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The Underpensioned: Defining the Gender Pension Gap

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Defining the Gender Pension Gap

Executive Summary

This report explores the impact of factors that contribute to inequality in retirement outcomes between men and women, in order to provide greater clarity on how to define the Gender Pension Gap (GPG) and support effective policymaking decisions to narrow the gap.

What is the GPG?

The GPG is a measure of inequality between men and women's pension outcomes

The GPG is a measure of difference, or inequality, in pension outcomes for men and women. This can be considered in terms of either the disparity in the pension wealth accumulated or by the income they receive in retirement as a result of that pension wealth.

While the GPG is widely recognised, there is a lack of clear consensus on the GPG, in terms of definition, magnitude and potential solutions. This can make it harder to accurately measure the gap and track trends over time, as well as implementing feasible solutions to narrow the gap. Unlike the Gender Pay Gap, until recently there has been no official measure of the GPG that is used in public and policy discussions.[1] It has been suggested that the GPG should be subject to statutory reporting requirements, in the same way as the Gender Pay Gap.[2] Without an agreed-upon, consistent measure of the gap, this will not be feasible as the data gathered will not be comparable. There are also questions about who would be responsible for such reporting.

There are a number of different approaches used for measuring the GPG, as well as a range of datasets from which it can assessed:

- **Pension wealth:** Looking at the difference in pension wealth between men and women allows for the GPG to be assessed for different age groups, including those still in accumulation. The age band looked at will impact the magnitude of the GPG. Assessing the GPG at different ages has two benefits. Firstly, it can identify the age at which the gap begins to accelerate, which can help to distinguish the risk factors and causes of the GPG. Secondly, it allows for comparison between different cohorts, which can provide insight into the way that the GPG is likely to evolve for future generations.

- **Retirement income:** Looking at the inequality of retirement incomes between men and women presents a clearer picture of the impact of the GPG on later life experiences. However, it is to some extent backward, rather than forward, looking. Inequality in retirement incomes can only be measured for people currently in retirement, so does not reflect the GPG for people currently in accumulation. While it is useful to track changes in retirement income inequality over time, it is not necessarily indicative of what the GPG will look like in the future or where policy measures may be most effective in narrowing the gap.

- **Constituent parts:** While it is useful to measure the overall magnitude of the GPG, a more detailed and nuanced approach may better support the development of effective policies to reduce the gap. Understanding what proportion of the gap is caused by labour market inequalities, in comparison to differences stemming directly from the pensions landscape, can help to determine which policies are likely to be most effective and whose input may be required to implement them.

The GPG impacts individual financial security, but also affects broader society

Addressing the GPG is crucial for establishing a societal framework that supports equality and financial stability for all individuals. The consequences of the GPG not only impact women's individual financial security but also have broader societal and economic effects:

- Poor or unequal retirement outcomes pose a risk to women's quality of life and dignity in old age. The GPG often results in women facing financial instability, forcing many to depend on family or state aid, which can lead to feelings of dependence and loss of autonomy, as well as the potential health impacts of poverty.

- Addressing and rectifying the unequal retirement outcomes experienced by women is an indispensable step toward fostering a more equitable society through advancing gender equality.

- The GPG significantly contributes to the rising rates of poverty among the elderly, with women being particularly susceptible. Two-thirds (67%) of pensioners in poverty are women, and half (50%) of pensioners in poverty are single women.[3] This trend not only diminishes the quality of life for many women but also places additional strain on the social welfare systems. Addressing the gap, therefore, is not just about individual financial stability but also about promoting social stability and easing pressures on social welfare systems.

Women accrue pension wealth equivalent to less than two-thirds of men's

Women's pension wealth reaches 62% of men's pension wealth by their late 50s (Chart Ex.1). This gap is caused by a number of factors:

- The different working patterns between men and women are the main source of this gap, reducing women's pension wealth by a third (33%) relative to men's.

- The enduring impact of the Gender Pay Gap throughout an individual's working life further reduces both contribution amounts and pension accruals, resulting in a reduction of pension wealth by approximately 16%.

- Pension participation rates for men and women vary throughout their working lives and are influenced by numerous societal factors, such as attitudes towards saving and familial responsibilities. Typically, employed women exhibit a higher participation rate in their 30s and early 40s compared to men, resulting in a very slight increase in women's pension wealth of around 1%.

- The type of pension scheme in which employees participate also affects the rate of pension accrual. Women are more likely than men to participate in a DB workplace pension scheme, primarily due to a higher proportion of women working in the public sector, where such schemes remain prevalent. This results in an increase of 10% in women's pension wealth comparative to men's.

[1] Prabhakar (2022)
[2] Prospect (2022)
[3] Barnes (2022)

Chart Ex.1[4]

Women in their late 50s have less than two thirds of the pension saving of men

Shows the different factors contributing to the difference in the average pension wealth and their magnitudes between a man and a woman aged 57

The GPG is primarily driven by labour market inequalities, but there are also some aspects of the pension landscape that have disadvantaged women

Many of the inequalities which contribute to women's greater risk of being underpensioned stem from inequalities in the labour market and gendered divisions of labour:

- **Labour market participation:** Women are less likely to be in employment than men (74% vs 83%), and among those who are in employment, more likely to be working part-time (33% vs 9%). Adjusted to account for part-time hours, labour market participation is 46% for women and 74% for men.[5]
- **The Gender Pay Gap:** Lower levels of pay over the course of working life limit the amount that women are able to contribute to a pension, both in terms of how much they can feasibly afford and also how much they are likely to contribute given that average contributions default towards the minimum required under automatic enrolment. Women's average annual incomes are equal to three-quarters (75%) of men's. The Gender Pay Gap depends on a number of factors, including age, work patterns, occupation, industry and sector, employer size, region, and level of earnings.
- **Gendered divisions of domestic labour:** Women carry out 60% more unpaid work than men and are significantly more likely to be the primary caregiver.[6] The cost of childcare makes it prohibitive for both parents to work in many cases.[7] While it is clear that childcare is a key factor in labour market inequalities, there is a lack of data on the factors and decision-making processes that perpetuate societal norms of gendered divisions of domestic labour.

Many of the pension-specific differences that have impacted the GPG have now become more equal, but some systemic challenges remain:

- **State Pension:** Historically, men have had significantly higher State Pension entitlement than women, with women born in the early 1940s receiving around 25% less in State Pension income than men on average. This gap has almost closed for those reaching SPa after the transition to the new State Pension in 2016, with the gap between State Pension incomes of men and women born in the early 1950s below 5%.[8] State Pension age (Spa) has also become equalised between men and women. While women's lower SPa was arguably beneficial for women as they would receive the State Pension for a longer period on average, if women chose to retire at SPa their private pension savings would be negatively impacted as a result of having less time to contribute compared to a man working up to men's older SPa.
- **Automatic enrolment:** Women are less likely to be eligible for automatic enrolment than men; around 17% of employed women do not meet the qualifying criteria, compared to 8% of men. Women make up 79% of workers who do not meet the minimum earnings threshold. Upcoming changes to eligibility criteria are likely to benefit women. The removal of the lower earnings limit will have a proportionally greater impact on pension wealth for low earners, many of whom are women, because the amount of earnings currently under the threshold make up a larger proportion of their total earnings. Women are also likely to benefit from the reduction of the eligibility age as the additional four years of potential eligibility take place before most people will have had children and therefore before the motherhood penalty begins to take effect.

There are some pensions policy options that could be introduced to mitigate the GPG, but it is unlikely to significantly reduce without changes in labour market conditions

Removing labour market inequalities would significantly reduce the GPG

If the Gender Pay Gap was 'solved', but differences in working patterns remained, the average woman would achieve a pension of around 66% of that of the average man (compared to 62% with the current pay gap). If, in addition to equalisation of pay, differences in full-time/part-time working patterns were removed, but differences in overall employment rates remained, the average woman would achieve a pension of around 93% of the average man's.

However, 'solving' labour market inequalities is an extremely complex undertaking, reliant on not just legislative protection but also societal change. While it is clear that childcare is a key factor in labour market inequalities, there is a lack of data on the factors and decision-making processes that perpetuate societal norms of gendered divisions of domestic labour. Further research on these factors would be beneficial to understanding how to narrow the gap, as well as the extent to which the gap may be closed.

While the GPG is primarily driven by labour market inequalities, pension-specific solutions could be introduced to mitigate the impact on women's retirement outcomes

This report outlines three possible options, but, as with any policy, there are trade-offs associated, and this is not an exhaustive list:

- Household pension pots could be used to support married women who have made employment sacrifices in order to meet childcare needs.
- Employer-only contributions for low earners could extend the benefits of automatic enrolment to people, including a significant number of women, who would otherwise be unable to accumulate pension wealth.
- A family carer top-up could mitigate gaps in pension contributions during periods of childcare.

[4] PPI analysis of Wealth and Assets Survey (WAS)
[5] PPI analysis of Labour Force Survey (LFS)
[6] Women's Budget Group (2020); ONS (2016)
[7] Coram (2023)
[8] IFS (2023a)

Introduction

Inequality between the financial outcomes from pension saving of men and women, known as the Gender Pension Gap (GPG), is widely recognised. However, definitions of the gap and estimates of its magnitude vary. There are a number of factors that contribute to the gap to different degrees. Developing a greater understanding of these contributing factors and the extent to which they contribute to the gap can help to make policy decisions about how to narrow it more effective.

The PPI first carried out research segmenting the impact of the various causes of the GPG in 2019, sponsored by NOW: Pensions. This report updates this segmentation with more recent data, as well as exploring the context of inequality in retirement outcomes between men and women in greater detail.

Chapter One – What is the Gender Pension Gap?

Explains what the GPG is and why it matters, setting out the magnitude of the gap and the proportional impact of the various factors that contribute to it.

Chapter Two – How do labour market inequalities contribute to the Gender Pension Gap?

Explores the way in which differences in labour market participation and remuneration between men and women contribute to the GPG, and the extent to which removal of these barriers could reduce the gap.

Chapter Three – How do differences in pension provision impact the Gender Pension Gap?

Explores the pension-specific differences that lead to inequality in retirement outcomes between men and women. It also discusses some potential policy options for narrowing the gap.

CHAPTER ONE:

WHAT IS THE GENDER PENSION GAP?

This chapter explains what the Gender Pension Gap (GPG) is and why it matters, setting out the magnitude of the gap and the proportional impact of the various factors that contribute to it.

The GPG measures significant inequality between pension outcomes of men and women, presenting risks to both individual and societal stability

What is the GPG?

The GPG is a measure of inequality between men and women's pension outcomes

The GPG is a measure of the difference, or inequality, in pension outcomes for men and women. This can be considered in terms of either the disparity in the pension wealth accumulated or by the income they receive in retirement as a result of that pension wealth. This chapter sets out what the GPG is, sets it in historical context and discusses the main causes and effects of the GPG.

The GPG can be observed in the difference in the value of pensions that individuals are able to save over their working lives. "Pension wealth" refers to the total sum saved, which will later provide income during retirement. For various reasons, which will be set out later in this report, women generally accumulate less pension wealth than men.

While the GPG is widely recognised, there is a lack of clear consensus on its definition, magnitude and potential solutions. This can make it harder to accurately measure the gap and track trends over time, as well as implementing feasible solutions to narrow the gap. Unlike the Gender Pay Gap, until recently there has been no official measure of the GPG that is used in public and policy discussions.[10] It has been suggested that the GPG should be subject to statutory reporting requirements, in the same way as the Gender Pay Gap.[11] Without an agreed-upon, consistent measure of the gap, this will not be feasible as the data gathered will not be comparable. There are also questions about who would be responsible for such reporting.

There are a number of different approaches used for measuring the GPG, as well as a range of datasets from which it can be assessed.

Measures of the GPG in accumulated pension wealth allow for analysis of the gap across different age groups

The Department for Work and Pensions has worked across government departments to create a definition of the GPG as 'the percentage difference between female and male uncrystallised median private pension wealth around normal minimum pension age for those individuals with private pension wealth'. Using this definition, the most recent data from the Wealth and Assets Survey estimates a GPG of 35%, or 32% for employees eligible for automatic enrolment.[12] This definition excludes those who do not have any pension wealth, among whom women are disproportionately represented. If those without any pension wealth are included, the GPG is larger at around 67%.

Looking at the difference in pension wealth between men and women allows for the GPG to be assessed for different age groups, including those still in accumulation. The age band looked at will impact the magnitude of the GPG. PPI have assessed the GPG at a number of different ages. Assessing the GPG at different ages has two benefits. Firstly, it can identify the age at which the gap begins to accelerate, which can help to distinguish the risk factors and causes of the GPG. Secondly, it allows for comparison between different cohorts, which can provide insight into the way that the GPG is likely to evolve for future generations.

Some organisations estimate the GPG by comparing the average size of male and female pension pots across all age groups. This may mask the true scale of the gap because it increases with age.

Assessing the GPG on private pension wealth alone excludes the impact of potential inequality in State Pension entitlement. However, as gender disparity in entitlement has declined significantly and is now much more equal, this may not be a significant problem.

Measures of the GPG in retirement income provides an indicator of the impact of the gap on later life outcomes, but does not necessarily reflect what the GPG will look like in future

Looking at the inequality of retirement incomes between men and women presents a clearer picture of the impact of the GPG on later life experiences.

The trade union Prospect has produced an annual report on the GPG since 2018, using data from the Family Resources Survey (FRS). 'The percentage difference in average gross pension income for women receiving the state pension compared to the average gross pension income for men receiving the state pension.' Their latest estimate indicates the GPG to be 37.9% in 2019-20.[13]

The PPI's Underpensioned Index tracks inequality in retirement incomes across a number of groups at increased risk of experiencing poor later life outcomes, including women, using data from the Understanding Society longitudinal study. Because the Index measures the retirement incomes of multiple underpensioned groups, not just women, incomes are compared to the average retirement income across the full population, rather than the average income of men, but the same methods could be used to produce an estimate of the GPG. The latest update of the Index found women to have private pension incomes equivalent to 64% of the population average, and overall retirement incomes (including State Pension and benefits) equivalent to 83%.[14]

Measuring the GPG by retirement incomes is to some extent backward, rather than forward, looking. Inequality in retirement incomes can only be measured for people currently in retirement, so does not reflect the GPG for people currently in accumulation. While it is useful to track changes in retirement income inequality over time, it is not necessarily indicative of what the GPG will look like in the future or where policy measures may be most effective in narrowing the gap.

Given that wealth and income illustrate slightly different things and can be used for different purposes, both are useful measures of the GPG.

Measuring the scale of the constituent parts of the GPG could support the implementation of effective policies to narrow the gap

While it is useful to measure the overall magnitude of the GPG, a more detailed and nuanced approach may better support the development of effective policies to reduce the gap. Understanding what proportion of the gap is caused by labour market inequalities, in comparison to differences stemming directly from the pensions landscape, can help to determine which policies are likely to be most effective and whose input may be required to implement them. The rest of this report breaks down the constituent parts of the GPG in order to identify the proportion of elements stemming from labour market inequalities compared to those directly embedded in the pensions landscape.

10 Prabhakar (2022)
11 Prospect (2022)
12 DWP (2023)
13 Prospect (2022); Prospect (2021)
14 PPI (2022) The Underpensioned Index

Why does the GPG exist?

The GPG is deeply rooted in the historical context of labour and pension systems that did not favour women

Understanding the historical context of the GPG can help to understand how the GPG has arisen. It provides invaluable insights into how past policies and societal norms have shaped the present retirement landscape for women. This acknowledgment of history is not just about understanding the past but is a necessary foundation for informed and effective action to mitigate the gap in the future.

The history of pension system is tied to the evolution of the labour market and societal expectations regarding gender. Pensions were introduced at a time when the workforce predominantly comprised men as the primary or sole breadwinner, with women expected to rely on their husbands pension for an income in retirement. Pensions tended to be available in higher income jobs which were male dominated.

The experience of women in the workforce has been fraught with challenges, each of which has an impact on pension savings and entitlements. From occupational segregation that limited women to lower-paying jobs, to explicit policies like marriage bars (policies which forced women to leave paid employment upon marriage), women were often denied the opportunity to achieve their own economic independence and security. Chapter Two discusses the employment inequalities that contribute to the GPG in more detail.

UK legislation such as the Sex Discrimination Act of 1975 and the Equal Pay Act of 1970 aimed to eradicate gender discrimination in the workplace, making it illegal to offer different pay and conditions for men and women for the same work. This may lead some to conclude that the Gender Pay Gap is eradicated, but it doesn't address the many other issues contained within the Gender Pay Gap. Women still face issues related to opportunity, societal expectations, and lack of transparency about pay, all of which indirectly affect their pension contributions. Despite legislative protections, many women continue to work in lower-paying sectors, and there is still a significant underrepresentation of women in higher-status and higher-paying professions.

Historical inequalities continue to impact women's labour market and retirement outcomes today

The historical context of the GPG paints a picture of systemic biases and policies that have cumulatively disadvantaged women in the realm of pension savings and entitlements. While legislation and societal attitudes have evolved, the residues of these historical practices continue to impact women's economic status in retirement. While practices like marriage bars were eventually outlawed, their legacy had already been woven into the fabric of the workforce and pension systems. Contemporary challenges, like the motherhood penalty where women experience career setbacks due to parental responsibilities, can be seen as echoes of past discriminatory practices, continuing to widen the GPG.

There are a number of factors which contribute to the GPG to varying degrees

The GPG is a very complex issue with a number of underlying causes. It is vital to understand the full range of causes in order to develop policies to effectively mitigate the impact. The GPG stems from many interconnected factors rooted in lifetime earnings, work patterns, sectoral segregation, opportunity to work and progress, and opportunity to save. The next section of the report explores each of these in further detail.

Lower lifetime earnings comparative to men contribute to women's poorer retirement outcomes

A significant factor in the amount of pension saved in working life is the amount of income received over the working life. This leads to one of the most important concepts when considering the GPG, the Gender Pay Gap. The Gender Pay Gap measures the difference between average pay for men and women. It is not the same as unequal pay for the same work, which has been illegal in the UK since the 1970s. The pay gap recognises the effect of occupation type, position level, and part time earnings. In 2023, women's average pay is equivalent to 75% of men's, giving a Gender Pay Gap of 25%.[15]

Lower levels of income result in smaller pension contributions and subsequently smaller pension pots. Additionally, higher paid jobs are more likely to have benefit packages including pension contributions that go beyond the legal minimum, and some people in low paid work may struggle to pay more immediate living costs and feel that pension contributions are unaffordable.

Women's working lifecourses have a greater likelihood of including career breaks which impact their ability to contribute consistently to pension savings

Career breaks indirectly affect the Gender Pay Gap, to the extent that an employer's opinion on the likelihood of an employee taking a career break may influence the training given and promotional prospects of the employee. But career breaks directly impact the GPG because when out of employment an individual is not likely to be saving into a pension and is certainly not receiving pension contributions from an employer. Women are more likely to take career breaks than men as a result of the societal norms relating to caring:

- **Career break for childcare:** Women predominantly bear the responsibility for childcare, often necessitating breaks from employment. These career interruptions result in lost contribution years, impacting the accumulation of pension wealth. This can be for many years (Table 1.1).
- **Career break for adult care:** Similar patterns are observed when women engage in caring for elderly or sick family members, which again results in reduced pension contributions during these periods.

Table 1.1: Women's working lifecourses by parental status[16]

Working lifecourse → / Parental History (16-54) ↓	Mostly full-time throughout	Mostly non-employment throughout	Weak attachment, very early exit	Family carer to part-time (longer break: 16 years)	Family carer to part-time (shorter break: 4 years)	Family carer to full-time (medium break: 9 years)	Mostly part-time throughout	Total
No children in household	35	9	5	2	5	2	7	13
1 child early	14	9	16	7	12	12	15	12
1 child later	15	17	7	29	11	6	4	14
1-2 children early	19	29	41	34	42	47	49	33
1-3 children later	3	7	2	7	3	3	2	4
Early large family	14	28	30	21	27	31	24	24

[15] PPI analysis of LFS
[16] WHERL (2017)

The structure and evolution of pension policies have inadvertently placed women at a disadvantage

There are a number of ways in which men and women's experiences of pensions have differed, both historically and under current policies, including differing State Pension ages, levels of entitlement to the State Pension, as well as private pension scheme type and automatic enrolment eligibility criteria. Pension-specific differences that have contributed to, or in some cases mitigated, the GPG, are discussed in more detail in Chapter Three.

Longer life expectancies among women mean that pension savings must stretch further

In addition to factors that lead to women accumulating lower levels of pension wealth comparative to men, demographic factors mean that they are likely to spend longer in retirement and therefore pension savings will be under further pressure. For a man currently at SPa (age 66) life expectancy is 19 years; for a woman of the same age, life expectancy is 21 years. 20% of women currently at SPa are expected to live 95, compared to 13% of men.[17] The requirement for women's pension income to stretch over a longer retirement period on average may necessitate that they make do with a reduced annual income or risk running out of pension savings earlier than their male counterparts.

How large is the GPG?

Many factors contribute to the GPG to different degrees, combining to leave women with pension wealth equivalent to less than two-thirds of men's

There are many distinct causes of the GPG, deeply embedded in societal norms, employment practices, and pension policies. The combination of lower lifetime earnings, career disruptions due to caregiving responsibilities, prevalence of part-time work, and occupational segregation, contributes to the enduring GPG. Addressing these causes requires a comprehensive, approach to creating a retirement system that is inclusive, fair, and equitable. Each cause requires careful consideration to mitigate the GPG effectively.

Women's pension wealth reaches 62% of men's pension wealth by their late 50s (Chart 1.1). We employ a pension wealth index based on the mean pension wealth within the male and female populations, with the male pension wealth serving as the baseline. The factors contributing to this disparity have been evaluated concerning their relative significance when compared to the baseline. The combination of these factors accounts for the smaller pension wealth of women. These factors encompass:

- Working patterns
- Salary
- Participation rates
- Scheme type
- The tendency for early retirement (timing of withdrawal)

Chart 1.1[18]

Women in their late 50s have less than two thirds of the pension saving of men

Shows the different factors contributing to the difference in the average pension wealth and their magnitudes between a man and a woman aged 57

The **differing working patterns** between men and women are the main source of the pension gap. Given that women are more likely to take breaks from work or reduce their working hours to assume caregiving responsibilities, their pension wealth is diminished by approximately 33%.

The enduring impact of the **Gender Pay Gap** throughout an individual's working life further reduces both contribution amounts and pension accruals, resulting in a reduction of pension wealth by approximately 16%.

Pension participation rates for men and women vary throughout their working lives and are influenced by numerous societal factors, such as attitudes towards saving and familial responsibilities. Typically, employed women exhibit a higher participation rate in their 30s and early 40s compared to men, resulting in a very slight increase in women's pension wealth of around 1%. Men's participation rates typically exceed women's at later ages, but not enough to entirely outweigh the increase from women's earlier higher participation rates.

The **type of pension scheme** in which employees participate also affects the rate of pension accrual. Women are more likely than men to participate in a Defined Benefit (DB) workplace pension scheme, primarily due to a higher proportion of women working in the public sector, where such schemes remain prevalent, increasing average women's pension wealth by around 10%.

Men may be slightly more likely to **retire early and commence pension wealth withdrawal sooner**. This discrepancy could be attributed to varying financial approaches adopted by men and women. Women with partners may be more inclined to adopt gender-specific financial roles due to disparities in financial responsibilities within households. However, the impact of this factor has reduced from around 1% in 2019 data to virtually zero in 2023 data, and given the limited available data reflecting the effects of equalising pension ages, this aspect may evolve over time.

[17] IFS (2023b)
[18] PPI Analysis of Wealth and Assets Round 7 data combined with PPI modelling.

Why does the GPG matter?

Addressing the GPG is crucial for establishing a societal framework that supports equality and financial stability for all individuals. The consequences of the GPG not only impact women's individual financial security but also have broader societal and economic effects.

Poor or unequal retirement outcomes pose a risk to women's quality of life and dignity in old age

Financial independence in retirement is crucial for maintaining dignity and self-worth. The GPG often results in women facing financial instability, forcing many to depend on family or state aid, which can lead to feelings of dependence and loss of autonomy. The stress and anxiety stemming from financial instability can severely impact retirees' quality of life. Ensuring that women have adequate financial resources is key to affording them a life free of undue financial distress during their retirement years.

The financial constraints that the GPG imposes can lead to significant health impacts for women in retirement. The stress associated with financial instability can lead to mental health challenges, while limited financial resources can also impede access to quality healthcare and nutrition, affecting physical health.

Inequality in society presents ethical concerns

As society progresses, ensuring that both genders have access to comfortable and dignified lives in their later years is paramount. Addressing and rectifying the GPG is an indispensable step toward fostering a more equitable society through advancing gender equality.

Addressing the GPG is also about recognising and fairly compensating the contributions women make to the workforce and society. Despite differences in work patterns or career breaks, their roles are valuable and deserve equitable remuneration and benefits, including pensions.

The GPG also has societal and economic impacts

The GPG significantly contributes to the rising rates of poverty among the elderly, with women being particularly susceptible. Two-thirds (67%) of pensioners in poverty are women, and half (50%) of pensioners in poverty are single women.[19] This trend not only diminishes the quality of life for many women but also places additional strain on social welfare systems. Financially insecure individuals are likely to rely more on social safety nets. Addressing the GPG, therefore, is not just about individual financial stability but also about promoting social stability and easing pressures on social welfare systems.

When women lack adequate savings for retirement, they may be compelled to either continue working in lower-paid jobs, often in informal sectors, or re-enter the workforce, which affects their quality of life and the economy at large. Women affected by the GPG are more likely to depend on state support during retirement, placing an economic burden on the state and society.

[19] Barnes (2022)

Conclusions

By their late 50s, women's pension wealth is equivalent to less than two-thirds (62%) of men's

- Differing work patterns reduce women's pension wealth, comparative to men's by 33%.
- The Gender Pay Gap contributes a further 16% reduction.
- Differences in pension participation rates result in a very slight increase in women's pension wealth of around 1%.
- Women are more likely than men to participate in a DB scheme, increasing average women's pension wealth by around 10%.
- Men's greater tendency to retire early has historically contributed a small boost to women's comparative pension wealth, but this impact has now reduced to a negligible degree.

Addressing the GPG is crucial for establishing a societal framework that supports equality and financial stability for all individuals

Poor or unequal retirement outcomes pose a risk to women's quality of life and dignity in old age. However, addressing the GPG is not just about individual financial stability, but also about promoting social stability and easing pressures on social welfare systems.

CHAPTER TWO:

HOW DO LABOUR MARKET INEQUALITIES CONTRIBUTE TO THE GENDER PENSION GAP?

This chapter explores the way in which differences in labour market participation and remuneration between men and women contribute to the Gender Pension Gap (GPG), and the extent to which removal of these barriers could reduce the gap.

Labour market inequalities are the primary factor contributing to the GPG

Many of the inequalities which contribute to women's greater risk of being underpensioned stem from inequalities in the labour market and gendered divisions of domestic labour. This chapter outlines available data on labour market participation rates, the Gender Pay Gap and gendered divisions of domestic labour, and the impact they have on the GPG.

Women have lower levels of labour market participation compared to men

Women are more likely to have diverse working lifecourses, including time spent out of the labour market or in part-time work, primarily as a result of gendered divisions of domestic labour. Time spent out of the labour market leads to gaps in pension saving that contribute to the GPG. It can also have a negative impact on future career progression and earning potential upon return to employment, which further exacerbates the gap.

Women are less likely to be in employment compared to men and, among those who are, more likely to be working part-time

In 2023, 74% of women are in employment, compared to 83% of men.[20] If the participation rate is adjusted to account for those who are working part-time, the gap is much larger, with a third (33%) of working women employed part-time, compared to 9% of working men.[21] Adjusted to account for part-time hours, labour market participation is 46% for women and 74% for men.

The labour market participation gap varies considerably depending on marital and parental status. Allowing for part-time hours in working patterns, women who are parents are much less able to work than other women. Similarly, men who are single fathers have less opportunity to work than other men. However, men in a couple with children have a greater activity rate even than men with no children. This suggests evidence of the motherhood penalty and the fatherhood bonus (Box 2.1). The participation gap is at its lowest between men and women who are single with no children (8%) and its highest between men and women in couples with children (45%) (Chart 2.1).

Box 2.1

Motherhood penalty: Women with children are at greater risk of experiencing labour market inequalities, including being more likely to spend time out of the labour market, more likely to work part-time when in employment, and have lower than average earnings.

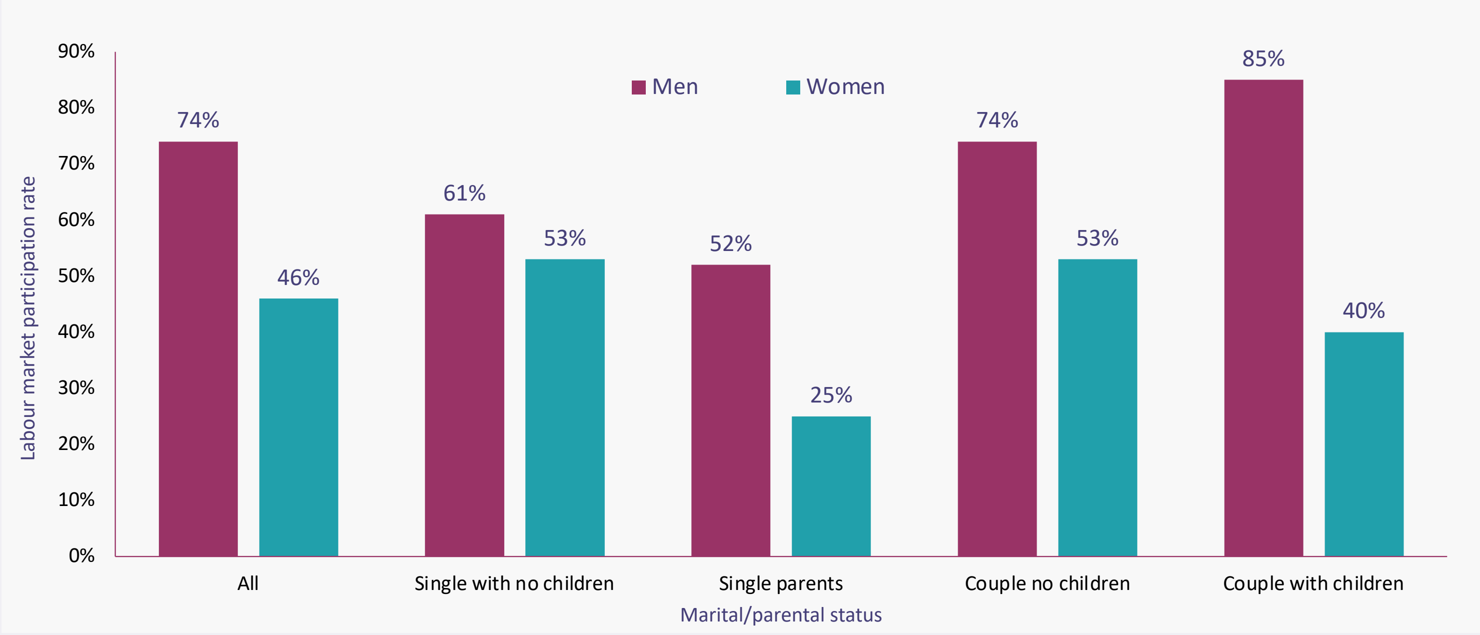
Fatherhood bonus: Men in couples with children have higher than average labour market attachment, with higher employment rates and higher levels of pay on average.

[20] PPI Analysis of LFS
[21] PPI Analysis of LFS
[22] PPI analysis of LFS
[23] PPI analysis of LFS

Chart 2.1[22]

Men in couples with children have the highest rate of labour market participation, while single mothers have the lowest, followed by women in couples with children

Labour market participation rate adjusted to account for part-time hours, ages 20-64, 2023

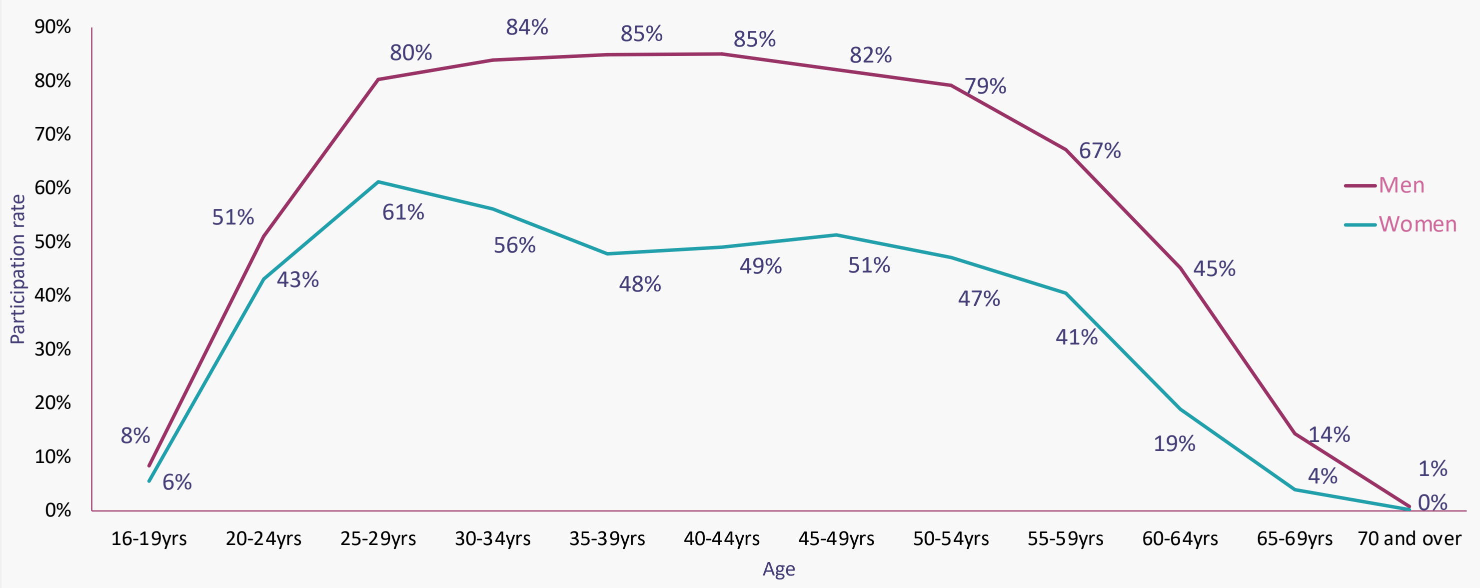


The gender gap in labour market participation varies across the lifecourse, further illustrating that it is primarily driven by gendered divisions of labour, particularly childcare. The gap begins to widen significantly from around age 25 onwards, coinciding with the time that many have their first child. The gap remains substantial throughout mid-life at around 30-40%, before beginning to narrow again at around age 55, by which time children are likely to have reached adulthood. However, the narrowing of the gap is driven primarily by a decline in men's participation rates as they transition into retirement, rather than an increase in women's participation rates (Chart 2.2).

Chart 2.2[23]

The gender gap in labour market participation widens significantly from around age 25, before narrowing again at around 55

Labour market participation rate adjusted to account for part-time hours, by age, 2023



The Gender Pay Gap exacerbates the GPG further

In addition to differing employment rates, lower levels of pay over the course of working life reduce contributions and pension accruals further. In 2023, women's average annual incomes (£24,800) were equal to three-quarters (75%) of men's (£33,000).[24] Differences in work patterns, with women more likely to be working part-time, contribute significantly to the pay gap. However, even when looking at only full-time employees, the gap between average incomes of men and women is substantial at around 16%.

Disparity in pay limits the amount that women are able to contribute to a pension, both in terms of how much they can feasibly afford and also how much they are likely to contribute given that average contributions default towards the minimum required under automatic enrolment.

The GPG is impacted by a number of factors, including:

- **Age:** The Gender Pay Gap is relatively low for people aged in their 20s and 30s. From age 40 onwards, the Gender Pay Gap grows significantly.[25] This acceleration is primarily attributed to the impact of gendered divisions of childcare, with the average age of mothers giving birth at 30.9 years in 2021, and the effects of time taken out of the labour market materialising in subsequent years upon return to work.[26]
- **Work patterns:** The Gender Pay Gap is larger among full-time employees, whereas for part-time employees the pay gap is consistently small or negative (women earning more than men). Part-time work may also fall below the threshold for automatic enrolment in an employer pension scheme, leading to decreased pension participation. The proportion of women who are full-time employees has been increasing (from 36% in 1997 to 42% in 2021), as has the proportion of men in part-time work (from 16% to 25%), leading to a reduction in the overall Gender Pay Gap.' Please could this be updated to say 'The proportion of full-time employees who are women has been increasing (from 36% in 1997 to 41% in 2023, as has the proportion of part-time employees who are men (from 16% to 26%), leading to a reduction in the overall Gender Pay Gap.[27]
- **Occupation:** Occupation groups in which women are more heavily represented generally have a smaller Gender Pay Gap. Women were historically confined to roles deemed "suitable" for their gender, often those that were lower-paying and offered limited benefits, including pensions. The societal expectations at the time held that men were the primary breadwinners while women were responsible for domestic tasks. Women who did work were often in lower-paying jobs, which included positions like secretaries, nurses, and teachers.
- **Industry and sector:** Some industries have a larger Gender Pay Gap than others. In a similar way to occupation, industries with a higher proportion of women tend to have a smaller gap, compared to industries that are more male dominated. There are also differences between private and public sector pay gaps. The concentration of women in particular industries is known as horizontal segregation. Women might be overrepresented in sectors like healthcare and education, while men might be overrepresented in sectors like finance and technology. Traditionally male dominated fields tend to have higher incomes which may be due to the perception of being breadwinner roles. Horizontal segregation may additionally impact the GPG beyond the pay gap as a result of different pension conditions being offered in different sectors.
- **Job role or level:** Vertical segregation means that women are less likely to achieve higher level roles, with disproportionate representation of genders at different levels within the same sector or company, typically with men being more prevalent in higher-status and higher-paying positions, while women are more prevalent in lower-status and lower-paying positions (Chart 2.3). While the law requires that men and women are paid the same for the same job, if women have less opportunity to be promoted to the higher paid positions, then they don't receive the benefit of the equal pay legislation. Vertical segregation may be exacerbated by gender disparities in career advancement opportunities. The reasons for this may be linked to societal perceptions of a woman's responsibilities. Women may be passed over for promotion or training because of a perception that they have a higher probability of leaving the job. These barriers systematically hinder women's earning potential, thereby diminishing their capacity to accumulate adequate pension wealth.
- **Employer size:** The Gender Pay Gap tends to be smaller among large employers. In 2022/23, businesses with at least 20,000 employees reported a gap of 7.6%, compared to 12.4% in businesses with between 250 and 499 employees.[28]
- **Region:** The South East and East Midlands have the largest Gender Pay Gap among UK regions, while Northern Ireland has a negative Gender Pay Gap (women earning more than men on average).[29]
- **Level of earnings:** Women in higher paying roles generally experience a larger Gender Pay Gap than those in lower paying roles. In 2019, women in the top percentile of earnings, were paid 77% of their male counterparts' earnings. Women in the lowest percentile earned 90% compared to men at the same level.[30]

The Gender Pay Gap has been in decline for many years but continues to be a significant barrier to equal outcomes

Over the past 25 years, the Gender Pay Gap has declined by 12.6 percentage points overall, by 9.1 percentage points for full-time employees, while the negative pay gap for part-time employees has grown by 3.4% (women earning more than men).[31] A reduction of the gender gap in education levels has contributed a substantial part of this narrowing of the Gender Pay Gap. Of the 13 percentage point drop in the gender pay gap over the past 25 years, 10 percentage points (over three-quarters) can be attributed to the rapid catch-up of educational attainment of women, who are now 5% more likely to have graduated from university than men. However, the hourly wage gap is now larger between men and women with degrees or A-level-equivalent qualifications, compared to those with lower education. Historically, gender differences in hourly wages were particularly pronounced among less-educated workers. The introduction of, and increases to, the minimum wage have helped to reduce the gap for lower paid women, while women with higher educational qualifications have not made equivalent progress.[32] While the overall Gender Pay Gap has declined, the gap between higher-educated mothers and fathers who left school after the age of 18 grew by around 3% between 1978 and 2019.[33]

Women remain less likely to achieve higher levels of employment, even when educational attainment is accounted for

Women are more likely than men to fall into the category of never having worked, being currently unemployed or working in a role not covered by other classifications (33% vs 25%), and among those who are in a classified role, are more likely to work in lower managerial and professional roles, intermediate occupations and semi-routine occupations (Chart 2.3). The higher relative proportion of women achieving lower managerial and professional positions may reflect the effect of a glass ceiling, with women's career progression stagnating and struggling to advance beyond a certain level.

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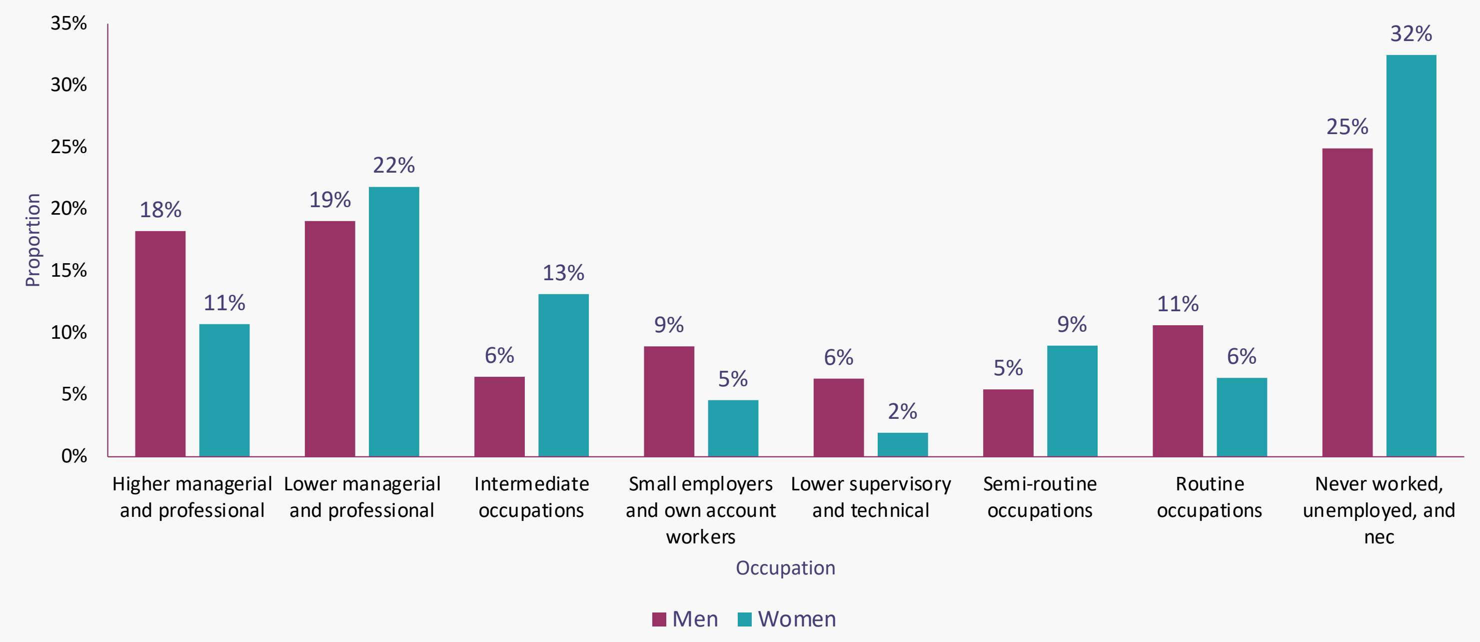
24 PPI Analysis of LFS
25 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2022
26 https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthcharacteristicsinenglandandwales/2021#:~:text=4.-,Age%20of%20parents,33.7%20years%20(Figure%201).
27 Francis-Devine (2022); Office for National Statistics, Labour Force Survey – table EMP01. Data at April-June.
28 https://gender-pay-gap.service.gov.uk/viewing/download - Reporting year 2022/23
29 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2022
30 IFS (2021)
31 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2022
32 IFS (2021)
33 Gosling (2023)

Chart 2.3[34]

Women are less likely than men to achieve higher managerial and professional positions

Distribution of job level by gender, 2023

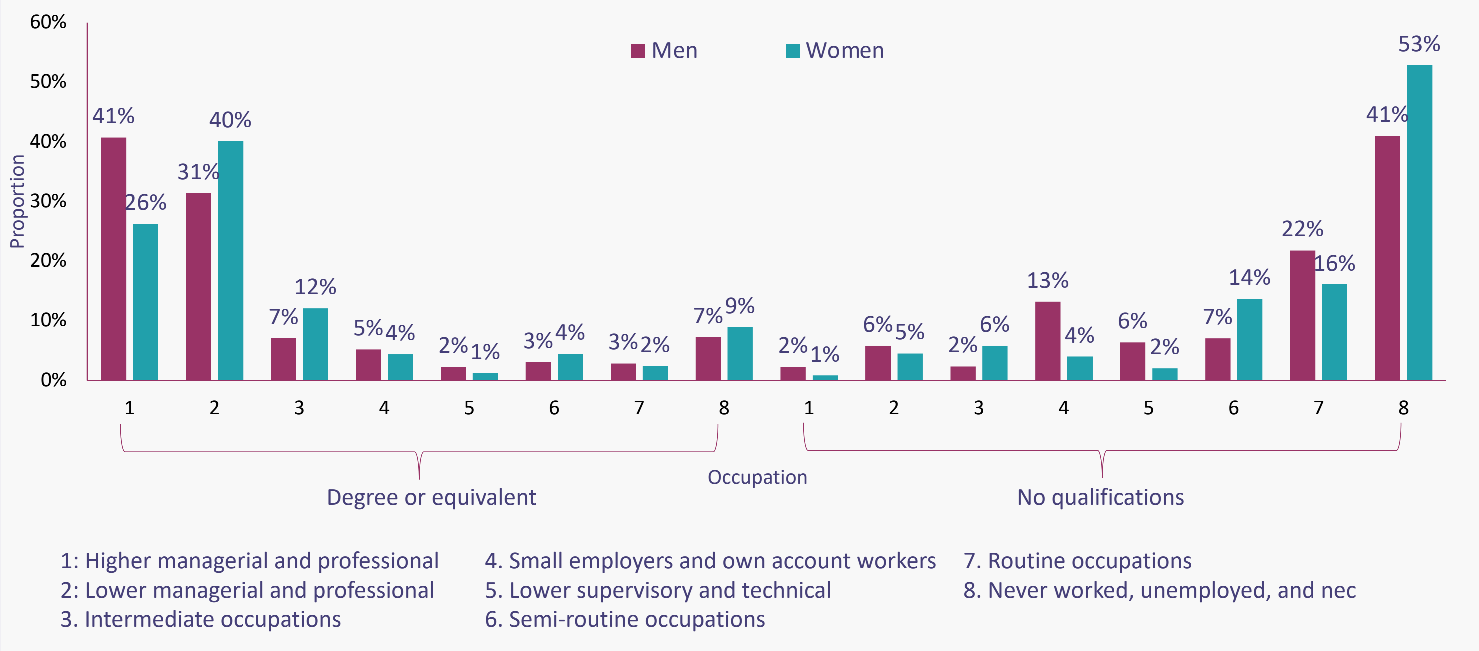


While the gap in educational attainment has now narrowed, and in fact reversed, with women now more likely to graduate university than men, inequality in employment level persists. The gap between men and women working in higher managerial and professional roles is larger than average among those who have attained a degree or equivalent qualification, with 15% more men than women, compared to 7% on average (Chart 2.4). At this level of education, women have a greater likelihood of working in lower managerial and professional roles (9% higher than men, compared to 3% on average), supporting the hypothesis of a glass ceiling effect. Gender gaps in these higher levels of employment are lower among those with no qualifications, although this may primarily reflect the much lower likelihood of either gender achieving these levels.

Chart 2.4[35]

Women are less likely to achieve the same level of success as men with similar levels of educational qualification

Distribution of job level by gender and educational qualification, 2023



The Gender Pay Gap is substantially impacted by marital and parental status

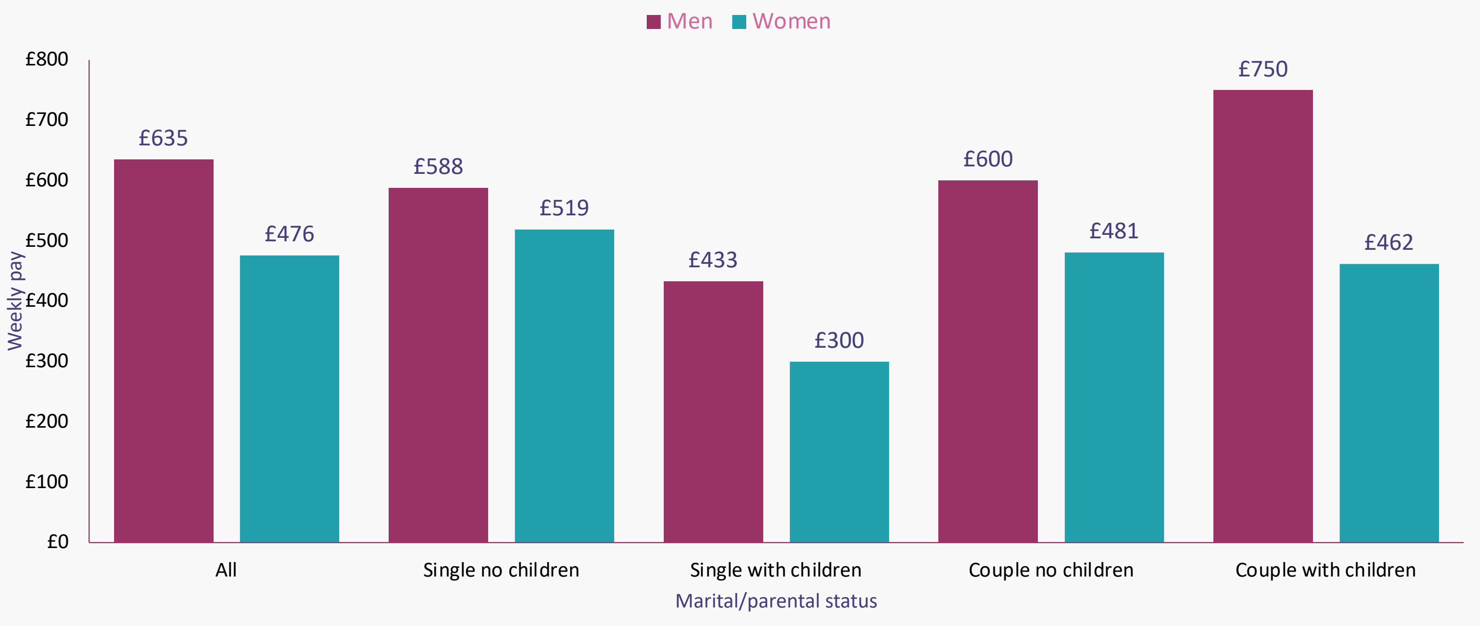
Across the whole population, the Gender Pay Gap stands at around 25%. The gap is much smaller for those without children; 12% for single people and 20% for married. Single parents have the lowest average incomes, for both men and women; single fathers earn 32% less than the average man, while single mothers earn 37% less than the average women and 53% less than the average man. However, as with employment participation rates, the greatest disparity is between married men and women with children. Married men with children earn 18% more than the average man, while married women with children earn 38% less than their male counterparts, further supporting the motherhood penalty and the fatherhood bonus (Chart 2.5).

[34] PPI analysis of LFS
[35] PPI analysis of LFS

Chart 2.5[36]

The largest income gap is between men and women in couples with children, the smallest among those who are single with no children

Gross median actual incomes weekly pay in main job allowing for part-time workers



Many of the labour market inequalities experienced by women stem from gendered divisions of domestic labour and societal expectations

Despite many societal shifts towards greater gender equality, women continue to bear the burden of domestic labour and childcare to a greater extent than men. Women carry out 60% more unpaid work than men, with women carrying out an average of 26 hours per week compared to men's 16 hours.[37] This inequitable division of domestic labour causes more women to spend time out of employment or on reduced hours in order to accommodate unpaid work and responsibilities. It can also have an impact on women who remain in full-time employment, as they may be less able to work overtime when needed and less able to contribute additional time and mental energy that may assist in career progression.

The current policy landscape often incentivises a traditionally gendered division of labour. Parental leave, childcare, tax and benefits all contain aspects that support one parent, usually the father, as the main jobholder. Combined with societal norms for women to be the main caregiver, this contributes to the labour market inequalities that women experience as a result of motherhood, with the pay gap between mothers and fathers increasing by around 21 percentage points between the birth of the first child and the child's twentieth birthday.[38]

The cost of childcare makes it prohibitive for both parents to work full-time in many cases

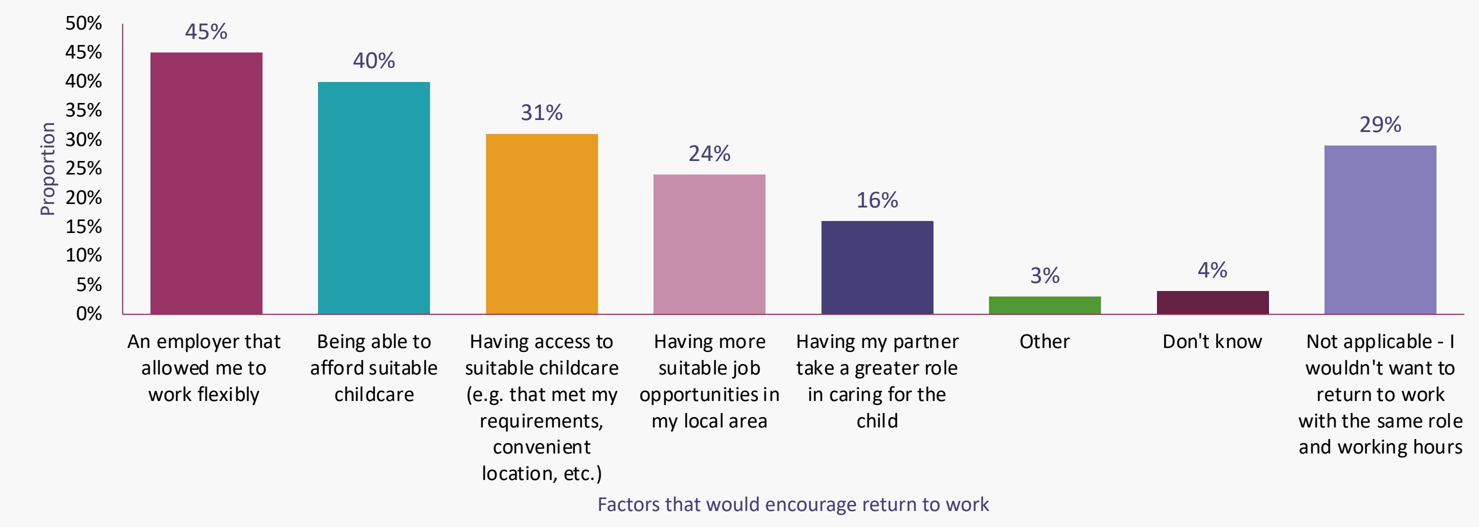
High costs associated with outsourcing childcare can make it prohibitive for both parents to work full-time. The average cost of full-time nursery for a child under age 2 in 2023 is £14,800 per year, but can be much higher in some regions; in inner London, for example, the average cost is £20,500.[39] Families on low incomes are able to receive some support with childcare costs through Universal Credit but this generally will not cover the full cost. A quarter (26%) of parents who use formal childcare in 2023 say that the cost is now equivalent to more than 75% of their take home pay, while three quarters (76%) say it no longer makes financial sense for them to work, and a third (32%) say that they have had to rely on some form of debt to cover childcare costs.[40]

Challenges associated with childcare make it much harder for women to return to work full-time following the birth of a child, with lack of flexibility of employment and the high cost of childcare presenting the greatest challenges (Chart 2.6).

Chart 2.6[41]

A lack of flexibility and the high cost of childcare are considered the greatest barriers by women making decisions about whether to return to work in the same role and hours

'Which of the following would encourage you to return to work with the same role/hours since having children?' Mothers with children aged 10 and under: 2019



Time spent out of work or working reduced hours can have substantial negative impact on future earnings potential as there are fewer chances for career progression and promotion when competing with individuals who have consistently been in full-time employment and have more experience.

[36] PPI analysis of LFS
[37] Women's Budget Group (2020); ONS (2016)
[38] IFS (2021)
[39] Coram (2023)
[40] Pregnant Then Screwed (2023)
[41] The People's Partnership (2019)

Women continue to be the main caregiver in most cases

While the high cost and challenges associated with childcare can make it challenging for both parents to work full-time, this does not explain why it is significantly more likely that mothers will make the career sacrifices required to meet childcare needs. In 2021, 2% of men with dependent children were stay at home fathers, compared to 15% of women.[42] Less than 30% of households report fathers contributing a substantial amount (>40%) of primary care, compared to 32% of households in which the father contributes no time towards primary care and 39% in which fathers' contribution is between 0% and 40%.[43]

One way of determining which parent should take time out of employment or move to part-time hours could be individual earnings level, although this would be a purely rational justification and there are many other factors that contribute to decisions about childcare. However, divisions of domestic labour are not necessarily correlated with earnings potential. Even mothers who earn more than their male partners before childbirth are more likely than their partners to reduce hours of work in the years after childbirth.[44] Furthermore, the Gender Pay Gap, which leads to women's lower average earning potential, is heavily predicated upon the time that women take out of work for childcaring responsibilities.

Gendered divisions of labour are rooted not just in societal expectations, but until relatively recently also reflected in law

Chapter One mentioned elements of the legislative landscape of the labour market which traditionally disadvantaged women, including Marriage Bars. These were policies enforced by employers that required women to resign upon getting married. They were widespread in the early 20th century and reflected the attitudes and norms of the time that married women focus on their roles as wives and mothers, leaving wage-earning to their husbands. The bars were widespread in various sectors, including the civil service, teaching, and clerical jobs. With women being unable to work after marriage, their ability to earn and contribute to pension schemes was severely restricted. This limitation inevitably resulted in lower accumulated pension wealth for women compared to men.

Although the prevalence of marriage bars began to decline from the 1940s, and they were eventually prohibited by the Sex Discrimination Act 1975, the underlying attitudes that supported such policies lingered, impacting women's career trajectories and their ability to accumulate pensions. While marriage bars are no longer legal, the societal expectations that they reflected about men and women's roles in the home and childcare are still evident in modern society, with women still much more likely than men to act as the primary caregiver.

Societal expectations and gender norms for divisions of domestic labour are beginning to shift but at slow rate of change

Although women continue to be the primary caregiver, attitudes towards this being the automatic norm have begun to evolve among younger generations. In 2022, one in nine stay-at-home parents were fathers, up from one in 14 in 2019.[45] In addition, many companies are introducing more equitable parental leave policies that allow men to take longer than the statutory period of 1-2 weeks. However, data suggests that take-up of shared parental leave remains low, with only around 2% of new mothers transferring some of their maternity leave to their partner.[46]

While significant change in the division of labour appears slow to materialise, attitudes towards gendered roles are changing more rapidly:

- Agreement that a man's job is to earn money and a woman's is to look after the home and family has declined by 39 percentage points since 1987, from 48% to 9% in 2022.
- Only around 1 in 10 (12%) people now agree that 'a job is alright but what most women really want is a home and children', compared to 1 in 3 (31%) in 1989.
- Agreement with the view that a pre-school child is likely to suffer if his/her mother works has declined from 46% in 1989 to 21% in 2022.

However, views on the best arrangements for couples with young children remain in favour of the father working full-time, with 18% saying that the best arrangement with pre-school children was for the mother to stay at home and the father to work full-time, and a further 33% saying that the best way for managing work and childcare was for the mother to work part-time, while the father works full-time. Meanwhile, 0% said that the best arrangement would be the mother working full-time and the father either staying at home or working part-time.[47]

Removing labour market inequalities would significantly reduce the GPG

If the Gender Pay Gap was 'solved', but differences in working patterns remained, the average woman would achieve a pension of around 66% of that of the average man (compared to 62% with the current pay gap). If, in addition to equalisation of pay, differences in full-time/part-time working patterns were removed, but differences in overall employment rates remained, the average woman would achieve a pension of around 93% of the average man.

However, 'solving' labour market inequalities is an extremely complex undertaking, reliant on not just legislative protection but also societal change. While it is clear that childcare is a key factor in labour market inequalities, there is a lack of data on the factors and decision-making processes that perpetuate societal norms of gendered divisions of domestic labour. Further research on these factors would be beneficial to understanding how to narrow the gap, as well as the extent to which the gap may be closed.

[42] ONS (2021)
[43] Government Equalities Office (2021)
[44] IFS (2021)
[45] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/economicactivityandemploymenttypeformenandwomenbyageoftheyoungestdependentchildlivingwiththemtables/current
[46] Maternity Action (2023)
[47] NatCen (2023)
[48] PPI analysis of LFS

Conclusions

Labour market inequalities are the primary factor contributing to the GPG

- Women have lower levels of labour market participation compared to men. Adjusted to account for those who are working part-time, labour market participation is 46% for women and 74% for men.
- The Gender Pay Gap further exacerbates the GPG. Women's average annual incomes are equal to three-quarters of men's.
- Data suggests that there is a motherhood penalty and a fatherhood bonus. Men in a couple with children have a greater activity rate even than men with no children, while women in a couple with children have an activity rate 13% lower than single women with no children.
- Women are less likely to achieve higher levels of employment, even when educational attainment is accounted for. The higher relative proportion of women achieving lower managerial and professional positions may reflect the effect of a glass ceiling.

Many of the labour market inequalities experienced by women stem from gendered divisions of domestic labour and societal expectations

- The cost of childcare makes it prohibitive for both parents to work in many cases.
- Women carry out 60% more unpaid work than men and are significantly more likely to be the primary caregiver.
- Further research to better understand the decision-making processes around gendered divisions of labour would be beneficial to understand if and how labour market inequalities can be reduced.

CHAPTER THREE:

HOW DO DIFFERENCES IN PENSION PROVISION IMPACT THE GENDER PENSION GAP?

This chapter explores the pension-specific differences that lead to inequality in retirement outcomes between men and women. It also discusses some potential policy options for narrowing the gap.

Many of the pension-specific differences that have impacted the Gender Pension Gap (GPG) have now become more equal, but some systemic challenges remain

While labour market inequalities are the primary driver of the GPG, there are pension-specific factors that impact the magnitude of the gap. There are a number of aspects of pension provision in which women's experiences are favourable to men's, contributing to a narrowing of the GPG, particularly scheme type and, to a lesser extent, participation rates and men's greater tendency to retire earlier. There are other aspects of pension provision in which women are disadvantaged, although these are closely linked to the labour market inequalities outlined in the previous chapter.

Gender inequalities in State Pension provision are becoming less significant

State Pension entitlement has become more equal between men and women since the introduction of the new State Pension in 2016

Historically, men have had significantly higher State Pension entitlement than women, with women born in the early 1940s receiving around 25% less in State Pension income than men on average. However, this gap has almost closed for those reaching SPa after the transition to the new State Pension in 2016, with the gap between State Pension incomes of men and women born in the early 1950s below 5%.[49] Because there are still many women receiving State Pension under the old system (having retired before 2016), the overall gap between men and women's State Pension income remains higher, although it has narrowed over time, from 18% in 2016 to 8% in 2020.[50]

Greater equality in State Pension incomes is beneficial for all women, but particularly those on low incomes for whom the State Pension makes up a greater proportion of overall retirement income due to low levels of private pension savings. The proportional impact for higher earners will be lower as they have a greater dependence on private pension savings to meet higher replacement rates.

State Pension age is now equal for men and women

Historically, women had a State Pension age lower than that of a man. In some regards that was positive for women; they could leave work earlier than men and still receive a full State Pension, which would be paid on average for a longer period, making it more valuable. However, it has a negative impact on their saving for a private pension. If they leave work at the point they reach their State Pension age, they have less time to contribute to their pensions. While these rules have changed, the ripple effects of these past policies continue to influence the economic reality of many women in retirement today.

Some aspects of private pensions have mitigated the GPG

Although women are overall less likely to participate in private pension as a result of labour market inequality, participation rates are slightly higher among eligible women than men

Pension participation rates for men and women differ throughout their working lives and depend on a number of social factors, such as attitudes towards saving or household responsibilities within families. Levels of private pension participation across the whole population are significantly lower among women (59%) than men (66%). However, this gap is primarily driven by women's lower employment rates, with 77% of both male and female workers participating in a private pension.[51] When the factor of employment rates and earnings eligibility is removed, higher participation rates among women contribute to a 1% reduction in the GPG.

Higher proportions of women in public sector DB schemes narrow the GPG by around 10%

The pension scheme type that savers participate in can impact their rate of pension accrual. Women are more likely than men to participate in a DB workplace pension scheme, as a result of a higher proportion of women working in the public sector, where DB provision remains the norm, while it has declined in the private sector. The proportion of women employed in the public (versus the private sector) is approximately double to proportion of men across most ages.[52] This reduces the GPG by around 10%.

Men's historically higher tendency to retire early has now equalised and no longer contributes to a narrowing of the GPG

When this data was produced previously for a 2019 PPI report, men exhibited a greater tendency to retire earlier and begin withdrawal of pension wealth sooner. This contributed to a 1% reduction in the GPG.[53] 2023 data shows that this small difference has now equalised, with men and women retiring early at around the same rates.

Labour market inequalities and the structure of eligibility criteria mean that women are less likely to be eligible for automatic enrolment than men

The introduction of automatic enrolment has successfully brought more than 10 million new savers into workplace pensions. However, women are disproportionately likely to be found ineligible. In order to be eligible for automatic enrolment with an employer the individual must earn £10,000 a year with that employer. For people working part-time, who are more likely to be women, earnings are less likely to meet this requirement.

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

Women are also more likely than men to be multiple jobholders. Because income for automatic enrolment eligibility is assessed on a single-job basis rather than total income across all jobs, people whose income is split across multiple jobs are less likely to be eligible, even if they earn above £10,000 in total across their jobs. If income from multiple jobs was assessed on a total rather than 'per job' basis, an additional 12% (128,000) multiple jobholders would become eligible for automatic enrolment, comprising 108,000 women and 24,000 men.

In 2021, the total annual contribution into workplace pensions for men and women eligible for automatic enrolment was £62.6 billion and £52.0 billion respectively, giving a contribution gap of 17%.[54]

Upcoming changes to automatic enrolment eligibility criteria are likely to benefit women

The 2017 Automatic Enrolment Review recommended that:

- The minimum age for eligibility be reduced from 22 to 18; and
- The lower earnings limit of band earnings upon which contributions are made be reduced down to £0 (effectively removed).

The Extension of Automatic Enrolment Act received Royal Assent in September 2023. This Act makes provision for the introduction of these changes, with a consultation expected to follow in the coming months on how to implement them.

The removal of the lower earnings limit will have a proportionally greater impact on pension wealth for low earners, many of whom are women, because the amount of earnings currently under the threshold make up a larger proportion of their total earnings. For a median earning woman contributing at 8%, the removal of the lower earnings limit would provide an uplift of £500 per year, representing a 21% increase in contributions over the year.[55]

Women are also likely to benefit from the reduction of the eligibility age as the additional four years of potential eligibility take place before most people will have had children and therefore before the motherhood penalty begins to take effect. When the age for eligibility is reduced from 22 to 18, an additional 3% (around 406,000) women are expected to become eligible for automatic enrolment. Further reducing the age for eligibility to 16 would have only a small impact on eligibility due to low levels of employment and earnings among this age group, bringing an additional 0.1% (20,000) women into eligibility.

49 IFS (2023a)
50 Prabhakar (2022
51 IFS (2023a)
52 PPI analysis of LFS
53 PPI (2019) Understanding the Gender Pensions Gap
54 DWP (2023)
55 PPI analysis of LFS

The current system of tax relief benefits higher earners, who are predominantly men, over lower earners, who are predominantly women

The pension tax relief system is a reflection of the current workplace situation, whereby there are more men in employment at higher income levels, hence benefiting by a greater amount of pension tax relief:

- 71% of the value of tax relief goes to men;
- 69% of the value of the contributions are made by men (or employers on behalf of men);
- 68% of the total income earned by individuals claiming tax relief goes to men;
- 63% of those who benefit from tax relief are men.[56]

This gender divide is primarily driven by the different employment patterns and earning levels between men and women.

Pension-specific solutions could be introduced to mitigate the impact of the GPG on women's retirement outcomes

While the GPG is primarily driven by labour market inequalities, there could be pension-specific mechanisms to mitigate the impact on women's retirement outcomes. This Chapter outlines three possible options, but this is not an exhaustive list.

Household pension pots could be used to support married women who have made employment sacrifices in order to meet childcare needs

A potential way to mitigate the GPG is through the use of joint household pension pots, though these products do not currently exist in the marketplace. Individual pots can disadvantage women in the event of divorce, as women's pension contributions are likely to be considerably lower than their spouse's on average, and pensions are often not divided equally in divorces, despite the legal right to do so. Aside from cases of divorce, a shared pot could help women to feel a greater sense of ownership over household finances.

A household pension pot of this nature could work in the following ways:

- Both pot owners would contribute, alongside their employer into the same pot
- Both pot owners would have joint and equal ownership of this pot
- Contribution rates between pot owners may differ, most likely with primary caregivers contributing at lower rates than the other pot owner
- In the event of divorce, this pot would automatically be split 50/50, irrespective of other factors

The introduction of household pension pots would involve significant technical work and development, and some policy change in order to ensure it worked with automatic enrolment.

Employer-only contributions for low earners could extend the benefits of automatic enrolment to people, including a significant number of women, who would be otherwise unable to accumulate pension wealth

While removal of the £10,000 earnings trigger for automatic enrolment would extend eligibility to lower earners who are currently excluded, this criterion was included on the basis that people who are earning below this level are unlikely to be able to afford to contribute to a pension due to more immediate income needs. This will not be the case for everyone; for example, married women whose spouse earns significantly more, may benefit from contributing to a pension without negatively impacting current needs. But for many low earners, making personal contributions to a private pension is unlikely to be feasible, particularly in the current cost-of-living crisis. Removal of the £10,000 earnings trigger would bring an additional 9% (1.2 million) women into eligibility, compared to 2% (328,000) men. Removal of the earnings trigger would also increase the impact of reduced ages for eligibility; a reduction to age 18 would bring in an additional 5% (680,000), while a reduction to 16 would bring in an additional 1.5% (204,000).[58]

An alternative way to extend the benefits of automatic enrolment to low earners, without having a negative impact on their current quality of life, would be the introduction of employer-only contributions. This policy could work by automatically enrolling low earners but requiring no employee contribution to be made, only the minimum employer contribution. While this would lead to lower levels of pension accrual, it would mean that low earners would not miss out on remuneration from their employer on the basis that they cannot afford to make employee contributions. Alternatively, the employer could cover the full 8% contribution on behalf of the employee, up to a certain level of earnings. This policy would, however, entail significant cost to employers in additional pension contributions for employees who are not currently eligible for automatic enrolment.

A family carer top-up could mitigate gaps in pension contributions during periods of childcare

The introduction of a family carer top-up could help to mitigate the impact of time spent out of employment or working part-time as a result of caring responsibilities.

A family carer top-up could work in the following ways:

- **While on maternity pay:** employer contributions remain on pensionable salary prior to maternity leave; employee contribution is based upon the National Living Wage (NLW)
- **While out of work and caring:** benefit paid as pension contributions based upon automatic enrolment minimums upon NLW, payable alongside National Insurance credits towards the State Pension
- **While in part-time work to accommodate caring:** a top-up benefit paid to ensure a minimum contribution equal with being out of work and receiving the benefit above

If the value of unpaid domestic labour was taken into account, whether through a family carer top-up or another means, for the average 10-year period women spend out of the labour market, they could accumulate an additional £39,000 (median). The family carer top-up has the potential to close around half of the pension wealth gap created by taking time out of work to care for family.[59] However, it does not contribute to closing the portion of the GPG derived from the Gender Pay Gap. This policy, as with other potential solutions, would need to be assessed not only on its effectiveness in closing the GPG, but also the associated cost and who bears this burden.

In order to bridge the GPG themselves, women would have to work for an additional 19 years on average or contribute at a 6% higher rate than men

The majority of the GPG can be attributed to labour market inequalities, which are in turn dependent on not just employment rights but also deeply embedded societal attitudes and expectations. Because of this it is challenging to predict when, or even if, the GPG will ever be fully closed, as it is likely to require significant shifts in society that are hard to project.

If women were to bridge the gap themselves, it would require them to work for an additional 19 years beyond the age at which men retire in order to accumulate the same level of pension savings, or make contributions of 14% in order to accumulate the same level of pension savings as men making minimum 8% contributions.[60]

[56] PPI analysis of ONS (2019) Wealth and Assets Survey, Round 6; PPI (2020) Tax relief on Defined Contribution pension contributions Briefing Note number 122
[57] Buckley & Price [MICRA & PPI] (2021)
[58] PPI analysis of LFS
[59] PPI (2019) Understanding the Gender Pensions Gap
[60] PPI Analysis of LFS

Conclusions

Many of the pension-specific differences that have impacted the GPG have now become more equal, but some systemic challenges remain

- Gender inequalities in State Pension provision are becoming less significant, as entitlement has become more equal between men and women since the introduction of the new State Pension in 2016, and SPa is now the same for both.
- Some aspects of private pensions have mitigated the GPG, including slightly higher participation rates and a greater likelihood of participation in a DB scheme among women.
- Labour market inequalities and the structure of eligibility criteria mean that women are less likely to be eligible for automatic enrolment, but are likely to benefit from upcoming changes to the criteria.

While the GPG is primarily driven by labour market inequalities, pension-specific solutions could be introduced to mitigate the impact on women's retirement outcomes

- Household pension pots could be used to support married women who have made employment sacrifices in order to meet childcare needs.
- Employer-only contributions for low earners could extend the benefits of automatic enrolment to people, including a significant number of women, who would otherwise be unable to accumulate pension wealth.
- A family carer top-up could mitigate gaps in pension contributions during periods of childcare.

However, as with any policy, there are trade-offs associated with each of these possible options, and this list is not exhaustive.

Modelling Appendix

Data sources

The report draws from data from Labour Force Survey (LFS) and the Wealth and Assets Survey (WAS). In addition, some analysis was performed in the PPI Individual Model.

All monetary figures are presented in 2023 earnings terms.

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 compare the employment of men compared to women, including the differences between incidence of full time and part time working, income levels, how education corresponds to position in the workforce. The LFS was also used to look at how each individual, and categories of individuals meet (or do not meet) the automatic enrolment eligibility criteria and to what extent that might change given differing qualification criteria.

Wealth and Assets Survey (Round 7)

The Wealth and Assets Survey (WAS) is a longitudinal sample survey of private households produced by the Office for National Statistics. The survey covers various sources of wealth of individuals and households in Great Britain. This dataset was used to calculate the average pension wealth of men and women at and in retirement. It underpinned some of the calculations in the waterfall chart separating the difference between men and women's pension wealth into various factors.

PPI Individual Model

The PPI Individual Model is part of the PPI's suite of models. It is a highly customisable model, used to calculate pension saving and outcomes for individual an individual with income, lifestyle and saving characteristics set as inputs to the model. The individual model was used to calculate outcomes for representative individuals in order to estimate the impact of differences in experiences for the waterfall chart (Chart 1.1).

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