

PENSIONS POLICY INSTITUTE

PPI

The Underpensioned Index



The Pensions Policy Institute (PPI)

The PPI is an educational, independent research organisation with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI's aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue or reform solution but works to make the pensions and retirement policy debate better informed.

The PPI is funded by donations, grants and benefits-in-kind from a range of organisations, as well as being commissioned for research projects.

Pensions affect everyone. But too few people understand them and what is needed for the provision of an adequate retirement income. The PPI wants to change that. We believe that better information and understanding will lead to a better policy framework and a better provision of retirement income for all. The PPI aims to be an authoritative voice on policy on pensions and the provision of retirement income in the UK.

The PPI has specific objectives to:

- Provide relevant and accessible information on the extent and nature of retirement provision
- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage research and debate on policy on pensions and retirement provision
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

We believe that the PPI is unique in the study of pensions and retirement provision, as it is:

- Independent, with no political bias or vested interest
- Led by experts focused on pensions and retirement provision
- Considering the whole pension framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies

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This report has been authored by:

Lauren Wilkinson, Senior Policy Researcher



Lauren Wilkinson joined the PPI in September 2016 as a Policy Researcher. During her time at the PPI Lauren has produced research on a range of topics, including Defined Benefit, consumer engagement, pension freedoms and Collective Defined Contribution.

Lauren was promoted to Senior Policy Researcher in January 2019.

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

Chetan Jethwa, Policy Modeller



Chetan Jethwa joined the PPI modelling team in April 2018 as a Policy Modeller. He is responsible for maintaining and developing PPI models as well as producing modelling results and undertaking analysis to feed into the PPI's research.

Chetan has a BSc in Actuarial Science from the London School of Economics.

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Executive Summary

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:

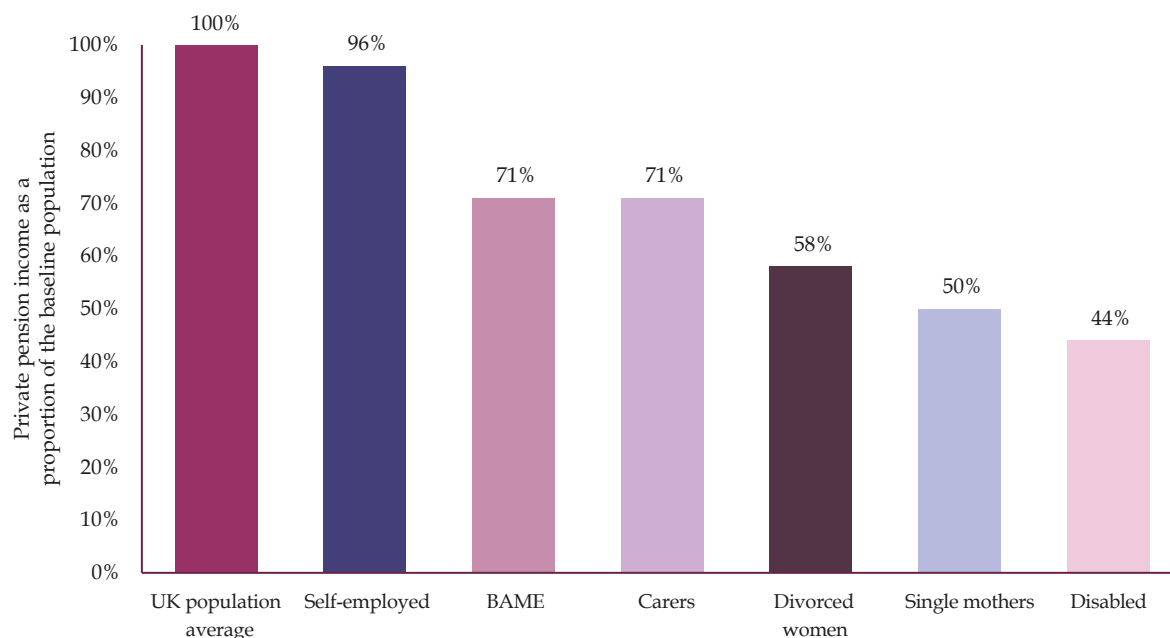
- Women, in particular divorced women and women who have been single mothers at some point during the accumulation phase
- Black, Asian and minority ethnic (BAME)
- Disabled
- Carers
- People with multiple jobs, particularly those earning less than £10,000 in each single job
- The self-employed

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



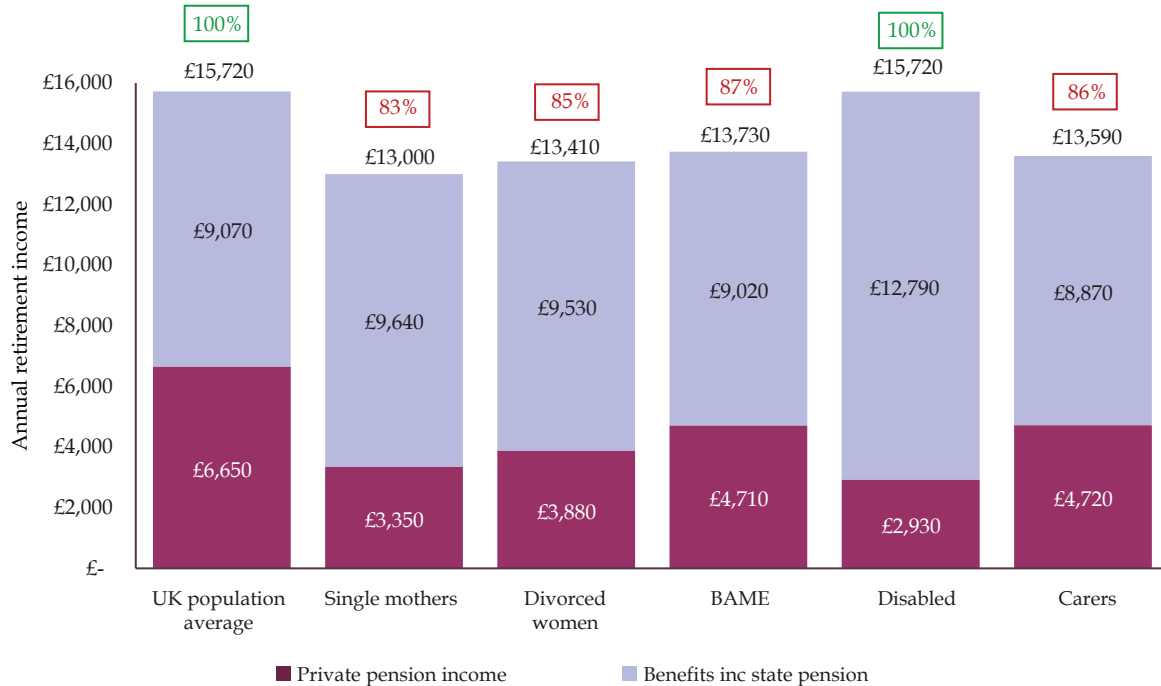
When income from the State Pension and benefits are considered alongside private pension income, the underpensioned gap is smaller. However, for most underpensioned groups, overall retirement incomes are still around 15% lower than those of the population average. The disabled group is the exception 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.

Introduction

In 2003, 2008 and again in 2016, the PPI explored current and future pension incomes of women, disabled people, people from BAME groups, carers and the self-employed. These reports identified current and future differences in pension income between these groups and the UK population more broadly. The research

concluded that people who fall into one of these groups are more likely to experience working-life inequalities that are associated with lower pension incomes. This report explores the retirement incomes of these groups and compares their financial position to that of the average, in order to create income indices.

Chapter One introduces the Underpensioned Index, illustrating the gap in pension incomes between the underpensioned groups identified and the UK population average, today and over the period since 2010.

Chapter Two explores in greater depth the working life inequalities that lead to the increased risk of being underpensioned in later life.

Chapter Three explores in greater depth the housing inequalities that lead to the increased risk of being underpensioned in later life.

Chapter One:

The Underpensioned Index

This chapter introduces the Underpensioned Index, illustrating the gap in pension incomes between the underpensioned groups identified and the UK population average, today and over the period since 2010.

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

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 UK population average, while individual indices for each group show how this ratio has changed over the period since 2010.

Inequalities during working life can lead to lower retirement incomes in later life. Groups that are at greater risk of experiencing inequalities associated with lower retirement incomes include:

- BAME
- Disabled
- Carers
- People with multiple jobs
- The self-employed

Private pension wealth

Underpensioned groups are less likely to have any private pension savings and among those who do have savings, levels of wealth are lower than the population average

With the exception of multiple job-holders, those in underpensioned groups are less likely to have any pension savings at all, compared to the population average. Levels of pension savings in the years immediately prior to retirement among underpensioned groups are lower than population average, both for total groups and when only those with some pension wealth are taken into account (Table 1.1).

Table 1.1:

	Median pension wealth	Proportion with pension savings	Median pension wealth among those with pension savings
Population average	£80,690	65%	£217,490
Single mothers	£18,310	55%	£140,400
Divorced women	£26,100	59%	£140,400
BAME	£0	42%	£189,900
Disabled	£7,450	50%	£111,730
Carers	£29,800	53%	£180,620
Self-employed	£0	36%	£121,200
Multiple job-holders	£2,650	71%	£12,400

This figures in the above table are based on updated data compared to previous PPI analysis of the gender pensions gap³ and illustrate a slower growth in women’s average pension wealth compared to men’s. It remains to be seen whether this will be a continuing trend and what reasons may be behind this slower growth, however it is likely to be linked to the higher representation of women in part-time and lower paid roles, making them more vulnerable to impacts from pay-growth stagnation, as well as less likely to be eligible for automatic enrolment; 80% of women in employment are eligible for automatic enrolment, compared to 91% of men.

Retirement income

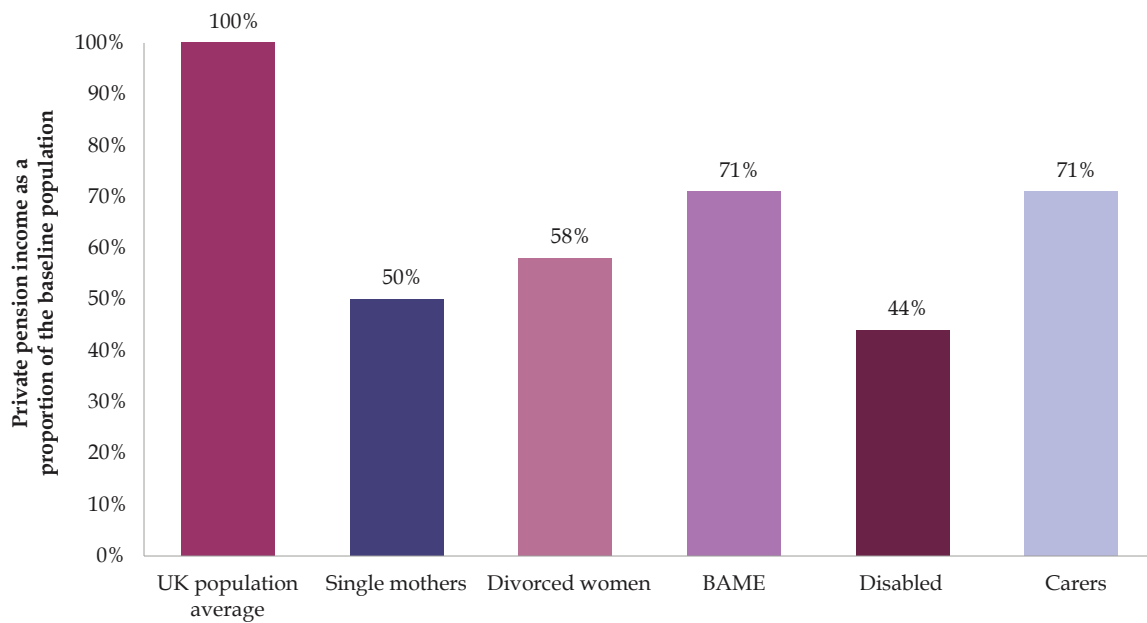
Underpensioned groups find it more difficult to achieve standard of living adequacy targets in later life

As a result of labour market inequalities and other challenges during working life, underpensioned groups are likely to find it more difficult to achieve an adequate or comfortable standard of living in later life. On average, BAME groups 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 1.1).

Chart 1.1⁴

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



3 PPI (2019) Understanding the gender pensions gap

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When private pension income is combined with income from the State Pension and benefits, many in underpensioned groups may struggle to achieve even minimum retirement living standards

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 the population average. With the exception of the disabled group, for whom average income from State Pension and benefits tops up private pension savings to a level equal to the population average, underpensioned groups are likely to have incomes barely above a minimum retirement living standard (£10,200 for a single person, £15,700 for a couple)⁵ on average. For those who are disabled, some of these benefits that top up their retirement income will be

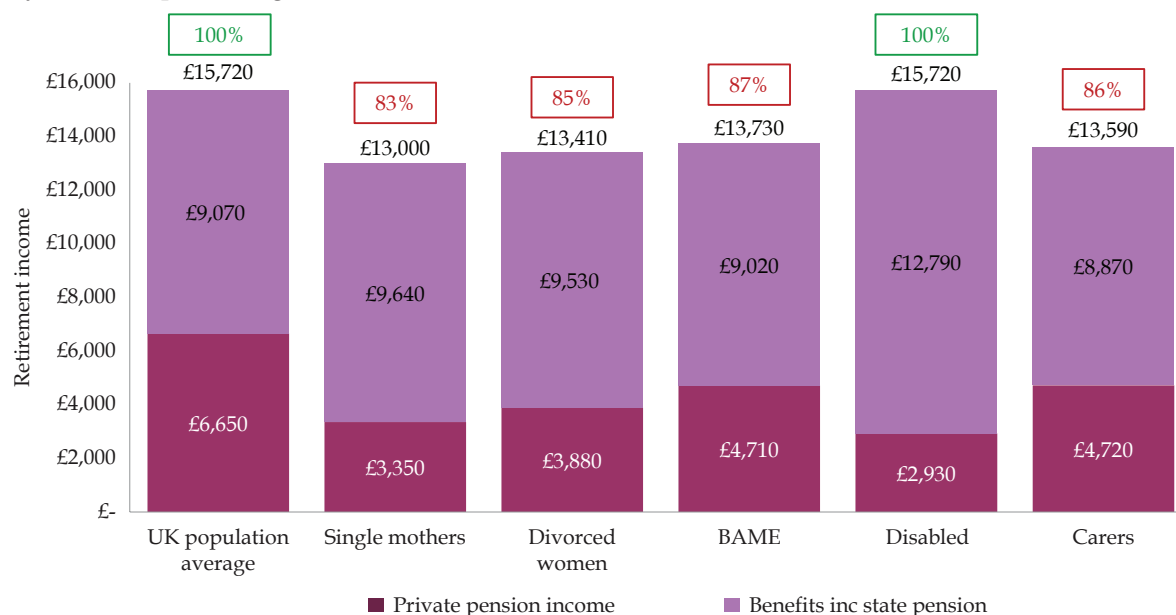
means tested which can introduce additional complications and may be eroded away by additional needs individuals may have (Chart 1.2). Additional benefit payments to meet the needs of disabilities are often spent on essential needs associated with disability and therefore cannot be considered as truly “disposable income”.

The median retirement income (private pension, State Pension and benefits) for underpensioned groups falls between £13,000 and £14,000 (Chart 1.2). While this level of income would provide for a minimum retirement living standard, 50% of people in these groups will have lower levels of retirement income and find it harder to achieve adequate living standards. For many people, a minimum retirement living standard target will be lower than their working life income and will represent a drop in income, which could negatively affect their standard of living and the choices they are able to make in later life.

Chart 1.2⁶

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



5 <https://www.retirementlivingstandards.org.uk/>

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People who are self-employed or have multiple jobs during working life are likely to have lower private pension incomes in retirement

Because of the way that the underlying data of The Underpensioned Index is collected, comparing retirement incomes of the self-employed and those with multiple jobs captures only those who are *currently* self-employed or have multiple jobs, which is not representative of the people who have been self-employed or had multiple jobs earlier during working life. Projecting forward the likely pension incomes of people currently in

the accumulation phase who are self-employed or working multiple jobs and earning less than £10,000 in each job gives a more holistic view of what retirement incomes are likely to look like for these groups.

Men who are working multiple jobs and earning less than £10,000 in each role are likely to have less than half the level of income of the general population of men in retirement (Chart 1.3). For women in multiple jobs the gap is narrower, although this is somewhat skewed by the much higher proportion of women working in atypical types of employment compared to men.

Chart 1.3

Men who earn less than £10,000 in each of their multiple jobs are likely to have pension incomes almost 50% lower than men in general

Average weekly earnings of multiple jobholders compared to population average, by gender, ages 16-64, 2018



Based on their current levels of pension wealth, men who are self-employed are at risk of pension incomes on average a third (35%) lower than men in general, while women in

self-employment are likely to have pension incomes 19% lower than the female population more broadly (Chart 1.4).

Chart 1.4⁸

Men who are self-employed during the accumulation phase are at risk of retirement incomes a third lower than the baseline population on average

Average weekly earnings of self-employed compared to population average, by gender, ages 16-64, 2018



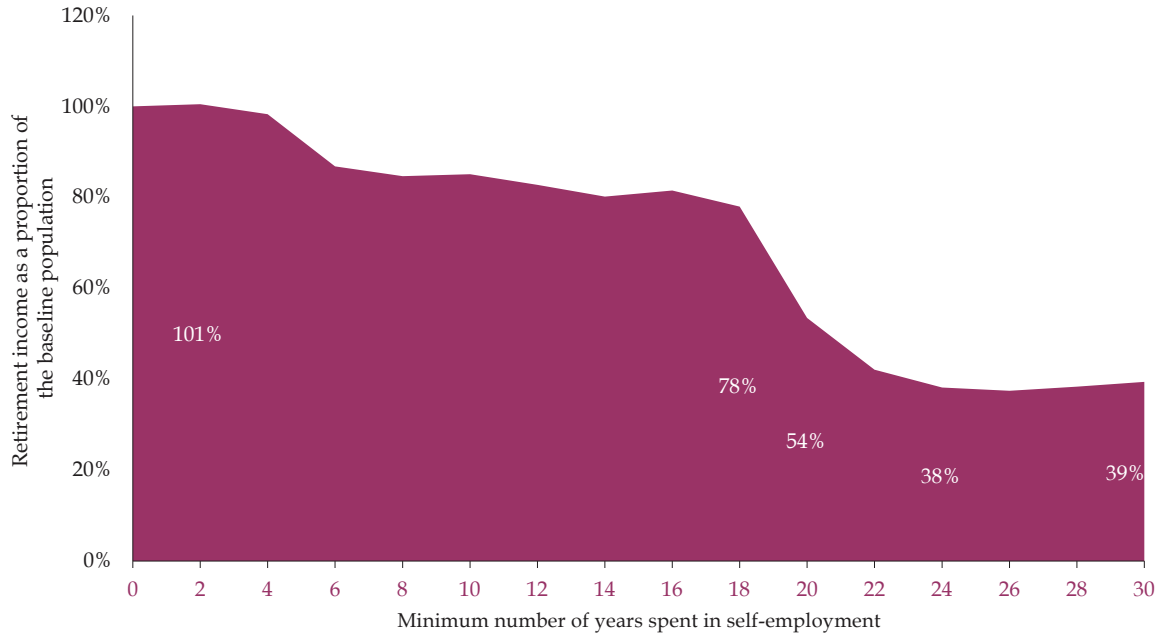
While average self-employed incomes increase the longer that is spent in self-employment, average current retirement incomes are negatively correlated with the number of years spent in self-employment. People who spend only a short amount of time in self-employment are unlikely to experience particularly poorer retirement outcomes as a result. In fact, those

who are self-employed for less than 2 years may even achieve higher retirement incomes. However, once people have spent at least 20 years in self-employment, average retirement incomes experience a substantial decline, to just over a third of the population average (Chart 1.5).

Chart 1.5⁹

There is a significant decline in retirement incomes among those who have been in self-employment for at least 20 years

Average private pension income of self-employed, as a ratio of population average, by length of time spent in selfemployment, age 65+, 2018



Retirement income inequalities since 2010

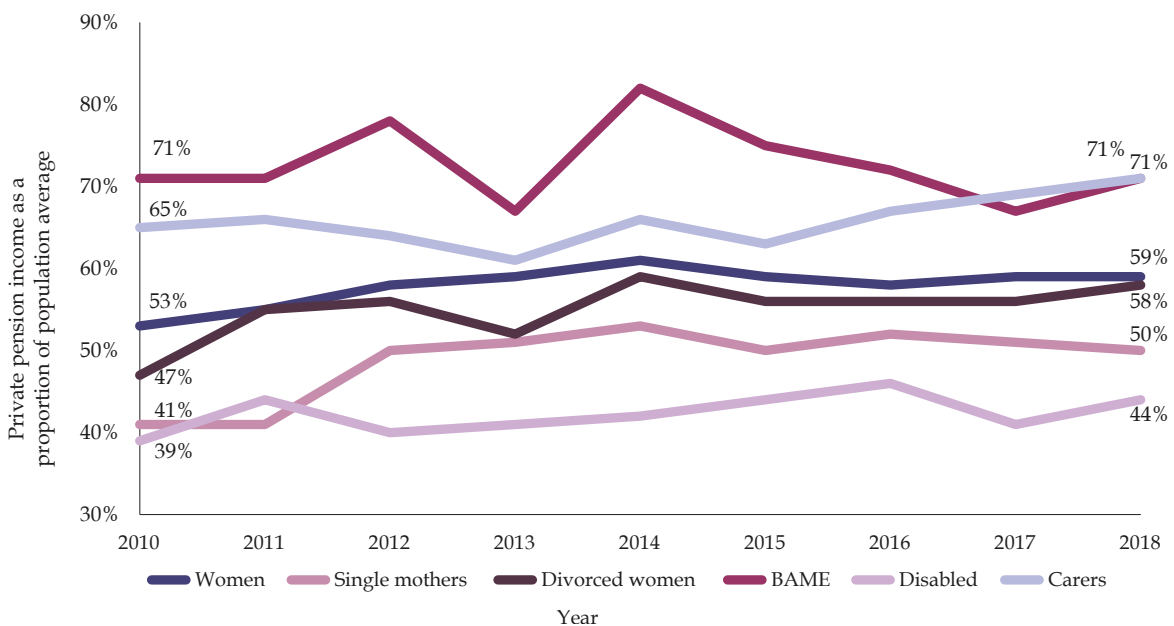
Charts 1.6 and 1.7 show how the retirement incomes of underpensioned groups, as a ratio of population average retirement incomes, have

changed between 2010 and 2018. Measuring how comparative incomes have evolved over time allows for assessment of the effectiveness of policies aimed at reducing inequalities.

Chart 1.6¹⁰

Average private pension income of underpensioned groups has fluctuated, and for some increased, over the period 2010 to 2018

Average private pension income as a proportion of population average, age 65+, 2010 – 2018



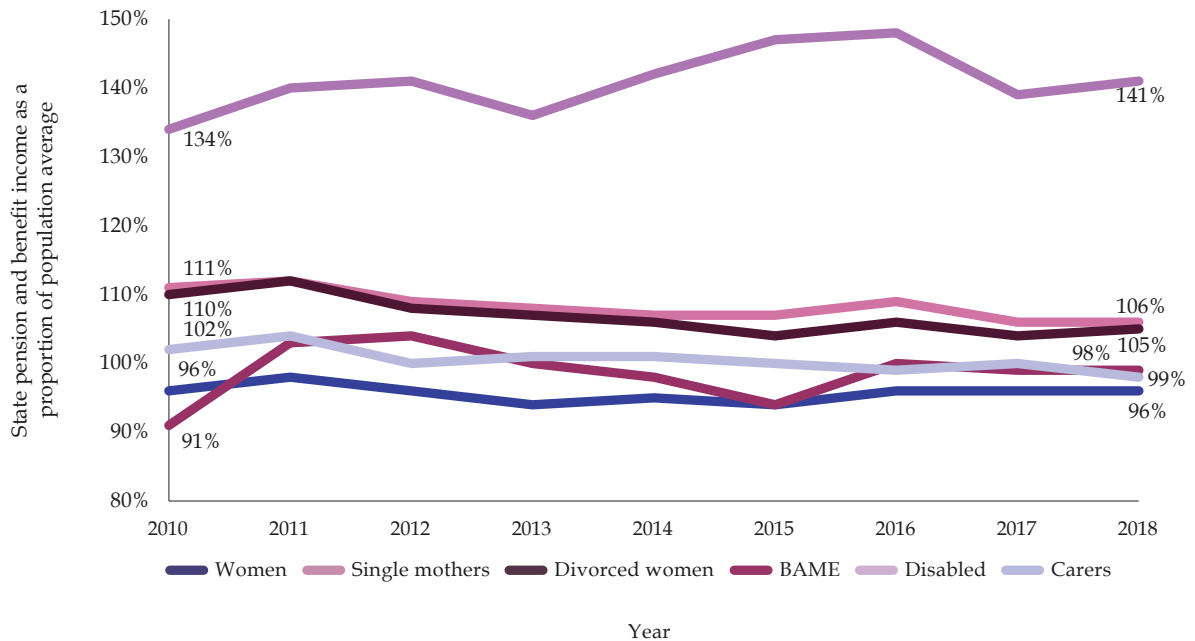
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Chart 1.7¹¹

Underpensioned groups’ average income from State Pension and benefits have also fluctuated

Average State Pension and benefit income as a proportion the population average, age 65+, 2010 – 2018



Targeted policy approaches aimed at addressing labour market and housing inequalities may be needed to reduce retirement income inequalities suffered by underpensioned groups

Inequalities experienced during working age life are associated with lower incomes in later life. In particular, inequalities in the labour market and housing have a negative impact on the after-housing costs income

that underpensioned groups have to support them in later life. Policies aimed at redressing these 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 the labour market and housing. These individuals may need greater support from state benefits in later life in order to reduce inequalities in retirement living standards.

Chapter Two: What are the labour market inequalities faced by underpensioned groups?

This Chapter explores in greater depth the labour market inequalities that lead to the increased risk of being underpensioned in later life.

Underpensioned groups are more likely to experience labour market inequalities during working life

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

Key labour market factors are associated with lower levels of pension savings and entitlements:

- **Low earnings** are highly correlated with low pension income in later life. Levels of private pension wealth are linked to earnings when in work, while State Pension entitlement, for those who reached State Pension age

(SPa) before the introduction of the new State Pension in April 2016, is partially linked to earnings. Many of those reaching SPa after April 2016 will still receive some earnings-related State Pension income until the old system is fully phased out.

- **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, will negatively impact pension income by reducing the final fund size or entitlement level.

These factors are strongly correlated with one another. Because low paid jobs tend to be

less secure and often more short-term, many low paid workers end up cycling between periods of low pay and time out of work. Both low earnings and time out of full-time work are associated with low or irregular private pension contributions.

Many people in underpensioned groups have more than one of the above labour market 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.

Members of underpensioned groups are less likely to be in employment and, among those who are, more likely to have atypical working patterns and lower levels of pay

People in underpensioned groups are, on average:

- Less likely to be in employment (Chart 2.1),
- More likely to work part-time and/or be in less secure employment (Chart 2.2),
- Likely to be lower paid compared to the population average (Chart 2.3), and
- Less likely to be eligible for automatic enrolment (Chart 2.7).

Chart 2.1¹²

Members of underpensioned groups are less likely to be in employment than the population average

Proportion in employment, compared to the population average, ages 16-64, 2018, UK

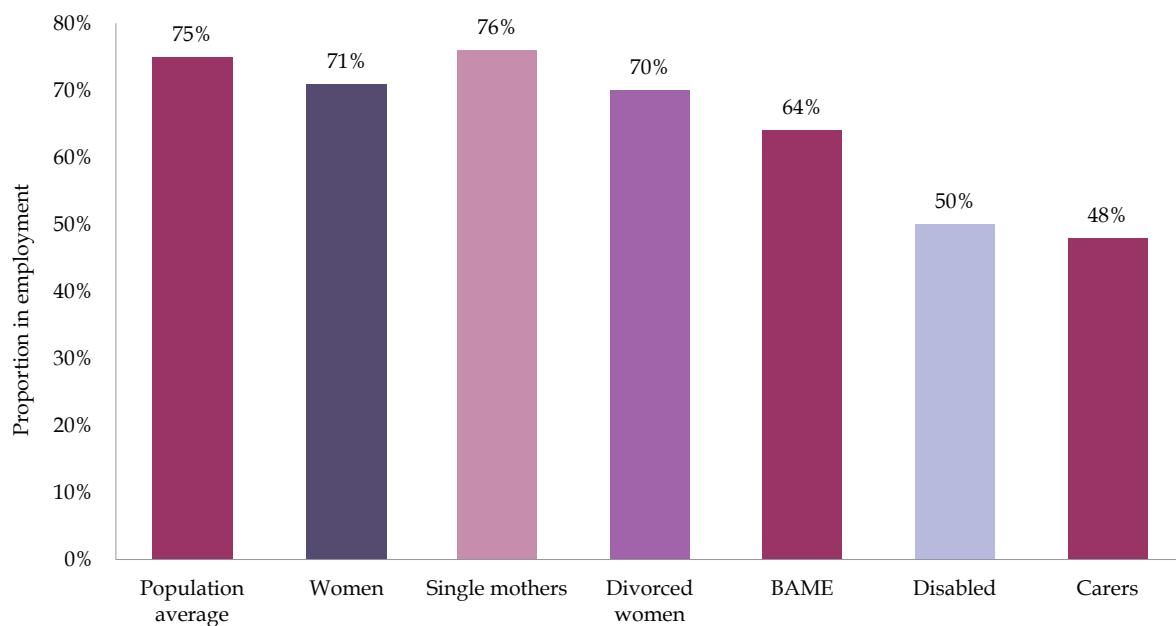


Chart 2.2¹³

Members of underpensioned groups are more likely to be in part-time employment

Proportion of those in employment who work part-time, compared to the population average, ages 16-64, 2018, UK

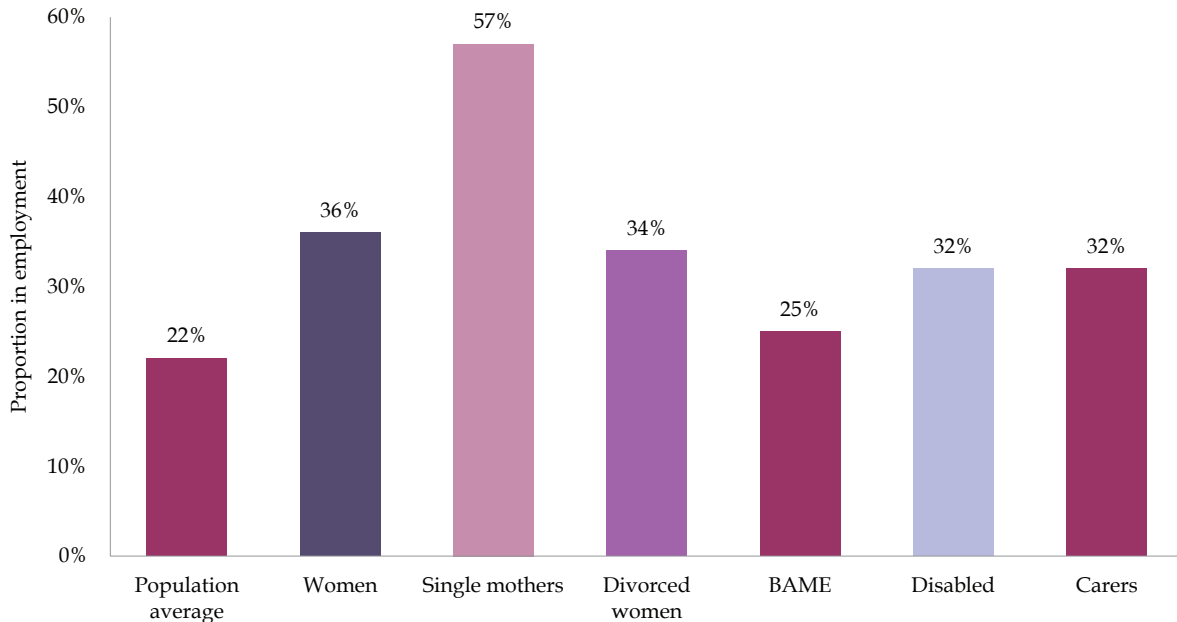


Chart 2.3¹⁴

Members of underpensioned groups earn less on average than the employed population average

Average annual earnings (full-time and part-time) compared to the population average, ages 16-64, 2018, UK



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While more women are in employment than ever before, they are more likely to have atypical work histories, including time spent out of the labour market or in part-time work

Women in general have lower than average employment rates, while divorced women's employment rates are even lower (Chart 2.1). Single mothers, on the other hand, have employment rates that are higher than both the average for women and the UK population average. Despite having employment rates

higher than the population average, due to higher levels of part-time work, lower levels of pay and greater demands on income as the sole earner in their household, single mothers are likely to find it more difficult to save adequately for retirement.

Women tend to have more varied work histories, in terms of time spent out of the labour market or in part-time work, in comparison to men (Table 2.1). This can reduce the capacity for career progression, as well as the ability to make consistent pension contributions over the course of working life.

Table 2.1¹⁵

Male lifecourses	Proportion (%)
Mostly full-time throughout	45
Mostly non-employed throughout	4
Full-time, very early exit (at about age 49)	12
Full-time early exit (at about age 60)	30
Late start (at about age 23), early exit (at about age 60)	9
Female lifecourses	Proportion (%)
Mostly full-time throughout	27
Mostly non-employed throughout	17
Weak attachment, early exit (at about age 49)	7
Family carer to part-time (long break: 16 years)	12
Family carer to part-time (short break: 4 years)	13
Family carer to full-time (10-year break)	18
Mostly part-time (from about age 23)	6

While BAME groups have lower than average employment rates and levels of earnings, this varies between different ethnic groups

Underpensioned BAME groups have lower levels of employment in comparison to the population

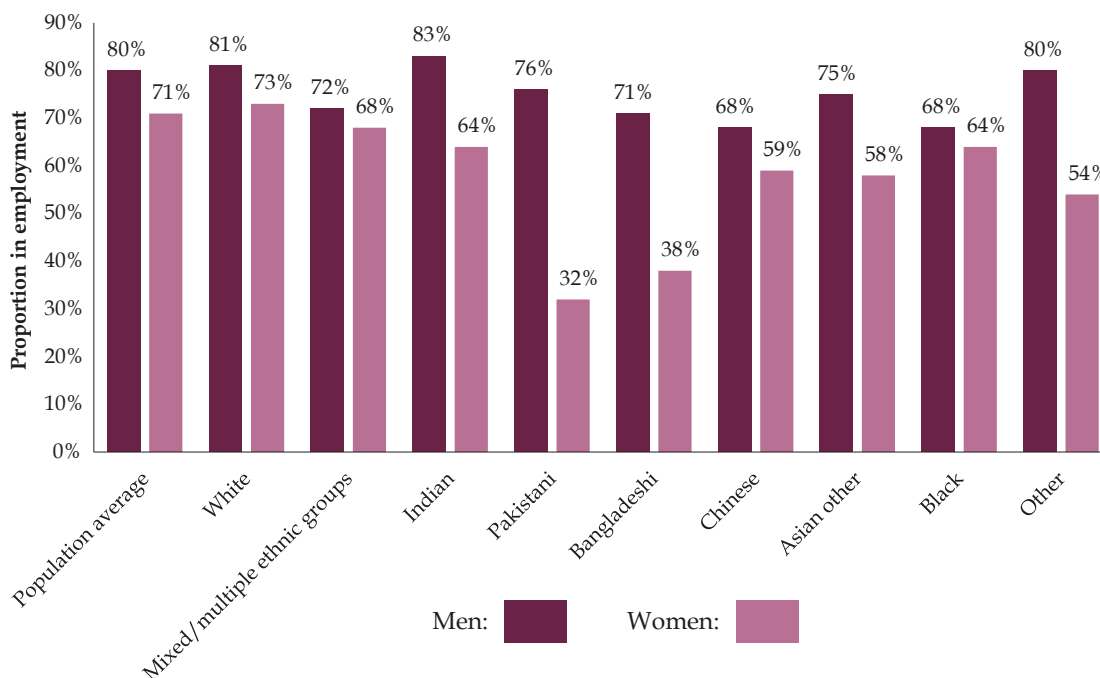
average, although the impact varies substantially between different ethnic groups. For example, Indians have an employment rate of 74%, just 1% lower than the population average. Pakistanis and Bangladeshi groups have a much lower employment rate of just 55% (Chart 2.4).

15 PPI Briefing Note Number 92: How do gender differences in lifecourses affect income in retirement?

Chart 2.4¹⁶

Underpensioned BAME groups are less likely to be in employment

Proportion in employment by ethnic group and gender, ages 16-64, 2018, UK



Some BAME groups also have higher instances of part-time work compared to the wider population. Bangladeshis have a particularly high prevalence of part-time work, with a

third (33%) of employees working part-time, compared to 22% of the wider population. Levels of part-time work differ by both ethnic group and gender (Table 2.2).

Table 2.2¹⁷

	Full-time		Part-time	
	Men	Women	Men	Women
White	92%	63%	8%	37%
Mixed/multiple ethnic groups	85%	67%	15%	33%
Indian	90%	71%	10%	29%
Pakistani	82%	66%	18%	34%
Bangladeshi	69%	62%	31%	38%
Chinese	85%	65%	15%	35%
Asian other	85%	74%	15%	26%
Black	81%	66%	19%	34%
Other	79%	62%	21%	38%
Population average	91%	64%	9%	36%

While some BAME groups (Indian and Chinese) have average incomes higher than those of the general population, others (Bangladeshi,

Pakistani, Black African/Caribbean), who are at greater risk of being underpensioned, have lower average incomes during working life (Chart 2.5).

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Chart 2.5¹⁸

Many underpensioned BAME groups' median yearly income is lower than the population average

Average annual full-time earnings of ethnic groups compared to population average, ages 16-64, 2018



Women from particular ethnic groups experience a greater gender effect on labour market inequalities than the average for the total population (Chart 2.4 and Table 2.2). The gender effect, whereby women are less likely to work than men, more likely to work part-time, and at greater risk being low paid, can be seen strongly within some BAME groups. Within the population as a whole, the proportion of women working is relatively close to the proportion of men working. The gender gap in employment rates has been reducing and is currently 10% across the total UK population. There are more significant variations by gender among some BAME groups, particularly Pakistani and Bangladeshi groups for whom the gap in employment rates between men and women is 43.4% and 33.3% respectively.

Disabled people and carers have the lowest levels of employment and high levels of part-time work due to labour supply constraints

Disabilities, long-term sickness and caring responsibilities can limit the amount and type

of work people are able to do. These labour supply constraints can limit the type or amount of work that an individual can do. As well as limiting the amount of work an individual can do, increasing the prevalence of both unemployment and part-time work among disabled groups, labour supply constraints increase the risk of working, and becoming trapped in, low paying jobs.¹⁹

The employment gap between disabled and non-disabled is smaller for women, young people (16-24 year olds) and those with higher levels of qualifications.²⁰ The employment gap for carers is higher among women, with only two in five (42%) in paid employment, compared to 56% of male carers.

Male carers in employment are twice as likely to be working part-time compared to men in general. Among female carers who are in paid employment, half (48%) are working part-time, compared to just over a third (36%) of women in general. Given that female carers have an employment rate of around 50%, this means that only a quarter of female carers are in full-time paid employment.

18 PPI Modelling

19 McKnight, Stewart, Himmelweit & Palillo (2016)

20 Equality and Human Rights Commission (2013)

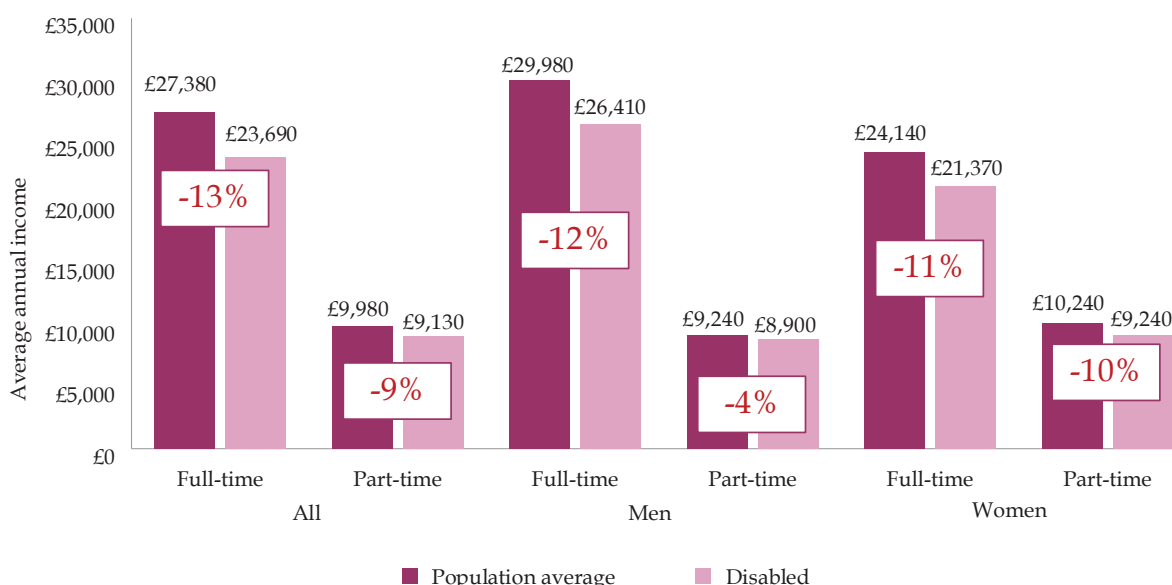
Part-time and flexible working are important ways of enabling those with caring responsibilities or disabilities to participate in the labour market. However, these more flexible arrangements are often predominantly available for low-paid low-skilled jobs.

Disabled people are at greater risk of experiencing low pay inequalities which can lead to lower retirement incomes. Pay gaps among disabled and non-disabled part-time workers are lower than those for full-time workers (Chart 2.6), but given that disabled people are more likely to be working part-time than the general population, overall incomes are substantially lower.

Chart 2.6²¹

The pay gap between disabled and non-disabled groups is proportionately lower among part-time workers compared to full-time workers

Average annual income by gender, disability and work-pattern, ages 16-64, 2018



Disabled people who are also members of other underpensioned groups can experience more severe labour market inequalities. Women are proportionately more likely to be disabled than men (23% of women vs. 19% of men).²² The gap in employment rate is smaller between disabled and non-disabled women, compared to men. However, rates of part-time work are significantly higher among disabled women, and the pay gap between incomes of non-disabled and disabled women working part-time is more than double that of men. The disabled employment gap is smaller among BAME groups compared to the population average, but pay gaps are greater.

Both self-employed workers and those in multiple jobs are at risk of earning significantly less than those in more typical types of employment

The self-employed and those with multiple jobs are not homogenous groups, so there are some individuals who earn significantly more than the population average. However, many earn much less. On average, people who are full-time self-employed earn almost a third (29%) less than the population average.

21 PPI Modelling
 22 Papworth Trust (2018)

Among those with multiple jobs who do not earn more than £10,000 in any of their single jobs (making them ineligible for automatic enrolment), the gap is even wider (39% less). In part-time work the pay gap is narrower, with the self-employed earning an average of 17% less than the population average. People with multiple jobs working part-time actually earn more than the population average of part-time workers (15% more). Although this is perhaps predominantly the result of longer hours of work on average, despite still considering themselves part-time workers.

Eligibility for automatic enrolment

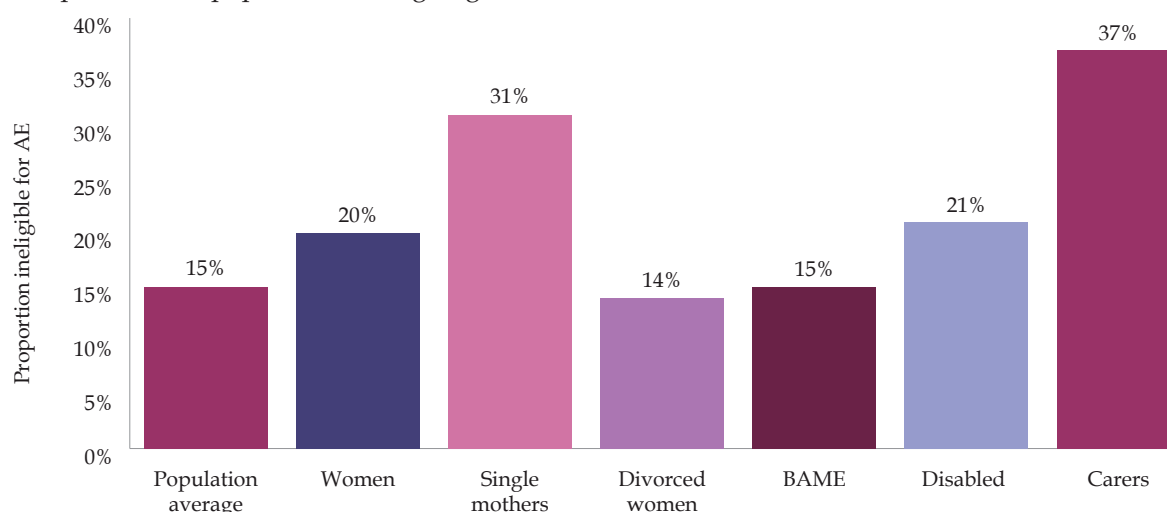
People in underpensioned groups are less likely to be eligible for automatic enrolment, further exacerbating retirement inequalities

While automatic enrolment has been successful in increasing workplace pension participation, workers in underpensioned groups are disproportionately likely to be ineligible, either because they are outside the qualifying age (21 - SPa) or because they do not earn more than £10,000 in any single job. Carers, for example, are more than twice as likely to be ineligible compared to the general population (Chart 2.7).

Chart 2.7²³

Members of underpensioned groups are more likely to be ineligible for automatic enrolment

Proportion of those in employment who do not meet automatic enrolment qualifying criteria, compared to the population average, ages 16-64, 2019, UK



Women are less likely than men to meet the automatic enrolment qualifying criteria

Of 13.4 million employed women in the UK, around 3 million (23%) do not meet the qualifying criteria for automatic enrolment, compared to 12% of male workers. 1.9 million women earn below the earnings threshold of £10,000.²⁴ 77% of workers who do not meet the qualifying criteria because they earn below the

threshold are women.²⁵ This is due partly to women being more likely to work in low paid jobs than men.

More women would qualify for automatic enrolment if second jobs were included in the assessment. Automatic enrolment eligibility is assessed on a “per job” basis. People with several part-time jobs are assessed separately on the earnings they have in each individual job. Some people might have several part-time jobs because they are unable to get full-time

23 PPI Modelling

24 PPI Modelling

25 PPI (2016) Automatic enrolment changes

work from one employer or because having several part-time jobs allows more flexibility for other priorities such as caring. Single mothers are likely to be disproportionately represented in this group. If the income from both first and second jobs was taken into account when assessing eligibility for automatic enrolment, then a further 80,000 people (60,000 women and 20,000 men) would earn enough to meet the qualifying criteria.²⁶ Lower levels of eligibility among women results in fewer employed women saving in a workplace pension.

Single mothers are even less likely to meet qualifying criteria: 31% of working single mothers do not meet the eligibility criteria for automatic

enrolment. Divorced women, on the other hand are slightly more likely to be eligible than women in general, with only 20% ineligible.

Eligibility for automatic enrolment varies between ethnic groups

Some BAME groups are less likely to be eligible for automatic enrolment (Chart 2.8). Lower rates of eligibility for automatic enrolment among Bangladeshi and Pakistani workers are associated with people from these groups, particularly women, being more likely than others to work part-time or in low-paid jobs. For example, 31% of Bangladeshi employees work part-time, compared to an average of 22%.

Chart 2.8²⁷

While some BAME groups are less likely to be eligible for automatic enrolment, the proportion ineligible has decreased across all groups

Proportion ineligible for automatic enrolment, by ethnic group, 2015 vs. 2019



Disabled people who are eligible for automatic enrolment have marginally higher participation rates than non-disabled employees, but they are overall less likely to be eligible

In 2017/18 there was a small difference in participation rates of disabled and non-disabled eligible employees. Among disabled people who meet qualifying criteria for automatic enrolment, participation rates are 83%, compared

to 80% of non-disabled eligible employees. Disabled eligible employees have experienced a greater increase in participation rates since the introduction of automatic enrolment (30% since 2012/13, compared to 23% for non-disabled eligible employees).²⁸ However, because disabled people are generally less likely to meet qualifying criteria, as a group they are still benefiting less from automatic enrolment compared to the non-disabled.

26 PPI analysis of Labour Force Survey data, 2015

27 PPI Modelling

28 DWP (2019)

Approximately one in five (21%) employed people with a disability do not meet the qualifying criteria for automatic enrolment. This is around 800,000 of the 3.6m employed people who have a disability. This compared to 17% of non-disabled employed people who do not meet the qualifying criteria for automatic enrolment. However, because people with a disability are far less likely to work than those without a disability, a large proportion of disabled people will also be ineligible for automatic enrolment due to not being employed. Among disabled employees, eligibility for automatic enrolment has increased significantly in the last five years. In 2015, almost a third (30%) of disabled employees were ineligible. 75% (600,000) of the employed people with a disability who do not meet the qualifying criteria for automatic enrolment are earning below the £10,000 earnings threshold.

The vast majority of employed carers do not meet the qualifying criteria for automatic enrolment

4 in 5 (81%) employed carers (in receipt of caring-related benefits) do not meet the qualifying criteria for automatic enrolment. 96% (35,000) of the carers who do not meet the qualifying criteria earn below the £10,000 earnings threshold. Many carers work part-time due to their caring responsibilities; 32% of employed carers work part-time compared to an average of 22% of total UK workers.

The entirety of the self-employed group, as well as many of those with multiple jobs, are excluded from the benefits of automatic enrolment

The self-employed group is excluded from accessing the benefits of automatic enrolment by the fact they do not have an employer who can automatically enrol them. Many people with multiple jobs are also excluded from automatic enrolment as a result of low earnings. Almost 106,000 workers, of whom 70% are women, are not being automatically enrolled into a

pension because their earnings come from more than one job. This means that 72,000 women are missing out on the benefits of automatic enrolment despite earning more than £10,000 when income from all their jobs is combined.²⁹

Even those with multiple jobs who are automatically enrolled are disadvantaged by contributions for each job being calculated separately. Workers who earn more than £10,000 in a job are automatically enrolled, but because their contributions (and their employers' contributions) are calculated from the Lower Earnings Limit in each job, they may miss out on a potentially significant contribution, in each of their employments.³⁰

NEST has done substantial amounts of research and trials around how to encourage higher levels of pension saving among the self-employed, following the 2017 Automatic Enrolment review. They have identified a number of options for increasing self-employed pension saving, with the following found to be most appealing to the self-employed:

- 'Set and forget' mechanisms: 'These captured the idea of saving little and often, but with greater flexibility to irregular and unpredictable incomes than is currently possible in retirement saving for most self-employed people. The fact that contributions would only be made in proportion to money coming in, rather than at a fixed, regular amount, had high appeal.'
- Saving at the point when income was known for the year: 'The group liked the simplicity of only having to consider retirement saving once a year. However, a number questioned whether they would be likely to actually get around to contributing in this context or have the funds available at that point when they were also completing their annual tax return.'
- Combining short-term, more liquid savings with retirement saving: 'This was positively received, although it was perceived as potentially complex. Care would have to be taken presenting this approach to self-employed people.'³¹

29 Citizens Advice (2017)

30 DWP (2017)

31 NEST (2019)

Targeted policies aimed at reducing labour market inequalities could help to reduce the retirement income inequalities illustrated by The Underpensioned Index

- 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.

Chapter Three: What are the housing inequalities faced by underpensioned groups?

This Chapter explores in greater depth the housing inequalities that lead to the increased risk of being underpensioned in later life.

Underpensioned groups are more likely to experience housing inequalities, both during working life and retirement

People in underpensioned groups are less likely to own their home, more likely to be renting in later life, and some face additional housing costs due to personal circumstances

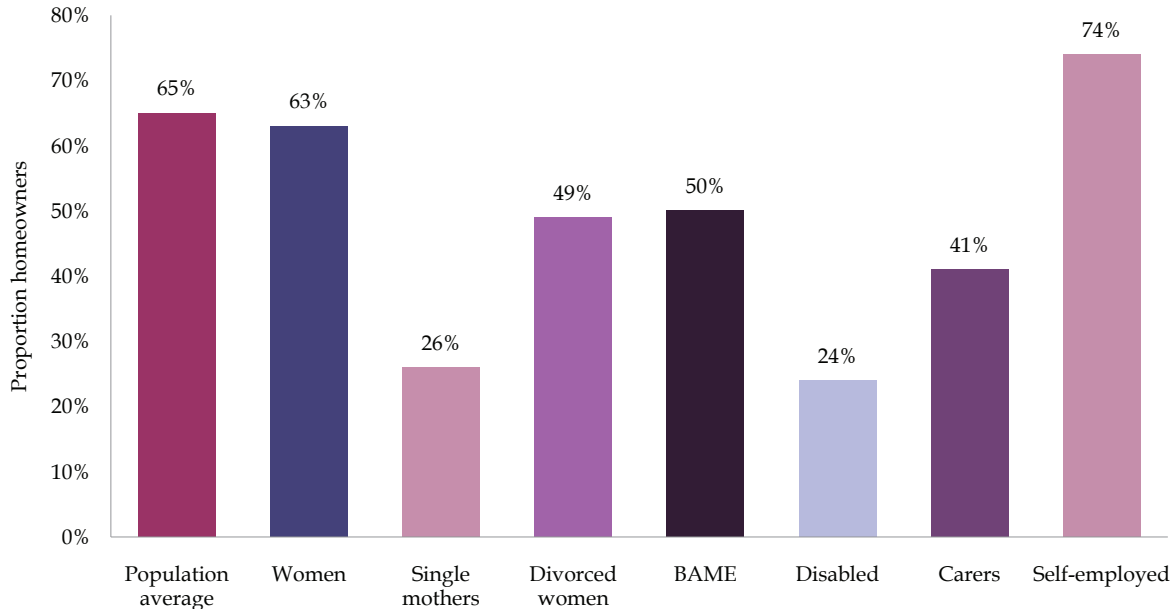
Because of the labour market inequalities discussed in the previous Chapter, many members of underpensioned groups will find

it harder to get onto the property ladder, and are more likely to be renters, with the higher housing costs this entails, in later life. During working life, most underpensioned groups have lower levels of home ownership compared to the population average (Chart 3.1).

Chart 3.1³²

With the exception of the self-employed, Underpensioned groups are less likely to own their home, compared to the population average

Proportion of underpensioned groups that are homeowners, ages 16-64, 2018



Single mothers are likely to find it more difficult to get onto the property ladder, while divorced women’s homeownership can be complicated as a result of division of assets during the divorce

Single mothers have lower levels of income:

- On an individual level, as a result of lower levels of employment, higher levels of part-time work and lower levels of pay
- On a household level because they are the sole earner in their household

This means that single mothers will find it more difficult to cover housing costs, which are likely to take up a greater proportion of their income, compared to someone in a two-earner household. They are also less likely to be able to purchase a house as a result of their diminished ability to save for a deposit, as well as their lower household income making it more difficult to get a mortgage, particularly in areas where house prices are high.

When divorce or separation occurs, one or both partners will need to move out of the existing home. For couples without children, men and women are equally likely to move out of the

shared home. However, among couples with children, fathers are more likely to move out than mothers, though this will not be the case in all instances.³³ Divorced women who remain in the family home, if owned, are likely to have lower housing costs in retirement. Although, in some cases ownership of the home is negotiated on the basis of giving up rights to other assets, for example pension wealth. Divorced women who move out of the family home are more likely to be renting later in life, particularly if the divorce occurs soon before retirement; this will lead to higher housing costs and insecurity.

BAME groups are likely to face substantially higher housing costs in retirement

Compared to an over 65 population average of £800, BAME groups pay an average of £1,730 in annual housing costs. These increased housing costs will further erode the already lower than average retirement income received by BAME groups.

Those from BAME groups are more likely to be renters in later life. 28% of people in ethnic minority groups privately rent during working life, compared to a population average of

32 PPI Modelling

33 Thomas, Mulder & Cooke (2017)

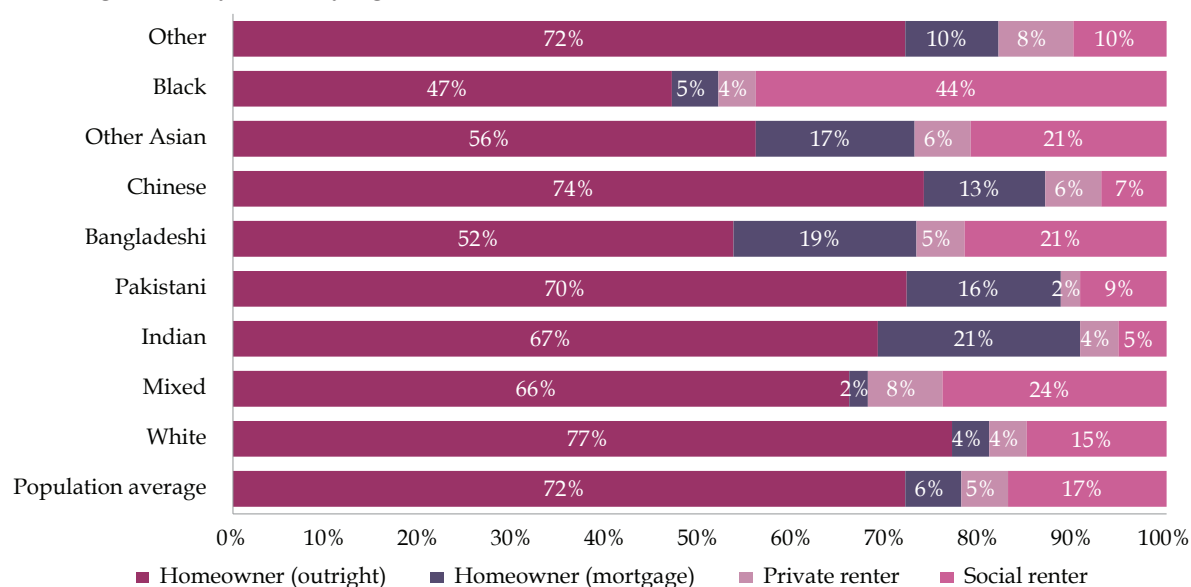
22%. Inequalities in levels of homeownership are lower among those over 65, though the population average for outright ownership

remains higher compared to homeowners in BAME groups who are more likely to continue to pay for a mortgage in later life (Chart 3.2).

Chart 3.2³⁴

While the gap in homeownership between different ethnic groups narrows in later life, only just over half of Black over 65s own a house

Housing tenure by ethnicity, age 65+, 2018



Disabled people are especially at risk of experiencing housing inequalities, as many are likely to need specific accommodations

Disabled people have higher than average housing costs in retirement. Compared to a population average of £800, disabled people have average annual housing costs of £1,900 in later life. Disabled people are also likely to face higher spending on other essential costs, both in working life and retirement. On average, disabled adults face extra costs of £583 per month.³⁵

Disabled people are the least likely group to own their home, both in working and later life. Only a quarter (25%) of disabled people

own their own home during working life (ages 16-64). Among disabled people currently aged over 65, homeownership is higher, at around half (49%). However, disabled people remain around a quarter less likely to own their own home in later life compared to the population average.

Many of the underpensioned will still be renting in retirement, further eroding their already low pension incomes

While levels of home ownership increase among older underpensioned groups, compared to working age, many will still be renting in later life (Chart 3.3).

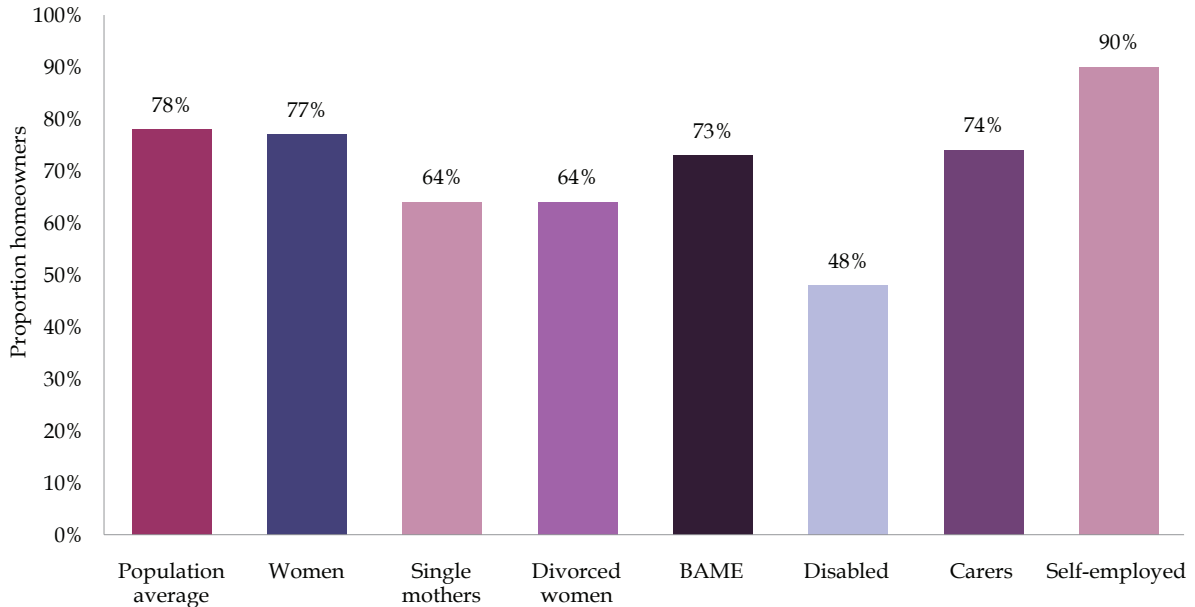
34 PPI Modelling

35 Scope (2019)

Chart 3.3³⁶

Home ownership levels among underpensioned groups in later life are closer to the average, but still relatively low

Proportion of underpensioned groups that are homeowners, age 65+, 2018



People who are still renting in later life will have lower levels of control over their housing costs, compared to someone who owns their own home.³⁷ As well as higher housing costs, renting later in life can increase housing insecurity. Even for those renters who have been settled in a property for some time, although they might not plan to move, their landlords could sell the property, increase the rent or ask them to leave with relatively short notice.³⁸

Having access to decent housing in later life is vital to ensuring wellbeing among older people

As a result of lower than average incomes and a higher prevalence of housing insecurity in later life among underpensioned groups, people in these groups are at greater risk of living in homes that are unsuitable for their needs.

Ensuring that older people are housed in satisfactory accommodation is an important part of improving wellbeing among older people, as poor-quality housing can:

- Impact both physical and mental health
- Affect carers’ ability to care

- Fundamentally undermine older people’s ability to live independently, safely and as part of the wider community³⁹

Home ownership does not necessarily indicate high levels of other types of wealth. Older people who own their own home but have low levels of savings and retirement income can be particularly at risk of living in a house that does not meet decent standards. Around one in five people aged 65 or older live in a home that fails to meet the Decent Homes Standard. The vast majority of these households are owner occupied.⁴⁰

Targeted policies aimed at reducing housing inequalities could help to reduce the retirement income inequalities illustrated by The Underpensioned Index

- 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.

36 PPI Modelling

37 Croucher, Quilgars, Baxter & Dyke (2017)

38 Croucher, Quilgars, Baxter & Dyke (2017)

39 Care & Repair England (2016)

40 Care & Repair England (2016)

Appendix One: Technical Appendix

Data sources

The report draws from data from Understanding Society⁴¹, Family Resource Survey (FRS)⁴² and the Wealth and Assets Survey (WAS)⁴³.

All figures are presented in 2019 earnings terms.

Understanding Society

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

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

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

Pension wealth at retirement for individuals with the characteristics above, has been imputed from their private pension income in retirement. This was done since obtaining full work and relationship histories for retirees from the Wealth and Assets Survey was not possible.

Family Resource Survey

FRS is a continuous household survey from the Department of Work and Pensions (DWP). The survey focuses on income-related information from all sources, from a sample of private households in the United Kingdom.

This dataset is used to provide employment statistics on those with multiple jobs, looking at those who earn on average £10,000 or less per job, and employment traits for all characteristics analysed in this report.

In order to determine the average pension income for specific ethnic groups, a 3-year rolling average was calculated. A regression analysis was also performed to look at the relative impact each ethnic group has on pension income. Housing tenure statistics for different ethnic groups were also produced using this survey.

Wealth and Assets Survey

WAS is a longitudinal survey, run by the Office for National Statistics, which aims to address gaps identified in data about the economic well-being of households by gathering information on level of assets, savings and debt; saving for retirement; how wealth is distributed among households or individuals; and factors that affect financial planning.

This dataset was primarily used for calculating the pension wealth of individuals in accumulation, notably of those who have multiple jobs or are self-employed.

The analysis is mainly used to inform the Individual Model projections of pension wealth at retirement.

41 University of Essex, Institute for Social and Economic Research. (2019), Understanding Society: Waves 1-9, 2009-2018 and Harmonised BHPS: Waves 1-18, 1991-2009

42 Department for Work and Pensions, Office for National Statistics, NatCen Social Research. (2019), Family Resources Survey, 2017-2018

43 Office for National Statistics, Social Survey Division. (2019), Wealth and Assets Survey, Waves 1-5 and Rounds 5-6, 2006-2018

Labour Force Survey

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

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

The index of underpensioned

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

For example:

- An individual has been defined as self-employed by identifying the number of years of self-employment during their working lives.
- Disablement has been identified using International Labour Organization definitions for economic activity to identify where it has had an impact upon employment. Pensioners who have been identified as disabled during their working lives have been selected.
- Divorce has been restricted to divorces under the age of 45, which would be a pivotal time for saving into a pension.
- Single motherhood is identified by a mother becoming single, divorced or otherwise separated before their child attains the age of 16 years old.

The Index was constructed based upon means of private pension income within the groups. A large proportion (38% of the population) have no pension income, so small variations in either coverage or income levels of those with the lowest private pension incomes can heavily skew the impact upon distributional statistics such as medians.

The PPI's Individual Model

The Individual Model is the PPI's tool for modelling illustrative individuals' income during retirement. It can model income for different individuals under current policy or look at how an individual's income would be affected by policy changes. This income includes benefits from the State Pension system and private pension arrangements and can also include income from earnings and equity release. It is useful to see how changes in policy can affect individuals' incomes in the future.

The PPI's Individual Model calculates streams of retirement incomes for constructed individuals. The streams of income include State Pension, private pension and various state benefits in retirement. The individual model uses flexible policy parameters to define the pension landscape throughout the individual's working life and retirement. The individual is constructed by setting out the work history in terms of working patterns and salary level throughout their working life, along with pension scheme membership details.

The individual's current circumstances are derived from analysis of the Wealth and Assets Survey (WAS) dataset⁴⁴.

All individuals were assumed to exhibit the same illustrative behaviour at retirement:

- Withdrawing 25% of their pension wealth as a tax-free lump sum at retirement;
- Drawing an income from their remaining wealth, initially at a rate of 3.5% of their remaining pension wealth and increasing the amount in line with CPI until they have exhausted their pot.

This gives an indicative income to quantify the impact of their private pension saving in accumulation.

44 Office for National Statistics, Social Survey Division. (2019), Wealth and Assets Survey, Waves 1-5 and Rounds 5-6, 2006-2018

Key assumptions

Except where explicitly stated in the report, the key assumptions used in the report are detailed below.

The pensions system

The pension system modelled is as currently legislated. The triple lock is assumed to be maintained. Individuals are assumed to be members of a Defined Contribution (DC) occupational pension scheme.

Investment returns

The investment returns have been set to 6% in line with the Office of Budget Responsibility's forecast of asset yields from the Economic and Fiscal Outlook (EFO)⁴⁵. This assumes of a 60:40 equity : bond investment ratio and FTSE all share historical dividend yield is 3.7%.

Other economic assumptions

Other economic assumptions are taken from the Office for Budget Responsibility's Economic and Fiscal Outlook⁴⁶ (for short-term assumptions) and Fiscal Sustainability Report⁴⁷ (for long-term assumptions).

Limitations of analysis

Care should be taken when interpreting the modelling results used in this report. In particular, individuals are not considered to change their behaviour in response to investment performance. For example, if investments are performing poorly, an individual may choose to decrease their withdrawal rate and vice versa.

Key results

The key output from the model is the built-up pension wealth and entitlement over the course of the individual's work history and the post-retirement income that results from this.

The post-retirement income is presented as projected cashflows from retirement over the future lifespan of the individual. These are annual cashflows which include the following key items:

- State Pension
 - Reflects entitlement and the projected benefit level of State Pension components.
- Private pension
 - Derived from the decumulation of the pension pot, allowing for tax-free cash lump sum and the chosen decumulation style (e.g. annuity or drawdown).
- Other state benefits
 - Other benefits contributing to post-retirement income such as pension credit.
- Tax
 - Tax payable on the post-retirement income, to understand the net income available to the individual.

These cashflows are calculated as nominal amounts and restated in current earnings terms.

Outcomes are expressed in current earnings terms for two reasons; it improves the comprehension of the results and reduces the liability of either overly optimistic or cautious economic assumptions.

Application of output

The model is best used to compare outcomes between different individuals, policy options, or other scenarios. The results are best used in conjunction with an appropriate counterfactual to illustrate the variables under test.

45 Office for Budget Responsibility (2019), Economic and fiscal outlook – March 2019

46 Office for Budget Responsibility (2019), Economic and fiscal outlook – March 2019

47 Office for Budget Responsibility (2019), Fiscal Sustainability Report – July 2018

Key data sources

The specification of a model run is based upon three areas:

1. *The individual*

The individual to be modelled is specified based upon an earnings and career profile. Saving behaviour for private pension accumulation is considered, as well as the behaviour at retirement.

These are generally parameterised according to the project in question, designed to create vignettes to highlight representative individuals of the groups under investigation.

2. *The policy options*

The policy option maps the pension framework in which the individual exists. It can accommodate the current system and alternatives derived through parameterisation. This allows flexing of the current system to consider potential policy options to assess their impact upon individuals under investigation.

This area has the scope to consider the build-up of pensions in their framework such as the auto-enrolment regulations for private pensions and the qualification for entitlement to state benefits.

The framework in retirement allows for the tax treatment and decumulation options taken by the individual as well as other sources of state benefits which influence the post-retirement outcomes for individuals.

3. *Economic assumptions*

The deterministic assumptions used in this analysis are taken from the Office of Budget Responsibility (OBR) Economic and Fiscal Outlook (EFO)⁴⁸ to ensure consistency. They cover both historical data and future projected values.

48 Office for Budget Responsibility (2019), Economic and fiscal outlook – March 2019

Appendix Two: Why are women, particularly single mothers and divorcees, underpensioned?

Women, and in particular those who have experienced single motherhood or divorce during working life, are more likely to exhibit labour market and housing inequalities which increase their risk of low retirement incomes.

Despite having employment rates higher than the population average, due to higher levels of part-time work, lower levels of pay and greater demands on their income as the sole earner in their household, single mothers are likely to find it difficult to save adequately for retirement. They are also less likely to own their own home, and so risk higher housing costs and insecurity in retirement. 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.

For divorced women, the primary barrier to achieving adequate retirement outcomes is the division of assets during divorce and the high prevalence of pension assets not being considered within this process. Women who were previously married, particularly those with children, are more likely to have spent time out of the labour market or in part-time work. Generally, this decision is made on a household rather than individual level, on the basis that their spouse's earnings and subsequently pension savings will supplement their own. In some cases, this decision is made subconsciously rather than explicitly, which explains why the issue of pension wealth is often not revisited during divorce proceedings. Policies aimed at increasing awareness of pension rights during divorce could be particularly effective at increasing divorced women's retirement incomes.

Women are at greater risk of experiencing labour market inequalities associated with lower retirement incomes

Women are more likely to have atypical work histories, including time spent out of the labour market or in part-time work

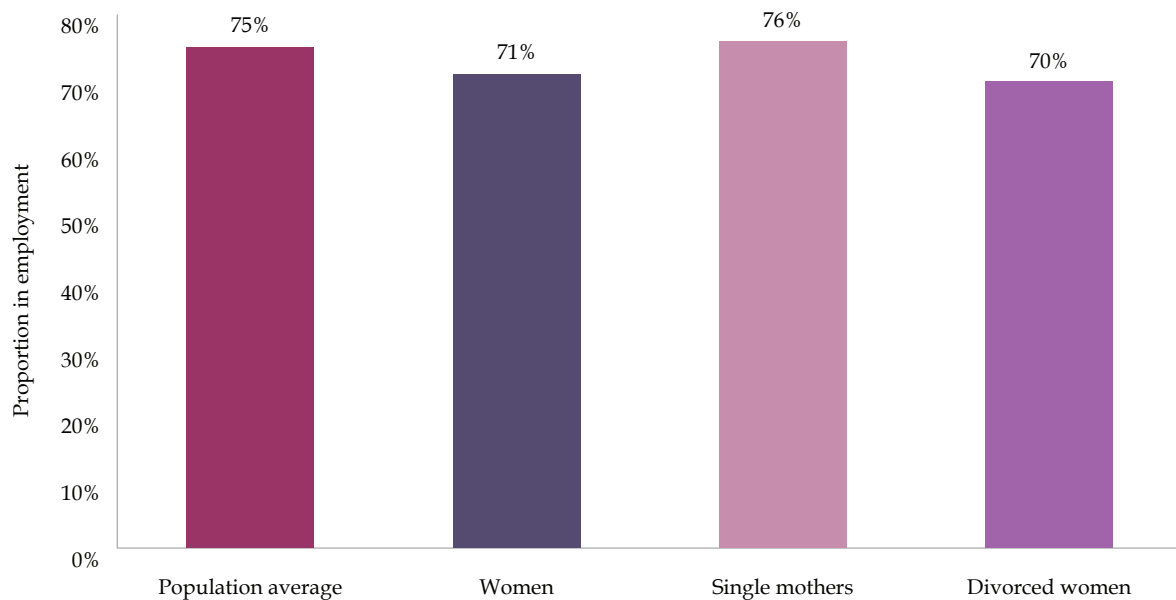
Many of the inequalities which contribute to women’s membership of the underpensioned arise from gendered divisions of labour related

to caring for children, family members and the home. Women tend to bear the majority of responsibility for caring in the home and have historically had lower employment rates than men. Women in general have lower than average employment rates, while divorced women’s employment rates are even lower. Single mothers, on the other hand, have employment rates that are higher than both the average for women and the UK population as a whole (Chart Ap2.1).

Chart Ap2.1⁴⁹

While women in general have lower than average employment rates, single mothers are more likely to be in employment

Proportion of women in employment by marital status, ages 16-64, 2018, UK



Until 2008, women with children were less likely to work than childless women.⁵⁰ However, the proportion of women with children in employment has increased and is now higher than the employment rate for both men and women with no dependent children.⁵¹

Between 2000 and 2019, UK labour market participation rates of:

- Women with dependent children increased from 66% to 75%
- Women without dependent children increased from 67% to 71%
- Men with dependent children increased from 89% to 93%
- Men without dependent children remained the same at 74%⁵²

49 PPI Modelling

50 ONS (2013)

51 ONS (2019)

52 ONS (2019)

While more women are working than ever before, they are still much more likely to be working part-time compared to men

22% of the population who are in employment work part-time. Women in general are more likely to work part-time; 36% of working

women are part-time. Divorced women are more likely to work part-time than the general population, but slightly less likely than women in general. Single mothers are the most likely to be in part-time work (Chart Ap2.2). Those in part-time work are less likely to contribute to a pension.

Chart Ap2.2⁵³

While two in five single mothers in employment work part-time, divorced women are slightly more likely to work full-time than women in general

Proportion of women, single mothers and divorced women in employment working part-time, compared to the population average, ages 16-64 2018, UK

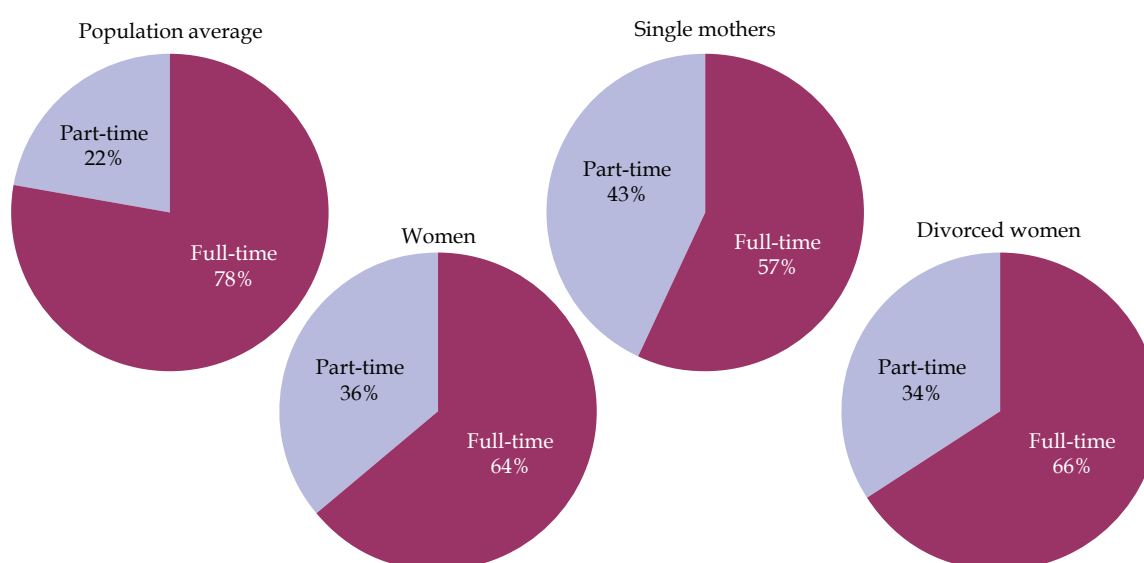


Table 2.1⁵⁴

Male lifecourses	Proportion (%)
Mostly full-time throughout	45
Mostly non-employed throughout	4
Full-time, very early exit (at about age 49)	12
Full-time early exit (at about age 60)	30
Late start (at about age 23), early exit (at about age 60)	9
Female lifecourses	Proportion (%)
Mostly full-time throughout	27
Mostly non-employed throughout	17
Weak attachment, early exit (at about age 49)	7
Family carer to part-time (long break: 16 years)	12
Family carer to part-time (short break: 4 years)	13

53 PPI Modelling

54 PPI Briefing Note Number 92: How do gender differences in lifecourses affect income in retirement?

Women are more likely to be low paid than men

A range of factors contribute to women receiving lower pay:

- **Occupational segregation:** Women are often ‘clustered’ together in particular types of work (horizontal segregation), which are often associated with lower levels of pay; as well as lower level positions (vertical segregation).⁵⁵
- **Industrial sector:** Women are more likely to work in lower paid and/or lower skilled industries, such as health and social work, retail and education, whereas men tend to work in higher paid sectors.⁵⁶
- **Labour market history:** On average, women are likely to have fewer years of full-time work, and more years of time out of the labour market or part-time work, often as a

result of unpaid caring responsibilities.⁵⁷

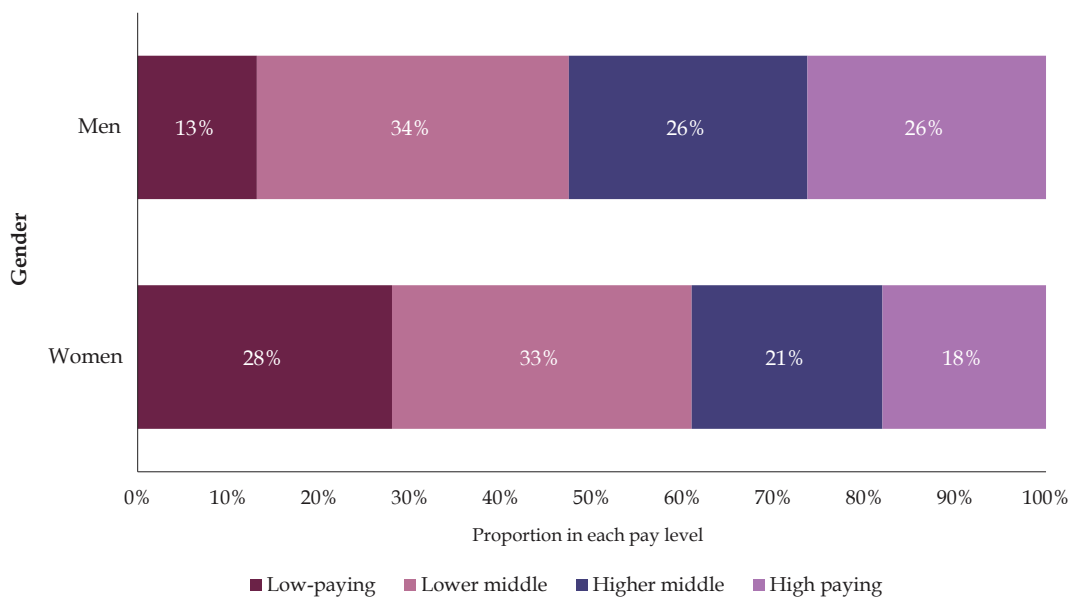
- **Other factors include discrimination, personal preferences and gendered division of labour in the home:** This includes things like social norms and attitudes which shape the work that men and women do; discrimination or bias in employment practices; and many women being predominantly responsible for taking care of home and children.⁵⁸

Women are twice as likely to be in low paying occupations, defined as occupations in which median hourly pay is in the bottom quartile of hourly pay for the wider population (Chart Ap2.3). Lower pay reduces the level of contributions people can make and reduces the level of affordability, as a larger proportion of income will be required for everyday living costs.

Chart Ap2.3⁵⁹

Women are twice as likely as men to be in low paying occupations

Proportion of employees working in high and low paying occupations, by gender, Q2 2019



55 Olsen, Gash, Kim & Zhang (2018); Close the gap (2019)

56 Olsen, Gash, Kim & Zhang (2018); Powell (2019)

57 Olsen, Gash, Kim & Zhang (2018)

58 Olsen, Gash, Kim & Zhang (2018)

59 Francis-Devine & Pyper (2020)

Being a single mother or divorced during working life can exacerbate the labour market inequalities experienced by women

Single mothers experience more severe labour market inequalities than women in general

- **Lower levels of labour force participation:** Single mother employment rates have increased over the last decade, from 55% in 2008 to 67% in 2018. However, this remains lower than the average for women in general (71%).⁶⁰
- **Atypical work patterns:** More than half (56%) of single mothers are in atypical employment, compared to just over a third (36%) in 2008.⁶¹

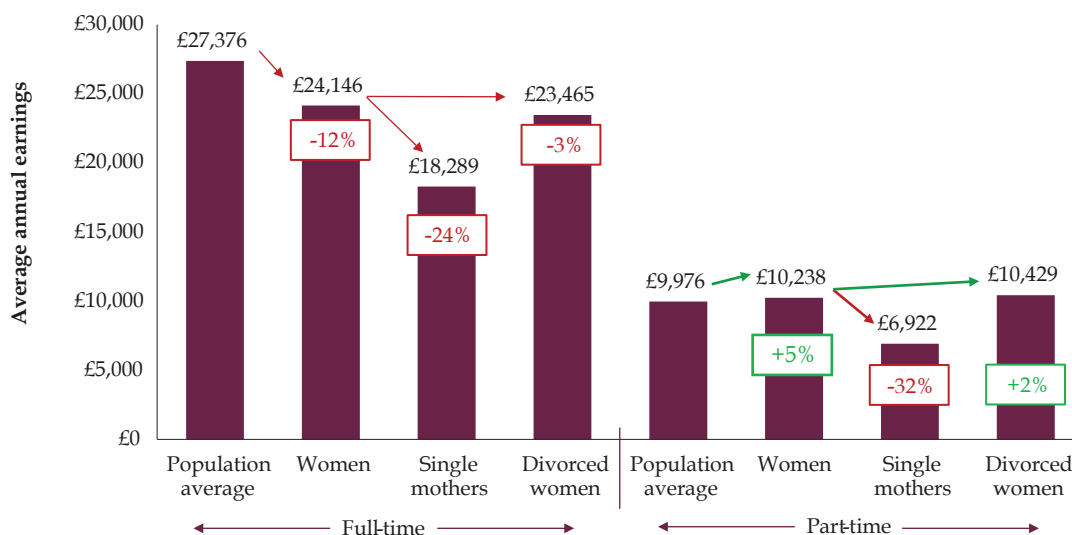
- **Reduced working hours:** Almost 1 in 3 (29%) mothers (both coupled and single) with a child aged 14 and under has reduced their working hours because of childcare needs, compared to 1 in 20 (5%) fathers. Single mothers can find it even more difficult to balance work and childcare needs as both the main earner and main caregiver, particularly as they do not have a partner with whom they can ‘shift parent’ and so rely on part-time work and often expensive childcare to manage.⁶²
- **Lower levels of career progression (vertical segregation):** Because of the demand from childcare responsibilities, single mothers tend to work in lower paid, lower skilled jobs, and are generally less able to work extra hours or make additional sacrifices in their job in order to achieve promotions and career progression. This means they are at greater risk of vertical segregation in the labour market.

Single mothers in full-time work earn, on average, a quarter (24%) less than other full-time working women. Single mothers in part-time work earn around a third (32%) less on average (Chart Ap2.4).

Chart Ap2.4⁶³

Single mothers in full-time employment earn a quarter less than the average for women in general

Average annual earnings of women, single mothers and divorced women compared to population average, ages 16-64, 2018



Over the last decade there has been a rapid increase in ‘atypical’ types of employment such as self-employment, zero-hours contracts and

agency work. These types of employment are particularly common for single mothers.

60 Resolution Foundation (2019); PPI analysis

61 Resolution Foundation (2019)

62 Gingerbread (2018)

63 PPI Modelling

Atypical working patterns are associated with lower rates of hourly pay. On average:

- People working part-time earn 29p less per hour than full-time workers
- People on zero-hours contracts earn 45p less per hour
- Temporary employees earn 66p less per hour than permanent staff⁶⁴

Low pension participation rates and automatic enrolment qualifying criteria further exacerbates inequalities for these groups

Women are less likely than men to meet automatic enrolment qualifying criteria

Of 13.4 million employed women in the UK, around 3 million (23%) do not meet the qualifying criteria for automatic enrolment, compared to 12% of male workers. 1.9 million women earn below the earnings threshold of £10,000⁶⁵ 77% of workers who do not meet the qualifying criteria because they earn below the threshold are women⁶⁶ This is partly due to women being more likely to work in low-skilled (and low paid) jobs than men.

More women would qualify for automatic enrolment if second jobs were included in the assessment. Automatic enrolment eligibility is assessed on a “per job” basis. People with several part-time jobs are assessed separately on the earnings they have in each individual job.

Some people might have several part-time jobs because they are unable to get full-time work from one employer or because having several part-time jobs allows more flexibility for other priorities such as caring. Single mothers are likely to be disproportionately represented in this group.

If the income from both first and second jobs were taken into account when assessing eligibility for automatic enrolment, then a further 80,000 people (60,000 women and 20,000 men) would earn enough to meet the qualifying criteria⁶⁷ Lower levels of eligibility among women results in fewer employed women saving in a workplace pension.

Single mothers are even less likely to meet qualifying criteria: 31% of working single mothers do not meet the eligibility criteria for automatic enrolment. Divorced women, on the other hand are slightly more likely to be eligible than women in general, with only 20% ineligible.

Many people do not consider pensions when divorcing, which can leave women, who typically have lower levels of pension wealth, worse off in retirement

71% of divorces do not consider pensions in their financial settlements (Figure Ap2.1).⁶⁸

64 Resolution Foundation (2019)

65 PPI analysis

66 PPI (2016) Automatic enrolment changes

67 PPI analysis of Labour Force Survey data, 2015

68 Scottish Widows (2017)

Figure Ap2.1⁶⁹

Approximately 10% of men and 14% of women in their early 60s are divorced. In 2019 alone, 8,300 men aged over 60 were divorced, and 5,600 women. The median pension wealth of divorced men and women by retirement is £103,500 and £26,100 respectively. Compared to the UK population average, this represents a pension wealth reduction of a third for men but half for women, indicating that divorce has a greater

impact on women's pension wealth than men's. Divorced women are twice as likely to not be saving anything for retirement compared to divorced men, and similarly twice as likely to say that their retirement prospects have worsened as a result of their divorce (Chart Ap2.5).⁷⁰

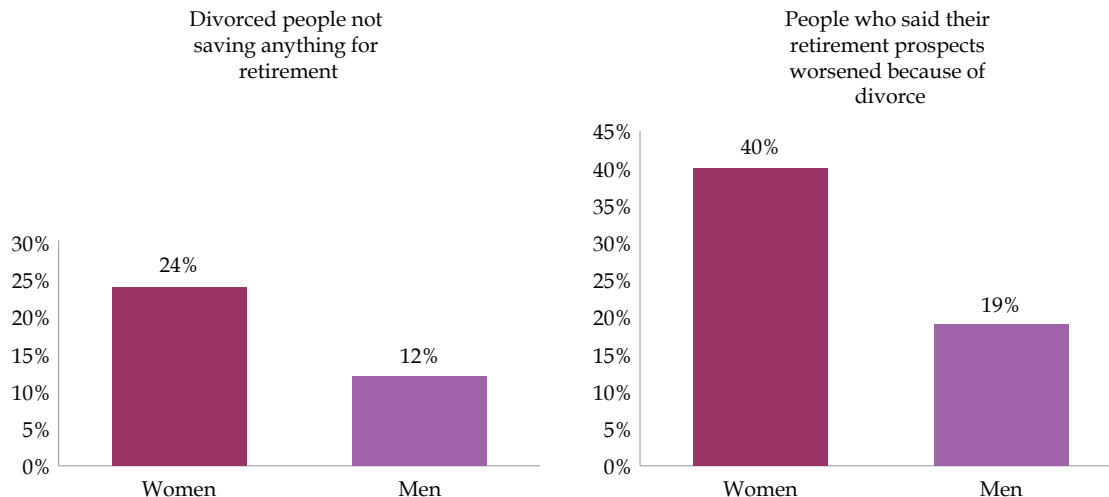
69 Scottish Widows (2017)

70 Scottish Widows (2017)

Chart Ap2.5⁷¹

A quarter of divorced women are not saving for retirement, while two in five say their retirement prospects worsened as a result of their divorce

Survey of 5,314 adults, 2017



Many single mothers and divorced women will also experience housing inequalities associated with lower retirement incomes

Single mothers are likely to find it difficult to get onto the property ladder

Single mothers have lower levels of income:

- On an individual level, as a result of lower levels of employment, higher levels of part-time work and lower levels of pay
- On a household level because they are the sole earner in their household

This means that single mothers will find it more difficult to cover housing costs, which are likely to take up a greater proportion of their income, compared to someone in a two-earner household. They are also less likely to be able to purchase a house as a result of their diminished ability to save for a deposit, as well as their lower household income making it more difficult to get a mortgage, particularly in areas where house prices are high.

Divorced women’s homeownership can be complicated as a result of division of assets during the divorce

When divorce or separation occurs, one or both partners will need to move out of the existing home. For couples without children, men and women are equally likely to move out of the shared home. However, among couples with children, fathers are more likely to move out than mothers, though this will not be the case in all instances.⁷² Divorced women who remain in the family home, if owned are likely to have lower housing costs in retirement. Although, in some cases ownership of the home is negotiated on the basis of giving up rights to other assets, for example pension wealth. Divorced women who move out of the family home are more likely to be renting later in life, particularly if the divorce occurs soon before retirement; this will lead to higher housing costs and insecurity.

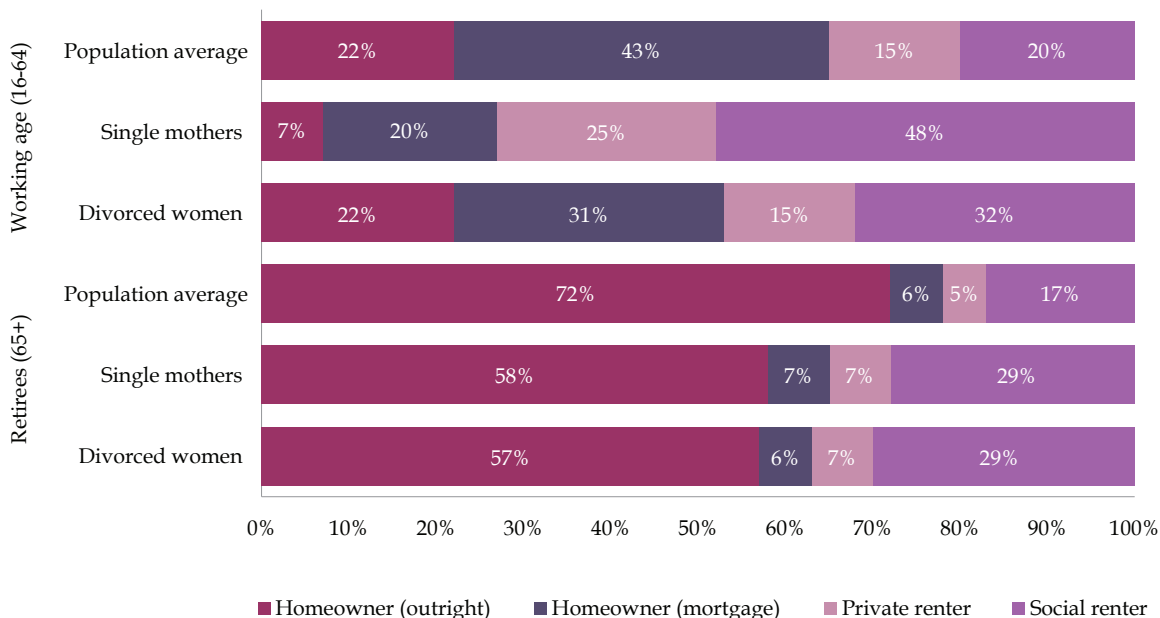
71 Scottish Widows (2017)

72 Thomas, Mulder & Cooke (2017)

Chart Ap2.6⁷³

Single mothers are particularly unlikely to own a house during working life, although the gap narrows in later life

Housing tenure, single mothers and divorced women, compared to the population average, by age, 2018



While women’s retirement incomes have increased in relation to average retirement incomes, policy interventions may be needed to further close the gap

40% lower than the broader population. Women who have experienced divorce or single motherhood during working life are at risk of experiencing even larger gaps (Chart Ap2.7).

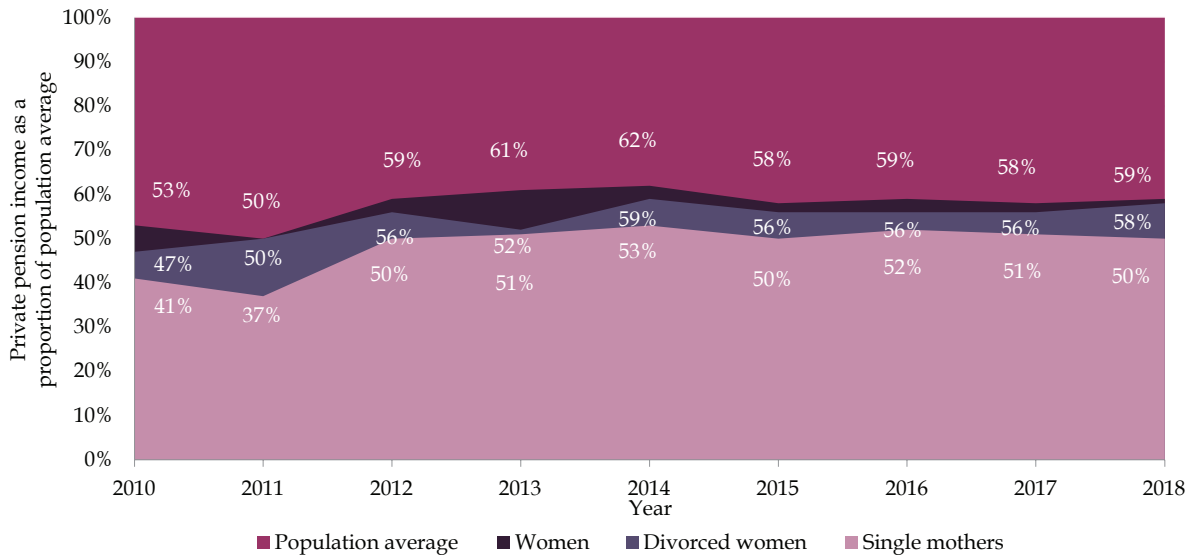
Average retirement incomes of women, as well as specifically those who have experienced divorce or single motherhood, have increased relative to average retirement incomes of the broader population

While the gender pensions gap is narrowing, women still have pension income, on average,

Chart Ap2.7⁴

Women’s pension incomes have increased in comparison to the population average over the last decade, but still lag behind

Women, divorced women and single mothers’ average private pension income as a proportion of population average, age 65+, 2010 - 2018



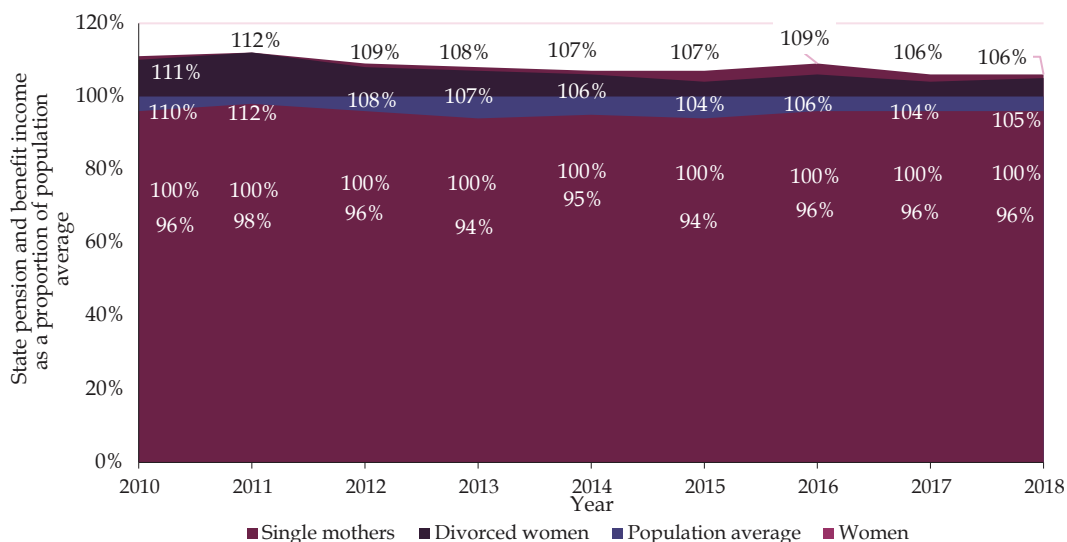
While women in general receive slightly less than the population average from the State Pension and benefits, those who have been single mothers or divorced during working

life receive higher average incomes from these sources, helping to mitigate the gap presented by their lower than average private pension incomes (Chart Ap2.8).

Chart Ap2.8⁷⁵

Higher than average levels of income from the State Pension and benefits help to close the pensions gap for single mothers and divorced women

Women, divorced women and single mothers' average State Pension and benefit income as a proportion of population average, age 65+, 2010 - 2018



Conclusions:

- Women, particularly those who have experienced single motherhood or divorce during working life, have average retirement incomes that are as much as 17% lower than the population average.
- Gaps in private pension savings are even higher: On average, single mothers have private pension incomes that are half (50%) the size of the population average, while private pension incomes of divorced women are only slightly higher (58%).
- Despite having slightly higher than average employment rates, single mothers find it difficult to accumulate adequate pension savings as a result of lower than average pay, caused by both atypical work patterns and vertical segregation in the workplace. They are also less likely to own their own home, which increases retirement living costs.
- Divorced women are particularly disadvantaged when pensions are not considered while assets are divided during the divorce process. 71% of divorces do not consider pension assets when reaching a settlement.

Appendix Three: Why are BAME groups underpensioned?

Some BAME groups are at greater risk of labour market inequalities associated with lower retirement incomes. As a result of labour market inequalities, they also have lower than average levels of homeownership which may mean they face higher levels of cost and housing insecurity in later life. Policies aimed at increasing labour market participation and reducing pay gaps for these groups are likely to lead to improved retirement incomes.

Some BAME groups are more likely to experience labour market inequalities associated with lower retirement incomes

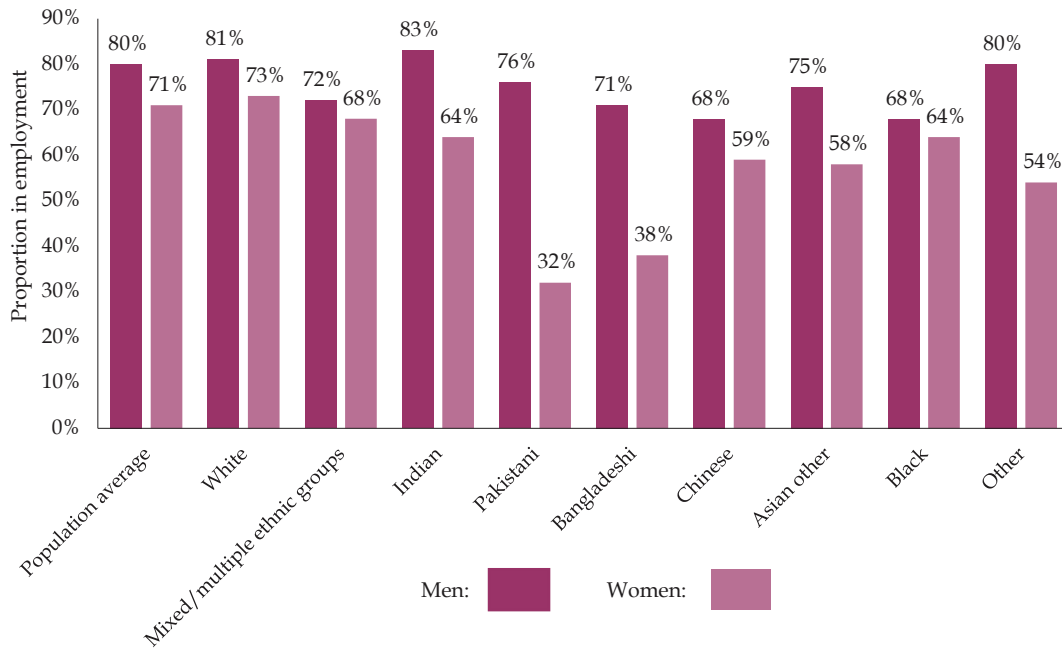
BAME groups tend to have lower levels of employment than the population average, an inequality associated with lower levels of retirement income

Underpensioned BAME groups have lower levels of employment in comparison to the population average, although the impact varies substantially between different ethnic groups. For example, Indians have an employment rate of 74%, just 1% lower than the population average. Pakistanis and Bangladeshis have a much lower employment rate of just 57% (Chart Ap3.1).

Chart Ap3.1⁷⁶

Underpensioned BAME groups are less likely to be in employment

Proportion in employment by ethnic group and gender, ages 16-64, 2018, UK



Some BAME groups have higher instances of part-time work compared to the wider population

Bangladeshis have a particularly high prevalence of part-time work, with a third (33%)

of employees working part-time, compared to 22% of the wider population (Chart Ap3.2 & Table Ap3.1).

Chart Ap3.2⁷⁷

A third of Bangladeshi workers are in part-time employment, compared to less than a quarter of the wider population

Proportion of Bangladeshis in employment working part-time, compared to the population average, ages 16-64, 2018, UK

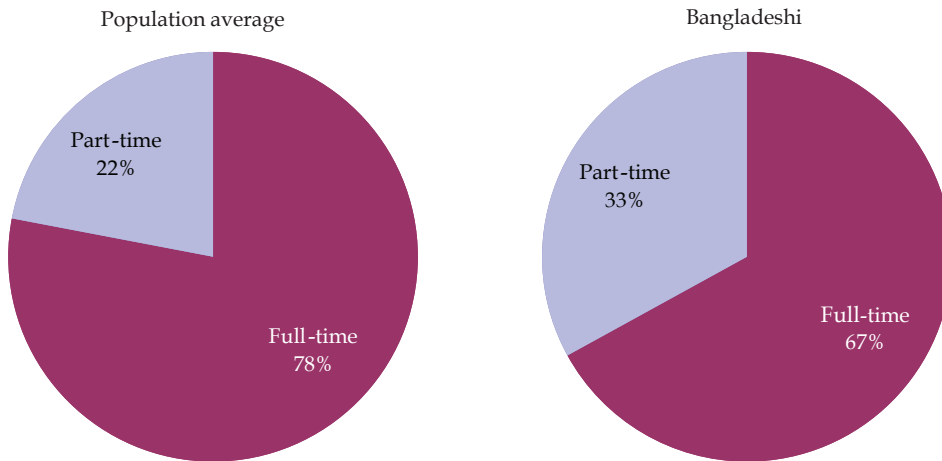


Table Ap3.1⁷⁸

	Full-time	Part-time
White	78%	22%
Mixed/multiple ethnic groups	75%	25%
Indian	82%	18%
Pakistani	77%	23%
Bangladeshi	67%	33%
Chinese	74%	26%
Asian other	79%	21%
Black	73%	27%
Other	72%	28%
Total	78%	22%

77 PPI Modelling

78 PPI Modelling

Underpensioned BAME groups are more likely to be in low-skilled and low-paid work

While some BAME groups (Indian and Chinese) have a higher average income than the general

population, other BAME groups (Bangladeshi, Pakistani, Black African/Caribbean), who are at greater risk of being underpensioned, have lower average incomes during working life (Chart Ap3.3).

Chart Ap3.3⁷⁹

Many underpensioned BAME groups’ median yearly income is lower than the population average

Average annual full-time earnings of ethnic groups compared to population average, ages 16-64, 2018



The Department for Business, Energy & Industrial Strategy (BEIS) is currently analysing feedback on a consultation proposing the introduction of mandatory pay gap reporting for BAME groups.⁸⁰ If introduced, it is hoped that this can replicate the success so far observed by the introduction of mandatory reporting of the gender pay gap by encouraging employers to be more aware of the drivers of inequality. However, the practical and cultural barriers to ethnicity pay gap reporting may be greater than those of gender pay gap reporting.⁸¹ Currently, only 36% of employers collect and analyse data to identify if there are differences in pay and progression for different ethnic groups.⁸²

People from some BAME groups face multiple barriers in employment

People from BAME groups can face multiple barriers in the labour market arising from:

- Lack of vocational skills
- Low levels of educational attainment
- Language barriers
- Discrimination

These barriers can result in higher levels of unemployment and economic inactivity, people having to take casual work or zero-hour contracts, reduced promotional opportunities and ‘segregation’ into particular job types which are often low paid. The impact of these barriers varies considerably between BAME groups, with Pakistani and Bangladeshi groups often experiencing the harshest effects.

79 PPI Modelling

80 <https://www.gov.uk/government/consultations/ethnicity-pay-reporting>

81 IES (2019)

82 Equality and Human Rights Commission (2018)

Women from particular BAME groups experience a greater gender effect on labour market inequalities than the average for the total population

The gender effect, whereby women are less likely to work than men, more likely to work part-time, and at greater risk being low paid, can be seen strongly within some BAME

groups. Within the population as a whole, the proportion of women working is relatively close to the proportion of men working. The gender gap in employment rates has been reducing and is currently 10% across the total UK population. There are more significant variations by gender among some BAME groups, particularly Pakistani and Bangladeshi groups (Chart Ap3.4).

Chart Ap3.4⁸³

Some BAME groups have a much greater disparity in employment rates according to gender

Gap in employment rates between men and women, by ethnic group, ages 16-64, 2018



Women, particularly those from Pakistani and Bangladeshi groups, are more likely to work part-time than men, because they bear the majority of responsibility for caring for children and other family members. This means that many women experience greater risk of lower retirement incomes, as a result of being both female and a member of an BAME group.

Automatic enrolment qualifying criteria compounds the risk of BAME retirement income gaps triggered by labour market inequalities

Automatic enrolment has increased participation rates among BAME groups, but some ethnic groups are less likely to meet the qualifying criteria

Between 2011/12-2013/14 and 2015/16-2017/18, there was clear evidence of large increases in pension participation rates among all ethnic groups. The largest increase was amongst Pakistani and Bangladeshi groups, where participation rose from 36% to 60%. In comparison, the lowest increase in the same period occurred in the Mixed ethnicity group, though this group still experienced a substantial increase from 53% to 70%.⁸⁴

83 PPI Modelling

84 TPR (2019)

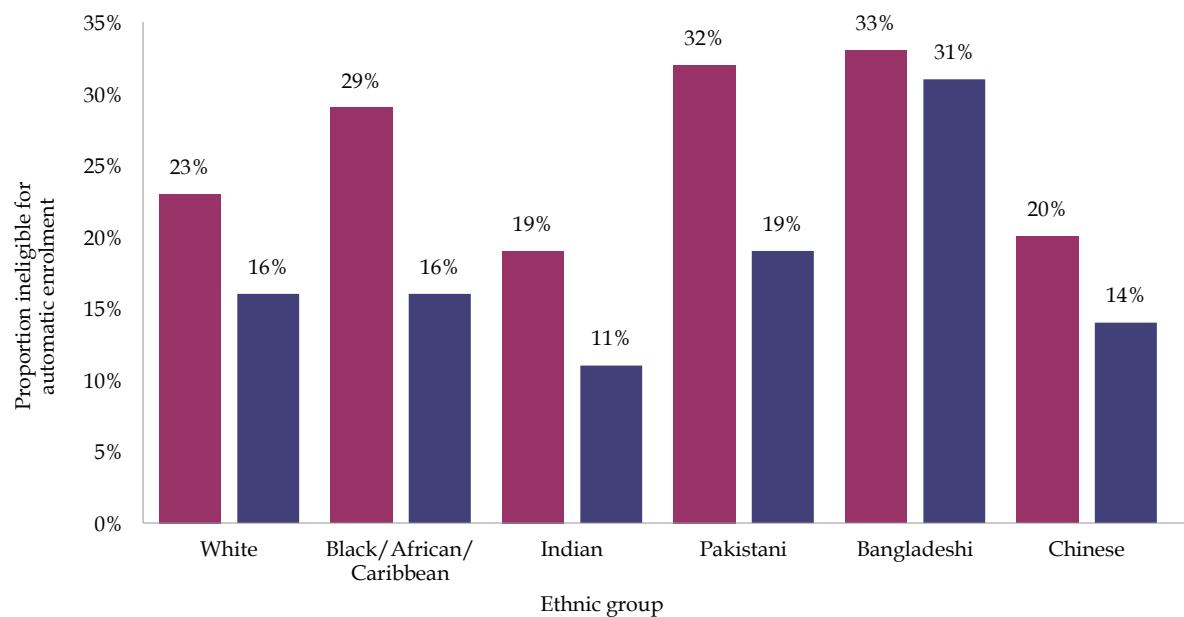
Some BAME groups are less likely to be eligible for automatic enrolment (Chart Ap3.5). Lower rates of eligibility for automatic enrolment among Bangladeshi and Pakistani workers are associated with people from these groups,

particularly women, being more likely than others to work part-time or in low-paid jobs. For example, 31% of Bangladeshi employees work part-time, compared to an average of 22%.

Chart Ap3.5⁸⁵

While some BAME groups are less likely to be eligible for automatic enrolment, levels of eligibility have increased

Proportion ineligible for automatic enrolment, by ethnic group, 2015 vs. 2019



Low earnings appear to be a greater problem for BAME groups in regards to automatic enrolment eligibility. For example, removing the lower earnings limit of £10,000 would increase automatic enrolment eligibility of Bangladeshis by around a quarter.

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

costs will further erode the already lower than average retirement incomes received by BAME groups.

Those from BAME groups are more likely to be renters in later life. 28% of people in BAME groups privately rent during working life, compared to a population average of 22%. Housing tenure varies between different BAME groups (Chart Ap3.6).

BAME groups are likely to face substantially higher housing costs in retirement

Compared to an over 65 population average of £800, BAME groups pay an average of £1,730 in annual housing costs. These increased housing

Chart Ap3.6⁸⁶

Bangladeshis and Black African or Caribbean people have particularly low levels of homeownership during working life

Housing tenure by ethnicity, ages 16-64, 2018

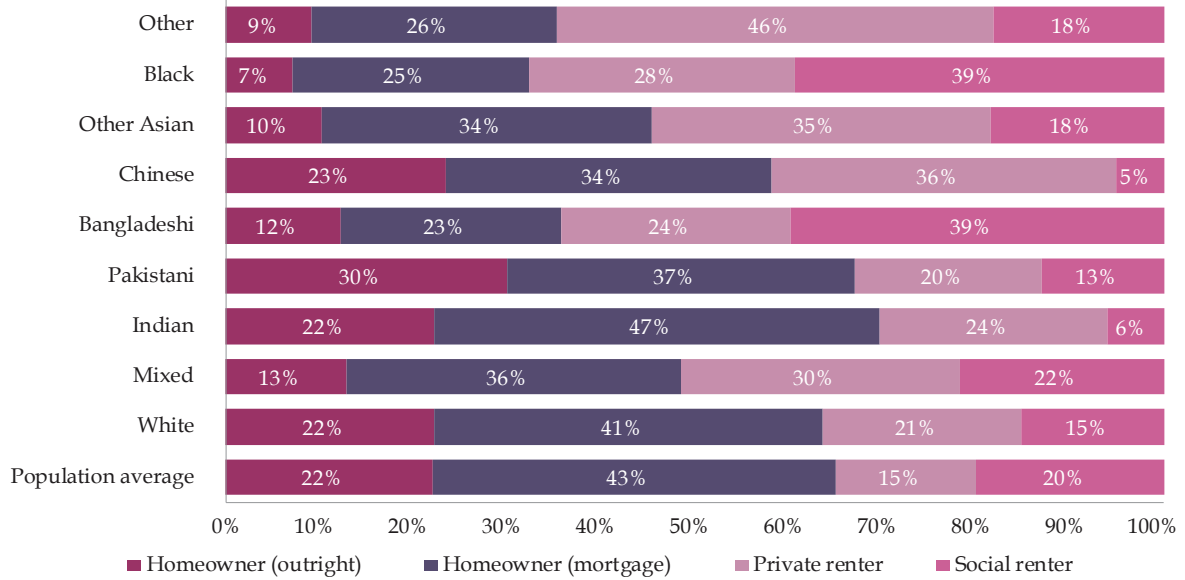
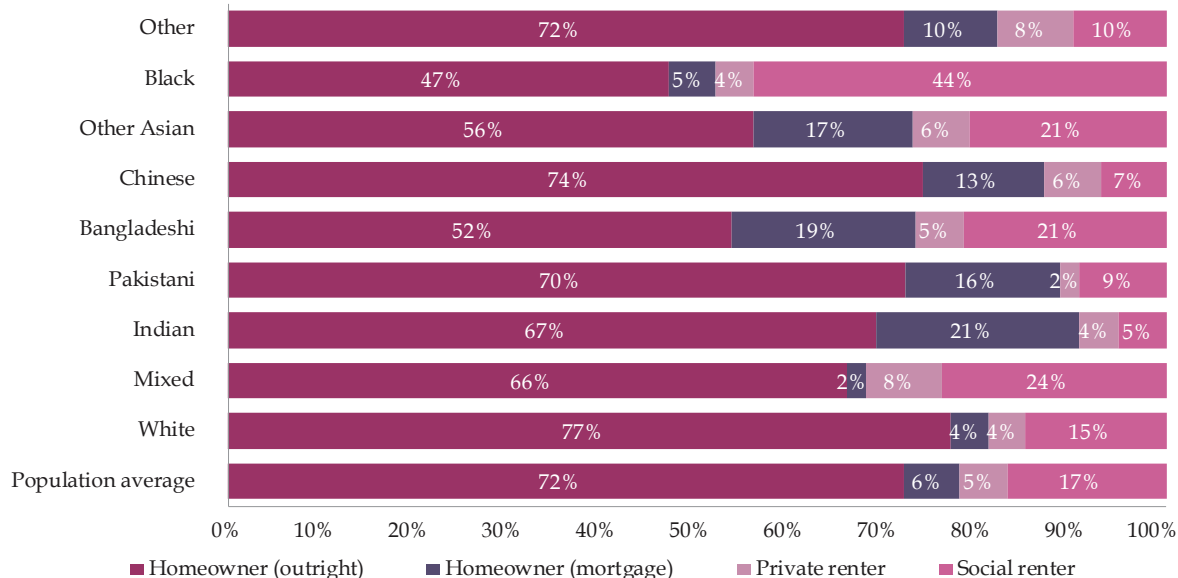


Chart Ap3.7⁸⁷

While the gap in homeownership between different ethnic groups narrows in later life, only just over half of Black over 65s own a house

Housing tenure by ethnicity, age 65+, 2018



Conclusions:

- BAME groups have average private pension incomes that are almost a third (29%) lower than the population average.
- BAME groups who are most at risk of being underpensioned have lower employment rates, higher levels of part-time working (particularly among BAME women), and lower levels of pay on average.

Appendix Four: Why are disabled people underpensioned?

People with disabilities are particularly at risk of labour market inequalities associated with lower retirement incomes

Disabilities and long-term sickness can limit the amount and type of work people are able to do

The main barriers to increased employment among disabled people are labour supply constraints. These are factors that limit the type or amount of work that an individual can do. As well as limiting the amount of work an individual can do, increasing the prevalence of both unemployment and part-time work among disabled groups, labour supply constraints increase the risk of working, and becoming trapped in, low paying jobs.⁸⁸

Disabled people are also more likely to work in lower-skilled jobs compared to non-disabled people. One third (31%) are in semi-routine or routine occupations compared with only a quarter (25%) of non-disabled people. 34% of disabled people are in managerial or professional roles, compared with 43% of non-disabled people.

People with disabilities are significantly less likely to be in paid employment compared to the rest of the population

Only half (50%) of disabled people aged between 16 and SPA are in paid employment, compared to three quarters (75%) of the wider population (Chart Ap4.1). The employment gap between disabled and non-disabled is smaller for women, young people (16-24 year olds) and those with higher levels of qualifications.⁸⁹

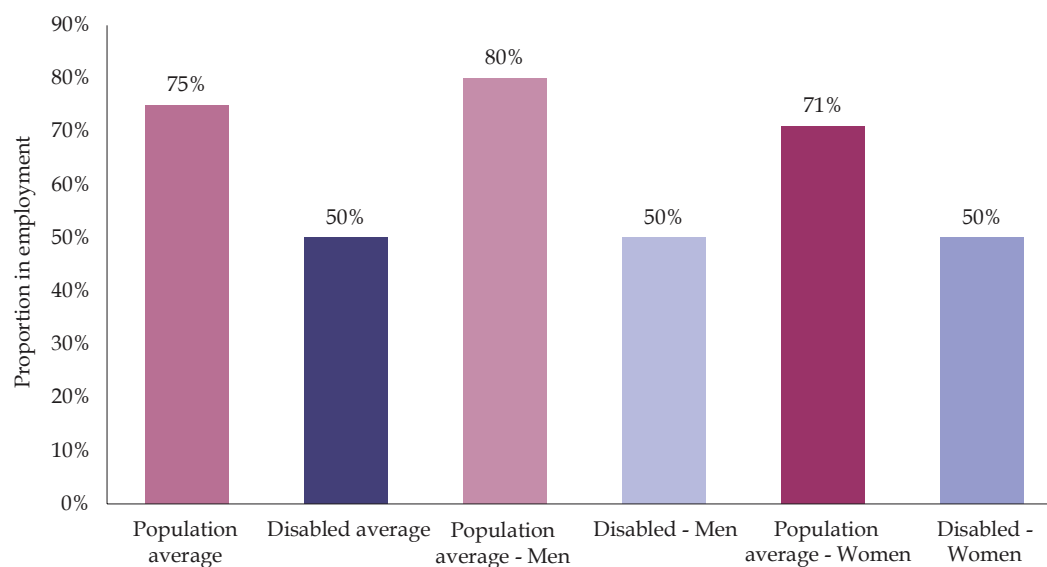
⁸⁸ McKnight, Stewart, Himmelweit & Palillo (2016)

⁸⁹ Equality and Human Rights Commission (2013)

Chart Ap4.1⁹⁰

People with disabilities are significantly less likely to be in employment compared to the population average

Proportion in employment by gender and disability, ages 16-64, 2018



The number of people with disabilities in employment has been increasing since 2013

Between 2013 and 2019, the number of people with disabilities in employment increased by 1.34 million, an increase of 46%. Over the same period, the number of people in employment without disabilities increased by 984,000, an increase of 3.8%. This means that over half of the growth in employment levels since 2013 has come from people with disabilities.⁹¹

Disabled workers are more likely to be in part-time employment, an inequality closely associated with low retirement incomes

Periods spent working part-time can lead to low levels of, or gaps in, pension contributions. These can have a significant negative impact on incomes in later life, particularly where periods of part-time work are lengthy. A third (32%) of disabled workers are in part-time employment, compared to 22% of the total population of workers. As with non-disabled workers, disabled men are less likely than women to be working part-time, with almost half (45%) of disabled women in employment working part-time (Chart Ap4.2).

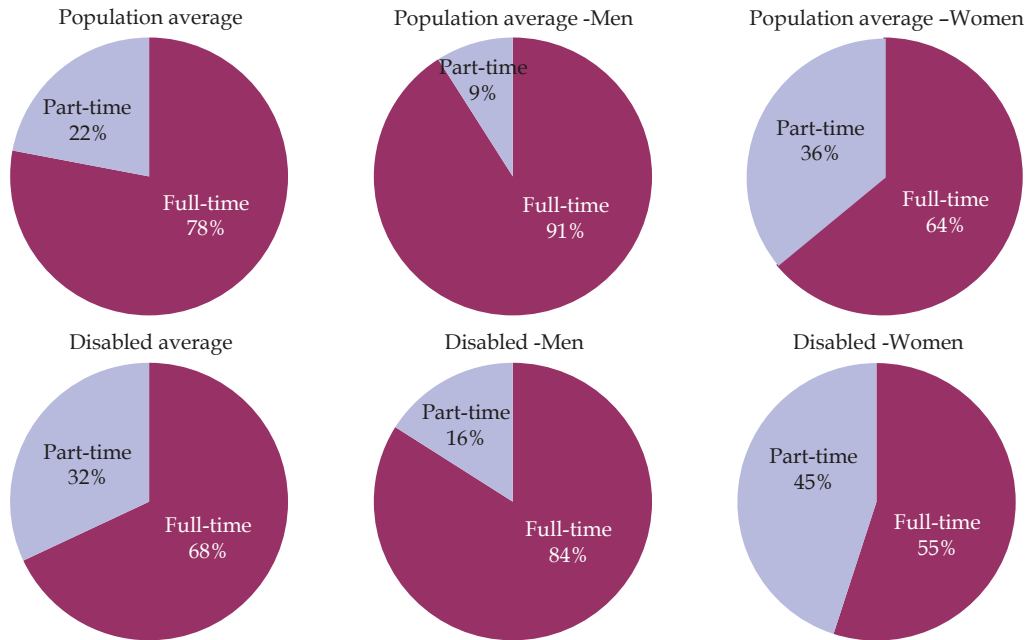
90 PPI Modelling

91 Powell (2020)

Chart Ap4.2 ⁹²

A third of disabled people in employment work part-time

Proportion in employment working part-time, by disability and gender, compared to the population average, ages 16-64 2018, UK



Disabled people are at greater risk of experiencing low pay inequalities which can lead to lower retirement incomes

Pay gaps among disabled and non-disabled part-time workers are lower than those for

full-time workers (Chart Ap4.3), but given that disabled people are more likely to be working part-time than the general population, overall incomes are substantially lower.

Chart Ap4.3⁹³

The pay gap between disabled and nondisabled groups is proportionately lower among part-time workers compared to fulltime workers

Average annual income by gender, disability and workpattern, ages 16-64, 2018



92 PPI Modelling

93 PPI Modelling

Disabled people experience both horizontal and vertical job segregation

Disabled people are more likely to work in lower-skilled jobs, which tend to be lower paid, compared to non-disabled people. One third (31%) are in semi-routine or routine occupations compared with only a quarter (25%) of non-disabled workers. They are also less likely to progress to higher paid managerial roles. 34% of disabled workers are in managerial or professional roles, compared with 43% of non-disabled workers.

Levels of educational attainment are lower among disabled groups, but employment gaps are lower among groups with higher attainment in comparison to non-disabled people with the same level of education

The proportion of disabled people with no qualifications is nearly three times that of non-disabled people.⁹⁴

Having a degree-level qualification can significantly improve employment outcomes for disabled people. The employment gap is smaller between disabled (60% employed six months after graduating) and non-disabled graduates (65%), compared with the gap observed in the general population of disabled and non-disabled groups.⁹⁵ However, this reflects both a higher proportion of disabled graduates in employment compared to disabled people more generally (50%) and a lower employment rate among non-disabled graduates compared to the total non-disabled population (75%).

Disabled people who are also members of other underpensioned groups can experience more severe labour market inequalities

Women are proportionately more likely to be disabled compared to men and experience greater labour market inequalities when they are

Women are proportionately more likely to be disabled than men (23% of women vs. 19% of men).⁹⁶ The gap in employment rate is smaller

between disabled and non-disabled women, compared to men. However, rates of part-time work are significantly higher among disabled women, and the pay gap between incomes of non-disabled and disabled women working part-time are more than double that of men.

The disabled employment gap is smaller among BAME groups compared to the population average, but pay gaps are greater

The pay gap for disabled White British men is 17.4%. Among disabled BAME men, disabled Indian men experience a pay gap of 21%, while the pay gap between disabled and non-disabled Black African men is 26%.⁹⁷

Currently, less than half (44%) of employers collect and analyse data to identify if there are differences in pay and progression for employees with a disability compared to non-disabled employees.⁹⁸

While automatic enrolment has been particularly successful at encouraging disabled people who are eligible to save into a pension, as a group they are at a greater risk of being ineligible

Disabled people who are eligible for automatic enrolment have marginally higher participation rates than non-disabled employees

In 2017/18 there was a small difference in participation rates of disabled and non-disabled eligible employees. Among disabled people who meet qualifying criteria for automatic enrolment, participation rates are 83%, compared to 80% of non-disabled eligible employees. Disabled eligible employees have experienced a greater increase in participation rates since the introduction of automatic enrolment (30% since 2012/13, compared to 23% for non-disabled eligible employees).⁹⁹ However, because disabled people are generally less likely to meet qualifying criteria, as a group they are still benefiting less from automatic enrolment compared to the non-disabled.

94 Equality and Human Rights Commission (2017a)

95 Equality and Human Rights Commission (2017a)

96 Papworth Trust (2018)

97 Equality and Human Rights Commission (2017b)

98 Equality and Human Rights Commission (2018)

99 DWP (2019)

21% of disabled workers do not meet the qualifying criteria for automatic enrolment

Approximately one in five (21%) employed people with a disability do not meet the qualifying criteria for automatic enrolment. This is around 800,000 of the 3.6m employed people who have a disability. This is compared to 17% of non-disabled employed people who do not meet the qualifying criteria for automatic enrolment. However, because people with a disability are far less likely to work than those without a disability, a large proportion of disabled people will also be ineligible for automatic enrolment due to not being employed. Among disabled employees, eligibility for automatic enrolment has increased significantly in the last five years. In 2015, almost a third (30%) of disabled employees were ineligible.

75% (600,000) of the employed people with a disability who do not meet the qualifying criteria for automatic enrolment are earning below the £10,000 earnings threshold.

Disabled people are especially at risk of experiencing housing inequalities as many are likely to need specific accommodations

Disabled people have higher than average housing costs in retirement

Compared to a population average of £800, disabled people have average annual housing costs of £1,900 in later life. Disabled people are also likely to face higher spending on other essential costs, both in working life and retirement. On average, disabled adults face extra costs of £583 per month.¹⁰⁰

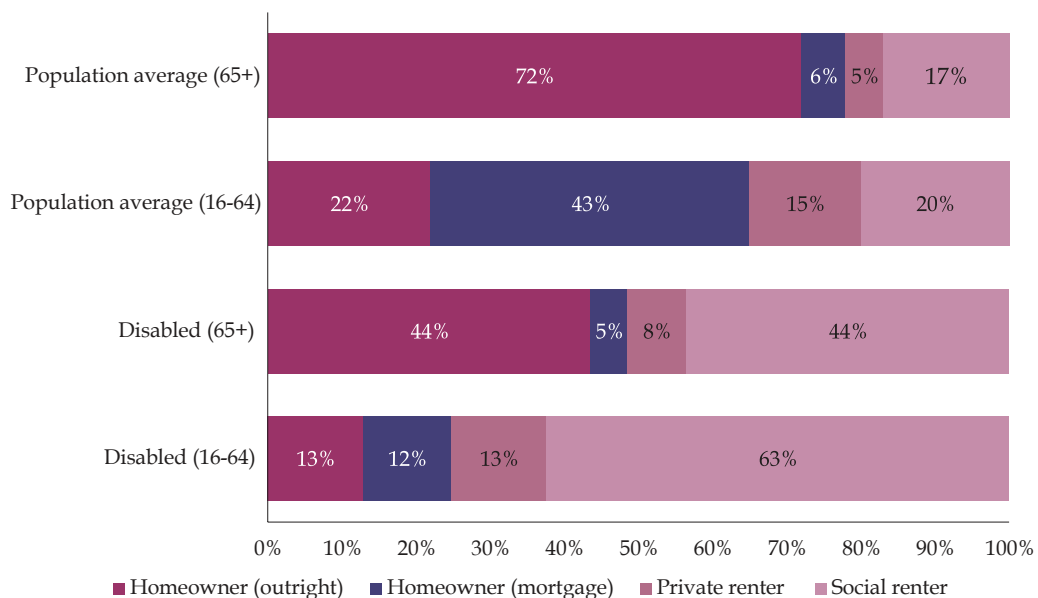
Disabled people are the least likely group to own their home in both working life and later life

Only a quarter (25%) of disabled people own their own home during working life (ages 16-64). Among disabled people currently aged over 65, homeownership is higher, at around half (49%). However, disabled people remain around a quarter less likely to own their own home in later life compared to the population average (Chart Ap4.4).

Chart Ap4.4¹⁰¹

Only a quarter of disabled people currently aged between 16 and 64 own a house

Housing tenure, disabled people compared to population average, by age, 2018



100 Scope (2019)

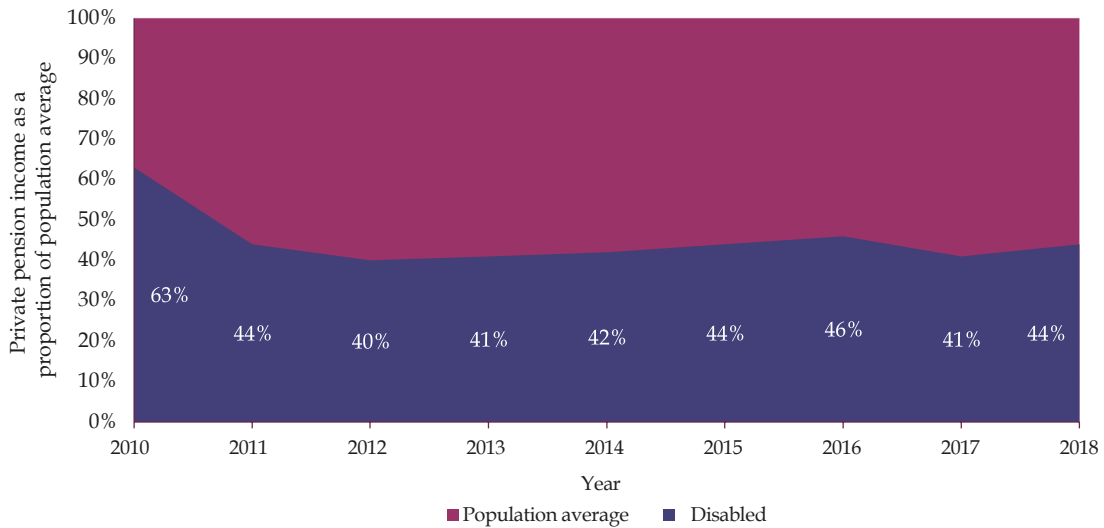
101 PPI Modelling

Disabled people’s average income from private pensions has experienced little relative change over the last decade, remaining at less than half of the population average

Chart Ap4.5

Disabled pension incomes have remained relatively stable, at just over a third of the population average

Disabled average private pension income as a proportion of average private pension income of the wider population, age 65+, 2010 –2018

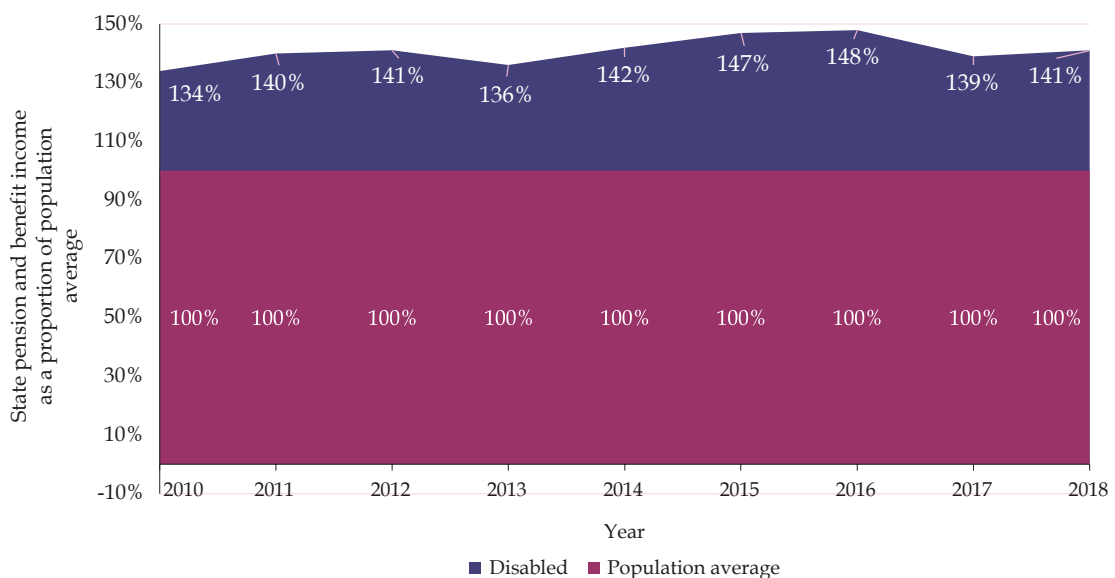


State Pension entitlement and benefits help to mitigate the gap between disabled people’s private pension incomes and the wider population

Chart Ap4.6¹⁰²

Disabled people receive around 40% more in State Pension and benefit income, compared to the population average

Disabled average State Pension and benefit income as a proportion of average private pension income of the wider population, age 65+, 2010 –2018



Conclusions:

- Disabled people have the lowest level of private pension income of any of the underpensioned groups, with incomes valued at 44% that of the general population.
- These lower retirement incomes are caused by labour market inequalities (low employment rates, higher part-time working rates, lower levels of pay), which are particularly severe for disabled people because of labour supply constraints caused by their disability.
- State Pension and benefit entitlements increase disabled people's average retirement incomes to the same level as the general population. However, because these benefits are means-tested, this can add extra complications when trying to encourage higher levels of private pension savings.

Appendix Five: Why are carers underpensioned?

Around 6.5 million carers in the UK provide informal care worth an estimated £57 billion to £100 billion per year.¹⁰³ Carers often under-report the level of support they provide compared with responses from care recipients, so figures on the number of carers and time spent caring are likely to be an underestimate.¹⁰⁴ Furthermore, many carers do not self-identify as carers and may not be aware of the support they can access.

There is considerable 'turnover' within the informal carer population. Every year 2.1 million adults become carers and almost as many find that their caring duties cease. This high turnover means that caring will end up touching the lives of most people – three in five people will take on caring responsibilities at some point in their lives.¹⁰⁵

For many people with caring responsibilities, labour supply constraints trigger inequalities associated with lower retirement incomes

Carers are less likely to be in paid employment, with many leaving the labour market due to caring responsibilities

Carers have an employment rate of around half, compared to the population average of three quarters. However, among female carers, employment rates are even lower, with only two in five (42%) in paid employment (Chart Ap5.1).

103 Houses of Parliament (2018)

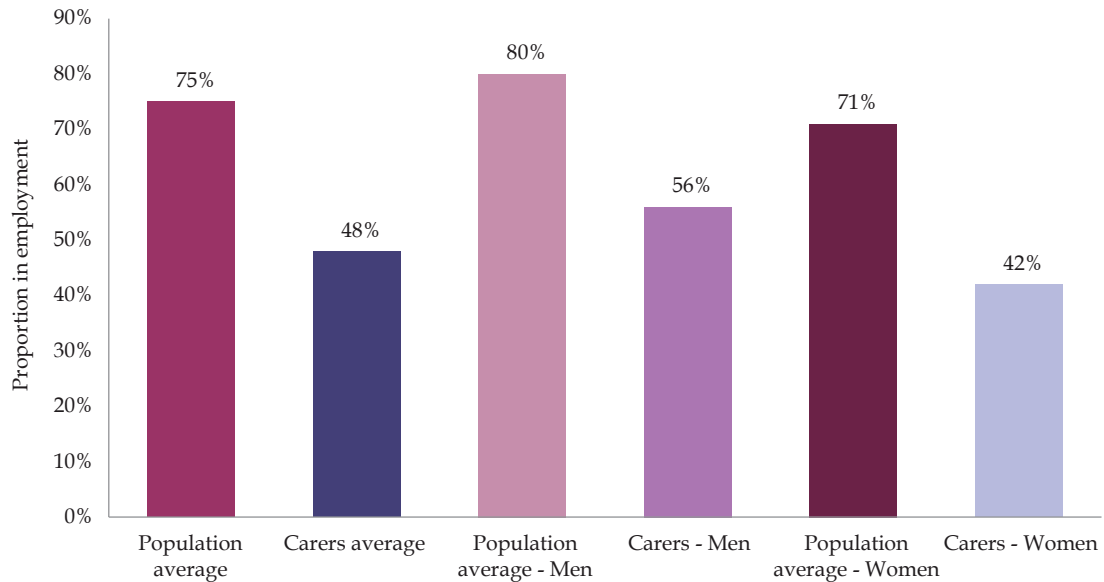
104 Rutherford & Bu (2017)

105 Demos (2018)

Chart Ap5.1¹⁰⁶

People with caring responsibilities are significantly less likely to be in employment

Proportion in employment by gender and caring responsibility, compared to population average, ages 16-64, 2018



In 2015-16, an estimated 345,000 unpaid carers aged between 16 and 64 in England left employment to provide care.¹⁰⁷ 62% of carers who leave the workforce as a result of caring responsibilities are women.¹⁰⁸

Among carers who have given up work, retired early or reduced working hours:

- 65% said the stress of juggling work and care was a contributing factor
- 30% said care services were too expensive
- 15% said that the leave available from work was insufficient to be able to manage caring alongside work
- 18% were unable to negotiate suitable working hours¹⁰⁹

Carers are more likely to work part-time as this can allow them the extra time needed to accommodate their caring responsibilities

Male carers in employment are twice as likely to be working part-time compared to men in general. Among female carers who are in paid employment, half (48%) are working part-time, compared to just over a third (36%) of women in general (Chart Ap5.2). Given that female carers have an employment rate of around 50%, this means that only a quarter of female carers are in full-time paid employment.

106 PPI Modelling

107 Pickard, King, Brimblecombe & Knapp (2018)

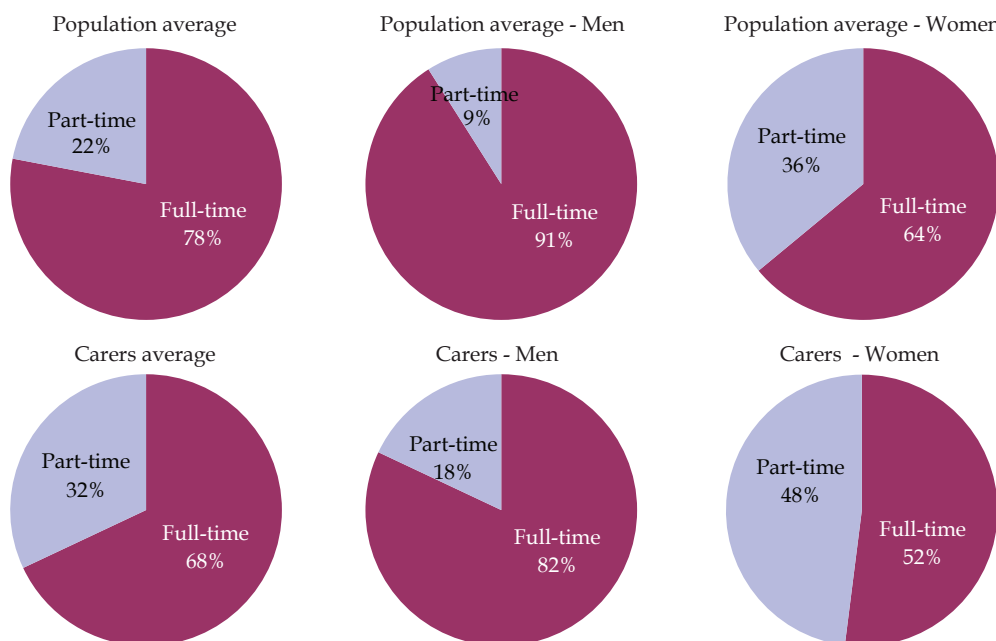
108 Family and Childcare Trust (2019)

109 Carers UK (2015)

Chart Ap5.2¹¹⁰

A third of carers in general, and almost half of female carers work part-time

Proportion in employment working part-time, by caring responsibility and gender, compared to the population average, ages 16-64, 2018, UK



Part-time and flexible working are important ways of enabling those with caring responsibilities or disabilities to participate in the labour market. However, these more flexible arrangements are often predominantly available for low-paid low-skilled jobs.

Carers have had the right to request flexible working from their employers since the introduction of the Work and Families Act 2006. Employers are only able to refuse a flexible working request on limited grounds identified by statute.¹¹¹ However, some carers may feel uncomfortable requesting flexible working, particularly if they work for an employer who is not outwardly supportive of flexible working.

The Taylor Review, published in July 2017, made the following recommendation: 'As part of the statutory evaluation of the Right to Request Flexible Working in 2019, Government should consider how further to promote genuine flexibility in the workplace.'¹¹²

Pay gaps between carers and non-carers are large in both full-time and part-time work

Carers earn between 16% and 20% less on average than the average income for the whole UK population, depending on their gender and work patterns (Chart Ap5.3).

110 PPI Modelling

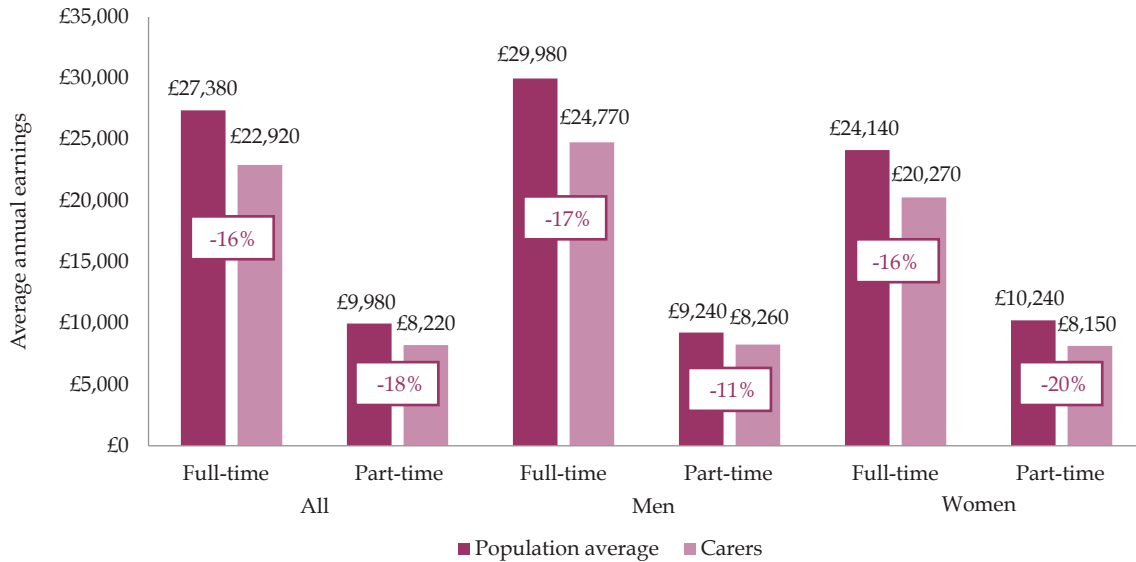
111 Roberts et al. (2019)

112 The Taylor Review (2017)

Chart Ap5.3¹¹³

On average, carers earn £4,460 less in full-time work and £1,760 less in part-time work compared to the rest of the population

Average annual income by gender, caring responsibility and work-pattern, ages 16-64, 2018



The vast majority of employed carers do not meet the qualifying criteria for automatic enrolment

4 in 5 (81%) employed carers (in receipt of caring-related benefits) do not meet the qualifying criteria for automatic enrolment. 96% (35,000) of the carers who do not meet the qualifying criteria earn below the £10,000 earnings threshold. Many carers work part-time due to their caring responsibilities; 32% of employed carers work part-time compared to an average of 22% of all UK workers.

Carers’ retirement incomes have increased compared to average retirement incomes

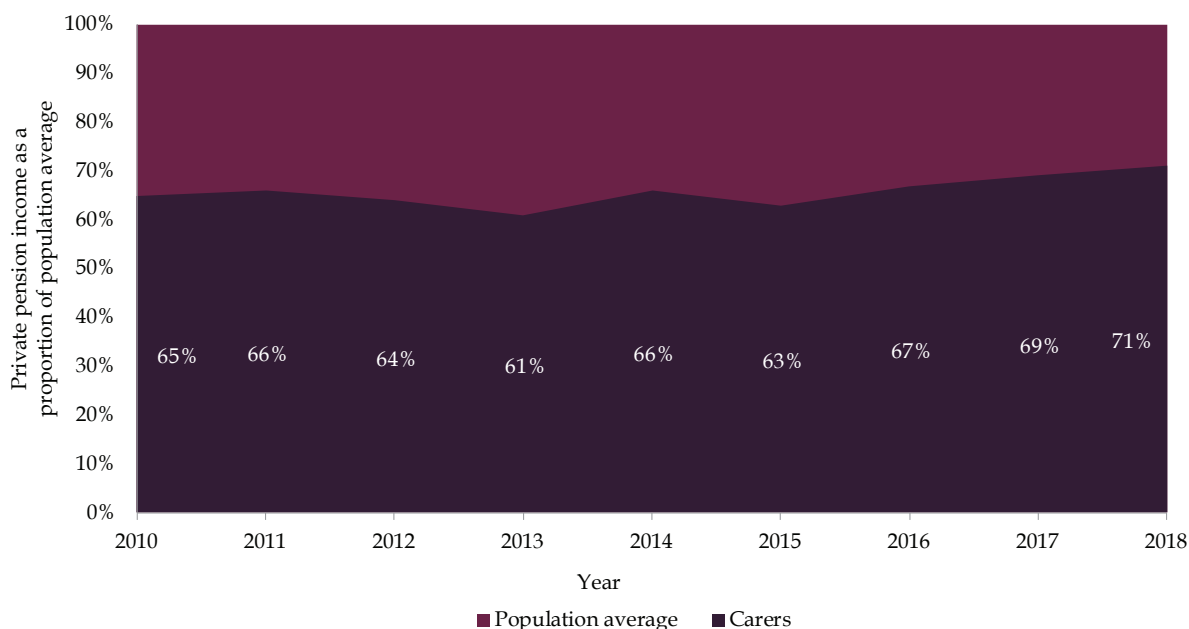
Over the last decade, the average private pension income of people in the carers group has increased relative to those of the whole population. Carer incomes have risen from around two-thirds (65%) of the average private pension income to 71% of the average private pension income (Chart Ap5.4). However, this still represents a significantly lower retirement income for carers.

113 PPI Modelling

Chart Ap5.4¹¹⁴

Carers' pension incomes have experienced a small increase relative to the baseline population, but remain low

Carers' average private pension income as a proportion of average private pension income of the wider population, age 65+, 2010 – 2018



The impact of informal caring on retirement incomes is likely to grow in future

The issues faced by informal carers are likely to become more prominent as access to formal social care has been declining due to reduced government spending, while at the same time demand for care, partly driven by an ageing population, has been growing. There are likely to be increasing numbers of people providing informal care, as well as a potential increase in the time spent providing care.

Older workers now make up an increasing proportion of the UK workforce. 31% of workers were over 50 in 2018, compared to 21% in 1992. With three in five carers being over 50, the growth in the proportion of people still working in this age group, and working for longer has an impact on the time they have available

to provide unpaid care. Increases in female employment rates also have a similar impact, and are likely to lead to increased challenges for many balancing employment and caring responsibilities.¹¹⁵

Conclusions:

- Carers have private pension incomes that are, on average, almost a third (29%) lower than those of the general populations.
- Like disabled people, carers have labour supply constraints, resulting from their caring responsibilities, that lead to lower employment rates, high prevalence of part-time work, low levels of career progression and lower than average incomes in working life.

114 PPI Modelling

115 Work Foundation (2018)

Appendix Six: Why are the self-employed and multiple job holders underpensioned?

The self-employed are not a homogenous group

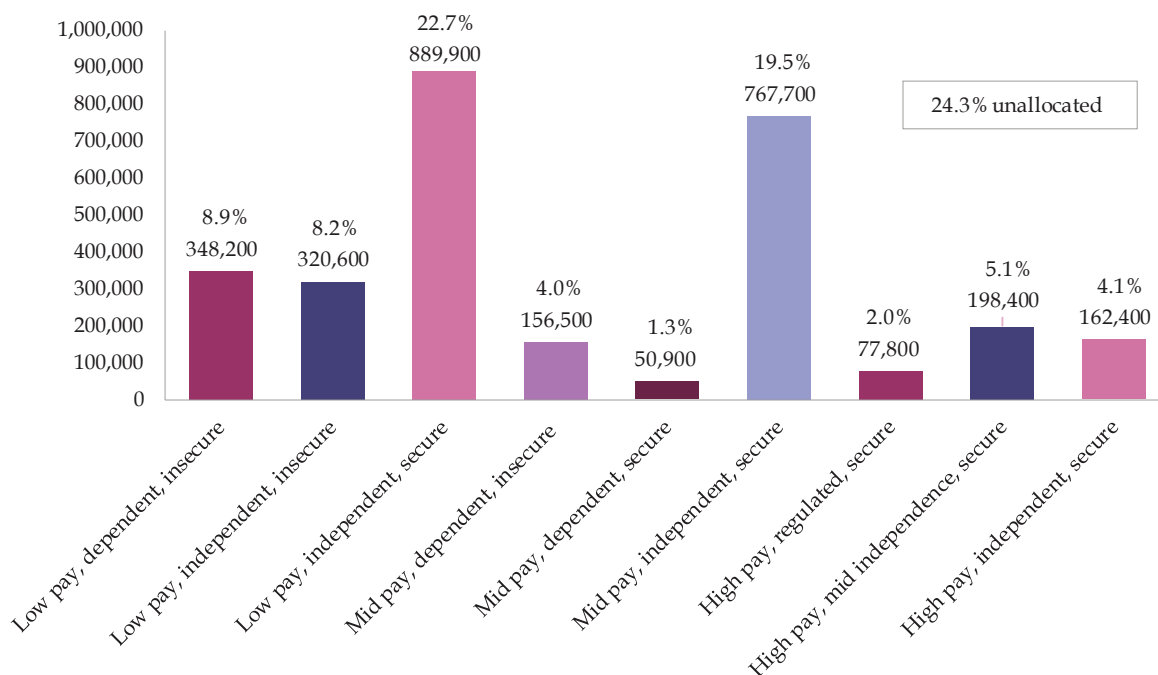
Not all members of the self-employed experience the same magnitude of risk of being underpensioned. This is because characteristics of the self-employed vary, particularly according to levels of pay, whether the work is dependent or independent and the extent

to which the work is secure or insecure.¹¹⁶ Self-employed workers with lower levels of pay and higher levels of dependence and insecurity are at greater risk of having lower than average retirement incomes in later life. Workers with at least one of these characteristics represent a significant proportion of the self-employed group (Chart Ap6.1).

Chart Ap6.1¹¹⁷

The self-employed are not a homogenous group and can be categorised according to pay, independence and security

2017 self-employed segmentation



116 CRSE (2017) The true diversity of self-employment: Uncovering the different segments of the UK's self-employed workforce

117 CRSE (2017)

Both self-employed workers and those in multiple jobs are likely to earn significantly less than those in more typical types of employment

On average, people who are full-time self-employed earn almost a third (29%) less than the population average. Among those with multiple jobs who don't earn more than £10,000 in any of their single jobs (making them ineligible for automatic enrolment), the gap is

even wider (39% less). In part-time work the pay gap is narrower, with the self-employed earning an average of 17% less than the population average. People with multiple jobs working part-time actually earn more than the population average of part-time workers (15% more) (Chart Ap6.2). Although this is perhaps predominantly the result of longer hours of work on average, despite still considering themselves part-time workers.

Chart Ap6.2¹¹⁸

Both those who are self-employed and those with multiple jobs who don't earn more than £10,000 in any of their roles earn significantly less than the population average in full-time work

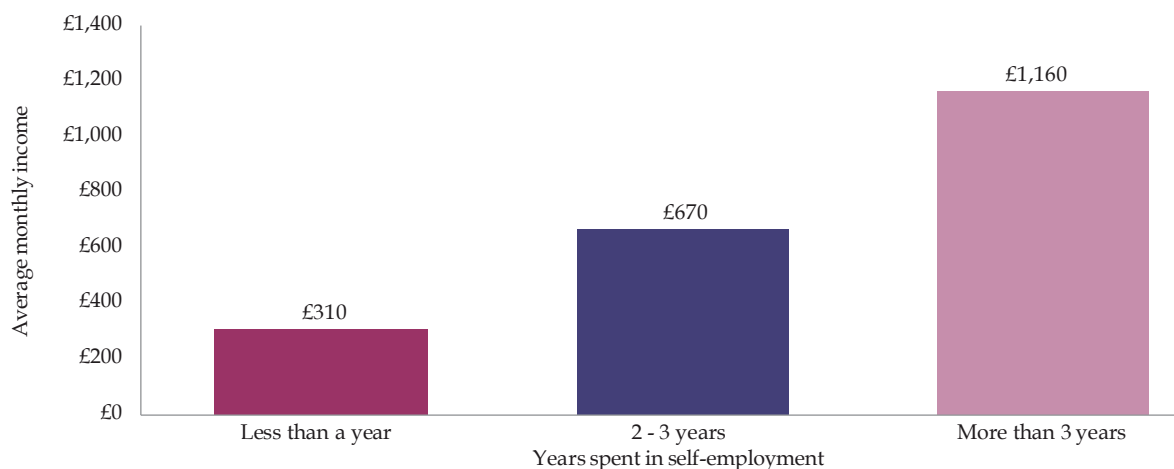
Average annual income by work type, ages 16-64, 2018



Average earnings grow for those who are able to successfully remain in self-employment over the longer-term (Chart Ap6.3).

Chart Ap6.3¹¹⁹**Average monthly income increases the longer someone has spent in self-employment**

Average monthly income by length of time spent in self-employment, ages 16-64, 2018



Self-employed workers take on a much greater level of individual risk than employed workers. While pay growth of employees can be linked to performance, regular earnings are guaranteed (although those on zero-hour contracts experience fluctuations in available hours and as a result have varying levels of pay from month to month). The income of the self-employed is directly linked to the performance of the business, which can mean low or even no wages at times, particularly when the business is starting up. Self-employed individuals are therefore more exposed to volatility and fluctuations in their income. Income volatility (55%) and late payment (22%) are viewed as two of the main challenges self-employed individuals on low incomes face.

The self-employed and multiple job holders are the most likely group to experience low levels of pension participation and low levels of pension savings among those who have them, which will likely lead to low retirement incomes in the future

While the number of people in self-employment has increased in recent years, the proportion of self-employed people saving into a pension has halved

Unlike employees the self-employed group has seen a continuous decline in participation from 27% in 2008/09. Today 15% of self-employed workers, and just 13% of self-employed women, participate in a pension scheme, compared to over half of employees and three quarters of those eligible for automatic enrolment.¹²⁰

Low participation rates remain a problem even among those closest to retirement. Less than a quarter (23%) of self-employed 60-64 year olds are members of a pension scheme.¹²¹

For some in the self-employed groups, lower than average incomes, as well as the need for financial liquidity make it difficult to save consistently into a pension. Lower levels of pension participation among the self-employed may be partially explained by the rise in part-time working and the reduction in median income across the self-employed group.¹²²

Low levels of pension participation among the self-employed are not limited to those on low incomes. Among the highest paid self-employed workers, pension participation rates are around 1 in 5 (19%).¹²³ However, within this higher paid group, the self-employed are likely to have higher levels of non-pension wealth and assets with which they may fund their later life. On average, the self-employed have similar levels of wealth and assets compared to workers, but it is generally in a more liquid vehicle so that they can draw on it as and when it is needed to support their

119 PPI Modelling

120 DWP (2019); New Policy Institute for Citizens Advice Bureau (2015)

121 Royal London/Aviva (2017)

122 Citizens Advice (2015)

123 Royal London/Aviva (2017)

business. 50% of the self-employed save into an instant access savings account and 37% into a cash ISA, with 17% and 18% respectively saying they do so for retirement specifically.¹²⁴

There are a number of barriers to increased pension take-up among the self-employed

In order to encourage higher levels of pension saving among the self-employed, there are three types of barriers which must be considered:

- Attitudinal barriers, including perceptions that pensions are not good value for money or are too risky. They are also likely to need more immediate access to their money, making locking it away in a pension less attractive to the self-employed
- Knowledge barriers, including a lack of understanding of the benefits of saving into a pension or low levels of knowledge about how to go about setting up a pension
- Practical barriers, including inertia in regards to setting up a pension (which has been mitigated for employees by the introduction of automatic enrolment).¹²⁵

The entirety of the self-employed group, as well as many of those with multiple jobs, are excluded from the benefits of automatic enrolment

The self-employed group is excluded from accessing the benefits of automatic enrolment by the fact they do not have an employer who can automatically enrol them.

Many people with multiple jobs are also excluded from automatic enrolment as a result of low earnings. Almost 106,000 workers, of whom 70% are women, are not being automatically enrolled into a pension because their earnings come from more than one job. This means that 72,000 women are missing out on the benefits of automatic enrolment despite earning more than £10,000 when income from all their jobs is combined.¹²⁶

Even those with multiple jobs who are automatically enrolled are disadvantaged by contributions for each job being calculated separately. Workers who earn more than £10,000 in a job are automatically enrolled, but because

their contributions (and their employers' contributions) are calculated from the Lower Earnings Limit in each job, they may miss out on a potentially significant contribution, in each of their employments.¹²⁷

NEST has done substantial amounts of research and trials around how to encourage higher levels of pension saving among the self-employed, following the 2017 Automatic Enrolment review. They have identified a number of options for increasing self-employed pension saving, with the following found to be most appealing to the self-employed:

- 'Set and forget' mechanisms: 'These captured the idea of saving little and often, but with greater flexibility to irregular and unpredictable incomes than is currently possible in retirement saving for most self-employed people. The fact that contributions would only be made in proportion to money coming in, rather than at a fixed, regular amount, had high appeal.'
- Saving at the point when income was known for the year: 'The group liked the simplicity of only having to consider retirement saving once a year. However, a number questioned whether they would be likely to actually get around to contributing in this context or have the funds available at that point when they were also completing their annual tax return.'
- Combining short-term, more liquid savings with retirement saving: 'This was positively received, although it was perceived as potentially complex. Care would have to be taken presenting this approach to self-employed people.'¹²⁸

People who are self-employed or have multiple jobs during the accumulation phase are likely to have lower private pension incomes in retirement

Men who are working in multiple jobs and earning less than £10,000 in each role, are likely to have less than half the level of income of the general population of men in retirement (Chart Ap6.4). For women in multiple jobs the gap is narrower, although this is somewhat skewed by the much higher proportion of women working in atypical types of employment compared to men.

124 NEST (2019)

125 Citizens Advice (2015)

126 Citizens Advice (2017)

127 DWP (2017)

128 NEST (2019)

Chart Ap6.4¹²⁹

Men who earn less than £10,000 in each of their multiple jobs are likely to have pension incomes almost 50% lower than men in general

Average weekly earnings of multiple jobholders compared to population average, by gender, ages 16-64, 2018

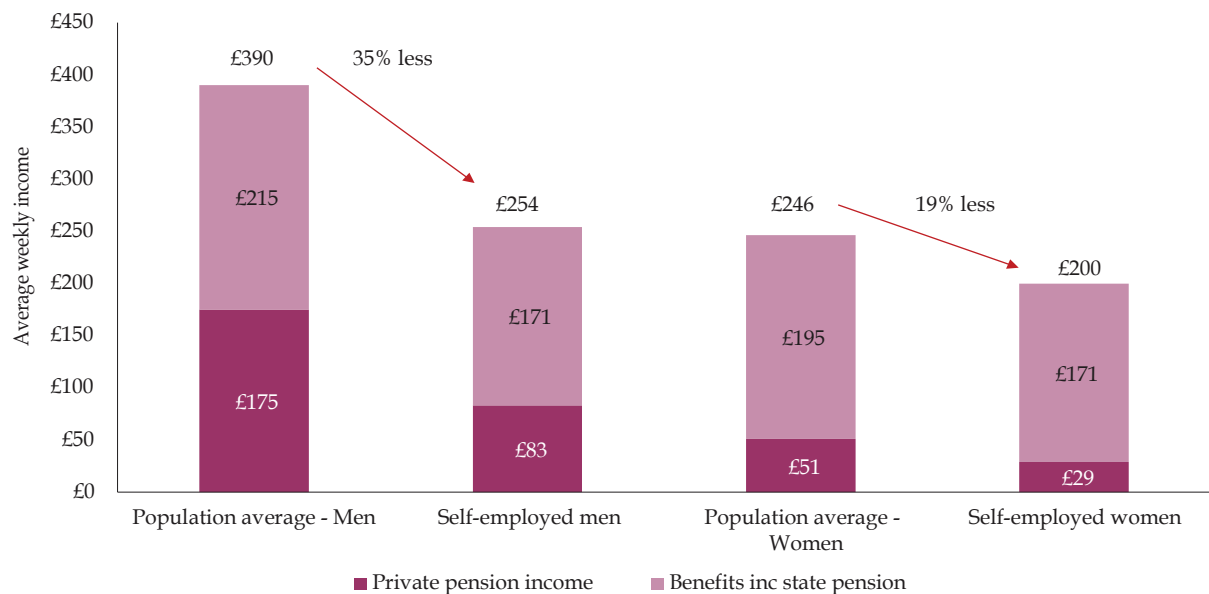


Based on their current levels of pension wealth, men who are self-employed are at risk of pension incomes on average a third (35%) lower than men in general, while women in self-employment are likely to have pension incomes 19% lower than the female population more broadly (Chart Ap6.5).

Chart Ap6.5¹³⁰

Men who are self-employed during the accumulation phase are at risk of retirement incomes a third lower than the baseline population on average

Average weekly earnings of self-employed compared to population average, by gender, ages 16-64, 2018



129 PPI Modelling

130 PPI Modelling

While average self-employed incomes increase the longer time that is spent in self-employment, average current retirement incomes are negatively correlated with the number of years spent in self-employment

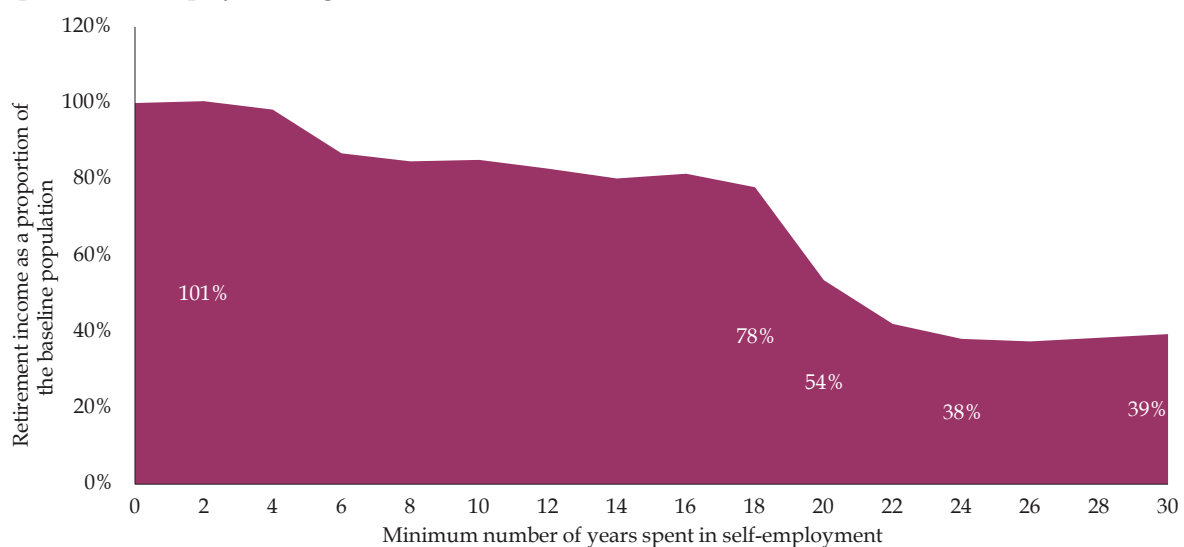
People who spend only a short amount of time in self-employment are unlikely to experience

particularly poorer retirement incomes as a result. In fact, those who are self-employed for less than 2 years may even achieve higher retirement incomes. However, once people have spent at least 20 years in self-employment, average retirement incomes experience a substantial decline, to just over a third of the population average (Chart Ap6.6).

Chart Ap6.6¹³¹

There is a significant decline in retirement incomes among those who have been in self-employment for at least 20 years

Average private pension income of self-employed, as a ratio of population average, by length of time spent in self-employment, age 65+, 2018



Conclusions:

- The self-employed are not a homogenous group. Those with lower levels of pay and higher levels of dependence and insecurity are at greater risk of being underpensioned. Policies aimed at increasing self-employed pension saving need to consider this in their design.
- People with multiple jobs could benefit from increased pension participation rates if income from both jobs was considered holistically for automatic enrolment qualifying criteria.

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Contact: Chris Curry, Director

Telephone: 020 7848 3744

Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute

King's College London

Virginia Woolf Building

1st Floor, 22 Kingsway

London WC2B 6LE

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