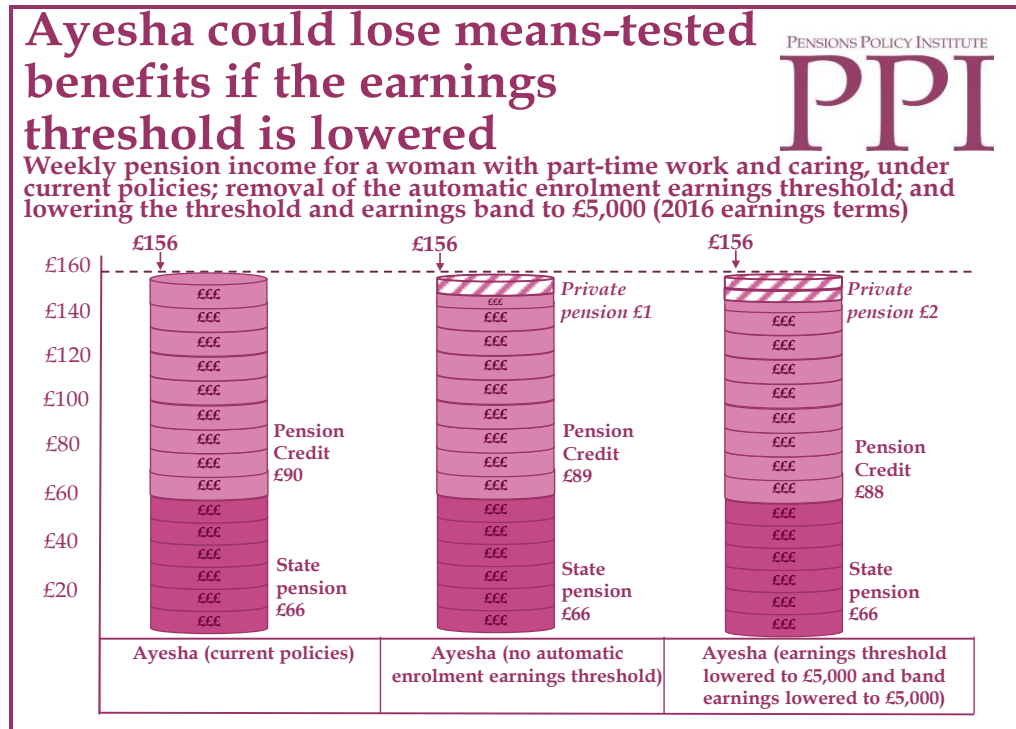
Because all of the other individuals are already eligible for automatic enrolment when they are in work, removing the earnings threshold for eligibility only affects Ayesha. Chart 17 examines her pension income at SPA under:

- Current policies,
- A scenario of lowering the eligibility earnings threshold to £5,000pa, and reducing the lower level of qualifying earnings from £5,824pa to £5,000pa,
- Removing the earnings threshold for eligibility altogether, but leaving lower level of qualifying earnings at £5,824pa.

¹³⁷ DWP (2015d)

¹³⁸ The original proposal for the earnings threshold as assumed in the 2008 analysis

Chart 17¹³⁹



Lowering the earnings threshold for eligibility would increase private pension saving for some people but may not help those eligible for means-tested benefits in retirement

Ayesha does not earn enough under current policies to be automatically enrolled into private pension saving, but under the two alternative scenarios she accumulates small amounts of private pension savings. In both of the alternative scenarios she is automatically enrolled, but in the scenario in which the lower level of qualifying earnings is lowered, she accrues more private pension saving.

- Under the scenario of removing the earnings threshold for eligibility altogether, she accumulates a small private pension pot (£790)¹⁴⁰ which would yield £1pw in retirement. However, she also loses eligibility for Pension Credit by the same amount, meaning that her total pension income does not change between the two scenarios.
- Under the scenario of lowering the earnings threshold for eligibility to £5,000pa and reducing the lower level of qualifying earnings to £5,000pa, Ayesha accumulates a greater amount of private pension savings, (£1,930)¹⁴¹ yielding £2pw in retirement. However, she then loses eligibility for Pension Credit by £2pw, meaning that her total pension income does not change in this scenario either.

If Ayesha had not been eligible for means-tested benefits, then lowering or removing the threshold would have marginally increased her retirement

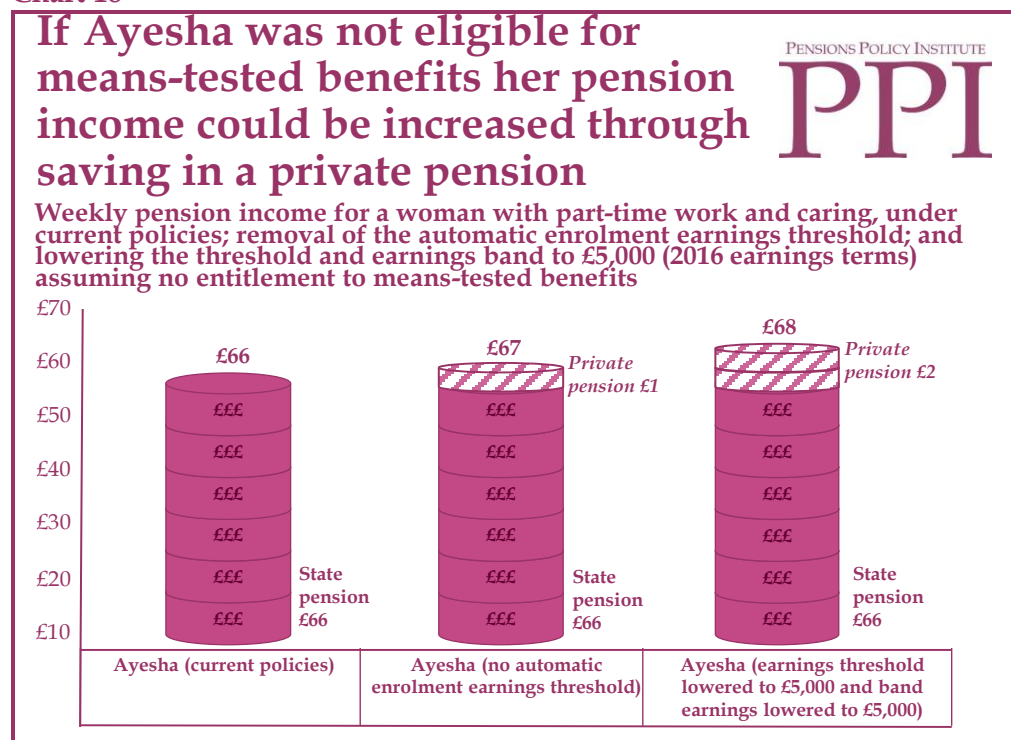
¹³⁹ PPI Individual model

¹⁴⁰ 2016 earnings terms

¹⁴¹ 2016 earnings terms

income, (though at such small savings levels she may not have chosen to turn her savings into an income, opting instead to take it as a lump sum) (chart 18).

Chart 18¹⁴²



It should not be assumed that all people earning at Ayesha’s level will be entitled to means-tested benefits in retirement or that all people earning above the earnings threshold for eligibility will not be entitled. Means-tested benefit eligibility is calculated on a household level and some people with low earnings will have partners or family members with higher earnings or might have wealth from other sources.

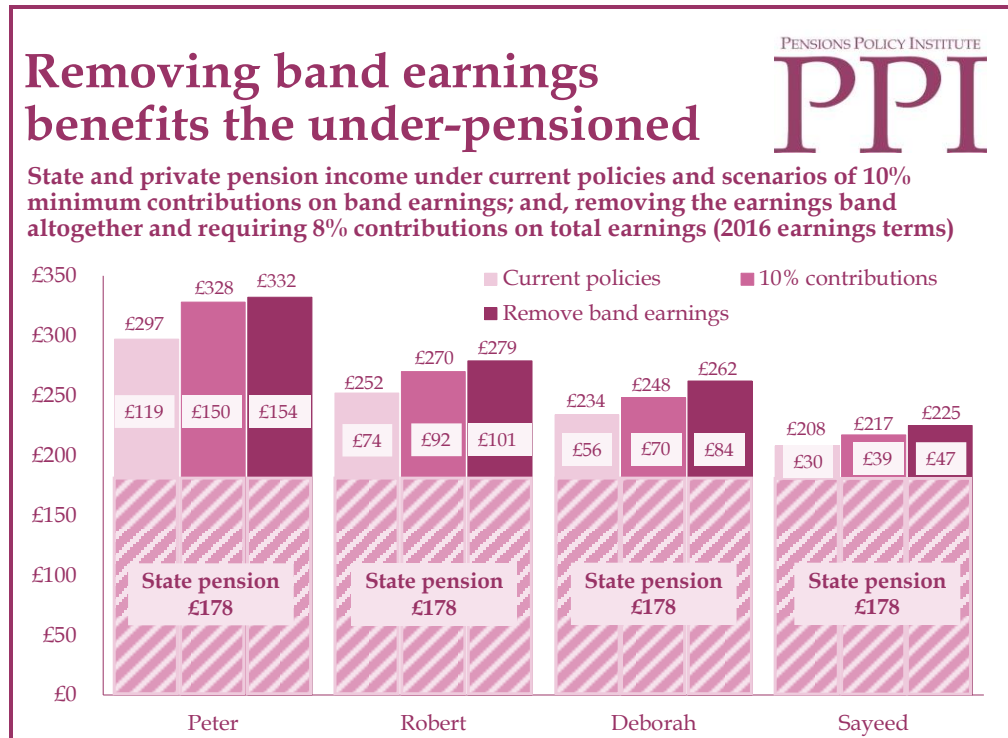
Increasing the minimum level of automatic enrolment contributions would increase private pension incomes in retirement

The following analysis (Chart 19) explores how the private pension income of the individuals would be affected by increasing the level of minimum contributions required in automatic enrolment schemes. The analysis uses two scenarios:

- Increasing minimum required contributions on band/qualifying earnings from 8% to 10% (5% employee, 5% employer)
- Removing band/qualifying earnings restrictions altogether and requiring a minimum of 8% contributions on total salary

¹⁴² PPI Individual model

Chart 19¹⁴³



These scenarios all assume that the triple-lock is in place and therefore, over time, the value of the state pension increases relative to earnings. The triple-lock is not enshrined in legislation and the Government is only required to uprate the state pension by earnings. If the state pension is not uprated by the triple-lock in future then the relative value will not increase (as depicted in the modelling). This could reduce the pension income for the under-pensioned by a greater proportion than for pensioners who receive a higher proportion of income from private pensions.

While both scenarios increase pension savings, removing the qualifying earnings band entirely has a greater positive impact on retirement incomes than increasing minimum contribution levels to 10%.

For the members of the under-pensioned groups, the difference between the 10% minimum contributions scenario and the removal of the band earnings scenario has a more pronounced benefit than for the median-earning man. This is because those with lower earnings make lower proportional contributions when subject to the qualifying earnings band.

Under 10% minimum contributions on band/qualifying earnings:

- Peter’s pension income would increase by £31pw, a total increase of 10%,
- Robert’s pension income would increase by £18pw, a total increase of 7%,
- Deborah’s pension income would increase by £14pw, a total increase of 6%, and

¹⁴³ PPI Individual model

- Sayeed's pension income would increase by £9pw, a total increase of 4%.

Under removal of the qualifying earnings band, and 8% contributions on total salary:

- Peter's pension income would increase from the 10% minimum contributions scenario by £4pw, a further increase of 1%,
- Robert's pension income would increase by £9pw, a further increase of 4%,
- Deborah's pension income would increase by £14pw, a further increase of 6%, and
- Sayeed's pension income would increase by £17pw, a further increase of 4%.

Increasing contribution levels could motivate some people to leave their pension scheme as they may not feel that saving at these levels is affordable. Therefore, it cannot be assumed that all people's private pension income will automatically be increased if minimum contributions are increased.

Increasing minimum contribution levels increased pension income for all individuals but it also increased differences in pension income between the under-pensioned representative individuals and Peter (Table 7).

Table 7: income differences under current policies and under policy on 8% minimum contributions on total earnings

Name/characteristics	Difference from Peter (current policies)	Difference from Peter (removal of qualifying earnings band and 8% contributions on total salary)
Robert - low earning man with late onset disability	15%	16%
Deborah - median earning woman with early onset disability and part-time work	21%	21%
Sayeed - a low earning man who is self-employed after the age of 40	30%	32%

Therefore, while increasing minimum pension contributions may not affect differences in relative spending power, it could increase adequacy levels for individual pensioners. Removal of the qualifying earnings band benefits the under-pensioned more substantially than the 10% minimum contributions scenario.

Conclusions

This chapter uses hypothetical individuals with some of the characteristics observed among the under-pensioned to illustrate potential future incomes and to explore how incomes could be affected by policy levers. The hypothetical individuals have representative labour market characteristics of the groups which they represent and also have characteristics generally shared by under-

pensioned groups: low-earnings, part-time working, time out of work, caring and self-employment. The results indicated that:

- Once the NSP has been phased in, there will no longer be significant differences in state pension income between people from under-pensioned groups and the average for pensioners.
- The NSP system is likely to benefit people with persistently low earnings, time out of the labour market and/or part-time work as long as they generally earn above the Lower Earnings Limit, £5,824 (2016/17).
- Individuals with persistently **very** low earnings (£5,824 or below) will not benefit as much as others from the introduction of the NSP, in comparison with the two-tier state pension system.
- The NSP system benefits people who are self-employed as they are no longer excluded from any elements of state pension entitlement.
- Differences in private pension income are likely to continue as private pension income is related to earnings and working patterns.
- Some individuals might receive a higher proportion of income from private pensions in future due to the introduction of the National Living Wage.
- Lowering the earnings threshold for eligibility would increase private pension saving for some people but may not help those eligible for means-tested benefits in retirement.
- Removing the automatic enrolment qualifying earnings band entirely has a greater positive impact on retirement income than increasing minimum contribution levels to 10%, though both scenarios increase pension savings levels.
- Removing the qualifying earnings band entirely has a greater proportional effect on people from under-pensioned groups than on the median earning man. This is due to those on lower earnings losing a greater proportional level of contributions under the qualifying earnings band.
- However, changing contribution levels could potentially result in greater opt-out rates from automatic enrolment.

Appendix one: modelling

The hypothetical individual examples were produced using the PPI's Individual Model. It calculates the future state and private pension incomes of hypothetical individuals on the basis of certain assumptions.

The assumptions used in the modelling are listed below.

Economic Assumptions:

- OBR's November 2015 assumptions for CPI and earnings. The triple lock assumptions are calculated based on these in the short term and the modelling uses a long run triple lock assumption of 4.3%.
- The long run earnings and CPI assumptions are set at 4% and 2% respectively.
- The single tier pension is assumed to increase by the triple lock.
- Automatic enrolment thresholds are assumed to increase in line with earnings.
- A 6% return is assumed on an individual's pension pot.

Income Assumptions:

- The earnings for males and females come from the labour force survey.
- The earnings for the ethnic minority individuals come from Understanding Society. Due to lack of data, full-time earnings were not available so a combined full-time and part-time income was used with an average number of hours of 37 for the Pakistani male and 30 hours for the Bangladeshi female.
- The earnings patterns of the hypothetical individuals vary across their lifetimes based on age distributions. These are derived from the LFS and Understanding Society data.

Alternative policies modelled:

- Contributions taken from all salary with no qualifying earnings band.
- Only removing the earnings threshold.
- Increasing contributions from band salary to 10%.
- Looking at the impact of individuals having higher incomes.

Individual Assumptions:

- People have a wide variety of work and savings histories and the hypothetical individuals are not intended to be representative of the population as a whole. Rather, they illustrate the potential effect on pension incomes of some of the characteristics that are observed of disabled people and people from ethnic minorities.
- Peter: Median-earning man (from LFS) with a full savings history. He is aged 18 in 2016. He is automatically enrolled at age 22, saving 8% of band/qualifying salary (5% employer and 3% employee contributions) into his private pension until retiring at SPA in 2066. He purchases a level annuity and takes no lump sum at retirement.

- Robert: He starts full-time work at age 18 as a machine operator and earns at the age-specific median rate for a male manual worker from LFS. He is automatically enrolled at age 22. He and his employer contribute a total of 8 per cent of band/qualifying earnings into his work-based pension scheme. As a direct result of the physical nature of his work, he is unable to continue working from age 55 due to a bad back. The prevalence of back or neck problems increases with age and one quarter of disabled people reporting a bad back or neck as their main health problem are aged between 50 and 59¹. He then becomes economically inactive. Without long periods of longitudinal data, it is not possible to know how long people with different types of physical impairments remain out of the labour market. There is evidence to suggest that some people can remain inactive for many years. For example, one in ten of respondents tracked continuously for 14 years reported a long-term health condition for 8 or more of those years (though not necessarily the same illness, nor continuously)². According to the Office for Disability Issues, over half of disabled people currently out of work have been out of work for more than 5 years¹. He begins to draw on his private pension saving at his SPA (age 68) in 2066. He purchases a level annuity and takes no lump sum at retirement.
- Deborah: She starts working full-time at age 21, earning at the age-specific median rate for women from LFS. She is auto enrolled at age 22 and remains opted in. She and her employer make the minimum contributions into her pension of 8 per cent of band/qualifying earnings in total. As a result of work-related stress, she stops full-time work at age 35. She is out of the labour market for 5 years, during which time she does not qualify for state pensions. At age 40, she returns to work on a part-time basis, working two days a week. She qualifies for auto enrolment into work-based pension saving but chooses to opt out because she feels she cannot afford the contributions. She resumes full-time work at age 45. She is auto enrolled once more into saving and this time remains opted in. As a result of her career break and lost work experience, she earns at the 3rd decile, rather than at the median level of earnings for women when she returns to work following her time out of the labour market. The size of the reduction in Deborah's earnings that results from her period out of the labour market is an arbitrary assumption intended to illustrate one possible outcome. Other individuals may be affected by taking time out of the labour market to a greater or lesser extent than assumed here¹. She stops work at SPA (68) in 2066. She purchases a level annuity and takes no lump sum at retirement.
- Ayesha: At the early ages of her life, Ayesha is out of the labour market due to caring responsibilities. She receives credits to state pension until her youngest child reaches age 12, when Ayesha is aged 35. She remains out of the labour market between age 35 and age 40 but does not receive credits for state pensions during this time. She starts work at age 40 on a part-time basis, working 1 day a week. She does not qualify for auto-enrolment into work-based pension saving because she earns below the threshold. She earns at the 30th percentile for female employees, reduced pro-rata for her

part-time hours. At age 50, she begins working 2 days a week. She stops work at her SPA (age 68) in 2066. She illustrates the fact that a very high proportion of Bangladeshi women are economically inactive, many work part-time and on average have relatively low earnings when employed.

- Sayeed: He is employed full-time from age 21, earning at median earnings for male Pakistani employees working, on average, 37 hours per week from Understanding Society. He is auto enrolled when he is aged 22, and remains opted in. Both he and his employer make the minimum level of contributions, a total of 8 per cent of band/qualifying earnings. At age 40 he takes over the family business and becomes self-employed. The self-employed are not auto enrolled and he does not voluntarily make any contributions to his private pension. He stops work at his SPA (age 68) in 2066. He purchases a level annuity and takes no lump sum at retirement. There is limited data on self-employment patterns and data specifically relating to Pakistani men are even more limited. The assumption that Sayeed becomes self-employed at age 40 and remains so until SPA is an arbitrary assumption intended to illustrate one possibility.

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Appendix two: additional wealth

The following table explores the mean average non-pension wealth of working-age members of under-pensioned groups. Those in under-pensioned groups have lower-levels of non-pension wealth on average (Table A1).

Table A1: mean average non-pension wealth of working age individuals in 2015 earnings terms¹⁴⁴

Group	Gross financial wealth (excl. endowments)
Men	£22,600
Women	£18,000
White British	£22,200
Indian	£13,900
Pakistani	£11,000
Bangladeshi	£1,600
Black Caribbean	£3,600
Black African	£3,300
Chinese	£25,600
Those in receipt of Carers Allowance	£7,500
Self-employed	£35,200
All (average)	£20,300

¹⁴⁴ Wealth and Assets Survey Wave 3 (2010/2012)

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