

PENSIONS POLICY INSTITUTE

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The Underpensioned Index



Executive Summary

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Comparative income is important because it tells us about relative standards of living, which affect opportunities, physical and mental health, and reveals inequalities in society. The Underpensioned Equality Index illustrates the gap in retirement income (both private and state) between the average for the population and the average for underpensioned groups. The main index shows the ratio of all underpensioned groups' income compared to the population average, while individual indices for each group show how this ratio has changed over the period since 2010.

Underpensioned groups find it more difficult to achieve adequacy in later life

Some groups are at greater risk of experiencing inequalities associated with lower retirement incomes:

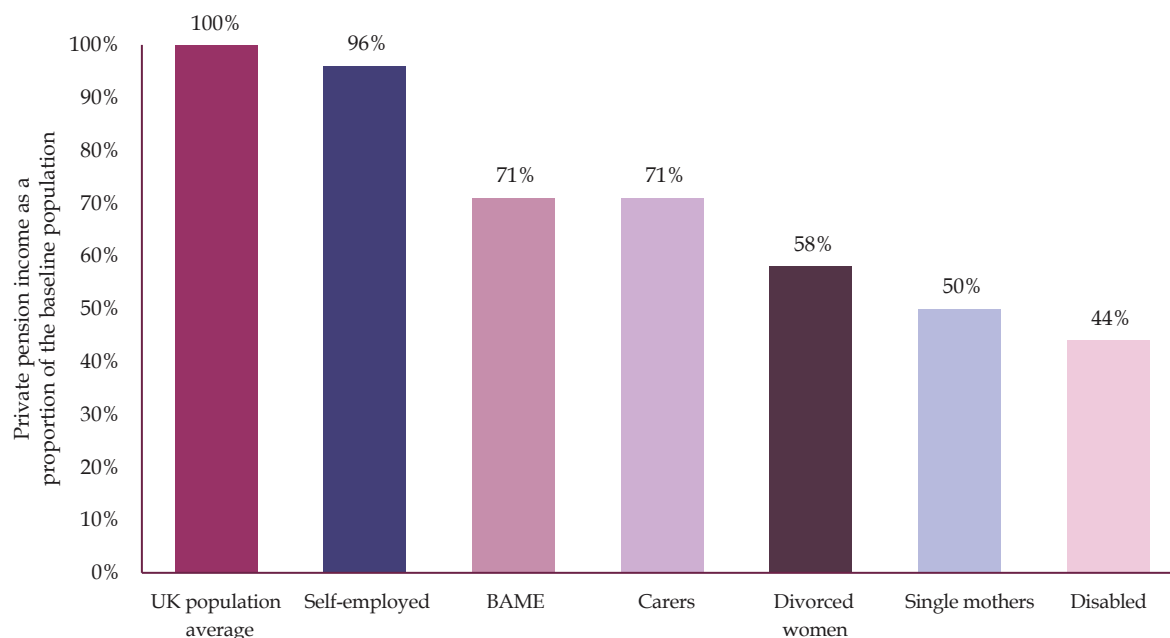
- Women, in particular divorced women and women who have been single mothers at some point during the accumulation phase
- Black, Asian and minority ethnic (BAME)
- Disabled
- Carers
- People with multiple jobs, particularly those earning less than £10,000 in each single job
- The self-employed

On average, BAME and carers have retirement incomes that are just under three quarters of that of the wider population, while other underpensioned groups are at risk of experiencing even lower retirement incomes (Chart Ex.1).

Chart Ex.1¹

Underpensioned groups have retirement incomes equivalent to less than three quarters of the population average

Private pension incomes as a proportion of population average by underpensioned group, aged 65+, 2018



When income from the State Pension and benefits are considered alongside private pension income, the underpensioned gap is smaller. However, for most underpensioned groups, overall retirement incomes are still around 15% lower than those of the population average. The disabled group is the exception to this, with a higher level of entitlement to benefits bringing their overall income level up to the population average, though some of these benefits will be means tested which can introduce additional complications and may be eroded away by additional needs individuals may have (Chart Ex.2). Additional benefit payments to meet the needs of disabilities are often spent on essential needs associated with disability and therefore cannot be considered as truly “disposable income”.

1 PPI modelling

Chart Ex.2²

Even when state pension and other benefits are taken into account, on average Underpensioned groups have lower overall incomes

Annual retirement incomes of underpensioned groups compared to the population average, split by state and private, aged 65+, 2018



Many people in underpensioned groups struggle to accumulate enough pension wealth to provide an adequate income as a result of labour market inequalities during working life

Compared to the population average, underpensioned groups have:

- Lower employment rates
- Higher levels of part-time work
- Lower average incomes

Poor labour market experiences can trigger housing inequalities which are also negatively correlated with standards of living in retirement

Levels of homeownership are lower among underpensioned groups, and many will still be renting throughout later life. This will mean higher housing costs, which will further erode their already low retirement incomes, as well as increasing the potential for housing insecurity.

A targeted policy approach addressing labour market and housing inequalities and reassessing the retirement benefits system could reduce retirement inequalities suffered by underpensioned groups

Inequalities experienced during working age life are associated with lower incomes in later life. Labour market and housing inequalities have a particularly negative impact on the after-housing costs incomes that underpensioned groups have to support them in later life.

Policies aimed at redressing housing and labour market inequalities could help to reduce the poorer later life outcomes experienced by people in underpensioned groups. However, for some members of these groups, it will be particularly hard to reduce inequalities in housing and the labour market. These individuals may need greater support from state benefits in later life in order to reduce inequalities in retirement living standards:

- Policies aimed at increasing employment rates, particularly full-time work, could improve retirement outcomes for many in underpensioned groups. However, for groups such as carers and the disabled, labour supply issues make these policies less appropriate in practice for these groups. Policies aimed at increasing accessibility in the workplace and providing more flexible working arrangements could help to alleviate lower levels of employment among these groups.
- Promotion of pay gap reporting for all underpensioned groups, not just women, could help to reduce wage inequalities, making it easier for them to save for an adequate retirement income.
- Policies aimed at alleviating childcare responsibilities, in terms of both time and stress, could help to improve labour market inequalities experienced by single mothers. These kinds of policies could reduce levels of part-time working and help single mothers to overcome issues of vertical segregation and low pay in the workplace.
- Policies aimed at helping those on lower incomes to get onto the housing ladder could help to reduce housing costs and insecurity in retirement for those in underpensioned groups, for example the Government's Help to Buy scheme and shared ownership arrangements.

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