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Is Gender Still an Issue for UK Pensions?

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Is Gender Still an Issue for UK Pensions?

Outline

- Will the sources of gender inequality in pensions persist?
- Gendered roles and the labour market
- A gendered critique of pension reforms and proposals
- Summary and reflections

Gender gap in pensions is still substantial in 21st C

Women's median personal income (age 65+) was 57% of men's *(Arber and Ginn 2004)*

Women's private pension receipt was 43%, men's 71% *(ibid)*

Women's median private pension income, for those with a pension, was 53% of men's *(ibid)*

Women were twice as likely as men to receive means-tested top-up *(ibid)*

State pensions: 'among the least generous in the developed world' *(Pensions Commission 2005)*

27% of men and **33% of women** over 65 lived below the official OECD poverty line in 2007 *(Zaidi 2010)*

'**Women's** poverty in retirement is a national scandal' *(Alan Johnson, 2005)*

…..and thought likely to remain so

‘**Women’s** pension disadvantage and risk of personal poverty in later life is **unlikely to diminish in the foreseeable future**’

(DWP 2002, Simplicity, Security and Choice, ch 7).

[the plan, for **women**]….’offers an illusory impression of improvement ……palpably socially unjust’

(*Pemberton et al 2006, on Treasury plans 2006-7)*

…**gender inequality** in income in later life will continue to reflect the large disparities in men’s and women’s income during the working life….some pension system improvements but change is incremental

(Price, 2007, on recent pension reforms, JSP 36,4)

Why so? Gendered roles still affect lifetime earnings

Women still perform the bulk of caring for children, grandchildren and older relatives
There is stability in women's pattern of employment, part time hours and caring *(Price 2007)*

Women's FT employment rate remains lower than men's

All women:	67% employed		(38% FT)	
- All mothers:	66%	"	(29% FT)	*(ONS 2011)*
- Mothers of ch<5:	63%	"	(% FT- no data)	
- Lone mothers, ch<5:	36%	"	(% FT- no data)	
- **All men**	76%	"	(66% FT)	"

Women's employment histories still shorter than men's, less FT:

It is FT employment that matters for pension income, especially age 50+*(Sefton et al, 2010, JSP)*
Years employed, average: 14=FT, 7=PT, 1=self-empld, 18=not empld "
" never md women: 31=FT, 1=PT, 1=Self-empld, 7=not empld "

- Lifetime earnings were 25% of men's, among singles aged 61-75 *(IFS 2011)*
- Mothers of child <5 had higher employment rate at age 30 in later cohorts, (58% 1970 cohort; 35%1958 cohort)

but for mothers of school-age children - no change, nor shift in the FT/PT ratio *(Woods et al. 2003)*

- Lone mothers especially disadvantaged in employment, a growing group

Women's hourly pay remains lower than men's_

- Women employed FT receive 81% of FT men's hourly pay (median gross)
- Women employed PT receive 64% of FT women's hourly pay " *(Pike, 2011)*

Gendered roles still affect lifetime earnings

Changes that have assisted women's employment:

- Advances in women's educational achievement
- Childcare access and child tax credits…. *but reduced by cuts*
- Paid maternity/paternity leave extended
- Right to return to PT hours after birth
- More term-time only working - 13% of women
- Gradual narrowing of gender hourly pay gap since 1970

But not all of these improve women's pension entitlements!

Why so? Pension reforms have mixed effects

1. Recent state pension reforms

1. Incremental change

a) Eligibility and accrual

- 30 years of contributions/credits for full BSP will increase women's BSP
- Care credits aligned in BSP and S2P simplifies

  BUT
- Childcare credits in BSP reduced - none for teenage care
- More years required for maximum S2P and will increase with SPA rises
- Gains paid for by rapid rise in women's SPA and by NI rise to 12% in 2011

b) Declining value of BSP: Inadequate indexation

26% of average earnings in 1979
16% in 2008,
14% by 2012, 13% by 2015 *(IFS, projected)*

Triple lock to be CPI/AE/2.5%; CPI is about 1% <RPI; means falling into poverty with ageing

SERPS/S2P now linked to CPI, "

But even RPI fails to reflect rising costs for pensioners

- **1997-2007, fuel costs rose by 20% above inflation and continue to do so**
- **Jan 2004-Dec 2006, gas prices rose by 67%, electricity by 41%** ***(FPAG 2007)***
- **Sept 2005 – 6, council tax and utilities up 8.9%; BSP uprated 3.6% (RPI)** ***(Bootle and Loynes 2006)***
- **1995-2006 household bills rose by 58% while incomes rose by 31%** **(*CEBR 2006, from FES data)***
- **2009, true inflation for those 80+ was 7.1%, compared with 2.1% for average household** ***(IFS 2009)***

Rapidly rising unavoidable costs erode pension value; **women lose most**

Pension reforms have mixed effects for women

c) **State Pension Age for women**:

Set to equalize with men's at 65 by 2020 – an opportunity for women to improve their pension?

Pensions Bill accelerates the rise to 65 in 2018 and 66 in 2020, so that……

- Women at 56-7 have too little time to adjust; 300,000 face extra 1.5yrs wait
- Women born April 1953 will be eligible at 62 years 11 months (av. retirement age 63 in 2003)
- Women born April 1954 must wait until 66, losing £10,000+ of BSP *(Saga estimate)*

Proposed auto-link with life expectancy takes no account of women's ability to work till SPA

1. Midlife women bear the brunt of caring for elderly relatives and grandchildren, providing twice as much informal care as men do *(Arber and Ginn 1991).* Will they have to fill the 'caring gap' created by council service cuts and raised charges?
2. Disability affects more women than men in each age group; 40% of women at age 60 have limitations in ADL, severe for 20% (*Banks et al, 2010*)
3. Cuts to the public sector will disproportionately reduce women's jobs; 65% of public sector jobs are held by women.
4. Age discrimination persists and in some occupations is gendered *(Itzin & Phillipson 1995; McKay 2010)*
5. Working class women have poorer health and earlier mortality

What % of women, and which groups, will be able to keep <u>Full Time</u> jobs through their 60s?

Planned pension reforms have mixed effects for women

d) Proposed flat rate 'Universal' pension at £140/week
(**Option 2** - combined Basic and Second State Pension)

- Required contributions for full amount = 30 yrs as in BSP; minimum 7 yrs
- Redistributive to women; ensures most receive an independent pension above means tested level
- Entitled non-claimants with 30 yrs NI record get £140/wk, costs £1.6-2.9bn
- Most beneficial to ever-partnered women, those with shorter employment record
- Provides a solid foundation for additional saving
- Simple to understand (eventually)
- Includes the self-employed
- **BUT**
- Provides little or no benefit to those with a long FT career
- Ends contracting out so extra £9bn to Treasury (all S2P conts ->NIF)
- Long transition period; accrued rights to SERPS/S2P are honoured, with UP reduced accordingly
- In transition period, can it be cost-neutral if accrued rights are honoured? *(IFS 2011)*

Queries most relevant to women:

- Credits for caring, sickness, unemployment as in BSP rules?
- Pro rata if 7-30 years, topped up to £140 by means tested supplement?
- Derived pensions* abolished or reduced or available only as top-up?
  * Category B pension (Wife's Allowance); survivor pensions; divorcees' use of husband's NI record
- Indexation through triple lock as in BSP or only CPI as in S2P?
- Would end contracting out even for DB occupational pensions – would employees then have to pay extra into their OP? Could low paid women afford this?

Option 1 – to speed up flat rate S2P – likely to be seen as easier and cheaper.
But retains two-tier structure - worse for women if 44+ years required for full S2P

Pension reforms have mixed effects for women

2. Private pensions

Private pensions drive structural inequalities in retirement income (*Sefton et al 2010; Bozio et al 2011*)
Both DB and DC schemes are shaken by stock market collapses

Occupational Final Salary schemes

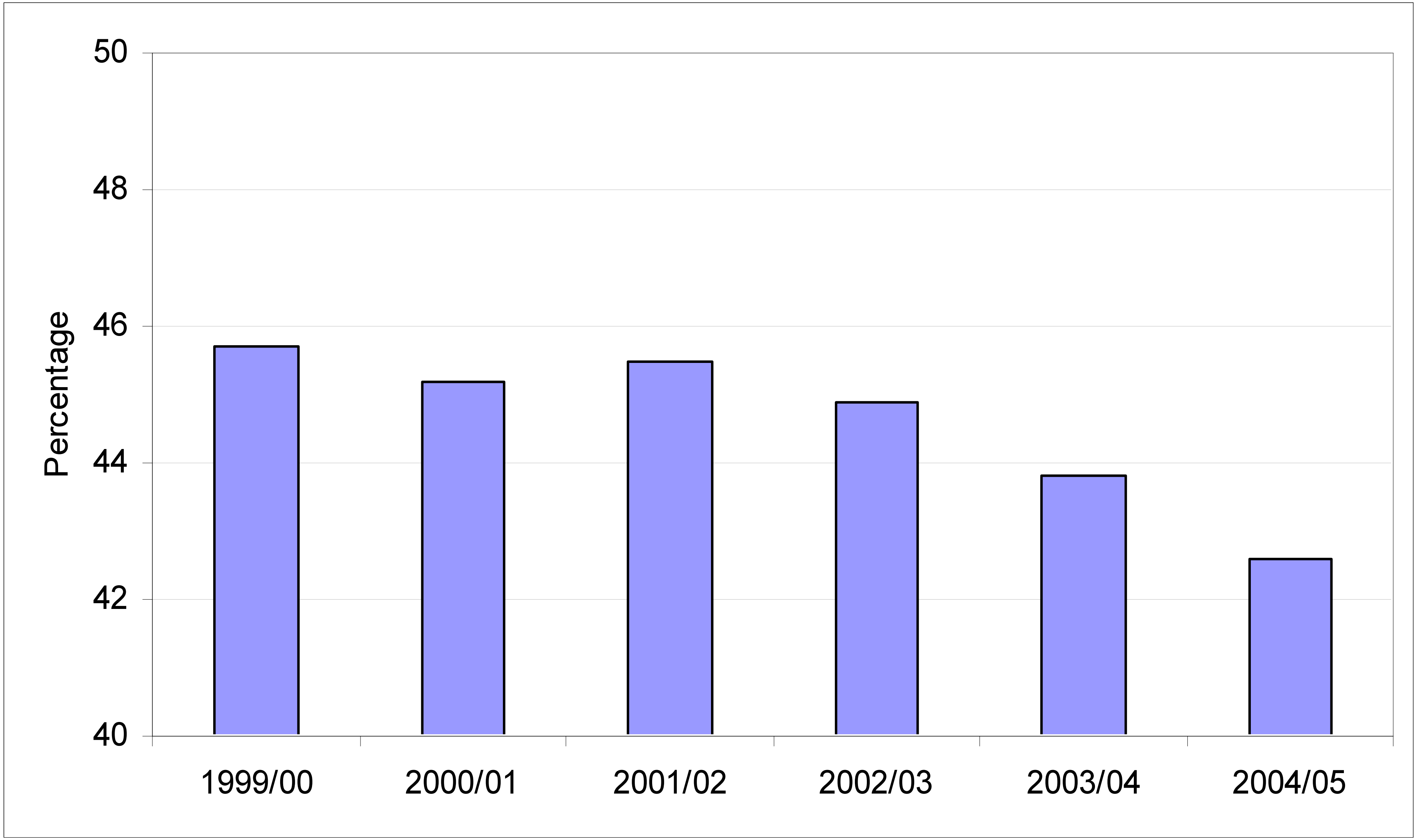
- Employers retreating from provision, fearing unmanageable liabilities – schemes closed, closing, reducing benefits, switching to DC. PPF safety net could need bailout as last resort
- Career Average formula replacing Final Salary – fairer to women with flat earnings profile, but often benefits are reduced at the same time
- Women's membership rate reaches men's just as schemes reduce benefits and/or raise contributions
- Public sector schemes to provide lower pensions, require longer working and higher contributions *(Hutton 2011*). Will low paid women be unable to afford these and opt out?
- Indexation to CPI when pension 'preserved' or in payment. RPI promise on which plans made is broken

DC schemes (occupational and personal)

1. Employees face uncertainties of stock market returns, annuity rates and charges
2. Women are more risk averse than men and poorly placed to cope with risk
3. Annuity rates are falling and are lower for women than men with the same fund
   until Dec 2011, when opt-out from sex equality rules is prohibited, following EC decision

Will **NEST** – 'Stakeholder Pension Mark II' or 'Personal Pension Mark III' - help women?

% of working age individuals contributing to a private pension scheme



Source: DWP 2007

Planned pension reforms have mixed effects for women

National **E**mployee **S**avings **T**rust (Pensions Act 2008; scheme phased in from 2012)

Membership: Auto-enrolment from age 22 if earnings over £7400pa; 7 million expected; opt out allowed
Contributions: Additional to NI, 4% from employee, 3% from employer, 1% tax relief
Funds: Expected annual contributions £8-9bn, aggregate fund £200-330bn by 2020.
Charges: Charge on each account 0.3%-0.5% pa initially, plus hidden charges.
Claimed RR: RR of 45% for median earner, saving from age 30-SPA (NEST=15%, state=30%)

Concerns for women:

- Many part-timers excluded from the employer contribution by having earnings < £7400pa
- Employers have incentive to keep wages below threshold and/or persuade women to opt out
- 3 month waiting period in each job; missed time mounts up if many job changes
- 15% contribution may be unaffordable in periods of low pay, so missed years.
- Those excluded or opting out lose employer contribution and subsidise those who stay in
- No carer credits to help women achieve a good wage Replacement Rate
- Women with career breaks will need to make higher contributions to compensate
- RR of 45% unlikely and low paid would need more than 45% to avoid poverty in retirement
- NEST may be a waste of money for women with low lifetime earnings, tenants and those over 45
- Generic advice inadequate for decision on opt out; women cannot know if saving in NEST is worthwhile because of interaction with means testing. A generous Universal Pension would help planning
- Tax relief subsidy goes mainly to the higher paid; top 1% of earners get 25% of benefit. Cost £37bn pa
- NEST shares drawbacks of personal pensions (except low charges – but these could rise)
- No guarantee that fund will exceed contributions; government will **not** intervene if pensions < expected

Would women welcome the right to opt out of NEST into a SERPS-like pension?

Summary - Reforms of the UK Pension System, 2011

STATE PENSIONS

Year	SPA	NI	Qual yrs	NI Credits for	Indexation	
BSP2000	60/65	6%	39/44	Child<16/carer	RPI or 2.5%	
2010	60/65	"	30	Child<12/carer	RPI/AE/2.5%	
2012	"	**7%**	"	"	CPI/AE/2.5%	
2020	65/65	"	"	"	"	
Pensions Bill: age 66 in 2020						
SERPS	as BSP.		max 39/44	HRP	CPI from 2011	
S2P	as BSP.	5%	"	Child<12/carer	"	
'Universal' from 2015		**12%**	**30**	**Child<12/carer?**	**CPI/AE/2.5%?**	**Derived benefits?**
Or accelerate S2P flat rate			**"**	**"**	**"**	**"**

PRIVATE PENSIONS

Type	CO	Contrib	Formula	Trends, recent and future		
OP PAYG DB	yes	>4%	FS 1/60+LS	DRA^ goes, CAE, contr. up		
OP fund DB	yes	>4%	FS 1/60 or 1/80 +LS	"	"	"
OP fund DC	no	NI+>4%	na "	"	annuity rate* down	
Pers pens/SHP	no	NI+>4%	na	"	"	"
NEST, 2012	**no**	**NI+>4%**	**na**	**"**	"	"

Notes:

NI Employees' National Insurance – 11% of band earnings (between LET and UEL); 12% from 2011

CAE Career Average Earnings formula

CO Contracted Out. From 2012, CO no longer allowed for DC schemes.

^DRA Default Retirement Age, abolished from Oct 1st 2011 LS=Lump sum, tax free

* From Dec 2012 annuities must be sex-equal, following ECJ 2011 decision: 'it is illegal for states to opt out of Council Directive 2004/113 on sex equality in access to and provision of goods and services'.

Summary and Reflections - 1

1. Summary

2. The stability of women's lifecourse, with continuing gender differences in years of FT employment and in hourly pay, perpetuates women's lower lifetime earnings and hence their lower private pensions. NEST as planned cannot solve this

3. But redistributive state pensions work to cushion the impact on women's pension income *(Sefton et al 2009; Bozio et al 2011).* This benign effect has been eroded by inadequate indexation, leading to an unprecedented extension of means testing and undermining the value of extra saving. The link to average earnings in the BSP is welcome, but in recession the shift to CPI will negate the effect

4. The proposed Universal Pension, if set well above the threshold for means testing and properly indexed, would be a significant advance for women and other low paid workers, largely removing means testing

5. Raising the SPA is necessary, but an accelerated rise for women without sufficient time to adjust is unfair. Automatic linking of SPA to average life expectancy fails to recognise the problems of age-related disabilities, caring commitments, lack of suitable jobs and class-related differentials in life expectancy

Summary and Reflections - 2

5. If we believe gender inequality in pensions is unjust, policy levers to reduce it are clear:

   * **comprehensive support for FT employment of mothers and other carers** (*Price 2011)*
   * **more generous state pensions, adequately indexed**

   Public service cuts and reduced indexation both run counter to these

6. The 'path not taken' in 2007 – a renewed SERPS type scheme - would have been more favourable to women than NEST.

   The extra 8% of earnings could provide an affordable state earnings-related DB scheme with carer credits, fully portable, free from investment risk and with no charges.

   Ring-fencing the NI Fund, as in other EU countries, instead of treating it as extra tax revenue, would minimise political risk

7. 'It would be irresponsible, in the light of recent experience, to entrust [social insurance] to private arrangements' (*Rys, 2010*).

   'the shift from PAYG to advance funding does not avert the challenge of ageing' *(Fultz 2003)*

   …'[EU research shows] public schemes are better for women' *(Frerichs and Maier 2007)*

   So why are governments ideologically committed to private pensions?

   The repeated official rhetoric of 'personal responsibility, autonomy and active participation' is unconvincing (*Mann, 2007; Waine 2007)*

   * Asking 'Who gains?' reveals the main beneficiaries as the financial services sector

Summary and Reflections - 3

8. State pensions as above (UP + SERPS) would not require derived benefits. (Webb suggests reform of inherited rights).

   These are poorly targeted: for example, lone and cohabiting mothers effectively subsidise married childless women.

   Money saved from phasing out derived benefits and from removing private pension tax relief could fund better state pensions for all, further reducing gender inequality.

9. Ethnic and occupational class differences are important as well as gender; women are diverse.

   Legislation to compress wage differentials to levels in the Nordic countries would help reduce ALL the structural inequalities in pensions and would reverse the trend to rising economic inequality with all its adverse effects (*Wilkinson and Pickett 2009)*

10. **‘ If we get it right for women, we’ll get it right for everyone’** *(Fawcett Society)*

Thank you for listening

and thanks to all those on whose work I have drawn – you know who you are!

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‘Funding increases savings, hence growth’

UK Pensions Commission (2005)

- 90% of new investment funds come from corporate profits, not savings

New Economics Foundation (2008)

- A maximum of 15% of private pension saving is used for new investment
- The rest goes to the City for speculative dealing; in 2002 the entire value of the London Stock Exchange changed hands in <7 months.
- In 2003, under 7% of funds invested in government bonds, compared with 50% in 1962.

Toporowski (2000, *The End of Finance, ch 3*)

- Expanding pension funds are ‘footloose capital’, inflating stock market bubbles

Foster and Magdoff (2008, *The Great Financial Crisis*)

- With saturated markets and falling profits from production, funds were invested speculatively in the finance sector

Thus pension funds have contributed to the present crisis