Women in the new pensions landscape

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Outline

1. Legacy of gender gap in pensions
2. Working age women: will they fare better?
   - State Single Tier Pension (STP)
   - Saving in private pensions
   - Gender and auto-enrolment in DC pensions
   - Questioning the rationale for auto-enrolment
   - Pensions designed for women – better for all
## Legacy: Gender gap in pensions

<table>
<thead>
<tr>
<th>Older people 65+</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rate*, UK (Zaidi 2010)</td>
<td>27%</td>
<td>33%</td>
</tr>
<tr>
<td>Means tested (65+):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single/widowed</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Divorced/separated</td>
<td>23%</td>
<td>40%</td>
</tr>
<tr>
<td>At State Pension Age in 2011 had own full BSP</td>
<td>87%</td>
<td>52%</td>
</tr>
<tr>
<td>State pensions~ in payment, average per week</td>
<td>£165</td>
<td>£107</td>
</tr>
<tr>
<td>Has any private pension, 65+</td>
<td>71%</td>
<td>43%</td>
</tr>
<tr>
<td>Women’s amount of private pension (non-zero only)</td>
<td>53% of men’s</td>
<td></td>
</tr>
<tr>
<td>Average individual income of all women 65+</td>
<td>57% of men’s</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Ethnicity, % 60+ with any private pension</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>66</td>
<td>37</td>
</tr>
<tr>
<td>Black</td>
<td>44</td>
<td>35</td>
</tr>
<tr>
<td>Indian</td>
<td>38</td>
<td>15</td>
</tr>
<tr>
<td>Pakistani/Bangladeshi</td>
<td>15</td>
<td>12</td>
</tr>
</tbody>
</table>

* OECD measure.  ~ includes contracted out replacement for SERPS/S2P .  ^ born 1932-47 (Bozio et al 2011)
Working age women: Will they fare better?

State Single Tier Pension (STP):

- **Combines** BSP and S2P for all reaching SPA after April 2016
- **Independent** state pension for each person, above means tested GC
- **Simplifies** state pensions - no contracting out
- **Accelerates** gender equalisation in state provision

% entitled to more than STP maximum amount*

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current system</td>
<td>31.6</td>
<td>9.0</td>
</tr>
<tr>
<td>STP</td>
<td>34.3</td>
<td>22.8</td>
</tr>
</tbody>
</table>

Working age women: Will they fare better?

- Full STP will be about £150/wk~ for each individual
- But only just above Guarantee Credit (GC) level (by about £1.40 pw)

- Increases required NI years from 30 to 35
- 1/3 of women have < 30 yrs NI, so would not receive full STP
- They could be eligible for means tested GC and other benefits

- No derived benefits in STP – can wives and widows adjust in time?

- No protected wage replacement pension, with end of S2P

- Some women in their 50s face cliff edge and rapid rise in SPA

Does STP provide women with an adequate foundation for private pension saving........ie minimise poverty trap?
STP - Winners and losers

(Compared with existing Basic + Additional state pensions*)

**Winners** - 1/3 of men, 2/3 of women with SPA in 2016-20
- especially those ‘with a short NI record or long self-employment
  (but some would have been eligible for Guarantee Credit, HB, CTB)

**Losers** - Most individuals will get less, especially if they have a long NI record; losses greater after 2020. No extra spending
Gender, lifetime earnings and private pensions

‘Gender inequality in later life will continue to reflect large disparities in men’s and women’s income during the working life’ [following reforms] (Price D. 2007, JSP 36:4)

1930s cohort

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
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<tbody>
<tr>
<td>Median lifetime earnings</td>
<td>£1,907,000</td>
<td>£384,000 (20% of men’s)</td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>0.28</td>
<td>0.49</td>
</tr>
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</table>

Can women in later cohorts earn enough?

Crawford et al (2013b) *From Me to You? How the UK state pension system redistributes*, IFS
Wage replacement and mothers’ dilemma:
‘To pay or not to pay’

Mum can’t make enough money to look after us -- or to pay into a private pension.
Competing responsibilities also in midlife

Women aged 50+ --the ‘sandwich generation’ --

- Care for ageing parents/in-law
- Some care for partner
- Many care for grandchildren, some for long hours
- Employment, earning and saving
<table>
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<tr>
<th></th>
<th>% FT employed</th>
<th>% PT employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men, 16-64</td>
<td>65</td>
<td>11</td>
</tr>
<tr>
<td>Women, 16-64</td>
<td>38</td>
<td>29</td>
</tr>
<tr>
<td>Mothers, ch&lt;16</td>
<td>28</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: ONS 2012-3
Motherhood, FT employment and private pensions

Women aged 20-59, mid-skilled

% employed full time

% with private pension

Ginn and Arber 2002

Lifecourse stage

Nev child, <35
Child 0-4
Child 5-9
Child 10-15
Child 16+
Adequacy of private pension saving – industry views

Contributions to a DC scheme – total 8% - will not provide enough

Employed with ‘Adequate saving’ (>12% of income)

Women: 40% in 2013, 50% in 2014
Men: ~ 55% in 2014

All: ‘Adequate’ 53%
‘Undersaving’ 28%
No saving 19%

Private sector, % of employees in a DB pension scheme 19%
Public sector, % “ in a DB pension scheme 50%

Among those not in DB scheme, 67% are ‘undersaving’ for ‘preferred’ income

Challenge: persuade non-savers and the self-employed to save in a DC pension

Scottish Widows (2014 ) Retirement Report
Auto-enrolment: Will it work for women?

- Predictable pension (as DB schemes)? No
- Generous employer contribution (as most DB schemes) No
  (employer chooses fund, could be badly-run or fraudulent)
- Return on savings that will exceed inflation? Maybe
- Certainty of no interaction with means testing? No
- Low annual charge on fund, no extra charges?* Yes/No
- Right to transfer in and out, to consolidate ‘pots’? Not yet
- Individual advice on whether/when to opt out? No
- Inclusive of all employees? No
- Is state support (Tax Relief) spent equitably? ~ No
- Care credits to avoid loss during childcare/eldercare? No

Is auto-enrolment the next mis-selling scandal

*Charges capped at 0.75%pa of fund; invisible charges also reduce the fund
Annuity rates fell from 15% to 5% between 1990-2010, most recently due to Quantitative Easing.
New options around annuitisation, but still necessary for a guaranteed lifetime income.
Summary of concerns for women

• If PT excluded, forfeit employer contribution and Tax Relief - but subsidise those who stay in
  Employers have incentive to depress wages/ persuade women to opt out

• 3 month waiting period in each job; missed time mounts up

• Total 16% contribution may be unaffordable in periods of low pay → missed years, and small pots get lost

• Contributions may be a waste of money if lifetime earnings are low

• **Whether pension saving is worthwhile is unpredictable; interaction with means testing remains a risk**

• Generic advice inadequate; and few joint life annuities

• **No carer credits** to help achieve a good wage Replacement Rate

• Regressive Tax Relief subsidy: top 1% earners get 25% of benefit
Auto - enrolment from 2012 - Questioning the rationale

Stated justifications:

• a) to ‘develop financial capability’

• b) to ‘overcome employees’ myopia’

• C) to ‘encourage personal responsibility’
Financial capability (Price, 2015)

Prevailing discourse on financial capability:

• Promoted as solving structural problems in provision of retirement income

• Powerful, pervasive assumptions about individualised financial welfare - rarely reviewed or questioned

• Prevents critique of delivery failures; these become individual failures

• Closes off debate about causes of poverty and inequality; also about more collective solutions
Financial Education and Retirement Income  
(paraphrased from Price, D. 2014; 2015)

No evidence of long term impact on financial outcomes

Key determinants of poverty in retirement:
Design of state pensions; Social class at birth; Educational level; Gender, marital and parental history; Ethnicity; Previous occupation; Health history

People have little control over employer welfare, stock market returns, price of gilts.... Cannot predict 30 yrs ahead
Myopia

• When employees rejected DC personal pensions, were they ‘myopic’ or justifiably sceptical?

• Were the finance industry and government ‘myopic’ – and still so?

• Government assumed end of boom and bust

  Unwilling to regulate banks’ easy lending

  Reluctant to require separation of retail and investment functions
Personal responsibility

- What does personal responsibility mean for a parent?
  - Feeding the children?
  - Paying for a warm home?
  - Paying off debts?

- What does it mean in mid-life (50+)?
  - Caring for frail parents?
  - Looking after grandchildren?
  - Paying off a mortgage

- Or contributing to a private pension?
How the pension system could work better for women

1. **Single Tier Pension (STP)**
   a) Needs to be **higher**, above OECD 60% poverty line
   b) With **30 yrs NI** for full amount  
   c) Better **indexation**
   d) Allow **existing pensioners** to opt for STP

   (cost if all included is 0.2% GDP, say PPI)

2. **Auto-enrolment in DC pensions**
There are fairer and less risky alternatives
Alternatives to DC pensions that include:

- Voluntary Employee contribution
- Compulsory Employer contribution
- Tax Relief at standard rate

1. **Workplace cash-ISAs**, accessible when needed

2. **Voluntary Earnings-related State Pension Addition (VESPA)**

   **Carer credits as in STP** funded by Exchequer grant in lieu of Tax Relief

A VESPA would be a DB, fully portable, Pay-As-You-Go scheme, entitlements built without investment and annuity risks.

The VESPA social insurance fund, as in other EU countries, could be ring-fenced and at arm’s length from government, to minimise political risk.
References


